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## **CURRENT E.C.-U.S. TRADE ISSUES AND THE RUN UP TO THE NEW GATT ROUND**

(Luncheon address by Mr. Willy De Clercq, Member of the Commission of the European Communities with responsibility for External Relations and Commercial policy, to the America-European Community Association, New York, September 25, 1985)

The opportunity you have provided for me today to review, from the European perspective, the state of E.C.-U.S. relations and the preparations for a new GATT (General Agreement on Tariffs and Trade) round is a most timely one.

Since I last addressed a public gathering on this side of the Atlantic, in the spring of this year, our bilateral relationship has been confronted with a whole series of difficult issues. On the whole we have managed to handle them with creditable success. But this period has also seen a worrying increase in protectionist pressures in the U.S., in response to your burgeoning trade deficit. At the multilateral level we have, on the other hand, moved several decisive steps further along the road towards launching a new round of multilateral trade negotiations aimed at a further liberalization of world trade.

Underlying all this busy activity, however, are certain fundamental economic truths which have not changed, and which none of us can escape. It is on these that I wish to dwell a moment today.

The first thing we must recognize is that, despite all the problems which beset us, the E.C. and the U.S. have fundamentally more to unite than divide them. It is therefore our constant and compelling duty to prevent the problems which we have not yet resolved from putting at risk this essential unity. The common ground between us should be evident, and it is on this that we must build.

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We share a two-way bilateral trade flow of over 100 billion dollars; we are each other's biggest customers. Only a small proportion of this bilateral trade flow gives rise to problems. We must thus strive all the harder to solve these problems, so that they do not spill over into our wider trading relationship.

On steel we solved one big problem in the summer and an E.C. Commission team was in Washington last week for discussions on the renewal of our 1982 Carbon Steel agreement which expires in December. We are on the right track. In agriculture we have some unfinished business, especially on your wine cases, to which I shall return in a moment, and on citrus and canned fruit. But we are still talking and I am sure that we can find mutually acceptable solutions. We have to, because the cost of failure is simply too high for either side.

We also share common problems. We are both facing the challenge of managing, and adapting to, structural change. We both have our "rust belt." We both need to reform our agricultural support systems. We are both tackling these common problems, although we do not always use the same methods. Here, mutual comprehension is called for. In the long run, we gain nothing from throwing stones at each other's glass houses.

A third important point we have in common is the extent to which economic well-being on both sides of the Atlantic depends on the existence of open markets for our exports. To give in to the protectionist pressures to which public authorities, both in Europe and here in the U.S., are increasingly being subjected would in the end only be self-defeating.

That is not to say that either of us is perfect. I would certainly not wish to claim a one hundred percent success record for the Community. It ill-becomes either of us to adopt a 'holier than thou' approach. What is true is that we both--the U.S. Administration and the E.C. Commission--have fought to hold the line against protectionist pressure. We must both continue to do so.

I would like to stress that we in the European Community admire, and are grateful for, the stand which the U.S. Administration has taken against protectionism. Recent decisions by President Reagan have provided a courageous demonstration of the strength of the U.S. Government's determination. Further confirmation of this was given in the President's trade policy speech only this week. But the risks of a move to protectionism are real. I am well aware of the pressures on Congress and of the various proposals being considered on Capitol Hill. I appeal to the Congress to think carefully and not to rush into the adoption of new protectionist legislation. History shows only too clearly that, far from being a cure for all our ills, it is merely the way back into recession.

While on this subject, I would just like to say a few words on the specific problem of wine. Wine is our biggest export to the U.S., and is as important to us as soybean exports are to you. The Commerce Department

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has before it two petitions from U.S. grape-growers, alleging that Community exporters are injuring them by "unfair" sales of wine on the U.S. market. These petitions have been lodged under a provision of U.S. law, established only last year by the Congress, which stands in direct conflict with U.S. obligations under very carefully negotiated international agreements. We are confident that, if the cases are initiated, it will very soon become clear that European wines have earned their place in your market in accordance with the rules. But that is not the point. Those responsible for these cases should be aware that the European Community will not simply sit on its hands while one of its major agricultural exports to the U.S. is being harrassed by action which is illegal under the GATT. It should also be remembered that the overall U.S. agricultural trade balance with the Community has always shown substantial surplus. In fiscal 1984 this stood at 3.6 billion dollars.

But, if we are successfully to resist protectionism on both sides of the Atlantic, this can only be achieved by means of a consensus at international level, which in practice means through the GATT. We in the Community remain firmly committed to the open multilateral trading system, and believe that it has, on the whole, served us pretty well over the past three and a half decades.

I know that there are those in the U.S. who are more skeptical of the GATT's achievement and who believe that the way ahead lies in bilateral or "plurilateral" deals outside the GATT framework. To these I say only that it is no solution to scrap the only car we have just because its speed does not match our ambitions.

It is, of course, quite unrealistic to believe that a new round can be some kind of panacea for all our trade problems, or even a guarantee against future protectionist pressure; and indeed I see no evidence that other countries, least of all the developing countries, are taken in by such arguments. But the successful launching of a new round would represent tangible evidence of our determination to uphold the open international trading system despite the difficult economic environment in which we find ourselves. There is also a need to show that our past declarations on standstill and roll-back were genuine undertakings to stem and then reverse the protectionist tide.

The Community stands four-square with the U.S. in seeking an early start to negotiations. We in the Community have campaigned hard to achieve the largest possible consensus in favor of a new round. Even though this may not be strictly necessary under GATT practice, it would represent an important political signal, and increase the chances of a successful conclusion. It was, therefore, somewhat to my regret that the intransigence of one or two countries on the subject of trade in services has forced us to accept a head count to decide on whether to talk about a new round at all. That was a pity, but we accepted it, at least so far as the initial meeting of the GATT Contracting Parties on September 30 is concerned.

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But, if we want the negotiations to be launched under optimal auspices, we must make a further concerted attempt to get all the actors together on the Geneva stage.

The present argument about the place which trade in services should occupy in the GATT negotiations is, in my view, essentially erroneous, and beside the point. The volume of trade in services, and the extent of its interlinkage with trade in goods, are now such that it can no longer be denied a place as a legitimate subject for discussion in a new round of trade negotiations. If the GATT is to remain relevant, it cannot simply ignore services. That does not mean that the General Agreement as it stands can be applied to services, but the GATT organization must be involved.

Once it has overcome the present major hurdle of trade in services, there is every chance that the GATT can proceed with the formal preparations for a new round without too much further delay.

But simply launching a ship is not the same thing as completing a round-the-world voyage. The successful conclusion of a new round will depend on many things, but two in particular.

First, there must be due regard to the allied matter of the international monetary system. Progress in the monetary area should be sought in parallel with progress in the trade talks, in order to avoid disruptive currency movements which undermine or even negate achievements in the trade field. There is no point in seeking in trade negotiations solutions to trade problems whose root causes are to be found in the monetary and financial fields.

Second, in any future trade talks a special responsibility falls to Japan, who must show willingness to assume her fair share of the burden for supporting the open multilateral trading system, in line with the benefits (particularly for her manufactured exports) which she has drawn from it.

But ultimately, the health and survival of the open multilateral trading system depend crucially on the state of health of the U.S.-E.C. bilateral relationship. The Atlantic is, at the best of times, a rather choppy sea, with storm clouds seldom far away. Successful navigation therefore requires a seaworthy vessel and steady nerves on the part of those sailing her. If we spend our time arguing over the biscuit ration, rather than watching the compass, we may soon find ourselves shipwrecked in a hostile sea. Working together is an option we cannot and must not refuse.