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Atlantic Trade Relations: Flashpoint 1980

INTRODUCTION

I want today to talk about trade and its place in US/EEC relations.

Trade has not always been thought important.

British Ambassador in St. Petersburg before 1914.

Those days gone for ever.

Exports now account for one job in five in Community; for one job in ten in the United States.

Together the US and the EEC account for one-third of world trade.

All this adds up to a major interest on both sides of the Atlantic in the massive trade between us and in our joint responsibility for the open world trading system which has been mainly responsible over the last 30 years for the biggest increase in world prosperity in recorded history.

OUTLOOK

So trade matters not just to economists or trade negotiators but to farmers and factory workers and politicians.

What is the outlook?

The answer is not encouraging.

The macro problems are well known; we spent some time on them yesterday.

Inflation: the return of two-digit inflation rates in several industrialised countries and the reversal of the downward price trend in others represented in the first half of this year a major policy setback.

Signs that in the UK and the US at least inflation is moderating but inflation at or near 20% in any major area of the free industrialised world a grizzly prospect.

Unemployment: unemployment rising; business confidence shaken.

Dismal state of automobile and construction industries in the United States.

Overshadowing all this of course the impact of oil price shocks

Wave of further oil price increases following the $2 per barrel rise announced by Saudi Arabia on May 15 and ending with the OPEC agreement in Algiers on 11 June.

For the 1980s as a whole this implies for the Community, and assuming no further price increases, average price of imported oil will be of the order of 32$5 as opposed to the 30$4 assumed in May and that the average price next year would be 37$4 as opposed to 34$5 underlined in our previous forecast.

This means a reduction in estimated GDP growth in the Community by some 0.1 and 0.3 percentage points in 1980 and 1981 respectivel .

To this must be added the effect of the US recession.

Drop in US output in second quarter of 1980 now seems much steeper than we previously estimated.

On the basis of international multiplier effects, impact of a 1% shortfall in US growth rate on Community GDP is marginal - of the order of one decimal point - but effect may be more serious if it contributes to a world-wide recession psychosis among consumers and investors.

Looking further ahead, two main problems with which the world economy will have to cope are both connected with energy.

(a) Serious concern about the behaviour of energy prices or more specifically about supply prospects will continue to impede investment planning; this is one of the important factors explaining the low level of gross fixed investment in the second half of the seventies.

To this must be added the difficulty for either governments or private firms to plan efficiently to adjust to changes in the energy market when rapid inflation is making all energy prices both present and future highly uncertain.

(b) The recycling of the new surplus of the major oil exporting countries - over 100 billion dollars this year.

In real terms comparable in magnitude to the surplus in 1974.

But while this surplus was drawn down much faster than most observers then expected, several facilitating circumstances:

Imports into the OPEC countries grew very rapidly in the first four years; rapid inflation reduced the real size of the surplus and it was denominated in US dollars which depreciated between 1973 and 1979.

By the end of the 1970s, however, the import capacity of the major oil exporting countries became strained - the volume of their imports declining in absolute terms in 1979.

While the growth of OPEC countries will no doubt be resumed, the size of the OPEC surplus in real terms is likely to be more strongly defended both by OPEC price supply policies and perhaps by a slower import growth than in the first years after 1973.

Indeed the recycling problem may initially take the form of a limited number of countries either defaulting on international loans or having to cut back on imports due to foreign exchange shortages.

Some developing countries in deep trouble already.

Implications of all this for Community and US exports and growth if this happens on a limited scale will be minimal.

But such developments could easily snowball as international financial institutions refused to renegotiate loans and as risk premia became unacceptably high to such an extent that world trade was significantly affected.

This is a sombre state of affairs and a sombre outlook.

It means a remorselessly rising tide of protectionism on both sides of the Atlantic.

Steel, textiles, automobiles.

Protectionism, we could agree, solves nothing - it delays the adjustment process and can mean more unemployment in the long run.

But not easy to sell the doctrines of Adam Smith to an unemployed steel worker in Pittsburgh or an unemployed textile worker in Lille.

PARTICULAR PROBLEMS

So much for the general scene.

What of the particular problems facing trade across the Atlantic?

Make no apology for going into some of these areas even if briefly.

If the gloomier commentators are talking about an August 1914 situation for world trade, we might as well know where the new Sarajevo is going to be.

First, steel

Community exports of steel to the US totalled last year some 5½ million tonnes,worth some two billion dollars.

And the result of an anti dumping suit brought earlier this year by the US Steel Corporation it is possible that the Commerce Department may in October judge that our sales have been at less than market value.

If that were to happen liquidation of customs entries would be suspended.

And in the present wretched state of the steel market and indeed in anticipation of this our exports could simply dry up as early as this month.

We cannot afford to add two billion dollars to an existing trade deficit with the US of thirteen, nor can the European steel industry afford to lose a market for up to 5½ million tonnes.

So,much depends on action by the US Government which could induce US Steel to withdraw their anti dumping suit.

Automobiles

The U.A.W. brought in a case last month for escape clause action under the US Trade Act against imports of foreign cars.

The ITC will report in November on this complaint but growing political pressure for restraint on automobile imports and all this clearly has implications not just for US imports of cars from Japan but for our imports of cars from Japan. Because the European car industry has not been silent on the matter either.

Then, synthetic fibres

In February this year the Commission authorised Community measures permitting the UK to restrict by quota imports from the US of polyester filament yarn and nylon carpet yarn.

We have since been engaged in discussion with the US about the compensation which they have claimed under Article XIX of the GATT.

We have not yet reached agreement.

If we do not by the time the GATT time limit runs out on July 20 then an escalating series of withdrawals of concessions on both sides could follow which would go some way to unravel the results of the Tokyo Round.

And linked with synthetic fibres is the problem of competitive advantage US producers enjoy because of low oil and natural gas prices.

We are both engaged in consultations in the GATT on this.

But the problem could easily escalate massively into the petrochemical field; there are already rumblings of alarm from the European chemical industry.

These are some but not all of the problems between the United States and the Community.

Any one of them, if mishandled, could prove a flashpoint at a time when the world trade scene is littered with high-quality, 100% dry tinder.

And of course our problems are not limited to trade between us, massive that this is.

We both face problems in trade with Japan.

The essential of the problem well known to us both.

We analysed it for our part in a Commission document which was circulated widely in the press last year.

But whatever additional efforts our businessmen may make the problems of limited accessibility to the Japanese market, the major trade deficit we have bilaterally with Japan, coupled with the difficulty of adjusting to competition at a rate greater than that which is politically and socially tolerable - these problems remain.

We hope to embark on a new strategy - to be discussed with our Ministers in ten days time - based on the reciprocal reduction of our remaining trade barriers.

But this will not be an easy process.

And what either of us do in relation to Japan immediately has major implications for the other.

And over a good deal of world trade hangs also the problem I mentioned earlier - will recycling the new massive OPEC money work or will there be a chain reaction of defaulting developing countries with the shutters clanging down on world trade in a manner reminiscent of the 1930s ?

After some moments of gloom, perhaps a couple of more cheerful comments.

What is often forgotten in much of the gloomy comment on world trade and protectionism is one fact:

In the face of the biggest recession since the 1930s the world trading system has held.

At the end of the Kennedy Round in 1967 the then Director-General of the GATT said that this was a major achievement but one which had been secured at a time when, to use the words of President Kennedy, "a rising tide was lifting all boats".

The real test of the GATT, he said, would come when the next recession came.

The next recession has come.

But with a few inroads here and there - very few battles are won without a few company positions being lost - the system has held.

Indeed, the system not only held:

The biggest trade negotiation in history - the Tokyo Round, launched one bright autumn day in Tokyo in 1973 - was successfully concluded last year.

Due in large part to joint leadership from the United States and the Community.

Major trade liberalization programme lasting over most of the 1980s.

Major new departure in codes governing non tariff barriers.

Tightening up the GATT as the rule of law ensuring businessmen from all countries a square deal in world trade.

Let me take one other example:

That relates to textiles.

And here charges of protectionism are much bandied about, particularly against the Community.

So, let me spend a minute or so on this as another case study in relation to whether the open world trading system is holding.

The framework in which world textile trade is now conducted is the Multi Fibre Arrangement, renewed in 1977 for a further four years.

Much has been made of this so-called straitjacket and the hardship it has caused to the exports of developing countries.

But to judge this Arrangement fairly one has to go back to its beginnings:

These were, to coin a phrase, in the historic compromise constituted by the Long Term Arrangement on Cotton Textiles first negotiated in Geneva in 1962 after long and arduous negotiation between developing country exporters of cotton textiles and the major importing countries.

With it both importers and exporters got substantial benefits:

Exporters from the developing countries got a guarantee of an increase in their exports of at least 6% per year and a secure framework within which they could plan their future production and trade.

Importing countries got an assurance that imports would increase at a pace moderate enough for the strains of running down their textile industries and of the necessary structural changes to be socially and politically tolerable.

In 1973 the Long Term Arrangement for Cotton Textiles became the Multi Fibre Arrangement, reflecting the basic fact that it was no longer practical to limit these arrangements to cotton textiles and to exclude synthetic fibres.

During the first few years of this Arrangement seeds of a good deal of later trouble were sown:

We in the Community took some time to negotiate bilateral agreements with our suppliers.

The US moving quickly negotiated comprehensive and tight agreements with all their major suppliers - based in a number of cases on previously negotiated agreements which already covered synthetic fibres.

The result was that imports of textiles into the Community in the years 1974-76 did not just remain at the 6% provided for in the previous decade and a half.

Imports into the Community rose by 25% per year.

The Community became the dumping ground for world textiles.

Imports into the Community of textiles from low-cost suppliers between 1973 and 1976 rose by 61%; into the US and Japan they fell by 41% and 44% respectively.

Between 1973 and 1975 in fact the Community accounted for 70% of the increase in textile imports into industrialized countries.

All this lost us in the Community nearly three-quarters of a million jobs.

So, continuing the Arrangement after 1977 was an achievement that should not be under-estimated.

Nor should the fact that import penetration for textiles in the Community market, still the largest market in the world for developing country textiles, remains at 30% - up to 60% for some products.

A substantially higher figure than other major importers.

Renewing the Multi Fibre Arrangement in 1981 will be a very major dispute between developed and developing countries.

But I have quoted this detail to show that even in one of the most sensitive areas of world trade,and under great pressure, solutions have been found - despite all the charges of protectionism - which have been more liberal than would have been thought possible in the immediate post-War years.

NEW MECHANISMS

So here are some examples, both general and particular, of how the system has held.

But good fortune in the past does not necessarily mean success in the future.

Are the mechanisms for international consultation and decision adequate to provide a bulwark against protectionist pressures?

Let us list some of the main mechanisms now available:

(a) A series of non tariff barrier codes agreed in the Tokyo Round - ranging from subsidies and anti dumping to government procurement and customs valuation - represent a major strengthening of the international disciplines represented by the GATT.

Encouraging that these codes have come into effect or are coming into effect as scheduled; a major investment of time and effort will be needed to make them fully effective, to develop them and to ensure the participation of the maximum number of countries.

Encouraging that this effort seems to be forthcoming in Geneva from all concerned.

(b) The Consultative Group of 18 in the GATT - in effect a kind of Steering Committee - was envisaged in the run-up to the Tokyo Summit last year as the central body for monitoring the MTN Agreements and for maintaining the open world trading system.

This group has now been made a permanent feature of the GATT and plans to meet with senior trade policy makers from capitals two or three times a year.

A meeting in the spring of this year showed that this body is developing well to fulfil the role envisaged for it by the Tokyo Summit; a strengthened GATT Secretariat later this year should also help.

(c) The opportunities offered by the OECD for consultations between the industrialised countries on the interactions between trade and economic policy.

(d) The hot line relationship between Washington and Brussels which grew up during the Tokyo Round and continues today.

(e) Last but very much not least, the annual meetings of the seven major industrialised countries at economic summits.

POLICY

But the success with which these mechanisms can be used to maintain the open world trading system of the post-War years depends of course on the political will of the governments of the major trading nations.

And here the declarations have been firm and the action forthcoming:

In London in 1977 the Western Economic Summit declared itself "committed to providing strong political leadership for the global effort to expand opportunities for trade and to strengthen the open international trading system".

It asked for substantive progress that year in the Tokyo Round negotiations.

In Bonn in 1978 the Summit noted the substa~~ntia~~l progress made in the Tokyo Round and charged their negotiators to conclude the operation.

In Tokyo in 1979 the Summit noted the agreements reached in the Tokyo Round, welcomed them as an important achievement and committed itself to their early and faithful implementation, and renewed its determination to fight protectionism and to strengthen the GATT.