THE OUTLOOK FOR TRADE RELATIONS BETWEEN THE EUROPEAN COMMUNITY AND THE UNITED STATES

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NEW YORK, OCTOBER 15, 1984

Mr. Chairman, Ladies and Gentlemen, I count it a great honour and privilege to have the chance of sharing with this distinguished audience some thoughts on the trade relationship between the United States and the European Community.

Let me do so with some basic and questioning observations. I find travelling round this country that in this free and dynamic society a number of awkward questions are frequently raised. Has not America devoted too much time and worry to its external relations? Are not foreigners an ungrateful and unrewarding lot? With its huge natural resources why cannot America manage on its own? Linked to this is a second question. Is the relationship with Europe really all that important. Is this not an obsession of the old East Coast establishment? Has there not been a tremendous shift in the United States from the East Coast to the South and the West. Is not the future across in the Pacific rather than with Europe. These questions may be awkward but they need to be answered because they are fundamental to any assessment of the United States' role in the world.

So let us take the United States' involvement in the rest of the world. What strikes a foreigner living here as fascinating is the sea change which has taken place in the last fifteen years. For something like one hundred years after the Civil War American involvement in foreign trade as measured by the percentage of this against its Gross National Product never rose above 3 to 4 percent. In the 1970s it exploded. Foreign trade now accounts for some 12 percent of American GNP. One-fifth of American production is exported, two-thirds of its wheat. Between 1970 and 1980 the value of US agricultural exports jumped from $7 billion to $41 billion. The US share of the total volume of world agricultural exports increased from 25 to 39 percent. The US share of world exports of manufactures rose from 17 percent in 1978 to 21 percent in 1981. So foreign trade is now one of the basic factors in American prosperity in a way it never was until some fifteen years ago.

Then the Atlantic relationship. Is it still important? I would say yes for three basic reasons. In the first place the European Community has consistently been your best customer. We can legitimately reckon ourselves as one customer because our ten Member States form a customs union. In 1982 we took 22 percent of American exports. We are your best customer overall - and the American farmers best customer. Total trade between the EC and the US in all products last year amounted to some $100 billion. As Secretary Shultz said in Brussels last year, "We must be doing something right".

The second point is wider. The European Community and the United States are the biggest actors on the world trading stage. Last year the Community accounted for something like one-fifth of world trade, the United States something like 16 percent. Together we account for more than one-third of world trade. This gives us both a historic responsibility for the maintenance of the open world trading system. If - which I do not for a moment believe - the shutters came clanging down across the Atlantic in some mad escalation of trade restrictions then the one world trading system on which the prosperity of the West has been based for the last thirty-five years will begin to crumble and with prosperity going out of the window we would be back to the dreadful wasteland of the 1930s with poverty and unemployment in every street and the terrible political ghosts which these can conjure up.

And the third on the Atlantic relationship is wider still. However important trade is in our relationship no-one should ever forget that our relationship is fundamentally political. I had the privilege a few months ago of dining with the American Bar Association in Carpenters Hall in Philadelphia. And it was very moving for a European to reflect that in that elegant hall two hundred and ten years ago some worried English settlers got together to discuss their relationship with the mother country and launch in doing so one of the greatest adventures in nation-building in the history of the world. And launch it on the basis of shared democratic beliefs and traditions - which are bonds which link us still today. No European if he looks back over the last forty years can forget Marshall Aid, the Berlin airlift, our banding together for the defence of freedom in the setting up of the North Atlantic Treaty Organisation, and the historic and generous decision of the United States a quarter of a century ago to support - despite all the fears of businessmen and farmers here - the beginnings of the unification of Europe.

So the Atlantic relationship remains vital. What are the arguments on the broad economic front across the Atlantic. Let me set these out under four headings. First the macro-economic front. What is significant for a European is the strength of the dollar, the rush of imports into this country, the ballooning trade deficit, high interest rates and a flow of capital badly needed in the rest of the world to the United States. Certainly this is not all darkness and despair. A strong dollar encourages European exports to the United States. And in any considerations of investment in the United States the safe haven factor is a powerful one. But we are still left with worries principally on the encouragement to protectionist pressures here which a highly-valued currency - as in any country - gives rise. I do not think it would be right for us to give lectures to the United States Administration about how to conduct their economic policy or to get into an argument about the cause of high interest rates and the level of the dollar. We have not always in Europe been brilliant at managing our own economic affairs. But we are entitled as friends and trading partners to point to some of these phenomena and to point out the dangers for us both. Because like steam in a boiler once protectionist pressures in any country get beyond a certain point damage can result for all around. So we hope that some of these problems - and obviously the budget deficit is an essential one - can be dealt with as soon as possible.

Then there are certain general areas of legislation that concern us. We have been greatly worried by the worldwide unitary taxation system practiced by twelve of the fifty States of the Union. We do not think that a system of taxation which takes revenue from operations world wide of a company which happens to have a branch in the United States is either fair or an encouragement to investment in this country. I do not think that American corporations operating in Europe would welcome it if the European authorities began to tax them on their income in this country and world wide. So we hope that the individual States will begin to see - as Oregon has - that this is not in their interest.

Then the Export Administration Act. What we have been arguing here is not a parochial concern. We do not disagree that there are high-technology exports to the Soviet bloc which any sensible person should prohibit. Where we have disagreements as to the sensitivity of the equipment there is a mechanism in Paris where as friends and allies we can argue this out. What we object to is the concept that instructions could be given to European subsidiaries or customers of American firms ordering them to stop trading. Let me put this the other way round. Supposing we - the Europeans - were to come to you and say we disagree with American foreign policy towards country X. We are therefore instructing all American subsidiaries of European firms to stop trading in certain areas. Coming from a country which lost a lot of tea in Boston harbour some years back I can imagine the reply.

Thirdly agriculture. Here there are two separate arguments. And these must be seen against the general background that with imports into the EC annually of $7 billion of agricultural goods from the United States leaving the US with a surplus of $5 billion we are the American farmers best customer. The first argument is about agricultural export subsidies. Here there is the general myth that Europe is subsidising its farmers out of its mind, bankrupting itself in order to cheat American farmers of their access to world markets. The truth is different. Subsidies are not a unique

European phenomenon. The total Community budget last year amounted to some $23 billion - less than one percent of Community GNP. Of this something like $15 billion went on agricultural price support. In the United States according to a report of the Council of Economic Advisers, Federal expenditure on price support (and this does not include such items as subsidies to Californian water consumers) amounted to $18.9 billion with another $9.4 billion going for PIK.

So subsidies for agriculture - whether Adam Smith would have approved or not - and he would have done poorly in the primaries on both sides of the Atlantic - are a fact of life. This the US and its trading partners recognised in the last major round of trade negotiations, the Tokyo Round, which finished in 1979. What we agreed then was that agricultural export subsidies should be permitted providing they did not lead to a country taking more than an equitable share of world trade. This is a country rich in attorneys, and many of them ask me what you mean by equitable. This is like the old joke about defining an elephant. Difficult to draft the definition, but if one enters the room at a trot one can usually guess what kind of animal is involved. Take the figures for wheat and wheat flour which account for something like one-fifth of American exports. What happened to our exports from the Community in the 1970s? They went up from 10 to 14 percent of world trade. Sure, that was an increase. American exports went up from 34 to 46 percent. I do not make this point in any accusatory sense but to demonstrate that we can hardly on this basis be accused in Europe of either breaking the world trade rules or hogging the world market.

Then, corn gluten. It is being said that in some misguided way the Community is about to slash its imports of American corn gluten in a way which might provoke a conflagration. Again the truth is different. We are making a real attempt in Europe to cut subsidies to our farmers. We took some painful decisions mainly in the dairy products field earlier this year. We are going to have a further go at grains early next year. But we cannot cut support to our farmers without looking at imports which compete.

Exports of corn gluten from the United States to the Community soared from 700,000 tons in 1976 to over 3 million tons last year. And this is driving out Community wheat onto world markets where it competes with American farmers. What we have proposed is that we discuss between ourselves the possibility of stabilising these imports. Stabilising - not slashing - against payment by us of compensation to be agreed. This is exactly what the international trading rules provide. Discussions have been joined in the GATT in Geneva on this. And I hope as partners in a reasonable dialogue we can come to an agreement.

Fourthly industry in general. And here we have lived recently through a difficult time. The timing of a whole range of pleas for additional protection during an election period has confronted the Administration with some difficult and delicate decisions. But the picture is far from being one of unrelieved gloom. We welcome, for example, the stand which the Administration has taken against steel import quotas, the Wine Equity Act and the Domestic Content Bill. We were glad that the US International

Trade Commission did not find that the wine and footwear industries had been injured by imports and in the case of copper and steel we welcomed the fact again that the Administration rejected the ITC recommendations for increased tariffs and quotas. What was important to us here was the preservation of the steel arrangement we came to with the Administration two years ago whereby we agreed to limit our steel exports to the United States in return for the dropping of a range of anti-dumping and countervailing suits. As a result of this agreement EC steel shipments to the US fell some 27 percent in 1983. We felt that we had held our part of the bargain

One interesting development we have seen in all this is the active lobbying by American producers and retailers in Washington in support of free trade and against protectionism. First of all of course your own efforts as the National Foreign Trade Council. And in recent months wheat and corn producers have lobbied vigorously against new textile import restrictions and have expressed their disquiet about a number of provisions in the Wine Equity Bill. The Retail Industry Trade Action Coalition founded in 1984 to represent major department stores have been actively opposing the Administratio over new barriers on textile imports. And copper and steel users have lobbied against ITC recommendations to limit imports.

But then came during the last few weeks a dramatic resurgence of protectionist pressures and the tacking on to a Trade Bill - which contained constructive proposals for example to continue the Generalised System of Preferences - of a whole series of protectionis amendments. Two things in particular worried us about these attempts to make the Trade Bill significantly protectionist. The first is the concept as it was embodied in the Wine Equity Bill of a sectoral approach. This would require the Administration to establish an inventory of barriers to US exports in one particular sector - that of wine - then after consultation with Congress to take action. But the whole of the liberalisation of post-war trade has been based on the concept of overall reciprocity. The tariff negotiations of the post-war era would not have been possible if everyone had insisted on direct reciprocity in each particular sector. Supposing that the European Community were to adopt a similar approach for areas where there is a trade imbalance in favour of the United States. I am not of course saying the Community has any such intention. But I make the point simply to underline the danger of the United States setting such a precedent.

The second main area is that of provisions which would in fact rewrite unilaterally the international trading rules. For example, there was at one stage in the Trade Bill a section which would amend present US laws on anti-dumping and countervailing duties to extend the definition of an "industry" to include raw material producers. If this amendment had been adopted it would have set very dangerous precedents. EC producers of basic agricultural products would be able to join with producers of the finished products to claim injury from imports of the latter from the United States. If this precedent were in logic extended to trade in industrial products the end result would be new and major restrictions on world trade. The same consideration applies to the provisions in one version of the Bill, which would deal with "upstream subsidization" and "downstream dumping" - definitions of dumping and subsidies much broader than in present GATT Codes on Anti-dumping, Subsidies and Countervailing Duties to which the US is a party.

Either of these roads, sectoral reciprocity or simply rewriting unilaterally the international trading rules would be bound to produce pressure on other trading partners to take a similar line. This could lead to a major unravelling of the trade liberalisation achieved since the war and to fundamental damage to world prosperity.

As it happened the Trade Bill which emerged from the Congress and which has been sent to the President for signature avoided the most damaging of these provisions. We appreciate the efforts made by the Administration and by a number of those in Congress to secure this result. Having said that we are bound to say that there are still some things in the Bill which worry us. One is the definition of the wine industry which is not in accordance with the international trading rules as embodied in the GATT Codes on Subsidies and Dumping. And there are a number of other provisions e.g. on subsidies which concern us. I would myself expect that we would need to raise these questions with our American colleagues in the GATT. And we have made it quite clear that if any action were to be taken by the United States under this law against for example our exports of wine which was not in accordance with the international trading rules then we would feel bound to retaliate.

So as we enter the last few months of 1984 we can tell ourselves that we have so far escaped disaster but that there is still quite a lot to worry us. And having said that it seems to me clear that our difficulties in 1985 are not going to go away and they may even get worse. Even if major and painful decisions to deal with the budget deficit are made quickly they will take time to take effect. And if interest rates continue to be high and if foreign investors continue to think, as is likely, the United States a very desirable place to invest money in the dollar will continue high, the trade deficit will continue to rise and protectionist pressures will abound. There is in every country a feeling that what one does oneself in trade is fine, what the other fellow does amounts to unfair trade practices. An old British friend of mine once spent some time complaining to me about the wickedness of foreigners in dumping on the British market. I asked him after some time whether he ever dumped himself. Nonsense, he said, I export at a loss in the national interest. But a situation whre there is a flood of imports and exchange rate levels make it difficult to compete encourages this illusion and increases the pressures for protectionist action.

But, it will be said, cannot these pressures be contained by a new round of multinational trade negotiations. There has been a great deal of talk about this possibility. The European Community is not opposed to it. But as we found in the four year long Kennedy Round in the 1960s and the six year long Tokyo

Round in the 1970s worldwide negotiations on this scale are not quickly or easily organised. There will be a meeting in Geneva next month to assess the results of the two-year working programme started by the GATT Ministerial meeting in November 1982. And we have suggested a meeting of senior officials in Geneva next year to consider the various possibilities for future action including a new round. But having been in the business some time we think it quite essential that before we start a new round we should be clear on what precisely we are going to discuss and that we have the right players on board. Otherwise we would risk a failure which could set back the cause of trade liberalisation by some years.

So 1985 is going to be difficult enough. And 1986 may not be much better. For there are bound to be fluctuations in the rate of growth of the United States economy. And a downward fluctuation even of a mild kind could make the picture I have sketched out rapidly worse.

All this means that holding the line against protectionism in the next two critical years will be an exceedingly difficult task. I am confident that there is enough statesmanship and courage on both sides of the Atlantic for the line to be held. But just as the price of liberty is eternal vigilance, we shall need on both sides of the water to be especially vigilant, especially courageous, especially understanding, especially ingenious if we are to preserve in two difficult years the one world trading system on which the prosperity of the West has depended for the last thirty years.