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THROUGH A GLASS DARKLY: PERSPECTIVES FOR INTERNATIONAL TRADE

I have been asked how the Community sees the development of world trade and of the international trading system. The answer is through a glass darkly, for many uncertainties persist. But both events of the past year and the immediate outlook are more encouraging than many feared would be the case 12 months ago. We were then in the run up to a GATT Ministerial Meeting which at the time was widely considered something of a failure.

With the benefit of hindsight, we can now say that its achievement was to secure general agreement on a continuation of the international system in accordance with the principles of the General Agreement. In that sense it provided a foundation on which we have subsequently built. At the Williamsburg Economic Summit the Heads of State and Government confirmed their commitment to the international trading system. They placed particular emphasis on the need to halt protectionism and pledged themselves to try and reverse it by dismantling trade barriers as our economies come out of the recession. That statement followed the OECD Declaration whereby ministers agreed that economic recovery would provide favourable conditions for the reversal of protectionist trends. Similar commitments were agreed by the developed country participants at the UNCTAD VI Meeting in Belgrade.

We have come to the conclusion that the trading system has in fact stood up well to the unprecedented protectionist pressures to which it has been subject in recent years. But since the Summit and ministerial meetings we have been giving much thought to how best to implement the commitments entered into.

For its part the Community continues to be among the most open trading units in the world. Our tariffs are among the lowest in the world and our import performance belies protectionist reproaches.

No significant new measures of import restrictions have been adopted by the Community. We have therefore met the first half of the political commitment to halt protectionism. But the Commission would like this to go further.

That is why we have recently taken an important new initiative by issuing a call for the reversal or "roll back" of protectionism and for action to support economic recovery. The Commission proposes to accelerate the tariff cuts which were agreed under the Tokyo Round as soon as economic growth in the Community again reaches 2%. It goes almost without saying that we propose the continuation and indeed improvement of our Generalized Scheme of Preferences. We already have a favourable first reaction from the Council on these proposals and look forward to their early endorsement. We are exhorting our major trading partners in the OECD, and indeed the newly industrialized countries, to enter into parallel commitments. The initial response, at least from the Japanese Government in the last few days, has been encouraging. But there is still a long way to go.

We have also announced our backing for multi-lateral efforts to secure and expand international trade in services. On a conservative calculation services account for more than 55% of the world GDP. The Community is the world's largest provider of services, accounting for 36% of world exports of services and enjoying a surplus of over £6 billion. Hitherto the individual sectors (shipping, banking, insurance, telecommunications etc.,) have largely been treated in isolation.

We are now initiating a process of coherent examination of the whole field with a view to working out our position for the formal negotiations, which we hope may begin after the GATT Ministerial Meeting in November 1984. We are looking to the private sector to provide us with their considered views. In the UK the Committee on Liberalisation of Trade in Services (LOTIS) has taken an active role but it has, as yet, no real counterpart in the other Member States. Our impression is that the Community services industries can only benefit from a loosening of the restrictions on international trade in services. Our initial aim will no doubt be for an understanding on a stand-still on new restrictions on services business. But that should be merely a launching pad for further action in this vitally important field.

I would now like to say a few words about our major partners, the United States and Japan.

The US and indeed the President himself were among the principal architects of the Williamsburg declaration. It has, however, been impossible to overlook a certain discrepancy between the broad pronouncements made by the American Administration and the actions taken.

I will not recite the specific sources of friction which have arisen between the Community and the United States in recent years. A few examples from the last twelve months will suffice; argument continues over compensation for the Community because of recent US action to restrict imports of speciality steel. There are constant difficulties over exercise of extraterritorial jurisdiction. Of these, Unifary Taxation is only the latest to come to a head. In the agricultural field there is friction over subsidized sales to markets which the Community has traditionally supplied. Some of the restrictive or retaliatory trade measures taken by the United States in the recent past were imposed in reaction to what were perceived as unfair trading practices by other trading partners. In many cases however the American reaction seems to have overlooked very high levels of support for American production which cannot fail to have repercussions for the European competitor. Thus direct payments account for nearly half the incomes of US farmers.

Again US exporters have benefited to an aggregate of almost \$12 billion over the life of the notorious Disc Programme. Some US industries also benefit significantly from US Government research and development programmes. Following sustained pressure from the Community the US Administration envisages replacing Disc with a new Foreign Sales Corporation (FSC) System. The Community is still examining whether the new system will be compatible with GATT.

The American Government budget deficits and continued strength of the dollar have all contributed to a high volume of imports into the US, in turn giving rise to massive trade and current account deficits and protectionist pressures. But as GATT studies show, to create new trade barriers is to attack the symptoms of the current account deficit and not the causes.

On trade restrictions, I am not trying to suggest that the fault and therefore the remedy lies purely on the American side of the pond, but what I am suggesting is that because trade between the United States and the Community by itself accounts for 1/5th of all world trade, and because the economies of these two great markets have more similarities than differences, it is important that trade barriers should not be erected to remedy what are perceived as sins peculiar to the other side; the remedy lies not in erecting unilateral barriers, but in working together to dismantle them and to remove the root causes.

In doing so we must of course also work closely with Japan. In general our relationship with Japan has been more difficult than with the US. We recognize that Japanese products are competitive and fulfil a strong consumer demand. It is important to remember that. In a number of instances we have nevertheless felt it right to ask them to restrain their exports because of the structural trade imbalance in Japan's favour and because Japanese exports concentrate on certain sensitive sectors. These actions show we are not afraid to act. But we should I believe only do so after very careful thought, rigorous examination of the arguments for doing so and when we have good reason to believe that European industry can take advantage of the opportunity thereby provided.

The aspect of Euro-Japanese trade relations on which I would like to dwell is access to the Japanese market. The Commission fully recognizes the importance for traders of knowing the Japanese market and of benefiting from Japanese industrial expertise. To this end we have organized three successive symposia in which European businessmen can exchange ideas with their Japanese counterparts. We are now considering how our efforts could be made more systematic and we envisage developing an action programme in the first half of next year.

The key problem is of course Japan's so-called low import propensity on manufactures. We instituted proceedings under Article 23 of GATT to have consultations about this last year. The Japanese on their side place great stress on the non-discriminatory nature of their domestic market and also point to a number of tariff disarmament measures which were taken earlier this year. These measures concern only about 10% of the Community's main trade with Japan and we do not think they go far enough. In the face of Japanese reluctance to import Western manufactures, the point about the non-discriminatory nature of the Japanese market rather misses the point. There are signs, however, that Japan is now responding to our specific requests. More encouraging still are the signs that the Japanese will take active measures, backed by a substantial budget, to promote imports. It is disappointing that the recently announced package of economic measures included a further drop in Yen discount rates but we shall have to see how the package works as a whole.

Ladies and gentlemen, any discussion of international trade inevitably involves talking about problem areas. As I said at the outset, things are now better than they were 12 months ago, and I believe the figures show this. From a deficit of \$37 billion in 1980, Community trade is now approaching balance with a deficit of only \$4 billion projected for this year. This is a considerable achievement and speaking tonight to the ICC I would like to congratulate all those involved in contributing to it.