

A PRESS RELEASE AND SPEECH

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THE U.S.A., THE E.C. AND JAPAN -
IS IT TO BE CO-OPERATION OR CONFLICT ?

In the trade field proper the Community has always urged the maintenance of an open world trading economy as a fundamental precondition for economic recovery. This position was recently reaffirmed by Mr Wilhelm Haferkamp, the European Commission Vice-President responsible for external trade. Any drift towards protectionism would clearly raise serious dangers for the Community as the largest world importer of energy and raw materials. The Community can only balance its trade books and safeguard jobs by exporting manufactured goods. The Community is in fact also the world's largest exporting power. Its sales outside the Community accounted in 1981 for 18.2% of world exports. The United States share was 13.5% and Japan 9.1%. Exports and imports combined represented 26.5% of the gross domestic product of the Community, compared to 17.7% in the United States and 26.1% in Japan. And yet Japanese imports of manufactured goods totalled only 2.5% of gross domestic product, against 5.7% in the Community and 5% in the United States.

The Community's trade with the United States and Japan has one thing in common. In both cases, the Community runs a large trade deficit, although for very different reasons. The combined deficit of the Community in trade with these two countries accounted in 1981 for 62% of its total deficit.

Nevertheless, the Community import tariff is one of the most liberal in the world. It was established by taking an average of the national tariffs previously in force, thereby reducing the highest rates. As a result of GATT negotiations, the average Community import tariff is to be reduced from around 9% to 7.5% between 1982 and 1988. At the same time, the Community and other GATT countries have agreed to take a series of measures to resist the protectionist trend provoked by the deepening recession.

This is not a simple task. More than ever, free trade cannot be allowed to become a one way street. At Bruges on 4 October 1982, Mr Gaston Thorn, President of the European Commission said: "In times as troubled as these, governments are increasingly inclined to draw back into their shells. Let's be honest. No-one can completely resist this temptation, not even we in Europe. The Commission is constantly confronted by protectionist tendencies. At a time when the unemployed in the Community run into millions, no government can afford to be guided by theoretical models of perfect competition and insist on free trade at any price. What is needed is an agreement with all our trading partners on an acceptable balance between the advantages of untrammelled competition and the political and social constraints which make protective measures necessary."

The recession has hit hard in the United States as well as in Europe. It is hardly surprising therefore that complaints are made more vigorously than ever before, about certain aspects of policy on both sides of the Atlantic. The Community believes it is vital to defuse these disputes through a dialogue on a basis freely agreed by equal and sympathetic partners.

Criticism of the common agricultural policy is a constant theme of the US attitude to the Community. The United States accuses Community subsidies of creating unfair competition for American food exports. The Community's unfailing reply is that European food exports are sold at the world price and that the cost per head of subsidising farmers is less in the Community than in the United States. In 1979 the comparative outlay was 1.05 ECU in Europe for every 1.28 ECU in the United States. Furthermore, GATT rules do not outlaw subsidies; they only forbid their use as a way of capturing an unfair share of the market. It is important to recall that the Community is the largest importer of agricultural goods in the world. Its agricultural trade deficit with the United States - which sells four times more foodstuffs to Europe than it buys - totalled 5,000 million ECU in 1980. From 1970 to 1980 the Community share of world agricultural trade fell from 16.6% to 14.9%. The US share increased from 38.9% to 44.8%. It is difficult, in the light of these facts, to justify accusations of an aggressive Community policy in agricultural trade. The US Government has lodged complaints under the GATT in many sectors - sugar, fruit preserves, grapes, poultry, pasta and flour - but no evidence can be produced to show that American difficulties are caused by subsidized Community sales. The Community showed that it was ready to enter into a dialogue on these issues when it recently agreed to take part in a two year programme of study and discussions in the GATT framework. But there can be no question of abandoning either the main principles of the common agricultural policy or the preferential agreements with Mediterranean countries, whose political importance has been recognised by the United States. Nor can the Community accept savage acts of retaliation by the United States, such as the recent agreement to sell wheat & flour to Egypt at prices far below those on the world market. A complaint has been lodged under the GATT about this deal.

Community exports of steel to the United States have also been called into question. The ten Community governments agreed to joint negotiations with the United States in this sector, one of the few not directly covered by the common overseas trade policy. The Community managed to substitute the threat of a severe import duty for a voluntary export restraint agreement, which was not so damaging to European exporters, although nevertheless a substantial sacrifice. The Community argued that public subsidies to European steel firms were strictly controlled and intended to restructure the industry, not to subsidise exports. The Community pointed out that its steel exports had remained at broadly the same level for a long period. The battle is not over yet. American companies have started an offensive against European exports of special steels, not covered by the original agreement.

These are the main problems vis-a-vis the United States but perhaps the Japanese ones are more intractable. The Community deficit in trade with Japan is actually slightly below that with the United States. But it is a matter for greater concern because the gap arises from one quarter of the overall volume of the US-European trade. Japanese penetration of European markets is constantly increasing. Community exports to Japan represent only one third of Japanese sales to the Community. It is especially worrying that the deficit is steadily rising, from 500 million ECU in 1970 to 10,600 million ECU in 1981. This structural imbalance in trade with Japan afflicts almost all industrialised countries. A major importer of energy and raw materials, Japan imports the same quantity of manufactured goods as Switzerland, whose GNP is ten times smaller.

One reason for this deficit is the innumerable obstacles faced by European firms wishing to export to Japan. Japanese customs duties are, on average, no higher than those in the Community. But problems are caused by their wide divergence on either side of this theoretical average. The duties are very small in sectors where there is no threat from international competition but much higher where the threat exists. In addition, quota arrangements and niggling standards regulations make importation virtually impossible in many cases. Perhaps still more important are a series of hidden obstacles, created by the close-knit relationships between Japanese industry, bankers, distributors and even certain arms of government. European industry has, in many cases, been slow to grasp the importance of the Japanese market but they have hardly been encouraged by the many barriers which protect Japan from foreign competition.

Japanese barriers like this are indefensible. The concentration of Japanese exports has been on the most sensitive sectors of the European market: cars, motor-cycles, televisions, video recorders and certain machine tools. Despite the restrictions imposed in some countries Japanese exports in these sectors have increased to the point where they constitute a real threat to European jobs. Japanese video recorders have, for instance, captured more than 80% of the European market. To combat these problems, the Community has taken action ranging from statistical monitoring of Japanese imports to complaints under international agreements. It has tabled a global complaint under the GATT, protesting against the economic structure which reduces the likelihood of Japan importing manufactured goods. The Community claims this distorts the rights and obligations which flow from the various GATT negotiations. This Community complaint is of obvious interest to Japan's other trading partners, who experience² the same difficulties in penetrating the Japanese market.

The Community has also taken positive measures. Since 1979 it has financed a programme which aims to promote European exports (seminars, market studies, training of European executives in Japan). At the same time, it has asked Japan to increase its volume of manufactured imports to a level comparable with those of other industrialised countries. To this end, the Community has suggested a number of concrete changes, involving customs duties, taxes and quotas on a whole series of agricultural products, foodstuffs and industrial goods. Other changes have been proposed for the standards, testing and agreement procedures affecting pharmaceuticals, agro-chemicals, cosmetics, food additives, electrical and household goods and motor vehicles. The Community has also called for an opening up of the banking, distribution and insurance sectors as well as a "gesture" by Japan in the purchase of European aeronautical equipment.

In 1982 the Japanese government announced a series of trade liberalization measures which, although a step in the right direction, covered only 10% of Community exports. These measures, mainly involving changes in import duties, were followed up early in 1983 by promises of reductions in a whole series of non-tariff barriers. At the same time, the Community has recently persuaded the Japanese authorities to moderate their exports of sensitive products like video recorders, cars, machine tools.