

TRIANGULAR TRADE: PRESCRIPTION

FOR PROSPERITY OR DISASTER

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WASHINGTON, D.C.

It is appropriate in San Francisco that I try and sketch out the nature and the future of the links which extend not just across the Atlantic but across the Pacific to Japan. Because no one can talk to businessmen here without realising that the East Coast is very far away and that the Pacific is here. And I say this all the more because it is on a healthy and harmonious cooperation between these three pillars of the world trading system, the United States, Japan and the European Community, that the survival of the one-world trading system created in 1947 depends. And with this depends the prosperity of the West.

I do not need to tell you for long in San Francisco about the stake which the United States has in the foreign trade, especially for you in California, the leading trading State which would rank eleventh in international trade if it were a separate country. For something like

a hundred years after the Civil War, foreign trade did not account for more than 3-4 percent of American GNP. Then in the 1970s it took off. In 1980 it accounted for nearly 9 percent. Something like one-fifth of American industrial production is exported. Four out of five manufacturing jobs created in the U.S. between 1977 and 1980 were linked to export.

So foreign trade is vital to American jobs and the American standard of living.

The United States, the EEC and Japan together account for 40 percent or more of world trade. Over one-half, if you count trade between the Members of the EEC, so we have a joint responsibility for the survival of the open world trading system.

But we face a number of dangers. Some of these are in the United States, some beyond your shores, some particularly linked to the trading relationship between the U.S. and the EEC on one hand, and, on the other hand, the relationship between Japan, the U.S. and the EEC.

First the dangers at home.

First comes the recession, longer and deeper than any post-war depressions, with unemployment the highest since the 1930s,

A recovery is certain this year, but how quickly and how strong? The indicators are given on conflicting signals and all this has not exactly discouraged protectionism.

And then the strong dollar.

When you have unemployment and low capacity utilisation, the pressure is usually for selective measures. When the dollar is over-valued, the pressures are more general. Let us look back at the 1970s. In the final phase of the breakdown of the Bretton Woods system, the dollar was over-valued with some 15 percent. Result: the Mills Bill and the Burke-Hartke Bill.

In 1976-77, the dollar was again over-valued. A number of times anti-dumping or countervailing duties were imposed, or escape clauses invoked rose from 5 in 1975 to 26 in 1976. In 1974 unemployment was high, but with the dollar and the current account then in equilibrium the Trade Act - the basis of the Tokyo Round was passed. But the dollar is now substantially over the 1980 level, the yen still substantially lower.

Result: rising protectionism and the struggle in Congress over the Domestic Content Bill, a Bill in clear violation both of the principles of the GATT and the Ministerial Declaration of the GATT meeting at the end of November.

These are some difficulties to be seen in the U.S. But of course the scene ranges wider than that. What is badly needed in 1983 worldwide is economic expansion.

Hopes of economic recovery may already have damaged business and consumer confidence so that spending plans continue to be deferred and financing constraints might be more severe than predicted.

"Hope deferred" as the poet said, "maketh the heart sick".

Unless we can break out of the world economic recession the strains on the one world trading system are going to be greater than anything we have seen for the last 35 years.

Then our major and continuing anxieties about the ability of debt-ridden countries including some of the biggest in the developing world - and some of the major companies - to repay and reservice their bank borrowings.

Then the strains imposed on the world trading system by out of line exchange rates, a situation where the dollar is substantially over-valued and the yen undervalued is a recipe for mayhem.

Then we come to the bilateral difficulties which exist across the Atlantic and across the Pacific.

First Japan:

The problems of the Community - and I may add the United States - with Japan are ascribed from time to time by Japanese commentators to workshy Europeans and Americans facing efficient Japanese competition, to sheer protectionism, to a reluctance to adjust. The picture in reality is a different one. The Community's problems with Japan stem from a combination of three factors. Each on its own would be of limited import. Taken together, like the chemicals in a dangerous combination, they can create an explosion.

The first is the size of our bilateral deficit with Japan. In 1963 the ten present Members of the European Community had a trivial 86 million dollar deficit with Japan. This rocketed to some 500 million in 1970, to 3.4 billion in 1975 and nearly 10 billion in 1982.

At the same time Japanese exports to Europe in certain highly sensitive areas like automobiles, colour television tubes and sets, and certain highly developed machine tools rose massively.

At the same time European business found it difficult year in year out to penetrate the Japanese market.

Taken in isolation, these factors are not all in themselves decisive. We run bilateral surpluses and deficits in turn with our trading partners. But taken together, a massive and increasing deficit, increasing inroads on our sensitive industries and a sense that our manufacturers cannot get into the Japanese market to the same extent as they can get into other industrialised countries of the world creates an increasingly dangerous climate.

Let me give just a few figures to support what I have said.

Total Japanese exports of manufactured goods in 1960 amounted to 3 billion dollars. In 1981 the figure had soared to 136 billion dollars. But Japanese imports of manufactures in 1960 at just under 1 billion dollars had risen in 1981 to only 28 billion dollars.

Again in 1980 the European Community imported manufactured products equal to just under 800 dollars per head. The figure for the United States was 547 dollars, the figure for Japan was 233. Thus Japan's imports of manufactured goods are about the same value as those of Switzerland, an economy one-tenth of that of Japan. And in per capita terms Japan is next to last among Member States of the OECD. The percentage of total imports represented by manufactured goods

is equally striking - 55 percent in the case of the United States, 46.5 percent in the case of the Community - only 22 percent in the case of Japan.

These figures demonstrate clearly than any long argument the size of an imbalance which is putting an increasing strain on the world trading system.

We have therefore over a period of years pressed the Japanese authorities to take action in a number of areas. We have asked for an easement of tariffs, fiscal charges and quotas, of what we consider to be very restrictive standards and testing and acceptance procedures as well as improvements in the conditions for financial services and investments.

We have asked the Japanese to provide tangible assurances that from 1982 onwards Japan will pursue a policy of effective moderation towards the European Community as a whole as regards Japanese exports in sectors where an increase in Japanese exports to the Community would cause significant problems, notably passenger cars, colour television sets and tubes, and certain machine tools. And more broadly we have emphasized that the essential argument concerns the need for Japan to open up its market. This relates to the effect of Japanese trading and economic policies as a whole and the need to achieve a

more balanced integration - commensurate with Japan's international responsibilities - of the Japanese economy with that of its main industrialised partners and notably with the European Community.

With this in mind we took action last year to consult with Japan under the "nullification and impairment" provisions of the GATT. We thus gave notice that if no satisfactory adjustment can be effected between us within a reasonable period of time then we shall need to consider proceeding to take the matter for adjudication to the Contracting Parties of the GATT. We have now so decided. This will provide the GATT with one of its biggest post-war tests.

In the meantime we have made some progress. In discussions recently in Tokyo we were able to agree with the Japanese Government measures of restraint on their exports to the Community of videotape recorders and television tubes in particular, even more importantly on a speeding up by Japan of measures to simplify testing requirements, and in addition, measures of industrial cooperation. These are certainly positive steps, but we need to watch carefully, during the rest of this year, the progress which we achieve because much depends on this in lessening the tensions which have dogged relations with Japan, not only in Europe but also in the United States.



Then our relations with the United States:

We made progress at the end of last year on a number of points: steel, pipeline, beginning of a search for a common approach to trade with the Soviet Bloc. But one major problem remains.

Agriculture shows all the signs of becoming a flashpoint in U.S.-EEC relations in 1983. Let me make six quick points:

In the first place the Common Agricultural Policy is essential to the existence of the European Community. Without it there would not have been a Community.

In the second place its objective is not to keep out foreign farm products. The Community is the American farmers' biggest foreign customer. In 1981 we bought 9 billion dollars worth of farm products from the U.S.

Thirdly, it is true that the Common Agricultural Policy supports European agriculture. But the American farmer also enjoys massive farm income support from Federal funds, more in terms of dollar per farmer than in the EEC.

So fourthly, agricultural subsidies were recognised in the GATT as a fact of life. What was agreed in the Tokyo Round was that no one should use them to take more than a fair share of world farm trade.

We think we have held to this agreement.

Fifthly, the Community is not to blame for the problems facing American agriculture. These problems are a result of high interest rates, a strong dollar, lower sales to the Soviet Union, record U.S. harvests and the world recession.

Finally the CAP is not immutable. It is becoming more market oriented and adjusted to deal with over-production.

Let us hope that bearing in mind these facts and building on the U.S.-EEC agricultural conversations in January and February we can find solutions within our existing systems which can accommodate our problems. Individual actions can easily produce counter-reactions, and these can escalate. But jaw-jaw, as Churchill once said to Stalin, is better than war-war.

I should like now to mention another issue which has increasingly troubled us in recent years - extraterritoriality. Now I know this is a topic which has long exercised the minds of many lawyers on both sides of the Atlantic. But it is not just an interesting legal problem. The extraterritorial application of laws has also important political and economic implications.

The dispute which erupted last year between the U.S. and Western Europe over U.S. sanctions relating to the construction of the pipeline from Siberia to Western Europe was a dramatic example of the problems which can occur when a country seeks to apply its laws extraterritorially. Happily that particular incident was brought to a satisfactory close, but not until after much intense diplomatic activity, court cases and disruption of trade.

As the U.S. Export Administration Act is up for renewal this year and will certainly be the subject of intense debate both within and outside Congress, I should like to recall some of the problems which have arisen for us under the existing legislation.

The extraterritorial application that the U.S. has sought to give to its export controls under the Act has caused us very real concern.

There are several aspects of the way in which the Export Administration Act has been used which are of particular concern to us. For example:

the application of U.S. export controls to companies incorporated in the Member States of the European Community, but owned or controlled by a U.S. company.

the extension of U.S. controls to trade between third countries in goods or technology which were originally of U.S. origin.

We do not believe that such an extension of U.S. jurisdiction is in conformity with the accepted principles of international law.

These kinds of controls are not only in our view objectionable on legal grounds, they also pose serious political and economic problems. U.S. export controls can be introduced unilaterally, for example, for the furtherance of U.S. foreign policy goals which are not necessarily shared by the European Community and its Member States. We too have our own foreign policy goals. European subsidiaries of U.S. companies must also abide by the laws and policies of the country in which they are incorporated. It is unacceptable to us that these companies established in a Member State of the Community be considered to be subject to U.S. law when this suits the United States Government. Such a situation could adversely affect the European Community's attitude towards U.S. investment in Europe.

The extension of U.S. public export controls to the trade between third countries in goods, which are claimed to be subject to U.S. jurisdiction is also objectionable for commercial and political reasons. Many industries in the Community have quite readily accepted U.S. know-how in the past and to a certain extent have

become dependent upon them for their own production. If it turns out that they may become subject to U.S. jurisdiction at any moment, they might feel constrained to change their policy and seek technology and advanced products elsewhere.

The problems caused by the extraterritorial application of U.S. export controls are compounded by the fact that such controls have been applied at times retroactively, long after contracts have been concluded in good faith.

I know that the business community in the United States is as pre-occupied as we are about the problems caused by extraterritorial and retroactive application of U.S. export controls. I hope that the U.S. Administration and Congress will also respond positively to our legitimate concerns. If not, I believe that there will be a growing tendency amongst countries to adopt blocking legislation with the intent of negating the application of U.S. measures in these countries.

Now, I certainly do not wish to give you the impression that it is the intention of the European Community to seek ways of thwarting U.S. foreign policy or national security controls. Indeed, there was a firm commitment given by the European Community to discuss with the United States a broadranging series of problems relating

to trade with the Soviet Union. With the pipeline debacle we have seen the dangers inherent in unilateral actions with extraterritorial effect. Through cooperation and coordination, I hope we can avoid a repeat performance of such an event.

Mr. Chairman, I have tried today to give some sketches of the problems which stretch across the Atlantic as well as across the Pacific. If we take the problems in each of our countries and the more general world-wide problems the list is formidable enough. But we should regard that not as a reason for despair but as a challenge. For as that shrewd old man Benjamin Franklin once said in Philadelphia after all the debate about the powers of the States and the Federation had ended, "We either hang together, or we hang separately". And that remains as true today for us all as it did 200 years ago.