

WESTERN EUROPE'S ECONOMIC POLICY
IS IT COMPATIBLE WITH U.S. BASIC INTERESTS?

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N.Y.

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I. INTRODUCTORY REMARKS

1. Ambassador Hermes and I have decided on a policy of "division of labor" for this morning's presentation.

-- as a representative of the European Community -- the Common Market -- as it is often referred to, I will address some of the major economic issues which loom large in the transatlantic relations.

-- Ambassador Hermes, as you will see, will concentrate his remarks on those "juicy" issues of East-West relations and the gas pipeline.

2. I am sure that it comes as no news to you that the alliance is in the midst of a series of economic, political and military squabbles which, if not toned down and resolved, could lead to some unwelcome consequences on both sides of the Atlantic.

II. THE WORLD ECONOMIC CRISIS

1. We are facing in the 1980s a world economic crisis of staggering proportions
 - This worldwide phenomenon -- from which no one seems immune -- is affecting our relations in a negative way.
2. The depth of the crisis cannot be overstated
 - Unemployment in the countries of the E.C. (Jan. 1982) is 10.8 million or 9.5% of the total civilian work force.
 - In the U.S., 9.2 million are unemployed as of January 1982 (8.5% of the civilian work force.
 - In the OECD nations, real GNP growth was 1.3% in 1980 and 1.3% in 1981. The U.S. GNP grew by 1.9% in 1981 while the EC declined by 0.8%.
 - Interest rates remain high and stifle economic recovery on both sides of the Atlantic
 - Inflation is coming down in some countries but only as a result of a prolonged recession (1981: 10.4% in U.S. 12.7% in E.C.)
3. The continuing crisis creates a sense of gloom and pessimism.

4. Protectionism of domestic economies is a pressure that is resisted with great difficulty when severe economic conditions prevail.

- Protectionism is an evil which must be resisted in these troubled times.
- Prosperity depends on as free an international trading system as possible

III. THE EUROPEAN COMMUNITY

- The European Community - which now consists of ten member-states - is first and foremost a trading bloc.
- Europe - more than America - is a highly trade-dependent continent.
- The European nations have always been trading nations and their dependence on trade is not new
- The development of our cultures and social systems would not have been possible without extensive and diverse commercial exchanges amongst ourselves and with the rest of the world
- Imports and exports from and to third countries (extra-EC trade) constituted over 20% (36% including intra-E.C. trade) of the E.C.'s Gross National Product (12% for U.S.)
- The E.C. has a 35% share of world exports
- The E.C. currently takes 25% of total exports from the developing countries (21.5% for U.S.)
- European imports of manufactures from the developing countries (as a percentage of GNP) are 24% larger than those of the U.S.
- The Community imports 90% of its raw materials (55% of primary energy needs)

- The European Community - whose development was supported and even nurtured by successive U.S. administrations - has become the world's largest single trading bloc and a powerful competitor for the United States
 - . The U.S. and the E.C., at the same time, are each other's major customer
 - . The U.S. maintained about a \$10 billion trade surplus with the E.C. in 1981 (\$20 billion in 1980)

- Its developments has been based primarily on the principle of the liberalization of trade - transatlantic and worldwide.
 - . The E.C. and its executive body, the Commission, by coordinating the trade policies of sovereign nations, have acquired primary responsibility for carrying out European trade policies and negotiating international trade agreements and reducing barriers to trade within the context of GATT
 - . The E.C. has been responsible for defusing mounting protectionist pressures in Europe, from the chemical and textile industries for example
 - . In recent months, our objectives vis-a-vis the United States has been to avert a trade war erupting over growing disagreement with our American allies on agricultural and industrial goods.
 - . Europe needs trade to survive and recover economically

IV. TRANSATLANTIC TRADING FRICTIONS

In recent months, officials from both sides of the Atlantic have engaged in continuing discussions on a range of trade issues - some of which I would like to outline this afternoon.

1. Agricultural trade

-- There has been a marked deterioration in relations between the U.S. and the E.C. in the agricultural sector.

-- Recent meetings in Washington in early February between E.C. Commissioners and U.S. Cabinet officials made that painfully evident.

- . pressures in the U.S. Congress are growing
- . there seems to be a feeling here that American farmers could remedy their problems (lowest farm income in 40 years) by challenging European farm policies
- . what is unclear is the extent to which the American farmer himself ascribes his troubles to European policies.
- . what is certain, however, is that current U.S. government officials, consumed, it seems, by a great desire to export, are "escalating" agricultural disputes.

- . our differences in this area revolve around E.C. policies on agricultural exports and on the application of the Subsidy Code
 - . formal complaints against the E.C. have been initiated by U.S. producers of poultry, pasta, wheat flour, sugar, preserved fruit and citrus.
- We, Europeans, believe that we have abided by the rules of GATT negotiated in the multilateral trade negotiations, and which allow subsidies as long as they do not entail the acquisition of more than equitable market share in third markets
- . the volume of our exports has expanded in recent years because world demand has risen (for both U.S. and E.C.)
 - . in many sectors (wheat, poultry) the U.S. has taken a larger share of the expansion than the E.C. Such sectors include wheat and poultry, where the U.S. has filed Trade Act complaints (Section 301)
 - . using the same base years, E.C. agricultural exports, as a percentage of world agricultural trade, have risen from 10% to 11.4% between 1971 and 1980 while the U.S. share went from 14% to 17% in the same period (USDA claims of E.C. increase from 9.3% to 11.4% is from 1979 to 1980)

- . finally, over the past decade, the United States has maintained a growing agricultural trade surplus with the E.C. (from \$1.4 billion in 1971 to over \$7 billion in 1980 and 81)
- There is a great concern in Europe regarding the possible intention on the part of the U.S. trade and agricultural officials to seek a renegotiation of GATT rules on agriculture, should the U.S. complaints not go their way.
- Such an eventuality would leave the door open for retaliatory and protectionist measures in Europe, where the farmer is also experiencing a severe decline in his level of income. (The CAP pricing proposals for 1982 were less than the inflation level)
- The CAP remains remains a critical cog in the process of European integration and cannot be abandoned. We have been taking steps, however, to reform the CAP, by diminishing incentives for surplus productions and reducing the amounts of transfer payments to European farmers, not an easy task in times of depressed farm prices and incomes in Europe.

2. Steel

- Another area of irritation concerns European steel exports to the United States
- Petitions under anti-dumping and countervailing duty statutes have been filed by the American steel industry against producers in seven member-states of the European Community. This has created a powder keg which must be defused.
- The U.S. steel producers claim that European countries are subsidizing their steel exports. Our view is that the steel industry's difficulties are to be ascribed to the worsening of the U.S. economic situation which, in particular, led to a spectacular drop in the demand for steel on the American market.
- The 35% rise in the value of the dollar against major European currencies made steel imports very attractive on the U.S. market where prices are still much higher than in the E.C. or Japan.
- The filing of these cases will create a high degree of uncertainty among European steel producers, who will hesitate to export, thus creating more difficulties in a seriously troubled industry in Europe
- These complaints filed by the U.S. steel industry constitute a form of harassment to us.
 - . we are distressed that the American Administration was not strong enough to stand up to domestic pressure -- by rejecting so few cases to be filed with the ITC -- the way the Community did

against European petroleum chemical and synthetic fibre manufacturers in 1980 when the latter were asking for action against U.S. imports.

- . some of the cases were filed against steel producers which exported very small -- or even no -- quantities of steel products to the U.S. (example: cases were filed against France for cold-rolled carbon strip, which was not imported in the U.S. in 1981, and against Belgium and Luxembourg for exporting 60 tons of hot-rolled carbon strip -- 0.01% of U.S. market).
- . the fact that the ITC recently rejected over half of the industry's complaints leads credence to the European position and illustrates the weakness of U.S. officials in resisting industry pressures.

3. Resistance to protectionism

- Economic dislocation, persistent recession and uncertainty about the future make people more inward-looking
- The political will and courage of governments coupled with the recollection of the consequences of beggar-thy-neighbor policies in the 1920s and 1930s are the only ramparts - it seems - against economic warfare and ultimately destruction of the international trading system all of us believe in and wish to preserve.

4. Interest rates

- Just a word about a recent - but not new - transatlantic economic problem
- High U.S. interest rates have become, once again, a cause of concern for European governments and financial officials
- The interdependence of our economies and monetary systems here made the projected U.S. budget deficits and high interest rates a matter of concern in Europe.
 - . High US interest rates make it difficult for European countries to reduce their own interest rates, thereby stifling economic recovery and growth
 - . Failure to achieve some measure of economic growth can only add fuel to protectionist demands

V. EAST-WEST RELATIONS

- Ambassador Hermes will, as I said, expound on the various aspects of East-West relations.
- I would merely wish to remind you of what steps the member-states have taken as a community to deal with the crisis in Poland
- While Europeans may have some ambivalence about the use of sanctions to influence policy on the part of an adversary, we recognize both their practical and symbolic effects in certain instances.
- Our means may be different, but our objectives are similar
- The E.C. Council of Ministers and the Commission have:
 - . pledged that they would not undermine sanctions imposed by the U.S. against the Soviet Union
 - . taken steps to impose certain economic measures against Poland such as the cancellation of subsidized food sales
 - . raised the costs of export credits charged the Soviet Union
- Moreover, the Council and the Commission are undertaking measures that would raise the price for egregious Soviet behavior by reducing the availability of hard currency, something it badly needs, especially to buy agricultural commodities.

. The E.C. will reduce imports from the Soviet Union by 50% (relative to 1980) on a wide range of categories (raw materials to luxury goods)

- Another measure that might be considered would be to raise the price of grain sold to the Soviet Union. This would have the effect of preserving wheat producers' incomes while at the same time placing additional demands on Soviet foreign exchange holdings
- Such measures would genuinely impact upon the Soviets and be less costly to the allies

VI. CHALLENGES FOR THE FUTURE

- I would have liked to leave you with an upbeat assessment of our relationship
 - . I am not sure I can do so
- My feeling is that things will get worse before they get better
 - . over the long run, our common interests and shared heritage will help us surmount whatever problems come between us.
- The subject of this session asked the question whether Western Europe's foreign economic policy was compatible with U.S. basic interests
 - . after listening to both of us tonight, you may not be sure what the -- or our -- answer is
 - . if these interests are the maintenance of an open world economic system, political stability in the Western world, and an international order where opportunities for destabilization by outside subversive forces are limited, then I can safely say that U.S. and European interests are compatible with one another
 - . at the same time, however, it is quite clear that we have disagreements on how to carry out our foreign economic policies

- reconciling the needs of particular domestic industrial and agricultural sectors is not an easy thing to do for the U.S. Government or European governments
- international bilateral exchanges and consultations are the means by which we can attempt to resolve some of these problems
- It is indispensable to surmount momentary disagreements to achieve what are essentially common objectives
 - . Keeping an unprejudiced eye on what our ultimate, compatible, interests is maybe the only way in which we can weather these latest altercations in U.S.-European relations.
- Ambassador Hermes will now describe those aspects of the U.S.-European relationship which provide both the foundation for its survival and the basis of its seemingly continuous tensions.
- Once you have listened to what he has to say, we look forward to what you have to say in your questions and comments