TRANSATLANTIC TRADE:

THE VIEW FROM THE EUROPEAN COMMUNITY

speech given

by

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I. INTRODUCTION: THE WORLD ECONOMIC SITUATION

It was just twenty years ago - the US Trade Expansion Act of 1962 had just been enacted - that the notorious "chicken war" erupted at the time of the implementation of the European Community's Common Agricultural Policy (CAP). A little more than a year later, the dispute ended. It left a bitter taste, however, and was the harbinger of future transatlantic trade skirmishes between the European Community and the United States.

Since then, two "rounds" of world trade negotiations have been held, whose results have been the reduction of trade barriers and the establishment of procedures for the settlement of trade disputes through the GATT.

In recent months the EC's agricultural policy has been challenged anew in certain quarters of the American Administration. The tone of rhetoric has heightened.

I need not remind this knowledgeable audience about the seriousness of the world economic situation today.

The deeper - and longer - than - expected US recession continues to send shock waves throughout the industrialized world. High interest rates and lower levels of demand have restricted economic growth on both sides of the Atlantic. Business Week predicted that the Western nations would grow at a mere 1.5% in 1982.

In 1981, the EC countries' GNP dwindled in real terms by nearly 1%. The US economy grew by less than 2%. Inflation, particularly in EC nations, where it averaged 12.7% in 1981, persists at an unacceptable level.

The worldwide economic crisis - from which no one seems immune - is affecting our relations in a negative way.

This crisis is accentuating protectionist pressures on both sides of the Atlantic.

On the European side of the Atlantic, there is a perception that private interests in the United States may be willing to turn their back on the international trading arrangements painstakingly arrived at during the past generation.

It is particularly alarming to hear high officials testify before a congressional Committee that, in the case of recent "unfair practices" cases filed (under Section 301 of the US Trade Reform act), if the EC Commission is found by GATT to be in the wrong, it must change its policies; but if the US interpretation of the Subsidy Code is wrong, the US will seek to change the Code.

II. THE BENEFITS OF TRADE

Before I go into specific policy areas in the transatlantic trading relationship, it is important to recall the benefits of international trade and the dangers of protectionism.

For the European Community in particular, trade is an essential element of its economic survival. Its objectives in the trade area -as stated in the Treaty of Rome signed just 25 years ago this coming March 25 - have been to bring down internal trade barriers and harmonize external tariffs, lowering them at the same time.

Europe - more than America - is a highly trade-dependent continent. Imports and exports from and to third countries (extra-EC trade) constitute over 20% of the EC's GNP, as compared with 12% for the United States. 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.

By assuming the trade policy responsibilities of 10 member-states, the EC has been able to moderate the protectionist pressures exercised on the member-states, all of which are subject to the same pressures domestically that the US government is. For example, in 1980, the Community successfully resisted pressures by European petroleum-chemical and most synthetic fibre manufacturers, when they were asking for action against US imports. The challenge of the European institutions and one which has met with relative success is continually to balance inevitable protectionist pressures against desirable free-market forces.

The process of trade liberalization, industrial development and economic integration, which underlies the EC, has brought prosperity and growth to the nations of Europe.

The ten nations of the EC have a combined population of 280 million (230 million for US) and a combined GNP of close to 3 trillion, like the US.

The consolidation of ten national economies has also created the world's largest trading entity, and bred a powerful competitor for the United States. Together, the United States and the EC account for 50% of all world trade.

The consequences of the economic integration and growing prosperity of the European Community have been a series of frictions with its largest trading partner, the United States. This was perhaps inevitable.

Yet, the development of the EC has been supported and even nurtured by successive US administrations. This was a conscious political decision and, in my opinion,was one of the great success stories of US post-war diplomacy.

The United States has greatly benefitted from Europe's growth. The EC is the United States' largest single export market. American investment in Western European countries accounts for over 40% of total US private direct investment abroad, largely due to the inducement effect of European integration.

The closeness of US-EC relations has allowed us to find solutions to trade disputes, and helped to ensure so far that the self-defeating beggar-thy-neighbour policies of the 1930s not re-emerge. International economic institutions such as GATT and OECD have provided the framework for reconciling differences and coordinating policy approaches. Fidelity to those instrumentalities is a sine qua non of economic renewal on both sides of the Atlantic. In times of economic turmoil, we must not turn our back on the underpinnings of the post-war economic miracle and challenge the very structures that have prevented the economic disasters of half a century ago.

In a recent speech in Chicago, Assistant Secretary of State for Economic and Business Affairs Robert Hormats said that we should "refrain from shifting the burden of adjustment to one another," as Europeans and Americans try to grapple with the seemingly intractable economic problems of the 1980s.

That is an objective that Europe certainly shares with America.

This afternoon, I will concentrate my remarks only on the economic aspects of this most recent "crisis" across the Atlantic.

III. TRANSATLANTIC TRADING FRICTIONS

In recent months, officials from both sides of the Atlantic have engaged in continuing discussions on a range of trade issues.

1. Agricultural trade

There has been a marked deterioration in relations between the US and the EC in the agricultural sector.

Recent meetings in Washington in early February between EC Commissioners and US Cabinet officials made that evident.

- pressures in the US 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;
- our differences in this area revolve around EC policies on agricultural exports and on the application of the GATT Subsidy Code;
- formal complaints against the EC have been initiated by US 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 an equitable market share in third markets.

- the volume of our exports has expanded in recent years because world demand has risen (for both US and EC);
- in many sectors the US has taken a larger share of the expansion than the EC. Such sectors include wheat and poultry, where the US agricultural interests have filed Trade Act complaints (Section 301) with USTR;
- EC agricultural exports, as a percentage of world agricultural trade, have risen from 10% to 11% between 1971 and 1980 while the US share went from 14% to 17% in the same period;
- finally, over the past decade, the United States has maintained a growing agricultural trade surplus with the EC (from $1.4 billion in 1971 to about $7 billion in 1980 and 81).

The CAP remains a critical cog in the process of European integration. We have been taking steps, however, to reform the CAP, by diminishing incentives for surplus production 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 US. Massive 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, covering virtually all

EC steel exports.

The US steel producers claim that European countries are subsidizing their steel exports. Our view is that the steel industry's difficulties should be ascribed to the worsening of the US 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 dolar since early 1981, against major European currencies, made steel imports very attractive on the US market where prices are still much higher than in the EC or Japan.

The filing of these petitions 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 US steel industry constitute a form of harassment to us.

- we are concerned that the American Administration rejected so few cases to be filed with the ITC;
- some of the cases were filed against steel producers which exported very small - or even no - quantities of steel products to the US. (example: cases were filed against France for cold-rolled carbon strip, which was not imported in the US in 1981, and against Belgium and Luxembourg for exporting 60 tons of hot-rolled carbon strip, 0.01% of US market);

- the fact that the ITC recently rejected over half of the industry's complaints gives credence to the European position.

3. Reciprocity

Proposals to enact "reciprocity" legislation to ensure equal access for US goods to foreign markets not only challenge the rules of international trade as they have evolved over the past twenty years, but risk provoking worldwide counter-measures.

Several bills have been introduced in the US Congress. My understanding is that the US Administration is sympathetic to the objectives of the legislation, although it opposes its implementation if it contravenes US obligations under GATT.

While the legislation is allegedly aimed principally at certain countries other than the EC, it could have a potentially significant impact on US-EC commercial relations.

Reciprocity constitutes a serious threat to the unconditional most favored nation principle of GATT on which post-war trade and prosperity were built.

4. Interest rates

Just a word about a recent - but not new - transatlantic economic problem. High US interest rates have become, once again, a cause of concern for European governments and financial officials. The interdependence of our economies and monetary systems have made the projected high US budget deficits and high interest rates a matter of concern in Europe.

In recent weeks, we have seen a number of US administration officials suggest that the impact of US interest rates on European economies has been greatly exaggerated and that European budget deficits rather than US deficits have been putting demands on the international pool of credit and on interest rates.

While it is true that European public-sector deficits have averaged more than 2% of GNP over the last decade, and the US average has been closer to 1%, the Europeans never had trouble financing them before US rates hit record highs starting in 1979, due to the much higher European savings rate.

A major cause of Western Europe's lengthy recession is unquestionably the burden placed on European economies by the large increase in the value of energy imports (1.8% of GNP in 1973 to 4% in 1981).

While the United States certainly cannot be held responsible for the recession in Europe, there is some evidence that the recent monetary instability reflected in overly high interest rates and considerable variation in the exchange rates has worsened the economic crisis and impeded economic recovery on the European side of the Atlantic. A projected extremely modest recovery -- 1.9% real growth in 1982 -- from last year's overall decline in output assumes a strong upturn in the US economy in the second half of 1982.

While it obviously true that Europe's economic ills are not the fault or the responsibility of the United States, it cannot be denied that four-fifths of the world's monetary reserves are currently held in dollars and that this dominant position of the dollar creates certain special obligations on the part of US monetary authorities. The exchange rate volatility that we have recently been subjected to tends to discourage investment and growth and represents a substantial barrier to international trade. The real cost of the present situation is that decision-makers in the field of investment and trade seem to have to concentrate on trying to guess exchange-rate movements rather than improving production processes, inventing new products, and seeking new markets.

Finally, failure to achieve some measure of economic growth could add fuel to protectionist pressures in Europe.

5. Challenges for the future

I would have liked to leave you with an upbeat assessment of our economic relationship. I am not sure I can do so.

My feeling is that things may even 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. Our common interests are the maintenance of an open world economic system, recovery of the world economy, and a return to prosperity.

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 authorities on either side of the Atlantic.

International bilateral and multilateral exchanges and consultations are the best means by which we can attempt to resolve some of these problems.

As in the past, it will be indispensable to surmount momentary disagreements to achieve what are essentially common objectives. Keeping an unprejudiced eye on what our ultimate, compatible, interests are is perhaps the only way in which we can weather these latest altercations in US-European economic relations.