

THE UNITED STATES AND WESTERN EUROPE

FRICTIONS AMONG FRIENDS

SPEECH GIVEN ON FEB. 10, 1982

BY

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AT

LOTOS CLUB, NEW YORK, N.Y.

AS A DIPLOMAT, WHO REPRESENTS
WHAT IS SUPPOSED TO BE AN ESSENTIALLY
ECONOMIC INSTITUTION OF TEN NATIONS, I
AM FLATTERED AND, - AT THE SAME TIME -
SOMEWHAT APPREHENSIVE, THAT YOU HAVE
SELECTED ME TO TALK ABOUT THE BROAD
RANGE OF ISSUES AFFECTING U.S. - WESTERN
EUROPEAN RELATIONS.

WHAT I WOULD LIKE TO DO THIS
EVENING IS OUTLINE SOME OF THE AREAS OF
THE AMERICAN-EUROPEAN RELATIONSHIP WHICH
HAVE CREATED THE BASIS FOR MANY OF THE
FRICTIONS WE HAVE SEEN RE-EMERGE IN
RECENT MONTHS. AT THE SAME TIME, I WILL
ATTEMPT TO IDENTIFY SOME OF OUR COMMON
INTERESTS AND SHARED GOALS AND THE MEANS
BY WHICH WE CAN - IF NOT AVERT - AT

/LEAST...

LEAST MAKE LESS TENSE THE RELATIONSHIP WHICH IS VIEWED AS THE MOST CRITICAL ONE FOR THE FOREIGN POLICIES OF WESTERN EUROPE AND THE UNITED STATES BOTH.

I. THE EUROPEAN COMMUNITY

I ALLUDED AT THE OUTSET THAT I REPRESENT THE EUROPEAN COMMUNITY, - THE E.C. - OR THE COMMON MARKET, AS IT IS COMMONLY REFERRED TO. MORE PRECISELY, I REPRESENT THE COMMUNITY'S COMMISSION - IN A SENSE ITS "EXECUTIVE BRANCH", RESPONSIBLE FOR ADMINISTERING THE VARIOUS COMMON POLICIES THAT HAVE BEEN FORMULATED OVER THE PAST 25 YEARS. THE E.C.'S MAIN OBJECTIVE HAS BEEN TO ACHIEVE THE ECONOMIC INTEGRATION OF WESTERN EUROPE. AS ONE WHO HAS BEEN INTIMATELY INVOLVED IN THE PROCESS FOR MANY YEARS, I CAN ASSURE YOU THAT THE PROCESS CONTINUES TO BE AN ARDUOUS AND FRUSTRATING ONE, BUT ONE WHICH ALSO OFFERS THE ONLY MEANS TO /ENSURE...

ENSURE EUROPE'S SOCIAL AND ECONOMIC WELL-BEING.

THE EUROPEAN COMMUNITY WILL BE CELEBRATING ITS TWENTY-FIFTH BIRTHDAY THIS YEAR.

THE COMMUNITY WAS THE BRAINCHILD OF A GROUP OF MEN WHO SAW THE ECONOMIC - AND ULTIMATELY POLITICAL UNIFICATION OF EUROPE - AS THE BEST - AND PERHAPS ONLY - WAY TO AVERT WAR AND BRING ABOUT PROSPERITY ON THE FIRST CONTINENT.

THE CONSOLIDATION OF TEN NATIONAL ECONOMIES HAS BOTH CREATED THE WORLD'S LARGEST SINGLE TRADING BLOCK AND BRED A HEALTHFUL COMPETITOR FOR THE UNITED STATES & A STAGGERING ECONOMIC GROWTH IN WESTERN EUROPE OVER THE PAST TWENTY-FIVE YEARS.

BEFORE WE EXAMINE THE VARIOUS FACETS OF OUR RELATIONSHIP, I WOULD LIKE TO PROVIDE SOME BASIC FACTS, WHICH SHOULD HELP PLACE THESE PERCEIVED TRANSATLANTIC FRICTIONS IN SOME PERSPECTIVE.

- TWENTY-FIVE YEARS AGO, AS THE EUROPEAN COMMUNITY WAS BEING BORN, THE COMBINED GNPs OF THE ORIGINAL SIX MEMBERS WAS A MERE \$ 165 BILLION AS COMPARED TO \$ 441 BILLION IN THE U.S.

- TODAY, THE E.C.-10 MEMBERS HAVE A COMBINED GDP OF \$ 2.8 TRILLION, ABOUT THE SAME AS THE UNITED STATES (\$ 2.6 TRILLION).

- THE E.C. COUNTRIES GROUP SOME 270 MILLION PEOPLE. THE U.S. POPULATION NOW TOTALS 230 MILLION.

/TRADE...

- TRADE HAS BEEN AND IS THE
LIFEBLOOD OF EUROPE.

- TRADE CONSTITUTES 36% OF THE
E.C.'S GNP, - INCLUDING INTRA-E.C. TRADE -
AGAINST 12% FOR THE UNITED STATES. (EXTRA-
E.C. TRADE REPRESENTS 20% OF GNP).

THESE "OBJECTIVE" STATISTICS
CONSTITUTE THE BACKDROP AGAINST WHICH
I WILL SKETCH THE "EUROPEAN VIEW" IN
THE THREE MAIN POLICY AREAS WHERE EUROPE
AND THE UNITED STATES SEEM TO BE CONTINUALLY
CLASHING:

- EAST-WEST RELATIONS;
- NORTH-SOUTH ISSUES;
- BILATERAL TRANSATLANTIC TRADE
DISPUTES.

FAILURE TO TAKE INTO ACCOUNT
THESE AND OTHER FACTORS - WHICH I WILL
GET INTO LATER ON IN MY REMARKS - HAS LED
/TO WRONG...

TO WRONG PERCEPTIONS ON THIS SIDE OF
THE ATLANTIC REGARDING EUROPEAN CONCERNS
AND ACTIONS.

ON THIS SIDE OF THE ATLANTIC
FRUSTRATIONS ARE INCREASINGLY VENTED AT
THE TIME IT TAKES FOR FOR EUROPEANS TO
DETERMINE A COMMON STAND ON ANY GIVEN
ISSUE. EUROPE IS NOT YET ONE COUNTRY
WITH ONE GOVERNMENT. HOWEVER, EUROPE,
AS IT IS ORGANIZED TODAY, HAS BEEN ABLE
TO ADOPT A CERTAIN CONTINUITY AND
CONSISTENCY OF POLICY ONCE A POLICY IS
DEFINED - SOMETHING WHICH CONTRASTS WITH
WHAT EUROPEANS OFTEN PERCEIVE TO BE AS
SUDDEN AND INEXPLICABLE CHANGES IN U.S.
POLICY.

DIFFERENT POLICIES DO NOT ENTAIL
DIFFERENT OBJECTIVES, ONLY SOMEWHAT
DIFFERENT PATHS TO THOSE OBJECTIVES.
THEY REFLECT EUROPE'S ECONOMIC, POLITICAL
/AND HISTORICAL...

AND HISTORICAL CIRCUMSTANCES.

II. THE WORLD ECONOMIC CRISIS

WHILE ALL AREAS OF POLICY -
POLITICAL, MILITARY, ECONOMIC - ARE
INTERTWINED, IT IS BECOMING INCREASINGLY
EVIDENT THAT ECONOMIC FACTORS HAVE BEEN
AT THE ROOT OF MANY TRANSATLANTIC
ALTERCATIONS IN RECENT MONTHS AND YEARS.

SECRETARY OF STATE HAIG RECENTLY
STATED THAT ECONOMIC PROBLEMS WILL
DOMINATE THE INTERNATIONAL SCENE AND
RELATIONS WITHIN THE ATLANTIC ALLIANCE
AND THAT THEY WILL HAVE AN INCREASING
POLITICAL IMPACT.

THE WORLD ECONOMIC CRISIS, FROM
WHICH HARDLY ANYONE SEEMS TO BE IMMUNE,
IS THE BACKGROUND AGAINST WHICH MANY OF
OUR TRANSATLANTIC TROUBLES OUGHT TO BE
VIEWED.

/IN THE WEST...

IN THE WEST, PERSISTENT HIGH INFLATION, GROWING LEVELS OF UNEMPLOYMENT, SLOW ECONOMIC GROWTH, AND AN OVERALL LACK OF CONFIDENCE ON THE PART OF MANY PEOPLE ABOUT THE FUTURE HAVE CREATED AN ATMOSPHERE OF GLOOM AND PESSIMISM.

THE DEPTH OF THE ECONOMIC CRISIS THE WEST IS FACING CANNOT BE OVERSTATED:

- UNEMPLOYMENT IN THE E.C., AS OF DECEMBER 1981, IS 10.2 MILLION OR 9.2% OF THE TOTAL CIVILIAN WORK FORCE.

- IN THE UNITED STATES, BY DECEMBER, 9.4 MILLION WERE UNEMPLOYED, OR 8.9% OF THE TOTAL CIVILIAN LABOR FORCE.

- IN BOTH EUROPE AND THE UNITED STATES, YOUNG PEOPLE UNDER THE AGE OF 25 COMPRISE OVER 40% OF THE UNEMPLOYED.

THE HELPLESSNESS AND FRUSTRATION THAT GROWING ELEMENTS OF THE POPULATION FEEL

/ABOUT THEIR PRESENT...

ABOUT THEIR PRESENT STATUS AND THEIR FUTURE FUEL SOCIAL OUTLOOKS THAT RISK DIVIDING THE WESTERN WORLD. A RISING INWARD-LOOKING MENTALITY THAT SEEMS TO BE EMERGING ON BOTH SIDES OF THE ATLANTIC, SPURRED ON BY ECONOMIC UNCERTAINTIES IS - IN MY VIEW - AN UNDERLYING ELEMENT IN TODAY'S ATLANTIC SKIRMISHES.

THE "ATLANTIC GENERATION" HAS ALMOST ENTIRELY PASSED FROM THE SCENE. AS AMERICA'S POPULATION AND ECONOMIC CENTER OF GRAVITY MOVE WESTWARD, THERE IS A GROWING FEELING THAT THE UNITED STATES IS BECOMING A PACIFIC POWER AND SHIFTING ITS FOCUS OF ATTENTION AWAY FROM EUROPE.

III. EAST-WEST RELATIONS

THE PAST TWO YEARS HAVE SEEN A SERIES OF DEVELOPMENT IN EAST-WEST RELATIONS WHICH HAVE SHAKEN THE INTERNATIONAL ENVIRONMENT AND SEVERELY TESTED /THE SOLIDITY...

THE SOLIDITY OF THE U.S.-WESTERN EUROPEAN
RELATIONSHIP. AFGHANISTAN, EL SALVADOR,
NUCLEAR WEAPONS DEPLOYMENT AND ARMS CONTROL,
AND POLAND, ARE BUT THE MOST NOTABLE AND
PUBLICIZED ISSUES AND HAVE CAUSED MANY
"EXPERTS" ON BOTH SIDES OF THE ATLANTIC
TO EXPRESS DOUBT ABOUT THE STRENGTH -
INDEED THE USEFULNESS - OF THE ATLANTIC
ALLIANCE.

IT IS ARGUED THAT WESTERN EUROPEANS
ARE MOTIVATED LARGELY BY ECONOMIC CONCERNS
AND HISTORICAL EXPERIENCES IN DEALING WITH
THIRD WORLD ISSUES AND WITH THE SOVIET
BLOC.

I DO NOT INTEND TO DENY THAT
ECONOMICS AND HISTORY ARE NOT IMPORTANT
IN THE MINDS OF EUROPEAN POLICY-MAKERS.
CERTAINLY, THESE ARE ALSO ELEMENTS IN THE
MAKING OF AMERICAN POLICY. BUT - IN MY
VIEW - THE ESSENCE OF U.S.-EUROPEAN

/DISAGREEMENT ON ...

DISAGREEMENT ON HOW TO DEAL WITH THE SOVIET UNION, IS WHAT APPEARS TO BE AN INEXPLICABLE FAILURE, ON THE PART OF MANY AMERICANS, INCLUDING THE MEDIA, TO ASSESS AND UNDERSTAND THE IMPACT OF CERTAIN WESTERN POLICIES ON WESTERN EUROPE, AND THAT SIMILAR OBJECTIVES CAN BE ACHIEVED IN DIFFERENT WAYS.

THE CRISIS IN POLAND HAS BROUGHT THIS TO THE FORE ONCE AGAIN. EAST-WEST RELATIONS HAVE ALWAYS BEEN THE MAJOR PREOCCUPATION OF BOTH AMERICAN AND EUROPEAN GOVERNMENTS. THE POWER OF THE SOVIET UNION AND ITS WILLINGNESS TO USE IT WITH IMPUNITY, IN EUROPE AND IN THE THIRD WORLD, ARE A SOURCE OF CONCERN TO EUROPEANS AND AMERICANS ALIKE.

YET, THE NATURE OF THE EUROPEAN RELATIONSHIP WITH THE SOVIET UNION IS NOT AND CANNOT BE THE SAME AS THAT OF
/THE UNITED STATES...

THE UNITED STATES.

- THE SOVIET UNION AND THE EASTERN EUROPEAN NATIONS SHARE THE SAME CONTINENT WITH US.

- WHILE OUR IDEOLOGIES AND ECONOMIC SYSTEMS DIFFER, WE HAVE HISTORICAL BONDS WHICH CANNOT BE IGNORED.

- WITH REGARD TO POLAND, POPULAR REACTION IN EUROPE HAS BEEN AS STRONG IF NOT STRONGER THAN HERE. AT THE SAME TIME, WE DO NOT NECESSARILY NEED TO AGREE ON WHAT IS MOST USEFUL AND EFFECTIVE IN AFFECTING EVENTS IN POLAND AND IN HANDLING THE SOVIET UNION.

THE HISTORY OF ECONOMIC SANCTIONS TELLS THE STORY. SANCTIONS, HAVE RARELY IF EVER, WORKED. FROM THOSE IMPOSED ON ITALY IN THE 1930'S TO THOSE IMPOSED ON THEN-RHODESIA IN THE 1960'S, SANCTIONS HAVE BEEN CIRCUMVENTED. TO THE EXTENT
/THAT SOME MAY ...

THAT SOME MAY HAVE WORKED, THEY HAVE NOT BEEN THE PRIMARY CAUSE OF POLICY SHIFTS BY THOSE AGAINST WHOM THEY WERE DIRECTED. INDEED, SANCTIONS CAN ALSO ULTIMATELY STRENGTHEN THE INTENDED VICTIM.

THERE IS ALSO THE QUESTION OF THE IMPACT OF POLICIES ON THOSE WHO ARE IMPOSING THEM.

- GIVEN WESTERN EUROPE'S STAKE IN EAST-WEST TRADE - A STAKE THAT IS NOT NEGLIGEABLE AND CANNOT BE IGNORED GIVEN THE ECONOMIC SITUATION OF EUROPE TODAY - THE CONSEQUENCES OF A SIGNIFICANT REDUCTION IN COMMERCIAL RELATIONS WITH THE SOVIET UNION COULD BE QUITE SEVERE.

- IN THE AREA OF EAST-WEST TRADE, U.S. EXPORTS TO THE SOVIET UNION IN 1980 TOTALLED \$ 1.5. BILLION, WHILE E.C. EXPORTS TO THE SOVIET UNION TOTALLED OVER \$ 10 BILLION IN THE SAME YEAR.

/IN ADDITION ...

- IN ADDITION, AGRICULTURAL EXPORTS, MAINLY GRAIN, IN RECENT YEARS HAVE ACCOUNTED FOR NEARLY 70% OF ALL U.S. EXPORTS TO THE SOVIET UNION. INDUSTRIAL SUPPLIES AND MACHINERY HAS ACCOUNTED FOR CLOSE TO 80% OF E.C. EXPORTS TO THE U.S.S.R.

- ONLY \$ 300 MILLION OF TRADE IN U.S. HIGH TECHNOLOGY AND PIPELINE-RELATED GOODS WILL BE AFFECTED BY U.S. SANCTIONS. CANCELLING THE EUROPEAN CONTRACTS FOR THE SIBERIAN PIPELINE WOULD INVOLVE BILLIONS OF DOLLARS, AND SUCH CONTRACTS CANNOT BE EASILY RE-ESTABLISHED, WHILE GRAIN SHIPMENTS ARE QUITE EASY TO RESUME.

THE SIBERIAN PIPELINE AND THE QUESTION OF WESTERN EUROPE'S PURCHASE OF NATURAL GAS FROM THE SOVIET UNION HAS BEEN A CONTINUING SORE POINT IN OUR RELATIONS AND THE DISPUTE IS DETERIORATING

/FURTHER ...

FURTHER, THE E.C. NATIONS IMPORT 55% OF THEIR PRIMARY ENERGY NEEDS, THE UNITED STATES IMPORT LESS THAN 20%.

THE CONCLUSION OF THE SIBERIAN NATURAL GAS PIPELINE IS PART OF EUROPE'S STRATEGY OF DIVERSIFYING ITS ENERGY PROGRAM, WHICH WILL REDUCE THE PERCENTAGE OF OIL IN ITS ENERGY IMPORTS, AN OBJECTIVE WHICH THE UNITED STATES HAS ALSO SOUGHT FOR ITSELF. THE INCREASE IN OVERALL EUROPEAN DEPENDENCE ON SOVIET GAS WILL NOT BE THAT IMPORTANT WHEN THE PIPELINE IS COMPLETED, AND CANNOT BE REASONABLY USED AS A MEANS TO EXERT BLACKMAIL.

WHILE THE NATIONS OF WESTERN EUROPE HAD ALWAYS HAD A CERTAIN AMBIVALENCE ABOUT THE USE OF SANCTIONS, THEY HAVE PLEDGED ON SEVERAL OCCASIONS - AND NOT ONLY IN THE CASE OF POLAND - THAT THEY WOULD NOT OPPOSE NOR WOULD THEY UNDERMINE SANCTIONS IMPOSED BY THE UNITED STATES.

/MOREOVER ...

MOREOVER, THE EUROPEANS HAVE BEEN WILLING TO IMPOSE SANCTIONS. INDEED, THE E.C. WAS THE ONLY FOREIGN ENTITY TO FULLY RESPECT THE GRAIN EMBARGO IMPOSED FOLLOWING THE SOVIET INVASION OF AFGHANISTAN, UP TO THE MOMENT WHEN THE UNITED STATES - WITHOUT PRIOR CONSULTATION - LIFTED IT.

THE E.C. COMMISSION TOOK SEVERAL STEPS, LAST MONTH, TO IMPOSE CERTAIN ECONOMIC MEASURES AGAINST POLAND AND THE SOVIET UNION.

- PLANS WERE CANCELLED TO PROVIDE ADDITIONAL SUBSIDIZED FOOD SALES TO THE POLISH GOVERNMENT. (SUBSIDIES WILL BE USED FOR DIRECT DISTRIBUTION TO POLES THROUGH WESTERN PRIVATE VOLUNTARY ORGANIZATIONS).

- A PROPOSAL TO RAISE THE COST OF EXPORT CREDITS CHARGED THE SOVIET UNION WAS ALSO MADE. INDIVIDUAL COUNTRIES ARE

/TAKING MEASURES ...

TAKING MEASURES TO IMPLEMENT THIS.

- IN ADDITION, EUROPEAN ALLIES
AGREED WITH THE UNITED STATES TO TAKE STEPS
TOWARDS TIGHTER CONTROL OF EXPORTS OF
STRATEGIC TECHNOLOGY TO THE EASTERN BLOC.

WE ALL AGREE THAT THE TRAGEDY THAT
HAS BEFALLEN POLAND MUST BE REVERSED AND
THAT THE FREEDOMS WHICH THE POLISH PEOPLE
ACHIEVED MUST BE RESTORED.

EUROPE IS NOT LESS CONCERNED ABOUT
THE DEVELOPMENTS IN POLAND. INDEED, IT
IS PERHAPS MORE SO BECAUSE OF HER VICINITY
AND HISTORICAL HERITAGE.

IV. THE THIRD WORLD

A. POLITICAL RELATIONS

AT THIS POINT, I WOULD LIKE TO
SHIFT ATTENTION - IF I MAY - TO THE THIRD
WORLD, WHERE THE UNITED STATES AND WESTERN
EUROPE ARE OFTEN PERCEIVED TO BE AT ODDS.

/EUROPE HAS ...

EUROPE HAS A LONG-STANDING INTEREST
IN THE MIDDLE EAST, FOR BOTH HISTORICAL
AND ECONOMIC REASONS.

THE MIDDLE EAST HAS BEEN THE MOST
RECENT FOCAL POINT OF A NEW PHENOMENON
WITHIN THE EUROPEAN COMMUNITY, CALLED
EUROPEAN POLITICAL COOPERATION.

THIS PROCESS OF COORDINATION OF
FOREIGN POLICY HAS AFFORDED THE OPPORTUNITY
FOR EUROPE TO SPEAK WITH ONE VOICE ON SUCH
ISSUES AS THE HELSINKI PROCESS, IRAN,
AFGHANISTAN, POLAND, AND, OF COURSE, THE
MIDDLE EAST.

THE VENICE DECLARATION ON THE
MIDDLE EAST (JUNE 1980) HAS PERHAPS BEEN
THE MOST NOTABLE - ALTHOUGH PERHAPS IN
THE MINDS OF MANY AMERICANS AND SOME
EUROPEANS, THE MOST EGREGIOUS - DEMONSTRATION
OF THIS, AN INCIPIENT "EUROPEAN"
FOREIGN POLICY.

/HOWEVER ...

HOWEVER, THIS PROCESS OF COOPERATION, WHILE SOMETIMES PONDEROUS AND IRRITATING, CAN ALSO PROVIDE THE FORUM FOR SUPPORT OF U.S. POLICIES, SUCH AS EUROPEAN PARTICIPATION IN THE SINAI PEACE-KEEPING FORCES.

B. FOREIGN AID

ANOTHER IMPORTANT COMPONENT OF EUROPEAN FOREIGN POLICY IS FOREIGN ASSISTANCE PROGRAMS.

- THE EUROPEAN NATIONS HAVE BEEN ABLE, THROUGH THE E.C., TO DEVELOP A VARIETY OF AID SCHEMES TO THE THIRD WORLD.

- IN 1980, THE EUROPEAN COMMUNITY PROVIDED SOME \$ 12.6 BILLION IN OVERSEAS DEVELOPMENT ASSISTANCE (ODA) TO THE THIRD WORLD COUNTRIES, OR OVER 35% OF THE TOTAL WORLD DEVELOPMENT AID.

- THE UNITED STATES PROVIDED \$ 7.7 BILLION IN ASSISTANCE IN FISCAL YEAR 1980.

/AS A PERCENTAGE ...

- AS A PERCENTAGE OF GNP, THE E.C. GAVE 70% MORE OFFICIAL DEVELOPMENT ASSISTANCE THAN THE UNITED STATES (1980).

- THE REAGAN ADMINISTRATION, IN FORCEFULLY URGING THE PASSAGE OF THE FIRST FOREIGN AID APPROPRIATION BILL IN THREE YEARS LAST FALL, DEMONSTRATED THE IMPORTANCE OF SUCH AID IN SUPPORTING WESTERN SECURITY INTERESTS IN THE THIRD WORLD (U.S. BILATERAL AND MULTILATERAL AID IS HEADED DOWNWARD IN REAL TERMS).

C. TRADE

THE EUROPEAN COMMUNITY HAS ALSO BEEN CONSCIOUS OF THE NEED TO PROMOTE TRADE, AND PARTICULARLY EXPORT GROWTH, IN DEVELOPING COUNTRIES. THE USE OF TRADE AS A POSITIVE MEANS TO STIMULATE ECONOMIC AND POLITICAL LINKS IN THE THIRD WORLD IS SOMETHING THE COMMUNITY HAS CONSISTENTLY SOUGHT TO ENCOURAGE,
/BECAUSE OF ITS ...

- BECAUSE OF ITS TRADE POLICY,
THE EUROPEAN COMMUNITY CURRENTLY TAKES
IN A QUARTER OF THE TOTAL EXPORTS OF THE
DEVELOPING COUNTRIES.

- EUROPEAN IMPORTS OF MANUFACTURES
FROM THE DEVELOPING COUNTRIES (AS A PER-
CENTAGE OF GNP) ARE 20% LARGER THAN THOSE
OF THE U.S. (THIS INCLUDES TEXTILES).

TRADE, NO LESS THAN AID, IS AN
IMPORTANT ASPECT OF EUROPE'S COMMITMENT TO
SHARE THE BURDEN OF HELPING TO DEVELOP
THE ECONOMIC GROWTH AND SECURITY OF THE
THIRD WORLD, AN ESSENTIAL GOAL IN THE
FACE OF GROWING EASTERN BLOC INFLUENCE
THERE.

V. TRANSATLANTIC ECONOMIC PROBLEMS

I TURN FINALLY TO SOME ISSUES WHICH
ARE THE FOCUS OF MY RESPONSIBILITIES AS E.C.
AMBASSADOR IN WASHINGTON, TRANSATLANTIC

/ ECONOMIC DISPUTES ...

ECONOMIC DISPUTES - NO LESS THAN MILITARY SECURITY AND POLITICAL ISSUES - MUST NOT BE ALLOWED TO GET OUT OF HAND.

A. STEEL

AS YOU KNOW, THE STEEL ISSUE AT THE MOMENT, IS THE GREATEST SINGLE IRRITANT IN U.S.-E.C. COMMERCIAL RELATIONS. 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 U.S. 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.

/U.S. STEEL FIRMS ...

- U.S. STEEL FIRMS HAVE HAD THE TENDENCY TO INVEST IN OTHER SECTORS RATHER THAN REPLACE OUTMODED PLANTS.

- STEELWORKERS' AVERAGE HOURLY EARNINGS HAVE CONSISTENTLY BEEN ABOVE THE AVERAGE FOR THE WORKERS IN ALL MANUFACTURING INDUSTRIES (IN 1980, DIFFERENTIAL WAS \$ 4.57 PER HOUR).

- WHILE E.C STEEL EXPORTS TO THE U.S. IN 1981 DID INCREASE SIGNIFICANTLY OVER 1980, MOST OF THAT "SURGE" OCCURRED IN PIPE AND TUBE GOODS WHICH ARE IN HIGH DEMAND IN THE U.S. BECAUSE OF THE INCREASE IN OIL DRILLING OPERATIONS AND WHICH CANNOT BE SUPPLIED ADEQUATELY BY THE U.S. STEEL MAKERS.

- IN RELATION TO 1979, E.C. EXPORTS TO THE U.S. DROPPED 16% IN 1981.

- FINALLY, THE 30% RISE IN THE

/VALUE OF 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.

MORE PROTECTION OF THE U.S. STEEL INDUSTRY WOULD BE COSTLY TO THE AMERICAN CONSUMER AND WOULD NOT SOLVE ITS STRUCTURAL PROBLEMS.

B. AGRICULTURE

IN THE "FIELD" OF AGRICULTURAL TRADE, OUR DIFFERENCES WITH THE UNITED STATES REVOLVE AROUND E.C. POLICIES ON AGRICULTURAL EXPORTS AND IMPORTS, AND ON THE APPLICATION OF THE SUBSIDIES CODE, ESTABLISHED DURING THE TOKYO ROUND OF MULTILATERAL TRADE NEGOTIATIONS. THE CODE SETS RULES ON EXPORT SUBSIDIES FOR AGRICULTURAL PRODUCTS.

/FORMAL COMPLAINTS ...

FORMAL COMPLAINTS AGAINST THE E.C.,
HAVE BEEN INITIATED BY U.S. PRODUCERS OF
POULTRY, SUGAR, WHEAT FLOUR, PASTA, AND
PRESERVED FRUITS.

OUR DIFFERENCES ON THIS ISSUE ARE
PRIMARILY BASED ON DIFFERENT INTERPRETA-
TIONS OF THE SUBSIDIES CODE. ACCORDING
TO THE AGREEMENTS CONCLUDED IN 1979 UNDER
GATT, AGRICULTURAL EXPORT SUBSIDIES ARE NOT
PROHIBITED. THEY ONLY STIPULATE THAT THEY
SHOULD NOT BE USED TO GAIN A MORE THAN
EQUITABLE SHARE OF THE MARKET OR UNDERCUT
WORLD MARKET PRICES.

WE HAVE ABIDED BY THOSE RULES.

IN 1980, THE E.C. SUFFERED A
\$ 6.6. BILLION AGRICULTURAL TRADE DEFICIT
WITH THE UNITED STATES. THE DEFICIT WILL
BE GREATER FOR 1981. E.C. AGRICULTURAL
EXPORTS AS A PERCENTAGE OF WORLD AGRI-
CULTURAL EXPORTS WERE 10-11% OVER THE

/PAST DECADE ...

PAST DECADE WHILE U.S. AGRICULTURAL EXPORTS
HAVE BEEN 17% DURING THE SAME PERIOD.

C. THE E.C. AND FREE TRADE

THE CREATION AND EVOLUTION OF
THE EUROPEAN "COMMON MARKET" HAVE BEEN
BASED ON THE PRINCIPLES OF FREE TRADE.

ALL BARRIERS BETWEEN THE 10 MEMBER-
STATES HAVE BEEN ELIMINATED OVER THE PAST
25 YEARS.

THROUGH GATT, THE E.C. HAS CON-
SISTENTLY SOUGHT TO REDUCE TARIFFS AND
NON-TARIFF BARRIERS.

IT IS SOMEWHAT DISTRESSFUL TO HEAR
FROM OUR AMERICAN FRIENDS THAT WE HAVE
HIGH TRADE BARRIERS WHEN THE UNITED STATES
MAINTAINED ABOUT A \$ 20 BILLION DOLLAR
SURPLUS IN TRADE WITH THE E.C. IN 1980.

THIS TRADE DEFICIT, WHILE IT WILL
DROP TO AROUND \$ 14 BILLION FOR 1981, —

/ AS YOU CAN IMAGINE...

AS YOU CAN IMAGINE, IS OF CURRENT CONCERN
TO THE E.C.

YET WE IN EUROPE HAVE SUCCESSFULLY
RESISTED PROTECTIONIST TENDENCIES AND
ABIDED BY INTERNATIONAL TRADING RULES
AGREED TO FOLLOWING SEVERAL "ROUNDS" OF
TRADE NEGOTIATIONS IN THE 1960'S AND 1970'S.

WE ARE DISTRESSED THAT THE AMERICAN
ADMINISTRATION IS NOT PREPARED TO STAND UP
TO DOMESTIC PRESSURE GROUPS THE WAY THE
COMMUNITY DID AGAINST EUROPEAN PETROLEUM
CHEMICAL AND SYNTHETIC FIBRE MANUFACTURERS
IN 1980 WHEN THE LATTER WERE ASKING FOR
SAFEGUARD ACTIONS AGAINST U.S. IMPORTS.

VI. DEALING WITH THE PROBLEMS

SO YOU SEE, WE MAY HAVE PROBLEMS,
MANY OF WHICH ARE SEEMINGLY INTRACTABLE.

HOWEVER, THERE ARE NUMEROUS INTER-
NATIONAL LEGAL, DIPLOMATIC AND OTHER
/MECHANISMS ...

MECHANISMS ALREADY IN PLACE THAT WILL PROVIDE WHAT IS NEEDED FOR AMERICA AND EUROPE TO ADDRESS THESE PROBLEMS.

CONTINUING TO TALK AND CONSULT WITH ONE ANOTHER MAY PERHAPS BE THE MOST CRITICAL MEANS BY WHICH TO SOLVE THEM. I AM REMINDED HERE OF SOMETHING BENJAMIN FRANKLIN ONCE SAID: "BY THE COLLISION OF DIFFERENT SENTIMENTS, SPARKS OF TRUTH ARE STRUCK OUT, AND POLITICAL LIGHT IS OBTAINED." I AM CONFIDENT THAT THE UNITED STATES AND ITS EUROPEAN ALLIES WILL TAKE A PRAGMATIC APPROACH TO SOLVING THESE PROBLEMS.

WHILE WE ARE COMPETITORS, WE ARE ALSO PARTNERS. EXPERIENCE HAS SHOWN THAT EUROPE AND AMERICA CAN RESOLVE TRADE AND OTHER DISPUTES, BECAUSE EACH IS COMMITTED TO MAINTAINING PEACE AND PROSPERITY AND AN OPEN WORLD ECONOMY.

/OF COURSE ...

OF COURSE, EACH OF US HAS TO DEFEND HIS INTERESTS AS EFFECTIVELY AS POSSIBLE. SUCH IS THE NATURE OF INTERNATIONAL AFFAIRS AND - I WOULD ARGUE - OF OUR ALLIANCE OF FREE AND DEMOCRATIC NATIONS.

WHILE I HESITATE TO TERM THE CURRENT STATE OF THE EUROPEAN-AMERICAN RELATIONSHIP A "CRISIS", - AN OVER-USED AND NOT VERY DESCRIPTIVE TERM -, I DO SEE A POTENTIAL WORSENING OF THE SITUATION IF PEOPLE ON BOTH SIDES OF THE ATLANTIC DO NOT KEEP A COOL HEAD.

MY IMPRESSION AT THIS POINT, HOWEVER, IS THAT THINGS WILL GET WORSE BEFORE THEY GET BETTER. MEANWHILE, WE MUST DO OUR UTMOST TO PRESERVE THE OPENNESS OF THE WORLD TRADING SYSTEM AND REFRAIN FROM SUBMITTING TO PROTECTIONIST PRESSURES;

PLAYING BY THE RULES AND EACH GIVING THE OTHER DUE CREDIT FOR HIS ACTIONS
/WOULD BE ...

WOULD BE A GOOD WAY TO ENSURE THAT THE
RELATIONSHIP REMAINS OPEN AND STABLE.

AS JESUS SAID ON THE SERMON ON
THE MOUNT:

"(THOU HYPOCRITE), FIRST CAST OUT
THE BEAM OUT OF THINE OWN EYE; AND THEN
SHALT THOU SEE CLEARLY TO CAST OUT THE
MOTE OUT OF THY BROTHER'S EYE." (MATTHEW
7, 5 - KING JAMES VERSION).

THE GREATEST DANGER MAY BE THAT
THE WESTERN NATIONS ARE MORE LIKELY TO BE
THEIR OWN WORST ENEMY BY EMPHASIZING WHAT
DIVIDES THEM RATHER THAN BY HIGHLIGHTING
WHAT UNITES THEM.

AS IN MOST INSTANCES OF TRANS-
ATLANTIC FRICTION - OR EVEN OUTRIGHT
DISPLEASURE - THERE EXISTS A PRESUMPTION
THAT COMMON INTERESTS AND COMMON GOALS WILL
SUPERSEDE WHATEVER MOMENTARY DISAGREEMENTS
MAY ARISE ON HOW TO APPROACH AND DEAL WITH
PARTICULAR CHALLENGES.

/IN THESE TIMES ...

IN THESE TIMES OF ECONOMIC DIS-
LOCATION - BOTH IN AMERICA AND IN EUROPE -
AND OF INCREASED INTERNATIONAL TENSION, IT
BEHOOVES ALL OF US TO ENSURE THAT THE WEST'S
STRATEGY BE BASED ON MUTUAL UNDERSTANDING
OF ONE ANOTHER'S INTERNATIONAL POSITION
AND RESPECT FOR ONE ANOTHER'S DIPLOMATIC
APPROACH.

PERSONAL FRIENDSHIPS REQUIRE A LOT
OF WORK AND UNDERSTANDING. THE FRIENDSHIP
AMONG OUR NATIONS REQUIRES A LOT OF WORK
AS WELL. THE BONDS THAT HAVE UNITED US
FOR MORE THAN A GENERATION CAN SOMETIMES
BE STRETCHED. BUT THEY MUST NEVER BE
BROKEN.