

'TURBULENCE ACROSS THE ATLANTIC'

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CHECK AGAINST DELIVERY

Mr. Chairman, it is a great pleasure and honour for me to appear here today. As a European who has to spend a good part of his time travelling the world I often find that I have to explain what exactly the Community is. I do not naturally expect to have to do this in the media capital of the United States. It is an even greater pleasure to find that you have here an association devoted to furthering links between the United States and the European Community. So let me share with you today - among friends - some of my thoughts about the future of this relationship.

And let me - / -

And let me start with some general comments about the relationship. I do not have to explain its importance to a New York audience or to this Association.

The alliance between the European Community and the United States is not merely a marriage of convenience, not something that each party has entered into on a temporary basis.

Instead it is a relationship firmly based on the shared values of individual liberty and democratic principles.

This fact - / -

This fact has been demonstrated again and again in the last 30 years. Think of the Marshall Plan, the Atlantic Pact, the Berlin Airlift, the Helsinki agreement. Even the development of our European Community is, in part, a testimony to America's willingness to promote and re-inforce the union of our member countries. This has brought benefits for us and for you.

Yet from time to time in all countries and the United States is no exception, beliefs which have been held for more than a generation are questioned. Has the US been too concerned for its own good in trying to reach a consensus with foreigners ?

Is the - / -

Is the relationship with Europe so crucial ?
Or is it more trouble than it is worth,
especially in the trade field ? Should the
US not be turning towards the Pacific and be
more aware of Central America ? Let me make
two specific points.

The first is that what strikes a
European looking at the degree of America's
involvement economically with the outside
world is this. For something like 100 years
after the Civil War foreign trade did not
account for more than 3 to 4 percent of your
GNP. But after the 1970's a dramatic change
took place. In the second quarter of this

year foreign - / -

year foreign trade accounted for no less than 14 percent of American GNP. Something like one-fifth of American production of goods is exported and nearly two-thirds of US wheat. A recent survey found that four out of every five new jobs in manufacturing comes from foreign trade.

This illustrates that even the United States, with its internal market of 250 million people, cannot escape the constraints of economic interdependence, constraints which, for the Community internally and externally, are a fact of life.

The United States - / -

. The United States therefore has a major stake in safeguarding the possibilities of trading with third countries. The consequences for the american people of a collapse in foreign trade would be serious indeed.

Then, let me make a comment about the specific relationship between the US and the European Community.

We Europeans view it in its totality. There is the strategic element concerned with our mutual defence. There is the political element, concerned with fostering the values to which we both subscribe. And then

there is - / -

there is the economic element, which has implications not only for our mutual relationship, but for the world economy at large.

Together we are the major actors on the world trading scene. The Community as a bloc accounts for one-fifth of world trade. Between us we account for over a third. This does not imply that our or your trade elsewhere is an area free from problems. But it does mean that the trade link across the Atlantic is crucial not just for us but for the survival of the open world trading system.

At the last World Economic Summit held in Williamsburg in May this year, we took the solemn undertaking to halt protectionism, and as recovery proceeds to reverse it by dismantling trade barriers.

The Commission ./.
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The Commission for its part remains totally committed to the Williamsburg declaration; we are of the firm opinion that if we were ever to see an escalation of trade restrictions, the open world trading system would be threatened.

I believe the West as a whole has a special responsibility in this matter; in particular as regards our partners in the South who have to face an increasing debt burden.

If trade across - / -

If trade across the Atlantic falters, if we fall to the protectionist temptations that prevail within our own ranks, what will become of the open world trading system ?

For let us be frank. No-one is immune to the disease of protectionism, not the Community, not the United States. The European Commission is subject to a constant barrage of demands from our farmers, our industrialists, and sometimes our Governments, to introduce protectionist measures at our frontiers. It is not always easy to convince our citizens of the boomerang effects these could have in our interdependent world.

What is true - / -

What is true for Europe is also true for the United States. The natural protectionist tendencies which arise in times of economic difficulties are here fuelled by a particularly strong dollar.

These internal aggravations are often overlooked by the advocates of protectionism. Your farmers, for example, tend to lay the blame for all their world market difficulties at the Community's door. Yet your own Department of Agriculture recognises - and here I quote one of its publications - that a big chunk of your market difficulties is due to the strength of the dollar.

What I am saying is that neither of us lives by the absolute truth. So let me against this general backcloth say something, since I speak as President of the European Commission, about the Atlantic relationship.

When I was in New York a year ago this relationship was going through the worst patch in living memory. We were in a fullscale crisis on the Siberian gas pipeline, on steel, on agriculture. Since then much progress has been made. The pipeline sanctions were lifted. We strated a serious joint study on the problems of

trading with

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trading with the Soviet bloc. And we cut a deal on steel. Like all deals it was attacked but I have yet to find someone who could show in all the circumstances a realistic better alternative.

But we still do not lack for problems. Three examples :

. we are arguing about the compensation due to us for the recent US action to restrict imports of speciality steel - an action with which we have strongly disagreed and which we do not think compatible with the ringing words of the Williamsburg Declaration.

We are

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. We are arguing about the terms of the legislation which is due to replace the Export Administration Act when it runs out at the end of this month. We believe that the US practice of ordering companies constituted and trading in other countries to stop the supply of goods for US policy reasons is incompatible with international law. If there are differences in foreign policy we do not think these can justify stopping trade. We do not say to you - we disagree with US foreign policy towards country. X therefore we are ordering

US subsidiaries - / -

US subsidiaries of European firms to stop trade with that country. If there are differences in terms of national security let us discuss these as friends and partners.

. And then we face in terms of agriculture a very difficult year. Your vision of the Common Agricultural Policy is markedly different from our own. We disagree with your recent subsidised sales of wheat flour and dairy products in our traditional markets in Egypt. We face here a good deal of turbulence.

Is there - /..-

Is there a common feature running through these three examples ? I do not think it is protectionism as such. Because protectionism is more a system than a cause. I think the common thread is the complaint about unfair trade practices. This is not a concept unique to this country. The feeling flourishes everywhere that unfair is what the other fellow does. What one does oneself is of course both enlightened and correct.

Let us - / -

Let us look for a moment at just two of these so-called unfair trading practices - one in agriculture, one in industry.

The Common Agricultural Policy has been built up on this side of the Atlantic, as a deliberate attempt to impoverish American farmers. In argument with American friends I often point out that without a Common Agricultural Policy there would have been no Community. For when the original six Member States founded the

European Community

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European Community in 1957 they discovered they could only free trade in agricultural goods - given the very different agricultural structures and different levels of production in Europe - by harmonising these different agricultural policies in a common European policy.

Yes, say my American friends. This we understand. But this is no excuse for maintaining out-dated structures, feather-bedding European farmers and impoverishing American farmers. We reject all these charges. Over the last 20 years,

we have halved

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we have halved the labour force occupied in agriculture and during this period productivity has risen sharply. Now have we feather-bedded our farmers. Their income has not kept pace with industrial income over the last 10 years.

Then the charge the Common Agricultural Policy has been responsible for the tough time that the American farmer is now passing through.

How can this be ? The European Community is still the American farmer's largest customer. In 1982 we ran a farm deficit with the United States of just over 6 billion dollars.

But hold it, our friends say, we do not deny that you are our best customer. But the argument is basically about subsidies in agriculture. These are the unfair practices which are distorting world trade and which it is your responsibility to stop.

So let us - / -

So let us look for a moment at agricultural subsidies. Yes, we help our farmers, just as the United States helps its farmers.

Definition of subsidies can provoke endless argument. We argue that taking all forms of subsidy together in 1982 government expenditure amounted both in the Community and in the United States to just over 30 billion dollars. If one takes government outlays to support farm prices and income alone, your farmers will be

getting nearly - / -

.. getting nearly as much money from Washington
this year as they get from their crops.
Agricultural subsidies are a fact of life
and they were recognised as such during
the most recent round of international
-trade negotiations. All participants
including the United States and the
Community agreed that agricultural export
subsidies were permitted so long as they
did not allow any trading partner to get
more than an equitable share of world trade.

But what - / -

But what, it is said, is meant by equitable? Let me give two examples. Wheat and wheat flour account for nearly one-third of the volume of total US farm exports. In the Seventies, your share of the world wheat market grew three or four times faster than the Community share.

Take poultry. In the second half of the Seventies, we both saw our market shares diminish as exports from Brazil rose. On this basis, can you really maintain the view that the Community is stealing your world market? I think not.

Now a word

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Now a word about subsidies in industry. Here again the illusion prevails that the United States is one of the last bastions of unsubsidised free enterprise while others including Europe are subsidising themselves as if money grew on trees. In our case, it is certainly true that the steel industry in certain Member states has benefitted from extensive government subsidies. But here we have taken some tough decisions. No subsidies have been permitted since 1981 without being linked to a reduction in capacity. From 1985 the intention is to eliminate them entirely. And on this

side of the

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side of the Atlantic while Federal money is not given to the US steel industry a widespread and tough reduction in imports enshrined in the agreement on carbon steel last year is just as effective a prop and in economic terms no more defensible.

Elsewhere in the United States subsidies are by no means rare.

Just under half of your R & D expenditure including both defence and non-defence is funded by the Government.

The American

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The American Government spends approximately 500 million dollars a year subsidising the shipbuilding industry. From 1972 to 1983 direct help to exports in terms of the Domestic International Sales Corporation was just short of 12 billion dollars. These last two programmes are now being looked at again. We shall have to see the results. But if we I have made it clear that subsidies are not a uniquely European phenomenon this is not in an accusatory sense. I think we have to realise that we are both sinners.

And we need

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And we need to realise that industrial subsidies are not forbidden by the international trading rules. The rules in fact recognise that " subsidies are used by governments to promote important objectives of national policy ". But where it can be shown that such a practice is directly responsible for material injury elsewhere then there can be consultations and the possibility of compensation.

And this - / -

And this, Mr. Chairman, just underlines the general point I am trying to make. Allegations of unfair trading practices of course need to be scrutinised for their accuracy. But this examination should not exclude what is happening in the country of the accuser. We are both living in glass houses. Let us be careful when we start to throw stones. Above all we should have in mind what the international trading rules - laboriously hammered out over many years - provide. I have no doubt that many find that international trading rules do not go as far as they would like.

They would cry

They would cry "Barriers to trade lead to a misallocation of resources". I am a liberal and have a great deal of sympathy with this view. But if by some magic wand all subsidies were to be abolished tomorrow the uproar from San Francisco to Brussels and from Brussels to Yokohama would be such that politicians would have to book a place on the Space Shuttle. As a traveller, this might appeal to me but as a practising politician, I would not welcome the prospect. More importantly, I tell you that phasing out all subsidies would not be practicable. The international trading rules may not be perfect. But they exist, are reasonable and are the only rules we have. Let us stick by them.

And let me - / -

And let me demonstrate to you that those who claim the General Agreement on Tariffs and Trade is now outdated, should look at how American business has fared in the last few years. In the Seventies your share of world agricultural exports rose from 25 to 39 percent. If you take industry, in the last years of the Seventies, your share of manufactured exports rose from 17 percent to 21 percent. A recent study of US manufacturing by Robert Lawrence, a senior fellow of Brookings, finds that American industry more than held its own during the

economically

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economically troubled '70s and that their problems since 1980 have been related not to an inherent inability to compete but to an over-valued dollar. In the 1970's in fact the US performed better in terms of employment in manufacturing than either Japan, West Germany, France or Britain. Its volume increase of exports during that decade was only surpassed by Japan and France.

These figures are a striking tribute to the skills and salesmanship of American farmers and businessmen alike. They show the stake they have in world trade. And they show that the world trading rules have not done them too badly.

Mr. Chairman - / -

If our trade relationship breaks down then the one world trading system, on which the prosperity of the West has been built for 35 years, is finished. And then the world would enter a dark and terrible time.

Bismark once said that he spent a good part of his later years keeping open the telegraph line between Berlin and St. Petersburg. Our job is to keep it open between Brussels and Washington. We have had one difficult and turbulent year. We face another. It is all the more important that we succeed. For the world

is emerging

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is emerging slowly and uncertainly from the worst recession in 50 years. How will history judge us if we fail just when recovery worldwide is within our grasp ?

Success will depend on two things. Political will and real consultation. I have talked with your President and his principal Cabinet members. I know our own European leaders. I know the political will is there on both sides. We need in addition to talk our problems out - day by day, week by week. We need to ensure that there are no surprises. We need painstakingly and ingeniously to construct solutions. This will not be easy. But we cannot afford to fail.