European Community NEWS

E.C. NEWS NO. 24/1982
September 15, 1982

EUROPEAN COMMUNITY - UNITED STATES RELATIONS:

TWISTING THE DRAGON'S TAIL

address

to the

United States Chamber of Commerce

by

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September 15, 1982

Washington, D.C.

Only two days after my arrival in Washington I am grateful for this chance of addressing such a distinguished American audience. I come in fulfilment of an ancient Chinese curse: "may you live in interesting times". The times are interesting. The times are also hard. Particularly for trade relations between Europe and the United States. A variety of metaphors have been used over the last few weeks to describe the state of these relations. I shall abstain today from adding any more. But what is clear is that relations across the Atlantic are going through the roughest patch in living memory. So let me take a few minutes of your time today and look, as a European, at the nature and the scale of these differences and try to put them in some general context.

These differences need in fact to be seen against a very wide backcloth, partly political, partly economic.

Relations with the Soviet Union, the stability of the Middle East, our relations with the developing countries, macroeconomic questions such as the level of interest rates, are only some examples.

And, in the mind of European governments, the dramatic and rising level of unemployment - the worst since the 1930s - is a constant and major preoccupation.

But, in the interest of brevity, and since the Commission

of the European Communities has a particular interest in trade since it represents in this area its Member States in dealings with other countries, I propose to concentrate on three subjects of dispute:

- steel
- pipeline
- agriculture

Many of you - particularly from the U.S. steel industry - might think the steel issue an open-and-shut case. Here is the United States steel industry going through one of the worst periods in its history. Here are these cunning foreigners subsidizing their steel exports to the United States and dumping left and right. What then have Europeans got to complain about if action in accordance with the due process of U.S. law is taken to stop these illegal and damaging acts?

Let me make three basic points. And let me begin with subsidies. In 1977 we - the U.S., the E.E.C. and others - agreed in what was called the OECD Consensus that we should cooperate in a multilateral framework and that the burden of restructuring steel on both sides of the Atlantic should not be shifted onto others. We both had problems - out of date plants, inadequate investment and high labour costs. But we agreed not to try and export problems on one side of the Atlantic to the other.

We in the Community think that we have kept our side of the bargain. Over the last six years the work force in the Community

steel industry has been reduced by one-third - by some 230,000 jobs. And under a Commission decision of August 1981 Member State aids to the steel sector are strictly prohibited unless they are geared to a reduction in capacity; no, repeat no, aids will be permitted after 1985. These decisions were not easy. But they were taken and will be carried through.

The second point relates to the determination of anti-dumping and subsidies. How are these calculated? We contest here a whole number of points. Let me give simply two examples. In the case of anti-dumping, a notional - some may say mythical - profit margin of 8 percent is automatically included in the U.S. calculations. If any of you are earning 8 percent on your capital in these hard times you can count yourself lucky. And any loan to a so-called uncreditworthy company is counted a subsidy. Some of you are in the pension fund business. So some of you have shares in U.S. Steel. What matters in the long haul is the long term outlook, not an arbitrary automatic rule at any point in time. So we are contesting these interpretations in the GATT. And it is worth recalling that if we win our case, say on subsidies, the GATT rules provide that counter measures against the United States could be authorised.

And this leads to a general point. Not everything in the GATT is agreed down to the last comma. It simply was not possible to negotiate as far. So it is not a good thing in the mutual interest for partners who have to trade with each other to make unilateral interpretations of grey areas in the GATT rules.

A third point is that finding imports are subsidized - or dumped - is not enough. There is nothing in the international trade rules against these practices as such. A British business friend of mine was once asked if he was dumping overseas. He became indignant. He was not dumping, he said. He was exporting at a loss in the national interest. What the GATT rules provide is that action can be taken against subsidized or dumped imports if they cause injury. And this judgement has to be internationally acceptable. Now the difficulties of the United States steel industry are well known. They are not, as I indicated earlier, unique to the United States. But we do not think that imports of Community steel amounting in the years 1979 - 1981 to just over 5% of the United States market can reasonably be held to be a significant reason for the admittedly very serious problems of the U.S. industry - not unlike those faced by our own industry.

This formed some of the background to the long and difficult discussions in which we agreed with the U.S. Administration on August 6 ona limitation of Community steel exports in certain categories which would in return have provided for the withdrawal of countervailing and anti-dumping suits by U.S. industry. We were frankly disappointed that the United States steel industry does not seem to find these proposals attractive. The agreement would provide for peace in the valley for the next three years and would do a lot to stabilise confidence in investment. If the agreement is not implemented, a substantial part of the five million tonnes imported on average over the last three years from the Community will be at stake, and if European industry, which has lost a third of its work force and is going through its most difficult time since the War, has to face

the prospect of losing a substantial part of its exports to the United States, then clearly a very serious situation would arise.

Then the pipeline. A lot has been written about this. Some of our views have come across. I hope as in the case of steel that we can explore the possibilities of a solution. And we welcome some encouraging signs in this direction. But in default of a solution - and since the argument in the press is still going on, let me try and summarize as reasonably and as clearly as I can the European view.

And since in this country one can have a rational dialogue, let me begin by asking a few questions.

My first question is whether it is really thought here that the decision of the Department of Commerce on 22 June to prohibit export of goods and technology on oil and gas is compatible with international law. I know that the niceties of international law do not always play to a full house. But the United States have long had the reputation internationally of being a law-abiding country. And being on the right side of the law not only produces that inner tranquillity which only the good Lord or a visit to Abercrombie and Fitch can provide. It is also good for business. Now we think that this decision is not compatible with international law. We take exception in particular to its extra territorial and retroactive nature. We set our detailed views on this question in a memorandum which we gave to the Department of Commerce in early August. I will spare you now the details. But a copy is available here today for anyone who would like to see our argumentation.

My second question is this. Supposing that the situation were reversed. Let us suppose that a European Government or the Community were to say to the United States: "you have got your trading relationship with a certain major country completely wrong. We thoroughly disapprove of how you are conducting your relations. And we are therefore ordering all European firms which have any dealings with the United States over an important range of high technology to cut off their supply of knowhow and goods". Coming from a country which lost a lot of tea in Boston Harbour years ago, I could make some guess at the reactions. But it is a question more for you than for me.

My next question relates to the export of high technology. What do you think the results of this decision will be on the United States exports in this field of critical and growing importance? How will the increasing and very valuable trend to joint ventures be affected? You will have seen an estimate by the Department of Commerce of a cost to U.S. companies over the next three years of up to $600 million in exports and an additional loss for licensees of $1.6 billion. The United States Trade Representative, Bill Brock, has asked that the meeting of the GATT Ministers planned for November in Geneva should launch a study of international trade in high technology. Given the growing importance this sector will assume over the next few decades, this move is understandable. But I hope you will not accuse me of an excess of European logic if I say that to have the right hand put something on the table for examination while in a smooth conjuror-like movement the left hand removes it is to say the least somewhat confusing. And this is not of course

simply a question of the short term.Foreign buyers will be reluctant to sign up and pay for transfers of technology with what they are bound now to consider an unreliable partner.

My fourth question relates to exports of grain. A question was put to a high U.S. official in Brussels at a press conference this summer about the effect on the Soviet Union of a limitation of U.S. grain exports. If this were to happen, the questioner asked, would not the world price be bound to rise with the result that a sum not far removed from the 10 billion dollars from the pipeline which the Soviets hope to get annually in some years time could be extracted from them tomorrow? Particularly given the very dominant position of the U.S. in world grain trade and the very large Soviet demand following a fourth grain crop failure. Of course, limiting U.S. grain exports is a difficult proposition. However, it is no easier to tolerate a situation where thousand of skilled European workers are turned out on the streets - in a Community with unemployment already rising towards 11 million - on the instructions of a government thousands of miles away.

In fact, let me say that we view this issue, with due apologies to Charles Dickens, as the Tale of the Two Pipelines. In pictorial form - I speak as an admirer of Herblock - there would be two pipelines. One would begin in Iowa and end in Moscow.

For the second pipeline you have to go to a field in Western Europe where a pipeline half finishes and half doesn't, like the smile on the Cheshire Cat. In other words it is still to be built. And by

it stands a huge placard with the following inscription:

Everyone knows
that grain is fungible
but dealing in gas
is for those
who are gullible.

There are some additional points. It is argued that the pipeline would dangerously increase Western Europe's dependence on the Soviet Union.

But even when this gas is flowing at a maximum rate in 1990, it will represent less than 4 percent of the Community's total energy consumption. Would you have us instead increase our dependence on such suppliers as Iran? There is not much evidence that they would be more dependable.

Again it is argued that without the Department of Commerce decision high technology would flow dangerously to the Soviet Union. But this decision will give the Soviets a strong inducement to enlarge their own manufacturing capacity and to accelerate their own turbine and compressor developments, thus becoming independent of Western sources. Do you think the country which put the sputnik into space is incapable of this? In the meantime the pipeline from Siberia to Western Europe will be built. The Soviets will simply divert technology and production capacity from other parts of their current program.

Mr. Ambassador, if I have been frank about our doubts, it is not because we wish to carp or criticize for the sake of it. It is rather a tribute to a relationship between friends and allies that we can both afford to lay our views on the line. Equally we understand that the

decision of the U.S. Administration was one of principle. And views of principle held between friends and allies deserve a careful hearing and careful discussion. But here there was no prior discussion. And we do honestly think that the decision has some major drawbacks. It will

- boost Soviet technology;
- damage U.S. business;
- damage European business;
- not prevent the pipeline from being built;
- and not fulfil a major U.S. aim - which could be achieved by other means - of limiting Soviet foreign currency spending on technology and hardware.

And the decision has, as we all know, caused disarray in the Western Alliance. The Soviets are not displeased, I believe. And it is open to doubt how much all this will really help the Poles.

Let me turn to another crisis area - agriculture. Now here we should be clear from the outset that there can be no reasonable charge that the Community is a protectionist bloc. The E.E.C. remains the biggest importer of agricultural imports and we had a trade deficit in agriculture in 1980 of nearly 29 billion dollars. The trade deficit of the E.E.C. in agriculture with the U.S. increased in fact from 5.8 billion dollars in 1979 to 6.8. billion dollars in 1980. That was an increase of 17%, and in the first nine months of 1981 it continued to increase by 13%.

Most of the argument between us is not about imports into

the E.C. It is about exports from the E.E.C. to third markets. And here there is a basic difference of perception. Your authorities say agricultural subsidies are bad and must be removed. We say that this is not what the international trading rules provide. The agreement come to after long and difficult negotiations in the Tokyo Round in 1979 confirmed and elaborated a long standing rule that agricultural subsidies are permitted providing that these did not lead to any Member of the GATT obtaining more than an equitable share of world trade.

How has this worked out? First we are not the only ones who give government aid to our farmers. In our view if you compare like with like, farm spending in the E.E.C. per farmer is not far off what it is in the U.S.

Having said this, what has happened then to our share of world trade? Let me give an example. There have been complaints that "subsidies have helped to push E.C. wheat exports to 14 million tons, double their wheat exports three years ago, with a depressing effect on world prices". Yes, it is true that Community exports doubled between 1969-70 and 1980-81 to 14 million tons. But world trade was expanding even more rapidly. Our share actually fell from 16.6% to 14.9% over this period. What happened to U.S. exports? They did not just double. They more than doubled. They rose from 16.5 million tons to no less than 41.9 million tons - from 38.4% of world trade to no less than 44.8% of the world market. Indeed, thirteen years ago the United States exported 40% of their production - now this amounts to between 60 and 70%.

Let me put it another way. After the hard fought agreement

we reached in the Tokyo Round about "an equitable share of the world market" can we in Brussels go back to our farmers when the world market for a certain product is doubling or trebling and say to them that they cannot increase their exports because this might inconvenience farmers elsewhere?

Let us talk not only about the past. For the future the E.E.C. intends to continue and intensify its efforts to rationalize its agriculture. Our underlying aim domestically is to put more and more responsibility on farmers themselves to dispose of surpluses, especially by making the farmers contribute to the cost of surplus disposal. Not that we consider an excess of domestic production over domestic consumption necessarily a surplus that must be eliminated. The E.E.C. intends to keep its place in world trade. But we consider that for some products the European Community's price guarantees to its farmers should be limited. We have taken steps to this end for sugar and in part for milk products. And for cereals we intend to fix "production thresholds" in terms of quantity for our cereals for the 1980s. This means that if the threshold is exceeded then in the following year, the level of support will be diminished. All this means that farmers' incomes, which have fallen in real terms in recent years, will be further affected.

And we can also say, not in any spirit of criticism, that people who live in houses with large windows should be careful about throwing stones. You have a system of support for dairy products which limits imports to 1% of domestic consumption, and you have recently imposed restrictions on imports of sugar.

So much for some elements of the record and some guidelines for the future.

But where in practice the argument is concentrating is on subsidies in general and particular disputes in the GATT. A statement of U.S. views on the Common Agricultural Policy handed to us and widely distributed to Congress in February this year said "E.C. export subsidies are the single most harmful of E.C. policies. The U.S. must seek an acceptable plan and timetable for their elimination". I have already set out what we agreed for agricultural subsidies in the Tokyo Round. This U.S. attitude goes very far beyond it. Nor does this seem to square with such systems as DISC.

Partly, U.S. policy is reflected in a whole number of separate cases brought for adjudication to the GATT by the United States - wheat flour, sugar, poultry, pasta, canned fruit, and citrus. You might say why not. If there is adjudication in the GATT let it take its normal course. But in the first place these cases each require lengthy and detailed debate. In the second place this concentration of cases is not only unparalleled; it risks blowing the dispute settlement process in the GATT and with it the rule of law in world trade just as certainly as overloading with too many bulbs an electric circuit.

What can one conclude from these three problem areas ? It is difficult for a foreigner to avoid two conclusions.

The first is that there seems to be a tendency to see the cause of American difficulties originating abroad. It is in the case of U.S. agriculture that this tendency seems strongest to us. The deep troubles of U.S. agriculture can be ascribed to a variety of causes: interest rates, growing agricultural surpluses, a strengthening dollar and lower prices on the world markets. But the Community cannot accept that its farmers do not have a right to make a living selling overseas providing they abide by international trading rules.

A second conclusion is that the attitude and tone of voice in Washington in foreign trade policy seems a good deal more extreme than anything we have seen for a long time. The word "aggressive" is frequently used in Administration statements. There seems to be a feeling that previous U.S. Administrations have taken an attitude of benevolent liberalism, that this has not adequately safeguarded U.S. interests and that a new much tougher line with foreigners needs to be adopted to defend American interests. I may say in passing that I find it difficult to recognize this picture of the past. We have dealt over the last two decades with a number of prominent U.S. officials in economic affairs. John Connolly, Mike Blumenthal and Bob Strauss come to mind. And anyone who thinks he could make a quick dollar out of these men believes in unicorns.

But you will say why should not the United States devote itself to a singleminded and aggressive pursuit of its own interests internationally ? The world is not exactly full of shrinking violets.

I would suggest three considerations which, in American self-interest, should temper this approach. The first is that the traditional picture of an America so rich, so powerful and so removed from the outside world that it can easily afford this kind of policy has been overtaken by the facts of life.

For roughly a century -- from the Civil War to the 1960s -- foreign trade accounted for not more than 3-4 percent of United States GNP. In the 1970s, there occurred a historical change. In 1980, the figure was 9 percent. More strikingly, exports accounted for about one fifth of the goods produced in the United States. More than half of U.S. grain is exported. Almost one of every three dollars of U.S. corporate profit derives from the international trade and investment activities of American firms. And the pace of U.S. involvement with the rest of the world in fact is quickening. According to a recent Conference Board report, four out of every five manufacturing jobs created in the United States between 1977 and 1980 were linked to exports.

And this dependence is especially true of United States links with Europe. In 1980, the United States ran a surplus of 25 billion dollars in its trade with Europe -- nearly 7 billion in agricultural goods. So this shows clearly enough that escalating

trade restrictions between the United States and the rest of the world would be a no win situation.

The second consideration is a wider one. We can well understand as Europeans that an increasing number of Americans look today not simply to the Eastern seaboard and to the traditional links with Europe, but West to the Pacific. The fact nevertheless remains that in international trade the United States and the European Community are by far the biggest operators on the world stage, accounting between them for something like a third of world trade -- nearly half if you take into account trade among the countries of the European Community. And this means that the trading relationship between Europe and the United States is fundamental to the preservation of the open world trading system on which the prosperity of the West has depended for the last 35 years. It is in no sense to minimize the trading problems elsewhere in the world -- problems with Japan, the fragile financial state of a number of major developing countries -- to say that if the shutters come clanging down on both sides of the Atlantic then the open world trading system is bust. And this is not simply a commercial fact. Not simply an economic fact. It is a political fact. Some of you remember the days of the bonus marches, of soup kitchens, and "brother, can you spare a dime ?". In Europe we had not only soup kitchens. We had governments that came to power by torchlight in the night. And a collapse of the world trading system means not only misery and hardship to an extent not seen for the last fifty

years, but the risk of a re-visitation of the terrible ghosts of the 1930s.

There is a tale about the development of the atom bomb in Los Alamos in the early 1940s. The search was then on for what was called the critical mass -- the weight of two uranium halves which propelled together could start a nuclear explosion. One physicist experimented for months moving them together with a screwdriver. One day, the screwdriver slipped. An eerie blue light filled the whole laboratory. Only half a second stood between the disappearance of Los Alamos and possibly a change in world history. The laboratory was saved. The physicist died. He had a phrase for what he had been doing. He called it "twisting the tail of the dragon". I sometimes have the feeling that this is what we are doing in the trade field. I lived through the years in the 1930s as a schoolboy and the early 1940s as a young soldier when the dragons had been wakened. I do not want to see the dragons wakened again. So, twisting their tail seems to me a high risk occupation.

And there is, I would suggest, a third consideration. It is no bad thing from time to time to stand back and look at what history will be saying about us in 20 years time. And history will surely regard these quarrels we are having across the Atlantic as something difficult to understand. A lot of attention is being devoted here to the dangers which the Soviet Union represents for the free world. Yet, here is the Soviet empire going through its

worst and most ramshackle moments since the October Revolution. Unrest and shortages in some Eastern bloc countries, a fourth failure in a row of the Soviet grain crop. And yet, this is the moment we -- on both sides of the Atlantic -- have chosen to attack each other. Does not a divided West risk great dangers ? The nations who bore arms a generation ago in defence of liberty and who stand ready to do so again need each other far more than they need to quarrel.

So all this is an argument not for sweeping our differences under the carpet but for seeing sometimes by open discussion, sometimes by discreet bilateral exploration what accommodation we can find. If not, history will judge us harshly. And history will be right.

Mr. Ambassador. Part of a diplomat's job is to listen and I shall be doing a lot of that over the next few months and years. But it is also a diplomat's job to tell the tale as he and his clients see it. So I should like to thank you for your courtesy in listening to me today and to say that I look forward very much to my stay in a fascinating city and a great country.