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## SPEECH BY CHRISTOPHER TUGENDHAT TO THE NATIONAL FOREIGN TRADE CONVENTION, NEW YORK, TUESDAY, 14 NOVEMBER, 1978

The interdependence of the U.S. and Europe in matters of trade exists at two separate but related levels.

The first level is that of bilateral trade. The United States provides the members of the European Community with their largest export market outside the Community's frontiers, taking in 1977 some 12.6 per cent of their non Community exports. Similarly, the Community provides the USA with its largest export market, taking in 1977 as much as 22 per cent of U.S. exports. Indeed, in passing I would point out that at a time when the overall U.S. trade balance is in serious deficit, the U.S. surplus on trade with the Community is positive to the tune of 4.1 billion dollars (1977). The existence of such a surplus demonstrates, I think, the extent to which the Community has succeeded in effectively resisting pressures to adopt protectionist policies towards American exports.

The fact that we are each other's best customers makes trade between us enormously important for our respective industries, farmers and consumers and it is essential that is remembered on both sides in the conduct of our bilateral relations. But the importance of our relationship is not limited to the bilateral dimension, we are also critically dependent upon each other at the higher level of the overall world trading system.

The European Community is the world's largest trading entity. We account for some 24 per cent (1976) of the world's imports and exports. The U.S. also accounts for a very significant, although smaller, proportion of the total. The sheer weight of our mutual involvement in world trade requires us, together with Japan, to act jointly and responsibly in the interests of the trading system as a whole. If we were ever to depart from this principle of joint and shared responsibility in the conduct of our trade policies at world level the consequences could be most serious. If the American and European giants were ever to fall out they could do a lot of damage both to each other and to many bystanders.

## MULTILATERAL TRADE NEGOTIATIONS (M.T.N.)

Nowhere is this principle of shared responsibility better illustrated than in the realm of the MTN.

These negotiations which are more ambitious in scope than any previous negotiations on trade undertaken since the establishment of the GATT in 1977, are at the center of our efforts to preserve and strengthen the foundations of the present trading system. They are designed to provide further liberalization, new rules, new procedures and new mechanisms for solving disputes which together would constitute a reinforced framework for international cooperation for at least the next decade. The negotiations have become a symbol of our commitment to an open trading system and the rejection of protectionism. Our governments are pledged at the highest level to achieve success. Failure is politically unthinkable. There is every reason to fear that if our efforts do not succeed we shall be unable to resist or control a cumulative process by which a crucial pillar of our prosperity would be gradually eroded and the tide toward increased mutual interdependence could be checked and reversed. One has only to pause and think of the consequences that have flowed from the break up of the Bretton Woods System to realize how vital it is to avoid the trading system falling prey to a similar fate.

We are now in the very final stages of these negotiations and the fact that we are within reach of success is in no small way due to the commitment and energies of the U.S. administration -- and in particular to the driving force of the President's Special Trade Representative, Bob Strauss, who has played a vital part in bringing us to the point we have now reached. From the moment he took office, he was instrumental in forging a close partnership between the so-called big three -- the U.S., the EEC and Japan -- a partnership which has successfully ensured that offers were put on the table in January this year and that an overall package was outlined by July. Now what remains is to conclude the final political negotiations.

Let me briefly summarize the outcome which the Community wishes to see.

### INDUSTRIAL TARIFFS

First, the Community wants a significant further liberalization of trade via a harmonized reduction of tariffs. Our consistent aim in the current negotiations has been to achieve harmonized reductions that bring down not only average levels of protection but in particular the prohibitive peaks of protection. After implementation, we would expect to see tariffs between the main industrial countries of an average level of 5-7 per cent and an absence of duties at levels of 20 per cent and over.

### AGRICULTURE

As far as agriculture is concerned, the Tokyo Round far exceeds anything attempted in previous negotiations. The Community's approach has been strongly to favor including agriculture in the MTNs but to insist that there can be no effective negotiations unless all the parties recognize that government involvement and support for farming is an undeniable fact throughout the world which sharply distinguishes the agricultural from the industrial sector. I am glad to say that there now appears to be a good chance of achieving international agreements on key commodities in agricultural trade -- cereals, dairy products and meat -- which will not only stabilize trade but facilitate the expansion of trade in these commodities. On other products, where this is feasible and appropriate, there will be direct liberalization on a reciprocal

tariff cutting basis. Finally, the Community is not intending to duck the sensitive issue of agricultural export subsidies. I hope there will be provisions affecting pricing policies in the international commodity agreements, to which I have referred, as well as provisions in the context of a new code on subsidies and countervailing duties, which will contribute to avoidance of the disruption in trade which excessive subsidies can cause.

### NON TARIFF BARRIERS

Mention of a code on subsidies and countervailing duties brings me to another important aspect of these negotiations, namely the attempt to deal with a range of major non-tariff barriers which have either so far escaped international disciplines or which are subject to rules that need review and elaboration. Although it is pursuing its own internal policies of removing non-tariff barriers to trade, the European Community has not shirked its responsibilities for contributing to international progress in these areas. For example, we are well on the way to establishing codes to prevent obstacles to trade arising from policies of standardization and to eliminate discrimination in the field of government purchases. We are looking, too, for a new safeguards code which, in return for subjecting emergency safeguard action to increased international discipline and surveillance, would permit selective action against the source of injury and would thereby help keep trade disturbance to a minimum.

As you may know, our approach to the issue of non tariff barriers has also led us to take issue with long-standing U.S. protective practices. I am referring to efforts to establish a new harmonized system of customs valuation that would bring an end to such U.S. valuation systems as the American selling price and the final list, and also to efforts in the context of the proposal I have already mentioned for a code dealing with subsidies and countervailing duties to bring us legislation on countervail (which dates back to the 19th century) into line with GATT requirements for a material injury test.

These remarks prompt me to make a final observation about our approach to trade issues in the MTN. We are seeking in these negotiations to bring about a framework for international trade in which the main participants, at least, accept a commitment to the uniform application of GATT rules. I know this is a potentially controversial theme since in the U.S. Congress there has always been a tenacious defense of derogations enjoyed by the U.S. under the GATT. However, we are convinced that the uniform application of GATT rules is the only precept on which to build a reinforced GATT that can command effective and universal acceptance as a framework for trade rules in the future.

### MONETARY PROBLEMS

I referred earlier to the world's present monetary disorders, the full potential benefits for both the developed and the developing world of a successful outcome to the MTNs will, of course, only be realized if those disorders are removed. It may therefore be of interest to this audience if I briefly outline the proposals which the European Community is currently considering for creating a European zone of monetary stability.

Such a zone would be established and maintained by means of a European Monetary System (EMS). Under this system, fluctuations in the value of each of the member states' currencies in terms of the currencies of its partners would not be permitted to exceed fixed margins on either side of agreed central rates. (It should be noted however, that the central rates themselves could be changed by mutual consent.)

In order to help the member states to maintain these rates, a substantial European Monetary Fund is envisaged from which they would be able to borrow on appropriate terms.

But from the outset it has been recognized that whatever the arrangements made for direct intervention, EMS will not endure unless the member states pursue national policies which ensure much greater convergence than in the recent past in the performance of their economies, particularly with respect to inflation.

One of the main reasons why the member states wish to stabilize the relationship between their currencies is that their nine national economies are now very closely linked to each other by ties of investment and trade. I said earlier that the USA provides the member states with their largest non-Community export market, but the Community itself is now a full customs union and for each of the member states, the most important export market of all is that provided by its partners. The United Kingdom now sends 36 per cent of her total exports to the rest of the Community, Germany 46 per cent, and France 51 per cent. For the smaller member states the figures are even higher.

In these circumstances of very high mutual dependence, the severe fluctuations of recent years in the relative value of the member states' currencies combined with external pressures have caused major strains in their national economies, this distorting monetary and fiscal policy, and also inevitably inhibiting investment.

The fall in the dollar in recent weeks has been on a scale that has major implications for the U.S. economy. But it may not be widely realized by Americans that your country has hitherto suffered much less from the breakdown of the Bretton Woods System than has the European Community. This has been to a great extent because so much of the economic activity of the United States is internal, and thus covered by a single currency. EMS could, I believe, provide the Community's internal trade with similar, though obviously less complete protection from the consequences of monetary turbulence. And in so doing would greatly assist the Community countries in their efforts to achieve sustained and inflation free growth.

It is of course very much in the United States' interest that we succeed in reviving growth in the Community because it will help the U.S. to overcome her own balance of payments problems.

Moreover, in addition to reducing monetary fluctuations within Europe, EMS should also help to restore stability at a global level to the obvious advantage of all the world's trading nations. At the moment one of the main causes of instability in the world's currency markets is that speculators wishing to move out of dollars know that they can swiftly push up the value of the stronger European currencies, particularly the Deutschmark. However, speculators are less likely to be able to push up all the parities of an EMS together, and the incentive to sell dollars for quick profit would therefore be correspondingly diminished by its existence.

Those who are responsible for the management of the EMS will, of course, have to adopt a coherent policy toward the dollar, just as those who manage the dollar will have to adopt such a policy toward the EMS. But since the existence of the EMS will be a force for stability, I am wholly confident that it will be possible to establish a mutually satisfactory monetary relationship between us.

Recognizing that an effective and sensible EMS is not only in the European but also the general interest, the American government has publicly voiced its strong support for the Community's efforts to solve the technical and political problems that must be overcome if it is to become a reality. I would like here tonight, as a member of the European Commission, to express our appreciation of the Administration's constructive response.

#### CONCLUSION

In this presentation I have tried to show something of the importance of the Community in international trade and our approach to trade and monetary problems. What I have sought to convey is a picture of the Community which, although deeply involved with its own economic and political integration, nonetheless combines this with a sense of international responsibility and a sincere commitment to multilateralism. Since the Community is the sum of its member states it is not surprising. European countries by tradition are outward looking and accustomed to playing a constructive role in world affairs. But, being also more than the sum of its member states, the Community is now developing a common international identity and policies that befits our actual and potential strength.

I am confident that we shall discharge our international role with wisdom and responsibility -- and in close partnership with the United States.