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KRAG SPEAKS ON EUROPE-U.S. RELATIONS

The following is an outline of an address which Jens Otto Krag, Head of the European Community Delegation in Washington, is making today at a meeting of the Business Council at The Homestead, Hot Springs, Virginia:

Washington, May 10, 1974

The economic and political aspects of European affairs and of European-American relations have been in the news for some time now. Yet it is amazing to find out how perplexed we still seem to be on both sides of the Atlantic in trying to understand each other's problems.

So I would like to make some observations on the present European scene. I would then offer a brief personal estimate of its possible consequences on European-American relations.

A series of political and economic events have in the past six months shaken the world and hit the European Community very hard.

1973 was going to be a year of adaptation to the European Community's new size and the year of basic decisions aobut the future course of Europe. The blueprint of an ambitious "European Union" had been outlined at the

Paris Summit Conference in October 1972. Considerable work has been achieved on these lines: for example, the European Community was the first among the main partners of GATT to establish a coherent common approach to the international round of trade negotiations which was formally opened in Tokyo last September. Also, action programs on social policy, industrial policy, scientific and technical research, and on the environment have been approved.

However, with respect to most of the other important matters before it, the European Community has not resolved certain points of divergence between the member states. This is particularly so for a European monetary policy, an energy policy, and a regional policy.

Moreover, the enlarged European Community has been seriously disrupted by the growing impact of external upheavals: the successive monetary crisis, the increase in commodity prices, the events in the Middle-East and the accompanying oil crisis, internal political problems within each member state have interrupted the momentum in European affairs.

In May 1974, the keynote is uncertainty. This is presently Europe's worst ennemy for it provokes inertia in the European Community.

/European euphoria

European euphoria over its own economic development in the 1960's was such that Europeans may have failed to notice how the world was changing. They had not fully realized how their dependence on outside sources of energy and raw material can endanger their prosperity. Europeans are now belatedly taking the measure of this reality and are trying to appreciate its implications.

About 40% of Europe's total energy consumption is available on Community territory. What is more, the Community is not extensively involved in exploiting resources elsewhere in the world. This situation does not only concern the special problem of oil but the whole range of raw materials and certain agricultural and food products. In 1972, primary products accounted for more than half the total imports into the Nine and more than 90% of this came from developing countries. These imports have suddenly become much more expensive. At present prices the bill for oil only might increase by well over the initial conservative estimate of $17 billion. This means that Europe must offset an additional balance of payment burden either with a strengthened ability to sell abroad or by cutting back its own prosperity... or else by accepting a status of massive debitor on the international money markets.

The energy crisis has hit Europe where it hurts most. It has impaired its capacity to produce. The 1974 growth rate is certainly going to drop.

/Price rises will reduce

Price rises will reduce the competitiveness of our economies. In no single Community country - except perhaps in the German Federal Republic - will prices increase by significantly less than 13%. In some countries the rate will probably be higher still. Sensitivity to the problems of employment and inflation varies with the member countries, as does dependence on oil imports. All the member countries' currencies do not react in the same way to changes in the terms of trade and to distabilizing movements of money and capital. As recent decisions in Italy for example have demonstrated, there is a great danger that different emergency measures will be taken in the various countries.

Yet, basically inflation, currency, competitiveness, standard of living are all common problems. Never has the link between them been so strongly highlightened. The energy problem indeed affects everything which goes on in the European Community. Logically it should therefore be dealt with overall. It has become quite clear that, now more than ever, economic structures must be truly harmonized between the member states if we want the economic and monetary union to move away from the stage of abstract ideas and pious wishes. The question is whether European Governments will find the political strength, the courage and the technical skills to overcome the simultaneous internal and external challenges that face Europe today.

/As demonstrated during the Kennedy Round

As demonstrated during the Kennedy Round for example there is a quite successful common European trade policy. This should form a stimulating and convincing case for renewed European solidarity also in areas which hitherto belonged to the exclusive competence of member states: first and foremost in the introduction of a Community energy policy. The particular area of commercial policy is, interestingly enough, also an area where adequate consultation machinery exists between the European Community and the United States and where the relevant procedures function well.

However, the need for increased internal European cohesion does not call in question the European Community's general strategy in its economic and trade relations with third countries. On the contrary, the events of recent months have made it more obvious that it is vital for Europe to assert its own interests and responsibilities with the aim of avoiding a deterioration in international economic relations.

It is in this context that Europe found it urgent to redefine its relationship with the countries which produce raw materials. There is indeed a convergence of interest between the European Community, a major importer, and certain exporting countries. These, apart from finding in Europe an outlet for their raw or manufactured products, can find technology and experience which is indispensable for the development of their economies and their industries. Here again, it is essential to avoid rivalry

/between member states

between member states whose cooperation has to be coordinated within a policy defined at European Community level. Such considerations were already at the basis of plans for a European Mediterranean policy drafted two years ago. Recently they have inspired the decision by our nine member states to approach coherently twenty Arab states in a number of areas

Europe must also initiate genuine concerted action with the US and other industrialized countries which are facing difficulties similar to its own in order to avoid the danger of a return to protectionism and the disruption of international trade. It is in this spirit that the Commission of the European Communities means to intensify the dialogue in which the Community is engaged with its principal trading partners especially the United States, Japan, and Canada.

I am personally convinced that the GATT negotiations remain as important as ever. These talks must prevent a return to protectionism as each oil-consuming country tries to cut down on non-energy imports in order to devote increasing parts of its shrinking export revenues to pay for its expensive oil and raw material imports. Therefore we all must be ready to come to the negotiation table with the necessary legal and political backing. Again, the European Community has worked out its own initial approach on trade. Yet it is obvious that until the U.S. Government has obtained powers to negotiate, there will be no substantial progress in the GATT talks. We do hope that the remarkable improvements scored by the U.S. balance of payments in 1973 will affect the trade bill positively.

/Since we are talking

Since we are talking about commercial affairs, let me briefly mention the most recent U.S. Department of Commerce figures about 1973 U.S. exports to the European Community.

These figures are particularly significant in the light of the well-known U.S. claim that U.S. exports to Europe would "suffer" from the enlargement of the European Community and that the U.S. are entitled to "compensation" on the basis of Article XXIV, Section 6 of GATT. As a matter of fact, the first year of the enlarged European Community was a banner year for U.S. agricultural and industrial exports to the European Community countries. They rose from $11.9 billion in 1972 to an approximate $16.7 billion in 1973; an increase of 41%. Soybeans, the most important single export, rose 84% to $1.2 billion. The number two export, corn, nearly doubled in value, rising to $900 million. Other above average performers were oilseed cake, wheat, aircraft, organic chemicals, valves and transistors. The other major U.S. export items also gained but registered increases of less than 40%--office machines, measuring instruments, aircraft engines, calculating machines, and tobacco. A large part of these spectacular gains reflect price inflation, especially in the agricultural commodities: the 75% increase in soybean exports is reduced to about 10% in volume terms. By volume, corn exports were up 28%, wheat 8%, oilseed cake 4%, tobacco 10%.

/To me these figures

To me these figures show that American farmers and businessmen are far more competitive than they realize. Incidentally, I have always found American preoccupation about their own competitiveness in the world largely unjustified: already some time ago, comparative GNP figures and productivity estimates for the 70's rated that one American produces roughly as much as 2.6 Europeans. Today, after various dollar devaluations and as a consequence of the energy crisis, the competitive situation of the entire U.S. economy is more robust than ever.

America's immense economic strength will be needed in the decades to come not only for the sake of America alone but also for the sake of preserving a stable and equitable world order.

Among many challenges posed to international relations I see a particularly urgent one where European and American policies can and must pursue a compatible course: the shaping of an effective policy vis-a-vis the developping world. The task is overwhelming and can only be handled successfully if it is handled in a cooperative rather than a competitive fashion.

This can truly be said about every area that belongs to the framework of transatlantic relationship. Dry facts and figures in the area of trade and investments as well as in the area of military burdensharing provide us with the most objective illustrations of the successful and mutually profitable relationship we were able to maintain so far.

/As to the future

As to the future, I would say that, in order to clear the way for improved transatlantic cooperation, we must get over a number of psychological "hang ups" and miscalculations of mutual intentions. There are, for example, - in my view unjustified - European apprehensions about American domination coinciding with a lack of European awareness of the real dangers of American isolationism.

On the other hand, it seems sometimes difficult for Americans to realize that internal European cohesion does not imply any threat to Europe's traditional partners. European unity - where it exists - proves to be good for Europeans and for the world.

The fear about anti-American ingredients in a still largely to be defined European identity reflect in my personal view a double manifestation of weakness:

- weakness on the part of Europe if it does not find within itself the elements of a European identity;

- weakness on the part of Europe's partners to interpret manifestations of European identity as a hostile or even as an unfriendly move.

This means in practical terms that we need better consultation mechanisms and that we must develop greater sensitivity for each other's preoccupations in political as well as in economic affairs. We must engage in what I would like to call an apprenticeship of true partnership.