Address by Sir Christopher Soames at the OECD Ministerial Meeting (Paris, 29 May 1974)

Caption: On 29 May 1974, Sir Christopher Soames, Vice-President of the Commission of the European Communities, gives an address at the OECD Ministerial Meeting in Paris. In his address he focuses on the commitment of European governments to greater international cooperation and to the need to increase aid to developing countries, including in matters of trade. He also emphasises the European Communities' dependence on trade, the need to reduce inflation, and the need to liberalise trade and develop international cooperation to encourage economic development within the European Communities and more efficient global economic management.

Source: Historical Archives of the European Union. Sir Christopher Soames' speech at the OECD ministerial meeting. Paris: 29.05.1974, 5 p. Historical Archives of the European Union 2013, Villa Salviati – via Bolognese 156, I-50139 Firenze – Italy . UWK-NS-56.

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Rarely can responsibilities have lain more heavily upon those whose decisions and deeds affect the turn of monetary and trading events than today. The problems have been set out with meticulous care by the Secretary General. They are depressingly familiar. But two features are strikingly new - and sufficiently so for us to look on this as a different and more serious crisis period than the many others we have lived through in recent years.

The first is the radical shift in the terms of trade for the OECD area as a whole, chiefly as a result of the increase in oil prices but also because of rises in the prices of many other raw material imports. The combined effects of these are estimated by the Secretariat as likely to produce an overall OECD balance of payments deficit of around $40 thousand million this year in place of the small surplus of previous years. For the Community we estimate our current account deficit (excluding transfers) as likely to be nearly $15 thousand million, as compared with a surplus of nearly $7 thousand million in 1973. This is a dramatic turn-round of some $20 thousand million from one year to the next.

The fact that our forecast deficit is a large part of the overall deficit foreseen for the OECD is of course the direct reflection of the Community's dependence on trade, and on imports of raw materials in particular. No one can be more aware than we that we live in an interdependent world.

The second new feature, the flaring up of inflation, must really stop us in our tracks. There are few more potent sources of injustice and therefore of potential social unrest and economic disruption. Quite what rate of inflation would lead in the Community and in the OECD to the breakdown of our societies as they are today, both within individual countries and in the arrangements made between them, it is not for me to say or judge. But one thing is clear. We are at present in danger of being sucked down into a vortex and wherever the critical point may be, there is every prospect that we shall reach it all too soon unless we take effective and determined action.

Of course it is easier to diagnose the disease than to prescribe the cure. The situations of our countries, even within the Community, are far from identical - and the measures required are by no means the same everywhere. But recognition by all of the need - in the Secretariat's words - for "a very special effort" to reduce inflation in the coming months is the first requisite. And it would be difficult to improve on the catalogue of measures set out in the Secretariat's paper.

One thing is certain, the worst possible way to tackle our troubles would be to turn towards greater national autarchy. There is no blind affirmation: it is a fact of life.

We have recently had some experience of this in the Community. In an attempt to redress her serious situation, Italy had to resort to domestic economic policy measures, and she thought it also necessary to introduce a system of import deposits. We have discussed all this with the Italian Government, and the measures have been approved by the Community. Italy for her part has agreed to apply the new measures in such a way as to cause the least disruption to existing patterns of trade. The Community, moreover, considers the protective measures as only temporary, for it is our opinion that no measures of this protectionist kind can lead to a lasting improvement in the health of the Italian economy. Indeed, we regret them as much as does the Italian Government. But Italy was faced with particular difficulties, which were by no means, not even principally, due to the rise in oil prices.

It is also very clear for the Community that any measures capable of helping the Italians, or other member countries in similar predicaments, can only be fully effective and avoid the risk of chain reactions if they are taken in a Community framework and by general acceptance. What holds true for the Community can be applied equally to almost all other countries in their international relations. This is not to deny that the primary responsibility for action must lie with governments. It is, rather, to remind ourselves yet again that they do not, and cannot, operate alone. Whatever the situation they are faced with, their actions must take into account the problems of their neighbours and trading partners and the rules of international conduct which have been painstakingly worked out over the post-war years. Let us not forget that under this system of international cooperation and discipline we have seen the greatest increase in real wealth over a given period that the world has ever known. And that was no coincidence.

Yet, today, there is an evident danger - even perhaps, alas, a prospect - of governments acting in emergencies on their own without concultation. The temptation is great, for (to paraphrase Dr Johnson) nothing concentrates the minds of one's partners so well as a fait accompli. But where could such unilateral actions lead us? From one unilateral action, through the reprisals for it, to further unilateral acts. That would be sliding down the slope of self-defeating efforts to get rid of one's own problems onto someone else. This can only have one outcome - ever worse relations between our peoples, ending in slump and depression, as in the 1930's.

That is why the Community endorses the general principle of the draft declaration that lies before us today. It is a good document. It underwrites the present degree of liberalisation and confirms the commitment of member governments to greater international cooperation. And it recognises the fact that the proper solutions for balance of payments problems are to be found in monetary and economic, and <u>not</u> in commercial policy.

We in the Community are convinced that it is not sufficient simply to maintain the status quo. We must not only secure what we have already achieved in freeing world trade and in establishing rules of conduct and arrangements for mutual support; we need to go further in the same direction of greater liberalisation and international cooperation. The answer to our new situation is not to doubt or to falter, still less to turn back; but rather to summon up the determination to press on.

This is no attitude of bravura. It is founded in solid calculations which are every bit as valid in foul weather as they were in fair. It is these which lead us in the European Community to reaffirm also that progress with the multilateral trade negotiations is in present conditions more important than ever.

There are economic imperatives for further trade liberalisation. Freer trade has undoubtedly contributed to growth, both through greater international specialisation and a more competitiv climate - and we have not, least of all in our present difficultie reached the point where we can afford not to stimulate growth. Th again, tariff cuts have a part to play against inflation. And, thirdly, a freer world economy is an altogether more stable and helpful background for more far-reaching international cooperation in economic management.

But surely the over-riding argument is political. If we fail to move on towards more liberalisation and more international cooperation, the danger is not that we shall just stand still, but that we shall slip back.

Do not let us forget that these negotiations will certainly not be concluded before the end of 1975, so at the earliest the tariff reductions we decide will not implemented before 1976. By that time, if we keep our heads, the more alarming aspects of the present crisis will, I hope, be seen in perspective and we will all be better prepared for lower tariff levels. This is no headlong rush into the unknown; it is a careful preparation of the next stage in the long but steady progression towards a freer and more efficient world economy.

So liberalisation is a very different thing from just letting blind economic forces work themselves out and letting the chips fall where they will. That is obvious also from the serious work now under way in the very important (and infinitely diverse) area of non-tariff barriers, where so many of the still significant obstacles to trade are to be found. Here, as elsewhere, deliberate liberalisation and international cooperation must go hand in hand.

Most non-tariff barriers have their "raison d'être" which cannot be lightly thrust aside. If therefore we wish to limit their discriminatory effects on international trade this can only be done by taking up in international conventions what was previously a matter of primarily national concern. The same applies to a large part of agricultural trade; an increasing proportion of raw material trade, to the extent at least that some form of commodity agreement or buffer stock arrangements are desired; and the new arrangements regarding international trade in textiles, where we have now gone some way towards establishing international arrangements to replace national ones.

What is true of the commercial field in general is also true of an increasing number of other policy areas. One of these is that concerned with international investment and the activities of multinational corporations. The Executive Committee in Special Session has already devoted time and effort to the analysis of this complex set of problems. It reached a year ago an agreement to the effect that both international investment and multinational corporations should be treated in close conjunction with each other, pari passu and symmetrically. We do hope that progress will be made on both these facets simultaneously.

To turn now to the problems facing developing countries. In the Community's view, the first task should be to agree on emergency measures to help those developing countries most severely hit by the recent rise in world prices, particularly of oil products.

You will remember that the European Commission proposed in March of this year that the international community should make a special effort to find $3,000 million over twelve months for this very purpose. The first discussion of this proposal in the Council of Ministers was sufficiently positive for the Community's spokesman at the special General Assembly of the United Nations to be able to announce that member states were both anxious to take part in urgent discussions on how best to mobilise international help for these countries, and were also ready to make a substantial financial contribution provided other members of the international community were willing to do the same. The action programme which the General Assembly subsequently adopted fitted in well with the European Community's own ideas. The Community's institutions are now studying how best the Community can make its contribution to the emergency programme envisaged by the United Nations. The Council will, I hope, have taken a decision on the Commission's proposals in time to meet the General Assembly's deadline of 15 June.

As to the machinery for this emergency action, this task could be entrusted to the Ad Hoc Committee set up by the United Nations.

But quite apart from this emergency programme, there is the question of our normal aid programmes. The Commission believes that the industrialised coungries have a duty not only to ensure that their aid is not reduced, but that every effort should be directed at an effective increase in real terms. In this connection, I would draw your attention to the resolution adopted by the Council of Ministers on 30 April in Luxembourg, that they should agree to "adopt as their common aim an effective increase in official development assistance". The Community therefore considers that it is not enough simply to agree not to reduce aid to the developing countries; it needs, on the contrary, to be increased. Hence the figure of 0.7 per cent of GNP which member states accepted, at that same Luxembourg meeting, should be their target.

The same is true, we feel, of the special measures we take to help developing countries also on the trade side. You will recall that the Community was the first to introduce a system of generalised preferences for the industrial products of developing countries. As from the beginning of this year, we increased the coverage of that scheme by some 40 per cent and brought into it some semi-manufactured and transformed agricultural products. We are now working on a further improvement of the scheme for 1975, which should particularly be to the benefit of the poorest countries. It would, of course, help us to go further and faster in this direction if all the major industrialised countries would introduce a similar scheme. We know, of course, that most of them have done so and we hope that once the Trade Bill is through the Senate the United States will also be able to introduce such a scheme.

To sum up. The problems we face are great and the ways we might tackle them are diverse. The circumstances of each of our members will call for action most appropriate to its individual needs. Bu no one member country is acting in a vacuum and the way in which it decides to behave must take account of the effects and consequences of its behaviour on others. Of course we cannot lay down a blueprint for action which will cover the situation of all our members. But at least we should aspire that we can agree on what course of action we should not take; and that, as far as trade liberalisation is concerned, this includes anything that can be interpreted as a step backwards. That is why we in the Community can so whole-heartedly endorse the principle of the draft declaration. Indeed we would like to go further because there is always a danger where trade is concerned that to stand still means to go backwards. We would like to see the momentum kept up and the multilateral negotiations get down to real business as soon as possible. So we hope to see rapid progress made in this field by our partners, and we would particularly welcome it if the legislators in the US Congress were to show by their deeds that they share with us the vision of a liberal world economy that their country has done so much to promote. In our present difficulties there is more than ever a need to stand firm and to remember how much the world has benefited from an increasingly liberal world trading system. That is the road which through thick and thin we must continue to travel.