
THE PROTECTIONIST WEDGE

By

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For the trade in defense equipment between the United States and her European allies to be referred to as the "Two-Way Street" is perhaps unfortunate, for highway planners normally provide a road of equal dimensions for the traffic in both directions. From the European side of the Atlantic the Two-Way Street seems to provide eastbound a wide freeway and westbound a narrow, potholed lane strewn with obstacles that are often erected at very short notice.

With US sales many times greater than US purchases from Europe, there is inevitably bitterness and criticism that can only be harmful to the NATO Alliance. There is a very vocal anti-American lobby in Europe; and, while small in number, it is ready to exploit any difficulties in the transatlantic relationship.

The imbalance reflects the lack of coordination by the NATO allies in the use of their funds for R&D and acquisition. The resulting failure to obtain the best value for the money is one of the most serious problems facing NATO, but if this challenge can be faced up to it provides great opportunities to increase our overstretched conventional defenses without additional cost to the taxpaying voters.

NATO is basically much stronger than the Warsaw Pact. It possesses a far greater GNP, a larger population, a superior industrial and technological base, and yet, despite more or less equal defense spending, it is falling behind in the actual defense provided.

DUPLICATED EFFORT

On land, at sea, or in the air, the story is the same: inadequate numbers of tanks, escorts, and aircraft. These deficiencies are in no small measure due to the significant failure of the allies to rationalize their defense spending.

While the argument is sometimes advanced that the diversity of allied equipment complicates Soviet planning, it would seem absurd to suggest that any slight advantage in this direction can counter the huge losses in numbers resulting from duplicated effort.

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It is disturbing to read suggestions made in the States that America is allocating inadequate funds for research and development at the national level. This must surely strengthen the case for international cooperation and for obtaining the best value for scarce money.

Ten Memoranda of Understanding between America and her NATO allies modeled on the US/UK Agreement of September 1975 provide the framework for the Two-Way Street. They set out the aims of the respective governments for greater cooperation in research, development, production, and procurement in order to make the most rational use of their respective industrial, economic, and technological resources, to achieve the greatest attainable military capability at the lowest possible cost, and to achieve greater standardization and interoperability of their weapon systems.

The governments would cooperate so as to maintain a long-term and equitable balance in reciprocal purchasing of defense equipment. With the objectives so obviously desirable and the governments committed to them, why have there been so many problems in practice?

AMERICAN RELUCTANCE

To start with, there is the understandable desire to maintain a national defense industrial base and a reluctance to depend on other countries for vital military equipment. However, if the NATO Alliance is to have real meaning, then interdependence must be accepted. Britain, with the most highly developed defense industry in Europe, must look to the States for its strategic nuclear weapon systems, where a certainty of supply is absolutely vital.

Europe has learned to accept interdependence, and there is now much cooperation on arms production within Europe, with the Tornado aircraft currently produced by Britain, Germany, and Italy as a good example. There is, however, reluctance in the United States to accept dependence on European suppliers. The easy excuse is that the sources of arms might be lost in wartime. In Europe, it seems that in such circumstances starting new production lines inside America would be the least of the US government's problems!

The pressures for nationalistic purchasing policies are, of course, greatly increased at a time of world recession and general high unemployment.

There may well be reference to "unfair foreign competition." While most would agree that there is a case for trade restrictions where a trading partner behaves unfairly, this is not normally a factor in military sales across the Atlantic. While European defense industries receive much government money for R&D, so do the American industries, and Finance Ministers are not going to see their taxpayers' money used simply to lower the cost of weapons sold to America. Certainly, funds are not available for this purpose in Britain, and any argument that jobs would be created by so doing would not be regarded as justifying the expenditure.

INEVITABLE RETALIATION

It is easy to argue that the economy and social well-being of the whole country require some degree of protection for industry and that the price advantage of cheaper foreign goods can be offset or exceeded by the social cost of supporting those becoming unemployed in the competitive industries. While this argument may be somewhat tempting at first, it surely is the way to national poverty. Isolating domestic industries from the international marketplace only damages them in the long term, and protectionism inevitably brings retaliation: "If you won't buy from us, we won't buy from you."

The old low-technology industries in America and Europe are threatened in their long-term future by competition from the low-wage countries, especially in the Far East. It is, however, hard to believe that American industry is really threatened by European defense industries. Indeed, it is surely in the overall US interest that they be as strong as possible.

America preaches free trade, but seems increasingly to be finding ways of protecting its own industry in practice. In Europe, the fundamental question is: "Does the United States really want to encourage cooperation?"

The issue is causing much concern in Britain at this time because of the combination of the Specialty Metals Clause, the legislation on the Martin-Baker ejection seat, and US efforts to block the transfer of sensitive technology.

The British-made seats have saved more than 5,000 lives, most of them American. In the British view, the current argument over their use in the F-18 has frankly seemed very unfair, especially at a time when there are large purchases of US equipment in the pipeline.

"A DEPLORABLE ACTION"

British Prime Minister Margaret Thatcher has referred to the Specialty Metals legislation as a deplorable action on the part of the United States. It is particularly resented in Europe because nearly all the high-technology components available for sale to the US include such metals. Suggestions from the States that the legislation is not real US policy and that it was approved "accidentally" do not go down well in Europe. For a government to allow something so damaging to its relationships with its close allies to take place by accident is most disturbing.

While the Department of Defense may be working to have the Specialty Metals Clause and the Martin-Baker legislation rescinded, the initial enactment of these measures was a serious blow to the allied cause and was interpreted in Europe as proof of the inadequacy of the US support for the Two-Way Street, whatever its protestations to the contrary.

The European industries are now accustomed to cooperating as partners in joint ventures. While there are problems as to who should take the lead, they are not insurmountable. Indeed, there is often more difficulty in establishing the same degree of partnership with US industries.

France is actively promoting cooperation among the European nations to the exclusion of the United States. Current German thinking is tending

toward concentrating procurement on a European source, even if this increases the costs.

To European minds it seems logical that there should be a national bargaining position with the United States whereby there will be no flow of monies between the two countries. In other words, there should be a 100 percent offset, with perhaps specific offsets being sought for each major purchase from America. It will be interesting to see the extent to which British industry succeeds in obtaining offsets for the heavy cost of purchasing the Trident D-5 system.

COOPERATION VS. COMPETITION

To some extent the problem lies in differing attitudes. The Europeans see industrial cooperation as reasonable, spreading investment in expensive technologies among partners and contributing to standardization of equipment within NATO. In America, with its emphasis on competition, the word "cooperation" seems to have a sinister connotation, no doubt because of the long history of antitrust legislation.

Further problems arise from the traditional basing of US industry on national programs and from the military traditionally using US equipment. Often the rules and attitudes of mind do not assist foreign cooperation, and there is a clear need to simplify the complex procedural regulations and processes for procurement.

The legislative hurdles in the States are a major obstacle to a fair trading balance. The Culver-Nunn amendment may have expressly authorized the waiving of the Buy American Act so as to standardize NATO weapons, but this has not been much help in practice as there are so many other obstacles to be overcome.

The proposed amendment to the Defense Production Act requiring any foreign contract over \$1 million to be certified as essential by the Secretary of Defense or the President has caused consternation in Europe. Such one-sided moves stress the Alliance.

In recent years, 80 congressional bills have directly or indirectly sought to apply protectionism. The constant attempts in Congress to introduce or amend legislation specifically to prevent the purchase of foreign military equipment is very much resented in Europe, where there is no similar legislation.

THE POLITICAL DIFFERENCE

There is a fundamental difference between the political systems in America and in Britain and the other European countries. The American process of government is far more complex, as a result of which foreign suppliers may be uncertain that a sale is firm until the equipment has actually been delivered. Political change at short notice as a result of congressional lobbying is, to the Europeans, a very unwelcome feature of the American scene.

European parliaments do not review executive decisions in great detail, as Congress does. The Defence Committee of the British House of Commons, for example, is not a gateway to the procurement process.

The British Parliament, with a majority of Members always coming from the Government Party, does not override the executive's desires. For the life of a Parliament, normally four or five years, the British Government can effectively do what it likes.

The British system results in far less lobbying of Members of Parliament. If the Government decides to purchase a foreign product, that is the end of the matter. By contrast, in the States a government decision is only the first stage of a political battle whose end result is far from certain. This ongoing battle creates great uncertainty in Europe and a feeling that the odds are stacked against those seeking to sell to America.

All politicians at times must balance local interests against the general good. It is naturally harder to take the broader view as elections approach, and a feature of the US parliamentary system is that elections are never far away! With its biennial elections, the House seems to be much more ready to take a short-term view. The Senate, by contrast, often seems to Europeans to be better able to balance issues.

CAN THE ADMINISTRATION DELIVER?

As a result of the different relationship between the executive, Parliament, and industry, deals with the US administration are just not the same as with the British Government. To the Europeans it often seems that the US executive has more desire to maintain good relations with the allies than does Congress, but it cannot "deliver the goods."

The fact that a Memorandum of Understanding is not a treaty between the two governments is of considerable significance, as not having been ratified by Congress, it is seen in the United States as not being constitutionally binding. When cooperative programs are canceled by Congress against the wishes of the US government, it seems to Europeans that the US government is not in control and needs to show more skill and resolution.

Some US authorities blame the inequality of the Two-Way Street on the lack of European marketing effort. The European manufacturers respond that bitter experience has shown that time and money spent on marketing in the States has been frustrated by the obstacles placed in the way of success.

Europe must not expect to achieve sales in the States without working a program hard. It is entitled, however, to expect fair legislative treatment.

TECHNOLOGY TRANSFER

An additional hurdle to cooperation arises as a result of the recent thrust by the United States to tighten controls on the transfer of US technology. People on both sides of the Atlantic agree that militarily useful weapons technology should not find its way to the Soviet Union and that examples do exist where controls have not worked. In many European minds, however, technology transfer controls are equivalent to US protectionism.

Britain certainly accepts the military dangers of allowing Russia to acquire high technology from the West. With NATO unable to match the forces of the Warsaw Pact in numbers, we must seek to maintain a qualitative advantage. Nevertheless, controls must be justified on security grounds and must not be used as a commercial weapon. They should apply only where the technology clearly has a military application, where there is a recognized deficiency in the Eastern Bloc, and where the East cannot obtain the technology from other sources.

Suggestions that security in Europe is looser than in the States are much resented, and technology transfer is not seen as being the same as technology leakage. Responsible European companies value security as highly as the United States does. In fact, many in Europe believe that the open nature of US society is the greatest reason for the purloining of technology.

The restrictions can be expected to cut off the European allies from advanced technology as much as they do the Russians, who in any case may obtain the information through their intelligence services. Thus, unless the Europeans waste money on duplicating research, they will in some directions fall behind the Americans, and, in all probability, also behind the Russians.

Increased technical capability in Europe should be seen in the States as a resource strengthening the Alliance rather than as competition for US suppliers. In any case, there are no long-term monopolies on technology, and the question may well be not whether to transfer but when.

It will be interesting to see how long it is after Stealth technology appears in front-line US aircraft before it also appears in European and Soviet aircraft.

FRUSTRATION OF BRITISH FIRMS

At the moment some British firms are facing much frustration. While a US-owned company in Britain is generally treated as a British company, the converse is not always true in the United States. It seems that foreign-owned companies can be removed from bidding lists and may be denied access to military technology. A US firm passing into British ownership may be debarred from further development of projects it had previously initiated.

Similarly, problems are arising where a UK company teams up with an American company but is not given adequate access to US information. Where components have been sent from the United States to the United Kingdom for assembly before they are returned to the United States, there have been difficulties in obtaining the necessary information about them.

Access to US seminars and academic exchanges is more restricted, too. The implementation of the Two-Way Street for European firms suffers when they are required to wait for many weeks before they can obtain clearance for official visits to US industry. It is no wonder that the Europeans are becoming more reluctant to accept coproduction agreements and are seeking to avoid using American parts.

Inevitably, the sheer relative size of the United States creates problems in ensuring a balance of trade across the Atlantic. The industrial base of the individual European countries is weaker than that of the United States, and their requirement always to buy some US weapons weakens their bargaining position.

While there have been some major successes, such as the Harrier, all too often the Europeans have succeeded only in relatively small projects and in the production of components. These contracts are less visible, involve fewer jobs, and have thus not drawn fire from congressional critics. The Europeans will inevitably need to obtain major weapon systems from the States, but a fair balance will not be achieved unless the US in turn buys some of its major weapon systems from Europe.

EQUITABLE, NOT EQUAL

It is worth noting that the Memorandum of Understanding refers to seeking an "equitable balance" and not an "equal balance." Europeans saw the Two-Way Street policy as a means of redressing the longstanding imbalance, and its lack of success has produced the present frustration, with the barriers against Europe seen as preventing the balance from being "equitable," let alone "equal."

Some US officials take the line that protectionism will end as the recession ends. While the pressure may abate somewhat as the economy improves, it is surely unrealistic to assume that the barriers to free trade will disappear.

The NATO Alliance is one of the great successes of history, but the imbalance in the Two-Way Street is a serious weakness. The present situation not only prevents NATO from obtaining the best value for its money, but it also drives a wedge between America and her European allies, thus playing into the hands of the Russians, who have always sought to establish such a division.

Many in Europe feel that US support of the Two-Way Street has so far been more propaganda than a real commitment to achieve the aims set out in the Memorandum of Understanding. The problem will not be solved unless positive action is taken by the US Government. This challenge must be met, for industrial nationalism can be the enemy of freedom.

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