

Following is a short survey of facts which, although they have already been publicized on previous occasions, seem to be largely ignored by the Chamber's assessment of U.S.-Community economic and trade relations.

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Favorable Development of US-EEC Trade

At present (1969) total trade between the United States and the Community is three times as high as in 1958. This growth of trade, has been uninterrupted and has been faster than the average for world trade. Every year from 1960 to 1970 the United States has had a large surplus on its trade account with the Community. The following table gives the figures.

US-EEC TRADE FIGURES

1960 - 1970  
(In Mio \$)

|                     | EXPORT<br>Dest. USA | IMPORT<br>Orig. USA | EEC Trade Deficit<br>with the U.S. |
|---------------------|---------------------|---------------------|------------------------------------|
| 1960                | 2.242               | 3.830               | - 1.588                            |
| 1961                | 2.232               | 4.053               | - 1.821                            |
| 1962                | 2.447               | 4.453               | - 2.006                            |
| 1963                | 2.563               | 5.051               | - 2.489                            |
| 1964                | 2.849               | 5.438               | - 2.589                            |
| 1965                | 3.425               | 5.683               | - 2.268                            |
| 1966                | 4.098               | 6.022               | - 1.924                            |
| 1967                | 4.424               | 5.898               | - 1.474                            |
| 1968                | 5.769               | 6.393               | - 624                              |
| 1969                | 5.958               | 7.326               | - 1.368                            |
| 1969 (1st 6 months) | 2.840               | 3.470               | - 630                              |
| 1970 " " "          | 3.090               | 4.460               | - 1.370                            |

These figures show that :

- U.S. exports to the Common Market during the first half of 1970 climbed 29 per cent over the same period last year.

- The United States sold \$4.46 billions in goods to the Common Market during the first six months of 1970 as compared to \$3.47 billions in 1969.

- During the same period, the European Community's exports to the United States increased by only 9 per cent, increasing in value from \$2.84 billions to \$3.09 billions.

- Thus, the Common Market's half year trade deficit with the United States reached a record close to \$1.4 billion. The heavy trade surplus enjoyed by the United States with the Common Market in the first half of 1970 equals the trade surplus for the entire year of 1969, which stood at \$1.37 billion.

- From 1958 to 1969, exports from the United States to the European Community grew by 182%; during the same period, American exports to the rest of the world increased only by 118%.

Nothing suggests that this trend will not be maintained in the future and extrapolated in an enlarged Community.

Among the factors that contributed considerably to the growth of U.S. exports to the EEC, a major element undoubtedly was the rapid rise in the standard of living which went hand in hand with the creation of a very large market in the Community. This factor is due to gain importance in an enlarged Community. In other words, overall U.S. imports into Britain, Ireland, Denmark and Norway should be favorably influenced by the positive effects which these countries' entry into the Common Market will most probably have on their rate of economic growth.

Also, the establishment of the Community's common customs tariff and the reductions made on this tariff in major trade negotiations have given impetus toward a liberal trade policy in the world. The Community has, as a result of a series of tariff reductions, the lowest tariff among the leading industrialized nations. Once the last two reductions resulting from the Kennedy Round are implemented between now and the end of 1971, the average Community tariff for industrial products will be substantially lower than the United States', United Kingdom's or Japanese average. In addition, the Community's tariff structure which resulted initially from the averaging of member states former tariffs, does not have any of those very high rates, in some cases above 100 per cent, which are still characteristic of the American tariff for certain industrial products which are thus assured a very substantial and, in some cases, even prohibitive level of protection. On valuation for customs purposes, the Community, but not the United States, follows the rules of the Brussels Convention and cannot, therefore, resort to practices which artificially increase the incidence of customs duties by an arbitrary assessment of the value of a product.

The effort that has been made by the Community in its tariff policy should be recognized when its role in the field of international economic relations is appraised.

It should also be kept in mind that, in the case of enlargement, the U.K. Market, for instance, would become more accessible to trade with the rest of the world, for British tariffs would be reduced to the much lower Community tariff levels.

#### Increasing Activity of American Firms in the Community

One should not overlook the extent to which American firms have developed activities within the Community where they have found additional opportunities for expansion.

From 1958 to 1969 direct investments by American firms in the Community increased about five-fold, their total assets reaching a book value of more than 9 billion dollars compared with 1.9 billion dollars in 1958. In no other region of the world has investment by American firms expanded at such a spectacular pace; in fact, their investments elsewhere have only doubled in the same period. At present, American firms established in the Community account for about one-seventh of all new industrial investment. While at the beginning this development was sustained by large exports of American capital, presently the capital for these investments very often comes from issues floated in Europe.

The United States economy, therefore, benefits doubly from European integration; from a considerable increase in trade between the United States and the Community, and from a substantial rise in income from investment in Europe which is making a major contribution to improvement of the U.S. balance of payments.

As investment policies of the applicant countries - U.K., Ireland, Denmark, Norway - do not differ substantially from the policies followed in this regard by the European Community countries, preoccupations about the consequences of enlargement in this field are equally unjustified.

The overall picture of EEC-US relations demonstrates that the Community does not follow restrictive or protectionist policies. The Community is the world's largest importer from both industrialized and developing countries, and the growth rate of its foreign trade is higher than that of the other western nations. It is in the Community's interest to be outward-looking, because of its dependence on world trade in the formation and growth of its national product. The EEC's imports and exports account for nearly 20% of its gross national product, while in the United States the corresponding figure is only 7%.

The United Kingdom's economic structure being in this respect comparable to the Community countries', the basic trade attitudes of an enlarged Community are certainly not bound to change.

## The Community's agricultural policy

In the Community there is an awareness that the common agricultural policy is strongly criticized by the United States and other countries. Here again, any serious analysis should include both a product-by-product examination and a look at overall trends. Within the Community, efforts are being made to bring under control the surpluses which have occurred in some sectors, especially in milk and milk products, and to start structural reforms that are indispensable.

However, the Community is still the most important market by far for U.S. agricultural exports. In 1968 the Community imported American agricultural products worth 1.4 billion dollars f.o.b. compared to 1.1 billion dollars in 1960. True, between 1966 and 1968 there was a drop in American agricultural exports, which in 1966 had risen to 1.6 billion dollars but the decline was not confined to exports to the Community. In the years 1967-69 American exports of agricultural products to all parts of the world were lower than in 1966, which was a record year. World trade in these products is slowed mainly by the stagnation of food consumption in the highly developed countries and by the rapid growth of agricultural productivity and production. It would therefore be unreasonable to attribute the recent drop in U.S. agricultural exports to the Community solely to the effects of Community protection. Indeed, the share of the Community in U.S. agricultural exports hardly changed during recent years (roughly 25%). In this context it must be pointed out that approximately 50% of the Community's imports of agricultural products from the United States come in duty-free and without any restriction.

The growth of government expenditure on agriculture is common to all countries, even where the productivity per farm worker is higher and the farming population smaller than in the Community (in the United States 4.6% of the working population was employed in agriculture in 1968; in the Community the figure was 20% in 1960 and today it is still 14%). If a comparison is made between agricultural support per person employed (budgetary expenditure plus cost borne by the consumer through higher prices) in the United States and the EEC, the figures are of the same magnitude, despite the fact that the competitiveness of agriculture in America is on the whole higher than in the Community.

Likewise, the difficulties encountered in reconciling domestic agricultural policy and its human and social problems with import policy are common to all developed countries, but they have decided to solve them in different ways. The United States was granted a waiver of the normal GATT rules which allows it to apply the Agricultural Adjustment Act of 1933, and it pursues restrictive import policies on items such as milk products, sugar, and meat, while it subsidizes certain exports. The Community has, for some major products, set up a levy system (which replaces the quantitative restrictions, customs duties and other charges applied earlier by the member states) and export refunds. Other countries have other methods.

At present the international market for agricultural products is more often the scene of rivalry between public treasuries than of competition between producers.

On several occasions the press has spoken of "price wars" between the Community and other exporters on world markets for certain agricultural products, in particular grains and poultry. True, in some cases, Community grain exporters did not respect the minimum prices set by the International Grains Agreement. But the same has been true also for exporters of other countries, including the United States. Indeed, all had to cope with an excessive supply on the world market. With regards to poultry, American, Danish and Community exporters compete by means of substantial subsidies in some European markets where the price level has also been affected by competition from East European countries.

It is urgently necessary, if not to remedy this situation, at least to limit its consequences, and this requires an effort by all the leading exporting and importing countries. It was in this spirit that the Community proposed, as part of the Kennedy Round, that support in agriculture, whatever its form, should be frozen on the basis of reciprocity. This proposal was rejected by the U.S. Efforts must continue to find some form of international discipline which will obviate the damage produced by the clash of national policies on the world market.

Most cases which have of late created irritation on both sides of the Atlantic can reasonably be solved through a reciprocal effort.

Also, the impact of British entry on U.S. farm exports has been greatly exaggerated. In fact, there is only one major U.S. agricultural product, feed grain, which benefits from a slightly higher protection in the European Community than it does presently in Britain. On such important U.S. export items as soybeans, oilcakes, vegetable oils, dried fruit and vegetables, the level of EEC protection is either lower or about the same as that of Britain. In the case of tobacco, which is the most important single agricultural product exported to Britain, accounting for about two-fifths of the total U.S. farm exports, total tariff and excise charges are higher in Britain than in the Community. Considering these factors, it is not excluded that U.S. farm exports to Britain, which have been stagnating at about \$400 millions during the last six years, may be stimulated as a consequence of Britain's joining the European Community. ✓

#### The Community's Association and Trade Agreements with Third Countries.

The Community's relationship with a number of African, Mediterranean and other European countries is also a field where Europeans believe that American criticism shows insufficient information about the basic facts.

The Community association agreements with African nations is not only historically motivated. The sudden severance of their special ties with Community countries in the early 1960's would have caused these young African states untolerable hardships had the Community not stepped in with direct and trade aid. Furthermore, this agreement leads to a free trade area and is in conformance with article XXIV of GATT. The association agreements with Turkey and Greece, each leading to eventual full membership, are also sanctioned by the GATT.

Other countries, in the Mediterranean area, have asked for special agreements with the Community since their economies and exports are very similar to those of currently-associated countries. Because of their degree of development and/or because of their small size, they would no doubt suffer injury if they were totally excluded from the broad integration movement which is going on in Europe. On the other hand, these countries' political situation did not allow them to take long-range commitments about a precise calendar establishing a free trade area. The Community was confronted here with a political responsibility. It accepted to negotiate a number of preferential agreements with countries like Israel and the United Arab Republic.

There are also a number of European countries that will eventually become members of the European Community, but which, for the time being cannot assume the political and economic obligations of full membership. Yet it is of vital importance for them that mutually acceptable solutions be found to settle their problems. (Canada and the U.S., finding themselves in a somewhat comparable situation, have solved their special trade difficulties on a basis limited to the automobile industry. By virtue of the U.S.-Canadian automotive agreement of 1965, U.S. and Canada carry out about one-third of their automotive trade free of duties and other restrictions.)

Until now, none of the Community association agreements have damaged world trade and certainly not U.S. exports. On the contrary, eliminating or reducing tariff barriers and quotas between the Community and its associates has had a liberalizing effect on trade in general. This was most apparent in the case of the African associates. Many of these nations previously had very restrictive and protective foreign trade policies. Since 1957, U.S. exports to the eighteen African associates, for instance, have grown three times faster than the Community's own exports to these countries. Europeans believe that regional trade liberalization will prove to be the forerunner of worldwide trade liberalization.

Trade relations linking the Community with some of its European, Mediterranean and African neighbors have not inhibited Community efforts to promote a system of generalized preferences for all the developing countries.

The Community was the first, in 1964, to support the establishment of generalized preferences for manufactures and semi-manufactures exported by the developing countries. Since then, other industrialized countries, including the United States, have declared themselves ready in principle to introduce tariff preferences for the developing countries. The system proposed by the Community would provide duty-free entry for all these products without exception up to a ceiling which would be equal to twice the present total volume of exports of those products from developing countries to the EEC. There are no safeguard clauses, no reciprocity or other conditions for the participation of any developing country. These trade advantages would benefit primarily the developing countries in Latin America and Asia. They would complement the considerable efforts already made by the Community and its member states through public and private development aid, which in relation to GNP is substantially greater than that made by the United States (in 1968, EEC : 4.2 billion dollars or 1.12% of GNP; United States : 5.7 billion dollars or 0.65% of GNP.)

#### American Measures Affecting the Community

In the United States one has the impression that complaints about the Community by far exceed in number and importance any criticisms that the Community would make about the United States. It must be pointed out, however, that various events and tendencies in the United States have caused disappointment and concern in the Community.

For example, the GATT waiver obtained by the United States in order to protect its agriculture is considered an anomaly because of its comprehensive character and the fact that it has been maintained since 1935. Likewise, the fact that, because of earlier legislation, the United States is not subject to the common rules observed by other contracting parties concerning countervailing duties is meeting with less and less understanding.

The American restrictions in the milk products sector, which were tightened up in 1968, seem excessive, and it is regrettable that the Community's efforts to solve by administrative cooperation the problems in this sector have met with no response.

In 1968, the United States unilaterally increased customs duties on certain woolen products which were consolidated in the Kennedy Round. This action, which was taken without following normal GATT procedures and without any offer of compensation, has caused understandable concern in the Community, particularly because of the precedent thus created.

Likewise the introduction in 1968 of import restrictions on certain products of the mechanical industries has done considerable harm to firms in the Community.

Finally, one could add, in this connection, that the delay of action by Congress concerning the abolition of ASP, which is part of the formal Kennedy Round agreements, has caused scepticism in Europe as to the U.S.'s credibility in the field of non-tariff barrier removal.

But there is also concern about the general direction of American trade policy, especially since sector-by-sector restrictions, either through private agreements or self-limitation imposed by the government, or even through legislation quotas for whole sectors, are advocated in the United States. Abandonment of the broadly liberal policy pursued by the United States since the Second World War and a return to such restrictive practices would inevitably start a chain reaction detrimental to the expansion of world trade. Such a development would not be in the common interest of the Western countries.

#### Necessity for Cooperation between EEC and US

To the contrary, it is more necessary than ever for the two leading partners in world trade, the United States and the Community, to agree that the problems affecting individual sectors or causing temporary difficulties between them must be overcome. They must also agree on their fundamental long-term attitudes. In view of the importance of the United States and the Community, nothing that they do is without consequence for other countries.

Together, they have responsibility for the future development of international economic relations. It is only through close cooperation between themselves and with the other trading nations that the continuation of the liberal trade policy which has been the major factor in promoting world trade in the past 25 years can be assured.

The U.S. and European business and financial leaders have a major role to play, because of their many common interests in developing and maintaining harmonious relations between the United States and the Common Market. They can do this by establishing closer contacts with each other, to be better able to understand at first hand the factors involved in shaping and changing Europe as well as U.S.-European trade, commercial and financial relations. Armed with this appreciation, they will be able to make their voices heard in their own governments at times when short-sighted interests on either side of the Atlantic may threaten the harmony of relations and the common interests of the Atlantic business community. Certainly, the Chamber could play a vital role in such a development.

I realize that my letter has been a rather lengthy one. However, I hope it will serve as an objective comment to the Chamber's report of October 12 on U.S.-EEC relations.

Sincerely yours,

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Director