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The European Community and the United States: Evolving Relations

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May 18, 1960

Mr. Basil Karp,
American Committee for
United Europe,
New York, N.Y.

Dear Mr. Karp:

Quite some time ago, it seems now, I indicated that my collaborator and myself were preparing an article on America's relations with the European community. Well, it's now come out, and I send you a copy herewith. Actually its focus is perhaps somewhat limited, but I hope you find it useful. We intend to keep putting out articles in this field from time to time.

With best regards

Sincerely yours,

Allan S. Nanes

ALLAN S. NANES

acknowledged when billing comes out.
BK

The European Community and the United States: Evolving Relations

Allan S. Nanes and Reuben Efron

IN THE last days of its life, the 85th Congress gave its approval to the joint United States-Euratom research and power reactor program, in the legislation known as the Euratom Cooperation Act of 1958.¹ This law provides that the United States will assist the European Atomic Community in attaining its goal of a total installed capacity of approximately 1 million kilowatts of electricity by December 31, 1963, by bringing into operation power plants using nuclear reactors. In addition, the legislation authorizes an initial appropriation of \$3,000,000 for a cooperative research and development program, and provides for sale or lease to the Community of fissionable uranium 235 and one kilogram of plutonium. This law was implemented by the agreement for cooperation containing provisions for financing, which entered into force on February 18, 1959. This legislation marked the high point of American collaboration with the latest institution of the European Community. As such, it is a logical point of departure for recapitulating the current status of that Community and its relations with the United States.

The treaties which set up the European Economic Community, popularly known as the Common Market, and the European Atomic Energy Community, popularly known as Euratom, were signed on March 25, 1957. The signatories were France, Italy, West Germany, the Netherlands, Belgium, and Luxembourg, the familiar Six which have steadfastly carried the banner of European integration. Ratifications were deposited with the Italian government, and the two Communities officially began operations on January 1, 1958.

The effectuation of these treaties undoubtedly added an impetus both to European integration and to closer cooperation among the states seeking to achieve it. Furthermore, states outside the Communities, particularly Great Britain, became ever more cognizant of the economic benefits accruing from membership, and sought ways and means, if not to become actual members, at least

¹ Public Law 85-846, approved August 28, 1958.

to attain a greater measure of collaboration through the device of the free trade area. Concrete evidence of this could be found at the Paris meeting of the 17 members of the Organization for European Economic Cooperation (O.E.E.C.) in October 1957. Under the leadership of Great Britain it was decided to begin immediate negotiations looking toward this end.

The example of the Six gave evidence of enticing other nations to follow suit. Thus, on October 20, 1957, detailed plans for a "common Nordic market," including the possible establishment of a customs union covering four-fifths of the trade between Denmark, Finland, Norway, and Sweden were advanced. Under this projected plan, tariffs would be abolished within Scandinavia, and a common Scandinavian tariff on imports from the outside would be imposed. These tentative plans were adopted after three years of deliberation by a special committee concerned with Scandinavian economic cooperation.²

These plans were made at a propitious time, for they coincided with Britain's desire to find some satisfactory arrangement for trading with the Common Market which would not compel severance of her Commonwealth ties. The Scandinavian countries, on their part, were happy with an arrangement which would strengthen their position *vis à vis* the Common Market and at the same time not impose the stringent restrictions on national trade policy which are inherent in the common market idea. The result was the creation of the so-called "Outer Seven," by the treaty signed in Stockholm on November 20, 1959, after prolonged negotiations. The members of this new group are Austria, Britain, Denmark, Norway, Portugal, Sweden, and Switzerland. Under this "Outer Seven" treaty, the members pledge a 20% cut in tariffs on industrial goods to be effective July 1, 1960. In ten years it is planned to eliminate tariffs entirely.³ This new association indicated it hoped to establish a link with the Common Market. Despite these protestations, a trade war definitely loomed at the beginning of 1960. The United States, however, moved to forestall this eventuality with the Dillon proposals, which will be discussed further on. At any rate the economic community or association idea is growing, as attested by virtually continuous discussion of a projected Latin-American trading

² *New York Times*, October 21, 1957, pp. 1, 11.

³ *Washington Post and Times Herald*, November 21, 1959, B, p. 13.

community, either in the form of a common market or a free trade association.

As for the European Communities themselves, there have been considerable gains, both economic and political, since their inception. A few basic figures illustrate how unified economic action can raise the Six to a level comparable with the two giants, the United States and the USSR, a height to which they could hardly aspire individually. Thus, in population, the European Community totals 165.8 million, in 1957-58 figures, as compared with 175.5 million for the United States and 200.2 million for the Soviet Union. It possesses a labor force of 71.9 million, as compared with 69 million for the United States and an estimated 100 million for Russia. Its gross national product, in 1955 dollars, was 125.5 billion, as compared with an estimated 135 billion for the Soviet Union, and 391.7 billion for the United States. The annual exports, in 1956, far exceeded those of the Soviet Union, the ratio being 22.6 billion to 4.4 billion for the USSR (at the official rate of exchange, 1 ruble = 25c), exclusive of the latter's trade with China and the satellites. It even exceeded the exports of the United States, which amounted to 20.8 billion. Steel production was 65.6 million net tons in 1958, as compared with 86 million for the United States and 60.0 million for the USSR. The Six produced 222.0 billion kilowatt hours of electric power in 1957, as compared with 715.7 billion kilowatt hours for the United States and 209.5 billion kilowatt hours for Russia. This comparison takes on added significance when the small area of the Community, 449,000 square miles, is compared with the immense territory of the USSR totaling 7,878,000 square miles, and the more modest but still vast United States with its 3,628,000 square miles.⁴

The progress made by the Community is further illustrated by figures of trade in some of its products. The trade of these countries comprises 22% of the world total. In 1952, they sold 16.3 million tons of hard coal. In 1957 the figure had become 19.7 million, an increase of 21%. Scrap iron trade showed a 175% increase for the same period. Steel products traded increased 157%. Furthermore, for the first half of 1959, the first year in which the Common Market tariff reductions were in effect, imports within

⁴ "Basic Facts About the European Community Members." *Bulletin of the European Community for Coal and Steel*. (Luxembourg, March-April, 1958), No. 29. See also, *New York Times*, January 13, 1959, p. 49C.

the area were up 9.4% while exports rose 9.5%.⁵ At this juncture it may be well to point out that the machinery of the separate Communities is now so closely enmeshed that the term "European Community" may perhaps be validly employed. The Council of Ministers, Assembly, and Court of Justice are now one and the same for all three Communities.

The organizational complex, which is the result of this far-reaching regional cooperation, is of particular significance in another respect. That, of course, is supranationality, a principle which has been pushed to its furthest length in this instance. Supranationality, as developed in the Community, and in predecessor functional agencies, simply means a legal concept according to which member states of an international organization mutually agree "to surrender their sovereignty in certain areas, but to retain it fully in others."⁶ The departure which this principle represents from the usual mode of international cooperation is clearly exemplified by the statement of the Secretary-General of the United Nations in his introduction to the Annual Report submitted to the 12th session of the General Assembly. Discussing the role of the United Nations, Mr. Hammarskjöld states, in part, as follows: "The Charter read as a whole does not endow the United Nations with any of the attributes of a super-State or of a body active outside the framework of decisions of Member Governments. The United Nations is, rather, an instrument for negotiation among, and to some extent, for Governments."⁷

In this passage the Secretary-General indicated that the United Nations may serve only as an instrumentality assisting sovereign states in their negotiations and in the attainment of their goals. The European states, however, faced with economic and political problems of unprecedented dimensions, felt it necessary to adopt solutions which exceeded this limited scope. They arrived at the conclusion that common salvation was better than individual pride and voluntarily accepted certain restrictions on their freedom of action for the sake of economic advancement and political strength. The

⁵ *New York Times*, November 1, 1959, p. 6E.

⁶ Reuben Efron and Allan S. Nanes, "The Emerging Concept of Supranationality in Recent International Agreements," *Kentucky Law Journal*, XLIV, No. 2 (Winter 1956).

⁷ *Introduction to the Annual Report of the Secretary-General on the Work of the Organization, 16 June 1956-15 June 1957*, General Assembly, Official Records, Twelfth Session, Supp. No. 1A (A/3594/Add. 1), p. 3.

result of this decision was the establishment of the various European Communities with what amounts to sovereign power in certain spheres of economic and political activity.

The United States, in pursuance of its postwar policy of international cooperation and in its attempts to counter the expansionist designs of the Soviet Union, has wholeheartedly encouraged the movement for European integration. In so doing it displayed no hesitation arising from possible doubts over the implications of supranationality or from the fears of many businessmen that we were helping to create too powerful a competitor. Indeed, the active financial and political support of the United States was necessary before the Coal and Steel Community could be successfully launched. Euratom and the Common Market came into being with the official blessing of the United States. The Six nations making up the Community therefore had every reason to expect continuing American support and, in point of fact, had received concrete evidence of that support in loans advanced to the Coal and Steel Community and promises of fissionable materials to Euratom. In the same way the Community expected American support and understanding of its unique exercise of supranationality.

However, when Euratom sought to negotiate an agreement with the United States for fissionable materials and financial support for its program of joint atomic development, it ran up against several stumbling blocks. The first of these was the question of inspection. Pursuant to the President's 1953 "atoms for peace" declaration, the United States has negotiated about 40 bilateral agreements covering cooperation in the peaceful uses of atomic energy. In each, with the major exceptions of those with Great Britain and Canada, the United States has insisted on unilateral inspection rights. What this means is that the United States representatives are given the right to see that recipient countries do not divert to military uses fissionable materials from this country. When negotiations with Euratom were undertaken, America demanded the same provision.

Euratom was jolted by the American position. It contended that in the original negotiations for its establishment, the members had been led to believe that American support for the Community encompassed consent to the latter's inspection system. In addition, there is the point that the requirement of unilateral inspection is not uniform, as already mentioned. The agreement with Canada

contains only a guarantee that none of the transferred materials will be used for atomic weapons or any other military purpose. There is no inspection provided for at all.⁸ That same condition obtains in the agreement with Great Britain, which also goes so far as to establish a mutual guarantee that neither party will use for military purposes equipment transferred under the agreement or transfer it to any party beyond its jurisdiction.⁹ On the other hand, a typical agreement for cooperation in the atomic field, such as the one with France, provides for unilateral inspection by the United States of the processing of nuclear materials made available by it.¹⁰ However, the United States cannot exercise a unilateral inspection function under the Statute of the International Atomic Energy Agency, since it provides for inspection by the Agency itself.¹¹

In view of a provision such as this and those with Great Britain and Canada, American insistence on its own inspection rights constituted an unwarranted discrimination in the eyes of Euratom, and an infringement on its sovereignty, for it would render redundant Euratom's own inspection system, which is an integral part of its supranational powers.¹²

Finance provided the second stumbling block. The cost of building the power plants necessary to achieve Euratom's one million kilowatt goal by 1961 has been estimated at \$350,000,000. The cost of purchasing nuclear fuel has been estimated at an additional \$115 to \$135 million, for a total of \$465 to \$485 million. This sum is more than Euratom can provide out of its own resources. Quite naturally, it expected the United States to help defray the cost of the construction program. These expectations have been realized in the Agreement for Cooperation, signed November 8, 1958, under the terms of which the United States advanced a line

⁸ Atomic Energy, Cooperation for Civil Uses. Agreement between the United States and Canada, Washington, June 15, 1955. *Treaties and Other International Acts Series*, 3304, Art. XI.

⁹ Atomic Energy, Cooperation for Civil Uses. Agreement between the United States and the United Kingdom of Great Britain and Northern Ireland, Washington, June 15, 1955. *Treaties and Other International Acts Series*, 3321, Art. IX.

¹⁰ Atomic Energy, Cooperation for Civil Uses. Agreement between the United States of America and France, Washington, June 19, 1956. *Treaties and Other International Acts Series*, 3689, Art. X.

¹¹ Statute of the International Atomic Energy Agency. *Treaties and Other International Acts Series*, 3873, October 26, 1956, Art. XII.

¹² Treaty Establishing the European Atomic Energy Community, Art. 2(e).

of credit totaling \$135 million, through the Export-Import Bank, on August 27, 1959.¹³

The problem of fuel cost still remains. As the Euratom agreement requires outright ownership by the Community of its uranium fuel,¹⁴ which the Community must purchase abroad, once again it must turn to the United States as its largest supplier. However, since Euratom cannot afford to buy this fuel outright, any agreement reached with the United States had to cover its financing. One proposal calling for the leasing of fuel to Euratom is impossible because the Euratom agreement forbids it. Under the formula finally adopted in the Agreement for Cooperation, Euratom will pay in cash for 21,000 kilograms of special nuclear material, while the initial operating inventory of 9,000 kilograms will be made available on a deferred payment basis.

If the American position on inspection, as set forth above, was taken by Euratom as a retreat from all-out American support, a claim which we would not concede, the question still remains as to why such a seeming departure arose in the first place. Obviously, the chief difficulty lies in the stringent provisions of the Atomic Energy Act of 1954, which restrict the interchange of atomic knowledge and materials. Canada and Great Britain, since they were in on the development of atomic energy from its wartime inception, possess both atomic materials and know-how and can be considered as exceptions to the general rule because they have a *quid pro quo* which is of value to the United States. Neither Euratom nor its members can so qualify at this time. Furthermore, security controls seem to be less rigid in these countries than in Britain and Canada, with greater possibilities for the leakage of American-furnished information and material to unauthorized quarters. Such considerations have undoubtedly motivated congressional attitudes toward the exchange of atomic data and have influenced the negotiators of the Atomic Energy Commission. The more internationally-minded State Department has been prepared to take a greater risk in this connection if such a venture will help to achieve international inspection in the production of nuclear

¹³ Proposed Euratom Agreement (with associated documents and materials). Joint Committee on Atomic Energy, 85th Congress, 2d Session. Committee Print. Appendix D. Washington, U.S. Govt. Print. Off., July 1958, 52 p. See also, *New York Times*, Nov. 9, 1958, p. 1, and *Bulletin from the European Community*, October-November 1959. No. 38, p. 15.

¹⁴ Treaty Establishing the European Atomic Energy Community, Art. 2(f).

materials, America's prerequisite to any disarmament agreement.

American policy toward Euratom has been predicated on two considerations. The first is to favor its development, as we have favored that of other European Communities, as a means of unifying Western Europe, which is seen as a counterpoise of sufficient strength to resist Soviet expansionist aims. The underlying premise of this policy is the belief that Western Europe will continue to stand with the United States against Soviet expansion because its interests so dictate. The second consideration, also based on cold war objectives, is to advance the image of the United States as primarily interested in developing atomic energy for peaceful purposes. Thus, "one apparent purpose of President Eisenhower's speech before the United Nations was to stress American interest in developing peaceful uses of atomic energy in order to change the foreign image of the United States as a country devoted primarily to the military uses of nuclear power."¹⁵

Nor should it be assumed that the exchange of atomic information with Euratom constitutes a one-way street. "Because it represents a common effort by six countries already technically and industrially advanced, Euratom offers the possibility of important advantages to the United States which other programs cannot afford to the same extent."¹⁶ Some of these benefits include: first, a large market for American firms in an area controlled by our allies, and, second, return to the United States of information gained from Euratom's technological advances. Such information should be of ultimate benefit when we are ready to embark on a large-scale domestic nuclear power program in this country.

In the inspection formula finally adopted in the Agreement for Cooperation, the United States returned to a position more consistent with its original support of European unity. This formula comprises the abandonment by the United States of its insistence on unilateral inspection, in return for the agreement of Euratom to establish standards for its own inspection similar to those usually required by the United States in its bilateral agreements. Such a compromise should do much to bring about a "genuine partnership" between the United States and Euratom which, as Knorr

¹⁵ Klaus Knorr, "American Foreign Policy and the Peaceful Uses of Atomic Energy." *Atoms for Power* (The American Assembly, Columbia University, New York, 1957), p. 101.

¹⁶ Ben T. Moore, *Euratom, The American Interest in the European Atomic Energy Community* (New York: Twentieth Century Fund, 1958), p. 39.

says, "will not come about or will not work well, unless the country is willing to treat those countries as real partners rather than as clients who are not to be fully trusted."¹⁷

However, the consent to accept Euratom inspection, laudable as it may be, is in apparent conflict with the principle of international inspection. While this country accepted such inspection reluctantly, it nevertheless is a signatory to the Statute of the International Atomic Energy Agency and as such is committed to it. Thus, the Administration was faced with a policy choice between alternatives each of which can commend themselves to men of good will. In choosing to support Euratom's claim to self-inspection, it could not help but undermine the position of the new International Atomic Energy Agency, for whose establishment the United States was to a large extent responsible, and contradict our advocacy of international inspection as a prerequisite to disarmament. But if it insisted upon international inspection of Euratom's activities, it would strike a serious blow at one of the promising European Communities and at the whole concept of a federated Europe.

Now, it may be urged that this contradiction is more apparent than real, because the treaties with Great Britain and Canada have already established a precedent for United States acceptance of a unilateral guarantee resting on the counterpart's inspection system, and because the International Atomic Energy Agency is in its infancy and has not yet established its own effective international inspection. It may be urged that as Euratom's members become used to inspection by regional authority [Euratom itself], they should be more amenable to inspection by international authority at some later date. This argument has the virtue, from the American point of view, of justifying simultaneous support of European unity and international inspection. However, it is essentially an argument for the long run, and the decision had to be made in terms of a shorter range. Unquestionably it was not an easy decision to make. Perhaps, as a way out, the treaty with Euratom should have included a proviso that, when an effective inspection system is implemented by the International Atomic Energy Agency, both parties would be willing to renegotiate and submit themselves to that international inspection.

Even before the cooperation act was passed, America's negotiations with Euratom had furnished a lead for other countries.

¹⁷ Knorr, *op. cit.*, p. 127.

Great Britain had also proposed the negotiation of an agreement with Euratom for the peaceful development of atomic energy.¹⁸ Euratom indicated in reply that it was ready to proceed with talks looking to that objective. In time such talks were held, consummating in an Anglo-Euratom agreement, patterned after the agreement with the United States, and signed on February 4, 1959. Great Britain, like the United States, has also established official diplomatic relations with Euratom. Both of these atomic leaders, in accrediting representatives to the European Atlantic Community, have given official recognition to its sovereign status. Following the lead of its two allies, Canada signed an agreement with Euratom on October 6, 1959, covering the exchange of information, materials and equipment in the nuclear field.

The favorable prospects for the continued development of the European Community were somewhat cast into the shadows by the uncertainties arising from the French political situation. Even before the accession of de Gaulle to power, the stringent French financial position had caused the Pflimlin government to give notice to its allies that France might not be able to implement its obligations under the Common Market nor negotiate further on a free trade area.¹⁹ Furthermore, it was thought that General de Gaulle's nationalistic bias might cause France to be more reserved toward the policy of European unity. Before assuming office, de Gaulle declared that France would respect the obligations to which she had subscribed, although he had at various times criticized the mode which European unification had taken. He is also on record as favoring a confederation in Western Europe to which the members would delegate some portion of their sovereignty.²⁰ Furthermore, in a policy statement to the National Assembly on January 15, 1959, Premier Michel Debré expressed full support for the European Communities: "This government will encourage the High Authority in the effort it will undoubtedly have to make in conjunction with the Atomic Energy Community, in order to develop the Continent's potential sources of energy."²¹ The Premier also exhibited a similar positive attitude toward the Common Market.

¹⁸ Euratom Information Service, Washington, D.C., Press Release, May 22, 1958.

¹⁹ *Washington Post and Times Herald*, May 31, 1958, pp. A1, A4.

²⁰ *New York Times*, June 1, 1958, p. E5.

²¹ *Ambassade De France*, Service De Presse Et D'Information. *Speeches and Press Conferences*. No. 124B. January 15, 1959.

The continuance of French cooperation is further symbolized by the appointment of M. Etienne Hirsh, a close collaborator of Jean Monnet, to succeed M. Louis Armand as President of the Euratom Commission. In view of this, and of the extent of France's commitment to European functional union, the supporters of United Europe have reason to hope that such progress as has been made will not be swept away by the nationalist tides now surging in France, or by General de Gaulle's differences with NATO. Indeed, even the resignation of M. Pinay probably foreshadows no alteration in basic policy toward the European Communities.

Finally, to fight the Soviet advance in the economic sphere requires, in the opinion of some leading authorities, the encouragement of regional economic groupings along the lines of the European Community.²² American policy involving areas outside of Continental Europe has not been crystallized. Moreover, the emergence of the "Outer Seven" as a potential rival of the European Economic Community, has compelled the United States to elaborate a plan which goes beyond our previous benevolent but somewhat passive role. At the Paris meeting held last January, Undersecretary of State Dillon advanced proposals encompassing roughly the following: first, a new economic organization linking the United States and Canada to Western Europe. This organization would supersede the O.E.E.C. It would aim to organize the free world market and liberalize trade beyond the achievements of G.A.T.T. Presumably, such an organization would eliminate the possibility of any trade war between the "Outer Seven" and the "Inner Six." What is more, it should reduce discrimination against our trade at a time when sufficient dollars are available abroad and our balance of trade is unfavorable.

A second objective of these proposals would be to increase the amount of aid to underdeveloped countries by providing such aid on an international scale. Thus, the European beneficiaries of the Marshall Plan would invest some of their surplus capital in the underdeveloped areas. Presumably this effort would be administered in some unified fashion and thus give a European as well as an American aspect to such aid. Certainly the advent of a partner to help bear the aid burden is a development virtually all Americans would welcome.

²² See *Foreign Economic Policy for the Twentieth Century* (Rockefeller Brothers Fund, Special Studies Project, New York, 1958).

The Dillon proposals are notable in that they go beyond the somewhat sentimental attitude toward European unity that we have exhibited heretofore. They represent an attempt to broaden the purely economic point of view into an approach that considers European organization from the standpoint of the long range political interests of the West. Such a course has been recommended by Walter Lippmann,²³ among others. Of course, in an election year implementation of these proposals may be held in abeyance.

In conclusion, we may be confident that continued support for European unity will be a mainspring of American policy. The Dillon proposals and their generally favorable reception indicate that America is likely to assume an active role in promoting this unity and shaping it to the ends of a more broadly conceived Western policy.

²³ *Washington Post and Times Herald*, January 14, 1960, p. A 23.



