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THE EUROPEAN COMMUNITY

AND

THE UNITED STATES

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THE EUROPEAN COMMUNITY AND THE UNITED STATESCONTENTS

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THE EUROPEAN COMMUNITY AND THE UNITED STATES

INTRODUCTION: TWO PILLARS OF THE WESTERN SYSTEM

The European Community and the United States of America are today the two principal pillars of the western political and economic systems. Their relations at all levels are particularly intense, and their world roles largely complementary. Both constitute great experiments in the democratic organization of society, the American idea having been inspired by the Revolution of 1776 and enshrined in the American Constitution, while the European idea, born out of the political vacuum, economic devastation and social upheavals of the years following the Second World War, is expressed in the basic Treaties of the Communities and promoted by the Community's institutions. Whereas the American nation is a union of fifty States within a federation, the European Community forms the foundation of an ultimate union between diverse historic nation States, a union whose final shape - whether federal, confederal or otherwise - has yet to be determined.

The European Community and the United States share many interests and ideals based on common or comparable political and cultural experience. The Community as a whole is the foremost economic partner and political ally of the United States. After the United States, the Community is the second industrial power in the world, but the combined gross national product of the Community is now somewhat higher than that of the United States. In many regions of the Community living standards are now comparable to American ones.

For more than thirty years the United States has provided considerable support for European unification, first through the Marshall Plan, which was a key to Europe's post-war economic recovery, then through active partnership with West European countries in the OECD (formerly the OEEC) and finally through active backing for the European Community and its subsequent enlargements.

COMPARATIVE TABLE OF SOCIOECONOMIC AND GEOGRAPHIC INDICATORS

Country	Area '000 km ²	Population (millions) 1978	Population Den- sity per km ² in 1979	Population forecast (millions)		Civilian Work-force (millions)	Unemployment 1981 % active po- pulation
				1985	1990		
EC							
Belgium	30.5	9.85	323	9.84	9.89	4.0	11.5
Denmark	43.1	5.12	119	5.17	5.21	2.6	8.2
France	544.0	53.48	98	54.83	56.08	22.6	7.8
F. R. Germany	248.6	61.36	247	59.61	58.59	26.1	4.9
Ireland	70.3	3.37	48	3.54	3.72	1.2	10.3
Italy	301.3	56.91	189	57.26	57.60	22.3	8.8
Luxembourg	2.6	0.36	140	0.36	0.36	0.2	1.0
Netherlands	41.2	14.04	341	14.25	14.65	5.2	7.3
United Kingdom	244.0	55.95	229	56.30	57.03	26.0	10.5
Greece	132.0	9.45	71	9.3	9.4	n.c.	1.1 *
Portugal	1 657.6	269.88	163	270.75	273.0	113.9	7.8 *
Spain	91.6	9.84	107	10.21	10.47	3.5	12.4 *
United States	504.8	37.11	74	38.51	39.69	12.9	7.6
Canada	9 363.1	220.58	24	232.88	243.51	104.7	7.5
Japan	9 976.1	23.69	2	25.49	26.83	11.5	2.2
	370.0	115.81	307	119.73	122.77	56.5	

* 1980

Source: Eurostat and UN Monthly Bulletin

At 270 million, the European Community's population is 50 million greater than that of the United States, although the Community's present area covers only one-sixth of the US land mass. As the West's major industrial powers, the Community and the United States face in the 1980s similar economic and social problems, especially in the areas of employment, prices, industrial policy, adaptation to new technology, energy, environmental and consumer protection, transportation, raw material supply and relations with developing countries. Their collaboration, at all levels, is therefore vital for the future of the West.

However, the coming to power in the United States of a new administration that is fixely wedded to the principles of free trade and hence pawns on any state intervention in economic affairs has led to a certain hardening of trade relations, particularly in respect of the common agricultural policy and the steel question. Discussions have begun on those two trade issues and will be continued in order to prevent them from harming the transatlantic political climat.

RELATIONS BETWEEN THE EUROPEAN COMMUNITY AND THE UNITED STATES

POLITICAL RELATIONS

The European Community and the United States conduct their relations within the multilateral framework of the General Agreement on Tariffs and Trade (GATT), the OECD, the Conference on Security and Cooperation in Europe (CSCE) and other international bodies, and also at a bilateral level. The Community and its ten member countries have become the United States' principal western partner in practically all matters. Once a year the Heads of Government of the leading western industrialized countries, the United States, Japan, Canada, four member countries of the Community, namely France, the Federal Republic of Germany, Italy and the United Kingdom, together with the European Community as such (the latter represented by the President of the Commission), review

their overall economic strategies at the so-called "Western economic summits", the next of which will be held in France, at Versailles, in June 1982.

High-level consultations between the Commission and the US Administration are held twice yearly, in Brussels and Washington alternately, for the discussion of a vast range of bilateral and multilateral economic and trade issues, which are often highly complex. In addition, the Commission has had many contacts in 1981 and 1982 with the new US Administration in order to strengthen cooperation between the two partners. Mr. Thorn visited the United States in July 1981 and Mr. Davignon in March and September 1981. In February 1982 Mr. Haferkamp, Mr. Davignon and Mr. Dalsager met Mr. Block, Mr. Baldrige and Mr. Block for a day of discussion covering all bilateral problems. In May 1981 Mr. Haig, Mr. Baldrige, Mr. Brock and Mr. Block were received at the Commission. Mr. Haig, Mr. Brock and Mr. Block visited the Commission again in December 1981.

Parliamentary Relations

Members of the European Parliament meet regularly with members of the US Congress. The 18th meeting was held in Washington from 18 to 22 May 1981 and the 19th in The Hague and Amsterdam from 6 to 10 January 1982.

Bilateral Agreements

The Community and the United States have long-term bilateral agreements covering fishing in US coastal waters (1977), the supply of nuclear fuels (1958) and cooperation in the field of peaceful use of atomic energy (1959). There has also been an exchange of letters on cooperation on environmental protection.

Representation

The United States maintains a diplomatic mission to the European Communities in Brussels. The Commission, for its part, is served by a permanent Delegation in Washington D.C.

TRADE RELATIONS

The European Community and the United States on the international scene

The European Community was the main destination for US exports in 1980 (24%), followed by Canada (16%) and Japan (9%). It is the second biggest exporter to the United States (15%), after Canada (17%) and ahead of Japan (13%), (see table A).

The Community has had a persistent trade deficit with the United States, which worsened until 1980 when it reached an all-time high of around \$ 25 000 million according to the accounts of the Statistical Office of the Communities or some \$ 18 000 million according to the US Department of Commerce. The discrepancy in these figures stems mainly from the way in which costs such as insurance and transport are entered in the accounts, which affects the statistics on goods according to whether they are imported or exported, as US export fob (free on board) becoming a European import cif (cost, insurance and freight). The figures available for 1981 show that the deficit was considerably reduced because of the continuing economic crisis and the strength of the dollar, which curbed US exports.

The Community also has a trade deficit with Japan, Canada and New Zealand (see table B).

The GATT agreements: content and implementation

With the successful outcome of the GATT Tokyo Round of Multilateral Trade Negotiations (MTN) in 1979, the prospects for more liberal and orderly trade between the major western industrialized countries were improved. The Tokyo Round negotiations, originally launched in 1973, moved into an active phase once the US Trade Act became law in 1975, thus providing the US Delegation with the required negotiating authority. The United States presidential election in 1976 made it possible the

following year to take the required political decisions. The adoption of the negotiating directives by the Council of Ministers in February 1975 established the European Community's negotiating position.

The real negotiations got underway in mid-1977 after certain major differences, especially in relation to the scope and procedure for negotiations on agriculture, had been resolved in discussions between the United States and the Community. By mid-1978 substantial agreement in principle had been reached among the major participants in relation to the shape of the final Tokyo Round package. Although the bulk of tariff negotiations, both in industry and agriculture, and the major part of the codes had been completed by the end of that year, it was not until April 1979 that all the outstanding issues had been finally agreed. A tariff protocol was initialled in July 1979 and this, together with the suspension of negotiations on the issue of a new safeguard clause, when no generally acceptable agreement proved possible, constituted in effect the end of formal negotiations. It then remained for the participants to implement the agreements through their internal laws and regulations.

Tariffs

The Community's Common Customs Tariff was relatively low insofar as industrial products were concerned. In trade with its industrialized partners the Community's exports had continued to come up against tariff barriers which were often very high. Heavy import charges imposed on certain products and sometimes even on entire sectors provided effective protection because they were selective and had by and large remained intact despite successive tariff negotiations. Consequently, the Community sought the application of a formula which could be applied as generally as possible, and which while significantly reducing tariffs, would at the same time harmonize them. The US Trade Act gave the President extensive powers in relation to tariffs. He could abolish duties of 5% or less and reduce duties of over 5% by up to 60%. In September 1977 the Community and the United States agreed to apply tariff cuts in accordance with the "Swiss formula", under which high tariffs are cut proportiona-

tely more than low ones.

The proportion of US imports from the Community subject to duties over 10% was cut from 16.3% to 6%, while that of imports subject to duties over 20% dropped from 4.8% to 1.2%. After the negotiations were concluded only 185 headings, compared with the previous 756, remained above 20%. In the case of textiles the cut in the US tariff for Community goods was 27.5%. This reduction also applied to a number of very high duties which were making trade virtually impossible. In this sector the Community cut its duties vis-à-vis the US by 22.6%. As regards steel, where dutiable US imports from the Nine are four times imports from the US, the United States cut its duties on Community goods by 29.6%, apart from some legal exceptions concerning special steels. This reduction continued the process of harmonization in this sector which began under the Kennedy Round. In the paper sector, where there was strong US pressure for a substantial cut, the Community reduction vis-à-vis the United States was 28%. Where other sectors were concerned, the United States granted a substantial tariff reduction on machinery, transport equipment, ceramics and glass.

The tariff concessions were to be implemented in eight equal annual reductions starting in 1980, with a number of exceptions including textiles, steel and aircraft equipment. The agreement on aircraft took effect on 1 January 1980, while the concessions on textiles and steel were to be implemented in six annual reductions beginning in 1982. At the end of a preliminary stage of five years, the Community will examine whether it is able to pass on to the second three year stage. The other participants have also reserved their rights in this respect.

Agriculture

Negotiations were pursued without calling into question the European Community's Common Agricultural Policy. Agreement was reached on multi-lateral arrangements for dairy products and beef. The arrangements provided for continuing consultation on developments in the world market

for these products; the arrangement for dairy products contains minimum price agreements for milk and skimmed milk powder, butter, butteroil and cheese. The Community was able to win acceptance for the maintenance of the present provisions, including the possibility of applying export subsidies. The results of negotiations in this sector have made it possible to avoid any calling into question of the refund mechanism (hitherto sharply criticized in GATT).

In the negotiations with the United States, which is its largest agricultural customer, the Community's objective was to give priority to the question of the possible application by the United States of countervailing duties (which are a permanent threat to Community exports) and to examining the conditions governing the importation into the US of products exported by the Community. The Community obtained satisfaction on the majority of its requests and obtained major concessions on most of the principal subjects of discord that had arisen in the past. In relation to cheese there was a considerable extension of Community export possibilities. In the spirits sector it proved possible to eliminate the wine gallon method of tax assessment (whereby US imports of bottled whisky pay extra tax). Moreover, the United States agreed to the removal of tariff surcharges on dextrin and starch and agreed that the Community could resume its traditional exports of beef and veal. In return Community concessions were made on poultry and rice and on grapes, plums, certain tobaccos and other products.

Civil aircraft

This agreement is concerned with tariffs and other matters affecting international trade in civil aircraft. The parties undertook to reduce their tariffs on civil aircraft, aero-engines and other aircraft equipment to zero on 1 January 1980.

Non-tariff barriers

The negotiations were primarily concerned with reaching agreement on a

series of codes and other texts - such as on customs valuation, subsidies and counter-vailing duties, government procurement, standards and import licencing - which means a considerable updating and strengthening of the GATT, enabling it to continue to play a major role in promoting trade.

Product standards

This agreement is designed to reduce obstacles to trade resulting from the preparation, adoption, and application of product standards and certification systems. It encourages the adoption of international standards. The agreement should make it easier for exporters to identify the regulations with which they have to comply in order to export to overseas markets.

Government procurement

The Community's objective was to secure the abolition of all practices of reserving contracts for domestic suppliers and of price preferences in their favour. The aim was to abolish laws or administrative practices, such as the Buy-American Act in the United States, which reserve government contracts for national suppliers or give them a price preference. The agreement which entered into force on 1 January 1981 covers certain contracts awarded by central government entities. It does not apply to regional and local authorities, but there is a special arrangement with the United States on contracts awarded by such authorities. Public transport and energy production and distribution services are excluded. Since the agreement is subject to general review after three years, it is likely that strong pressure will be exerted for its scope to be extended to these three sectors.

Subsidies and countervailing duties

GATT rules have allowed the imposition of a countervailing duty on imported products where it has been shown that they benefited from a subsidy and that they therefore caused or threatened material injury to domestic industry. In this regard, the United States fully accepts for the first time

the "material injury" criteria for countervailing action and the need for a direct link between the subsidy and the injury. The United States has undertaken not to impose countervailing duties unless it can be demonstrated that a domestic industry is being materially injured by subsidized imports as a result of the subsidy. This is an important benefit for Community exporters, who felt in the past that countervailing duties were applied on protectionist grounds rather than to redress established injury.

Customs valuation

The charging of duty on an artificially inflated value hinders trade as the importer has to pay more duty than he should. An agreement which took effect on 1 July 1980 is aimed at eliminating this practice and minimizing the scope for arbitrary valuation of imported goods by customs officials. It ends the United States "American Selling Price" (ASP) system, under which the duty on some goods is assessed, not on their landed value, but on the higher actual selling price within the US of similar goods produced there. The ASP was applied principally to benzene-chemicals and led in some cases to high tariff rates of over 40%. As a consequence of the agreement, the United States will reduce virtually all its tariff rates on these chemicals to 20% or less.

Implementation of the GATT agreements

The Tokyo Round results were approved by the Nine's Council of Ministers on 20 November 1979. Since the GATT agreements do not have direct force of law in the US, it was necessary to introduce implementing legislation. This was done and the Trade Agreements Act was signed by the President on 26 July 1979. Ratification by Community Member States was completed in November 1979 and the Council of Ministers' decision published on 10 December 1979. This legislation has still to be supplemented by regulations which will deal with the practical day-to-day application of the agreement. There is every reason to believe that the United States will both participate fully in a consolidation of new multilateral trade rules, and abide by its international obligations under the codes.

European Community - United States bilateral trade

In the 1970s the European Community's trade with the United States was characterized by spectacular growth on the one hand and by a persistent and substantial trade deficit on the other. Indeed, since the Community's establishment in 1958, trade has developed at a brisk pace beneficial to both partners. The rising standard of living in the European Common Market and the abolition of virtually all customs barriers have made EC an attractive outlet for American products. Similarly, there has been substantial growth in Community exports to the United States.

The Community's common tariff was established as an average of the previously existing tariffs of the original six Member States. As a result of the enlargement of the Community through the entry of Denmark, Ireland and the United Kingdom in 1973, the previously existing tariffs of those countries were reduced as well since these tariffs were somewhat higher than the common external tariff which was effective before the enlargement. By 1 July 1977 all three countries, after a period of three years, had adopted the Community's external tariff. Furthermore, as a result of the GATT Multilateral Trade Negotiations conducted between 1973 and 1979, the common external tariff of the European Community has been lowered even further.

With the implementation of the last stage of the tariff cuts only 10% of Community tariffs on industrial goods will exceed 10%, and 1.5% will exceed 15%. On the other hand 7% of US industrial tariffs will exceed 10%, 5% will exceed 15% and still 3% will exceed 20%. Only one out of a total of 2100 dutiable tariff lines in the Community will remain subject to a tariff of more than 20% (22% on trucks). The average tariff on industrial products in the Community after implementation of the MTN agreement will be 3.9% whereas the US average tariff on all industrial products will be 4.7%.

US exports to the Community increased considerably in 1980 (from \$ 47 000 million to \$ 62 000 million) while imports from the Community only increased

from \$ 34 500 million to \$ 37 300 million. In 1980 the Community's trade deficit with the United States reached an all-time high of \$ 24 800 million.

In 1980 the individual Member States of the Community all had a trade deficit with the United States. The United States' biggest customer is the United Kingdom, followed by the Federal Republic of Germany, France and Italy. The United States' leading supplier is the Federal Republic of Germany followed by the United Kingdom, France and Italy.

Manufactures

In this sector bilateral relations have seriously deteriorated as a result of anti-dumping complaints lodged against European exporters by US steel producers. However, the difficulties facing the US steel industry are attributable more to the worsening economic situation in the United States, which has been particularly reflected by a spectacular fall in demand for steel on the US market. The decline in European steel sales on the US market in 1980 was considerably greater (-16%) than the reduction in production and consumption in the United States (-12%). This trend is borne out by the way in which the US market share held by European steel exports has developed.

In the automobile sector the Community share of US vehicle imports fell slightly in 1980 from 15% to 13%, while Canadian exports fell from 37% to 10% and Japanese exports leaped from 36% to 61%. Two out of three vehicles imported into the United States are Japanese. Hence the agreement concluded between the Japanese and the Americans to limit Japanese imports. The Community is following closely the effects of this agreement.

Agriculture

The Community's agricultural trade deficit with the United States amounted to \$ 6 800 million in 1980. In fiscal 1981 the United States exported agricultural products totalling \$ 45 000 million (20% of exports) and

imported \$ 17 000 million's worth (13% of imports). The European Community is by far the biggest market for US agricultural exports. Despite its leading position as an agricultural exporter the United States complains about the common agricultural policy, criticizing the exports refunds policy. The European Community, however, considers that it abides by the code on subsidies, adoption of which was one of the major objectives of the Tokyo Round negotiations.

In the case of wheat, for instance, it should be pointed out that the United States at present exports some 60% of its production, compared with some 40% thirteen years ago. The Community's wheat exports therefore cannot be a problem in an expanding world market. With regard to other agricultural products, such as maize and soya bean products, which account for the bulk of US exports, the Community is the world's biggest importer because of new livestock feeding techniques.

The European Community and the United States are both exporters of poultry but their share of the world market has not changed significantly over the past few years, the United States accounting for 46% of the market in 1980 and the Community for 54%.

Sugar exports are also a source of difficulties between the United States and the European Community. On 1 July 1981 the Community set up a new market organization under which Community sugar producers are themselves to bear the cost of export when world prices are lower than Community prices.

The US Administration recently accepted the US producers' complaints that their European competitors were receiving excessive subsidies for sugar, poultry, wheat and pasta products.

The difficulties in this sector should, however, be viewed in its social context. Although the "green revolution" has helped rationalize and modernize the Community's agriculture in recent years, raising productivity in some areas and for some products to levels comparable to those in the United States, European farming is still by and large less efficient than its American counterpart. In 1978, for instance, 77% of farms in the

Community were smaller than 20 hectares in area, whereas the average American farm was 160 hectares (400 acres).

Relations in the energy field

Petroleum

The heavy dependence on imported oil that has characterized Community energy supplies for many years is also a factor to be taken into account in the United States since the 1973 oil crisis. The 1979 crisis and the armed conflict in the Persian Gulf have made economies more fragile.

In the face of a bleak outlook for oil supply stability, consumer countries are tempted to secure their own supplies to the detriment of other countries. It is however encouraging that the search for more stable and secure oil supplies has made both the Community and the United States aware of the need for continued cooperation to limit disturbances on the oil markets. This cooperation has been carried out in the IEA framework as well as through the "western economic summit" meetings, where it has been possible jointly and in cooperation with other industrialized nations to set specific limits for oil imports between 1980 and 1985 (Tokyo 1979) and to define energy strategies for the next decade (Venice 1980).

Continued efforts within the Community and in the United States to restrain oil demand will be the basis on which further EC/US cooperation can develop in the energy field.

Nuclear energy

The Community cooperates with the United States on the peaceful use of atomic energy in the framework of long-term Agreements concluded in 1958 and amended four times since (1960, 1962, 1963 and 1972) to adapt them to developments in this sector. In applying these Agreements, the United States provides Community users principally with enriched uranium. Some 20 nuclear reactors in the Community are currently supplied with slightly enriched uranium of American origin, and nearly all the highly enriched

uranium needed to feed research reactors and high-temperature reactors is in fact imported from the United States.

The Euratom-United States Agreements are also necessary for the Community industry to transform for third countries (Japan, Sweden, Switzerland, Spain and the United States itself) nuclear materials which they have bought from the United States. These Agreements serve as a basis for specific Euratom-US agreements on research and development, for instance in the field of nuclear safety.

Contacts also exist between experts in non-nuclear research and development programmes in the Community and their American equivalents in sectors such as the effect of energy production on the environment; raw materials research; medical research and research into toxic substances, etc. Finally the United States and the Community work together on research and development in the multilateral context of the International Atomic Energy Agency (UN) and the International Energy Agency (OECD).

Fisheries

The Agreement on fisheries with the United States (1977) was the first concluded by the Community with a non-member state. Valid until 1 July 1984 and extendable, it covers fishing by vessels of Member States of the Community for part of the surpluses of the fishery resources in US territorial waters within the 200-mile zone.

Outside the scope of the Agreement, US vessels fish in the Community's territorial waters off the French département of Guyana and are subject to Community rules, including the granting of licences free of charge.

MONETARY RELATIONS

On 15 March 1979 the European Monetary System (EMS) came into operation after the European Council had, at Bremen on 7 July 1978, proposed that closer monetary cooperation be established between the Member States of

the European Community. Earlier the idea of an EMS had been launched by Commission President Roy Jenkins in a speech at the European University Institute at Florence. The EMS is seen as a first and decisive step towards the Community's economic and monetary union; its long-term goal is to create a zone of monetary stability in Europe and to strengthen the international monetary system. Its more short-term objective - to stabilize the exchange rates between the currencies of the participant countries - has been largely successful in giving a real European dimension to markets.

It has been suggested in the United States that the creation of the ECU and the operation of a European Monetary Fund could rapidly and dangerously weaken the role of the dollar in international trade. The European Commission, however, has emphasized that, although a new reserve unit was created, its use will be strictly limited to transactions between the central banks of the Community. The Bremen agreement stated that "the EMS is and will remain fully compatible with the relevant articles of the International Monetary Fund agreement".

INVESTMENT

Foreign investment from sources in the United States and the European Community represents by far the largest volume of direct foreign investment in the world today. Furthermore, American and European investors have the greatest share of foreign investment in the Community and the United States respectively.

US investment in the Community

At the end of 1980, 35.9% of US direct investment abroad was placed in European Community countries (with a total value of 76 600 million), compared with 31.8% at the end of 1978. The trend of this investment in the Member States is shown in table F. As you can see, it is clearly concentrated in the United Kingdom and the Federal Republic of Germany.

US capital investment in the early post-war years was an important element

in the economic reconstruction of Western Europe. Today it is a vital element in the kaleidoscope of Atlantic and international monetary relations. Since its establishment, the Community has been one of the fastest growing regions for US direct investment. The prospect of a large, more unified and affluent market encouraged many US companies to establish manufacturing plants in Europe. In 1958 investment in the Community comprised only 7% of total US investment abroad. By 1971 the Community proportion had risen to 15.8% and by the end of 1980 this share had climbed to 35.9%.

The bulk of US investment in Europe, in contrast to that in most other areas, is in manufacturing industries, with the exception of North Sea oil. Particularly noteworthy (see table G) is the concentration in the United Kingdom on the petroleum and manufacturing industries, in the Federal Republic on manufacturing; in each country especially in the machinery and transport equipment sectors. Although less marked, this breakdown also applies to France.

The volume of direct US investment in the Community is perhaps more accurately reflected in the annual expenditure of American companies on plant and equipment. Capital expenditure comprises capital transferred from the United States, capital raised in European money markets and reinvested earnings. Annual capital expenditure in the Community, excluding Britain, in 1973 was \$ 3 500 million; in the United Kingdom it came to \$ 1 600 million the same year. At the end of 1978, annual capital expenditure in the Nine totalled \$ 12 600 million, that is more than 40% of the total capital expenditure of all US foreign subsidiaries around the world. According to US Chamber of Commerce estimates, capital expenditure of US companies in the Common Market was expected to reach a record of \$ 16 900 million at the end of 1980.

More and more US products, from computers to detergents, which might formerly have been manufactured in the United States and exported to Europe are now being produced in Europe itself. This phenomenon is in direct contrast to that in other parts of the world, where output is often re-exported back to the United States. Such a development has of