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THE UNITED STATES AND THE EUROPEAN ECONOMIC COMMUNITY

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Next to avoiding nuclear war, it is often believed that nuturing and sustaining a creative working relaionship with the European Community (EC) is one of the most urgent tasks facing the United States today in the world. The economic interest of the United States in fostering interdependence with the European Economic Community (EEC) is obvious . The combinded population of the EEC is larger than that of the United States and a recent survey showed that the combined population by 1980 will exceed that of the United States by some 30 million people. The same survey projects a rate of real economic growth over decade of 65.3% a year (for the six original EEC nations), a percentage point more than predicted for the United States and a 3.6 % growth rate for the United Kingdom. The industrial production should grow at an annual rate of 5.4% during the decade, at least half a percentage point faster than the U.S. [1]

The expanded Community(i.e. since 1972 including Great Britain, Ireland, and Denmark) is the world's most important commercial power for the U.S. Using 1971 figures, the Nine bought 25.4% ($11.2 billion) of the U.S. exports. The same year, the U.S. sold the Community of Nine 22.8 % ($10.4 billion) of its exports. It is expected that the Nine will continue to import much more than they export into the forseeable future. Thus, though an enlarged Community may prove to be somewhat more of a threat to the U.S., by virtue of the fact that it is also a richer client, the United States should benefit from this union. Moreover, as the U.S.

has felt since the end of World War II, a "strong" Europe should cause the international economic system to function better than if it remained in the condition it was before the Marshall Plan. [2]

Profile of Enlarged Community

	Nine	U.S.
Area (thousand sq. miles)	589	3,600
Population (millions)	253	205.4
GNP ($billions)	694.5	1,050.4
Exports "	63.2	44.1
Imports "	64.2	45.6
%World exports	27.6	17.0
% World imports	24.3	16.5

Source: European Community Statistical Office

According to the Grand Design of John Kennedy, "We do not regard a strong and united Europe as a rival, but a partner... capable of playing a greater role in the common needs of poorer nations, of joining with the U.S. and others in lowering trade barriers, resolving problems of commerce, commodities, and currency, and developing coordinated policies in all economies and diplomatic areas..." [3]

With a relative shift from quasi-military confrontations of the Cold War to the civilian and political processes charaterizing the increasing int erdependence of industrial societeis, the Europeans will have to assert their political, economic, and technical identity if they want some degree of independence from the United States and the Soviet Bloc.

Such a growth away from the traditional bi-polarity concept towards the pentagonal-polarity concept of Andrew Pierre, has raised some doubts and fears among many Americans. Jacob Javitz the Republican senator from New York has said,"I regret [redacted] that the EEC is increasingly taking on the appearance of a narrow, inward-looking protectionist bloc whose trade policies...increasingly discriminate against non-members..."[4] This is by no means an isolated case as opinions of this sort have been heard since the very beginnings of the Community. Thus, if one is to put the policies of the U.S. towards the EEC in its proper perspective amidst the accusations of protectionism, discrimination, and isolationism, he must examine the perceptions of Europeans concerning Americans vis-à-vis the European Community.

Europeans tend to emphasize the fact that traditionally America has been all-powerful in the realms of military, economic, and political affairs, so that it has always been easy for her to speak of Atlantic partnership from a position of un-challenged strength. Europeans would continue to say that the United States has supported the European unification on the basis that although there might be a cost in economic terms, the United States was ready to accept this because such unity would have political advantages. To the Europeans, the U.S. has been disappointed as the economic unification has far out-paced the political unity, not justifying the economic costs. The growth of the EEC has also coincided with problems in balance of payments, frustrations in Vietnam, inflation, and other domestic problems. Europeans feel that the United States has viewed not only their progress, but also that of the Japanese, in the words of one Community official, as a parent who has raised his dependent children would view an "arrogant adolescent", as a child who has outsmarted a parent in European markets and to some extent is beginning to threaten the U.S. domestic market. In addition, the Europeans are eager to point out the fact the United States has had a trade surplus in Western Europe and this part of the world should not be "punished" as the Community feels was the case with the 10% surcharge of 15 August 1971, which has since been lifted as of December, 1971.

The State Department in its turn, would explain the European perception along different lines. The original drive towardsthe Community was the result of the threat of the Soviet Union at a time when economically as well as politically, Europe was still quite dependent upon the United States Economic conditions have since changed and Europe has become more independent and more sensitive realizing that her security still depends upon the U.S. though she is more emancipated economically.

A feeling of resentment has also been the result of the super-power diplomacy. Europe has a sense of somewhat helplessness and resents the fact that often she is not consulted by the U.S., as in the recent case concerning the October war in the Middle East. Added to all this, is of course the fact that the nations of Europe have very old cultures which are very traditional, resulting in a great sense of pride which has been damaged. In order for foreign policies to be successful, both sides must recognize these differing perceptions in order to achieve meaningful cooperation. Too much is at stake should this cooperation not be realized.

On 25March 1957, the Treaty of Rome was drafted which became effective on 1 January 1958. The treaty proposed to create a European Economic Community through: a)progressive reductions and removal of all fiscal and physical restrictions on the free movement of goods, capital, and persons among member countries; b) harmonization of their economic policies; and c) consolidation of their external tariffs into one uniform tariff system applicable to all inputs into the EC, from the rest of the world.

On 1 January 1959, tariffs and other trade restrictions were abolished among the original six member states. By 1962, they had achieved adoption of a Common External Tariff (CET) and by 1968 the countries were internally tariff-free.

How all of this has affected the United States can be viewed in two different sectors, the field of industry and that of agriculture. In the period of 1960-1970, U.S. nonagricultural exports to the EC grew from $2.9 billion to a level of $6.9billion, while nonagricultural imports grew from $2.0 billion to $6.2 billion.[5] It must be remembered howeverever,that in analyzing trade patterns, conclusions can be only speculative as one can never be sure of what the situation may have been had the EEC never existed.

In nonagricultural trade and particularly in manufacturing, external tariffs have been significantly lowered, thanks most recently to the Kennedy Round[6] concluded in 1967, and are now at moderate levels of about 8%. In this areaa, U.S. exports to Community countries have increased very greatly, especially in high-technology industries. More than twenty such industries have enjoyed continuous increases every year since 1960. They include cars, trucks, and their parts with exports of $4.1 billion in 1971, up more than 138% since 1965; electronic computers and parts worth $1.1 billion, a gain of 343% since 1965, and chemicals worth $3.8 billion, up 58% since 1965. [7]

In addition to exports, most of these industries are also involved in the European Community in a different context, that being direct investment in the form of subsidiaries of American based, "multi-national" corporations. The facts, insofar as they can be reliably estimated, appear to show an increase in direct U.S. investment in the EEC of Six from under $2 billion in 1958 to around $13 billion in 1970. By 1968, U.S. subsidiaries were selling $14 billion in products and repatriating in 1970 some $1 billion in profits.

Such figures have prompted many Europeans to look more closely at the American corporation in Europe. Calling this investment Le Défi Americain (The American Challenge), author-politician Jean-Jacques Servan-Schreiber sees the third largest industrial power in the world in 15 years to be not Europe, after the U.S. and the Soviet Union, but American industry in Europe. According to him, "The Common Market has become a new Far West for American businessmen. Their investments do not so much involve a transfer of capital as an actual seizure of power at the heart of the European economy." [8] For many, this is greatly to be feared and the history behind it must be exposed if the problem is to be understood.

As Europe was recovering after the war and concentrating on rebuilding a crushed economy, American industry was benefitting greatly from technological experience gained during the war aided tremendously by the development of very good manegerial "know how". As Europe's economic condition gadually improved and a move toward unity begun, it was precisely this advanced technology and better management that enabled American corporations to move in and take advantage of a more unified Europe. Servan-Schreiber has noted that as the Europeans spoke of bringing the countries into closer economic cooperation, it was the Americans who were actually able to benefit.

The situation has modified to an extent today and as a result, a certain paradox has developed as far as American investment is concerned. There are those Europeans on one side who believe in the threat of the "American Challenge" and opposite them one sees those who clearly recognize the advantages of American investment and technology. Many have suggested that the real purpose of Le Défi Americain was to serve more as a stimulus to Europeans than as an attack against American industry. Servan-Schreiber admits that Europeans must learn the "know-how" and develop the technology if they are to compete successfully with existing American firms.

According to one Commerce Dept. official, Europeans basically like U.S. investment with the new jobs, technology, and capital that accompany it. He feels however, that there is great suspicion, especially when a European reads an account of the ITT affair in Chile, but he continues by saying that for the most part, countries such as Denmark are more interested in just plain knowing what these corporations are doing rather than fighting them.

Whether Europeans actually like the idea of American companies in Europe, or whether theirs is an attitude of suspicious tolerance, an executive of General Electric sees it more as a pragmatic question. Europeans recognize the benefits of U.S. investment especially in the fields of advanced technology and electronics, and accordingly take advantage of them. According to this source, as long as the U.S. stays ahead of the Europeans in these areas, investment is relatively secure. It is once this "technological gap" narrows that the position of the American multi-national corporation will be weakened.

On the whole, it would appear that the formation of the EEC has had positive value for international firms. As has been mentioned before, it appears that American corporations have, up until now generally been better able to take advantage of the flowering of the EEC. Now however, the EC Commission has drafted an ambitious blueprint for a common industrial policy to promote a genuine European industrial network and there are questions to be raised. Included in the plan are measures to speed up removal of technical barriers to trade within the Common Market, liberalization of access to public contracts, the abolition of tax frontiers, formulation of a European capital market, and a common statute for a European company. Once enacted, this policy will attempt to foster conditions encouraging and enabling European companies to take advantage of the Common Market now being perfected. When such programs are implemented, will an American firm in Europe still be able to profit as well as its European counterpart? Once again, speculation is only quasi-reliable, but it would seem as though the Community will continue to follow non-discriminatory policies as long as these firms do not appear to be taking over European firms.

At present, according to an official of the European Community, a subsidiary carries the nationality of the particular country in which it is established. That is to say, taking Belgium Esso as an example, the oil company is considered to a be a Belgium company enjoying the advantages and/or disadvantages of any other firm in the country. What may change in the future however, would be the conditions under which a foreign firm is established within the Community. At present, as in the past, American firms have found incentives in various countries consisting mainly of tax breaks. It is thought that this sort of incentive should level off with new policies, though not in a discriminatory manner .

At a press conference in 1970 at the National Press Club in Washington, French President Georges Pompidou was asked to what extent he would accept entry of American investment in Fran ce. His reply seems to reflect the general European attitudes:

> I am in favor of the free movement of capital; nothing pleases me more than when large French companies invest abroad, in the U.S. and given the means they have, I am also pleased that American companies can invest in France. I simply say that I hope these investments represent not only for the companies making them, but also for France an enrichment. That is why, in the present situation we sometimes oppose certain investments. Those which we are led to oppose consist in the take-over of French concerns by foreign companies... On the whole, whenever a foreign investment is a real investment, bringing us something, developing our production capacity, our research capacities, our export capacities, not only do we agree to it, but we want it...[9]

As the European Community has developed, and as it has attempted to provide advantages for the member-states, two major bones of contention have evolved between it and the United States. The U.S. has criticized nothing more than the Common Agricultural Policy (CAP) of the Community and the preferential trade agreements the Community has with many African states as well as several Mediterranean and other European countries.

The CAP has incurred the wrath of American Administrations since its completion in the mid-sixties. U.S. complaints are best summarized in the "white-paper" of December 1971.

> ...The Community has developed an agricultural policy which satisfies the political needs of their agrisectors at the expense of its own comsumers and outsiders. This system, based upon very high support prices, is designed to limit other non-member nations to role of residual suppliers...Since the domestic surpluses are priced too high for world competition, aggressive subsidization is used to push the surpluses into the traditional markets of othmore efficient suppliers.[10]

The Community's farm policy replaces separate policies of the member states with a single policy. It is designed to open up trade among the members, and to increase the efficiency of Community farming without working farmers becoming helpless victims of agrarian reform.

A levy is imposed on many products imported into the Common Market that compete with Community farm products. In many cases, the internal price level is substantially higher (wheat, as one example) than the price of imported goods. The levy serves to protect the relatively inefficient Common Market farmer. The receipts are paid into the Community's common farm funds and the proceeds are used to reimburse governments for the cost of intervening in the food market to hold prices at guaranteed minimal levels and to support certain farm exports enabling them to compete in world markets. The fund is also used to finance the modernization of the Common Market's farm economy, still vastly inefficient, as compared to that of the U.S.

American exports of agricultural products covered by the variable levies and other elements of the system fell by 47% from

1966-1969, then rose slightly in 1969-1971. What helped ease the adverse effects of the CAP were products such as soybeans which were not covered by the variable levy system.[11]

One European answer to American protests ~~have~~ has been that American farm exports to the EC have grown in spite of the CAP. This has been considered as only a partial answer because 1) without the CAP they might have grown more 2) for three years after 1966 they declined as the CAP was reaching full effect and their expansion in 1970 may be due to temporary factors, 3) in spite of the level of the 1970 expansion, products subject to variable levies, the most characteristic CAP device, have declined faster than others, which seems to mean that the policy is working the way one would expect.[12]

The European Community also offers another explanation as to the greater degree of exportation of "levy-free" soybeans as compared to other grains such as wheat. Since soybeans in themsel are more protein-rich than other feed grains sold to livestock farmers, in order to improve their product, these farmers have chosen increasingly the purchase of soybeans. Since the actual consumption of the livestock is a finite amount, the American prod of soybeans and those of other feed grains are in competition with one another with the soybean producers winning out.

In reality though, the entire situation involving the CAP has been greatly modified within the past year. Because of an exceptionally bad harvest, the Soviet Union entered into world markets for large quantities of cereals which it bought from the U.S., Canada, Australia, and the EEC. The Soviet purchase, coupled with strong demands from all sources in general, created heavy pressure on supplies and prices, and led a number of countries to place controls on their agricultural exports. Thus, the U.S. placed an embargo on the exportation of soybeans.

Officials and economists in both the U.S. and the EC have now realized that should there be poor crops in a few major producing countries, the world would be without the reserves needed to meet food requirements. Because of the realization of this possibility, the issue between the U.S. and the EC has now become one of how to share a scarce supply of food. In order to meet the problem, two areas must [redacted] be examined.

The first is that of trying to reduce high levels of agriculturalprotection so as to make more effective use of the world's agricultural resources,, and the other is providing assurances that farm products will be available in sufficient quantities to meet all likely contingencies. No one questions the fact that the highest degree of cooperation by all nations is a prime prerequisite for solving the problem.

The question of preferential trade agreements however, is still producing strong sentiments and it remains a very sensitive issue for the U.S. By the fall of 1972, the Community had concluded agreememts on reciprocal trade preferences with 36 countries. A single association agreement, the Yaoundé Convention covers arrangements with 22 of them, all former African dependencies including Burundi, Cameroon, Centrafrican Republic, Democratic Republic of the Congo, Ivory Coast, Dahomey, Gabon, Voltaic Republic, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Chad, Togo, Zaire, Kenya, Uganda, Tanzania, and Mauritius. The U.S. is particularly opposed to the "reverse" tariff preferences which most of these countries grant EC exporters. The U.S. special representative for trade negotiations has noted, "...There is no economic or development rationale that can justify the extension of 'reverse' preferences by developing countries to the industrialized nations of Western Europe." [13]

The preferential agreements fall basically into three categories: 1) Special Relationship preserving a special trade relationship with one or more of the Communtiy members before the EEC's establishment or enlargement, 2) European Candidates Agreememnts concluded with European nations which hope to become full members of the EEC but which cannot now take on the economic and political obligations of full membership(eg. Greece and Spain), 3) Associates' competitors - Mediterranean and African nations which have sought association with the community because their exports to Western Europe traditionally compete with those from other associated countries.

For the United States, the "reverse" preferences are more irritating than the others,however the actual economic effect upon the U.S. due to both the preferences and the "reverse" preferences has depended largely upon the stage of development of the countries in question. Most damaging, has been the effect of these agreements upon U.S. citrus fruit exporters, most notably those in Arizona and California. More importantly however, in the eyes of U.S. government officials, has been the steady deterioration in adherence to the most favored nation principle on which the General Agreement on Tariffs and Trade (GATT) and the whole postwar conception of the world trading system has rested.

With a shift of relative power in the GATT to the European Community and its associated countries, the most-favored nation principle has been seriously undermined. Europeans will state that

Americans too, have violated the GATT rules especially by the U.S.-Canada auto agreement, however Commerce Dept. officials will defend the U.S. position by explaining that permission was granted under the GATT for this trade.

The prime American concern in regard to trade agreements is that the Community seems to take the position that the results count in the end, while the breach of principles do not count at all. The Community is pragmatic in its policy, and it can be characterized as being disinterested in international principles,
except where such principles may provide some short-term advantage. 14
It is for this reason that the U.S. opposes unfair trade agreements (the U.S. does not in principle object to preferences given to lesser developed nations) and would like to see them "go by the boards" in the words of one Commerce Dept. official.

At some point in a discussion concerning the EEC, a very serious question must be looked at concerning the validity of dealing with the European Community (the EC is comprised specifically of the EEC, European Coal and Steel Community-ECSC, and the European Atomic Community- EURATOM) as a sovereign entity as opposed to dealing with Nine independent countries who have concluded some very meaningful economic agreements. To what extent has each individual nation surrendered a portion of its sovereignty? It would seem at this point in time that the individual nations are still very much in control and with the strong natioalistic feelings one finds especially on the part of the French, the future unification of the Community can be questioned.

In the economic arena, the Nine nations have gone as far as they can without having to give up political power. The Feruary1971 decision to form full economic and monetary union show how concrete achievements in the field of trade spill into the political realm as a result of need. The sovereign states united fifteen years ago, have recognized that in order to maintain the union, some national prerogatives may have to be modified. They have relinquished some control over monetary and economic policy, but any relaxation of control over national budgets, taxes, credit, and money supply is a difficult political choice.

As for now, the United States is dealing mainly with each sovereign state though not losing sight of the importance of maintaining good relations with the EC in Brussels. In fact, there is a delegation representing the European Community in Washington, and the United States has a delegation led by an ambassador in Brussels. According to State Department officials, each country represents its own national interest and the U.S. often tries to appeal to this particular interest, however the EC at times is more important as it is the Commission of the EC that drafts proposals and many times develops compromises. For businesses, the individual nation remains predominant in dealings.

The Community by no means ignores this situation and they realize the confusion that can result for outsiders because of the two levels of sovereignty. In his review of US-EC relations before the European Parliament in Strasbourg on 16 January of this year, Sir Christopher Soames, Vice President of the Commission of the European Communities comments:

> At the moment when proposals come from the Commission, on whatever topic- I do not say whether any particular proposals are good or bad- at least they come out as European proposals and are conceived as such. They are then discussed in the

> Council of Ministers and in the member countries as national problems and are thrown into the national arena...Let us realiae how difficult it is for our partners...Let us realize how it is for them when they do address themselves to the chairman in office of the Council of Ministers. All he can say is, 'I take note of what you say and I will report it to the Council of Ministers' "[15]

The U.S. has an interest in further European integration but cannot play a major part in bringing it about for that is up to the Europeans. The U.S. can however, have some influence on what happens, less in terms of relations among the European communities than their relations with the rest of the world.

It is commonly believed that an integrated Europe should be able to help more effectively than a divided one in managing the international economic system. Consequently, American policy will be especially concerned with the relation of an integrating Europe to the rest of the world economy as a whole. Therefore, it must be realized that some short-run and perhaps even some long-run economic disadvantages for outside countries may occur. It should be an objective of American policy to minimize these disadvantages. The U.S. must have a flexible stance, being able to deal with a common agency on one subject, and with separate national governments on others. [16]

In attempting to influence the future course of events of the European Community, the United States can and should support those forces who seek an out ward-looking Community with liberal economic policies toward the rest of the world. In this way, the U.S. may be able to encourage Western Europe to give its external economic relations a higher relative priority in the years to come of unification.

The Committee for Economic Development stresses two lessons that can be learned since World War II. 1) multilateral agreements and institutions provide the most successful means for resoving bilateral economic conflicts; and 2) in all major industrialized nations, there are important policy concerns and powerful domestic interests which run against the concept of international collective action. Europe and the U.S. have a common interest in modernizing and revitalizing the international institutions and rules, and adding some new mechanisms which would increase flexibility and efficiency in economic relationships.

The subject areas to which multilateral institutions and rules should be directed, according to the CED, cover the whole range of international economic relations including unfair competitive practices, including the practices to which our counter-vailing duty laws apply; and nontariff distortions of trde, such as quotas, discriminatory government procurement, technical standards, and standards for health and safety. [17]

One Community official sees the real problem confronting future relations between the U.S. and the EC as keeping in perspective the differences arising in face of various policies. The Commission meets twice a year with the State Dept. as well as various other governmental agencies and it is imperative that these exchanges continue and to a large extent become more meaningful and productive. In all areas of negotiation, the actions on the part of all the actors involved must guard against the negative aspects of extreme nationalism and/or regionalism in the realm of international relations.

NOTES

1. European Community Information Service, *The United States and the European Community; Their Common Interests, p.8*

2. Steven Joshua Warnecke (ed.), *The European Community in the 1970's*, p. 95.

3. ECIS , *op.cit.*,p.3.

4. *Ibid.*, p. 3

5. Committee for Economic Development, *The U.S. and the European Community: Policies for a Changing World Economy*, p.24.

6. Kennedy Round- Trade Negotiations which took place in the GATT from 1964-1967.

7. ECIS, *op. cit*, p.30.

8. Servan-Schreiber, *Le Défi Americain*, p.23.

9. Press conference at National Press Club in Washington held by French President Georges Pmpidou in 1971.

10. ECIS, *op. cit*, p. 26.

11. *Ibid.*, p.24

12. Warnecke, *op.cit*.,p.125.

13. ECIS, *op. cit.*, p.17.

14. Warnecke, *op. cit*., p.133

15. Sir Christopher Soames, in a speech before the European Parliament on 16 January 1974 in Strasbourg, as published in the *Background Notes*, No. 2/1974 of the European Community.

16. Warnecke, *op. cit*.,p.98.

17. CED, *op. cit.*,p.49-51.

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