

**The United States and an Expanded European Community:
Partners in a World Economy**

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*Address by Kenneth Rush
Ambassador to the Federal Republic of Germany¹*

The United States welcomed, as an achievement of historic significance, the signing in Brussels last month of the treaty enlarging the European Community. As President Nixon noted on this occasion, the United States has always supported the strengthening and enlargement of the European Community and this support remains as strong as ever. The closest cooperation between my country and this emerging Europe is a cornerstone of U.S. foreign policy.

Our expectation is that the advance of European unity will enable Europe more effectively to contribute to the enhancement of world peace, security, and prosperity. These are awesome responsibilities, which the United States has carried in the postwar years to the extent of its capability. However, with the realignment of world economic and political power which has taken place in the last decade, they are now shared responsibilities. Today I want to talk of the responsibility the United States and the expanded European Community bear with regard to world prosperity.

The Community of the Ten, even more so than the Community of the Six, has to be considered an economic power of global significance. In 1970 the Ten's exports to countries outside the enlarged Community were

about \$62 billion, over a quarter of world exports (apart from intra-Community trade) and well in excess of U.S. exports of \$43 billion. The picture on the import side is similar. In short, the Community of Ten is the world's largest trader, as well as the producer of one-fifth of its output.

What this means, of course, is that virtually every major economic decision the Community takes will have an impact, frequently a profound one, on the rest of the world. Thus, whatever may be the regional preoccupations and internal problems of the enlarged Community, its global responsibility requires that solutions be evaluated in terms of their external, as well as internal, effects. The all too easy course of choosing solutions which minimize internal disharmony, whatever the effect on external harmony, is simply not consonant with the responsibility for global prosperity necessarily borne by the world's largest trader.

In this connection I am encouraged to see some indications that the enlarged Community is seeking to avoid the temptation to spend its first years in the internal processes of absorbing four new members. In particular, we understand that a major agenda item of the summit meeting of the Ten later this year will be the expanded Community's relations to the rest of the world. Also the Community's declaration on its readiness to participate in future reciprocal trade negotiations is important evidence that the Community is already weighing the responsibility

¹ Made before the Rhein-Ruhr-Klub at Düsseldorf on Feb. 9. Ambassador Rush resigned as Ambassador to the Federal Republic of Germany on Feb. 22 and was sworn in as Deputy Secretary of Defense that day.

impossible to specify in advance, such as increases in pay, retirement, and other employee benefits provided by law which require supplemental appropriations. This section would also authorize appropriations to meet mandatory increases such as those arising from international exchange rate realignments or new or expanded activities authorized by law or treaty after the enactment of this legislation.

Section 4 of the bill provides for the customary extension and availability of funds beyond the end of the fiscal year for the acquisition, operation, and maintenance of buildings abroad (that is, our foreign buildings program) and such activities as the International Boundary and Water Commission, U.S. and Mexico, construction account. We need authority to retain funds appropriated for construction projects which extend beyond the fiscal year and, with respect to migration and refugee assistance, to enable us to meet calendar year program needs.

Section 5 of the bill assures that permanent appropriations under which payments by law are made directly from Treasury are not considered within the purview of section 407 of the Foreign Assistance Act of 1971. Such items include the annual payment to the Republic of Panama, the annual payment to the Foreign Service Retirement and Disability Fund, and payments from the educational exchange permanent appropriation, which includes World War I debt payments by Finland.

The budget authorization we seek will fund the operations of a Department which, I must note, has undergone personnel reductions amounting to some 19 percent since 1967. The impact of these cuts has been more severe than the base percentage figure indicates. While adjusting to this reduction we have had to preserve and in fact increase the level of resources allocated to consular functions because of the increased workload. Therefore, I believe that the authorization requested here is a realistic and essential minimum.

Before turning to questions, Mr. Chairman, I want to repeat my past statements offering the fullest cooperation of the De-

partment of State with this committee. Only if the committee and the Department share a common basis of understanding can they perform their proper constitutional roles as components of the legislative and executive branches. Other senior officers of the Department will be available to discuss their areas of responsibility in such detail as the committee may wish.

Membership of Department of State on Great Lakes Basin Commission

AN EXECUTIVE ORDER¹

Planning for the conservation and use of the water and related land resources of the Great Lakes Basin requires coordination among the affected State and local governments, Federal agencies, other jurisdictions and agencies, and with the Government of Canada. To assure effective coordination in this regard, Executive Order No. 11345 of April 20, 1967, created the Great Lakes Basin Commission pursuant to the provisions of section 201 of the Water Resources Planning Act. I have now determined that the inclusion of a representative of the Department of State as a member of the Great Lakes Basin Commission would enhance the work of that Commission.

NOW, THEREFORE, by virtue of the authority vested in me by section 202 of the Water Resources Planning Act (79 Stat. 247; 42 U.S.C. 1962b-1) and as President of the United States, it is ordered as follows:

SECTION 1. Section 3(2) of Executive Order No. 11345 of April 20, 1967, as amended, is hereby further amended by inserting "Department of State," immediately before "Department of Agriculture".

SEC. 2. Section 5 of Executive Order No. 11345 is hereby amended to read as follows:

"SEC. 5. *International Coordination.* The Council and the Department of State shall consult as appropriate on matters under consideration by the Commission which relate to the areas of interest and jurisdiction of the International Joint Commission, United States and Canada, and the Great Lakes Fishery Commission."



THE WHITE HOUSE, February 8, 1972.

¹ No. 11646; 37 *Fed. Reg.* 2925.

ties that flow from the enlarged Community's position in the world.

The Community's declaration on reciprocal trade negotiations is a significant expression of self-confidence on the part of the Community. It stems, I hope, from a recognition that a common external tariff wall and margins of preference are not, after all, the stuff of European unity, but steps on the way to a more fundamental union. The belief that this is so has certainly been part and parcel of the concept of the builders of European unity and of their external supporters, including the United States. But a new round of reciprocal trade negotiations will put this concept to the test of fact, since such negotiations presuppose the Community's willingness to see margins of preference for intra-Community trade disappear as tariff walls come down.

An outward-looking European Community can count on the United States as a dedicated partner in international efforts to increase world prosperity through freer flow of trade and investment. The United States remains committed to its traditional liberal trade policy, reflected in consistent U.S. leadership in international reciprocal trade negotiations. In these negotiations the United States has reduced its average tariff on dutiable imports from 50 percent in the 1930's to about 8 percent today, with our implementation on January 1 of the last scheduled cut under the Kennedy Round. Indeed, a major thrust of President Nixon's August 15 measures was to strengthen the bases of our traditionally open international economic policies by attacking two of the sources of protectionism in the United States—high unemployment and a persistent balance of payments deficit. (The restrictive measures contained in the August 15 package—the import surcharge and limited application of the investment tax credit to imported goods—were temporary actions in anticipation of the fundamental realignment of exchange rates. President Nixon's prompt removal of both restrictions before the end of the year clearly attests to this.)

While the expected drop in U.S. unemployment has been delayed, this should now be only a matter of time, given the basic strength of the American economy. Real output grew at an annual rate of 6 percent in the last quarter of 1971, and we expect continuation of this rate of increase this year. Productivity has increased markedly in recent months as output has expanded. At the same time, the rate of inflation has slowed drastically with the help of exceptional public spirit and cooperation in controlling wage and price increases. Consumer prices since August have risen at an annual rate of less than 2 percent.

Internationally, our sights are set on growth in the flow of trade and investment and greater prosperity through the more efficient division of labor that comes from reduced restrictions. The monetary underpinning of free exchange of goods and capital has been greatly strengthened by the realignment of exchange rates agreed upon in December. We still face, however, the task of longer term reform of the international monetary system to assure that exchange rate adjustment and international liquidity serve the purposes of an open world economy. The United States was instrumental in framing the international monetary system and institutions which have served the world so well over the last quarter century. We can be counted upon to contribute constructively to their reform to meet the needs of the world economy of the seventies and beyond.

In the area of trade policy, the President has repeatedly reaffirmed his dedication to freer trade, most recently in his Economic Report to the Congress 2 weeks ago. A liberal course for U.S. trade policy is charted in more detail in two major reports to the President. Presidential Adviser Peter Peterson, recently named by the President to become Secretary of Commerce, in his "Foreign Economic Perspective" report to the President, said:

... reform of the monetary system must not be seen as an end in itself. The monetary system lubricates the machinery of international trade and in-

vestment, but as we have seen, the trading system has to be altered to insure against structural distortions to industry adjustments, to avoid international conflicts, and to provide a basis for world trade expansion. We must begin this effort now and show that constructive negotiations can achieve results.

The President's Commission on International Trade and Investment Policy—the Williams Commission—said:

. . . the time has come to begin immediately a major series of international negotiations:

—to cope effectively with urgent international economic problems; and

—to prepare the way for the elimination of all barriers to international trade and capital movements within 25 years.

While the specific recommendations of these reports are still under consideration by the President, the direction of our policy has been set, as was confirmed in our recent discussions with the Community on trade problems. The United States is prepared to join with the European Community and, hopefully, other major world traders in moving toward a major program of international trade negotiations.

I would like to give you a personal view of the task the United States, the European Community, and the world community will face in these negotiations. I see them as part of our overall effort in the political, military, and economic fields to bind the Atlantic community and the free world more closely together. This effort to assure unity and harmony within the alliance becomes very important as we move forward in an era of negotiations with the East.

In some key respects the task of future trade negotiations in the western world will be more challenging and difficult than any in the postwar era:

—They will have to be more comprehensive, covering not only industrial trade but agriculture, not only tariffs but quantitative restrictions of all kinds as well as nontariff barriers, and not only import restrictions but export subsidies.

—They will need to involve new concepts of reciprocity, broader than those employed

in previous trade negotiations. The world has become too interdependent and remaining trade barriers too complex to proceed solely on the basis of balancing bilaterally negotiated reciprocal concessions. Reciprocity will have to be judged in terms of the total result of multilateral negotiations.

—In addition, new techniques of negotiation are needed, particularly in the agricultural area. Clearly a more rational use of the world's farm resources, through expanded trade based on comparative advantage, requires international discussion of measures going beyond tariffs and quotas. If the tariffs and quotas are to be liberalized, this will probably have to be done in a context which considers related policies as well, such as techniques for supporting farm income, measures for controlling production and the marketing of surpluses. The question of agricultural trade is of particular interest to the United States, the world's most efficient producer and largest exporter of farm products, and to the European Community, the world's largest importer of farm products.

The agenda for future trade negotiations is a long one, containing many items so complex as to tax the understanding and patience of the nontechnician. They all nevertheless affect the extent to which all people benefit from an open world in which goods and investment move freely. I would like to give you my views on some of the important items that should be on this agenda.

Tariff Reductions: Despite successive rounds of tariff negotiations, tariffs are still a formidable barrier to trade. We should not be consoled by the fact that the average tariff on dutiable imports of the United States and the European Community is now about 8 percent. Many rates are higher. And levels of effective protection on manufactured goods—the tariff on the finished product as a percent of the value added in the last stage of production—can be several times higher than the nominal rates. Also, a 10-percent tariff is one thing when all external competitors pay it; it is quite another when most of your international competitors do

not have to pay it, while you do. Unfortunately, the latter situation will be the one increasingly faced by North America and Japan in a world where, after expansion of the European Community, half of all trade will be subject to differential tariff rates under regional trade agreements.

Nontariff Barriers: The levels of protection afforded by tariffs frequently pale in comparison to those provided by quantitative restrictions and the variable levy system applied under the Community's common agricultural policy. The levy system, like quotas, restricts even more than do tariffs the possibility of price competition. In fact, these levies deny any price advantage to imports, no matter how low their supply price. The price advantage thereby denied Community consumers can be very substantial. For example, in a recent time period, the Community's variable levy on wheat was 104 percent ad valorem, 71 percent on barley, 73 percent on corn, 100 percent on long-grain rice, up to 50 percent on beef and pork, and ranged from 50 to 140 percent on poultry parts. My country also has some quantitative restrictions on agricultural imports (although they cover a smaller percentage of agricultural imports and afford lower levels of protection than in the case of the Community's variable levies). Our restrictions will also be a subject of discussion.

In an increasingly interdependent world, we must also recognize that bilateral quantitative restrictions have effects which go beyond the economies of the parties which negotiated them. We, for example, feel that quantitative restrictions maintained by European Community countries against Japan—which by one tabulation account for over half of all these countries' quantitative restrictions on industrial trade—direct to the United States Japanese products which would otherwise find part of their natural market in Europe. We have noted similar concerns in Europe in connection with U.S. agreements with Far Eastern countries on wool and synthetic fibers and textiles.

With progressive reduction of tariffs, the trade-distorting effects of other barriers to

trade have become clearer. These impediments to trade are also increasing rapidly as greater sensitivity to problems of health, safety, and the environment give rise to waves of new national laws and regulations. The effect on trade is to create new requirements at the border for imports and new costs for national producers which may hinder their export competitiveness vis-a-vis producers in countries with less stringent standards. To prevent our progress in one area of human welfare from moving us backward in another, national regulations in the fields of safety, health, and environment need to be internationalized through exchange of scientific and technical information and through international cooperation in the drafting of standards. A useful beginning in the environmental field would be agreement among industrial countries on the general principle that the cost of environmental protection measures should be borne by the polluter and thus reflected in production costs.

Better Trade Adjustment Mechanisms: Progress on trade liberalization in both the industrial and agricultural sectors will be impeded unless all major traders use more specific and flexible measures to adjust domestic producers to the disruption that may occur from sudden increases in particular imports. The aim of efficient adjustment measures should be to provide income support and relocation assistance directly to the affected producers and workers, instead of transferring the burden to the whole society and the international community through price and tariff increases. In the spirit of realism, it may also be worth considering the value of interim protective measures in safeguarding future levels of trade liberalization. A reasonable escape-clause mechanism, such as the temporary and progressively declining specific tariff recommended by the Williams Commission, may be useful in avoiding more restrictive national reactions to market disruption.

Export Subsidies: The time has come to consider new undertakings which would restrict the subsidization of exports, including

agricultural exports. I noted with fascination a recent study of a German research institute which indicated that the annual cost of the European Community's subsidies for agricultural exports increased from DM 0.5 billion to DM 3.8 billion from 1963 to 1969, while net earnings from exports (that is, export receipts less subsidies) of the Community actually declined during the same period. In some cases these European Community exports to third markets were in competition with subsidized exports of other producers. One has to ask, "What are the advantages of this trade as opposed to controlling the production which gives rise to surpluses that can be disposed of only with massive subsidies?"

This listing by no means exhausts the items that could usefully be on the agenda of a new international trade negotiating program. One could mention the possibility of standardizing preferences accorded in government-financed procurement, strengthening the institutional structure of international trade practices, and many other urgent trade subjects, not to mention the whole area of capital movements.

In recent months the United States and the Community have been discussing the agenda for international trade negotiations as well as other economic issues. These discussions have shown both the value of a transatlantic dialogue on economic issues and the need to strengthen it. Your government has taken a particular interest in the task of intensifying the U.S.-Community dialogue. There is sound basis for this in the broader role of the United States and Europe in world affairs. For a country and region with global interests, economic issues can assume greater political importance, both domestically and internationally, than their intrinsic commercial significance might indicate.

As partners and leaders in a world economy, the United States and the European Community have a full work schedule ahead. There is no basis for the United States and the European Community, which have

worked consistently together for the liberalization of trade, to rest on our record. The Kennedy Round, as fine an achievement as it was, cannot be our greatest. The challenge is still before us to increase through freer exchange the contribution of international trade and investment to our own and the world's prosperity.

THE CONGRESS

Department Gives Views on Issue of U.S. Recognition of Bangladesh

*Statement by Christopher Van Hollen*¹

Mr. Chairman [Senator Frank Church]: It is a great pleasure for me to be here this morning before the Senate Foreign Relations Committee to discuss the question of Bangladesh, and with your permission, sir, I would like to read a brief introductory statement which sets forth the administration's views on this subject.

Insofar as the question of the recognition of Bangladesh is concerned, this matter is under active review but no decision has been taken.

President Nixon has made clear the context within which the issue of the recognition of Bangladesh is being considered. You will recall that in his February 10 press conference, the President said that a decision on recognition should not be expected before his return from China.² He noted, however, that "we have under study our whole rela-

¹ Made before the Senate Committee on Foreign Relations on Mar. 6. Mr. Van Hollen is Deputy Assistant Secretary for Near Eastern and South Asian Affairs.

² For excerpts from President Nixon's news conference of Feb. 10, see BULLETIN of Mar. 6, 1972, p. 292.