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INFORMATION

EXTERNAL RELATIONS

THE EEC AND THE USA : RECENT TRADE TRENDS

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The EEC and the USA : Recent Trade Trends

INTRODUCTION

On three previous occasions the Commission has published a comprehensive survey of relations between the European Community and the United States (the last occasion was in November 1973 ⁽¹⁾). Since then the two major developments in EEC-USA relations have been the commencement of detailed negotiations in the comprehensive Multilateral Trade Negotiations (Tokyo Round) in January 1975 and the effects of a major world economic recession on the respective economic and trading positions of the two parties. The purpose of this note, however, is not to assess or summarize the progress of the MTN; nor is it to enter into current developments such as the positions taken by the Commission and the U.S. authorities regarding American investigations under the US Trade Act into various categories of EEC exports to the USA. Its purpose is instead to bring up to date basic data on the evolution of the EEC-USA trade relationship.

OVERALL TRADE POSITION OF THE USA

The overall trade position of the USA seems to be far more favourable than that of the Community. While the US trade balance deteriorated sharply in 1974, a large rise in exports being more than cancelled out by the increase in the oil import bill, during the last quarter

(1) Note n° P-49 published by the Spokesman's Group.

of 1974 a sharp turn-round took place and in 1975 (provisional figures) exports are nearly 10% up on 1974. A large rise in the price index however hides a fall in the export volume. The decline in the level of business activity accounts for a fall in the level of imports.

	<u>TOTAL U.S. TRADE</u>		
	(\$ billion)		
	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1971	44.1	45.6	- 1.4
1972	49.8	55.6	- 5.8
1973	71.3	69.5	+ 1.9
1974	98.5	101.0	- 2.5
1975 (provisional)	107.2	96.1	+ 11.1

Source : "Highlights of U.S. Import and Export Trade" :

U.S. Department of Commerce

The three major trade partners of the USA are (in this order) the EEC, Canada and Japan. The recession has affected American trade with all three, but in different ways. With Canada the evolution of trade has roughly followed the overall trend. Exports to Japan, however, have fallen more than the average. But with the EEC, while exports have increased slightly, imports have fallen dramatically.

U.S. AGRICULTURAL TRADE.

TOTAL AGRICULTURAL TRADE

($\$$ billion)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1968	6.2	5.0	+ 1.2
1972	9.4	6.5	+ 3.0
1973	17.7	8.5	+ 9.3
1974	22.3	10.4	+ 11.9
1975	20.1	8.7	+ 11.4

(Jan.- Nov.)

Source : Foreign Agricultural Trade of the United States (FATUS)

U.S. agricultural exports accounted for 22.6% of total exports in 1974 (25% in 1973). They have risen nearly threefold since 1968. Figures for the first eleven months of 1975 suggest they will be marginally higher still in 1975 ($\$$ 20.1 bn against $\$$ 20.4 bn in 1974). The agricultural 'surplus' is likely to come close to or exceed the record level achieved in 1974.

OVERALL TRADE POSITION OF THE EEC.

In contrast with the USA the nine countries of the EEC have undergone a trade deficit in every year since the inception of the EEC in 1958 with the exception by 1972 when the surplus was a mere EUR 170 mn. Between 1958 and 1974 the average annual deficit was over EUR 4 billion though admittedly this average has been pushed up by the size of the deficit in 1974. For the deficit in 1974 was EUR 15.8 billion but during the first nine months of 1975 it fell to little over EUR 2 billion, suggesting an annual rate of under EUR 3 bn. A major factor in the 1974 deficit was of course the cost of fuel products : the value of imports rose from EUR 15,773 bn in 1973 to EUR 40,323 bn in 1974.

EEC NINE TOTAL TRADE

(1)
(EUR billion)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1958	22.102	23.654	- 1.552
1972	67.357	67.187	- 170
1973	79.366	82.933	- 3.567
1974	109.023	124.861	-15.838
1975 (Jan.-Sept.)	83.278	85.371	- 2.093

Source : ECSO

The Community's liberal trading policy vis-à-vis Less Developed Countries (LDCs), in particular the operation of the Generalized Scheme of Preferences (GSP), has given an important boost

(1) EUR = European Unit of Account.

to imports from the Less Developed Countries; the trade deficit of the Nine vis-à-vis the LDCs has risen from EUR 5,542 bn in 1972 and EUR 8,825 bn in 1973 to EUR 25,007 bn in 1974. While higher prices for oil and other raw materials accounted for much of the increase in this deficit, semi-finished and finished products have also played their part: between 1972 and 1973 they account for EUR 1.4 bn of the EUR 3.3 bn increase in the deficit and the detailed figures for 1974 (not yet available) are expected to show a further increase in imports of these products into the Community.

EEC TRADE WITH THE USA

General considerations

Since the establishment of the EEC in 1958 trade has risen fast between the two partners and in each year the USA has had a surplus with the Nine, often a substantial one. Rising standards of living and the reduction of internal trade barriers have stimulated U.S. exports to the Community as has the progressively lower level of the EEC's Common Customs Tariff . While (as the following table shows) the average level of the EEC and U.S. tariffs on finished and semi-finished industrial products differ only slightly, the EEC tariff is much more uniform, few items having a high level of protection : only 13.1% of EEC tariffs on industrial goods exceed 10% and 2.4% exceed 15%; on the other hand, 38.3% of U.S. industrial tariffs exceed 10% and 23.7% exceed 15%.

Average Tariffs on Industrial Products
and Raw Materials (percentages)

	<u>Raw Materials</u>	<u>Semi-Finis.</u> <u>Products</u>	<u>Finished</u> <u>Products</u>	<u>All Industrial</u> <u>Products</u>
EEC (Nine)	0.7	7.1	9.2	7.0
USA	3.8	9.1	8.2	7.5
Japan	6.0	9.6	11.5	9.8

Source : "Basic Documentation for the Tariff Study", GATT, 1974.

The three new members of the EEC are now half way to aligning their tariffs on the CCT and alignment will be completed on 1 July 1977. This is resulting in a further lowering of tariffs since British and Irish tariffs were at the outset higher than the CCT : the British tariff on industrial products averaged 7.6% compared with the EEC's 6%.

The Trade Record

The EEC is the USA's most important trade partner both for exports and imports. Throughout its existence it has been a dynamic fast-growing market for American produce. Between 1958 and 1972 the Community of the Six ran a continuing and in most years substantial trade deficit with the U.S.A., averaging EUR 2 bn annually. With the Nine the surplus reached nearly EUR 3 billion in 1970 and a record EUR 4.2 billion (i.e. over \$ 5 bn) in 1974. There will be another record American surplus in 1975 since over the first nine months of the year it amounted to EUR 5.2 bn (\$ 6.9 bn), for the year the U.S. surplus with the EEC will doubtless exceed \$ 8 bn.

U.S. TRADE WITH THE EEC NINE (EUR billion)

	<u>EEC Imports</u>	<u>EEC Exports</u>	<u>EEC Balance with USA</u>
1958	3.952	2.622	- 1.330
1969	10.473	8.524	- 1.949
1970	12.300	9.306	- 2.994
1971	12.149	10.758	- 1.391
1972	11.783	11.594	- .189
1973	14.433	12.592	- 1.841
1974	19.405	15.182	- 4.223
1975 (Jan.-Sept.)	13.990	8.696	- 5.293

Source : ECSSO (European Community Statistical Office)

The massive 1974-5 EEC trade deficit with the USA is due less to a large increase in exports to the Nine (they rose only slightly during the first nine months of 1975 as against the corresponding period of 1974 owing to a fall in agricultural exports) than to the extremely serious slump in American imports from the Community (which during the same period fell by about \$ 2 bn.) Neither of the USA's two other main trading partners have undergone such a setback in their trade balance with the USA.

Sectors where the fall in Community exports to the USA have been particularly severe during the first half of 1975 include two for which the EEC has been traditionally well placed: they are transport equipment (I;e. mainly cars, down \$ 375 mn) and manufactured goods (down \$ 177 mn).

Other falls occurred for mineral fuels (down \$ 437 mn) and food/live animals (down \$ 142 mn).

AGRICULTURAL TRADE

US-EEC (Nine) AGRICULTURAL TRADE (EXCLUDING COTTON)

(\$ billion)

	<u>U.S.</u> <u>Exports</u>	<u>U.S.</u> <u>Imports</u>	<u>Balance</u>
1968	1.8	0.4	+ 1.4
1972	2.7	0.8	+ 1.9
1973	4.4	1.1	+ 3.3
1974	5.4	1.2	+ 4.2
1975	4.5	0.9	+ 3.6

Source : FATUS.

The European Community is the most important market for American agricultural exports, taking about 25% of the total. Since its establishment the EEC Six even increased their share of total American agricultural exports from 21.3% in 1958 to 23% in 1972. In 1964, the last full year before the introduction of the common agricultural policy, US farm exports to the EEC Six (excluding cotton) were \$ 1.227 bn, while in 1972 the figure had risen to \$ 2,049 bn. Indeed during this period American agricultural exports to the Community rose faster than those to the rest of the world. Farm exports to the EEC Nine have also been rising fast : from \$ 2.7 bn in 1972 to approaching \$ 5 bn in 1975. Indeed the total growth rate over 1968-74 was 203.5%, little short of the total agricultural export growth rate of 253.7% over the same period.

EEC exports to the USA, on the other hand, have always been far smaller than her imports from the USA. Exports from the Six rose from \$ 205 mn to \$ 531 mn between 1958 and 1972 giving the USA a 'surplus' of \$ 1.5 bn. From the Nine exports to the USA reached \$ 1.2 bn in 1974 and are unlikely to exceed this figure in 1975.

The USA has therefore always had a large agricultural surplus with the Community, one which has been growing fast in recent years, tripling between 1968 and 1974 when it reached a record \$ 4.2 bn. A new record can be expected in 1975.