

# INFORMATION

EXTERNAL RELATIONS

THE EEC AND THE USA: RECENT TRENDS IN TRADE AND INVESTMENT

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## INTRODUCTION

This note is an up-dating of the information note (n° 116/76) published by the Directorate-General for Information in March 1976. Its purpose is mainly to set out basic data on the evolution of the Community - USA trade relationship, but figures on the levels of reciprocal investment are appended.

It is not the purpose of the note to deal with the few areas where there are persistent divergences in the Community and the United States' commercial policies. These are limited in importance and dwarfed by the many areas where European and U.S. trade and related policies converge or are close: further global trade liberalisation (the Tokyo Round where both sides are pressing for substantial progress in 1977); trade preferences for the Less-Developed Countries; agreement on the principle of a Common Fund and other issues arising in the North-South dialogue; and a common appreciation of the long-term problems of energy, raw materials and world food supplies.

This note will not therefore deal with the position taken by the Commission and the U.S. authorities regarding American investigations under the U.S. Trade Act into various categories of Community exports to the U.S.A. It does however highlight the fact that EC/US trade relations are now seriously out of balance both for agricultural and industrial products. The Community's trade deficits vis-à-vis the USA now seem to have established a persistent trend.

## OVERALL U.S. TRADE AND PAYMENTS

Following an \$ 11.7 billion balance of payments surplus in 1975 the United States swung round to a deficit in 1976 (\$ 1.8 bn over the first nine months). This was largely accounted for by a trade surplus of \$ 10.7 bn in 1975 giving way to a record \$ 6.8 bn deficit in 1976. The trade position deteriorated vis-à-vis most of the major trading partners: the deficit with Japan was \$ 5.5 bn (up from \$ 1.9 bn in 1975), with Canada \$ 2.7 bn (up from \$ 0.4 bn) and with the LDCs \$ 12.3 (up from \$ 0.1 bn). With the European Community, on the other hand, the record 1975 surplus of \$ 6.1 bn was beaten with a rise to \$ 7.3 bn (1).

### TOTAL U.S. TRADE

(\$ billion)

	Exports	Imports	Balance
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	107.7	96.9	+10.7
1976	115.0	121.8	- 6.8

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

(1) These U.S. figures are based on F.O.B. in both directions; the ECSO figures quoted later are based on F.O.B. for imports and C.I.F. for exports.

The large increase in imports in 1976 was largely accounted for by a 39% rise in crude petroleum imports. Other important groups of products which show large increase in imports were electrical machinery (by 50%), clothing (42%) and non-ferrous metals (35%). Imports from Japan rose by 37.7%, while the large increase in imports from the LDCs (up by over \$ 13 bn) was largely accounted for by increased petroleum imports.

Exports rose by only 6.7%, headed by electrical machinery (22.4%), passenger cars and chemicals (both 14.6%).

In 1977 the forecast (U.S. Dept of Commerce) is that exports will rise at a faster rate than in 1976, while imports will rise more slowly. Another large deficit is however foreseen.

TOTAL U.S. AGRICULTURAL TRADE

(\$ billion)

	Exports	Imports	Balance
1968	6.2	5.0	+ 1.2
1972	9.4	6.5	+ 3.0
1973	17.7	8.5	+ 9.3
1974	22.0	10.2	+11.7
1975	21.9	9.3	+12.6
1976	23.0	11.0	+12.0

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

U.S. agricultural exports accounted for 20% of total exports in 1976 (25% in 1973). They have risen nearly fourfold since 1968. The proportion going to the EC has in most recent years been something over one quarter.

OVERALL TRADE AND PAYMENTS POSITION OF THE EEC.

In contrast with the USA the nine countries of the EEC have undergone a trade deficit every year since the inception of the EEC in 1958, with the exception by 1972 when the surplus was a mere EUR 170 mn (1). While the size of the deficit was until 1973 always a modest one the increase in the cost of petroleum pushed it up to nearly EUR 16 bn in 1974. In 1976 this figure is likely to have been exceeded. The Nine had a combined balance of payments deficit in 1976 of \$ 6 bn; the Commission forecasts that it will fall to \$ 700 mn in 1977.

EEC TOTAL TRADE (EUR billion)

	Exports	Imports	Balance
1958	22.102	23.654	- 1.552
1972	67.357	63.506	+ 170
1973	79.366	82.933	- 3.567
1974	109.155	124.942	-15.787
1975	113.980	117.800	- 3.820
1976(jan-nov)	112.178	126.995	-14.817

Source: ECSO (European Community Statistical Office).

(1) EUR : European Unit of Account : 1.25 US \$.

The Community's liberal trading policy vis-à-vis Less Developed Countries (LDCs), including the progressively expanded scope of the Generalized Scheme of Preferences (GSP), has boosted imports of both manufactured and agricultural products from these countries, for which the EC is much the biggest export market.

The trade deficit of the EC vis-à-vis the LDCs rose from EUR 5.542 bn in 1972 to EUR 24.980 bn in 1974; falling back to EUR 10.091 bn in 1975 it is likely to exceed EUR 17 bn in 1976 (EUR 15.554 bn Jan-Nov). While higher prices for oil and other basic materials account for a proportion of these deficits, imports into the Community of manufactured and semi-manufactured products accounted for nearly half of the deficit in 1973.

### 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)

	Raw Materials	Semi-Finis. Products	Finished Products	All Industrial Products
EEC (Nine)	0.7	7.1	9.2	7.0
U.S.A.	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 four-fifths of the 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 averages 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 bn in 1970. A new record was set in 1974 when the U.S. surplus reached EUR 4.225 bn and still another was achieved in 1975 with EUR 6.92 bn i.e. about \$ 8.65 bn. The U.S. surplus with the Community continued to rise in 1976, particularly over the last three months of the year. At EUR 7.992 bn the Community trade deficit with the U.S.A. last year virtually reached ten billion dollars.

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

	EEC Imports	EEC Exports	EEC Balance with USA
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	19.430	15.205	- 4.225
1975	19.333	12.416	- 6.918
1976	22.288	14.296	- 7.992

Source: ECSO (European Community Statistical Office).

These massive EC trade deficits with the USA are due less to large increases in exports to the Community than to the slump in American imports from the Community which fell some EUR 2.6 bn in 1975. Neither of the USA's two other main trading partners have undergone such a setback in their trade balance with the USA.

Among the traditional Community exports which did particularly badly in 1976 over 1975 were (U.S. figures) iron and steel (all products) down from \$ 1.4 bn to \$ 0.98 bn, transport equipment down from \$ 3.2 bn to \$ 3.1 bn (including passenger cars down from \$ 2.3 bn to \$ 2.2 bn) and non-electric machinery down from \$ 3.0 bn to \$ 2.9 bn. On the other hand U.S. imports of chemicals from the EC rose by 32% to \$ 2.0 bn.

Agricultural Trade

U.S./EEC (Nine) AGRICULTURAL TRADE (EXCLUDING COTTON)  
(£ billion)

	U.S. Exports	U.S. Imports	Balance
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	5.5	2.2	+ 4.5
1976	6.4	1.2	+ 5.2

Source: FATUS.

The European Community is America's most important agricultural export market. The general export trend both to the Community of the Six and the Nine has been a rising one. To the Six exports rose from \$ 1.227 bn in 1964, the last full year before the introduction of the Common Agricultural Policy to \$ 2.049 bn in 1972. Indeed, during this period U.S. agricultural exports to the EC rose faster than to the rest of the world. Since enlargement EC agricultural imports from the USA have continued to rise, from \$ 4.4 bn in 1973 to \$ 6.4 bn in 1976, a rise of little under 50%: this represents an increase in the Community's share of U.S. farm exports from under 25% in 1973 to nearly 28% in 1976.

Over the period 1968-76 as a whole U.S. farm exports to the Community rose roughly in line with exports to the world as a whole, i.e. a little short of quadrupling.

Quantitatively the major "growth" sectors have been feed grains (up from 5.8 million tons in 1969 to 11.34 million tons in 1973 and 17.2 million tons in 1976), soya beans (3.36 million tons, 6.05 million tons, and 7.2 million tons respectively) and meats and products excluding poultry (187 mn lbs, 252 mn lbs and 273 mn lbs respectively).

EC farm exports to the USA, on the other hand, have always been far smaller than imports. Since 1973 there has been virtually no increase to match the surge in imports from the USA. Indeed the U.S. agricultural surplus has been increasing fast in recent years, from \$ 1.9 bn in 1972 to \$ 5.2 bn in 1976. Agricultural trade has in fact been the main contributor to the overall EC-US trade imbalance; farm exports accounted for \$ 0.85 bn of the \$ 1.1 bn increase in the deficit in 1976 over 1975.

INVESTMENT

Direct United States Investment Abroad

Net investment at year-end (\$ billion)

	1966	1970	1973	1974	1975
World of which:	51.8	75.5	103.7	118.8	133.2
EEC	13.6	20.3	30.9	35.4	39.1
Canada	15.7	21.0	25.5	28.4	31.1

Direct Foreign Investment in USA

Net investment at year-end (\$ billion)

	1970	1973	1974	1975
World of which:	13.3	18.3	22.4	26.7
EEC	7.4	10.2	11.9	13.6

Source: U.S. Department of Commerce.

The above tables show that in recent years about 30% of U.S. investment abroad has been going to the Community. It suggests that while EC investment in the U.S. has been running at about one-third of the rate of U.S. investment in the Community this proportion may now be starting to rise.

Of the \$ 39.1 bn U.S. investment in the Community in 1975, \$ 13.9 bn was in the U.K., \$ 8.8 bn in the Federal Republic and \$ 5.8 bn in France. Of the \$ 13.6 bn EC investment in the U.S.A. in the same year nearly half was from the U.K. (\$ 6.7 bn), the Netherlands taking second place with \$ 3.6 bn and the Federal Republic only \$ 1.3 bn.