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Economic and Trade Relations Between the United States and the Enlarging European Community

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I am delighted that the Missouri Bar Association invited a representative of the European Community to speak before its annual conference about U.S.-European Community relations. In the United States, the exciting subject of the year is definitely going to be the presidential campaign. In Europe, we find ourselves amidst internal political and economic preoccupations: the European Community of six countries (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) is about to become a Community of ten countries, with the addition of Great-Britain, Denmark, Ireland and Norway. Furthermore, after having realized a full customs union among its member states as well as common policies in areas such as trade and agriculture, the European Community has now embarked on an economic and monetary union program. All this is taking place in a context of inflation and growing unemployment.

While the European Community is going through this difficult process of internal adjustments, while the United States is facing its own political and economic tensions, Europeans and Americans alike tend to focus their attention excessively on their own internal developments, ignoring what is going on

abroad or, even worse, blaming their neighbors for some internal difficulties they encounter. Also, there is a natural human tendency to search for easy explanations to the many complex situations we live in. Easy explanations often take the shape of clichés, which then sneak into conventional wisdom. European-American affairs have suffered from this psychological process lately.

In the United States, there are now people who doubt whether European unification - which so far has been a constant goal of U.S. foreign policy - has in effect been beneficial to the United States. European integration is said to have developed essentially in the economic field whereas progress in the political arena has been disappointing. Thus Western Europe - personified by the European Community - is increasingly seen as a major economic competitor. This threat to American economic power has not been balanced by political advantages. Thus American apprehensions about European economic encroachments become still more vivid with the Common Market's enlargement.

It is my intention today to repudiate a few fashionable stereotypes about the negative effects for the United States of the European Common Market, and about the "dangerous" perspectives of its future development.

Without denying that disagreements exist in limited areas, I contend that:

1) the European Community and the United States have been beneficial to each other over the past decade;

2) the enlargement of the European Community suggests no change in this basically favorable relationship.

First, I would like to summarize the extent to which the United States has benefitted from the Community, particularly in regard to economic activity and growth.

The total U.S. commodity trade with the European Community now exceeds three times the level of trade in 1958, when the Common Market was formed. U.S. exports to the Community have thus risen from about 3 billion to 9 billion dollars. Today, the Community is the United States' best customer - excepting Canada - and an expanded Common Market will make it the number one market for U.S. goods. Not only the volume of transatlantic trade is impressive, the pattern of this trade is equally significant: the United States has scored a consistent surplus - an average of 2 billion dollars - in its trade with the European Community. The figures available for 1971 still show a substantial U.S. trade surplus with the European Community, which is particularly significant in a period when the overall U.S. trade balance is showing a deficit.

Among the factors that have helped considerably the growth of U.S. exports to the European Community is the rapid rise in the standard of living which accompanied the creation of a large single market in the Community. Indeed, we share the belief of the United States that the key to economic progress lies in competition. The establishment of the European Community has considerably enhanced competition within the Common Market area, which in turn has boosted economic growth and the inherent demand for investment and consumption goods. This situation doubtlessly has encouraged the liberal orientation of the European Community's trade policy.

Another factor behind the growth of U.S. exports to the European Community is the establishment of the Community's common customs tariff and the reductions made in this tariff as the result of major trade negotiations. The Community is now surrounded by the lowest tariff average among the leading industrialized nations (January 1, 1971: 6.9% against 9.3% for Great-Britain, 10.1% for Japan, 10.9 %for the United States.)

One of the obvious results of British entry into the European Community will be the reduction of Britain's tariff to the low level of the Community's protection.

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The economic relations between the United States and the Community not only include the flow of commodities. The rising activity of American firms within the Community must also be taken into account. These investments progressed from $1.9 billion in 1958 to an estimated book-value of $13 billion in 1970. The sales of American subsidiaries located in the Community are more than twice the value of total American exports to the Community. More than 1 billion dollars in profits from those direct investments in the Community were repatriated last year. Thus the U.S. economy benefits doubly from European integration: from a considerable increase in U.S.-European Community trade and from the impressive income growth through investments in Europe. Both make a major contribution to the credit side of the U.S. balance of payments.

The Community is one of the most open trade areas in the world - necessarily so because of its heavy dependence on trade for the development of its GNP (trade accounts for 20% of the GNP of the European Community and only for 7% of the U.S.' GNP.)

The economic structures of the United Kingdom and of the other applicant countries are, in this respect, similar to the structures of the Community countries: a large percentage of their GNP is dependent on foreign trade. Their policies towards direct U.S. investments have also been extremely liberal.

When countries with open trade and investment policies decide to merge into a vast economic union, there are good reasons to believe that the subsequent economic blending will bring about an open entity where increased competition creates increased wealth. Logically, the U.S. business world should contemplate the enlarged European Community as a more prosperous client and - as every salesman knows very well - the more prosperous a customer, the better chance there is of selling to him. (Incidentally, it is for this very reason that the rich American market is an important factor of world trade.)

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The European Community's trade approach is equally "open" in its relations with developing nations. The European Community was the first economic entity to follow a U.N. recommendation intended to promote industrialization through trade with the developing nations of the world: on June 1, 1971, the European Community abolished completely its customs duties on imports of finished and semi-finished goods produced by 91 developing countries. In addition to these generalized trade preferences applicable to the developing countries, the Community felt it had a special responsibility towards a number of specific Mediterranean and African countries. The latter enjoy not only privileged access to European markets, but also special financial and technical assistance programs. Agreements and associations of this nature have often turned out to be profitable even to American exporters in that they enabled African countries to acquire the necessary currency to enlarge their purchases in the United States.

Calculated on the basis of GNP percentage, the total European Community contribution to development aid is now 1.2 per cent (whereas the U.S. share, in relation to its GNP, amounts to half that figure.)

The prospect of the Community's enlargement gives a sense of immediacy to the European responsibilities vis-à-vis the developing world and the Mediterranean countries. A common policy of development has been proposed to the member states of the European Community. The Community actively participated in the UNCTAD Santiago Conference, where President Mansholt made a point of being present.

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American fears and criticisms towards the European Community are greatest in the field of agriculture. Preoccupations dwell both on access to the Community's agricultural market and access to third country markets where U.S. farm exports meet competition from European farm exports aided by subsidies.

The fact is that the European Community remains the largest market by far for U.S. agricultural exports, which totalled 1.6 billion (FOB) in 1970. Since 1964, the last year before the effects of the Common Agricultural Policy (CAP) made themselves felt, American farm exports to the Community grew by 25% as compared to 20% to the whole world and 6.8% to the rest of Europe. Not all of the U.S. agricultural produce has scored the fabulous growth of soybean exports to the European Community (91% over the past five years.) Exports of other agricultural commodities remained stable, some have even dropped.

Naturally, such divergent developments reflect problems for which the Common Agricultural Policy serves as an easy scapegoat. In reality, they often reflect conflicting interests between American producers and exporters of interchangeable and competing products.

Fourty per cent of U.S. farm exports enter the Community facing neither duties nor quota restrictions. The other sixty per cent undergo what is called

a variable levy or tariff, which is the basic CAP instrument of protecting the European farmer against a chaotic world market, against the world market's abnormally low prices. There is no point in denying that such protection exists around the European agricultural market. But there is no point either in pretending that a totally open, non-protected agricultural market exists in any of the industrialized states we know. The methods and devices of protection may be different from one country to another, but somehow they exist in every country.

The U.S. protective system mainly consists of quotas. The European Community has the variable levies. Should we make a comparison of protection in the United States and the European Community? Supposing, for example, all supports in all forms were discontinued both in the United States and the Common Market. This would come to a $1,300 per capita income drop in the United States and a $840 per capita drop in the European Community. In other words, competition between agriculture of different countries amounts in fact to competition between public treasuries of these same countries.

When the European Community proposed to bring some order in the world's markets through international commodity agreements during the Kennedy Round and even later, the United States refused immediately.

Will Britain's entry into the Common Market have an impact on the agricultural world trade? The answer is yes. What exactly the impact will be is difficult to predict. There will be no problems, of course, for products that have no tariffs, such as soybeans. The United Kingdom will have to eliminate its present 10% duty on soybeans. The agricultural products for which British entry may cause a change in trade patterns - butter, bacon, sugar - are not of major importance to U.S. exporters.

The Common Agricultural Policy is not a rigid set of protectionist devices. It is a practical and relatively homogeneous system, replacing the previously existing panoplies of different national - and often very restrictive - regulations in the field of agriculture. It will eventually have to be adapted to an enlarged European Community. It is conceived according to European agricultural situations, yet it also takes into account the interest of Europe's traditional trade partners.

Finally, the CAP is the prerequisite for the structural changes that will allow Europe to achieve successfully its green revolution.

Fourteen per cent of the total working population in the European Community is still employed in agriculture. The corresponding figure for the United States is four per cent.

Half a million Europeans have left the agricultural sector every year in the sixties. The same flow is expected to continue in the coming decade.

Allowing this massive process to take place smoothly is one of the goals of the CAP.

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You naturally expect this survey of European-American economic relations to include some comment or reaction from me on the monetary situation.

The decisions announced by President Nixon on August 15, 1972, were seen by Europeans not as a routine economic incident but as a turning point in the history of international political, economic and monetary developments. The problems deriving from the U.S. decisions not only involved the reform of the international monetary system and the elimination of obstacles to

world trade. They were also connected with financial participation in defense. The crucial issue was not only the dollar but the reshaping of the monetary, commercial and political pattern of the West. The problem is one of monumental dimensions. It would not be reasonable to assume that the answers will be worked out easily.

As I mentioned before, the European Community is confronted with an external process of readjustment - the reconstruction of the shattered international monetary system - at a time when it is also going through a delicate phase of internal readjustment: the transition from a Community of six nations into a Community of ten nations and the building of its own economic and monetary union.

Under those circumstances, the Community wants to strengthen its own structure, to avoid the temptation of a return to national bilateralism which would deprive the European Community of its only weapon: concerted action to defend the interest of its countries. Together, the Community countries form the most formidable trading and monetary unit in the world. Divided we have the means neither to defend our interest nor to participate in the creation of a better international monetary order.

The most recent Common Market's Council of Ministers meetings in Brussels demonstrated that European cohesion is improving in the monetary area. They constitute a first step towards the realization of a European monetary zone, the definition of a European monetary identity which would help the international monetary system to function better. In the short term, the key provisions of the European monetary plan seek: 1) a narrowing of the allowed fluctuation bands among Community currencies; 2) a regulation of the unwanted, speculative, "hot" money flows in the European Community countries.

It must be stressed that the emerging European cohesion and solidarity is not oriented against anybody, and certainly not against the United States. Its first goal is to prevent the existing European Community realizations -- the CAP and customs union -- from disintegrating. It is understood that monetary and trade policies are closely linked, and that cooperation among governments for a better functioning of the international monetary system constitutes one of the essentials for the success of the future negotiations in the area of trade policy.

Looking at their policy record vis-à-vis the United States over the past months, European countries feel they have substantially helped the United States at a difficult moment of its economic and financial situation. Keeping in mind the interests of the international community as a whole in that a drastic reduction in world trade had to be avoided, they refrained from retaliation after the August 15, 1971, measures taken by President Nixon:

- they accepted adjustments in their exchange rates last December, imposing a heavy competitive handicap on their own economies, whereas their trade balance with the United States showed a massive deficit;
- they agreed on a number of unilateral trade concessions vis-à-vis the United States at the beginning of February 1972;
- they committed themselves to a new round of extensive trade negotiations which would aim at:

a) the lowering or elimination of remaining customs duties, as well as non-tariff barriers;

b) the exploration of reasonable avenues of conciliation between conflicting interests in the agricultural area, namely through international commodity agreements;

c) giving utmost consideration to the interest of developing countries.

By way of conclusion, I would like to say that the reasons which call for common action and cooperation between the Community and the United States are innumerable. It is also evident that the first and second largest economic and commercial powers in the world are bound to have frictions. However, we must prevent these frictions from developing into a full-fledged crisis where we speak lightly of trade wars as if they amounted to little more than a Saturday afternoon touch-football game.

Let us not overrate the importance of a chicken war which took place ten years ago, of a tobacco problem which may arise ten years from now, of a citrus issue which worked its way into the President's State of the World message. Let us keep our cool, our sense of proportions, let us keep our real interests squarely before our eyes.

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