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COVER: The Six have reached an historic agreement to go ahead with plans to achieve full economic and monetary union before the end of the decade (*see pages 3-5*).

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BARRE
on the "Barre Plan"

RAYMOND BARRE

THE AGREEMENT REACHED IN BRUSSELS on February 9, 1971, to achieve full economic and monetary union has been called "an event of historic significance" and "a meaningless compromise postponing essential decisions." To each his own.

Everyone who knew the difficulties involved in this venture was sorry to see the revival of old quarrels make it more complicated. Those people appreciate the importance of the Council's decisions, both for their immediate effects as well as for their significance in the long-run.

By giving full approval to the Commission's February 1969 proposals, the Council lay the foundation for the Community's economic and monetary organization. To improve coordination of economic policies, the Community now has medium-term guidelines and a procedure for consultations between the member countries prior to their national economic policy decisions. The Community has been given machinery for monetary cooperation which rightfully belongs to it and which will enable it in time to assert its individuality within the international monetary system.

In its resolution on creating an economic and monetary union in stages, the Council defined a perspective, set principles, and drew guidelines for action which will govern the Community's development in this decade. The Council expressed a firm will and made specific commitments. The concessions made by the member states to reach agreement resulted from their willingness to consider each other's problems and not from a search for a mediocre compromise. For instance, the "escape clause" that some member countries' wanted was written in terms that instead of inviting dismantlement of the venture encourage its permanency.

Finally, by showing its will to strengthen its cohesion by progress in the economic and monetary spheres, the Community can prepare to welcome new members into circumstances that safeguard its nature, its dynamism, and its efficiency.

Obstacles will still arise on the Community's new course. The strength of its determination will have to match the difficulty of the tasks ahead:

- to reconcile economic and social needs, seeking together solutions that combine the desire for efficiency with respect for certain particularly European values

- to share more and more fully in shaping international events

- to give aid in proportion to its wealth and its means to the Third World.

Nothing is ever sure of lasting. However, the Brussels agreement provides new reasons for thinking that our old nations, which have been divided among themselves for too long, have decided to pursue unrelentingly, but respecting each other's individualities, the construction of a Community that can control its own destiny.

Raymond Barre, Vice President of the European Communities Commission, developed the plan for achieving economic and monetary union by 1980.

Economic and Monetary Union

A PRACTICAL AGREEMENT WITH POLITICAL MEANING AND INTENT

"Perhaps since the signing of the Treaty of Rome no choice has been of greater importance for the future of the peoples and countries of the European Community."

In these words, Commission President Franco Maria Malfatti summed up the agreement reached by the Council of Ministers at its February 8-9 meeting in Brussels to go ahead with plans for achieving economic and monetary union by 1980, possibly including a common currency. But the summation lost something of the excitement of the event.

Two years had passed since the idea was first put forward in a memorandum from the Commission to the Council of Ministers, drafted under the supervision of Commission Vice President Raymond Barre. At the request of the Council, the idea was further developed in a second Commission memorandum dated February 12, 1969. After debate in the Council of Ministers, the national political authorities were asked to consider the idea within an *ad hoc* committee chaired by Luxembourg Minister of Finance Pierre Werner which reported back to the Council October 8, 1970. On the basis of both the "Barre Report" and the "Werner Report," the Commission on October 30 submitted to the Council the formal proposal for economic and monetary union.

Little Substance Lost

In the Community process of submitting a radical idea to the scrutiny of sovereign states, it was amazing that so little of the original plan was lost, that the main parts were kept intact.

The transfer of power to a supranational institution had been strongly recommended in both the Barre and the Werner reports. While the final package deal did not achieve full transfer, it did remove one economic instrument, monetary policy, from the exclusive control of the six sovereign states by increasing the powers of the Committee of Central Bank Governors, an institution that was not even mentioned in the Common Market Treaty and which came into existence only six years after the Common Market began operating *(see below)*.

The other main economic instrument, fiscal policy, remains largely in the hands of the member governments.

The Package Deal

The agreement reached on February 8-9 consists of five closely related elements:

• a decision providing for three Council meetings a year on economic policy

• a decision adopting the third Medium-Term Economic Policy Program, covering 1971-75

• a decision creating machinery for granting medium-term financial aid to a member country having balance of payments difficulties

• a decision to strengthen monetary and credit policy coordination between the five central banks (Belgium handles transactions for the Belgium-Luxembourg Economic Union which antedated the Community.)

• a resolution outlining the goals and phases for achieving economic and monetary union and expressing the member countries' political commitment to the plan.

All but the second point will be formally adopted at another meeting, after final drafting in the Community's four official languages.

The Council's Role

According to the agreement, the Council will meet three times a year to evaluate the Community's economy. On the basis of a Commission proposal, the Council will enact guidelines for the Community's overall cyclical policy and specific guidelines for each member country to follow to assure the Community's balanced growth.

At the first meeting every year, the Council will review economic policy of the preceding year. At the second meeting, guidelines will be set for drafting the national budgets and for deciding on the size deficits that are advisable and the means of financing them. (In the past, several member countries, by overburdening the bond markets, have reduced the amount of capital available to finance business expansion and other private investments.)

At the third meeting, the Council will adopt an annual report on the Community's economy, based on a Commission proposal and the opinion of the European Parliament. Each member government will then submit this report to its national legislature for consideration in debate and action on its national budget. This action will set a precedent of asking a national political body to think of the effects its actions will have on the Community as well as on its own country.

Medium-Term Economic Policy a Key

Passage of the Community's third Medium-Term Economic Policy Program was a key to the entire package, as it set targets in percentages for the main economic indicators for the Community as a whole and for each member country. The most sensitive of these targets was the permissible rate of inflation; no member country wanted to face the prospect of having to help another member country finance a balance-of-payments deficit due entirely to "spendthrift" domestic policies. Such a situation would mean a transfer of resources, if only temporarily, to the deficit country from partner countries that were containing domestic inflation perhaps at the price of increases in unemployment, voters out of work.

The program also defined structural improvements to be made at both national and Community level. A mix of industrial policy, favoring the most productive investments, and of regional policy, aiding the most undeveloped areas, will be used.

Medium-Term Financial Aid

The medium-term economic policy decision cleared the way for agreement on the draft decision creating machinery for medium-term monetary support which had been before the Council since June 1970. This system, for use over periods of two to five years, complements the short-term monetary support arrangements activated in February 1970 for aid of up to two years.

To receive medium-term monetary support, a member state will have to accept its partners' advice about running its national economy. Only a member country facing balance-of-payments difficulties of its own will be excused from participating in the joint rescue operation within the limits set: $600 million for Germany and France; $200 million for the Belgium-Luxembourg Economic Union, and $400 million for Italy.

Initially, this system will apply for a period of four years, beginning on January 1, 1972. It will be renewed automatically every five years unless a member country raises objections. This "escape clause" satisfied some member countries that were reluctant to agree to medium-term monetary support without a central, Community authority to make sure debtors took their partners' advice.

Central Banks' Powers Strengthened

While the decision on creating a central authority was deferred to 1975, the powers of the Committee of Central Bank Governors were considerably strengthened and "hotlines" installed in each central bank. This Committee, one of the Community's most important, most informal, and most secret, consists of the five men who are responsible for daily monetary transactions between the Six and with non-member countries. Since the central bankers face the problem of deciding what to do with "hot money"—speculative capital that chases high interest rates and increases domestic liquidity—they have a stake in achieving policy coordination.

The Committee was in fact a child of necessity. Six years after the Common Market began operating, it was created by a Council decision in May 1964, after the Community's first bout of inflation had proven the need for policy coordination at the operational level. Through trade, excess demand quickly spread from one member country to another before the Community process could check it.

Although neither the Commission nor the Community's Monetary Committee have seats on the Committee they have attended the central bankers' secret meetings and have been closely associated in their work. Without this close *ad hoc* collaboration and opportunity for free exchange of ideas, economic and monetary union would still be a pipedream, as it far exceeds the provisions of the Common Market Treaty. (The Council recognized this situation in its resolution by stating that preparations to amend the Common Market Treaty should begin right away.)

This close association of formal Community institutions with the Committee will continue under the economic and monetary union. Within the context of guidelines to be passed by the Council on the basis of a Commission proposal, the Committee of Central Bank Governors will formulate complementary policies for each central bank on liquidity trends, credit allocation terms, and interest rates. They have also been asked to develop practical means of applying these policies.

In addition, the central bankers have been "invited" in the Council's resolution to reduce the margins of fluctuation between their currencies in relation to the U.S. dollar so that they can form an "individual monetary unit within the international system, characterized by the total and irreversible convertibility of currencies." This statement challenges the U.S. dominance of the international monetary scene.

The Draft Resolution

"Economic and monetary union implies that the main economic policy decisions will be made at Community level, and therefore that the necessary powers will be transferred from the national to Community level," stated the resolution. This statement, one of the most difficult parts to fit into the package failed to convince some skeptics of the political will of the Six to see through this venture. While the Six did provide an "escape clause," allowing an objection by any member country to block the renewal of the agreement on machinery for medium-term financial aid, the Community's past experience, particularly with the Committee of Central Bank Governors, gives grounds for optimism. The Council itself expressed optimism by stating that during the first phase, the *de facto,* practical arrangements would be tried out while the search for *de jure* solutions, to solidify them into law, proceeded.

No Important Omissions

While no outright deletions were made from the original tax harmonization proposals made in the Barre plan, the Werner Report, and the Commission's formal proposal, some specifics were narrowed or made abstract, less compelling. Thus, for example, the Council resolution commits the member states to harmonizing the base and scope of excise duties, but not to achieving uniform rates, as the Commission had proposed. Or, the Council resolution commits the Six to "further harmonization of the structure of company taxation," rather than to the harmonization of the base, as proposed by the Commission. The Six did, however, renew their commitment to achieving a uniform turnover tax system for the tax on the value-added (TVA) which in Europe is a large source of tax revenue for the national governments, and eventually, the Community itself. Beginning in 1975, 1 per cent of the member states' TVA revenue will accrue to the Commission.

In short, the Six have made a start, one that could not be imagined only five years ago when France walked out of the Council chambers over the issue of majority voting. Six sovereign states, united 12 short years in a common effort to achieve a customs union, have recognized that to maintain this union some national prerogatives have to be modified. They have relinquished some control over their purse strings, but any relaxation of control over national budgets, taxes, credit, and money supply is a difficult political choice, one that influences a voter's decision to buy a new car or wait until next year.

New Free Trade Drive Needed

U.S. CRIES OF "ECONOMIC DISADVANTAGES" ARE UNFOUNDED

RALF DAHRENDORF

FORMAL AND INFORMAL AMERICAN COMPLAINTS about the Community's trade policy have multiplied since 1968. They do not become more justified because repeated frequently. The much quoted "economic disadvantages" which the United States is ready, or no longer ready, to put up with in exchange for long-term political advantages, do not exist at all.

The total volume of trade between the Community and the United States in 1969 was $13 billion, and it rose sharply in 1970. For the first nine months of the year, the increase in the Community's imports from the United States was 24.5 per cent, while the rise in Community exports to the United States was 9.3 per cent. The determining feature of trade relations between the Community and the United States is the Community's trade deficit. Since the Community was established, this deficit has virtually always been considerably higher than $1 billion a year.

The total volume of direct American investment in the Community has attained $10 billion, in terms of book value, compared with direct European investments in the United States of $3 billion.

American trade with the Community has almost tripled between 1958 and 1970. This advance is considerably faster than the growth of America's trade with other partners. Up to 1969, the rise of 180 per cent registered in American exports to the Community contrasted with an advance of 140 per cent in trade with the European Free Trade Association (EFTA) countries and 120 per cent with the rest of the world.

EC, A Political Force in Africa

American objections to Community policy have concentrated on two facets. First, the Community's policy towards Mediterranean and African countries. The United States has repeatedly expressed a fear that the membership negotiations would lead to the formation of a gigantic preference bloc from which non-member industrialized nations and non-associated developing countries would be shut out. Apart from the fact that this point is still being discussed in the membership negotiations, this criticism of the Community's preference policy has no discernible economic justification. Furthermore, it reveals a misunderstanding of the Community's motives and activities.

In Africa, the Community has taken over an important responsibility on behalf of the member states. The Community's aim is not a closed trading bloc, but a development policy which allows for the special historical relationships of the member states. The Community is seeking to help ensure long-term stability in the Mediterranean countries, and thus contributing, by effective long-term means, to peaceful advance at one of the explosive points of the present international political scene.

U.S. Farm Exports Recovered in 1970

The second recurring theme is the implications of the Community's common agricultural policy for the foreign trade of other countries. The common agricultural policy is one of several possible attempts to resolve the socio-economic problem of agriculture in industrial states. The fact that the United States has selected another system should not prevent it from considering the Community's policy through Community eyes, just as the Community is prepared to assess U.S. action in the light of American political motives. To a considerable extent, the common agricultural policy is a successful attempt to resolve the problem. It has entailed an increase in production which, although it certainly affects trade, does so in a completely normal and legitimate way. Gradually, an agricultural system is settling into a durable form. The fact that it is not doing so in an atmosphere of free world trade merely reflects the features of agricultural policy in all countries of the world. The United States should be able to appreciate how open the Community is in the agricultural sphere, as in others. The total value of American farm exports to the Community dropped slightly for some years. But in the first ten months of 1970 it had passed the $1.2 billion registered for the whole of 1969. This was an increase of 23.4 per cent over the figure for the first ten months of 1969, a period in which U.S. agricultural exports to the rest of the world showed an advance of 21.5 per cent.

World Powers Must Shoulder Their Problems

There is an agricultural problem in the United States, also. The U.S. textile industry provides fewer jobs despite its productivity gains. In some fields, competition with low-price countries is hampered in the United States, as in the Community, by high production costs. There are questions of differing taxation of American companies within and outside their own tax area. These problems need to be resolved. But is it an answer to take protective measures which ultimately damage everybody's interests, including one's own? A world power has little to gain, economically or politically, by attempting to shift its internal problems on to the shoulders of others. Nobody abroad is responsible for America's economic troubles, and the attempt to punish others, including the Community, for these difficulties will boomerang.

This does not mean that there are no problems which we must solve together. An occasional clash between the world's two biggest trading partners is not surprising. There are points where our interests or opinions diverge. But the proper answer is a joint endeavor to find a solution, not a silent battle. The Community's defense of its interests never violates the principles of free international trade contained in the General Agreement on Tariffs and Trade (GATT), which it supports out of conviction, not just necessity.

Japan's Part in U.S. Anxieties

Until recently, however, the Community has been a minor source of American anxieties. The development in the United States of restrictive trade attitudes began mainly with Japan. This is understandable, in view of the volume of mutual trade. Visible trade beween Japan and the United States is running at a total of $8.3 billion; trade between the two countries accounts for 11 per cent of American, and 27 per cent of Japanese, sales abroad.

Trade between the Community and Japan has not reached a level leading to similar mutual dependence. Two-way trade is worth $1.3 billion, and represents only 2 per cent of the Community's and 5 per cent of Japan's external trade. There

Adapted from Commissioner Dahrendorf's address to the European Parliament in Luxembourg on January 19, 1971.

Responding to consumer demand for inexpensive transportation, American car manufacturers met the "foreign import threat" by developing competitive sub-compact models. The Fiat plant at Turin, Italy. PHOTO: *Courtesy Italian Cultural Institute, New York.*

are grounds for supposing that the proportion of exports to total Japanese output will increase. Japan has thus reached the take-off point of a new course in which it is more open to the rest of the world than previously.

It was therefore natural that immediately after its common trade policy came into effect in January 1970, the Community should have sought to put its relations with Japan on a formal basis. On November 10, 1969, the Council authorized the Commission to hold exploratory talks with the Japanese Government about a trade agreement. These talks took place in February 1970 and led to the negotiating mandate of July 20, 1970. Last September it seemed advisable to hold further political talks in Japan. My visit to Tokyo in November 1970 helped clarify bilateral questions and consolidate the contacts already established. The Community hopes that the negotiations will be successfully concluded this year.

Opposition to Japanese economic expansion is partly due to its volume and partly to the style of the expansion, particularly of Japanese exports. According to some, the way in which Japanese exporters, or their Community representatives, seek to secure new markets bears the hallmark of a ruthless policy of conquest. So there are more frequent calls for protective measures against Japan than against others. In addition, Japan itself still applies many restrictions, especially on foreign investments, so it is understandable that there is no great readiness in the member states to give up existing safeguards without any *quid pro quo*.

Meanwhile, Japan—partly in view of such feelings as these—is on the threshold of full participation in the international trade system. The harsh and sometimes emotional criticism of Japanese economic behavior should be invalid in a few years' time. Japanese leaders themselves reiterate their desire to establish good conduct in world trade.

Mutual Trade Ties

Relations between the Community and Japan are still in their initial stage. Japan is cautiously proceeding towards closer international involvement; she sees the Community as a welcome partner—because it does not compromise her politically. The Community seeks, through the settlement of its relations with Japan, a durable solution to the economic stresses which occasionally emerge.

The mutual trade links between the Community, the United States, and Japan mean that a chain reaction is inevitable if one of the three succumbs to protectionist tendencies. In that case the Community would be the hardest hit. The Community depends on free, intensive world trade. This is still not so true of Japan, while the United States' dependence on world trade has been limited. This is the Community's strength and weakness. Protectionism by others would threaten its exports, even if it took the form of a bilateral "voluntary restraints" agreement on exports between Japan and the United States.

But Community exports would also be jeopardized by its own protectionism, even if this were only a temporary retaliation to measures by others. The Community is a champion of free world trade out of conviction and interest. The entire structure of the Community is geared to liberal world trade. The deepening and enlarging of the Community will further strengthen this structure. What the Community wants is a trade offensive of a completely different nature—an interpenetration of the economies of the major developed countries by trade and investments so that the Community's interests of today will be those of all. If this is achieved and if, perhaps, the state-trading countries of the Eastern bloc are brought into such a system, then not just trade wars will become impossible.

Realistic Free Trade Drive Needed

Defensive measures are no help. What we need is a new free trade drive. Not in a dramatic sense. A fresh comprehensive "round" (of negotiations) would probably not accomplish much at the moment. A realistic drive towards liberalization would entail all major world-trade partners re-examining the possibility of making new contributions to opening up world trade by complete implementation of the Kennedy Round; a review of non-tariff trade barriers; and joint settlement of development policy issues, including some separation of development and trade policies.

The Community has always been willing to reappraise its policies on these lines. It feels a special duty to do so at the time of the enlargement negotiations. The major trading and economic unit formed in Europe by enlargement of the Community will be open to the world. The tradition of the would-be members is in itself a guarantee of this. The Community's partners should carry out a similar reappraisal.

U.S. Trade Legislation:

STEPHEN D. COHEN

Fifteen months after President Nixon submitted the first major U.S. trade bill in eight years, the Ninety-first Congress adjourned, having generated considerable debate and effort but no trade legislation. The transition of the President's non-controversial Trade Act of 1969 to the highly controversial Trade Act of 1970 left in its wake polemics, confusion, and threats of retaliation by many major trading partners of the United States. Many observers would like to forget that the great trade imbroglio of 1970 ever happened. It produced a disquieting sense of drift about future U.S. trade policy. Yet it also provided important lessons in the dynamics of U.S. decision-making in the field of international trade.

A "Modest" Beginning

On November 18, 1969, President Nixon submitted to Congress his proposed "Trade Act of 1969"—which he himself described as "modest in scope." The Administration's bill contained four main provisions: limited tariff cutting authority for the President; elimination of the American-selling-price (ASP) system of customs valuation in fulfillment of an earlier Kennedy Round agreement; a modest liberalization of the criteria under which the Tariff Commission could invoke the escape clause or extend adjustment assistance in cases where U.S. companies or workers could prove injury from import competition; and finally, an extension of Section 252 of the Trade Expansion Act of 1962 to give the President retaliatory authority in cases of foreign discrimination against any U.S. export, not just agricultural goods.

Buried in the President's message was a passing reference that the textile import problem was "a special circumstance that requires special measures." This position, so casually and briefly mentioned, was to be the greatest single factor in changing the entire complexion of the trade bill and in producing the near abandonment of the 35-year commitment by the United States to free international trade.

Commitment to Protect Textiles

While a Presidential candidate, Mr. Nixon had made a commitment to the U.S. textile industry to extend to woolens and man-made textiles quantitative import limitations similar to the bilateral quotas contained in the 1961 Long-term International Cotton Textile Agreement (LTA). Man-made textile imports into the United States have grown steeply from their low base in the previous years of this comparatively new and increasingly popular product.

The task of securing voluntary agreements by the major textile-exporting countries of Europe and Asia to restrict the future growth of their textile exports to the United States fell to Commerce Secretary Maurice Stans. In a sense, the success of his task depended on recreating the international economic atmosphere of 1961, which allowed agreement on the LTA, at a time when American economic hegemony was being questioned by even the friendliest of this country's allies.

Reflecting, in part, the fact that total imports of man-made fiber products by value accounted for only slightly above 4 per cent of total U.S. consumption, the Commerce Secretary's chief argument for voluntary restraints centered less on the damage inflicted on the domestic textile industry by imports than on the likelihood that an increasingly restive Congress would act spontaneously and confront the President with legislated textile quotas. Voluntary restraints were considered the lesser of two evils. "I think it would be undesirable ever to solve the problem by unilateral actions," Mr. Stans declared in August 1969. Nevertheless, he made it clear that spiraling imports of man-made textiles threatened to inflict unacceptable damage on a large and important U.S. industry.

In an effort to provide the impetus for a quick, clean, voluntary arrangement, Rep. Wilbur Mills (D-Ark.), Chairman of the House Ways and Means Committee, introduced in May of 1969, a mandatory textile quota bill (which could be superseded by voluntary agreements) limiting all textile imports to the average annual figure in the 1967-68 period. In a sense, Mr. Stans had made a self-fulfilling prophecy. The Administration's attempt to abide by a political commitment was the catalyst for a Congressional march into action.

Growing Disenchantment

The members of the U.S. Congress, as in democratic parliaments throughout the world, are sensitive to their constituents' problems and demands, including protection from import competition. Nevertheless, the strong commitment of the Executive Branch to trade liberalization for the past 35 years has held in abeyance the latent protectionist sentiment in the legislative branch.

The Administration's argument that the size and importance of the textile industry presented a "special" situation might have left undisturbed the sleeping giant of protectionism in Congress had the Administration's trade proposals not been taken up by the House Ways and Means Committee. What originally had been conceived by the Executive Branch as a modest holding action in the area of trade liberalization turned into the right legislative vehicle, in the right place, at the right time for institutionalizing Congress's growing disenchantment with liberal trade.

Many members of Congress had come to believe that there were good reasons to question the liberal trade policy that the successful Kennedy Round of tariff cutting talks had seemingly proven valid. Suddenly, in many offices on Capitol Hill, liberal trade went out of vogue. The post-Vietnam inflation had all but eliminated the traditional American trade surplus, the mercantilist proof of a successful economic policy.

Many former liberal trade advocates suddenly and unilaterally declared the United States to be the world's most open market at a time when its major trading partners were thriving on protectionist policies which openly discriminated against a wide range of U.S. products.

Farm and Labor Support Withdrawn

Besides the damage done by the emaciated trade balance, a major part of the traditional liberal trade constituency—the AFL-CIO and the agricultural bloc—had withdrawn their support. The AFL-CIO's disenchantment was based primarily on its belief that the traditional approaches to international trade had been made obsolete by the proliferation of multinational corporations, the internationalization of technology, and the

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Retrospect and Prospects

increase of "managed economies" abroad. A second, albeit more temporary defection stemmed from a lessening of interest in liberal trade on the part of the U.S. farm bloc. This reflected its preoccupation in 1970 with major revisions in farm legislation, its disenchantment over the European Community's common agricultural policy, and its disappointment with the extent of reductions of foreign agricultural barriers in the Kennedy Round.

In the early summer of 1970, all the elements of a major drama were falling into place. On May 11, the Ways and Means Committee began hearings on the President's trade proposals submitted almost six months previously. For six weeks, the Committee heard testimony from some 400 witnesses. A dramatic climax occurred when Commerce Secretary Stans made a return appearance before the Committee on its last day of public hearings. He said that a solution to the textile import problem was still needed, but apparently would not be forthcoming in the form of a voluntary agreement. Then he said that, "In the absence of agreements with Japan and with other key exporting countries, it is our reluctant judgment that the only means presently available for solving this problem is the textile legislation now before this Committee." The legislation he referred to was the bill introduced by Mr. Mills one year earlier.

The Ghosts of Protectionism

Nothing could better describe the consequence of this reluctant embrace than the old cliché that a Pandora's box had been opened. The ghosts of protectionism now were unleashed. That they had done their work was demonstrated in mid-July, when the Ways and Means Committee reported out HR 18970, "The Trade Act of 1970." It was the most protectionist piece of trade legislation in almost 40 years. The Administration watched helplessly as the Ways and Means Committee blithely ignored its plea to make just one exception to the tenet that quotas were not in the U.S. national interest. The Administration had unleashed pressures which it could not control.

The Committee's bill had added to the President's original proposals, among other things, quotas on most textile and footwear articles, tariff quotas on mink and glycine, and the so-called "Byrnes-Basket" (for its author, Wisconsin Representative John Byrnes, senior Republican on the Committee). The latter provided potential relief to small businesses lacking "political clout" in the form of an arbitrary arithmetic formula. Having liberalized the language of the escape clause far beyond that asked for by the President, this portion of the bill empowered the Tariff Commission to recommend escape clause action by the President in cases where increased imports contributed "substantially" (whether or not such increased imports were the major factor or the primary factor) toward causing or threatening to cause injury to a domestic industry. Such a recommendation to the President would become binding, however, if any of the following "triggering" criteria were met:

- Whether imports constitute more than 15 per cent of apparent United States consumption in the calendar year the investigation was instituted and whether the ratio of imports to consumption for such calendar year increased at least 3 per cent over that ratio for the second calendar year preceding the year in which the investigation was instituted and whether the ratio increased 5 per cent over the ratio for the third calendar year prior to the investigation; or
- Whether as the result of increased imports, domestic production of like or directly competitive products is declining or likely to decline so as to substantially affect the productive ability of the domestic producers, and jobs or hours worked or wages are declining substantially or are likely to decline substantially; and
- Whether the imported articles are offered for sale at prices substantially below those of like or directly competitive domestic products and the unit labor costs to make the imported article are substantially below the unit labor costs of producing like or directly competitive articles in the United States.

American industries and workers who felt adversely affected by imports hailed the bill as a long overdue policy reorientation to a changing international trade situation. Their only complaint was that the bill did not go far enough and allowed the President too much flexibility. Secretary Stans, the most vocal proponent of the bill, called it "a remarkable piece of work." He claimed that it granted the President sufficient flexibility to act in the national interest, and he dismissed as "a lot of nonsense" the argument that the bill would bring on foreign retaliation and a trade war. Instead, he saw the bill as an inducement to other countries to reach voluntary agreements restraining textile and footwear exports, a move which would cause an ebbing of trade problems.

Other official and private statements were sharply critical and often warned of impending disaster should the bill be signed into law. More than 4,000 economists signed an appeal asking the Congress to reject all direct and indirect import controls and urging President Nixon to veto any such that the Congress might pass. In the appeal, the economists asserted that "import controls would be an unproductive and irresponsible answer to the problems and needs of industries and workers seeking Government help against foreign competition. There are serious adjustment problems at home and considerable cause for irritation at the treatment accorded our exports abroad, but the right answer does not lie in triggering a trade war. That would only made a bad situation worse."

The National Chamber of Commerce warned that the consequences of U.S. adoption of artificial restraints on trade would include accelerated inflation, foreign retaliation, stagnation in U.S. industrial competitiveness, and a "progressive cartelization of the U.S. market, inducing stultifying controls which would distort the nation's economy and debilitate the free enterprise system."

In the Ways and Means Committee's Report to the House of Representatives on HR 18970, the dissenting Committee minority called the bill "restrictive, ill-timed, and provincial. It will provide artificial market controls and increase prices. It is inflationary. It decidedly reflects a lack of confidence in the basic worth of our own competitive system. It would be a backward step for America and for the world."

The President's adviser on Consumer Affairs, Virginia Knauer, labeled the trade bill as being in many ways "the most significant anti-consumer legislation now in Congress."

She urged Congress to place the welfare of the nation's consumers "before the welfare of a few individual industries."

Columnists Roscoe and Geoffrey Drummond suggested that the term "trade bill" was a misnomer, because it was an "anti-trade bill." *The New York Times* editorialized that "it would be difficult to conceive of legislation worse suited to the interests of the nation." A *Wall Street Journal* editorial said that "any protectionists who think the trade picture can be improved by curbing imports are kidding themselves. . . . [Consumers] will be compelled to subsidize a lot of businessmen [who] will have less incentive to curb their own costs and seek other ways to become more competitive."

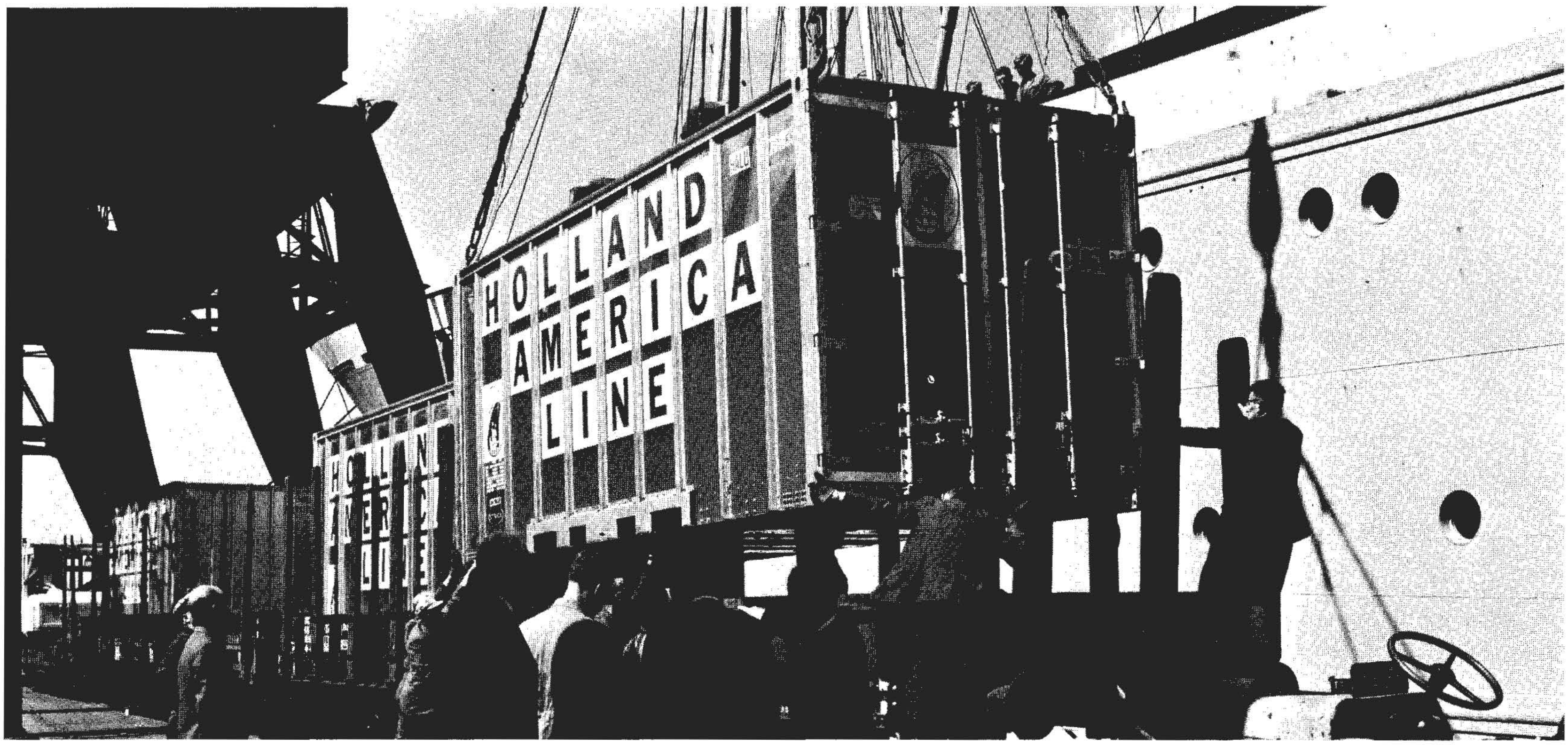
With the latent protectionism of Congress threatening to become blatant, the views of the President assumed vital importance. In his press conference of July 20, 1970, he said that he would "certainly" veto a trade bill which contained restrictive provisions which he had not recommended. Speaking generally, he continued, "mandatory quota legislation is not in the interest of the United States. We are an exporting nation rather than an importing nation." While quota legislation would save some jobs in the short run, in the long run it would cost the United States more jobs in export industries, he said. "Even more important," he added, "it is highly inflationary, as anybody who has studied tariffs and quotas through the years is well aware."

Textiles were excluded from the norm. The President said that, because of the importance of the textile industry, he needed fall-back authority to impose mandatory textile quotas in the event that negotiations on voluntary export restraints with Japan and other countries failed. Undaunted, the House of Representatives passed the Ways and Means Committee's trade bill without change on November 19, by a surprisingly close 215 to 165 vote.

Had the normal legislative timetable been followed, the Senate Finance Committee would have opened hearings following House passage. However, time was running out. The 91st Congress was hoping to go home before Christmas and was required by the Constitution to adjourn no later than the third of January. If the 91st Congress did not send the President a trade bill before adjourning, the 92nd Congress would have to begin the legislative process all over again in 1971. Therefore, to expedite the legislative process, in October, well before the House had passed the bill, the Senate Finance Committee Chairman Russell Long (D-La.) decided to hold hearings, with less than 48 hours' warning, to consider a fundamental shift in U.S. trade policy.

These hearings, on October 9 and 12, were highlighted not only by their brevity but also by the public disagreement between two members of Mr. Nixon's Cabinet. Secretary of State William Rogers said that the protectionist features of the trade bill "would cause serious harm to the United States" and could lead to restrictions on as much as $3 billion of U.S. imports. Considering the potential impact on other countries, Rogers warned that "other governments would not be able to accept passively increased trade restrictions by the United States." Secretary Stans, on the other hand, told the Committee that he doubted whether anything in the bill would result in lost U.S. exports. He argued that the United States could no longer afford its old "soft" trade policy. "We can no longer be the country of great wealth that can hold an umbrella over

U.S. economic policy-makers almost lost an important anti-inflationary instrument in 1970—import competition. Containers being loaded on ships at Eemhaven Docks, Rotterdam. PHOTO: *Courtesy Netherlands Information Service, New York.*



the development of so many other countries," he said.

The Senate Finance Committee on November 30 approved by a comfortable margin, as an amendment to pending Social Security legislation, the essence of the protectionist portions of the bill approved by the House of Representatives. The major difference between the two bills was the Finance Committee's deletion of two provisions supported by the liberal trade community: ASP repeal and creation of the Domestic International Sales Corporation (DISC) to encourage U.S. export growth by giving qualifying U.S. exporters long-term tax deferrals. Many observers felt that these changes represented a further regression from a liberal trade policy.

21 Senators Protest

Senate opposition to the legislation was best expressed in a statement signed by 21 Senators on November 24:

"The great expansion of world trade in the past decade, brought on by our own Trade Expansion Act of 1962, has been of enormous benefit to the American worker, farmer, businessman, and consumer. While there is an unquestioned need for new trade legislation to assist workers and industries which are becoming less competitive on the world market; to hasten the elimination of trade barriers, particularly in Europe and Japan; and to set the tone for world trade policies in the 1970's, it is becoming increasingly clear that such legislation is not possible given the limitations of the post-election session of the Congress.

"It is our sincere belief that a trade bill would cause grave harm to the farmer; would jeopardize employment in many of our most important and significant industries; would impose higher prices on the American consumer, and would do irreparable harm to our foreign policy and to the future of trade negotiations with our major trading partners."

President Nixon, sensing that the situation was getting out of hand, wrote to Senate Republican leader Hugh Scott on December 10, "vigorously" reaffirming his original trade proposals, as well as his support for textile quotas and the DISC provision. The letter criticized the addition of shoe quotas to the bill and warned of the possibility of additional import quotas on numerous other products "because the escape clause in the present law has been loosened excessively." The President wrote that "these changes could have not only harmful short-term consequences within our country, but also, in the long term, they could trigger international trade practices destructive of the economy of the entire free world." However, at no time did the President repeat his intention to veto such a far-ranging bill if passed by Congress over his objections.

Time Runs Out

No protectionist trade legislation was enacted by the Congress in 1970 for the simple reason that time ran out. The Congress had had no second thoughts about the wisdom of legislating textile and footwear quotas and virtually opening the door to utilization of the escape clause. Rather, in the closing days of the special post-Christmas session, the Senate became bogged down in lengthy debates on such topics as trade, the supersonic transport, and military aid to Cambodia. As part of a major effort to clear the legislative logjam, a last minute compromise allowed a vote on the highly popular bill to increase Social Security benefits without the controversial trade amendment. Trade legislation in this session of Congress was dead.

It was a classic case of being saved by the bell.

But, as Mr. Nixon said in his end-of-year letter to Senator Scott, the well-being of the United States requires new trade legislation. The President currently has no authority to lower U.S. tariffs, not even in cases where the United States wants to offer compensation to other countries injured by unilateral withdrawal of past tariff concessions. Clearly, the momentum of international trade will at best be in limbo until additional trade legislation allows the Executive Branch to press forward in international forums with the unfinished business of eliminating artificial barriers to a flow of trade directed by open market forces.

The Lesson of 1970

The lesson of 1970 is that progressive legislation will not be forthcoming unless the President's trade proposals are disentangled from the textile issue. Unless the new Congress has a vastly different organization and temperament from the last Congress, the President is unlikely to be able to sell his concept of liberal-trade-with-just-one-exception. At the same time, it would be a misconception to portray the President as the prisoner of a Congress with a runaway protectionist sentiment. Reference to the Trade Act of 1970 as the "Mills Bill" is a misnomer. While dutifully supporting on the House floor the result of his Committee's deliberations, Mr. Mills strongly favored breaking the textile impasse by using a reasonable compromise as the basis for voluntary textile restraints.

What are the likely alternatives? The textile issue could be solved by an amicable voluntary agreement with Japan and other countries, or the President might achieve his goal of providing protection for the textile industry through use of existing legislation, such as the escape clause or Article XII of the GATT. Or, he might abandon the struggle, having decided that he had already expended sufficient effort to have redeemed his campaign promise. Within the Congress, a textile bill could be passed by itself, or in the form of an amendment to a wholly separate tax or welfare bill in the same manner as the Finance Committee tried to expedite last minute passage of the Trade Act of 1970.

If any of these options materialize, there is an excellent possibility that the protectionist pressures in Congress will return to their latent state. The cries that the United States "is going protectionist" may well turn out to be premature. Undoubtedly the pressures for a modification of this country's commitment to liberal trade will continue to be intense and widespread. Although the constituency for liberal trade in effect includes every American consumer, organized lobbying pressures still favor the minority of industries and workers who feel adversely affected by imports.

But the single most critical factor affecting the course of U.S. trade policy will be Presidential leadership. Only Mr. Nixon can snap shut the Pandora's box. If he chooses to divorce the textile problem from the normal course of progressive trade legislation, the unhappy events of 1970 will not be repeated.

The CAP's Last Chance

THE MEMBER GOVERNMENTS of the European Communities have been given one last chance to save their common agricultural policy (CAP). They must now decide between the gradual renationalization of agriculture or closer integration through a common commitment to changing the structure of farming.

At its February 15-16 meeting in Brussels, the Council of Ministers had an initial exchange of views on a new proposal from the Commission, bluntly stating the case: any country that wants price increases, however slight, must also support reform of the basic structure of farming.

Farmers' Discontent Mounting

Recent farmers' demonstrations, seeking price increases, reflect the Community's basic farm problem: too many people are working too many small farms and earning too little money for their efforts. The longer reform is put off, the more farms, of every size, are running into trouble.

Unrest in poor farming communities is rising. Farm prices have remained fairly stable for more than three years while prices of manufactured goods have risen steadily, reducing wealthy farmers' profits available for reinvestment and cutting into money poor farmers need to feed, shelter, and clothe their families. Since the Community has done nothing to solve these problems, the member states have begun to take measures to help out the poorest of their farmers, thus jeopardizing the workable parts of the common agricultural policy.

Two-Year Delay Damaging

Two years ago, in December 1968, a ten-year program to rectify this situation was put forward in the Commission's memorandum on agricultural reform, dubbed "The Mansholt Plan" for its main architect, Commission Vice President Sicco L. Mansholt. The first legislative proposals to carry out structural reform, submitted in April 1970, are still before the Council. *(See European Community No. 135, pages 7 and 8.)* These proposals offer incentives to farm modernization and consolidation; to switching out of the production of milk, a surplus commodity, into meat production; to encourage farmers to leave the land, by offering old-age pensions to those over 55 years of age; to offer temporary non-planning incentives; to teach those who remain on the land modern farming techniques, and to encourage the formation of producers' cooperatives.

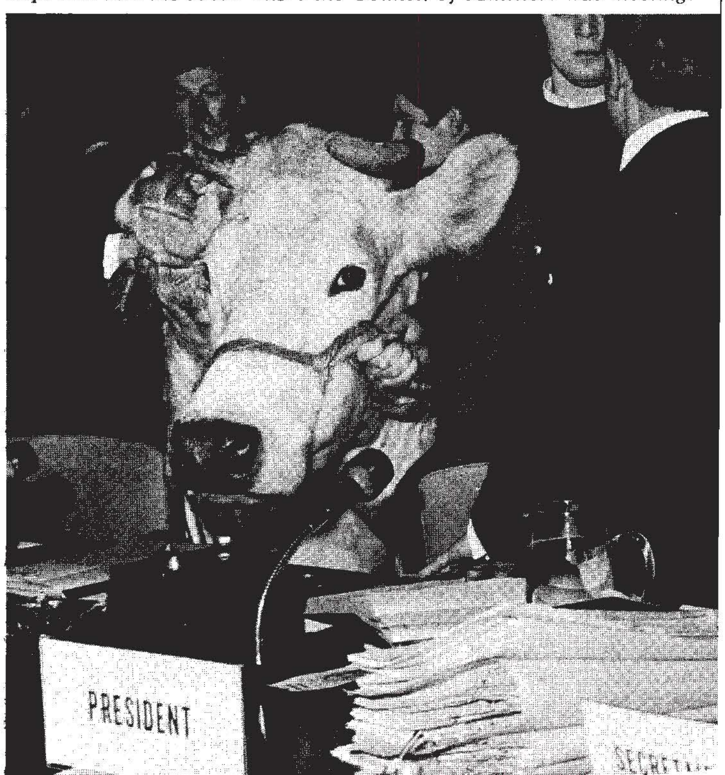
Effort to Break Stalemate

In an effort to break the stalemate, Mr. Mansholt invited the six member governments' ministers of agriculture to an off-the-record meeting in the Val Duchesse Chateau outside of Brussels, on December 1, 1970. From this informal exchange of views, the member governments' priorities within the farm reform package emerged. Before approving the new proposals, embodied in the new price-increase-with-structural-reform draft resolution now before the Council, the Commission was able to consider the views expressed informally by the member governments, thus improving the chances of passage.

Structural Reform and Prices

The proposals made last April remain basically unchanged, but with their passage, small increases in farm prices will be allowed.

Young Belgian farmers expressed their dissatisfaction with the Commun
steps and into the room where the Council of Ministers was meeting.



ommon agricultural policy by leading three cows up several flights of

For the 1971/72 grain season beginning on August 1, the Commission has proposed a 2 per cent increase in the price of soft wheat and a 5 per cent increase in the price of barley. Supplements would also be raised for the costs of stocking. These measures would lower the price gap between soft wheat and barley by 3 per cent and encourage their use as animal feeds.

Poor pastures this past season have increased the costs of dairy farming. As a result, the Commission felt forced to allow a 5 per cent increase in the cost of milk.

To encourage beef production, the Commission proposed a price increase of 5 per cent this year and 5 per cent next. This increase, together with the slaughter premium offered on small dairy herds, should give dairy farmers an incentive to replace milk cows with beef cattle. Special premiums are also being paid for mating milk cows to pure-bred beef cattle, such as Charolais.

For sugarbeets, the Commission is recommending slight price reductions. In view of the high sugar yield and the Community's international sugar commitments, the Commission thinks that only a price reduction can help to maintain the status quo.

Basic Reform Innovations

In addition to the measures proposed last April, the Commission now suggests that farmers between the ages of 45 and 55 who have no alternative but to remain on the land should receive an income supplement of $400 a year. If these farmers accept this supplement, they must promise to make their land available to the farm reform program upon reaching the age of 55 and to accept an annual pension of $1,000. Younger farmers would receive vocational training and allowances during their training to allow them to switch to another occupation.

Agricultural investments give a relatively low rate of return in comparison with industrial investments, yet the larger the farm, the more heavily must the farmer invest. For this reason, the Commission would like to grant rebates of up to 6 per cent of the interest payments on investments to finance producers' cooperatives and to modernize large farms. The farmer or cooperative would pay 2 per cent of the interest charges. The main criterion for granting an interest rebate would be a farm's development capacity as indicated by its profit per worker. The Commission thinks each worker should produce $10,000 to $12,000 in net profit, depending on farming conditions in each region. (The Parliament disagrees. *See page 20.)*

Aid According to Need

The Community's farm fund would pay up to half the costs of financing agricultural reform measures; the individual member countries, the remainder. However, since the poorest agricultural regions are the least able to finance farm reform, the Commission plans to ask the Council to vary the amount of the farm fund's contribution according to need. In those areas, the farm fund could pay up to 75 per cent. Initially, this policy would favor development in southern Italy and in the west and southwest parts of France, but in the long-run, their growth will benefit the entire Community.

If the Council accepts these proposals which were slated for discussion at its March 8-9 meeting, the common agricultural policy will again become a flexible economic and social instrument. If the decision is negative, it will die a slow death.

Negotiations: Cause for Optimism

The political will motivating both the Six and the British justifies reasoned and reasonable optimism about the outcome of the negotiations for British membership in the European Communities. Agreement has been reached on a wide range of issues, summarized below. If the rapid rate of advance achieved in the opening weeks of the negotiations has slowed down, it is because the negotiators have reached the hard core of the problems.

SINCE THE INITIAL MINISTERIAL MEETING in Luxembourg on June 30, 1970, negotiations have been conducted at four levels:

• Experts from the member governments, the applicant countries' governments and the Commission have been working constantly to pare problems down to their essentials and to lay the basis for political agreements.

• Independently of its right to initiate measures, the Commission has agreed to study and analyze data supplied by the British Government.

• The six member states' Permanent Representatives in Brussels and a British team led by Con O'Neil have been holding preparatory negotiations twice a month. These ministerial deputies discuss in detail all the points that they have been asked to consider by the ministerial conference.

• About every six weeks the ministers themselves meet. To date, four ministerial meetings have been held. Another was scheduled for March 16.

The joint negotiating position of the Community countries, as set out on June 30, 1970, provided for:

• the applicant countries accepting the Community Treaties and subsequent legislation

• institution of a transition period for the removal of internal tariff barriers, the introduction of the common external customs tariff, and the adoption of the mechanism and prices of the common agricultural policy; problems in these matters to be solved during the transition period

• enlargement and other appropriate changes in the composition of the Community institutions (Commission, Council, etc.)

• discussion of economic and monetary union, including the U.K.'s balance of payments, sterling balances, and the role of sterling as a reserve currency

• discussion of some problems concerning the European Coal and Steel Community (ECSC) and the European Atomic Energy Community (Euratom).

• Association of British dependent territories with the enlarged Community, the offer to independent Commonwealth countries in Africa of association under the Yaoundé Convention or a similar agreement, generalized preferences for Asian members of the Commonwealth, the ending of Commonwealth preference for developed Commonwealth countries (though the special problem of New Zealand was acknowledged), and consideration of whether West Indian Commonwealth countries should be offered association or whether their problems could best be settled by agreements for specific products (e.g., sugar).

Preliminary Agreements

The second ministerial session marked the first agreements reached between the Community and Britain. The points settled were:

Annual Review of Agricultural Prices. The British agreed to the Community procedure for fixing prices. This procedure is fairly flexible, to meet British wishes.

Community Regulations for Liquid Milk, Pork and Eggs. Following an exchange of views on the interpretation of Community regulations, the British accepted the regulations.

Dependent British Territories. The ministers announced their agreement in principle—subject to the special cases of Hong Kong, Gibraltar, and New Hebrides—on an association of these territories with the enlarged Community, similar to Treaty provisions associating the overseas dependent territories of the Six.

Common Trade Policy. The ministers noted that there was no problem in U.K. acceptance of the common external trade policy. Reciprocal exchange of information was agreed on. Britain undertook that, after becoming a member, any bilateral agreements it reached during the negotiations would be subject to Community rules.

During the third ministerial conference on December 7-8, 1970, the Six and the British agreed on:

European Investment Bank. The U.K. would contribute the same amount of capital as do Germany and France.

Status of Certain Independent Developing Commonwealth Countries. Gambia, Ghana, Kenya, Malawi, Nigeria, Sierra Leone, Tanzania, Uganda, and Zambia would be offered a form of association with the enlarged Community.

During the fourth ministerial conference held on February 2, 1971, the Six and the British agreed on the trading system to be offered to certain Commonwealth countries:

Developing Nations in Asia. The U.K. imports from India, Pakistan, Ceylon, Malaya, and Singapore would not be subject to the gradual application of customs duties under the common external tariff of the enlarged Community, if these imports came under the system of generalized preferences. The enlarged Community would, if necessary, examine any problems connected with the application of generalized preferences being introduced by the industrial countries. It would also consider the interests of other nations in the same region.

Hong Kong. The solution would be the same as for other Asian members of the Commonwealth (generalized preferences), except for textiles and footwear, and special procedures for "sensitive" products. This agreement would be subject to an examination of certain technical procedures, particularly the definition of origin.

New Hebrides. Associated status would be envisaged for this territory, which is administered jointly by France and Britain.

Botswana, Lesotho and Swaziland. These countries would be offered the same choice (a form of association with the enlarged Community) as the other developing African Commonwealth countries. This would be subject to a solution of the problem of definition of origin, to avoid the risk of exports from South Africa by-passing the Community's common external tariff; these three countries form a customs union with South Africa.

Financing Gap

Although the fourth ministerial meeting ratified a number of agreements, particularly on certain Commonwealth countries, it also showed up the gap between the Six and the British over the financing of Community expenses, particularly the U.K.'s.

Compromise on the transition period, particularly the question of agricultural financing, does not appear imminent. At this stage, it is the major issue of the negotiations.

The United Kingdom and the other three applicants could not overnight become an integral part of the Community's customs union, where there is unrestricted movement of manufactured and agricultural products between member states, and which has outlined, and in some cases (such as agriculture) carried out, common economic policies. A transition period is therefore necessary.

The Six gave themselves a twelve-year transition period to reach this stage, from January 1, 1958, to December 31, 1969. The customs union was achieved by July 1, 1968, 18 months before the date specified in the Common Market Treaty.

In this field the first questions that arose between the Six and Britain were whether the transition period should be the same for agriculture and industry, and how long the transition period or periods should last. The Six favored a single period of the same duration for both sectors. The British, on the other hand, asked for a three-year transition period for their industry, and a six-year period for their agriculture.

At the third ministerial conference on December 7-8, 1970, the Six and the British agreed with the Commission's views on the subject, i.e. that there should be a period of equal duration —five years—by the end of which there would be unrestricted movement of both industrial and agricultural goods.

However, more complex aspects of the problem remained. At a Council session on October 27, 1970, the Six had asked the Commission to submit an overall report on the transition period.

On November 17, 1970, the Commission sent a note to the Six, recommending a uniform transition period of five years. This period would be long enough to enable the British to adapt smoothly, and short enough to ensure that the full dynamic effect of membership could be felt, and a homogeneous Community of Ten achieved as soon as possible. By the end of the transition period, 1978, the system of the Community's own budgetary resources would be fully applied, marking an important milestone in Community development.

Agriculture

The Commission suggested a mechanism involving:

- the introduction by the U.K. of market organization mechanisms when it became a member
- a pre-planned five-year program for bringing prices closer into line
- transitional measures for inter-Community trade (levies and refunds to offset price differences) would gradually disappear as prices become comparable
- transitional mechanisms for trade with non-member countries (elimination of quotas, application of EC preferences, etc.)
- a shorter timetable could be envisaged for products for which Britain would abolish its deficiency-payments system.

Customs Union

Customs duties should gradually be eliminated between the Six and the Four, and a common customs tariff applied in stages to non-member countries by the member countries. The Commission suggested a reasonable parity between the agricultural and the industrial sectors. It advocated the balanced abolition of tariffs over five years. A substantial reduction in tariffs should be made at the beginning (25 per cent), followed by another reduction within the same year.

The British tariff would not be aligned immediately on the common external tariff. The Commission's viewpoint was based on the mechanisms of the Rome Treaty, which lays down that national tariffs should move towards the common external tariff when a certain level in internal reductions has been achieved. The first step towards alignment would occur, at the latest, one year after membership. The system recommended would result in a sufficiently progressive timetable and ensure parallel progress between internal reductions and alignment on the common external tariff.

At the ministerial conference on February 2, 1971, it was envisaged that the progressive introduction of a customs union between the Six and the United Kingdom—on the assumption that the latter became a member on January 1, 1973—would consist of five reciprocal tariff reductions of 20 per cent on April 1, 1973; April 1, 1974; January 1, 1975; January 1, 1976; and July 1, 1977.

The U.K. would introduce the common external tariffs in four stages: a 40 per cent reduction on January 1, 1974, and three 20 per cent reductions on January 1, 1975, 1976 and 1977 respectively.

Financing Community Policies

In this way, Britain would at the same time contribute to the expenditure and benefit from the revenue of the enlarged Community.

The Commission's objectives here are: "progressivity," meaning that Britain's contribution to financing the Community and its resources would ensure the general rate of progress of Britain's integration in the Community. As Britain would contribute to Community expenditure in a normal way, it would also help to finance the resources. Finally, and most important, as rapid progress as possible should be made towards a homogeneous Community of Ten.

In view of these preoccupations, the Commission recommended mechanisms and commitments regarding the financial aspects of Britain's participation. The Commission envisaged two types of solution:

The first, which would have the advantage of simplicity and clarity, would consist of Britain's "catching up" with the system of the Community's own budgetary resources (direct Common Market revenue) established by the Six on April 22, 1970.

If the present Community system were to be applied to the U.K., the initial level would have to be sufficiently high to enable Britain to reach a normal level by the end of the transition period. The U.K.'s initial contribution could be about 21.5 per cent, between the levels of the German and French contributions. The exact amount of Britain's final contribution could not be stated. The Commission felt that this system would make it possible to apply normal Treaty regulations without too great an impact.

A second system envisaged by the Commission had the advantage of pitching Britain's contribution at a lower initial level, between a floor and a ceiling. This "two-pronged" formula would also make it possible to apply normal Treaty regulations smoothly and progressively. This "framework" might place the British contribution at between 10 and 15 per cent in the first year of the transition period. (The latter system, known as the "progressive" system, appears to have more support.)

The Commission emphasized that the first system would be viewed more favorably from the point of view of institutional life. In mid-December 1970, the British proposed an initial contribution of about 3 per cent in the year following membership, rising to 15 per cent by the end of the transition period.

During the meeting with British representatives on February 2, 1971, the Six were unable to adopt a joint position (with figures) in response to the U.K. views expressed in December 1970. The spokesman for the Six, however, voiced the following common principles:

• The Community noted with satisfaction that Britain accepted the present system of the Community's own resources and did not ask for adaptations or changes.

• Unimpeded progress toward full application of the system of Community resources should be based on the three components of the system—farm-import levies, customs duties and a fraction of the common turnover tax (TVA) (or, instead, a budgetary contribution based on gross national product). The method of applying this progressive system would be covered by a later Community proposal.

Newsmen, anxious to hear of progress in the membership negotiations, crowded around French Foreign Minister Maurice Schumann after the Council of Ministers adjourned on February 2.

• There should not be too great a jump between Britain's contribution in the last year of the transition period and that likely thereafter when the system of Community resources was applied automatically and in full, nor should there be too rapid a rise during the transition period. To achieve this aim, while at the same time ensuring progressivity, the initial contribution of applicant states should be determined.

Britain reiterated its position on Community financing, as expressed in December 1970. The Six noted Britain's declarations.

Special Cases

Sugar: Britain's quota commitments to the Commonwealth expire at the end of 1974, when the transitional provisions on the Community's sugar market organization are due to end and the second Yaoundé Convention is due to be renegotiated. This being so, the Commission considers that it would be better to defer consideration of the problem as a whole. Britain would honor its quota commitments for five years. The Community would continue its present agricultural policy; however, the enlarged European Community would have to discuss the whole of its sugar policy, making adequate allowance for developing countries (in the Commonwealth or among the Community's 18 associates in Africa). In exchange, Britain would have to undertake not to increase its national production during the transition period.

New Zealand Dairy Products. The British market is essential for New Zealand butter exports which benefit from certain commitments on quantities and prices. On the other hand, it would be difficult to envisage permanent and limitless exceptions. They would not be easy to defend in the General Agreement on Tariffs and Trade (GATT) (New Zealand is not considered a developing country) and would constitute a dangerous precedent. However, New Zealand's interests must be borne in mind in the negotiations.

Consequently, the Commission proposed:

• a reduction by half of Britain's quota commitments for New Zealand butter exports over five years, together with complete abolition of quantity commitments for Cheddar cheese by the end of this period;

• on enlargement of the Community, negotiation of an international agreement on dairy products. If no world agreement of this type had been arrived at by the end of the five-year transition period, the enlarged Community would decide what measures should be taken (for example, of a financial nature).

Institutional Aspects

It is evident that applicants should be entitled to participate fully in decision-making as soon as they become members. However, there is the question whether new member states should take part in certain decisions that do not apply to them. The Commission considers it impossible to distinguish between decisions applicable to applicant states and decisions not applicable to the new member countries, because Community decisions affect all countries. The Commission therefore favors full participation by the new member states from the beginning in the institutional life of the enlarged Community, to the extent that the transition period would involve precise mechanisms and a precise timetable.

The Mediterranean Non-Policy

President Nixon and the European Parliament agree on one thing: the European Community's preferential and association agreements with Mediterranean states are not satisfactory. Agreement ends there, however.

In the eyes of the United States, the Community's preferences tend to be discriminatory and contrary to the principle of free trade. The European Parliament, and particularly its Political and Foreign Economic Relations Committees, think that the agreements should be coordinated and combined with a common development aid policy within the context of a broader conception of the European Community's political role in the Mediterranean.

The Political Committee of the European Parliament published its opinion on the Community's political responsibilities in the Mediterranean, on February 8. In its statement, the Political Committee took note of, and generally agreed with, the suggestions of the Parliament's Foreign Economic Relations Committee, which were as follows:

- orient Community commercial policy in the Mediterranean by product rather than by individual country for greater harmonization
- grant technical and financial development aid on a regional basis similar to the Yaoundé Convention for the 18 associated African countries
- begin informal consultations with the Mediterranean states regarding the harmonization of production and markets, labor migration into the Community, and an offer of Community technical aid.

Toward a Stable Mediterranean

The European Community has a vital interest in the maintenance of peace in the Mediterranean. According to the Political Committee of the European Parliament, the Community and the other Mediterranean countries should have primary responsibility for peace-keeping in that part of the world. France and Italy border on the Mediterranean; Germany, Belgium, the Netherlands, and Luxembourg have become Mediterranean neighbors through membership in the Community.

The Political Committee saw two threats to peace in the Mediterranean: the Middle East conflict and the presence of the Soviet navy, including the installation of bases for the Soviet fleet in certain Mediterranean countries. If the Community had been a political power early enough, it might have been able to prevent the establishment of enemy positions by the two superpowers in the Mediterranean, with its attendant danger of provoking a world conflict, the Committee said.

The Community is not yet, however, a single political unit and its limited tariff preferences cannot by themselves play a decisive role in maintaining peace in the Mediterranean. On the other hand, the proper commercial policy might help to bring about solidarity among the Mediterranean countries by making them aware of their common interests.

The Politics of Economics

Diversity in the current preferential agreements with Mediterranean countries has various sources. The political affinity of the Community for certain of these states, the political and economic interests of the Community as a whole, and the interests of certain influential member states helped to determine the nature of the agreements. There was also initially, perhaps, a tendency to catalogue the countries according to the level of "democracy" in their government and to encourage them at the same time to make the desired political changes. The Political Committee doubted that these methods helped to obtain the desired objective.

The Political Committee supported the suggestions of the Foreign Economic Relations Committee for better policy coordination. The restructuring of commercial policy with effective technical aid coordinated for the whole region and multilateral consultations among the Mediterranean countries on a variety of questions would meet the necessary conditions for peace and harmony in the Mediterranean basin, the Committee said.

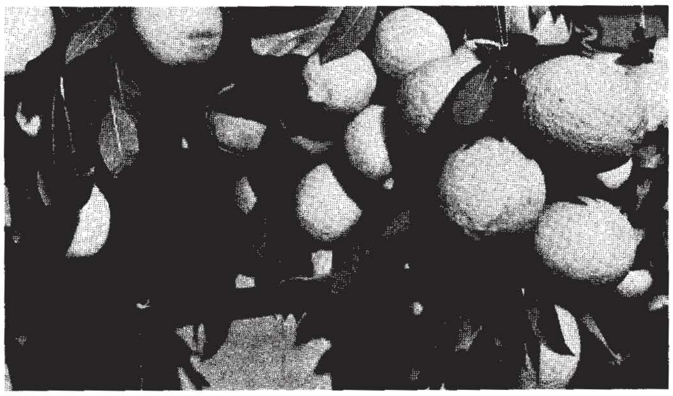
A common development policy toward this area is particularly important. The Committee referred to the opinion expressed by Commissioner Ralf Dahrendorf before the Political Committee on November 30, 1970: that contributing to the Arab countries' industrial development would ease the search for a solution acceptable to all parties involved in the Middle East conflict. At the same time, the Committee said, Community member states should refrain from pursuing independent development policies that conflict with the Community's policy.

Maghreb Also is Concerned

The Community is not the only group concerned with Mediterranean stability, the Political Committee stated. The Tunisian magazine "Young Africa" recently proposed the conclusion of an agreement between Italy, France, and Spain on the European side and Tunisia, Algeria and Morocco on the African side to:

- prepare a common defense of the Mediterranean north of Gibraltar and Sicily
- help the Maghreb (the North African states) preserve their independence from military blocs to the point of keeping foreign military bases out of their territory.

This proposal, which would have been unthinkable only a few years ago, the Committee said, shows that other Mediterranean states are becoming more and more aware of the need for tightening regional cooperation, possibly including an alliance of all Mediterranean states to preserve their independence.



COMMUNITY NEWS

MALFATTI TO SEE NIXON

Franco Maria Malfatti, President of the Commission of the European Communities, will meet President Richard M. Nixon on April 6, 1971, at the White House, it was announced on February 22 in Brussels. The visit of President Malfatti follows an invitation by President Nixon.

During his official visit to Washington, President Malfatti will also have other meetings with high Administration officials.

1970: INCREASE IN U.S. TRADE WITH COMMUNITY

U.S.-Community trade grew by 21 per cent between 1969 and 1970.

According to figures released in February by the U.S. Commerce Department, U.S. agricultural exports to the European Community increased by 23 per cent in 1970.

U.S. TRADE WITH THE EUROPEAN COMMUNITY *(in millions of dollars)*

Category	*1970*	*1969*	*Increase Percentage*
Total U.S. Exports to Community	8,325	6,875.1	21
U.S. Agricultural Exports to EC	1,558.8	1,268.6	23
Total U.S. Imports From Community	6,611.8	5,800.1	14
U.S. Agricultural Imports from EC	423.5	362.9	17

GERMAN PUBLIC FAVORS U.S. TIES, OSTPOLITIK

The attitude of the German public toward the Soviet Union has changed dramatically since 1953, but not towards the United States, which is still the favorite.

A recent opinion poll conducted by the Institut für Demoskopie d'Allensbach (Germany's equivalent to Gallup) found that Germans favor close cooperation with the United States, France, Britain, and the Soviet Union in that order. Since 1953, Italy, Japan, and Spain have dropped below the rating for the Soviet Union.

Whereas in 1953 18 per cent of those polled favored close cooperation with the Soviet Union, 52 per cent do today. The United States has consistently remained the "most favored" nation in German eyes—8 out of 10 Germans favoring close ties with their nuclear NATO partner—except in 1967, when French ties were more popular.

Franco-German Relations

France and Britain both lost popularity in 1956 at the time of the Suez Crisis. France has become increasingly important to the Germans since 1953, however, varying from a 55 per cent to a 75 per cent rating by those polled who favor close ties. Britain's rating is the same today as in 1953—62 per cent.

The growth of Soviet popularity reflects popular German support for Chancellor Willy Brandt's new *Ostpolitik*, policy toward the East. The change was particularly dramatic during 1970: in April only 32 per cent of those polled favored close ties with the Soviet Union, while in November 52 per cent did.

QUESTION: *With which of the following countries should we cooperate most closely?*

(percentages of favorable replies)

	1953 Mar.	*1954 Aug.*	*1956 Dec.*	*1959 Sept.*	*1962 June*	*1963 Aug.*	*1967 Jan.*	*1970 Apr.*	*1970 Nov.*
United States	83	78	84	81	82	90	72	80	86
France	55	46	42	48	60	70	76	58	75
Great Britain	62	58	39	49	54	65	52	50	62
U.S.S.R.	18	22	18	31	22	27	41	32	52
Japan	42	35	31	32	31	31	22	28	43
Italy	44	34	30	31	36	30	22	22	36
Poland	11	11	17	25	22	27	27	19	35
Israel	15	13	9	19	18	17	16	14	24
Spain	50	42	28	27	27	20	18	12	23
Other countries (not a precise response)	8	14	11	13	12	3	3	2	2
	388	353	309	356	364	380	349	317	437

U.S. REAFFIRMS SUPPORT FOR U.K. MEMBERSHIP

U.S. support for enlargement of the Community was reaffirmed in Brussels in January by U.S. Assistant Secretary of State for Economic Affairs Philip H. Trezise. He said that the United States coupled its support for an enlarged Community with a determination to protect its trade interests.

Mr. Trezise headed an American delegation which held talks on January 18 and 19 with Community officials on trade policy questions. The consultations, described by both sides as frank and cordial, were primarily a follow-up of talks held in Washington last October with Community officials.

Mr. Trezise said that a major U.S. concern was the prospect of the extension of the Community's common agricultural policy to Britain at current Community price levels. In this eventuality, U.S. officials have expressed concern about damage to U.S. agricultural exports, particularly grain. There was also anxiety, he added, about the possible inclusion of Commonwealth countries in the Community's system of association agreements, which provide for preferential trade arrangements.

The U.S.-Community consultations centered on the Community's new tobacco regulations, which give preferential treatment to Community-produced tobacco, and on those espects of the Community's agreements with Morocco, Spain, Israel, and Tunisia that give preferential treatment to citrus fruit exported to the Common Market from these Mediterranean countries. The United States is a major exporter of both tobacco and citrus fruits.

The United States considers the preferential arrangements with the four Mediterranean countries as inconsistent with the regulations governing the General Agreement on Tariffs and Trade (GATT) in Geneva. Mr. Trezise indicated that the United States was prepared to take the tobacco and citrus issues to the GATT, but would prefer "to resolve the matters bilaterally" with the Community. He noted the continuing expansion of U.S.-Community trade. U.S. exports to the Community in 1970 reached an estimated $8 billion, giving the United States a projected trade surplus of about $2 billion.

CORRIGENDUM

The graph "EC Trade with the United States" on page 24 of the February 1971 issue, the line labelled "EC Exports to USA" should read "EC Imports from USA," and vice versa.

EUROPEAN CHEESES FAIL U.S. ENTRANCE EXAMS

U.S. sanitary controls have been keeping some European cheeses out of the United States.

The Commission of the European Communities on February 16 said that it had asked the General Agreement on Trade and Tariffs (GATT) to decide whether U.S. sanitary controls on cheese imports constituted a non-tariff trade barrier. Answering a written question from Mariano Pintus, Italian Christian Democrat member of the European Parliament, the Commission also said it intended to raise the question in bilateral talks.

Contradictory U.S. Analyses

European cheeses of various types were rejected by the U.S. Food and Drug Administration in 1969 and 1970 for containing too high a pesticide residue. Noting the large lots of Italian cheeses that were rejected, Mr. Pintus stated that U.S. laboratories use different methods of analysis which often lead to contradictory results, rejecting portions of a shipment of cheeses from a single area, while authorizing the importation of the rest. European cheese producers cannot test their cheese before export because U.S. labs are not consistent in the substances for which they test, Mr. Pintus said.

TRADE WITH EASTERN EUROPE: COMMON FRONT?

Bilateral trade agreements with East European countries constitute one of the major dilemmas facing the European Community's common commercial policy.

In reply to a question from Cornelis Berkhouwer, Dutch Liberal member of the European Parliament, the Commission of the European Community stated on February 16 that the reinforcement and expansion of commercial and economic relations with the countries of Eastern Europe would serve the interests of peace in Europe. In the absence of a common commercial policy for this geographical area, renegotiation of member countries' bilateral trade agreements with Eastern Europe is subject to Council approval.

Asked whether the Commission and the Council for Mutual Economic Assistance (COMECON) might usefully negotiate directly with each other, the Commission suggested that it would be difficult. The two institutions are organized and oriented in entirely different ways. COMECON, lacking anything comparable to the Commission, merely coordinates national production plans within Eastern Europe.

COMMON TAX RATE PROPOSED ON NEW CAPITAL

A common tax rate of 1 per cent on new corporate capital was proposed by the Commission of the European Communities on January 29.

A rate of .5 per cent was proposed for capital transfers involving regrouping of companies. If passed by the Council of Ministers, these new rates would become effective on January 1, 1974.

The United States does not tax new corporate capital which is considered to be a productive investment. In its proposal, the Commission noted that this tax did not make economic sense. For this reason, the Commission decided upon the rates of 1 per cent and .50 per cent, both low enough to allow the common capital market to develop but high enough to take the member states' budgetary needs into consideration.

COMMISSION SUGGESTS NEW FEED REGULATIONS

The European consumer may soon be better protected from the effects of contaminated animal feeds.

To complete the harmonization of animal feed regulations, the Commission of the European Community has proposed two new regulations to the Council. One would fix maximum percentages of "undesirable" substances in animal feeds, while the other would regulate the sale of feeds.

The Council established a permanent committee on animal feeds in July 1970 and issued a directive on sampling and analysis methods for inspecting these feeds. In November 1970 another directive was issued to regulate additives.

The new proposals would place limits on acceptable quantities of undesirable substances in animal feeds. Some substances, as arsenic in hay, exist naturally in the products used to prepare the feeds and cannot be eliminated entirely. The proposed regulations would also define various animal feeds and fix quality standards for them. A uniform labeling system is suggested for all feeds.

INSPECTIONS, HEALTH REGULATIONS FOR MILK

Cows may soon need the European Community's stamp of approval at least once a year, and their milk once a month.

The Commission of the European Communities submitted two new proposals to the Council on February 5 suggesting health regulations for both raw and pasteurized milk. The regulations would help to remove current obstacles to trade caused by varying legislation in this field among the member states.

The regulations, if adopted by the Council, will become effective immediately for exports and by 1975 for domestic milk. All cows will undergo an annual udder inspection and their milk will be analyzed at least once a month. Dairies will also need special authorization. Member states may refuse to import below-standard milk. However, the exporter may protest and call for an inspection by a neutral expert. Each state will be required to notify the other states and the Commission of an epidemic outbreak. Where there is a danger of an epidemic, other states may close their borders to milk from the affected area or the whole country.

Quality grades for milk and milk products may be established later.

THE MONTH IN BRIEF

February 1971

1 The Council of Ministers met in Brussels mainly to discuss progress in negotiations for the United Kingdom's membership in the Community *(see page 14).*

• The common fisheries policy came into force. *(See European Community No. 140, page 24.)*

2 Negotiations with the United Kingdom continued in Brussels at ministerial level.

5 The decision reorganizing the European Social Fund came into force. *(See European Community No. 141, page 21.)*

8-9 The Council of Ministers agreed to go ahead with plans for achieving economic and monetary union before 1980 *(see pages 3-5).*

8-12 The European Parliament met in Strasbourg, France *(see page 20).*

15-16 The Council of Ministers met to continue discussions of plans to reform the structure of farming *(see page 12).*

17 Negotiations continued with Austria for an "interim agreement," valid until overall arrangements could be made on relations with other members of the European Free Trade Association that have not applied for Community membership.

• German Foreign Minister Walter Scheel met with President Richard M. Nixon at the White House.

20 Italian Foreign Minister Emilio Colombo ended a three-day visit during which he met with President Nixon at the White House.

23-24 Membership negotiations continued with the United Kingdom at deputy level, and Commission President Franco Maria Malfatti began a three-day official visit to Norway.

POLICY CHANGES DEBATED IN EUROPEAN PARLIAMENT

Forthcoming changes in Common Market commercial, industrial, and agricultural policy occupied the European Parliament, meeting in Strasbourg on February 8-15.

A report dealing with the European Community's commercial policy in the Mediterranean Basin was presented the second day of the session by André Rossi (French Liberal) speaking for the Parliament's Committee on Foreign Economic Relations. Mr. Rossi stated that the Community's economic agreements with countries in the Mediterranean area failed to meet the region's development needs. Other speakers concurred, asserting that the Community's political presence in the Mediterranean basin was not related to its commercial policy. Solutions proposed included the adoption of a commercial policy based on products rather than countries (*see page 17*).

Dahrendorf Differs

Ralf Dahrendorf, member of the Commission of the European Communities, stressed the importance of interdependence as a guarantee of the complete independence of the Community's trading partners. He recommended a wider aplication of the Six's Mediterranean policy and cooperation beyond the purely commercial framework.

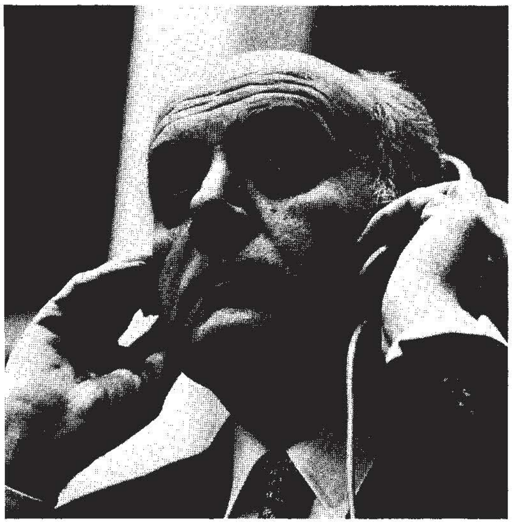
After debate, the Parliament adopted a resolution urging the member states' foreign ministers to develop a coherent policy towards the Mediterranean countries. Special

Commission President Franco Maria Malfatti

Michel Cointat, French Gaullist member of the European Parliament

Roland Boscary-Monsservin, French Liberal member of the European Parliament

Hans Richarts, German Christian Democrat member of the European Parliament



Commission member Altiero Spinelli

Commission Vice President Sicco L. Mansholt

Commission member Albert Coppé

attention would be given to coordinating efforts to preserve peace which the Parliament feels is jeopardized by the heavy concentration of military force in the area.

Industrial Policy Discussed

Common Market industrial policy was also the subject of prolonged debate, on the basis of a report presented by Parliament member Gerd Springorum (German Christian Democrat) on a Commission memorandum to the Council of Ministers.

Mr. Springorum felt it was too soon to assess the effectiveness of the Community's industrial policy. He did, however, recommend that member states try to correlate industrial policy more closely with general economic policy and suggested three points of possible action for the Community:

- removal of obstacles to the development of enterprises of a European scale
- elimination of protectionist measures
- cultivation of an awareness of industrial development's effects on society as a whole
- enactment of laws at the Community level to combat pollution and the destruction of natural resources.

Competition and Concentration

Also discussed at length were problems created by economic competition and concentration within the Common Market. Albert Borschette, Commission member with special responsibility for competition policy, commented on a report on this subject by Cornelis Berkhouwer, Dutch Liberal member of the European Parliament.

Mr. Borschette said it was the responsibility of the press to publicize Commission decisions on competition. He endorsed Mr. Berkhouwer's suggestion that the Commission present an annual report to the Parliament on changes in the Community's competition policy.

Mr. Borschette also reminded the Parliament about the Commission's industrial policy memorandum, urging improvements in Community-level legislation on economic concentration. He criticized the extravagance of state and regional aid to industry for being useless and distorting competition.

Fears for Farmers

Prices, inflation, jobs for ex-farmers, and the deficit position of Common Market agriculture were among the subjects reviewed during the debate on Community agricultural policy.

Michel Cointat, French Minister of Agriculture and member of the Community's Council of Ministers, stressed the necessity of improving the structure of prices. He welcomed the Commission's plans to submit new proposals for reform of the common agricultural policy.

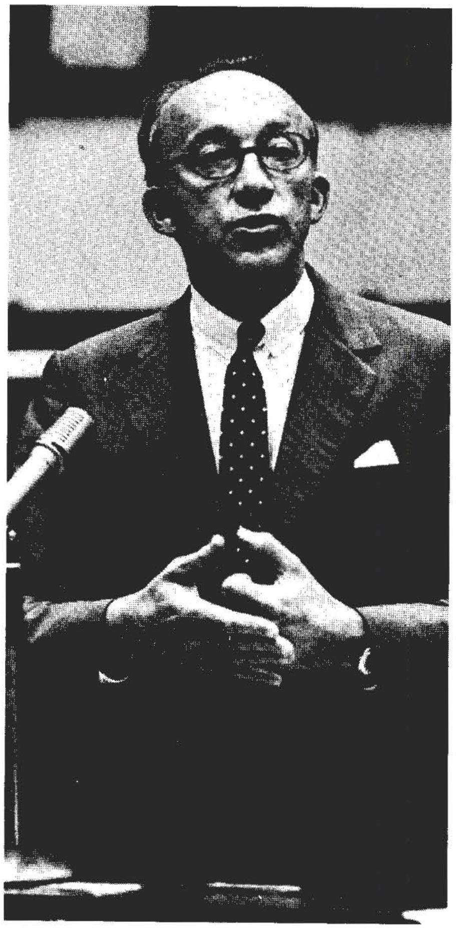
Commenting on the effects of inflation on Community agriculture, Hans Richarts, German Christian Democrat member of the European Parliament, stated that not only inflation but also the lack of regional monetary policy and the absence of a global agricultural policy contribute to the currently depressed position of Community farming. In his opinion, the success of agricultural reform will largely depend on the creation of new jobs for farmers who leave the land.

Explaining to the Parliament the new orientation of the common agricultural policy, Sicco L. Mansholt, Commission Vice President with special responsibility for agriculture, gave his views on changes in the price structure, supplementary revenues, and regional flexibility.

Regarding price changes, Mr. Mansholt declared that economic policy constitutes only one part of the problem. Development of social policy must be considered as well.

The Parliament also reached a decision on the matter of financial aid to farmers. A farmer requesting aid for modernization must prove a minimum net income of \$3,300 to \$4,100, instead of the \$10,000 to \$12:500 gross suggested by the Commission.

Jean De Lipkowski, Acting Chairman of the Communities Council of Ministers



RESEARCH GROUP TO CONSULT INDUSTRY

The Six have agreed to allow Finland, Greece, and Yugoslavia to take part in the Community's work on European scientific cooperation. Nine other countries—Austria, Britain, Denmark, Ireland, Norway, Portugal, Spain, Sweden, and Switzerland—already participate in these discussions.

In January, senior research officials of the 15 European countries decided to spend \$30,000 on a study by the European Conference on Posts and Telecommunications (CEPT) of telecommunication requirements in 1985. In particular, the senior officials of the 15 countries reviewed the work of the study groups responsible for preparing the ground for decisions to carry out concrete projects.

Meanwhile, the Community's Scientific and Technical Research Policy Group has informed the Union of Industries of the European Community (UNICE) and the European Center for Public Undertakings (CEEP) that the Council of Ministers has asked the Group to consult industry on European scientific cooperation.

The first stage of the group's work relates to data-processing, telecommunications, metallurgy, new means of transport, oceanography, meteorology, and pollution. Industry will be asked to help to prepare programs and ways of carrying out joint projects.

The Group will consult industrialists on:

- general questions, such as transfers and exchange of information, joint projects, and industrial property
- specific questions, such as opportunities for cooperation, projects for joint action in specific fields, technological forecasts, and the advisability of initiating cooperative research programs.

U.S. INTEREST RATES NOT THE ONLY CULPRIT

Inflationary pressures in Europe are not due solely to U.S. actions, according to the Commission of the European Communities.

Answering a question from Adriaan Oele, Dutch Socialist member of the European Parliament, the Commission stated on January 22 that recent reductions in the U.S. discount rate have helped to attract short-term capital to Germany and the Netherlands, complicating but not causing their economic problems. Inflationary pressures in both states are largely of domestic origin, the Commission said.

The Commission said it was following developments in American monetary policy, as shifts in speculative currencies would affect the Community's economic policy.

EC ROAD SAFETY PROGRAM CURRENTLY UNDER STUDY

A crash program for road safety and the construction of a European "safety car" is being studied by the Commission of the European Communities.

In response to a written question from Horst Seefeld, German Socialist member of the European Parliament, the Commission outlined proposals for a 2,000-pound "safety car." It hopes to explore the project and efforts to coordinate its development at the Community level in future meetings with the Liaison Committee for the Motor Industry.

Two Types of Safety

Highway safety can be approached in two ways:

- actively through preventive safety, reducing the causes of accidents
- passively, through protective safety, limiting the effects of accidents.

To improve existing vehicle components, the Commission recommended concentration on development of:

- active programs, such as improved braking systems, roadholding, and steering
- passive safety measures involving improvements in the design of internal and external fittings, air bags, and safety belts.

Already under examination by the Working Groups on Technical and Scientific Research Policy is a project for setting up an integrated system of electronic aids to help control the flow of road traffic. In addition to the Six, nine non-Community countries are participating.

Human Factor

The general program will also cover the human factor—Community-wide standards for alcohol levels, conditions governing the issuing and revocation of driving licenses, road-safety education in schools, and speed limits.

Eight of the Commission's proposals for directives on the safety program have already been adopted by the Council of Ministers. Within the next few months the Commission said it planned to submit a memorandum on the program to the European Parliament's Transport Committee.

A "POLITICAL" FOREIGN POLICY FOR THE SIX?

The European Community has more than an economic role to play in the world; it is already a political entity having political influence beyond its own borders.

Ralf Dahrendorf, member of the Commission of the European Communities responsible for foreign affairs, noted at a meeting of the German Foreign Affairs Society, in Bad Godesberg on January 25, that the Community often seems unaware of its political influence. Even though the Community's preferential and association agreements may be limited to tariff reductions for certain products, they have a political importance that goes far beyond their economic content, he said.

Political union is nothing new to the Communities, but rather a process begun long ago that has not yet been completed. According to Mr. Dahrendorf, the incomplete nature of the Community's political instruments accounts for the large discrepancy between Community action and influence. It is not a question now of creating new theories of Europe or modifying the Communities treaties, he said, but rather of recognizing Community responsibilities within the existing reality and reflecting this recognition in Community decisions.

TOWARD A COMMON DRIVER'S LICENSE

A common driver's license valid throughout the European Community is in the works.

The Commission of the European Communities stated on February 4 that it planned to make a proposal for a common driver's license to the Council during 1971. The first stage in the coordination of Community drivers' licenses would be a harmonization of conditions for issuing and withdrawing a license. It would include the reciprocal recognition of national drivers' licenses anywhere within the Community.

At a later stage, the Commission said, it hoped a single driver's license for the entire Community could be adopted.

TO CLOSE TECHNOLOGY GAP: BETTER MANAGEMENT

The European firm uses three to four times less brainpower work than the American firm.

Europe's technological development is not hampered by a lack of scientific discoveries but rather by a shortage of management trained to put these discoveries to use. This opinion was offered to the Commission of the European Communities on January 25 by the International Confederation of Executives (CIC), representing management personnel and executives in the six Community countries.

The CIC supported the Commission's proposal to create a European Management and Training Foundation. It also suggested that social security and retirement systems be harmonized among the Six and that mutual recognition of diplomas be introduced to encourage managerial mobility throughout the Community.

The Confederation of Executives also endorsed the rapid conclusion of entry negotiations with the United Kingdom and other candidates, the acceleration of Community integration, the strengthening of economic and monetary ties with the United States, and the enlargement of the Commission's role within the European Community.

COMMISSION STUDIES LEAD IN CAR EXHAUST

Eyes are smarting in Europe, too.

The Commission of the European Communities stated on January 19 in reply to a question from Adriaan Oele, Dutch Socialist member of the European Parliament, that it was investigating the exhaust effects of lead in automobile gasoline. Once the necessary information has been studied the Commission will suggest measures to deal with this problem within the Community.

Only one of the six Community member countries now plans to set maximum limits for the lead content of automobile gasoline, the Commission said. Difference among member nations' legislation in this field, however, might have a negative impact on both trade and travel within the Community.

The Commission therefore plans to examine the extent to which harmonization of national regulations in this field is necessary. It will then make proposals to the Council designed to protect both the environment and Community trade.

HEAD OF EURATOM JOINT RESEARCH CENTER NAMED

Pietro Caprioglio was named Director General of the European Atomic Energy Community's Joint Research Center on February 5. The Joint Research Center consists of Euratom's establishments at Ispra (Italy), Geel (Belgium), Karlsruhe (Germany), and Petten (Holland). The Director General's offices will be at Ispra, the most important of the four research centers.

The appointment of Mr. Caprioglio follows the Commission's decision, made at the end of January, to grant greater functional autonomy to the Joint Research Center—part of the Commission's general plan approved last December by the Council of Ministers for restructuring the Joint Research Center.

Mr. Caprioglio was born on April 28, 1929, in Rome. Between 1957 and 1967, he worked first with AGIP Nucleare and then at Euratom. From July 1967 to March 1969 he was director of the Società Progettazioni Mecchaniche Nucleari, part of the IRI (Instituto per la Ricostruzione Industriale) group. He then returned to Euratom as director of the Ispra establishment on April 1, 1969.

INVESTMENT BANK ISSUES BONDS IN GERMANY

The European Investment Bank has issued bonds worth $27.3 million on the German capital market.

On February 11, the Bank announced that it had concluded a contract in Frankfurt for its seventh public bond issue in Germany, bringing its total of bond issues in German marks to over $180 million. The Bank will use the proceeds from the sale of the bonds for its ordinary lending operations.

The 15-year bonds bear an annual interest rate of 7.5 per cent, payable semi-annually. After a five-year grace period, they will be redeemable at par in 10 equal annual installments. The bond issue has been underwritten by a consortium of German banks.

EC INSURANCE SALESMEN TO GAIN MORE FREEDOM

Insurance agents and brokers in European Community countries may soon be able to sell policies anywhere in the Common Market.

The first of two Commission proposals for directives recently submitted to the Council of Ministers would abolish existing restrictions on freedom of establishment for Community insurance agents and brokers. The second proposal contains transitional measures.

Agents' practices are now subject to regulation in the Netherlands, France, and Belgium, but not in Germany or Italy. In Luxembourg, brokers' activities are prohibited outright, while agents' activities are unregulated.

SIX TO COOPERATE ON INTERNATIONAL PATENTS

International patents should soon be easier to obtain in all six member countries of the European Community.

The Six and 29 other countries have signed a Patent Cooperation Treaty, the U.S. State Department announced on January 5. The Treaty was open for signature in Washington from June 19 until December 31, 1970, following the close of the Washington Diplomatic Conference on patents last June.

The first world-wide treaty for patent cooperation will institute a central filing procedure and standardize international patent applications so that the same invention will not have to be filed separately in each country, as is currently required.

The new Patent Cooperation Treaty will come into force after eight states have ratified the agreement. Four of these countries must be among those states with the highest number of patent applications.

RECENT BOOKS ON COMMUNITY TOPICS

EUROPEAN COMMUNITY periodically lists books dealing with Community and Atlantic topics. Prices are also given, whenever known. This presentation does not indicate approval or recommendation of these publications which can be purchased or ordered from most booksellers.

Challenge and Response: A Programme for Europe. By Franz Josef Strauss. Weidenfeld and Nicolson, London, 1969. 175 pages.

An analysis of political problems facing Europe today with foreword by Jean-Jacques Servan-Schreiber.

As a "Europeanist," the author maintains that Europe must unify into a strong community of nations to combat the constantly growing efficiency and domination of the superpowers. He discusses such topics as relaxation of tension among the great powers, the technology gap, and the challenge of China.

British Politics and European Unity. By Robert J. Lieber. University of California Press, Berkeley, 1970. 317 pages with bibliography and index. $9.00.

A review of the role of pressure groups and parties in the formulation of Britain's policy toward European unity.

The author also puts forth a theoretical framework for analyzing the influence of organized economic interests on governmental policy. Included is a study of central issues involving pressure group politics, political decision-making, and integration theory. The author examines the period from 1956 to 1967 and tries to explain why British policy-makers failed to come to terms with successive European developments.

The Council of Europe. Council of Europe Directorate of Press and Information. Strasbourg, 1970, 56 pages. Free.

A booklet tracing the structure and development of the Council of Europe and its activities in the last 20 years.

Part I explains the Council's organization and purpose. Short discussions of its administration's headquarters, budget, official languages, emblem, and the workings of the Committee of Ministers, the Consultative Assembly, and the Secretariat are included.

In Part II, the actual work of the Council is outlined in chapters on human rights, cooperation in the legal field, economic questions, social questions, health and hygiene, conservation, and various other topics.

Part III is a historical outline of the Council's development from 1946, when Winston Churchill put forward his plan for a "United States of Europe," to the present.

Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations Under the General Agreement on Tariffs and Trade. By Ernest H. Preeg. The Brookings Institution, Washington, D.C., 1970, 271 pages with appendices and index.

A history of the negotiations, analysis of the results, and evaluation of the significance of the Kennedy Round for future trade policy.

The author discusses the origins of the Kennedy Round and gives a chronological analysis of the negotiations. He surveys the results for the industrial and agricultural sectors, for the reduction of tariff dispersion and tariff differentials, and for products of interest to developing countries. The post-Kennedy Round common external tariff of the European Economic Community is compared with the tariffs of the United States, the United Kingdom, and Japan. Two chapters are devoted to the impact on the negotiations of the 1965 crisis in the Community. In conclusion, the author suggests some of the Kennedy Round's implications for future trade.

De Gaulle and the Anglo-Saxons. By John Newhouse. Viking Press, New York, 1970. 370 pages with reference notes and index. $8.50

A study of de Gaulle's policies and attitudes toward Britain and the United States during his 11 years as President of France. Drawing on information gathered from interviews with intimates of de Gaulle, diplomats, and various political figures, the author argues that de Gaulle's one consistent ambition was to mitigate Anglo-American influence in Europe, and to replace that influence with French domination.

Le "Plan Fouchet" et le Problème de L'Europe Politique. Number 5, "Studies in Contemporary European Issues." By Robert Bloes. College of Europe, Bruges (Belgium), 1970, 538 pages with annexes and bibliography.

A diplomatic history and analysis of the negotiations for political union.

The Fouchet negotiations are examined in the context of the international political situation in the 1960's. U.S.-French relations in the North Atlantic Treaty Organization, integration in Western Europe, and theories of integration are explored. The author also presents a chronological analysis of the negotiations for political union and emphasizes their impact on U.S.-British relations and British negotiations for membership in the Community. In the concluding chapters, the author explores the problems of Europe's search for political identity, the transfer of allegiances and values, and Europe's role.

PUBLICATIONS AVAILABLE

NATIONAL ACCOUNTS 1959-1969. Statistical Office of the European Communities. Luxembourg, 1970, 247 pages $3.00

French/German text with detailed English Table of Contents. 1959—1969 yearbook of national accounts data for the member countries of the Community as well as certain accounts aggregates for the United Kingdom, United States, and Japan. Includes a chapter on the Community as a whole. Detailed statistics cover gross national product at market and constant prices, gross domestic product, population and employment, national income, wages and salaries, private and public consumption, gross fixed asset formation, exports and imports of goods and services, and national savings. Includes a new section on each member state's financial accounts from 1965-1969.

ADDRESS BY THE PRESIDENT OF THE COMMISSION BEFORE THE EUROPEAN PARLIAMENT. *Commission of the European Communities,* Strasbourg, February 10, 1971, 21 pages .... free

Franco Maria Malfatti's presentation of the Commission's 1970 General Report to the European Parliament outlining the Commission's activities during 1970 and program for 1971.

PUBLIC FINANCING OF RESEARCH AND DEVELOPMENT IN THE COMMUNITY COUNTRIES 1967-1970. *Research and Development* No. 1, Commission of the European Communities, Luxembourg, September 1970, 120 pages. $2.00

English text of study announced in European Community No. 139. Study of public expenditure for research and development in the countries of the Community in 1967, 1968, and 1969. Figures are broken down into 12 major areas of expenditure. Also shows contributions to multilateral and bilateral programs.

LES ENTREPRISES SIDERURGIQUES DE LA COMMUNAUTE. Commission of the European Communities, Brussels, 1970, 141 pages $2.40

New edition of the Commission's list of steel mills. Gives addresses, telephone, and telex numbers of mills and sales offices. Also lists products produced by each firm.

THE UNITED STATES AND THE EUROPEAN COMMUNITY: THEIR COMMON INTEREST. Manhattan Publishing Company, New York, 1971, 64 pages ....free

Presents facts and figures about U.S.-Common Market trade and economic relations. It also examines the political and economic stakes involved in continued trans-Atlantic cooperation. Some of the problem areas analyzed are: the Common Market's agricultural policy, Britain's entry into the Community, preferential agreements with developing nations, non-tariff barriers, generalized preferences, and protectionist tendencies on both sides of the Atlantic.

ADDRESS BY PROFESSOR DAHRENDORF, MEMBER OF THE COMMISSION OF THE EUROPEAN COMMUNITIES, TO THE EUROPEAN PARLIAMENT. Commission of the European Communities, Luxembourg, January, 1971, 20 pages ....free

Full text of speech from which the article on page 00 was adapted.

TABLEAUX COMPARATIFS DES REGIMES DE SECURITE SOCIALE APPLICABLES DANS LES ETATS MEMBRES DES COMMUNAUTES EUROPEENNES: REGIME GENERAL. Commission of the European Communities, Brussels, 1970, 84 pages ....$.60

Sixth edition, covering the situation in social security as of July 1, 1970. Contains synoptic tables comparing the social security regulations in force in the Community's member states. Includes explanatory notes on each branch of social security and describes the legislation governing benefits, conditions under which benefits are granted, and current rates in operation.

CONSEQUENCES BUDGETAIRES ECONOMIQUES ET SOCIALES DE L'HARMONISATION DES TAUX DE LA TVA DANS LA CEE. Série Concurrence et Rapprochment de Législations No. 16, Commission of the European Communities, Brussels, 1970, 92 pages $2.00

Available in French and German. Study made for the Commission by the Europa Institute, University of the Netherlands at Utrecht, under the direction of Professors J. G. Detiger, C. J. Cort, and P. VerLoren van Themaat. Analysis of the budgetary, economic, and social effects of the application of TVA (tax on value-added) in the Community's member states. Special attention is given to the Netherlands which is used as a model and analyzed quantitatively. Also discusses the consequence for the retail and wholesale trades as well as fiscal autonomy.

LA POLITIQUE DU MARCHE OBLIGATAIRE DANS LES PAYS DE LA CEE. Monetary Committee of the European Communities, Brussels, October 1970, 196 pages $2.00

Available in French and German. Study made by a group of experts on securities LA POLITIQUE DU MARCHE OBLIGATAIRE DANS *markets, under the direction of F. de Voghel, Deputy Governor of the National Bank of Belgium, for the Community's Monetary Committee. Describes the procedures and instruments used to ensure equilibrium on the bond markets of Common Market and analyzes the policies which these member states pursued from 1966 to mid-1969. Includes a detailed statistical annex on the Community's bond markets.*

THE COMMON MARKET AND THE COMMON MAN. European Communities Information Service, Brussels, 1970, 32 pages ....free

July 1970 revised edition. Reviews the social policy of the European Community. Discusses incomes, living standards, and social security. Also gives a short description of industrial relations and the trade-union movement in relation to the Rome Treaty establishing the European Economic Community.

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