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RETROSPECT | PROSPECT

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Community News

Beginning Made Toward Solving World's Monetary Ills

Confrontation yielded to compromise before the holiday season, allowing the New Year to begin with a semblance of order in the world's monetary markets. For the first time since May 1971, the major currencies traded had fixed values.

Agreement on currency realignment was reached at the December 18-19 meeting in Washington of the Organization for Economic Cooperation and Development (OECD) Group of Ten major industrial powers *(see page 16 for members)*. The United States agreed to devalue the dollar by 8.75 per cent in terms of gold, and to remove the 10 per cent import surcharge and the discriminatory features of the investment tax credit announced on August 15. The other industrial countries agreed to revalue their currencies and negotiate with the United States concerning its complaints of restrictive practices against US exports. No decisions were made about future reserve instruments into which currencies would have to be converted unless the United States restores the dollar's tie to gold.

Group of Ten in Rome

The month got off to a brisk start when US Secretary of the Treasury John B. Connally stunned Europe into solidarity by suggesting on December 1 that discussions of the new international monetary system could begin on the premise of a 10 per cent devaluation of the dollar in terms of gold. Speaking for the Community and supported by the United Kingdom, Acting Council Chairman Mario Ferrari-Aggradi said that unless international monetary order were restored soon, the Community would be forced to continue the development of its own regional monetary system.

Why a Regional Monetary System?

Failing wider agreement, only a regional monetary system could keep the Community's agricultural policy and its customs union running smoothly. Free trade cannot go on indefinitely without a fixed medium of exchange.

Since May 1971, when Germany and the Netherlands allowed their currencies to float, agricultural trade within the Community had been hindered, and price support arrangements complicated, by the application of compensatory levies at the French and German borders. The Community sets agricultural prices in "units of account" defined by regulation as equivalent to the US dollar's gold weight. When the values of the mark and guilder rose in foreign exchange markets, German and Dutch prices for a given quantity of agricultural produce dropped proportionately in relation to the unit of account, while the other members' prices remained constant. To restore balance in the agricultural market, compensatory levies therefore had to be paid on German and Dutch agricultural trade.

After August 15, apart from the 10 per cent price disadvantage in foreign trade with the United States, the Community's internal trade was jeopardized. Price uncertainties in industrial trade had been added to frustrations of price management in agricultural trade after France, Belgium, Italy and Luxembourg allowed their currencies to float.

This situation had been bothersome, but on August 15, it became almost unmanageable. By cutting the dollar's tie to gold, President Richard M. Nixon removed the keystone of the world's monetary system. The dollar had been the only currency a government could exchange for gold in the event of a balance-of-payments surplus, and the threat of a run on reserves—gold in the case of the United States, foreign exchange holdings for the other members of the International Monetary Fund (IMF)—had been a good incentive for keeping domestic economies in order and preserving the purchasing power of national currencies.

William D. Eberle (left), US Special Representative for Trade Negotiations, and Theodorus Hijzen, director general of the Common Market Commission's External Trade Department, await the opening of the December 21 trade talks in Brussels.

Rules were amended for determining the value of imports priced in a floating currency. *(See European Community No. 149, page 3.)* Merchants qualified price quotations to protect themselves against changes in currency values. Even the Community's European Investment Bank had to hedge in bond issues against changes in dollar parity. *(See European Community No. 148 page 3.)*

To clear up confusion, the Common Market was more than willing to cooperate.

US-EC Meetings

The Community and the United States first met after August 15 to discuss their grievances in Washington on October 21-22. *(See European Community No. 150, page 3.)* Both the Community and the United States thought the meetings fostered mutual understanding, but the Community would not back down on its insistance that the US import surcharge must be removed before talks could begin on monetary reform and trade liberalization. The United States, in turn, wanted proof of Europe's good intentions before removing the import surcharge. Unofficial contacts continued.

On December 8, US Special Representative for Trade Negotiations, William D. Eberle, met with Commission President Franco Maria Malfatti, Commission Vice President Raymond Barre, and Commissioner Dahrendorf. The following day, the same group of Common Market officials conferred with US Secretary of State William P. Rogers and Deputy Under Secretary of State for Economic Affairs Nathaniel Samuels who were in town for the December 9-10 meeting of the North Atlantic Treaty Organization ministers *(see page 5)*. After these visits, Commission Spokesman Beniamino Olivi issued a statement saying that the Americans had presented their "desiderata" in the area of trade, and that the Commission planned to report on these discussions to the Council of Ministers at its December 11-12 meeting.

Council Meeting, December 11-12

The Commission asked for, but did not immediately receive, a mandate for negotiating US demands presented by Mr. Eberle. The Council, nevertheless, enacted a declaration of intent and said the Community was ready to enter into negotiations with the United States. The Community's position was defined as follows:

- The Community is willing to help the United States restore equilibrium to its trade balance and overall balance of payments.
- The Community is willing to take part in

a broad review of world trade for the purpose of achieving further liberalization.

- Mutual advantages and reciprocal concessions should be sought in the Community's negotiations with the United States.
- The United States must revoke the import surcharge and discriminatory provisions of its investment tax credit.
- Negotiations within the General Agreement on Tariffs and Trade (GATT) on the results of the Community's enlargement should open only after the signing of the accession treaties and the agreements with the non-applicant members of the European Free Trade Association (EFTA).

It was also agreed that the Commission's draft mandate for negotiations with the United States would be prepared by the Committee of Permanent Representatives and submitted to the member states for approval by "written procedure," a process that would allow approval before the next Council meeting.

This approval was given following the December 13-14 meeting between President Nixon and French President Georges Pompidou in the Azores. During the meeting, the two presidents agreed on a devaluation of the dollar in terms of gold and a revaluation of other currencies.

Group of Ten in Washington

The world's ten leading industrial nations next met in Washington, on December 18-19. Commission Vice President Barre, responsible for the Community's monetary policy, sat in on the meetings which resulted in the breakthrough.

The United States agreed to devalue the dollar in terms of gold, and the other nations agreed to revalue their currencies and to discuss US trade grievances. Experts expect this agreement to phase out the US balance of payments deficit over the next few years. In return, the United States agreed to remove the 10 per cent import surcharge and the discriminatory provisions of the investment tax credit. The Ten also agreed to allow the values of their currencies to fluctuate 2.25 per cent from their official values. This "widened band" had been sought particularly by countries subject to recurrent inflows of short-term capital as a means of keeping speculation under control.

During negotiations, the Six followed the Council's December 11-12 statement of position. In reporting to the Commission after the meeting, Mr. Barre expressed satisfaction with the new exchange rates. Now, he said, the margins of fluctuation between the Community members' currencies must be reduced. The Commission plans to make proposals to this effect in January.

IMF Decision

This agreement remains unofficial until approved by the International Monetary Fund and until the US Congress passes into law the new dollar parity. Since the international monetary system remains without a keystone, the IMF by a decision made on December 19, gave the members the choice between ways of changing their currencies' values:

- by maintaining the gold parities in effect on May 1, 1971, which, because they had been defined in relation to the statutory gold parity of the US dollar, would result in an appreciation of their currencies
- by taking as the official values of their currencies the rate at which central banks buy US dollars, which would also result in an appreciation because they are being quoted above par value. This solution amounts to a *de facto* recognition of the demise of the gold exchange standard.

Of the Community members, only France chose to maintain its old gold parity. Of the applicants for Community membership, the United Kingdom and Ireland followed the French lead, while Denmark and Norway followed the example of Belgium, Germany, Italy, Luxembourg, and the Netherlands. The "Four" and the "Ten" alike decided to avail themselves of the possibility of allowing their currencies to vary 2.25 per cent around the official value approved by the IMF.

Personal Diplomacy

Following his meeting with British Prime Minister Edward Heath in Bermuda on December 20-21, President Nixon signed a proclamation ending the import surcharge and eliminating the discriminatory aspects of the investment tax credit, effective at midnight December 19.

German Chancellor Willy Brandt next met with President Nixon, on December 28-29 in Key Biscayne. According to their joint communique, institutionalization of the US-EC dialogue and maintenance of US troops in Europe were major points discussed.

Price Tinkering

The Group of Ten agreement, although a definite step in the right direction, still leaves the Community's internal farm price problems unchanged. Because no new dollar parity has been passed into law, the Community's Agricultural Management Committee still has to apply compensatory levies to keep prices paid in national currencies for agricultural produce in line with prices set in terms of the unit of account.

Once the Congress acts on the dollar's new parity, the Community's agricultural unit of account will be adjusted, according to normal Community procedure (proposal by the Commission to the Council of Ministers and consultation of the Monetary Committee).

CURRENCY REALIGNMENT IN EC OF "TEN"

Maintenance of Par Value Option

Member	Currency Units per US Dollar	US Dollar per Currency Unit
France	5.11570	0.195477
Ireland	0.383772	2.60571
United Kingdom	0.383772	2.60571

Establishment of Central Bank Rates Option

Member	Central Rate Expressed in Terms of US Dollar	US Dollar per Currency Unit	Change in Terms of US Dollar
Belgium	44.8159	0.0223135	+11.57%
Germany	3.22250	0.310318	+13.58%
Italy	581.500	0.00171969	+ 7.48%
Luxembourg	44.8159	0.0223135	+11.57%
Netherlands	3.24470	0.308195	+11.57%
Denmark	6.98000	0.143266	+ 7.45%
Norway	6.64539	0.150480	+ 7.49%

Source: IMF Press Release, December 30, 1971

Related Developments

In other recent trade developments, Theodorus Hijzen, the Community's Director General for Foreign Trade on November 25 asked the GATT to suggest solutions to ease international trade frictions caused by non-tariff barriers, national agricultural policies, and trade policies.

To demonstrate its commitment to free trade, the Communities' Council of Ministers on December 20 decided to extend for another year the chemicals agreement made during the Kennedy Round of GATT negotiations. Under the terms of this agreement, the Community offered tariff concessions on certain chemicals in exchange for US Congressional repeal of the American-selling-price (ASP) system of customs valuation applied to imports of benzenoid chemicals (as well as canned clams and rubber footwear). Under ASP, import duties are calculated on the American selling price of an import, instead of on its foreign selling price. This is the third time the Community has extended the deadline for ASP repeal.

Sweeping Negotiations

In a report released on December 29, Presidential Adviser for International Economic Affairs Peter G. Peterson blamed the Community for changing "the character of the world's trading system from one ruled by the principle of non-discrimination to one in which trade flow[ed] under special preferential systems." Nevertheless, he said as the Community completes arrangements for its enlargement, it will continue to have the support of the United States.

European Security Conference Nearer

Western Europe in December took long strides toward the convening of an East-West conference on European security and cooperation. At the same time, Europeans made strong new moves to bolster their military defense.

Both actions took place in close cooperation with the United States and Canada at the December 9-10 meeting of the North Atlantic Treaty Organization (NATO) ministers in Brussels.

Just prior to the opening of the ministerial session, the "Euro-Group" of 10 European defense ministers announced that they would increase their total defense spending in 1972 by more than $1 billion. This amount will be in addition to the $1 billion program, spread over five years, announced 12 months previously by the Euro-Group. The Euro-Group includes all European members of the NATO alliance, except France, Iceland, and Portugal.

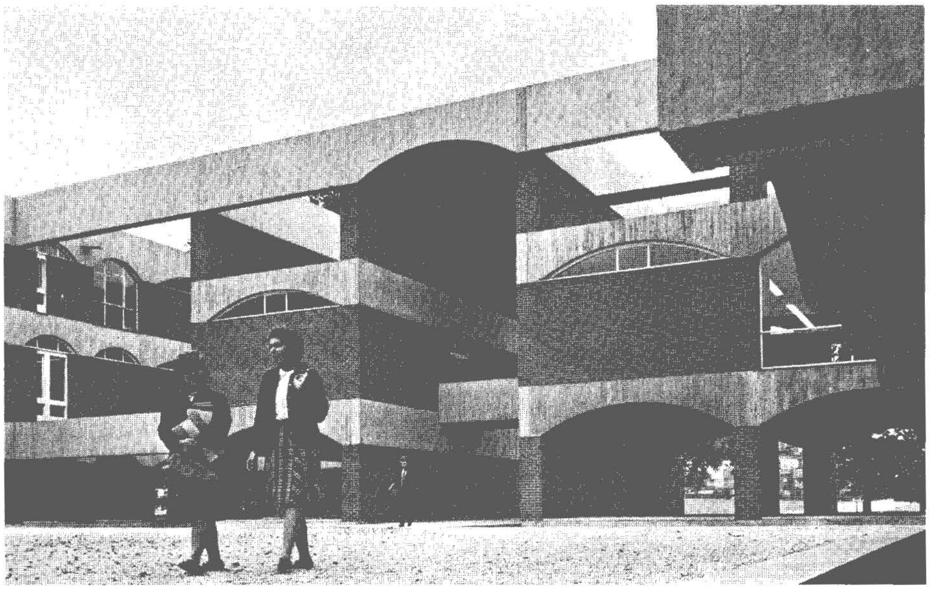
There were two main purposes in the new European effort. One was to meet the growing US objection that West Europeans are not doing enough in their own defense and must participate in more "burden-sharing" The second, and equally important purpose was to assure the strength of Western defenses without which detente is impossible.

Berlin Settlement, Propitious

The NATO ministers said that as a result of the Berlin settlement, they would be prepared to enter multilateral preparations for a security conference. They also listed the things they would like to see discussed at such a conference: force reductions in Central Europe and the establishment of principles of non-intervention between states; free exchange of people, ideas, and information between the Communist and Western worlds; cooperation in economics and technology; and cooperation to improve the environment.

At the time of the NATO session, the Soviets had still given no clear sign of when, or even whether, they would be interested in cutting back armed forces in Europe. For many Alliance nations, this is crucial to a security conference. "It is difficult to imagine a security conference that does not discuss security, and that means force reductions," NATO Secretary-General Joseph Luns told journalists.

Nevertheless, NATO ministers held that many signs were favorable to the convening of a conference, especially the settlement in Berlin.



The Union Building, University of Sussex.

Why Not Study This Spring in England?

A study program planned especially for American and Canadian undergraduates in liberal arts or social sciences is being offered this spring by the University of Sussex, near Brighton, a 50-minute train trip from London. The program runs from March 1 to June 20.

Students will take four or five of the following seven courses:

- Political Background to West European Integration Since 1945
- The Economic Background to West European Integration Since 1945
- The Political and Economic Background in East Europe Since 1945
- The Fifth Republic of De Gaulle
- Economic Policy in Russia and Yugoslavia
- Changes in European Social Structure since 1945
- British Political Parties and Institutions Since 1945.

Credit for these studies will be by arrangement with the parent university which will also decide final grades on the basis of papers and examinations written while at Sussex.

Further information may be obtained from Dr. Alan J. Ward, Department of Government, College of William and Mary, Williamsburg, Va. 23185 (telephone: 703- 229-3000, extension 486).

Form for Publishing Public Bid Notices

The form in which notices of public works bids must be published has been proposed by the Commission of the European Communities.

On November 25, the Commission sent the proposal to the Council of Ministers, following the Council's decision on July 26 to coordinate bidding procedures throughout the Community. According to that decision, notices of bids must be published in the Communities' *Official Gazette*. This notice, according to the new proposal, must not exceed 600 words and must give basic information (such as the name of the contractor and tender deadline) so that any one interested in bidding can obtain the necessary information.

New ECSC Bond Issue

The European Community and a French banking consortium concluded negotiations on December 12 for a $27 million bond issue to finance investments in the European coal and steel industries.

Conforming to the provisions of the European Coal and Steel Community (ECSC) Treaty, the proceeds from the loan will also help finance ECSC labor reconversion programs as well as coal and steel investments.

The bonds will be sold at face value on the French capital market and will earn an annual interest rate of 8.5 per cent. The maturation period is 18 years.

The new issue will bring the total of ECSC bonds to $1 billion. Loans and guarantees made by the ECSC to Community enterprises totalled $1.1 billion in June 1971.

Fisheries Dispute Solved; Treaty Signing Jan. 22

Weary but satisfied, British and Community negotiators called in the press at 7 a.m. on Sunday, December 12 to announce settlement of the last major obstacle to British membership.

After virtually non-stop negotiations that had begun at 9:30 the previous morning, the two sides succeeded in working out a formula for Britain's adaptation to the common fisheries policy. Fellow applicants, Ireland and Denmark, were able to accept a similar arrangement. Only Norway, Western Europe's largest fishing nation and the fourth candidate for Community membership, was still unsatisfied. Norwegian Trade Minister Per Kleppe accused Britain and the other two candidates of "giving in" to the Six.

For the other three, minor points of their overall negotiations remain to be settled, and they are due to sign their historic accession treaties in Brussels on January 22. Because of the technical work involved in translating the accession treaty and agreeing on the final wording of the text, the signing could not be arranged before Christmas.

Origin of Dispute

The fisheries dispute between the Six and the candidates goes back to July 1970, when the day before the entry negotiations opened, the Community finally adopted a common fisheries policy giving member states the right of free access to each others' coastal fishing grounds. Faced with the unanimous dissatisfaction of the four candidates (Norway's total catch alone exceeds the entire haul of the current Community), the Six eventually retreated. They agreed to suspend the free access rule for 10 years, during which period member states of the enlarged Community would maintain a six-mile fisheries limit, stretching to 12 miles for coastal areas principally dependent on fishing. The debate in the negotiations then crystallized around two central points: which areas would qualify for 12-mile limit treatment, and what would happen at the end of 10 years. Once the areas were named, it was decided in principle that they would become subject to the common fisheries policy over 10 years, except in areas of extreme hardship which could be exempted on the basis of a report by the Commission and a decision by the Council.

Norway remains a holdout. As no date has been set for the next ministerial negotiating session, Oslo may have to sign the accession treaty after the others.

British and Ireland were able to accept the Community's last offer on the fisheries issue. The Norwegian Trade Minister Per Kleppe returned to Oslo to consult his Government about the offer which did not meet Norway's desires.

Negotiations Underway to Further EFTA Goals

Enlargement of the European Communities has opened up a promising path towards the establishment of an effective free trade area for industrial products throughout Western Europe.

Negotiations for special trade agreements between the EC Commission and each of the six European Free Trade Association (EFTA) members not seeking full membership in the Common Market began December 3 in Brussels.

The talks encountered third party criticism even while still in the preparatory stages. In November, a formal protest by the United States was lodged in Brussels. In it, the United States warned the Communities not to establish "discriminatory" links with the non-candidate EFTA members, threatening to raise the issue in the General Agreement on Tariffs and Trade (GATT). (The United States sent 3.6 per cent of its total exports to EFTA non-candidate countries in 1970.)

Since that time, the Commission has reiterated the negotiations' three goals which were set forth on November 10, 1970:

- to prevent the development of new intra-European trade barriers due to enlargement of the Community
- to safeguard the autonomous decision-making power of the Community
- to conform to the rules of GATT concerning preferential arrangements.

While the proposed links leading to customs union are valid under the GATT, the United States has accused the Community of delaying the required consultations until just before Britain's formal entry into the EC, tentatively set for January 1, 1973.

This delay, the United States charges, is uncalled for and detrimental to world trade.

June '72 Target Date

In Brussels, the negotiating parties are setting their sights on a June 1972 termination date for the talks, so that the accords can go into force six months later. However, the wide range of problems to be resolved for each country may force negotiations to continue through the summer.

- Switzerland has accepted the basis of the Commission's negotiating mandate (eventual customs union). However, it rejected the Community's request for Swiss agricultural concessions in exchange for Community industrial concessions.
- Sweden took a similar position on agriculture, but owing to its close links in this sector with its candidate-neighbors, Norway and Denmark, was less recalcitrant than was Switzerland. However, one of the major stumbling blocks to the negotiations so far has been Sweden's refusal to accept the tenets of the EC negotiating mandate as other than a point of departure. It has reserved the right to bring up for discussion certain points in it at a later point in the negotiations.
- Austria and the Community had hoped to have an interim agreement in force by January 1, 1972. However, as the proposed tariff cuts under the interim agreement would have been detrimental to Austria's exports, the EC-Austrian accord cannot be expected before a general formula of tariff cuts for the other five EFTA members is worked out.
- Finland on December 14 said it was interested only in a commercial agreement, with no involvement in Community development or decision-making. As foreseen, the agreement hinges on a successful tariff policy affecting Finland's paper industry, which accounts for about 50 per cent of the country's exports to the Communities.
- Portugal has shown a keen interest in

participating in the Community's development and decision-making process, with its sights set on a trade agreement evolving into closer political and economic partnership in time. The generally political nature of the opening discussions left little time to work out agricultural concessions.

• Iceland's and the Community's rigid positions on fishing zones point to slow-going in negotiations. Although the Commission is willing to reduce tariff rates on certain fish, it insists that Iceland stick to 12-mile coastal fishing waters. However, following exploratory talks in Brussels earlier last year, Iceland extended its territorial fishing rights to 15 miles and does not want to yield on this decision.

The working groups established in December should begin meeting in Brussels at the end of January, with the hopes of arranging a second negotiating round by April or May.

Whether or not US criticism of the talks will jeopardize their progress remains to be seen, but the initial reaction was uniform in most European capitals. Austria and Switzerland were the quickest to answer the US charges, pointing out that without success at the negotiating table, a number of small European democracies would be hurt irreparably by not having special trade links with the Common Market. They underlined that European solidarity and economic stability should be in the interest of the United States itself.

Mediterranean Talks

After the first round of negotiations with the EFTA non-candidates, the Commission on December 30 was given a negotiating mandate to begin talks with Cyprus.

This island-nation is seeking associate status with the EC and, if successful, will become the sixth associate in the Mediterranean basin, after Greece, Turkey, Morrocco, Tunisia, and Malta. Over 70 per cent of Cyprus' exports go to Great Britain and the EC. An opening date for talks has not yet been set.

Further on the negotiating scene, the Commission has asked the Council of Ministers for a mandate to begin talks with three other Mediterranean trading partners, Malta, Spain and Israel. With the latter two countries, the Community has signed trade agreements.

Talks on problems caused by the Community's enlargement were also held within the Turkey-EC Association Council in Brussels on December 11. Similar discussions will take place in Mauritania in April with the 18 African countries associated with the Community by the Yaoundé convention *(see page 8.)*

The Commission hopes to finish adjusting existing agreements with the Mediterranean countries to take account of the Community's enlargement scheduled for January 1, 1973. The membership candidates will be consulted on the adapting agreements.

Malfatti Calls for EC-US Openness, Solidarity

"Special openness and reciprocal solidarity" should characterize relations between the United States and the European Communities, according to Commission President Franco Maria Malfatti.

Speaking on December 9 in Brussels at the Commission's luncheon in honor of US Secretary of State William P. Rogers, President Malfatti struck a further conciliatory note, pointing to the "old" challenge of underwriting the basic principles observed in the past 25 years: joint defense, freedom of trade, and the orderly operation of the international monetary system.

Elaborating urgent, "new" challenges, the Commission President gave priority to improving the world trade system, reforming the international monetary system, and spreading defense responsibilities more equitably than they are now.

3 of "Six" Charged in Antidumping Decision

The US Tariff Commission has found French, German and Italian sheet-glass exporters guilty of dumping their wares on the American market.

In a decision prompted by US glass manufacturers' complaints and a Treasury Department investigation, the Tariff Commission announced that imported clear sheet glass weighing 28 ounces a square foot from France and West Germany, and 16 ounces a square foot from Italy, are "doing injury" to a US industry, and are in violation of the Anti-dumping Act of 1921, as amended. This Act prohibits the sale of imported products into the United States at less than fair value.

As a result of the November 3 decision, the Treasury Department can set a dumping duty on imported sheet glass still being sold at less than its fair market worth.

Community Renews LDC Preferences System

The European Community's generalized tariff preference system for manufactured goods from 91 developing countries, which has worked satisfactorily since its inception on July 1, 1971, has been extended for a full year, from January 1, 1972. The volume of imports exempt from duty has also been raised.

These decisions were made in Brussels on December 11-12 by the Council of Ministers.

The Community undertook this experiment on the understanding that other major industrialized nations would do the same. The United Kingdom and Japan did. Finally, on December 20, US Secretary of State William P. Rogers announced plans to seek enabling legislation when the Congress reconvenes after the holiday recess.

Despite delays by major industrial powers in activating their generalized preference systems and despite complaints from some European industrialists that the system is too liberal, the six member countries have agreed with the Commission that the preferences are too important to the world's development to be abandoned.

The Community system puts ceilings on the amounts of duty-free goods individual nations can export to the member countries; these ceilings have been reached in some products, mainly by more advanced developing countries, such as Hong Kong and Yugoslavia, but affect imports worth only $5 million out of the potential concessions of $450 million. These ceilings protect all beneficiary countries by preventing any one of them from using a superior competitive position to monopolize the sales.

Adding Beneficiaries

So far, the Community's generalized preference system has been limited to the developing countries of the "Group of 77" within the United Nations Conference on Trade and Development (UNCTAD) which actually has 96 members. The Community has postponed including the five newest members of this unit (Bahrein, Butan, Fiji, Qatar, and Cuba) in the system.

The Community is studying the applications of five other states which are not "Group of 77" members, but already have close ties with the Community: Spain, Israel, Greece, Turkey, and Malta. Israel claims that it has not been admitted to the "Group of 77" for political reasons, since its economic structure is comparable to those of developing countries. Rumania has also requested inclusion.

Yaounde Associates Plan Special Meeting

The European Community and the 18 African associates under the Yaoundé Convention plan a special meeting in Mauritania in April. Their objective is to develop a common policy on the possible association with the enlarged Community of 20 Commonwealth countries in Africa and the West Indies. The Eighteen want to ensure that they will not get less aid from the Six because of the Commonwealth nations' association, and that preferential access to the Community market for their key products will not be "diluted."

At a special meeting of the Community-Eighteen Association Council in Brussels on November 30, the Community said it would safeguard the Eighteen's interests during any negotiations to bring African and West Indian Commonwealth members into the Community's association system.

Community spokesmen said that if the Yaoundé association were enlarged, the preferential free trade area would be maintained, the association's institutions would not be modified, and there would be no reduction in the volume of aid received by each state through the European Development Fund. By August 1973, Commonwealth states will be asked to say whether or not they want to join the association; that is the proposed date for the start of negotiations for renewing the association convention.

Stable Prices

The Community also agreed to consider regional price stabilizing agreements on basic commodities for the Eighteen, if world agreements could not be reached. It also said it would study ways to give the Eighteen arrangements for their sugar exports that were as favorable as the Commonwealth states would receive after enlargement.

Similar assurances on these subjects were given by Commission President Malfatti during a trip to Madagascar, Kenya and Burundi in late November. In a speech to the Madagascan National Assembly, Mr. Malfatti said enlargement would offer the opportunity for strengthening and improving the existing association. He rejected criticism that the association had harmed the interests of other developing and industrial nations. The Community was justified in helping the least privileged developing countries. He also noted that the United States had increased its exports to the Eighteen more rapidly than had the Six.

The association council also adopted a common list of general specifications for contracts financed by the European Development Fund. Up to now, each African state has had its own bidding procedures, which, by their sheer number discouraged companies from bidding.

Investment Opportunities

Meanwhile, officials from the Eighteen and the Community are working out new ways in which the Community could aid African industrialization. The aim is to supply African authorities with more information about available EDF money, and European investors with more details about possible investment opportunities, particularly of the subcontract form, which is already widely used in Asia. The two sides will investigate ways of encouraging 30 export-oriented activities in Africa. This is the result of an extensive Commission study of the problem, and complements a similar study carried out in 1967 on industrial activities in the Eighteen which could replace imports.

EIB Development Loans to Italy and Reunion Island

Development loans have been granted by the European Investment Bank (EIB) to the Cassa per il Mezzogiorno and to Reunion Island for infrastructure and industrial projects.

The 14 loans granted the Cassa on November 25, totalling $107 million, will finance the construction, extension, and modernization of chemical, textile, tire, and metallurgical factories as well as small industrial projects and a gas-pipeline down the mainland. Most of the Bank's aid ($82.8 million) will go into projects on the mainland. Loans of $13.6 million and $10.6 million will be granted for factory building and job creation, respectively in Sicily and Sardinia. The grants will bring the total EIB loans in Italy to $1.14 billion.

The $673,000 loan to the Reunion Island has been granted as part of an overall five-stage plan to develop the location's agricultural and energy potential. Authorized on November 23, the loan will finance sprinkler irrigation of a 2200 acre tract in the "Bras de la Plaine" area. The total cost of developing the tract will come to $1.63 million. A grant from the European Development Fund (EDF) will finance the remainder.

CORRECTION

In the December 1971 issue of European Community the last name of the co-author of **The Kennedy Round and the Future of American Trade** was inadvertently omitted. His name is John Robert Vastine, Jr.

Italian Communists Urge Revised Treaties

The Treaties which established the European Communities should not be scrapped but revised to permit a democratic transformation of the organization. This was the main theme voiced by Giorgio Amendola, Italian Communist member of the European Parliament, in the opening speech at the special international conference held in Rome by the Italian Communist Party (ICP) in November to discuss European integration.

Representatives of most East and West European Communist parties attended the conference, which was designed to reappraise the European Community in the hopes of pushing international Communist policy towards a more favorable view of the Common Market.

Direct Election of Parliament

In his keynote address, Mr. Amendola said the European Parliament should be elected by direct suffrage and that labor union and social organizations should be given more power, thus creating a supranational center for democratic planning in Europe. Instead of simply denouncing the "prevalence of monopolistic groups" in the Community, Mr. Amendola suggested that West European Communists should become actively involved in the process of integration and seek to influence it.

EC Modifies Petroleum Trade Restrictions

The member states of the European Communities have been allowed to extend for two years their national restrictions on free trade in petroleum products.

In a decision made on December 22, the Commission of the European Communities renewed its provisional support of national measures limiting the free access of certain petroleum products to the rest of the Common Market. However, three major modifications were made in its previous policy, set in December 1969:

- No provision is made for reviewing this decision, as the Commission hopes to have developed a stockpiling and commercial policy which will prevail when the decision expires on December 31, 1973.
- The list of petroleum products on which trade restrictions could continue was narrowed to those used in the production of energy.
- The member states must inform the Com-

mission of any changes planned before enacting them. Formerly, the members had to inform the Commission only after the fact.

Corporate Accounting Harmonization Proposed

To improve information on corporate finances and its availability to investors, the Commission of the European Communities has sent a proposal to the Council of Ministers specifying the form and the contents of annual corporate balance sheets and profit and loss statements.

The types of figures that may be included under each heading in the balance sheet are also spelled out, and each figure presented must be explained in an annex to the balance sheet. According to the draft directive, sent to the Council on November 11, companies will also have to publish a management report. The draft directive would apply to limited liability companies *(sociétés anonymes* and *sociétés à responsabilité limitée)* which make up the bulk of business enterprises in the Community.

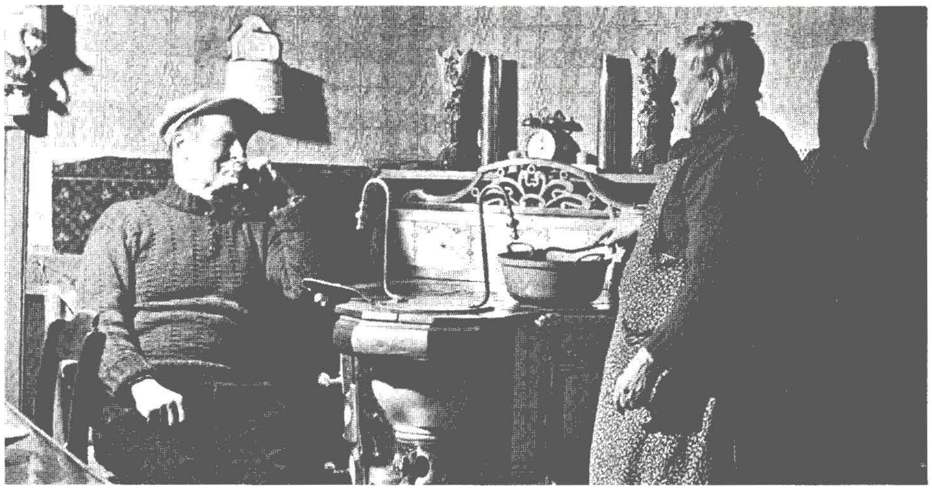
Negative Clearance for Burroughs Know-How Pact

The Burroughs Corporation of Detroit has received a "negative clearance" for a patent and technical know-how agreement filed in Brussels in compliance with the European Community's competition rules.

On December 27, the Commission announced this decision, its first on a patent and technical know-how agreement. The negative clearance allows Burroughs to continue applying the agreement, because the Commission thinks that the competitive restraints it contains are necessary to achieve the purpose of the agreement (pooling know-how). In addition, the Commission said that as the licensees' share of the carbon market represents an extremely small part of total intra-Community trade, restrictions in the agreement would not seriously curtail trade between the member states.

The Commission's review was prompted by two agreements by Burroughs with Geha Werke GmbH of Hanover and Establissements L. Delplanque et Fils of Bagnolet. Burroughs had given the licensees exclusive manufacturing rights for Germany and France, respectively. The licenses cover plastified carbon paper, a high-quality high-price carbon paper.

EC Orange Policy Helps Europe's Needy



The old are among the people receiving free surplus food in the Community.

More than a third of the surplus oranges taken off the European Community market during the 1970-71 marketing year were redistributed free of charge to Europe's needy.

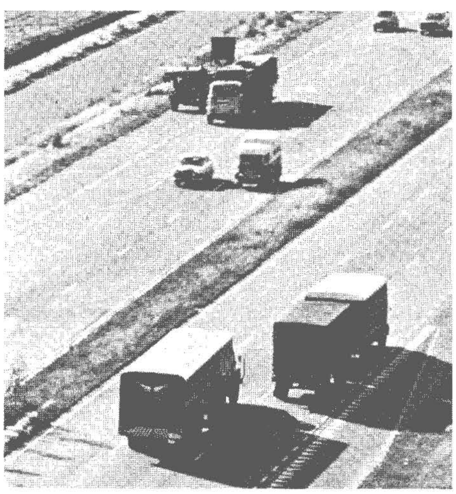
In reply to a question from Hendrikus Vredeling, Dutch Socialist member of the European Parliament, the Commission on December 21, 1971, indicated that most of the free, fresh oranges were distributed in the southern Italian provinces of Sicily and Calabria.

From December 1970 through April 1971, 101 tons of oranges were taken off the market at a cost of about $7500. Of these, 36 tons of fresh oranges were distributed through prefectoral authorities.

Figures on the amounts of orange concentrates (such as juices) processed for free distribution were not available when the Commission replied. However, in the 1969-70 marketing year, about as much orange concentrates as fresh oranges were given away.

Truck Firms to Cooperate

Under pressure from larger groups in the Community and faced with the loss of protection against British competitors, four medium sized European truck manufacturers have agreed to cooperate in developing and producing vehicles in the 5.9-12 ton range.



Under a cooperation agreement, DAF, KHD, Volvo, and Saviem will develop and produce standard model trucks in the 5.9-12 ton range. This photo shows some of the variegated sizes and shapes available in Europe: the van (left foreground), the tandem (right foreground) which is banned in the United States, and the familiar "semis."

DAF of the Netherlands, Germany's Kloeckner-Humboldt-Deutz (KHD), Volvo of Sweden and the French company Saviem, a subsidiary of Renault, will own equal shares in a Dutch holding company which will carry out the project.

The firm will design, and eventually produce, the parts for standard model trucks which will be assembled separately by the four companies, each using its own motors. Each company will sell the trucks under its label through its own marketing network. The target date for producing the standard model is 1975.

Although the four firms together rank fourth in Europe in overall truck production, they produce only 9.7 per cent of Europe's medium-weight trucks. The agreement poses the question of whether small companies can effectively challenge large producers through a loose arrangement, rather than through a merger or other similar procedure.

Picketing outside the building where the Council of Ministers was discussing the Euratom budget on December 3, Eurocrats demanded a research program covering more than a year. Some of the demonstrators had traveled to Brussels from the Community's largest research establishment, in Ispra, Italy.

Euratom Gets 5th 1-Year Research Program

A $44.64 million one-year research program for the European Atomic Energy Community (Euratom) was enacted by the Council of Ministers on December 21. This followed a December 6 failure to agree on a three-year program recommended by the Commission.

The Commission's proposed three-year program, costing $256 million including $38 million for non-nuclear projects, floundered because of a deep rift between the French position and the stance of the other members and the Commission, especially over the areas of common participation and budgetary autonomy. Compromises might have been possible in both cases, but France's partners preferred to have no three-year program rather than to adopt one they considered too weak.

Since 1969, the Euratom budget has financed mainly common research projects subsidized by the Six and some complementary projects supported only by those states interested in them. This time, however, France refused to support the non-nuclear projects and about 40 per cent of the other projects, pleading lack of funds for scientific research. In addition, France wanted to await Britain's entry in 1973. The French also thought the general infrastructure costs in the three-year plan, which amounted to $155 million, should be broken down and allotted among the member states according to program objectives. This system was used until the Council in December 1970 adopted the principle of approving a lump sum for this section. The other members and the Commission on December 6, seeing Euratom's newly won autonomy at stake, refused to abandon the principle, thereby creating another impasse.

A Transitional Program

The rejected three-year program was considered the logical conclusion of commitments made by the Six at The Hague summit conference in December 1969 to give the Community a coherent research policy. The program had been developed during 1971 by the Joint Research Center staff, according to procedures specified in a Council decision made in December 1970, reorganizing the Center and increasing its administrative autonomy. This process included consultation with representatives of national governments, research institutes, and business within the new "Euratom General Consultation Committee."

The proposed plan, which would have cost no more than the previous Euratom program, sought to rationalize and redirect Euratom's efforts. The obsolete ESSOR organic cooled and heavy water moderated reactor project, formerly the centerpiece of the Ispra research establishment, was to be dropped. The Center's facilities were to be opened to research in non-nuclear fields, and indirect projects to encourage the private industrial development of nuclear reactors were emphasized. The three-year program was considered transitional, paving the way for scientific cooperation among the Community members after Britain entered.

1972 EC Budget Passed

Passage of the Euratom budget cleared the way for enactment of the entire Community operating budget for 1972. The budget this year amounts to about $4 billion.

Spain Seeks Closer Links

France will support Spain in its efforts to obtain closer relations with the Community, French Foreign Minister Maurice Schumann indicated during talks in Madrid with his Spanish counterpart, Gregorio Lopez Bravo, in November.

French support has already helped Spain to reach a preferential trade treaty with the Six in June 1970. The agreement introduced mutual tariff cuts of up to 70 per cent on many products, to be made over a six-year period. At the end of that time, the question of closer relations between Spain and the Community will be discussed.

Spain is now asking an acceleration of the tariff cuts, because the Community's enlargement could create new tariff barriers for some Spanish exports, especially to Britain. Spanish officials also want to start negotiating Spain's future relationship with the Community in 1973.

In a gesture of European goodwill, Spain agreed during Mr. Schumann's trip to participate in the French-German-Dutch-British Airbus A-300B project and to purchase 30 of the aircraft.

5 EDF Grants to Dutch Antilles, Surinam

Five allocations to the Netherlands Antilles and the Republic of Surinam from the European Development Fund were authorized by the Commission of the European Communities on December 1, 1971.

The grants, totalling $9,823,000 were distributed as follows:

- **St. Eustatius Island.** $1,218,000 to finance construction of wharves
- **Bonaire Island.** $2,214,000 for the construction of an airport
- **Bonaire Island.** $228,000 to build a primary school
- **Surinam.** $5,739,000 to build a technical institute in the capital, Paramaribo
- **Surinam.** $424,000 to do a feasibility study for a dam at Stondasi.

1972: Ironies and Paradoxes

BOYD FRANCE *Foreign Affairs Correspondent for McGraw-Hill Publications, writes out of Washington.*

"Catch 22" decrees that if a soldier is crazy, he may get out of combat duty, but that if he wants to get out of combat duty, he is not crazy. Something of the same spirit of contradiction increasingly pervades relations between the United States and Europe and bids fair to become mischievous in the year ahead:

- Senator Michael J. Mansfield (D-Mont.) and his cobelievers want to pull American troops out of Europe because they feel the European allies are not doing enough to defend themselves. Predictably, as Europe does assume a greater burden, more neo-isolationists in Congress will argue that the United States can safely withdraw because Europe is strong enough to assure its own defense.

- Washington has worked for the enlargement of the Common Market for 15 years but now fears its consummation.

- The Europeans, for their part, blame US foreign investment for American balance-of-payments difficulties but compete to attract US capital, well aware of the key role it has played in making Europe prosperous and competitive.

- Europeans lectured the United States for a decade about its profligate balance of payments, then bitterly denounced the steps President Richard M. Nixon took on August 15 to right the balance, appalled at the prospect of losing the American deficits they had excoriated but profited from.

- European governments bemoan the resurgence of protectionism in the United States, while resisting Washington's calls for new negotiations on free trade. These calls in turn blandly ignore the fact that President Nixon possesses virtually no authority to negotiate.

Difference of Perspective

These and the many other ironies which enliven US-European relations arise in part from the inevitable difference of perspective from which Americans and Europeans view their common problems. Ambassador William D. Eberle, President Nixon's new supercharged Special Representative for Trade Negotiations, commented on this situation in a recent address: *

"I have already, in my new job, detected a completely different perception of the nature of the present international economic problems as between observers on the two sides of the Atlantic. For example, the United States perceives the European Community and its associates as a common bloc, capable of a common policy or a common initiative. Europeans certainly do not see the situation in the same light. The perception in Europe is one of European weakness, of being in bed with the American elephant . . . Europe sees itself as outward-looking when it makes accommodations for the Mediterranean countries or the Caribbean countries. The United States sees these accommodations as discriminatory, inward-looking deals because they are based on special internal considerations and harm third countries."

This difference of perspective is generating an adversary relationship in which the United States and Europe not only see themselves as weak and the other as strong, but also regard each other as malevolent as well. A growing number of high officials on both sides of the Atlantic appear to be falling victim to delusions of injured innocence. When nations or married couples begin keeping close score on each other, there is danger of divorce.

Campaign Pressures and International Frictions

Frictions between Washington and the Community, sadly, are likely to intensify during 1972. The posturing and passions of a presidential election year in the United States never are conducive to moderate realism in Washington's dealings with the outside world.

In 1972, the impact of political pressures on US-EC relations is likely to be particularly negative, because for the first time in a generation, trade policy will be a central issue in many congressional campaigns and possibly even in the battle for the presidency itself. The American labor movement has embraced protectionism with an ugly passion, and the American Federation of Labor–Conference of Industrial Organizations (AFL–CIO), most powerful single political lobby in the country, grimly warns that it will make candidates' stands on the flamboyantly protectionist Hartke-Burke bill the litmus test for winning labor support. That bill not only calls for extensive and rigid quotas on US imports but also for tight controls on exports of capital and technology. In comparison, the infamous Smoot-Hawley tariff act of the Thirties reads like the Declaration of Independence.

At the presidential level, any Democratic candidate will be compelled to pay heavy tribute to labor's protectionist obsession. Nixon proved by honoring his 1968 campaign pledge to protect the textile industry from imports that he is not immune to protectionist pressures. However, he will probably be in a better position to resist protectionist blandishments than his Democratic opponents. He may even decide that the winning course lies in taking the offensive, wrapping a bold new program for freeing trade in the successes of his overall foreign policy and taking the issue to the people.

At best, though, public opinion is likely to be sharply polarized on the trade issue which could seriously undermine the bipartisan support which liberal trade policies have enjoyed for a generation. Whatever the ultimate impact on American trade policy may be, the hot wind of debate is sure to be felt across the Atlantic, filling the sails of European protectionists and anti-American nationalists.

Complications in Europe's Domestic Chores

Europeans, meanwhile, will be inevitably and perhaps painfully preoccupied with the complex task of stitching the new larger Community together. They are not likely to welcome carping and kibbitzing from Washington.

The Nixon Administration is pushing Europe to negotiate agreements on a number of non-tariff barriers such as discriminatory government procurement practices as well as the terms of association for the EFTA neutrals with the

* *Address to Trade Policy Research Centre, London, November 23, 1971.*

Common Market. A US argument for such negotiations says they could serve as an escape valve for trans-Atlantic tensions which otherwise could reach dangerous levels. However, given President Nixon's very limited freedom to bargain, Europe would be under pressure to give more than it received, a situation which would not be conducive to a warm feeling towards the United States. Beyond that, the awkward half-in-half-out posture of the United Kingdom, Ireland, Denmark, and Norway, and of the would-be associates would compound the Community's already notorious difficulties in agreeing on common negotiating positions towards the outside world.

What's to be done? Probably very little. It would appear that the United States and the Community will have to live for the indefinite future within an adversary relationship which, after all, is the norm for international relations. Indeed, it is a measure of the progress Europe has made towards unity that it is viewed with such acerbity from Washington.

Forces for Cohesion

The *malaise* looks incurable, but there is every reason to hope that it will not be fatal. Europe and the United States are bound together by powerful common political and military as well as economic interests which should insure against divorce in the future, as they did during the financial crisis unleashed by Nixon's measures last August.

The crisis also provided a chilling demonstration of the potential for irrational and destructive behavior on both sides of the Atlantic. It showed that traditional American isolationism and European nationalism still smoulder. Europe's brilliant economic recovery has tended to disguise the extent to which its position in the world was fundamentally weakened by the world wars. There are still 20,000 Soviet tanks in the heart of Europe. If the United States should be goaded or tempted into indifference to Europe's fate, the "Finlandization" of which French President Georges Pompidou has warned could become a fact without a single tank crossing the Oder.

Proportion, Tolerance, Restraint

No dramatic resurrection of the spirit of Atlantic partnership (which at its warmest was more an emanation of European weakness than of mutual resolution) appears to be possible. Nevertheless, the dangers of a US-European widening rift are sufficiently great that it is important for statesmen on both sides to work around the margins to prevent suspicions and hostility aroused by the economic crisis from scarring the relationship.

On the American side it is important for high officials and members of Congress to keep US economic grievances against the Community, some of which are legitimate, in steady perspective. Even in the economic field, US benefits from the continuing process of European economic integration dwarf US losses in sales of a limited number of farm products. As the enlargement of the Community is consummated, the probable dynamic stimulus to imports from the United States should not be obscured by the possible static negative effects of wider discrimination upon which American official attention likes to dwell. And the US political and military stake in preserving a close working relationship with Europe is no less than the preservation of the peace itself.

Mischievous Hyperboles

The careless or disingenuous over-simplification and partisan presentation of the issues, and the high temper in which many American officials from Treasury Secretary John M. Connally on down indulged themselves at various stages of the crisis was mischievous. It can do lasting damage to Europe's confidence in American maturity and responsibility. It also fans the fires of protectionism and isolationism in the US Congress and in the public at large. It is ludicrous, for example, to demand retroactively European gratitude for Marshall Plan aid or American military protection proffered then and now in the vital security interests of the United States. It is gross exaggeration to assert that the United States has played the role of "Uncle Sucker" and fought with one hand tied behind its back in its postwar economic dealings with its European allies. Such statements from the high officials in the Government are bound to erode already failing public support not only for liberal trade policies but also for the President's foreign policies in general.

Myopic Preoccupations

European statesmen, for their part, often are afflicted with a myopic preoccupation with intra-European problems. They tend to react with defensive self-righteousness to outsiders' criticisms of Community policies and scant consideration for their legitimate concerns for their commercial interests. Unlike Groucho Marx, who cracked that he would not care to join any club which would have him as a member, most nations like most people tend to react defensively to the emergence of exclusive associations. It is very much in the Community's interest to lean over backwards to be considerate of US interests and political sensibilities whenever possible.

One area in which it is important for Brussels to show concern for American interests and feelings is in the negotiations for the association of the non-candidate members of EFTA with the Community. There is compelling political as well as economic justification for this—which Washington prefers not to acknowledge. Just how much US trade will be hurt is debatable, although the $300-million a year US estimate looks high. In any case, the political impact in the United States is important, if the area of discrimination against American goods is further broadened without the political offset of the associates' full membership in the Community. It is hoped that the Community and the associates will agree to special arrangements of equal access for paper, machine tools, and other US and third countries' exports which could be damaged most. Such a gesture of good will could go far to improve the political image of the Community in the United States. Hopefully, the Community may also be able to make some relatively low cost gestures to soften the discriminatory aspects of the preferential arrangements with African and Mediterranean countries.

Understanding political gestures often can be as important as the economic concession in sweetening US relations. European statesmen often seem insufficiently sensitive to the extent to which any European attitudes of economic nationalism are seized upon by American protectionists as justification of reprisal. The underlying message of Nixon's August measures on the international side was an unspoken appeal to US allies and trading partners to help him in his political battle against the rising forces of protectionism and isolationism in the United States.

Little wisdom and less leadership can be expected from Washington during its quadrennial bout of political malaria. It probably also is realistic not to expect much wisdom or leadership from the Community during its new period of gestation.

But perhaps it is not too much to hope that Europe's leaders from the summit next spring will see clearly enough to chart a future course that runs outward as well as forward.

1971 in Retrospect

JANUARY

1 The European Economic Community put into effect the fourth of five tariff cuts scheduled under the Kennedy Round of negotiations in the General Agreement on Tariffs and Trade.

• The second Yaounde Convention associating Kenya, Uganda, and Tanzania with the European Communities came into force.

18-19 An American delegation headed by Philip Trezise, US Assistant Secretary of State for Economic Affairs, met with the Community's negotiators, led by Commissioner Ralf Dahrendorf, for the semi-annual trade talks between the Common Market and the United States, in Brussels.

21 French President Georges Pompidou declared himself in favor of working towards a European Confederation of States.

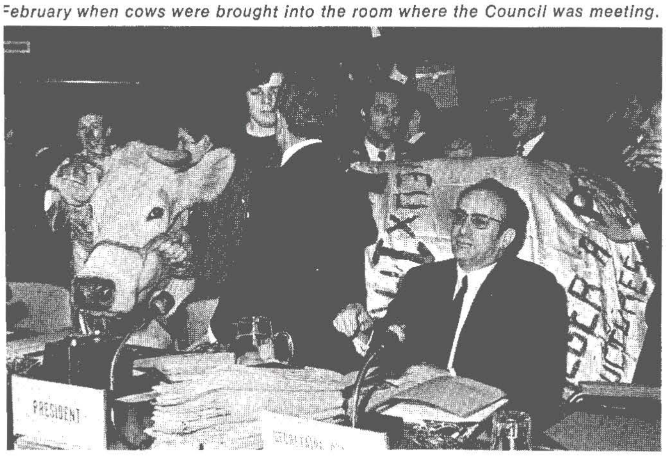
FEBRUARY

1 The common fisheries policy went into force.

9 The Council of Ministers agreed to proceed with plans for economic and monetary union by 1980.

15 The United Kingdom switched to a decimal monetary system.

In March, thousands of farmers demonstrated in Brussels against the Community's agricultural prices. This was the first large farm protest since February when cows were brought into the room where the Council was meeting.



17-20 Foreign Ministers Walter Scheel of Germany and Emilio Colombo of Italy visited the United States and met with President Nixon.

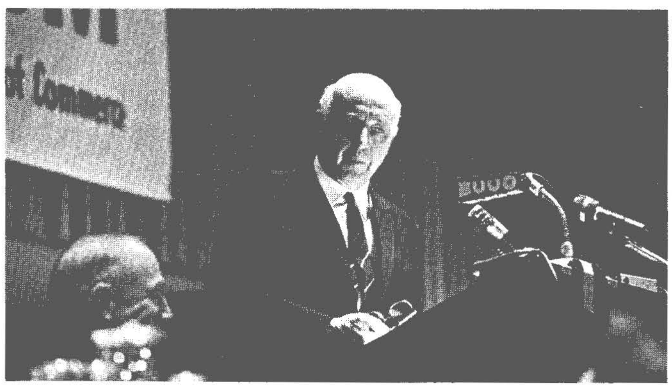
25 In his first annual State of the World message, President Richard M. Nixon called on Europe to take greater responsibility in maintaining world economic order.

MARCH

1-3 Commission Vice President Sicco L. Mansholt met with top Administration officials in the United States, among them US Secretary of Agriculture Clifford M. Hardin.

2 Exploratory talks between Cyprus and the Common Market opened in Brussels.

2 Disputes over terms of Common Market membership caused a ministerial crisis in Norway.



During his visit to the United States in March, Commission Vice President Sicco L. Mansholt suggested to the 1971 Farm Forum in Minneapolis that an exchange of visits by American and European farm organization leaders could improve understanding of each other's farm problems.

9 Socialist member of the German Bundestag, Walter Behrendt, was elected President of the European Parliament.

18 Swedish Prime Minister Olaf Palme announced that Sweden's policy of neutrality precluded full membership in the European Communities.

23-24 Thousands of Community farmers, seeking price increases, rioted in Brussels to disrupt the Council of Minister's meeting on prices for the next marketing year.

APRIL

1 The agreement associating Malta with the European Economic Community came into force.

5 Commission President Franco Maria Malfatti began a three-day official visit to the United States during which he met with United Nations Secretary-General U Thant in New York and President Richard M. Nixon in Washington.
• A US Treasury Department statement took note of the massive short-term capital movements toward Europe and indicated that this problem would not lead to a change in the dollar parity vis-a-vis gold.

In April, Commission President Franco Maria Malfatti, during his first official visit to the United States since assuming office, met with President Richard M. Nixon at the White House.

21 US Secretary of Commerce Maurice Stans indicated on a visit to Madrid that Spain would have to abrogate its trade agreement with the Common Market in order to benefit from any generalized tariff preferences the United States might extend to developing countries.
26 Harold Wilson, leader of the opposition party in Great Britain, openly criticized, for the first time, British negotiations for entry into the European Communities in view of the high price that housewives would have to pay to subsidize the Communities' agricultural policy.

MAY

5 Foreign exchange markets in Germany, the Netherlands, Belgium, and Switzerland closed after a flood of American dollars into Europe.
• Europe Day was celebrated in commemoration of the founding of the Council of Europe.
8 The Common Market's Council of Ministers approved temporarily floating exchange rates for the German mark and the Dutch guilder.
10 The first meeting of East Africa-Community Association Council was held in Brussels.
14 The foreign ministers of the Six, in Paris for the second meeting of the "Davignon (political) Committee," issued a joint communique on the Middle East, the first common stand on a foreign policy question not directly related to the Communities.
18 The Danish Parliament passed a motion requiring a popular referendum on the terms of Denmark's entry into the Common Market.
19 French President Georges Pompidou warned that to allow English to become the working language of the Communities after enlargement would be detrimental to Europe's identity vis-a-vis the United States.
25 The General Agreement on Tariffs and Trade (GATT) approved the draft agreement extending generalized preferences to developing countries.
28 At the closing session of the 18th International Banking Conference in Munich, US Secretary of the Treasury John Connally called upon Europe and Japan to relieve the US burden of defending the Free World.

JUNE

1-3 Exploratory talks were held with Israel, Tunisia, and Malta in Brussels on the problems that enlargement of the Common Market could raise for Mediterranean associates.
3 French Minister of Justice Rene Pleven presided over the first Council meeting of the Ministers of Justice of the Six.
15 Chancellor Willy Brandt of Germany met with President Richard M. Nixon to discuss Berlin and the limitation of conventional forces in Europe.
23 Agreement between the European Communities and Great Britain on the political terms of entry was achieved.

JULY

1 The Community's generalized tariff preferences for developing countries and the second international Food Aid Convention came into force.
• The British Government published its White Paper on the terms and impact of British entry into the European Communities.
15 Benelux, the customs union joining Belgium, Luxembourg and the Netherlands, concluded a trade agreement with the USSR, the first Russian agreement with a multilateral, free-world economic unit.
22 The Community's Agreement on Trade and Technological Cooperation with Lebanon was extended for one year, retroactively to July 1.

AUGUST

15 President Richard M. Nixon announced the imposition of a 10 per cent import surcharge and the end of the dollar's convertibility into gold within the context of his "new economic policy."
20 After two days of intensive discussion, the Community's Council of Ministers failed to agree on a common stand vis-a-vis the American measures.
23 Britain, France, the United States, and Russia concluded a Berlin access treaty, the culmination of 26 years of negotiations.
24 In Geneva, the General Agreement on Tariffs and Trade termed the American import surcharge "illegal."
30 Louis Armand, the first President of the Commission of the European Atomic Energy Community (Euratom), died in Paris.

SEPTEMBER

1 A Community directive came into force, harmonizing the terms of medium- and long-term export credit extended to public buyers.
8 Delegates to the Trades Union Congress in Britain voted against the entry formula negotiated by the Heath Government.

13 The Council of Ministers adopted a joint stand for the Six on international monetary reform for the Washington meeting of the International Monetary Fund later in the month.
16 Indian Foreign Trade Minister Lalit N. Mishra met with Commissioner Ralf Dahrendorf in Brussels, seeking general trade talks between his country and the Common Market.
24 Commissioner Ralf Dahrendorf began a two-week visit to Latin America, travelling to Chile, Argentina, Brazil and Peru, and holding talks with officials of the Andean Group.

'he British Trades Union Congress vote against the terms of Common Market ntry reflected the views of these Britons on October 28, awaiting the 'arliament's verdict.

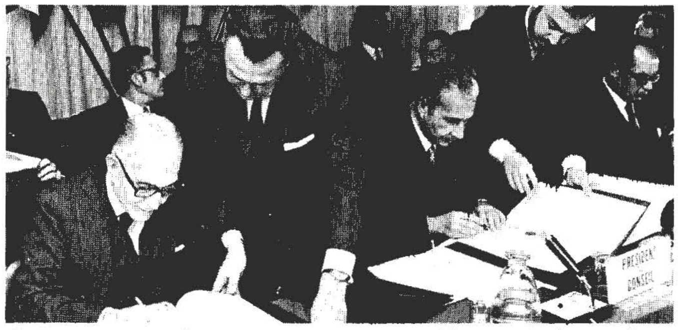
)CTOBER

'2 Meeting in Luxembourg, the Council of Transport Ministers set priorities to speed up development of a common ransport policy.
9 Colombian Foreign Minister O. Vasquez Carrizosa met vith Commissioner Ralf Dahrendorf in Brussels to discuss ;ommunity-Andean Group economic cooperation.
!0 Dr. Aldo Maria Mazio became the head of the new ;ommunity Delegation in Washington, D.C.
!1-22 A Commission trade team, led by Commissioners lalf Dahrendorf and Sicco L. Mansholt, held talks in Vashington with US Deputy Under Secretary of State for :conomic Affairs Nathaniel Samuels and other top American administration officials.
8 Britain's House of Commons approved in principle, entry ito the European Communities by a vote of 356 to 244.

neteen seventy-one will be remembered as the "Year of the Negotiations." re Britain's Chief Negotiator Geoffrey Rippon (right) arrives for the vember 9 round.

OVEMBER

5 The Council of Ministers' "Davignon (political) Committee" met in Rome to discuss political union and a uropean security conference.



On November 8, the first trade agreement was signed between the Community and a Latin American country, Argentina. Left to right: Argentinian Minister for Foreign Affairs Luis Maria de Pablo Pardo, Acting Council President Aldo Moro, and Commission President Franco Maria Malfatti.

8 The first trade agreement between the European Community and a Latin American country was signed in Brussels by the Common Market and Argentina.
16 The Ministers of National Education of the Six met for the first time as the Council of Ministers and decided on temporary means of financing the creation of the European University Institute in Florence.

DECEMBER

3 The Common Market opened negotiations with non-candidate European Free Trade Association members (Austria, Finland, Ireland, Portugal, Sweden and Switzerland) seeking industrial trade agreements.
14 President Richard M. Nixon announced that a dollar devaluation would be made within the context of a major realignment of world currencies. The announcement came at the conclusion of a two-day summit conference with French President Georges Pompidou in the Azores.
16 The Danish Parliament decidedly supported the principle of entry into the European Communities with a vote of 179 in favor, 32 against.
18 Following a two-day meeting of the Group of Ten in Washington, a major realignment of currencies was announced, including an 8.57 per cent devaluation of the dollar in terms of gold *(see page 3)*.
20 President Nixon signed a proclamation ending the 10 per cent import surcharge and the "buy-American" investment tax credit on imports after December 19.
20-22 British Prime Minister Edward Heath met with President Nixon in Bermuda. High on the agenda was discussion of the impact on world trade of Britain's entry into the European Communities.
21 Ambassador William D. Eberle, US Special Representative for Trade Negotiations, was in Brussels to open talks with the Common Market.
28-29 Chancellor Willy Brandt of Germany and President Richard M. Nixon met in Key Biscayne, Florida. On the agenda were the institutionalization of the US-Common Market dialogue and US troop commitments in Europe.
29 The White House released a report by Peter G. Peterson, assistant to the President for international economic affairs, criticizing the Common Market as a discriminatory bloc and a threat to the non-discriminatory foundations of the postwar trading system.

Atlantic Dialogue: Who Speaks for Europe?

"There is no Europe!" an exasperated President John F. Kennedy once sighed to an advisor. "I understand their objection to my speaking for them on nuclear matters, but who's to be my opposite number? I can't share this decision with a whole lot of differently motivated and differently responsible people. What one man is it to be shared with—De Gaulle, Adenauer, Macmillan? None of them can speak for Europe."

Today, no single person or group can yet claim to speak in the name of Europe. Nevertheless, Atlantic developments have not remained static. As a result of President Richard M. Nixon's New Economic Policy (NEP), announced August 15, the fundamental relationships between the United States and West Europe are being reexamined. In the next few years, a new relationship will be negotiated for the post-post-war era. A forum for Atlantic dialogue must be urgently established.

A Premature Opportunity?

Many European observers share the nagging concern that the Continent's unity has not sufficiently developed for it to respond properly in these negotiations, that the current situation arrived a few years too early. As the British weekly *The Economist* recently noted, "What Europe's alarmists see most clearly is the contrast between the present inadequacy of Europe's construction and the sweeping changes that are apparently being forced on American politicians, and thus on Europe, by the American electorate. Ideally, the Common Market would like to have a few quiet years in which to sort out the internal problems of British entry. Instead, events have moved faster than its capacity to cope with them."

3 Groups of Issues

President Nixon's program raised three separate groups of issues which together form the core of the trans-Atlantic relationship:

- reform of the international monetary system. As all countries now agree, some changes must be made in the system established at Bretton Woods in 1944.
- reform of the international trading system. The rules of the General Agreement on Tariffs and Trade (GATT), formed in 1947, were written for a different trading world. These rules must now be reformulated in the light of new realities, among which, is the unification of Western Europe.
- distribution of the European military defense burden. The US administration has demanded an increase in the European allies' participation in the support of American troops in Europe as part of the North American Treaty Organization (NATO) commitment.

3 Forums of Discussion

These three issues involve three different international organizations in which the European membership and methods of negotiating with the United States are similarly varied. In two of these organizations, all six Common Market members are represented. Only one organization, the General Agreement on Tariffs and Trade (GATT), includes the six current members as well as the four applicants for membership (the United Kingdom, Ireland, Denmark, and Norway).

In monetary affairs, Belgium (also representing Luxembourg), France, Germany, Italy, and the Netherlands, belong to the "Group of Ten" within the Organization for Economic Cooperation and Development (OECD).[1] At meetings, the president in office of the Community's Council of Finance Ministers presents the joint position of the Six.

On trade questions, the Community negotiates as a unit within the GATT. According to the procedure used in the Kennedy Round, Community positions developed among the Six at separate meetings are presented by the Commission, with all six member states present at the GATT session.

On military questions, the procedure is less structured. A 10-nation "Eurogroup" has met occasionally within NATO to formulate a European response to American requests for increases in defense spending and will undoubtedly see more action in the upcoming "burden sharing" discussions. *(See European Community No. 146, pages 14-16.)* However, it epitomizes the problem of scattered European responses, as "Eurogroup's membership neither coincides with the Group of Ten nor includes all six members of the Common Market since France stopped participating in NATO.[2]

Suggestions for Improving the Dialogue

During the past months, proposals have been pouring out of the chancelleries of Europe suggesting improvements in the structure of meetings between high ranking officials of the United States and the Common Market countries.

Common Market Commissioner Ralf Dahrendorf has suggested an approach similar to the one used during the negotiations for British entry into the European Community. Under this plan, the ministers of the Six and the Commission would jointly meet with the US representatives, with one minister designated as spokesman for the Europeans. Mr. Dahrendorf maintains that such a meeting should be held in the second half of 1972, after the expected summit gathering of the heads of government of the ten countries in the enlarged European Community.

Another Commission member, Jean-François Deniau, has suggested that the European summit conference designate one of its participants to present the European position to Washington.

Despite the differences in these proposals, all foresee the eventual establishment of a continuous and institutionalized dialogue between the United States and the European Community, after the European countries prepare a unified position.

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[1] *The other members are Canada, the United Kingdom, the United States, Japan, and Sweden.*

[2] *Eurogroup members are Belgium, Germany, Italy, Luxembourg, the Netherlands, the United Kingdom, Denmark, Norway, Turkey, and Greece.*

Deputy Under Secretary of State for Economic Affairs Nathaniel Samuels (left) and Common Market Commissioner Ralf Dahrendorf after their October 15-16 round of meetings.

Institutions Outlive Statesmen

The establishment of similar institutions has been part of the philosophy of the post-war movement toward European integration. Jean Monnet, the first president of the European Coal and Steel Community and one of the Common Market's "founding fathers," based his proposals on the idea of establishing an institution, which could outlive the statesman advocating a policy. "What we can leave are the institutions. The lives of institutions are longer than those of men and institutions can also, if they are well-constructed, accumulate and transmit wisdom to successive generations," he explained. Recent European experience tends to support this thesis. The European Community is the archetype of an institution designed to develop cooperation among nations.

Another example is the semi-annual Franco-German meeting under the 1963 Treaty of Cooperation. While the individual meetings may have resulted in varying success, both countries readily admit that the institutionalized contacts are useful not for resolving crises but rather for maintaining contacts and keeping crises from developing.

The "Samuels-Dahrendorf" Talks

Today, institutionalized dialogue between the United States and the Community occurs through the so-called "Samuels-Dahrendorf" committee, which meets twice a year, alternating between Brussels and Washington.

A Common Market Commission delegation led by Commissioner Jean-François Deniau visited Washington in May of 1969 and March of 1970. During that period, Chancellor Brandt proposed an "organized dialogue" between Europe and the United States. Following these events, the decision was made to bring Community and US representatives together at regular intervals without establishing any new institution. This decision recognized the usefulness of the informal talks and official visits that had been going on ever since the Common Market began functioning in 1959.

In October 1970, the first of the "Samuels-Dahrendorf" meetings was held. Leading the American delegation of representatives from the State, Treasury, and Agricultural Departments was Deputy Under Secretary of State Nathaniel Samuels. The European delegation was headed by Mr. Dahrendorf, the member of the Commission responsible for trade affairs. Two more meetings were held in June and October 1971.

There is no way of measuring the results of the Samuels-Dahrendorf talks, except to say that both sides are still talking after three rounds in which failure of communication at times seemed imminent. The first meeting took place during the controversy over the "Mills Bill," which Europeans strongly opposed. At the second meeting, the Community presented a unilateral offer to reduce the duty on oranges from 15 per cent to 7 per cent during the peak US growing season. This issue had long irritated both sides. The third meeting produced a useful exchange of views on the American measures announced August 15 *(see European Community No. 150, page 3)*.

Both American and European officials, however, agree that the limited "Samuels-Dahrendorf" consultations are insufficient to deal with the major problems facing the Atlantic alliance today. A forum along the lines of the several suggested will have to be found for the Atlantic dialogue of equal partners, which President Kennedy sought but failed to achieve because there was no answer to: "Who speaks for Europe?"

Power Dispersion Seen From Brussels

*Once again the Community and the United States resemble one another. Europeans justly observe that on such matters as the American Selling Price, where agreements have been reached with the Executive Branch, the obduracy of the Congress effectively prevents action. This has led such experienced diplomat-negotiators as Jean-Francois Deniau to say (*Le Monde* October 19-20, 1971) that any international negotiation with respect to non-tariff barriers must be preceded by a firm grant of authority from the Congress to the American negotiators.*

J. Robert Schaetzel, *Head of US Mission to the European Communities,* Excerpt from Article Prepared for *Europa Archiv* 24/1971, December 25, 1971

"Abuse of a Dominant Position?"

PAUL KEMEZIS

The American packaging giant Continental Can has been charged with "abuse of a dominant position" in a precedent-setting case which could influence corporate mergers in the Common Market for years to come.

The Commission on December 13 decided that the recent expansion in the European Community of Continental Can's Brussels-based subsidiary Europemballage constituted an "abuse of its dominant position" in the German and Benelux metal-packaging market. The Commission has told the company that it should modify its activities. But the Commission stopped short of ordering the company to divest itself of its most recent acquisition, the Dutch firm Thomassen et Drijver-Verblifa by July.

The decision is based on Article 86 of the Rome Treaty. It is the second time in the history of the Community that this regulation has been invoked.

The Commission's first move under Article 86 was against the German company, GEMA, which controls the rights of composers. GEMA took the dispute to the Community Court of Justice but later abandoned its proceedings.

After a lengthy investigation, the Commission sent a complaint to Continental Can in March 1971, and listened to the corporation's defense during the summer before making its final decision. Now that the administrative ruling has been made, Continental Can must decide whether to lodge an appeal before the Community's "Supreme Court," the Court of Justice in Luxembourg. If it does, the Court's decision will clarify the validity and scope of Article 86. If the Court upholds the Commission's action, the Community will have a powerful weapon to attack other monopolistic situations and to prevent new ones from occurring.

Numerous Interests in Europe

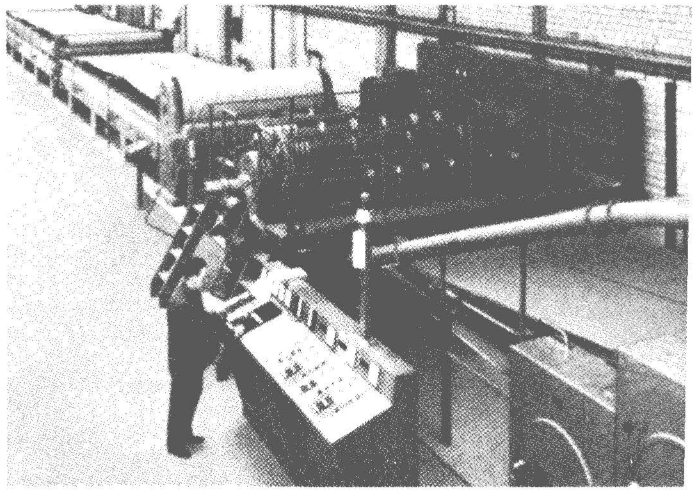
Europemballage was formed in 1970 to cement together Continental Can's numerous interests in Europe, which include licensing arrangements and subsidiaries. Among these subsidiaries is the largest German producer of metal containers and "white cap" metal lids, Schmalback-Lubeca-Weka, which Continental Can bought out in 1969. In April 1970, Europemballage announced the purchase of a 77.3 per cent share in the leading container producer in the Benelux countries, Thomassen et Drijver-Verblifa.

At the same time, Europemballage was negotiating with Metal Box, the top British packaging group. Metal Box contemplated turning over its control of the biggest Italian producer, Superbox, plus shares in Dutch and British firms, in return for a 15-20 per cent interest in Europemballage.

The Commission's Reasoning

Immediately after the acquisition of the Dutch group, the Commission told the interested parties that it was opening an investigation; Metal Box, which was also being scrutinized by the British Monopolies Commission, dropped out of the proposed merger.

After a year's study, the Commission decided that the purchase of the Dutch company had given Europemballage



This new corrugated plant was built in Biebesheim, Germany, by Schmalbach-Lubeca-Werke, the German member of Europemballage, Continental Can's Common Market subsidiary.

control of 70 per cent of the German and Benelux metal packaging market. In view of its already commanding position, the company was effectively restricting competition there, the Commission concluded. Although there are no tariffs to bar products from France from competing in this area, the Commission said that because of transport costs, containers could not effectively compete outside an approximately 300-mile radius.

Legal Points at Issue

The major legal point which the Communities' Court of Justice will have to decide is whether or not high concentration in itself constitutes "abuse of a dominant position" within the meaning of the Common Market Treaty. The Commission is not accusing Continental Can of buying other firms to force up prices or discriminate among customers, or of maintaining an outright monopoly, which is clearly prohibited by Article 86. It is simply saying that the near-monopoly situation caused by the most recent purchase is an abuse.

The Commission has been studying this problem for 12 years and has gradually reached this conclusion. It has been waiting for a case that illustrates the problem of near-monopoly positions before taking action which could lead to a test of the principle in the Communities' highest Court. Commission officials say that the fact that Europemballage is American owned is irrelevant to their case.

If the Court upholds the Commission's view, it will have to define "dominant position."

Continental Can's Position

Continental Can questions the definition that the Commission has applied to the packaging market, saying that the figure of 70 per cent control could be obtained "only by using very limited sectors." It believes that an "adequate definition" of the market, taking into account different products and processes which serve the same purpose and firms which package their own products, would give Continental Can about a 20 per cent share.

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The company considers the packaging field an open one, with much technical innovation allowing new firms to enter. Continental Can also believes that the Commission decision conflicts with the Commission's industrial policy which seeks to encourage the formation of European-sized enterprises.

The Stakes

If the Court upholds the view of the corporation, the Community's competition policy on mergers could suffer. If the Commission wins, it would gain anti-trust powers similar to those exercised by the US Government, something unprecedented in Europe.

The Community now has power to block abuses such as price-fixing and market-sharing when they occur through an agreement between independent firms. This derives from Article 85 of the Common Market Treaty, which has been successfully tested in the Court. The Commission is seeking similar powers to scrutinize and curb mergers to maintain competition. The Commission is afraid the legal situation between Articles 85 and 86 has led corporations to prefer mergers as the safest means of controlling markets.

If the Commission's action against Continental Can succeeds, it is ready to probe many other fields. It has a list of 22 industries where it considers the degree of concentration high and where new mergers could set off an immediate "alarm signal."

Recent Books

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.

The Structure of Protection in Developing Countries. By Bela Balassa and Associates. The Johns Hopkins Press, Baltimore, 1971. 312 pages with appendices and index. $12.00.

An appraisal of the effects of the current systems of protection in developing countries, with special emphasis on their impact on economic performance.

The author examines import-substitution policies, the interaction of tariffs and exchange rates and their effects on exports, the implications of duties on raw materials and intermediate products for the protection of markets for finished products, and the protective measures on resource allocation and economic growth.

Three Latin American countries (Brazil, Chile, Mexico) and three Asian countries (West Malaysia, Pakistan, the Philippines) are studied and compared to a developed European country, Norway. In the first part of the book, the author gives the conceptual framework, provides background information on the economy of the countries involved, evaluates the results of protection policies. Part II presents the results of the country studies.

The German Rearmament Question: American Diplomacy and European Defense After World War II. By Robert McGeehan. University of Illinois Press, Urbana, Illinois, 1971. 262 pages with bibliography and index. $10.00.

A study of the American attempt to rearm Germany after World War II.

The author explores the setting from which the American decisions emerged to seek a Germany military contribution. He emphasizes the impact of the attack on Korea, which strengthened the US belief that aggression in the Far East signaled the possibility of a similar Communist move against a militarily feeble Western Europe. He traces the diplomatic maneuvers which resulted between Paris, Bonn, London, and Washington.

The Gold War: The Story of the World's Monetary Crisis. By Gordon L. Weil and Ian Davidson. Holt, Rinehart and Winston, New York, 1970. 236 pages with index. $6.95.

A survey of events on the international monetary scene over the past decade.

The authors trace the declining confidence in the world's monetary system since its creation at Bretton Woods in 1944. They expose the rules of the game played by the leading Western nations in the "Group of Ten" and argue that economic and monetary complexities are based on political and diplomatic conflicts.

They examine, in particular, the decline of the dollar and its defense, the fall of the pound sterling, the uncertainty of the French franc, the consequent rise of the German mark, the speculative rush on the gold, and the creation of "paper gold" or Special Drawing Rights. The authors also discuss the choices open to the United States and Europe to shape the future world monetary system.

The Rebirth of Europe. By Walter Laqueur. Holt, Rinehart, and Winston, New York, 1971. 434 pages with index and biliography. $8.95.

A general history of Europe since 1945, dealing with postwar political problems as well as economic, social, and cultural trends on both sides of the Iron Curtain.

It is the author's theory, that Europe, far from dying (an assertion popular now as it has often been in the past) is alive and ready to assume a new leadership in the world. While the superpowers may be politically preeminent, it is Europe's civilization which has and will guide the world, even though it has experienced the attacks of the fashionable and faddish prophets of decadence and doom. Europe's economic problems proved to be much less difficult to solve than those of the Third World countries. Instead of taking over the lead in world politics from a tired Europe as some people had predicted, the developing countries were in danger of falling further behind western civilization. It is Europe's duty to see that the trend is reversed, as it comes into its own in the international field.

The Export Performance of Six Manufacturing Industries: A Comparative Study of Denmark, Holland, and Israel. By Seev Hirsch. Praeger Publishers, New York, 1971. 177 pages plus appendices. $15.00

A quest for the factors which determine exports and their interaction, focusing case studies of individual companies.

"How can exports be increased?" is the basic question underlying this study. The author analyzes the factors (other than variations in capital input) affecting the export performance of six manufacturing industries in three countries. He studies in detail the relation of technological characteristics, size, organization, marketing strategy and distribution of exports.

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