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BACKGROUND NOTE

THE UNITED STATES IN THE COMMON
MARKET COMMISSION'S ANNUAL REPORT

Francois-Xavier Ortoli, President of the Commission of the European Communities, presented the Commission's annual report to the European Parliament on February 13 in Strasbourg, France. The following text is a summary of the portions of the annual report dealing with US-EC relations.

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Trade and Monetary Events

The outstanding event of the year in EC-US trade and monetary relations was the conclusion, on February 11, 1972, of the commercial counterpart of the monetary agreement of December 18, 1972 [the "Smithsonian Agreement"]. It consisted of a joint declaration by which both parties agreed to extensive multilateral negotiations in 1973 within the context of the General Agreement on Tariffs and Trade (GATT) and of an exchange of letters on reciprocal commercial commitments.

The joint declaration (with which Japan associated itself in a similar declaration signed with the United States) specified that the multilateral negotiations would be directed toward the expansion and liberalization of world trade and toward the improvement of living conditions of the peoples involved in them. The negotiating commitment was conditional upon obtaining necessary

domestic negotiating authorizations. This condition recognized the US Congress' limitations on the Administration's current negotiating powers. The declaration specified that the negotiations would be based on mutual benefits entailing global reciprocity and would include trade in both farm and industrial products. Both parties also agreed that special attention should be given to the developing countries during the negotiations.

The exchange of letters covered both parties' commitments to stock grains and the Community's agreement to temporary reductions in customs duties on some citrus fruits. This exchange of concessions settled some limited but annoying problems which, because of their political repercussions, had caused months of friction, despite the Community's conciliatory moves early in 1971.

The February 1972 agreement relieved strains which had begun in 1971 in EC-US relations, although it did not settle every problem. The wide divergence of EC-US objectives still demands comprehension and compromise on both sides, which will involve difficult negotiations. Nevertheless, the agreement has loosened the dogmatic rigidity in which the EC-US dialogue had become frozen.

The will to achieve a detente in trade relations, which the agreement embodies, was confirmed by the spirit in which the debates on monetary problems were held at the September 1972 meeting of the "Group of Twenty" within the International Monetary Fund (IMF).

At the October 1972 "Summit" meeting of the political leaders of the "Nine," the enlarged Community stressed the importance of maintaining a constructive dialogue with the United States. At the same time, it expressed its readiness to open extensive multilateral negotiations on a tight schedule. Replying to the Paris declaration, President Richard M. Nixon welcomed the EC "commitment to progressive liberalization of tariff and nontariff barriers to trade" and renewed the US Government's support for European unity as a cornerstone of US foreign policy.

Common Interests Give Perspective on Day-to-Day Disputes

The major general policy options must be kept in sight when reviewing day-to-day disputes between the Community and the United States. Here, the points of friction and strain, already numerous, are increasing with the Community's growth. This trend has been accentuated by the US announced intention of dissociating its political support for European unity from the defense of its economic interests. Never before has the US Administration scrutinized and evaluated so systematically every detail of European policies, their scope, and their possible effects.

During 1972, US reproaches, interventions, and protests about certain Community policies have multiplied and have been formulated with growing insistence and vigor. The major issues are the common agricultural policy and the Community's association and trade agreements establishing free trade areas and customs unions. In the latter field, the Community's policy toward Mediterranean countries has become the main bone of contention.

The Community also has grounds for complaint. Protectionist pressures in the United States still exert a powerful political and electoral impact, reflected in 1972 by a series of measures of varying importance tending to curtail imports. Here, mention should be made of the US "voluntary restraints" on EC steel exports, the strengthening of arrangements giving American goods a privileged position in government procurements, and the increased recourse to antidumping duties. Perhaps partially because of the deterioration of the US external financial position, the US Administration has also encouraged exports artificially by exempting some export income from direct taxation (through the Domestic International Sales Corporation statute) which the Community considers in conflict with the GATT rules.

Disputes Attest to Vitality of EC-US Relations

The Commission of the European Communities still believes that the reality and importance of the problems underlying this climate of strain and misunderstanding between the Community and the United States do not deserve the political, tactical, or psychological emphasis sometimes put on them. The Commission would like to stress that the fundamental and essential joint interests which are the basis of EC-US relations eclipse the inevitable points of dispute in any healthy relationship, whether between individuals or states.