EUROPEAN COMMUNITY NEWS

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THE EC JOINT FLOAT

Technical details concerning the joint Common Market currency float are now being worked out in preparation for the scheduled March 19 opening of European exchange markets. The decision for a joint float of six EC member states' currencies came at a March 11-12 EC Council of Ministers meeting in Brussels. The decision followed a March 9 meeting in Paris of an expanded "Group of Ten" of the International Monetary Fund, at which Treasury Secretary George P. Schultz represented the United States. Another meeting of the expanded Group of Ten was scheduled for March 16, also in Paris. The currencies of the EC's nine member states had been floating independently of one another since March 2, when the European exchange markets closed.

The joint float decided upon by the Council means that the maximum margin at any one time between the German mark, the Danish krone, the Dutch florin, the Belgian franc, the Luxembourg franc, and the French franc will be maintained at 2.25 per cent. For the member states which have a two-tier system of exchange rates, this commitment applies only to the regulated market. The joint float also means that EC central banks are no longer obligated to intervene in the fluctuation margins of the US dollar. To protect the joint float against disruptive capital movements, the March 21, 1972, EC directive controlling short-term speculative movements of capital will be reinforced and any necessary complementary instruments will be established.

In a statement issued at the conclusion of the March 11-12 meeting, the Council noted:

"The British, Irish, and Italian members of the Council stated that their Governments intended to associate themselves as soon as possible with the decision which had been taken to maintain the Community exchange margins.

"To this end, the Commission will put forward the suggestions that it considers suitable at the same time as it submits its report on the adjustment of short-term monetary support and the conditions for progressive pooling of reserves within the set period, that is by June 30, 1973.

"The Council agreed that in the meantime close and continuing consultation on monetary matters will be maintained between the competent bodies in the Member States.

"The Representative of the Federal German Government gave notice of the intention of his Government to make a minor adjustment of the central rate of the mark before the exchange markets were reopened in order to make a contribution towards the orderly development of the operation of the exchange markets."

COMMISSION COMMENTS ON JOINT FLOAT

An EC Commission spokesman issued the following statement after the EC Council of Ministers March 11-12 meeting:

"The Commission believes that the arrangements undertaken by the Council, which will avoid a disjointed float, ward off the risk of speculation.

"Nonetheless, the Commission regrets that the Council was unable to decide upon measures in which all Community member states could participate, as the Commission had proposed.

"The Community must still work toward economic and monetary union. Therefore, the nine nations must return as soon as possible to a Community system of exchange rates, as agreed a year ago.

"That is why the Commission attaches the greatest importance to the mandate it has received to make suggestions to this end. It ascribes equal importance to the proposals it must make on the pooling of reserves and short-term support."

EC ZEROES IN ON AUTO SAFETY

"More" can also mean "better" -- at least, that's what the Commission of the European Communities hopes in the case of automobiles. Now that the Community has surpassed the United States as the world's leading auto maker, the Commission continues its efforts to harmonize automotive standards throughout member countries.

Ten Commission proposals for auto safety have become law; two others are awaiting approval by the EC Council of Ministers. The European consumer reaps a double benefit: first, safer cars spell fewer accidents; second, Community-wide standardization reduces production costs and holds down prices.

The first step toward harmonizing auto standards was also perhaps the biggest step, for it set minimum standards for vehicle inspection throughout the Community. Every member state had an official approval procedure before allowing an automobile to be sold. After technical consultations to resolve each auto industry's particular problems, and to overcome the conservatism of the national authorities, the Council of Ministers finally passed, on February 6, 1970, a Community-wide procedure for tests. It will not, however, come into full force until all the specific directives on automobile standards are adopted and go into effect.

On the same date, the Council agreed on maximum noise levels and on a common method for measuring noise. Adopted, too, were regulations to harmonize exhaust control systems.

On March 20, 1970, the Council agreed on uniform specifications for rear license plates, liquid fuel tanks, and rear bumpers. Other directives, adopted July 27, 1970, set specifications for manufacturing and mounting auto horns and for assembling doors, locks, hinges, and running boards. Still another directive, adopted March 1, 1971, requires conformity in the manufacture and mounting of rear view mirrors. Both inside and outside rear view mirrors will be mandatory.

These directives for automobile parts are based not only on safety but on marketing considerations. Now, spare parts, bearing the EC stamp of approval, will be easily obtainable by consumers in any state for any automobile.

From the point of view of safety alone, perhaps the most important Council directive was adopted July 26, 1971. This requires dual brakes on all new vehicles after October 1, 1974.

Concomitant with interest in auto safety is the public's increasing concern with auto-caused pollution. Acting quickly on March 20, 1972, to forestall the threatened enactment of disparate national laws, the Council of Ministers adopted a common policy to fight air pollution caused by internal combustion engines.

The directive set maximum levels for the following: toxic gas exhaust in a congested area immediately after starting the engine; carbon monoxide exhaust when the engine is idling; crank case gas emissions.

To measure these levels, the Council adopted European rather than American tests, since the power/weight ratio of European vehicles is lower than that for American-made vehicles. Whereas American pollution tests apply primarily to unburned hydrocarbons, Europe emphasizes cutting down carbon monoxide exhaust.

In the hopper are Commission proposals for the mandatory use of laminated safety glass windshields and the installation of steering columns that cannot be displaced more than five inches during a frontal impact of 50 kilometers (31 miles) per hour.

Commission recommendations to the Council to harmonize auto standards are expected to total about 70; and vehicle safety is seen as only one way to reduce traffic accidents; still needed are common policies and standards for drivers and roads.

"COMPENSATORY" TALKS BETWEEN EC AND ITS PARTNERS

Negotiations are now underway between the European Community and its major trading partners, including the United States, on the question of whether the EC's customs union enlargement entitles these partners to compensation. The talks, begun in Geneva this week, are being conducted within the General Agreement on Tariffs and Trade (GATT).

Any of the EC's trading partners which can show damage to their trade as a result of the Community's enlargement are entitled to compensation under Article XXIV/6 of the GATT.

The Community believes that its January 1 enlargement to include Britain, Denmark, and Ireland has no overall adverse trade effects for the outside world. The EC's position is based on the fact that the average industrial tariff for the United Kingdom, the largest of the three new members, will be lowered as a result of membership.

AVERAGE POST-KENNEDY ROUND TARIFFS
(percentages)

	Raw Materials	Semi-mfd.	Finished mfd.	Industrial Average
Community of Six	0.6	6.2	8.7	6.0
United States	3.8	8.3	8.1	7.1
United Kingdom	1.2	8.3	10.4	7.6
Japan	5.5	9.3	12.0	9.7

(Source: Tariff Study, GATT, 1971)

EC-YUGOSLAV COTTON AGREEMENT

A cotton textile agreement between the European Community and Yugoslavia will soon enter into force. The agreement, initialed March 1 in Brussels, will suspend most existing bilateral or unilateral quantitative restrictions, thus allowing the Community to extend generalized preferences for cotton products to Yugoslavia. Generalized preferences for cotton products are normally reserved for signatories of the Geneva long-term agreement on cotton textiles. The EC's extension of these preferences to Yugoslavia is in line with efforts to expand East-West trade.

THE ECONOMIC SITUATION IN THE ENLARGED EC

Unemployment is down, but inflation is up. That's the verdict of the latest EC Commission survey of the economic situation in the Community. The survey covered the closing months of 1972 and included Britain, Denmark, and Ireland, which did not become EC members until January 1, 1973.

The survey attributed the lower unemployment rate in almost all the member countries to increased economic activity coupled with unusually mild weather. The number of unfilled jobs went up in the Community as a whole, almost doubling in France alone.

Toward the end of 1972, prices were still rising fast throughout the enlarged Community, the survey showed. The yearly cost of living increases ranged from a low of 6 per cent in Luxembourg to a high of 8.5 per cent in Ireland.

The survey also showed a distinct upswing in business activity and investment, suggesting that in 1973 industrial investment may grow by as much as 13 per cent in Italy, for example.

EC ACTS TO HELP "THIRD WORLD"

Food aid for Indochina and drought-stricken African countries is the latest example of the European Community's continuing aid to the "Third World." On March 7, the EC Commission made an urgent proposal to send Community food aid to the more than one million displaced persons in Cambodia, Laos, North Vietnam, and South Vietnam. On March 5, the Commission had approved the European Development Fund's allocation of 19 billion units of account (1970 dollars) for food aid to African countries hit by one of the worst droughts in years.

The aid to Indochina would initially include 30,000 tons of husked rice, 1,500 tons of powdered milk, and 600 tons of sugar. This food aid would be allocated within the multilateral framework of the International Red Cross.

The African countries to receive aid are all associates of the Community under the Yaoundé Convention -- Chad, Mali, Mauritania, Niger, Senegal, and the Voltaic Republic. These countries have already been sent almost 96,000 tons of food aid both by individual EC member states and by the Community. The drought -- occurring during the Southern Hemisphere winter last year -- severely damaged both crops and livestock.

PRESS VIEWS

CRISIS SPURS INTEGRATION?

The main importance [of the March 9 monetary conference in Paris] was that it showed that something had been salvaged of international monetary cooperation, a term that is far more than the platitude it sounds like. Cooperation over the last quarter century laid the base for ever-expanding trade, the economic recovery of Europe, and rising living standards in all the developed nations. It's when cooperation breaks down that the trouble begins. The question remaining is: Will the European integration movement break up or can the crisis do something to spur new enthusiasm? Historians point out that the great steps toward integration over the last 25 years came about not because of an inner drive among the divided Europeans but because of an external threat. First it was the Russians. The new catalyst could be the American dollar.--Clyde H. Farnsworth, *The New York Times*, March 11, 1973.

CLOSER US-EC COOPERATION

The decision of West Germany, France, Belgium, the Netherlands, Luxembourg, and Denmark to float their currencies jointly against the dollar...was the right response to the protracted monetary crisis.... The United States can best contribute to restoring stability to the world monetary system by seeking closer cooperation with Europe in the area of monetary policy. Too loose a monetary policy on this side of the Atlantic, and too tight a policy on the other hand, has intensified the outflow of capital from the United States to Europe. By the same token, the European countries should rely more upon fiscal policy -- cutting budget expenditures or raising taxes -- to control domestic inflation, while employing monetary policy and lower interest rates to staunch the pull of dollars into Europe. -- Editorial, *The New York Times*, March 13, 1973.

THE COMMON MARKET'S COMMON FLOAT

The Common Market's long deferred decision in favor of a common float of six of the Common Market currencies against the US dollar could mark a turning point toward greater international stability.... What the Common Market countries have now agreed to may be the forerunner of a real currency and monetary union which, supported by the largest gold and other acceptable reserve assets hoard in the world, can eventually return to the stability afforded by a gold-based currency and thereby become the preferred world reserve currency. Later this year, it should be remembered, the Common Market countries are going to set up a common reserve fund, equivalent to at least US $10 billion, mostly in gold, to provide for redemption of Common Market currency obligations.... What the Common Market countries now have agreed to may have some catalytic effects in moving the world toward sounder money. -- Editorial, *The Journal of Commerce*, March 13, 1973.

THE TRANSATLANTIC FAULT AND MONETARY REFORM

In charting the depths of the "Transatlantic Fault," a fashionable phrase for divisions between the United States and its chief allies, political seismographers can breathe easier now....European governments have agreed upon a partial floating of currencies that promises to provide a measure of respite in the current monetary crisis....For the finance ministers [of France and Germany] this was a difficult move fraught with uncertainty and unorthodoxy. It represented a retreat from the fixed-parity system long championed by Paris. And for Bonn, it required a revaluation of the mark that was bearable only because it was wrapped neatly in a European package that will promote movement toward a common European currency....In the high drama of the latest monetary upheaval we now have reached a stage where the United States has made the first gesture by devaluing the dollar and the Europeans have responded by letting their currencies fluctuate in closer response to market forces.... What really is needed is a free world decision to use the present crisis as a catalyst for a durable, carefully crafted reform of the world monetary system. -- Editorial, *The Baltimore Sun*, March 13, 1973.

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FIRST CLASS