THE UNITED STATES AND THE EUROPEAN COMMUNITY: THEIR COMMON INTERESTS

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COMMON INTERESTS

PREFACE

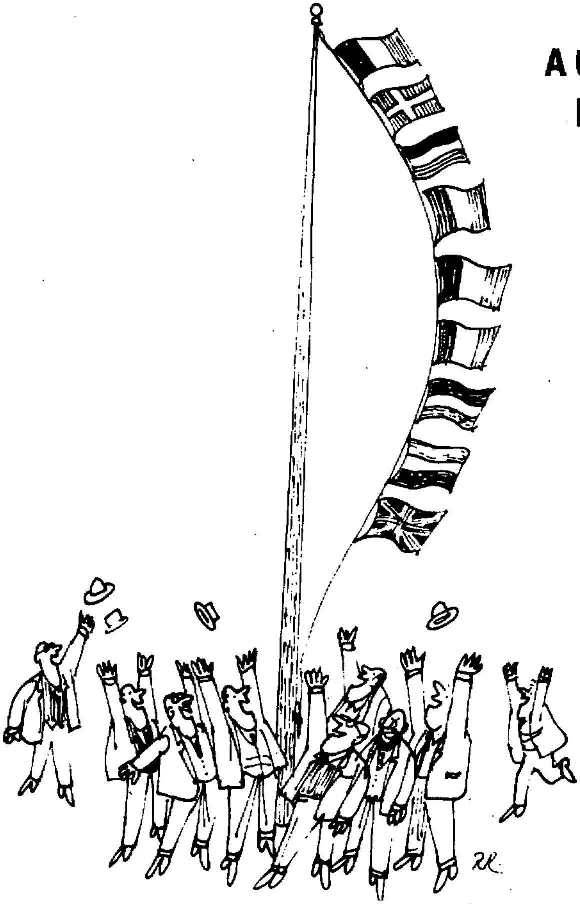
The climate of relations between the European Community and the United States has improved remarkably since the first publication of this booklet, in January 1971. Confrontation has yielded to compromise. Channels of communication between the world's two major trading powers are reopening. Reason, resignation to hard choices, and negotiation are replacing threats and accusations, lest both partners lose.

The European Community and the United States faced the prospect of trade war after President Richard M. Nixon's unilateral announcement on August 15, 1971, cutting the dollar's tie to gold and imposing a 10 per cent import surcharge. Overnight the postwar monetary arrangements had ended and the principle of free trade had been called into question. Instead of retaliating, the European Community entered into negotiations. Through compromise, trade war was averted.

If these events hold a lesson, it must be that a permanent system of mutual consultation should be maintained. From a 3,000 mile distance, undiscussed differences of perspective can blot out the broad outline of common interests.

The United States has hinted that it will "no longer pay an economic price for Europe's non-existent political unity." This booklet shows that the United States has benefited, not suffered, from Europe's nascent unity. It places minor differences in perspective.

The European Community today, although not yet united politically, is much more than a great trading bloc. Its expansion to a scale more comparable to that of the United States has heightened its awareness of worldwide responsibilities and of the need to exercise a leadership role commensurate with its position.



1 A UNITED EUROPE

In the spring of 1945 the democratic world system, which for a century had promised man limitless progress towards peace and plenty, lay in ruins. Of the major democratic nations, only the United States was intact. Western Europe was torn and exhausted. The Soviet Union emerged victorious and war-weary. Stalin's armies, arrayed across the center of Europe, stood ready to spring upon the thin remains of European democracy, then beset by aggressive national units of the Communist International.

To prevent the extinction of European democracy, the United States mounted the Marshall Plan and forged the North Atlantic Treaty Organization (NATO) alliance. These acts turned the tide, but economic and military aid from outside could not alone save Europe indefinitely. Europe's political and economic structure needed revolutionary change. The nation-state system had bred centuries of bloody wars; now it was delaying, perhaps dangerously, Europe's economic recovery.

EUROPE'S FIRST STEP TOWARD UNITY

Many men in Europe and the United States, in the aftermath of the war, believed that nothing less would suffice than an Atlantic Federation, marrying the strength and optimism of America to exhausted Europe. But there was little support in the United States for sharing sovereignty, and much fear on the part of Europeans that their distinctive cultures would be crushed in the embrace of the American giant.

The Atlantic option was preempted on May 9, 1950, when Jean Monnet and Robert Schuman proposed the creation of the six-nation European Coal and Steel Community (ECSC) to be run by a supranational European institution as a first step toward an economically and politically united Europe.

The US Government welcomed the initiative. Later it gave all-out support to the creation of the Common Market and high priority to broadening the Community to include Britain and any member of the European Free Trade Association (EFTA) willing and able to join.

US support went beyond hardheaded Government approval. The project of forging a powerful United States of Europe, ending forever the threat of European war, fired American imaginations. Too, the seeming imitation of American experience was flattering.

PRESIDENT KENNEDY'S GRAND DESIGN

American excitement over Europe's search for unity found its fullest expression in President John F. Kennedy's Grand Design for an Atlantic Partnership between the new Europe and the United States. The President summed up the mood of the times:

"We do not regard a strong and united Europe as a rival but a partner . . . capable of playing a greater role in the common defense, of responding more generously to the needs of poorer nations, of joining with the United States and others in lowering trade barriers, resolving problems of commerce and commodities and currency, and developing coordinated policies in all economic and diplomatic areas . . .

"The United States will be ready for a declaration of interdependence. . . . We will be prepared to discuss with a united Europe the ways and means of forming an Atlantic partnership . . . between the new union emerging in Europe and the old American union founded here 175 years ago."[1]

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1. Kennedy, John F. *Independence Day Address*, Philadelphia, Pa., July 4, 1972.

THE WILTING ROSE

The US political and economic interest in broadening and deepening cooperation at all levels with the European Community has grown mightily. Despite this imperative, in recent years the generous spirit of partnership has been progressively eroded by one of narrow commercialism on both sides of the Atlantic.

Americans often depict the Common Market as repaying US postwar assistance and leadership towards an open world economy with the cynicism of economic nationalism: erecting bristling walls of trade barriers to US products, fighting reform of the international monetary system, and luring more and more nations inside and outside Europe into preferential economic arrangements which discriminate commercially against the United States without offering any redeeming political virtue.

Europeans, for their part, see the mirror image of the American picture. They tend to see the United States as a disingenuous giant trying to eat its cake and have it. It dominates the world and challenges outer space with its technology, exploits the primacy of the dollar to buy up European industries on credit, and at the same time scurries self-righteously to protect its less efficient industries from the first breath of competition.

Sentiments such as these are voiced not just by neo-isolationists in the United States or chauvinists in Europe but by champions of liberal internationalism and the Grand Design.

A senior US Senator, for example, commented:

"I regret that the European Common Market is increasingly taking on the appearance of a narrow, inward-looking protectionist bloc whose trade policies as they affect agricultural as well as industrial products increasingly discriminate against non-members . . . Western Europe should know from a friend that the CAP [common agricultural policy], as it is presently constituted, runs the risk of alienating the US farm bloc which traditionally has had a liberalizing effect on US trade policy. Such alienation of support could be decisive."[2]

From the European side, a French author, publisher, and ardent "European" said:

"The Common Market has become a new Far West for American businessmen. Their investments do not so much involve a transfer of capital, as an actual *seizure of power* within the European economy. Statistics fail to reflect the real gravity of the problem. . . ."[3]

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2. Javits, Jacob K. *Congressional Record*, Vol. 115, No. 187, November 13, 1969, S 14253.
3. Servan-Schreiber, J.J. *The American Challenge*, Atheneum, New York, 1968, page 11.

CHANGING ATTITUDES

There are understandable reasons for the souring of transatlantic attitudes.

Historically, the mood change began with the French veto on January 14, 1963, of Britain's application for Community membership. It chilled American hopes for fast progress towards partnership. It simultaneously stalled progress toward European political unification.

These events coincided with a sharp decline in Soviet pressure on Western Europe as Moscow absorbed the lesson of its unhappy confrontation with the United States in Cuba and became increasingly preoccupied with its ideological struggle with Communist China.

As the felt need for a tight military and political partnership with the United States ebbed in Europe, fears grew with the Cuban missile crisis and the deepening US military involvement in Vietnam that too close an association with the United States could drag Europe into wars in defense of extra-European interests.

BREAKDOWN OF ECONOMIC DIALOGUE

The economic climate darkened before the ink had dried on the Kennedy Round agreement, reducing tariffs to an all-time low. Businessmen on both sides of the Atlantic reported "ruinous" floods of imports. Protectionists in the US Congress tried to justify import controls by pointing to alleged unfair practices by the Community and other trading powers. Brussels retorted by reminding anyone who would listen of American sins against the spirit and the letter of the General Agreement on Tariffs and Trade (GATT). Preoccupied with domestic issues, both the United States and the Community only half-listened to the other's complaints.

In the United States, inflation raged, fueled by an unpopular war, while unemployment shot to a post-Depression high. Protesting exports of jobs abroad to American-owned plants, the AFL-CIO Economic Policy Committee gave up its traditional support for free trade in favor of import and foreign investment controls. The US balance-of-payments deficit assumed massive dimensions in 1971, and for the first time in more than a hundred years, even the trade account ran in the red. Prominent Americans said that it was time the United States stopped paying the economic price for Europe's "non-existent political unity."

POSTWAR ERA ENDS

Against the backdrop of transatlantic sniping and insensitivity to either side's "legitimate" concerns, President Richard M. Nixon announced his new economic policy. No longer would the United

States sell gold to foreign nations in exchange for their surplus dollars. Instead of being valued in terms of gold, the dollar would "float" in exchange dealings until market forces had set its new value in relation to other currencies. This announcement abruptly ended the postwar Bretton Woods monetary arrangements, based on dollar convertibility, fixed exchange rates, and an "adjustment process" which forced nations to curtail domestic inflation to protect their reserves and their competitive positions. But the US widening deficits and monetary crises, past and present, proved that the old system no longer worked.

Reversing its postwar free trade policy, the United States imposed a 10 per cent surcharge on all imports, to remain in effect until settlement of US complaints of discrimination. The surcharge, the United States insisted, was not a negotiating tool for trade talks but rather a monetary measure to improve its balance of payments.

The United States would negotiate with its "friends for a monetary order responsive to the needs and conditions of this generation. . . . If other governments will make tangible progress toward dismantling specific barriers to trade . . . and will be prepared to allow market realities freely to determine exchange rates for their currencies for a transitional period, we, for our part, would be prepared to remove the [import] surcharge."[4]

COMMUNITY REFRAINS FROM RETALIATION

A vacationing Europe blinked in shock and disbelief. No matter how intended, the surcharge affected 87 per cent ($5.74 billion) of the Community's exports to the United States, 12.8 per cent of its total exports in 1970. The surcharge wiped out most of the tariff concessions obtained through careful balancing of interests in the Dillon and Kennedy Rounds of GATT negotiations.

Nevertheless, in the common interest of avoiding a trade war, the Community did not retaliate. It entered into negotiations, although preoccupied at the time with negotiations for expansion and with plans for economic and monetary union.

SUCCESS WITHIN REACH

Paradoxically, US disenchantment came at a time when the Community had discovered a new sense of political purpose. "Euro-

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4. Connally, John M. *Address*, Annual Meeting of the Boards of Governors of the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation, and the International Development Association, Washington, DC, September 30, 1971.

crats" glowed with the confidence gained in the Kennedy Round when the "Six," speaking with one voice, had for the first time dealt with the United States as an equal trading partner. Hope revived for Kennedy's Grand Design. The 1969 summit meeting of the Six in The Hague had reawakened the integration process by decisions to forge full economic and monetary union and to open membership negotiations.

The United States sceptically greeted the news of these two most visible signs of the Community's progress toward the political unity it had so long encouraged. One European statesman wonders if the United States has lost its "sense of success. Were it not for American policy over the past two decades, Western Europe would never have reached its present point. The United States should actually congratulate itself, for it has helped Europe achieve what it has recommended: West European unification has come within reach."[5]

A former Marshall Plan administrator, an American, assigned part of the blame for the US state of mind to "disappointment of its unrealistic expectations of Atlantic partnership."[6]

After all, had not the Community's founding fathers recognized:

"Europe will not be made all at once, or according to a single, general plan. It will be built through concrete achievements, which first create a *de facto* solidarity."[7]

MEANING OF ECONOMIC AND MONETARY UNION

The February 1971 decision to form full economic and monetary union shows how "concrete achievements" in the field of trade spill into the political realm as a result of need.

When the Common Market Treaty was drafted, any mention of such a development was avoided for fear of alienating the finance ministers who clung tightly to their purse strings, symbol of national sovereignty and vital instrument of domestic policy. Seven years later, in May 1964, after the Community's first bout of inflation had proven the need for policy coordination at the operational level, the Committee of Central Bank Governors was formed. Through trade, excess demand had quickly spread from one member country to another before the normal Community process could check it. This Committee has been given the major responsibility for day-to-day operations, mainly keeping the member

5. Brandt, Willy. "Germany's Westpolitik. *Foreign Affairs.* Council on Foreign Relations, Inc., New York, NY, April 1972, page 421.
6. Geiger, Theodore. "Toward a World of Trade Blocs?" *The Atlantic Community Quarterly*, Vol. 9, No. 4, page 434.
7. Schuman, Robert. *Declaration*, Paris, May 9, 1950.

countries' currencies constant in relation to each other.

Thus, the Community has made a start, one that could not be imagined only seven years ago when France walked out of the Council chambers over the issue of majority voting. These sovereign states, united 14 short years in a common effort to achieve a customs union, have recognized that to maintain it, some national prerogatives have to be modified. They have relinquished some control over monetary and economic policy, but any relaxation of control over national budgets, taxes, credit, and money supply is a difficult political choice, one that influences a voter's decision to buy a new car or wait until next year.

Ambassador J. Robert Schaetzel, US Representative to the European Communities for six years, has thus assessed the significance of monetary union:

"The goal of such unity by 1980 means nothing less than economic and political unity. . . . In one sense they [the Community members] have been moving toward financial and monetary unity at a relatively slow pace precisely because they do see the implications of what they are about."[8]

HOW THE BARRE PLAN WORKS

The plan, named after its designer Commission Vice President Raymond Barre, provides for full economic and monetary union by 1980, possibly including a common currency. Its fulfillment will take hard political choices in other fields as well, such as regional policy to reduce the differences in wealth between the rich north and the poor south. On this, and on the successful coordination of rates of inflation hinges the success of the venture. No member country wants to help another member country finance a balance-of-payments deficit due to "spendthrift" domestic policies.

The plan provides for the development of a European monetary personality by stipulating that the members should allow their currencies to move only 1.125 per cent above or below their official values instead of the 2.25 per cent worldwide range. To this effect, the central bank governors coordinate their interventions in the foreign exchange market, a function to be taken over by the new European Monetary Cooperation Fund before the end of 1973. This Fund will absorb earlier arrangements initially for short-term monetary support of a member country's currency, and perhaps later medium-term support as well. The original pool made available $4 billion for these purposes.

8. Schaetzel, Robert J. "European Financial and Monetary Union: Its Broad Implications." *Address* before the Council on Foreign Relations, New York NY, May 17, 1972.

IMPLICATIONS FOR UNITED STATES

The increased degree of political independence from the United States which monetary and economic union will confer on Europe clearly is one of the forces pushing Europe toward that union. The late French President Charles de Gaulle may have been an unsophisticated economist in his defense of the gold system, but he well understood the relationship between monetary and political power. Now that Europe holds half the world's gold stock and $23 billion in dollar reserves, not all of them needed, it is seeking a voice commensurate with its economic strength. It has, however, already demonstrated that it will use that voice to negotiate compromises, but that they will be true compromises.

Commission Vice President Raymond Barre thus assessed the Washington Agreements of December 1971 for the currency alignment sought by the United States:

"The Washington Agreements clearly represent a success for [the Community's common position] since the currency realignment embraces the dollar, as desired by the Community, and has been accompanied by abolition of the surcharge. The Community has, however, contributed to the achievement of these Agreements by accepting sacrifices which cannot be underestimated. The extent to which the Six have agreed to revalue their currencies against the dollar is considerable."[9]

On the other side of the coin, Europe's new cohesion means that both Europe and the United States win in the debate over exchange rate flexibility. The Belgian Minister of Finance explained:

"The implementation of a European monetary union will enable us to accept a greater degree of flexibility in world exchange rates. Thus, the wider margins of fluctuation between currencies, decided at Washington as a provisional measure, might eventually be accepted as a permanent measure by the European nations, if only for the dealings of this European monetary body with the rest of the world, but not within the Community where the existence of these margins would hamper progress toward economic and monetary unity."[10]

The emergence of a European monetary union is bound to challenge, and dilute, the exclusive dominion of the dollar over the international monetary order. Europe's louder voice in the

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9. Barre, Raymond. "The Economic Situation of the Community at the Beginning of 1972," *Statement* to the European Parliament, Luxembourg, January 18, 1972.
10. Vlerick, André. *Statement* at the Annual Meetings of the Boards of Governors of the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation, and the International Development Association, Washington, DC, September 28, 1972.

management of the world economy is certain to jar US ears from time to time until the emergence of a new financial balance of power.

ENLARGED COMMUNITY PROVES WISDOM OF US POLICY

Successive US administrations have attached high importance to Britain's uniting its destiny with continental Europe. As the moment approached, however, American enthusiasm waned with the thought that the political gain of a large, strong Europe might not be worth the economic price.

Clearly, British accession, along with that of Denmark and Ireland, is an event of major economic importance to the United States and every trading nation. But there is little evidence to suggest that its effect will be negative for the United States.

The expanded Community is the world's most important commercial power. Using 1971 EC figures, the Nine bought 25.4 per cent ($11.2 billion) of US exports. The same year, the United States sold the Community of Nine 22.8 per cent ($10.4 billion) of its exports. The Nine will continue to import much more than they export into the foreseeable future.

These figures, of course, do not take into account either the trade diversionary or the trade stimulating effects of broadening the Common Market. The favorable evolution of US commercial relations with the Community of Six during its first 14 years of existence suggests strongly that the net impact will be positive not only on US-EC trade but also on US investment in the Community, which makes an increasingly important contribution to the US balance of payments.

THE ENLARGED COMMUNITY—A NEW PROFILE

	Community of Six	Community of Nine	United States
Area (thousand sq. miles)	449	589	3,600
Population (millions)	190	253	205.4
Gross National Product ($ billions)	534.7	694.5	1,050.4*
Exports ($ billions)	50.6	63.2	44.1
Imports ($ billions)	49.1	64.2	45.6
Percentage of world exports	19.5	27.6	17.0
Percentage of world imports	17.8	24.3	16.5

Source: EC Statistical Office

*Organization for Economic Cooperation and Development

NEW MEMBERS LOWER TARIFFS

It should be noted, too, that while enlarging the Community broadens the area of tariff discrimination against US goods, it lowers, at the same time, the average level of duties which American exports now must hurdle to enter the combined market of the Nine. The post-Kennedy Round average United Kingdom tariff of 7.6 per cent would drop toward the Common Market's average external tariff of 6.0 per cent. The average industrial US tariff is 7.1 per cent (see Table page 32).

Just how these contrary factors of wider discrimination versus lower protection would balance out would require a product-by-product analysis of US and EC trade with the new members, including an assessment of the competitive margins and the production capacities of the American and EC industries which would be competing in a more open market. Experience with the existing Common Market has shown, however, that large US companies, organized on a continental scale, have proved better able than their smaller European competitors to take advantage of the wider market for both imported and locally produced goods.

The fact remains that US exports to much of Western Europe have to climb a tariff wall, albeit a low one, whereas goods produced inside the enlarged Common Market do not. But this is no different, after all, from the situation prevailing with respect to wines purchased by New York firms from California and France.

TECHNOLOGICAL PROGRESS IMPELS MARKET FUSION

Surging technological progress virtually compels the fusion of small markets into larger ones. Less than one hundred years ago, German cities like Hamburg and Nuremberg carried on "foreign trade" with each other. By the end of the century, the bulk of foreign trade undoubtedly will be conducted between markets of continental size—the United States and Canada, the Soviet Union, Japan, China, India, the European Community, and a Latin American common market. Indeed, the long-range thrust of the technological revolution appears to be towards an increasingly integrated world economy.

The expansion of the Community was thus a natural, and probably inevitable, evolutionary event. And there is nothing in the history of the emergence of continental-size economies to indicate that they are detrimental to the development of mutually beneficial international exchange of goods and services. It is doubtful if the 50 separate states of the United States collectively would have constituted as rich and dynamic a market for foreign goods had they remained independent sovereign entities outside a common market.

A WORTHY US PARTNER

Basically, of course, the justification for the enlargement of the Community is as political as at its inauguration. One European has put it this way:

"As far as the enlargement of the Community is concerned, it is a political imperative. . . . Western Europe is too small in size to be able to afford to stay permanently divided in different groups among its 20-odd countries. . . . As a European citizen I should also make quite clear my conviction that the Europeans have a right to organize their economy and their society as they consider it to be in their best interest, provided they respect their international obligations."[11]

Summing up the enlarged Community's contribution to the future, another European said:

"We are far from sinking into that comfortable or uncomfortable decline which some less perceptive people once predicted for us. And one of the symptoms of our vitality is the will to bring Western Europe together in the Community experiment. A strong Europe, alive to her responsibilities and in partnership with the United States, is the best guarantee of a stable future for us all."[12]

11. Cattani, Atilo. *Testimony* before the Joint Economic Committee of the US Congress, March 16, 1970.
12. Rippon, Geoffrey. *Address* before the World Affairs Council, Los Angeles. January 4, 1972.

BURDEN SHARING 2

Perhaps no other source of friction between the Community and the United States has caused more short circuits than has the "burden sharing" debate on the distribution of the costs of defense and of aid to the "Third World." Here, as in other areas, misinformation distorts the picture.

The United States accuses Europeans of not doing their share, of failing to shoulder the responsibilities of economic recovery, and of forgetting US generosity toward Europe during the Marshall Plan. In the spring of 1971, the US Senate, in the first legislative test of the US commitment to Europe, defeated a proposal to halve the number of US troops in Europe to 150,000. Later that year, dramatizing the end of the postwar era and of US patience, President Richard M. Nixon announced his new economic policy, including a 10 per cent foreign aid reduction.

EUROPE'S RECORD

Europeans reeled in disbelief. This seeming about-face in US policy had come at a time when Europe was paying more than the United States to maintain US troops in Europe and spending a greater part of its national wealth to aid the developing world. Even US complaints of European ingratitude for Marshall Plan aid seemed unfounded. Had not the Marshall Plan worked as much in the US interest as in Europe's? The US economy, winding down defense production, had to export civilian goods to maintain employment while Europe needed cash to buy US exports. True, most Marshall Plan aid to the Community's six founding members was in outright grants ($6.4 billion); but $756 million was given in loans, 96 per cent of which has been repaid. Payments are still being made and interest is accruing on the remainder.

Europeans felt unjustly accused of ingratitude. The twenty-fifth anniversary of the Marshall Plan in June 1972 occasioned their most recent expression of thanks. Germany established a $5 million memorial fund and members of the Organization for Economic Cooperation and Development (OECD) contributed more than $64,000 to the George C. Marshall Memorial Foundation. These gifts involve only small amounts of money, but the United States does not need foreign aid.

NATO FACTS AND FIGURES

Treatment of defense spending will be brief. The European Community itself is not involved in defense, although its members' cooperation on economic matters has spilled over into this area. In deference to US wishes, the "Euro-Group" was formed within the North Atlantic Treaty Alliance (NATO) in 1970. Its members[13] have pledged to increase defense spending by more than $2 billion on a modernization program to strengthen their conventional capability. In addition, Germany has agreed to provide $79 million in military aid to Turkey. President Richard M. Nixon welcomed these initiatives as testifying to "the vitality and spirit of the European allies."[14]

The United States maintains 300,000 defense-related personnel in Europe, down from a high of 434,000 during the 1961 Berlin crisis. Dependents of defense-related personnel number

13. "Euro-Group" participants are: Belgium, Germany, Italy, Luxembourg, and the Netherlands, all Community members; the United Kingdom and Denmark, members as of January 1, 1973; Norway; and Greece and Turkey, both associates of the Community. Of the "Six," France does not participate in the military aspects of NATO. Of the "Nine," Ireland does not belong to NATO.
14. Neff, Richard. "Europe Joins on Defense." *European Community* No. 146, page 14.

about 240,000 of which 155,000 reside in Germany. The operating cost of US forces in Europe amounts to about $4 billion in fiscal year 1973. The $16 billion figure sometimes cited includes the costs of all forces pledged to NATO in case of an emergency, the 300,000 troops in Europe as well as manpower stationed in the United States and in other parts of the globe, including, until recently, Vietnam.[15]

In 1971 European NATO members spent $26.7 billion on defense to keep nearly 3,000,000 men under arms.[16] European NATO forces comprise almost 90 per cent of NATO's ground forces, 80 per cent of its sea power, and 75 per cent of its air power.

While the United States spends less than 2 per cent of its gross national product (GNP) on defending Europe, the European average for arms expenditure is 3.7 per cent, most of which—except in the case of Portugal—goes to the defense of the continent. Some of the larger European countries spend a much larger share of GNP on defense: the United Kingdom, 4.9 per cent; France, 4.0 per cent, and Germany, 3.3 per cent.[17]

A former Assistant to the US Secretary of Defense for NATO force planning has assessed the distribution of the NATO defense burden as follows: "If one starts from the premise that the maintenance of a reasonable level of American presence in Europe is still very much in the American national interest as well as that of Europe, the costs are not all that unfairly divided—at least in relation to relative wealth. . . . Even though in the past the United States may have contributed somewhat more than its share, and the Europeans somewhat less, the gap has narrowed steadily; and what remains is not sufficiently demonstrable to be worth the political cost of arguing about."[18]

The intolerable part of the burden, he continued, lies in the drain on the US balance of payments, occasioned not by the commitment of troops to NATO but rather by their deployment abroad. The foreign exchange costs of "involuntary tourism" by these troops and their dependents as well as their and the US Government's purchases of local services and supplies "should be moved out of purely bilateral channels and placed in a multilateral context." Germany, as the major beneficiary of the US military presence should "pay the largest part; but the participation of the

15. US Department of Defense.
16. *NATO Review*, "Defense Expenditures of NATO Countries: 1949-1971," January/February 1972, Vol. 20, Nos. 1 & 2, page 26.
17. *The Military Balance: 1971-1972*, Institute for Strategic Studies, London, 1971, page 60.
18. Stanley, Timothy W. "The Political Economics of Defense: Burden-Sharing." *The Atlantic Community Quarterly*, Vol. 9, No. 4, The Atlantic Council of the United States, Inc., Washington, DC, pages 442, 443.

entire Alliance should be provided for as a matter of principle,"[19] he suggests.

This could be a topic of negotiation in a reexamination of responsibilities and obligations within NATO, after the European Security Conference and the conclusion of the Strategic Arms Limitations (SALT) talks. Both the United States and Europe realize that some change within NATO must accompany new political, economic, and strategic realities. Within this reorganization, Europe will be seeking a role of influence commensurate with its new responsibilities. Commented one European: "It is not foreseeable that the Atlantic Alliance would disappear, but the moment is approaching when a basic negotiation between the partners within the Alliance will be necessary to redefine the commitments of each. The European states will have to decide whether their increased responsibilities and the costs of military independence, which they partially want and which they partially must assume, will end up as sacrifices without responsibility in decision-making and only apparent independence at each country's national level or as a good investment with real independence and responsibility at the European level.[20]

On this point, at least, Europe and the United States agree. In the words of President Richard M. Nixon:

"We continue to feel that political and defense cooperation within Europe will be the fulfillment of European unity. European and American interests in defense and East-West diplomacy are fundamentally parallel and give sufficient incentive for coordinating independent policies. Two strong powers in the West would add flexibility to Western diplomacy and could increasingly share the responsibilities of decision."[21]

This sharing of responsibilities may not be entirely in the hands of the United States and the Europeans themselves. Egypt's request for military aid from the United Kingdom, France, and Germany after the Russian expulsion could foreshadow a realignment of the "military burden" in a depolarized world.

ECONOMIC AID: EC TRIES HARDER

Since the postwar recovery, the Community has gradually assumed a role of leadership in aiding the "Third World." In 1971 the Community "Five" members of the OECD's Development Assist-

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19. *Ibid.*, page 445.
20. Spinelli, Altiero. "Voix, indépendance, et personalité de l'Europe." *Address* at a Round Table Discussion on the Problems Posed by the Community's Enlargement and Strengthening, Paris, July 7-8, 1972.
21. Nixon, Richard M. *US Foreign Policy in the 1970's*, The White House, February 1972, pages 40-41.

OFFICIAL AND PRIVATE FOREIGN AID — 1971

	Total Aid ($ millions)	Per Cent of GNP
Belgium	300	1.03
Britain	1,570	1.14
Denmark	138	.80
France	1,656	1.02
Germany	1,915	.88
Ireland*	n.a.	n.a.
Italy	862	.85
Luxembourg*	n.a.	n.a.
Netherlands	590	1.63
United States	7,045	.67

Source: Organization for Economic Cooperation and Development, Press Release, July 5, 1972.

*OECD statistics are unavailable for Ireland and Luxembourg, which are not members of the OECD's Development Assistance Committee.

ance Committee (Luxembourg does not belong) spent nearly 1 per cent of GNP on financial aid to the developing world, compared with the US contribution of 0.67 per cent (see Table above). It has also contributed its share to the world food aid program, 23 per cent of the total aid in 1968-71. In addition, bowing to the wishes expressed by the aid recipients themselves, the Community encourages them to trade by means of generalized and specialized preferences. The Common Market's imports from developing countries grew from $6.8 billion in 1958 to more than $17.6 billion in 1971. The Community has consistently run a trade deficit with the Third World, more than $4.7 billion in 1971, while the United States has run a trade surplus.

PREFERENTIAL ACCORDS COMPLEMENT AID

Nevertheless, with the exception of the common agricultural policy, nothing the Community has done has aroused more criticism in the United States than have its preferential agreements with a growing number of African, Mediterranean, and European nations. The US Special Representative for Trade Negotiations has succinctly summed up the US complaint:

"It seems to me inappropriate for special arrangements to favor a few developing nations in a particular area while discriminating against developing countries in other areas. Furthermore, there is no economic or development rationale that can justify the extension of 'reverse' preferences by developing countries to the industrialized nations of Western Europe."[22]

To weigh these charges, the Community's various types of preferential agreements must be inspected.

By the fall of 1972, the Community had concluded agreements on reciprocal trade preferences with 36 countries. A single association agreement, the Yaoundé Convention, covers arrangements with 19 of them,[23] all former African dependencies of the "Nine." As a result of Britain's decision to join the Community, 21 developing Commonwealth Countries[24] have the option of following Mauritius' lead by joining the Yaoundé association or of choosing another form of association. In addition, Norway and Britain's other former EFTA partners[25] which did not seek membership negotiated agreements on trade in industrial goods. Three Commonwealth countries have been associated with the Community since 1969. Two of the preferential agreements were with Tunisia and Morocco which had special trade relations with France in pre-Community days, and four were with the Mediterranean countries: Malta, Spain, Israel, and Egypt. Finally, separate agreements with Greece and Turkey envisage their eventual membership in the Community. Talks for preferential agreements are being held with Lebanon, Jordan, Cyprus, and Algeria.

DISSIMILARITY IS COMMON DENOMINATOR

The most obvious aspect of these agreements is their dissimilarity. Nevertheless, the countries involved fall into three general categories:

- **Special relationship.** Some of the agreements preserve a special trade relationship with one or more of the Community members before the Common Market's establishment or enlargement. These agreements are with the 18 original associates, Tunisia, and Morocco. Others, such as the one with Kenya, Uganda, and Tanzania, attempted to bridge the French-English division of Africa.

The original associates sold more than half their exports to the Community before its inception. Had special trade relationships

22. Eberle, William D. "Comments on the Report," *Policy Perspectives for International Trade and Economic Relations*, Organization for Economic Cooperation and Development, Paris, September 5, 1972, page 116.
23. Burundi, Cameroon, Centrafrican Republic, Democratic Republic of the Congo, Ivory Coast, Dahomey, Gabon, Voltaic Republic, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Chad, Togo, Zaire, Kenya, Uganda, Tanzania, and Mauritius.
24. Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Nigeria, Sierro Leone, Swaziland, Tanzania, Uganda, Zambia, Fiji, Tonga, Western Samoa, Barbados, Guyana, Jamaica, Trinidad, and Tobago.
25. Iceland, Sweden, Finland, Portugal, Switzerland, Austria, Norway.

not been continued with the new Community, these African nations, most of them poor and wracked by the birthpains of nationhood, would have been dealt a severe and possibly fatal economic blow. Their agreements with the Community envisage freeing two-way trade between the Community and the nations concerned. The Community contends, although the United States has not conceded the point, that the agreements meet the conditions for the creation of free trade areas as sanctioned by Article XXIV of the GATT.

The agreements with Britain's EFTA partners were signed to prevent the reimposition of tariff barriers. Any damage to a third country's trade will be repaired by negotiations within the GATT for compensatory treatment.

- **European candidates.** The second group of agreements was concluded with European nations which hope to become full members of the Community some day but which cannot now take on the economic and political obligations of full membership. Greece, Turkey, and Spain fall into this category. The Turkish economy cannot yet withstand the full force of free competition inside the Common Market, while Spain and Greece suffer from both economic and political disabilities.

All these nations traditionally have had close ties with the rest of Europe. The Community has taken the view that it would be economically unfair to them, and politically contrary to the European spirit of the Rome Treaty, to shut them out, particularly since in time they may aspire to full membership. Furthermore the Community contends that the agreement with these countries hew closely enough to the GATT specifications for customs unions and free trade associations to be considered consistent with international obligations.

- **Associates' competitors.** The final group of countries are Mediterranean and African nations which have sought association with the Community because their exports to Western Europe traditionally compete with those from other associated countries; hence they would be severely affected if excluded. Questions of political impartiality also arise. Examples are Egypt and Israel.

TRADE COMPLEMENTS AID

In European eyes, these special economic arrangements by the Community with countries which conduct a major portion of their trade with the European Community and which are, in many cases, either contiguous European nations or former dependencies of members, are comparable to the special economic relations between the United States and Canada—notably the US-Canadian automobile agreement, under which the two countries conduct almost a third of their trade duty-free.

The preferential trade agreements with developing African countries parallel and complement the substantial capital and technical assistance being supplied to them by the Community. This is part of the joint aid effort to developing countries coordinated by the OECD's Development Assistance Committee. The developing countries themselves consider these agreements a satisfactory way of ordering relations with the developed world, or they would not choose them.

For a determination of whether these diverse agreements comply with GATT rules governing free trade areas or customs unions, Brussels has submitted them to the GATT signatories. So far, no agreement concluded by the Community has been contested by the majority of GATT members.

US FEARS EXAGGERATED

Fears that US exports would suffer as a result of discrimination against them under the EC's preferential agreements seem exaggerated when measured against the facts. US exports to the Community's original 18 Yaoundé associates traditionally have been small. In 1971 they amounted to only $190.1 million, compared to Community exports of $1.4 billion. In addition, US exports to these 18 states have grown three times faster than the Community's exports to those countries in the 14 years since its founding. The evidence suggests that these former colonies, whose markets used to be virtually closed to outsiders, have liberalized trade policies toward the United States and the world since their association with the Common Market.

Under GATT rules for free trade areas, EC associates remain free to lower their duties on imports from the United States or other non-EC countries without impairing their EC preferences. In March 1970 Cameroon, Gabon, Congo-Brazzaville, and the Centrafrican Republic (which make up the Central African Economic and Customs Union) slashed their duties across the board by 50 per cent. The Ivory Coast recently lowered its tariffs substantially on cars, tractors, and air conditioners, three important US exports.

The same GATT rules also say that all members of a free trade area must make concessions. The associates consider these "reverse preferences," their concessions on Community exports, one of their best bargaining tools in negotiations with industrialized nations. As reverse preferences are negotiable, protests by industrialized nations suggest only one explanation:

"The question of 'reverse preferences' is a false issue which has been raised by third countries, more often by industrialized nations which are seeking from the associated countries the same advantages as those given to the Community without at the same time offering them reciprocity. . . ."[26]

For countries like Greece, associated with the Community in a customs union, the situation parallels the one of the Community's enlargement. The area of discrimination against US exports widens, but the degree of protection drops as the associate lowers tariffs to the generally low average level of the EC's common external tariff. As happened at the Common Market's creation, broadening the market is also likely to stimulate trade.

Where US complaints of export damage from preferential agreements prove justified, the Community makes adjustments. This was the case in the "citrus war" which the Community ended by making unilateral tariff concessions on citrus imports from June through September, California's peak growing season. Since the Mediterranean season ends in May, the Community could make this adjustment without harming Spanish and Israeli exports.

EC GENERALIZED PREFERENCES ALSO AID

The Community's preferential agreements did not prevent it from becoming the first trading power to enact a system of generalized preferences, granting all developing countries tariff advantages on their industrial exports. The US delay in following the lead of the Community and Japan is another current source of friction in US-Community relations. EC associates had agreed to a dilution of their preferential access to the Community market with the understanding that every other trading power would follow the Community's example, thus widening the associates' export possibilities. Most powers have; but in the major American market, nothing has been done, with dim prospects of any action early in 1973.

In protracted negotiations with the developing countries in the United Nations Conference on Trade and Development (UNCTAD) and within the OECD, Washington and Brussels had engaged in an Indian wrestling match. First Washington opposed any plan at all. Later, battle revolved around the elimination of the Community's preferential agreements and the British Commonwealth arrangements after a worldwide system had been put in place. Still later, the argument focused on the shape of the plan, whether to exclude "sensitive" products, set quotas, or write in safeguard clauses. Finally, it was agreed that each developed country or trading bloc would apply the preference system of its choice. The

26. Berthoin, George. *Address* before the Federation of Commonwealth Chambers of Commerce, London, June 8, 1972.

OECD is to determine whether the different systems resulted in an even sharing of the "burden" of imports from the developing countries.

The idea for the industrialized countries to grant generalized tariff preferences to developing countries is based on the theory that between unequal trading partners, equality oppresses while unequal treatment restores justice. Tariff preferences involve giving up all or part of the customs duties levied on goods imported from specific countries. These preferences are not reciprocal, since the beneficiaries do not have to reduce their own non-discriminatory as they are granted to all developing countries and generalized because they are to be granted by all developed countries.

The proposed US system would offer duty-free entry to the US market for all manufactured and semi-manufactured products of any qualified developing country. The only exceptions would be textiles, shoes, and petroleum products, precisely the sort of products most developing countries can best produce competitively. Duty-free access also could be withdrawn under an escape clause if it were found that it was resulting in injury to a domestic industry.

HOW EC SYSTEM WORKS

The Community put its generalized preference plan into effect on July 1, 1971. It provides for duty-free entry of all manufactures and semimanufactures, originally, from the 91 members of UNCTAD's "Group of 77." At the request of several countries[27] which did not belong to the Group of 77, the Community decided to expand its list of beneficiaries on January 1, 1973.

The Community system distinguishes between agricultural products and semimanufactured goods.

• **Processed agricultural goods.** Tariff benefits are granted on about 150 processed agricultural products (Chapters 1 to 24 of the Brussels Nomenclature) imported from the developing countries, valued at about $30 million. Preferences consist of partial reduction in customs duties or levies, and imports are admitted without volume limits.

A safeguard clause, based on Article XXIX of the GATT, allows partial or complete reimposition of the duty or levy when the import's quantity or price seriously jeopardizes Community production. It applies only to the country or countries causing the damage, thus protecting non-offending exporters.

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27. Cuba, Bhutan, Fiji, Bangladesh, the Persian Gulf states, Oman, Sikkim, Nauru, Western Samoa, and Tonga.

• **Industrial products.** Industrial raw materials (Chapters 25 to 99 of the Brussels Nomenclature) are not covered by the Community system; but almost all imported industrial raw materials already entered the Community countries duty-free, in pre-EC times.

The Community system for manufactured and semimanufactured goods has three features: a ceiling system, duty-exemption, and no exclusions. The ceiling system limiting the volume of preferential imports is counter-balanced by duty-exemption, the fact that no goods are shut out, and the lack of a safeguard clause. The first annual ceilings amounted to more than twice the value of its imports from the Third World in 1968, the base year. In practice, the ceilings are applied only to sensitive products. To give every developing country a chance to sell in the Community market, no exporter may supply more than 50 per cent of the ceiling for most products, but 30 per cent or 20 per cent for some.

Washington claims that its system, without any ceilings, would be more generous. Brussels retorts that US exceptions plus the handy escape clause would be more restrictive than the Common Market's tariff quota. Time alone will tell who is right, if the US Congress ever approves global preferences.

EXPANDED COMMUNITY'S RESPONSIBILITIES

This short inventory of the Community's efforts at "burden sharing" should quiet some allegations that the Community twiddles its collective thumbs while the United States feeds, clothes, and defends the entire free world.

Even though the Community is proud of its record, it is the first to admit that there is always room for improvement. Its patchwork of agreements in the Mediterranean area are being studied in the hopes of finding a way to treat every country fairly. Its and its members' aid policies are being sifted in the hopes of improving the effectiveness of its economic aid. The expanded Community is "determined to make the process of unification irreversible in order to consolidate [its] friendships, in order to contribute decisively, on a footing of equality, to the development of the less favored nations, and in order to develop, as a new element of equilibrium in a better international order, new cooperative relationships with all the peoples of the earth."[28]

28. Malfatti, Franco Maria. *Speech* at the Signing of the Acts of Accesión, Brussels, January 22, 1972.

TRADE 3

The United States and the European Community have a vital mutual interest in keeping minor trade differences in perspective while awaiting the global negotiations of 1973. American anxieties about the Common Market's expansion center on fears for American farm exports. There is some worry, too, about the possible effects on US exports of manufactured goods. The figures should speak for themselves (see Table on page 24).

Viewed from the perspective of the economist, many of the accusations hurled across the Atlantic in the past few years are neo-mercantilist, based on the ancient fallacy that exports are good, imports bad. A former member of President Nixon's Council of Economic Advisers spoke for the economists when he said:

"There is no need to export merely to provide employment or

US TRADE WITH THE COMMUNITY (1971)

	of Six	of Nine
Exports ($ billions)	8.2	11.2
As a percentage of total US exports	19.0	25.4
Imports ($ billions)	7.52	10.4
As a percentage of total US imports	16.5	22.8

Source: US Department of Commerce

to grow. Conversely, the fear of imports because they might create unemployment can easily be exaggerated, though it is true that large increases in imports may cause transitional problems with which global economic policies cannot deal sufficiently promptly. These problems can be eased by adjustment assistance. . . .

"Another legitimate concern about imports is that in some cases a country may not wish to become too heavily reliant on foreign supply in a particular industry because this might threaten its national security. However, the security argument needs to be supported by careful analysis to be convincing, since otherwise a country may pay too high a price for freedom from supply interruptions that may themselves be unlikely to occur."

Seen this way, the question of who has the slyest non-tariff barriers to trade or export subsidies is of secondary interest. He added:

"From the point of view of economic analysis, this reciprocal procedure [of trying to balance trade concessions] is open to question, since obstacles to trade may be at least as harmful to the potential importer as to the potential exporter."[29]

Unfortunately, economics is foreign to some politicians writing trade laws in the US Congress and their opposite numbers in European legislatures. Often the short-term interests of powerful constituents seem more urgent than the prescriptions of economists and statesmen for the long-term health of the nation, or even of the industries seeking protection from imports. If the United-States has so far followed a generally liberal trade policy, it is because the majority of Congressmen have considered the facts and shown concern for the national interest. Seen from this political angle, the facts behind the economic issues now straining US relations with the European Community should be examined, in the hopes of reducing their political camouflage value.

29: Houthhaker, Hendrik S. *Address* at American University, Washington, DC, March 25, 1970.

MYTHS IN VOGUE

A number of assumptions now color relations between the Community and the United States. Upon examination they prove to have little basis in fact. They are:

- The common agricultural policy shuts out US farm exports.
- Imports threaten a number of important US industries with injury or ruin, with a consequent disastrous loss of jobs. Textiles, shoes, steel, and consumer electronics are the industries most often cited.
- Many US products can no longer compete in world markets.
- The US balance of payments deficit is due to its trade deficit.
- The United States is the "most open" or "last open" market in the world, and the contrast sharpens as other trading nations heap up non-tariff barriers against US products.
- Successive US administrations played the role of the beneficent uncle and failed to obtain concessions in postwar bargaining to reduce tariffs.

Even the previously liberal AFL-CIO, disappointed at the effectiveness of adjustment assistance and alarmed at the growing power of the multinational company, has taken up the cudgels. Commented one union official:

"Adjustment assistance was designed as a stopgap for a small group of workers adversely affected by foreign competition, not for the critical onslaught we are suffering in which whole industries are being wiped out, often at the hand of the American corporations themselves. . . . How can a stricken area adjust when the firm is gone. . . ."[30]

The currency which these beliefs have gained is dramatized when echoed by such sober and knowledgeable men as Representative Wilbur D. Mills (D-Ark.), chairman of the House Ways and Means Committee. His comments during a recent interview by the German weekly news magazine *Der Spiegel* electrified Europeans:

"I would like a commercial policy which equitably takes into account US interests which it doesn't do today. I want to protect American industry against every import that damages it, jeopardizes it, or threatens to destroy it. . . . Almost every industrial sector is affected. . . . Free trade is utopia; it exists nowhere in the world. . . . The American people now demand equitable treatment. We will do nothing more without being assured of reciprocity." Nevertheless, he roundly condemned the protectionist Hartke-Burke

30. Beimiller, Andrew J. *Statement* before the House Foreign Affairs Committee, Subcommittee on Foreign Economic Policy, Hearing on Adjustment Assistance, April 25, 1972.

trade and tax bill: "Such a law would have disastrous consequences,"[31] he said.

COMMON AGRICULTURAL POLICY: ONE FOR NINE

The Community's farm policy replaces the former nine separate agricultural policies of the member nations with a single policy. This consolidation should speed the forthcoming GATT negotiations where both the Community and the United States will have some tough concessions to make. The common agricultural policy (CAP) was designed to open up agricultural trade among the member states and to increase the efficiency of Community farming without making the farmers helpless victims of agrarian reform.

The first and last of these aims have been put into practice. The customs union has freed trade inside the Common Market; Community farmers, mostly tilling small holdings, receive protection and guaranteed minimum prices.

The second has just begun. Dubbed the Mansholt Plan after the Commission Vice President who developed it, Sicco L. Mansholt (later Commission President), it is an attempt to bring about radical changes in the structure of Community agriculture. Its main thrust is to accelerate the already rapid decline in the number of people engaged in farming in the Community. A labor-short area such as the Community cannot afford to employ 13 workers out of 100 in agriculture when only 4.5 per cent of the US labor force works in farming. In the first five years of the plan, the Community will spend $900 million to help farmers modernize and enlarge their holdings, to retrain farm workers for jobs in other industries, and to pay older farmers retirement pensions.

HOW CAP WORKS

The Common Market imposes a levy on many imported products that compete with Community farm products. The amount of the levy varies to raise the price of imported products to the market price guaranteed inside the Community. In many cases, the internal price level is substantially higher (as is the case for wheat) than the price of imported products. The levy protects the relatively inefficient Common Market farmer. The receipts are paid into the Community's common farm fund. The proceeds are used to reimburse governments for the cost of intervening in the food market to hold prices at guaranteed minimum levels and to support certain Community farm exports to enable them to compete

31. Mills, Wilbur D. *Der Spiegel* interview, No. 38-1972, Hamburg, September 10, 1972.

in world markets. The fund is also used to finance modernization.

At times of monetary instability, compensatory levies, set in units of account, are also imposed at the borders to stabilize prices. This adjustment compensates for changes in the values of the Community members' currencies to each other. If no adjustment were made, when the value of the German mark, for example, rose, Germany could import a product more cheaply than could another member country whose currency had not appreciated.

This practice caused some friction between the United States and the Community early in 1972. The dispute was partly settled after the Common Market agreed to waive the levy for most products covered by special agreements within the GATT, including soybeans, a major US export.

CAP: US BETE NOIRE

The CAP has incurred the wrath of American Administrations since its completion in the mid-Sixties. US complaints are best summarized in the "white paper" of December 1971:

". . . the Community has developed an agricultural policy which satisfies the political needs of their agrisectors at the expense of its own consumers and outsiders. This system, based upon very high support prices, is designed to limit other non-member nations to the role of residual suppliers. . . . Since the domestic surpluses are priced too high for world competition, aggressive subsidization is used to push the surpluses into the traditional markets of other more efficient suppliers."[32]

Relative support levels are difficult to gauge, but the US 1973 budget foresees farm subsidies of $6.98 billion,[33] as compared with a $3 billion support allocation in the Community budget. There are indications that the US agricultural subsidies have soared in relation to the Community's since 1968 when a Community study estimated that US farm income would decline by 44 per cent, and Community farm income by 50 per cent, if agricultural supports were withdrawn.[34]

There is some basis for concern about the impact of the CAP upon American farm exports, but the facts do not support the extreme charges against it.

32. Peterson, Peter G. *Foreign Economic Perspectives,* The White House, December 30, 1971, pages 21-22.
33. Melloan, George. "Time to Phase Out Farm Subsidies?" *The Wall Street Journal,* May 4, 1972.
34. "Comparison of Agricultural Support Systems in the United States and the Community," Commission of the European Communities, Brussels, January 1971.

EC STILL US FARMERS' BEST CUSTOMER

The Community remains by far the best market for US farm products. US exports to the Common Market rose by 66 per cent during the first decade of its existence, compared to a 62 per cent growth rate in US farm exports worldwide. According to US Department of Agriculture statistics, in 1971 the Community's imports of American farm products amounted to $1.8 billion, a 15.5 per cent annual increase.

According to the same source, in one area alone, fats and oils exports, the United States has increased its sales to the Community from $95.8 million in 1958 to $838.7 million in 1971, due mainly to the CAP's encouragement of animal husbandry and dairy production. These sales have, in fact, tended to offset losses in US grain exports to the Common Market.

In 1964, the last full trade year before the beginning of the introduction of the CAP, US farm exports amounted to $1.23 billion, according to Community figures. By 1971 these exports had risen to $1.75 billion. In the past seven years, US agricultural exports to the Community have risen by 42 per cent, while increasing only 26 per cent to the rest of the world. The US share of the Community's farm import market has remained stable, except for an increase in 1971. In 1958 the Community bought 21.3 per cent of US farm exports, 21.7 per cent in 1964, and 24.5 per cent in 1971.

Thus, it is hard to pin the major blame for the stagnation of American farm exports on the CAP. US agricultural exports to the world have been stagnating since 1964. The basic reasons are that food consumption has not risen in economically advanced countries, while the "green revolution," not only in developing lands but also in Western Europe and Japan, has led to a quantum jump in world production. Worldwide agricultural productivity has been increasing by about 7 per cent a year while consumption has grown by less than 3 per cent. Increased self-sufficiency in traditional deficit areas and sharper price competition in world markets are the results. Another brake on US farm exports has been the progressive reduction of US subsidies to food exports to developing countries under Public Law 480 and other aid programs. These aids have declined from $1.7 billion in 1965 to about $1 billion in 1970.

The last major concern over the CAP often voiced in the United States is that British entry into the Common Market will further damage American farm exports by extending the CAP to the largest food importing nation in the world. Soon the evidence will start coming in, but a contrary view has been expressed by a former Secretary General of the Italian Ministry for Foreign Affairs:

"The impact of British entry on US farm exports has been greatly exaggerated. In fact, there is only one major US agricultural product, feed grains, which benefits from a higher protection in the EEC than it does presently in Britain. On such important US export items as soybeans, oil cakes, vegetable oils, dried fruits, and vegetables, the level of EEC protection is either lower or about the same as that of Britain. In the case of tobacco, which is the most important single agricultural product exported to Britain, accounting for about two-fifths of total US farm exports, total tariff and excise charges are higher in Britain than in the Community. Considering these factors, it is by no means excluded that US farm exports to Britain which have been stagnating at about $400 million during the last six years may be stimulated as a consequence of Britain's joining the EEC."[35]

The fact is that the complexity of the factors directly and indirectly involved make prediction extremely difficult. At face value, however, the figures do not suggest that the United States would suffer a severe loss of farm exports as a result of Britain's accession to the Community. Indeed, there is some reason to hope that Britain, whose interests in keeping food prices down coincide with US export interests, will succeed in negotiating a lower level of CAP price supports. If British entry should lead to a lowering of CAP price supports for the Community as a whole, the net impact could be a healthy plus for US farm exports.

CAP: A FACT OF LIFE FOR FORESEEABLE FUTURE

In any case, the CAP, in some form, is a fact of life for the foreseeable future. Forging a common agricultural policy was essential to the creation of the Common Market. It was the minimum price demanded by France, the most efficient farm producer of the Six, for exposing French industry to the full force of German competition.

The underlying concept of the CAP from the first was inherently and necessarily discriminatory against farm products from outside the Common Market. It also was tilted against major Community food importers like Germany and Italy, whose customs receipts from import levies far exceed those of the exporting countries, notably France. An offsetting factor, though difficult to measure, is the extent to which higher levels of consumption of farm products, including imported goods, have been generated by the higher rate of growth since the formation of the Common Market.

35. *Op. cit. supra* at 11.

In the immediate future, the Community's trading partners can legitimately seek to persuade Brussels to operate the CAP in a way that minimizes disruption of world farm trade. In negotiations with the United States in the winter of 1972, the Community proved its willingness to make adjustments whenever feasible by reducing its citrus fruit tariffs and agreeing to increase its wheat stockpile.

Looking farther ahead, there is much evidence that the Community's farm policy will be progressively liberalized and its import barriers lowered. The member governments of the Community and its Commission are painfully aware of the heavy financial cost of the CAP as now operated and pressures for reform are building.

In the long term, the Community's farm reform plan should make it increasingly easier, politically, to pursue an economically realistic farm policy. But revolutionary social changes take time. The United States had its first experience with agricultural surpluses as far back as the early Twenties. Fifty years later it still looks to its large food aid program under Public Law 480 to reduce the agricultural surplus, not to mention mammoth, heavily subsidized grain deals with occasional buyers such as the Soviet Union and China.

US INDUSTRY CAN COMPETE

In the industrial arena, a close look at the popular underpinnings of the protectionists' argument may prove worthwhile.

Of the assertion concerning the weak US position in world trade, there is much evidence that the reasons for the decline in the US trade surplus from $3.6 billion in the mid-Sixties to a deficit of $1.5 billion in 1971 lie more in domestic inflation than in a loss of competitiveness.

Many US industries have put in a strong export performance right along. More than a score have racked up continuous increases every year since 1960. They include cars and trucks and parts with exports of $4.1 billion in 1971, up more than 138 per cent since 1965; electronic computers and parts $1.1 billion, a gain of 343 per cent since 1965, and chemicals $3.8 billion, up 58 per cent since 1965.

The General Counsel of the protectionist Trade Relations Council of the United States conceded that in 1967 a group of 185 US industries, accounting for about 40 per cent of total employment in manufacturing industries and for 56 per cent of the total value of shipments, scored a $10.4 billion trade surplus that year.[36]

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36. Stewart, Eugene L. *Testimony* before the Joint Economic Committee of the US Congress, March 18, 1970.

US QUOTAS KILL US JOBS

However, a visiting scholar at the Brookings Institution has estimated that import restrictions would *"reduce* US jobs, because its exports are more labor intensive than its imports." He explained:

"Under its international legal obligations, the United States would be required to negotiate tariff concessions to compensate countries for the losses caused them by any new US quotas. This would increase US imports of other commodities by an amount equal to the reduction in imports triggered by the new quotas, and offset any reduction in unemployment which they achieved. . . . The United States would not be able to offer compensation, however, because virtually all dutiable items would be controlled by the quotas. Other countries would thus be free to retaliate against US exports, by an amount equal to the cutback in US imports, and we can be sure that they would. This in turn would reduce US jobs. . . ."[37]

As to claims of import damage, the House Committee on Foreign Affairs Subcommittee on Foreign Economic Policy recently concluded:

"Textile firms and workers in the Northeast were probably hurt far more by the internal relocation of their industry to the South than by imports from the Far East. Similarly, the aerospace engineer in California now driving a taxicab can attribute his misfortune to diminution of the US space program, not construction of the Anglo-French *Concorde.*[38]

George P. Shultz, former Labor Secretary now Secretary of the Treasury, calculated that 2.7 million American workers were employed directly and indirectly in producing goods shipped out of the country. In addition, some hundreds of thousands of people are employed in processing and handling imported goods.

On the import side, he estimated that it would have taken 2.5 million additional workers to produce all the goods imported into the United States in 1969. It would have been difficult or impossible to find the skilled people to do so. There would have been a sharp rise in inflation and a net loss in the US standard of living and in exports.[39]

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37. Bergsten, C. Fred. "The Costs and Benefits to the United States of Trade Adjustment Assistance," *Statement* before the House Foreign Affairs Committee, Subcommittee on Foreign Economic Policy, April 25, 1972.
38. "Trade Adjustment Assistance," *Report,* House Foreign Affairs Committee, Subcommittee on Foreign Economic Policy, August 29, 1972, page 3.
39. Shultz, George P., *Testimony* before the Ways and Means Committee of the US House of Representatives, March 13, 1970.

Historically, the Brookings economist reported, "unemployment and the trade surplus usually decline together in the United States. This is because the rapid growth which provides jobs also sucks in imports, and generates price increases which hurt our international competitiveness."[40]

US MARKET BRISTLES WITH BARRIERS

The claim that the United States is the world's last or even "most" open market is hard to substantiate. Certainly with more than 20 per cent of US imports by value now controlled by voluntary or mandatory quotas and the US market hedged with as formidable a ring of non-tariff barriers as most other trading powers have, it is hard to see how the United States could be termed the last open market. The United States maintains quotas or similar devices on cotton textiles, steel, wool, meat, petroleum, sugar, cotton, wheat, dairy products, ceramic tiles, and other products. It is true, however, that the United States imposes fewer quotas on imports from Japan than does Western Europe.

The US tariff level on industrial products is substantially higher than the Community's on average. Also, the Common Market countries' efforts to harmonize tariffs on trade between themselves have resulted in a common tariff of more uniform level than the US tariff. The peaks in the US tariff schedules are much more restrictive than the more evenly distributed EC duties.

NTB'S: POT CALLS THE KETTLE BLACK

American politicians and businessmen frequently accuse the European Community of erecting a bristling wall of new non-tariff barriers (NTB's) to imports to replace the tariffs reduced in the Kennedy Round. This picture is distorted.

AVERAGE POST-KENNEDY ROUND TARIFFS

(percentages)

	Raw Materials	Semi-mfd.	Finished mfd.	Industrial Average
Community	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 by the General Agreement on Tariffs and Trade, 1971.

40. *Op. cit.* at 36 supra.

In the first place, all countries have rules or policies, in addition to customs duties, which may restrict imports or favor exports. Generally, they have been adopted for domestic reasons and only inadvertently affect international trade. Non-tariff barriers to trade range from import quotas to customs valuation procedures, public procurement policies, border tax adjustments, antidumping regulations, technical and health regulations, export subsidies, and so on. A GATT working party has catalogued more than 800 non-tariff barriers of its members which may restrict trade. The United States has its full share of NTB's.

An analysis of the Community members' non-tariff barriers would exceed the scope of this paper. It should merely be noted that none of these governments intends to indulge in an orgy of new non-tariff barrier building, assuming that international trade war can be averted.

The relevant question is what, if any, new trade barriers the Community may have built as a by-product of its evolution. Aside from the common agricultural policy already discussed, only one major problem has arisen so far: border tax adjustments. The US Government has been actively concerned with the possible impact of the EC nations' tax systems on US trade since January 1, 1968, when Germany replaced its "cascade" tax system with the Community's value added turnover tax (VAT). The German move followed a 1964 decision by the EC Council of Ministers to harmonize members' turnover tax systems, using the French system as a model. All the old members but Italy have made the changeover, and Italy plans to do so early next year. Of the new members, Denmark and Ireland have VAT on the Community model, and the United Kingdom will introduce it next year.

UNITED STATES MAY COPY VAT

The VAT, a sales tax collected each time a product is sold, differs from other sales taxes in that it is imposed only on the value added to the product by the seller. Its effect is identical to that of a retail sales tax. The main difference is that the government gets part of the tax eventually paid by the consumer at every stage of production. This system lessens the chances of tax evasion.

The Americans complain about the tax adjustment at the border under the VAT, albeit less vociferously since they began to think about levying a VAT of their own. They maintain that this adjustment is the equivalent of a tariff barrier and illegal under international trading rules.

The Europeans insist that the border tax adjustment for VAT is neutral in effect and, furthermore, essential. They point out that it would be unfair for an imported machine tool to enter a Common Market country and be sold tax-free while a comparable domestically produced tool was taxed. They point out, too, that the United States taxes imported automobiles in the same way, both at the federal and local levels, and that local retail sales taxes in the United States are often as high as 6 per cent over and above any federal excise taxes.

The rules of the GATT recognize the legitimacy of adjustments at the border for indirect or sales taxes. By contrast, they do not permit signatory nations to compensate similarly for direct taxes on income. This distinction is based on the theory that sales taxes are passed on to the consumer in the form of higher prices while income taxes are absorbed by the manufacturer.

The US Government has argued against the Community's move to a single VAT system on two grounds. First, it protested that the change, particularly by Germany, was equivalent to a disguised exchange rate devaluation of perhaps 2 per cent to 3 per cent which damaged US exports and impaired its Kennedy Round tariff gains at a time when the US balance of payments was in deficit and Germany's in surplus.

Washington has maintained that the GATT distinction between border adjustments for indirect but not for direct taxes is invalid, since not all the burden of sales taxes is passed on to the consumer nor does the manufacturer absorb all the burden of income taxes. On the basis of that contention, the United States has sought changes in the GATT rules to either permit partial border compensation for direct taxes or moderate the impact of VAT on imports and exports. The US case has been weakened by the impossibility of proving this contention, and so far the GATT has not acted.

The Europeans reply to the first point that Germany's former cascade tax system undercompensated at the border, both in terms of the tax on imports and the rebate on exports. The change to a VAT system thus merely removed an unfair advantage which imported goods formerly enjoyed in the German market and an unfair handicap to German goods in international trade.

On the basic theoretical question, Europeans make the point that American officials have been unable to prove the extent to which direct taxes are passed on to the consumer in higher prices or the extent to which indirect taxes are not. More importantly, they argue that to bend GATT rules to permit compensation at the border for direct taxes would be unfair, unworkable, and would open a Pandora's box of international contention.

When it comes to assessing the trade damage to the United

States from EC tax harmonization, US officials (in the Executive Branch if not in the Congress) take a more relaxed view than they did a few years ago.

COUNTERVAILING DUTIES OFFEND EUROPE

In other areas, the United States' self-portrait of open-handed liberality is blemished.

One practice which particularly angers Europeans is the US Treasury Department's recourse to the imposition of "countervailing duties" on imports of goods allegedly benefiting from a "bounty" or export subsidy.

The US countervailing duty statute, unlike countervailing duty practices of other nations and in conflict with GATT rules, does not require a determination of injury to an American industry. The Executive Branch has no flexibility in applying it. It must be imposed automatically whenever an imported product is found to be enjoying a bounty, even if it is a mutually beneficial item of trade which does not harm American industry or employment.

There has also been an increase in the number of US complaints that the Community is dumping goods on the US market. Here, the US interpretation of an injury to a domestic industry strikes the Community as alarmist, tending to focus more on minimal damage than material damage. Yet it is proposed changes in the US Antidumping Regulations that cause the Community most anxiety. For example, one proposal would allow the Secretary of the Treasury to determine the fair value of a product according to any method that seems appropriate to him in cases where the home market price of an export is difficult to determine. Such discretionary leeway, the Community maintains, is incompatible with both the GATT and the Geneva Antidumping Code, both of which define an import's value either in relation to the price on the exporting country's market or in relation to the export price to a third country, or to the product's production cost.

US CUSTOMS ASSESSMENT STACKED AGAINST EUROPE

In the area of customs classification and nomenclature, in 1950, most of the major trading nations adopted the Brussels Tariff Nomenclature (BTN) which defines customs values and prescribes a uniform system of duty assessment based on a standard nomenclature with a limited number of tariff schedules. The United States is practically the only major holdout, although in the summer of 1972, the President asked the Tariff Commission to study ways of converting US tariffs into BTN.

The current US system retains an extremely complicated, arbitrary, and variable tariff structure that leaves foreign firms exporting to the United States in doubt about the amounts of duty they will have to pay. This uncertainty is compounded by arbitrary changes in classifications.

A related problem for the foreign exporter is the US system of duty assessment. Under the Brussels Tariff Nomenclature duties are assessed on the sum of cost, insurance, and freight (CIF). The United States divides imports into three groups. Most duties are levied on the free on board (FOB) price. Some 500 categories of products, however, pay duties on the basis of their value in the home market or their FOB value, whichever is higher.

For organic chemicals, rubber soled shoes, canned clams, knitted woolen gloves and mittens whose value does not exceed $1.75 per dozen pairs, for instance, the duty is based on the American selling price (ASP). ASP is the wholesale price of comparable American products, including all expenses and profits, as determined by the American industry concerned.

In practice, ASP boosts the value by which duties are multiplied by anything from twice to four times the invoice value of the imported product. It gives American producers an ironclad price advantage in competing with imports. In the field of synthetic organic chemicals where sales are made in bulk, price is the decisive element in competition. In the dye field, for example, US duties are assessed on "standards of strength" determined as of July 1, 1914. This practice doubles or triples the level of the US duty. The ASP system, incidentally, is a flat violation of GATT.

The history of the controversy over ASP illustrates a more general problem which irks foreign nations trading with the United States—the way in which the US constitutional system itself places them in double jeopardy.

In 1967, in the concluding days of the Kennedy Round trade negotiations, the American negotiators agreed to abolish ASP in return for substantial reciprocal concessions by the EC, Britain, and other nations. But Congressional approval was required. As of the fall of 1972, Congress still had not acted upon the requests of the Johnson and Nixon Administrations to repeal ASP, with no prospect of action before the election. Indeed, Wilbur Mills and other influential Congressmen have taken the position that in repealing ASP, the United States would be giving away one of its only non-tariff barriers for nothing and should instead use it to bargain for further concessions. In other words, the horse should be sold twice.

This problem has led more than one veteran of trade negotiations to insist that any future international negotiation on non-tariff barriers must be preceded by a grant of authority from the US Congress to the American negotiators.

"VOLUNTARY" RESTRAINTS IRK EC EXPORTERS

The Constitutional ploy is used with equal effect when it comes to erecting new barriers to imports into the US market. Starting in the Fifties, the Executive Branch began pressing the Japanese Government to rein in unilaterally exports to the United States of a wide range of textile and other products. In 1962, multilateralized pressure resulted in the long-term cotton textile agreement under which major producing nations agreed to curb their exports of cotton textiles to importing nations. Though supposedly a temporary arrangement, it has been extended twice and is currently due to expire October 1, 1973. Then in 1968, the State Department played midwife for a "voluntary" agreement among European Community and Japanese steel companies to limit exports to the United States. This agreement has been extended to 1973. Later followed the Nixon Administration's 18 month-long effort to persuade the European nations, Japan, and the Far Eastern textile producing nations to agree to curb exports of man-made and woolen textiles to the United States. When the Europeans refused to play ball, Washington turned the full force of its pressure upon Japan.

In each case, the State Department, acting for the Executive Branch, has told the foreign governments concerned that it sees no need or justification for "voluntary" restraints on exports to the United States but that they are necessary in the interests of freeing trade, since without them Congress will insist upon imposing mandatory legislated quotas on imports of the products involved.

To our trading partners, this often used tactic has a distasteful flavor. In addition, the Community wonders whether it is compatible with its antitrust rules. Beyond that, it is a self-fulfilling threat, as was illustrated in the man-made and woolen textile case. When the Administration took the line that if the Japanese did not agree to voluntary limits on their textile exports to the United States, Congress would do it for them, it became politically inevitable that that indeed would be the outcome. When the Japanese finally refused Washington's demands, the Administration found itself required politically to support Wilbur Mills' proposal for a mandatory quota, a proposal which originally had been made with the idea of strengthening the Administration's bargaining position vis-à-vis Tokyo. Once the White House had backed textile quotas, Rep. Mills felt that it would be impossible to slam the door on quotas for other products. The legislation eventually placed before Congress called for quotas on shoes and under certain circumstances on a wide range of other goods.

DISC: EXPORT SUBSIDY OR COMPETITION EQUALIZER?

Another US action has sparked protests from around the world, the tax deferral on 50 per cent of export profits granted to Domestic International Sales Corporations (DISC's) of which there are more than 2,000. The "DISC Handbook for Exporters," published by the US Treasury, blandly announces:

"US exporters can now receive . . . tax treatment for their export income more comparable to that afforded by many foreign countries to their exporters." The deferred tax payment can be "reinvested by the DISC in its export business, or invested in certain Export-Import Bank obligations, or in 'producer's loans' to related or unrelated US producers for export. . . ."[41]

Other exporting powers maintain that the DISC constitutes an export subsidy, outlawed by Article XVI of the GATT. The United States retorts that countries such as France, the Netherlands, and Belgium have had similar provisions for years, and that since taxes will eventually be paid, DISC cannot be considered a subsidy. Complaints have been filed with the GATT; bilateral US-EC consultations have been held, and there the matter rests for now.

The DISC provision for producer's loans raises the broader and potentially explosive issue of export credit in general. The terms of sale in any large export order constitute an increasingly important part of the price. As China and the Soviet Union shop abroad for plants and machinery, this issue could turn into a veritable powder keg. Already, for fear of a cutthroat credit war, the Community members coordinate their long-term credits among themselves, and within the wider context of the Organization for Economic Cooperation and Development (OECD). Within the context of OECD consultations, however, the United States, unlike the Community members, has refused to participate in arrangements for consulting its partners before concluding the sale.

SNAGS TO FREE COMPETITION ABOUND

Other obstacles to entering the American market abound. There is the Buy American Act of 1933 which directs the Executive Branch to give a preference to American over foreign goods in Government buying. Price differentials, which can be changed at any time by Executive Order, currently are 6 per cent to 12 per cent for civilian US Government agencies and 50 per cent for military pro-

41. *DISC: A Handbook for Exporters*. US Treasury Department, Washington, DC, January 1972, page 1.

curement, at home or overseas. In addition to the general provisions of the Buy American Act, more than 90 per cent of procurement under US foreign aid programs is restricted to purchases of American products. Moreover, a growing list of states are enacting Buy American rules of their own. To be sure, the Community and other agencies follow equally or more stringently protectionist public procurement policies. But the United States cannot claim injured innocence.

The list is tedious. The United States has many extensive legal "escape clause" provisions for granting tariff or quota protection to industries, firms, or workers which can demonstrate that they are being injured or threatened with injury from imports. Proposed legislation would make this protection still easier to get. An outer hedge of administrative, technical, health, and sanitation regulations further shields the American market. In addition, since 1955 the United States has enjoyed a general waiver excepting its agricultural trade restrictions from GATT rules.

As to whether the United States obtained reciprocal concessions in postwar tariff bargaining, by any accepted quantitative measure it did, with the exception of those products for which in the immediate postwar period European nations temporarily retained quotas for balance-of-payments purposes. There were also some cases where US negotiators traded quantitative for qualitative gains. The whole notion of reciprocity is a poser for economists. Many of them question its usefulness, arguing that any nation is better off with no tariffs, though better off still, in terms of economic efficiency and standard of living, if its trading partners also have free markets. However, this line of argument does not appeal to politicians.

CLEAN AIR: NEW TRADE PROBLEMS?

US concern for the environment and the quality of life has also caused some ripples in trade relations with the Community. European automotive standards, set for a less energy dependent and less polluted continent than the United States, are less stringent. To continue exporting to the lucrative US market, European manufacturers will have to modify cars and trucks to meet American standards, thus raising production costs.

Both the Community and the United States accept the OECD's "the polluter pays" principle, that the polluter must bear the cost of cleaning up or preventing damage to the environment. Within this broad consensus, however, lies vast room for disagreement. A government could, for example, allow companies large tax write-offs for the costs of pollution abatement programs. To a competing manufacturer denied this advantage in another country, such a tax allowance might look like a subsidy.

The emerging economic interests connected with international harmonization may never have to go to formal negotiations, if the success of discussions so far within the OECD and the North Atlantic Treaty Organization is an indicator. If they do, however, the Community's unified set of standards for its nine members should speed agreement in the broader context.

MULTINATIONALS: TWENTIETH CENTURY NATION-STATES

The Community's emerging common industrial policy poses one last set of potential commercial problems for the mighty US multinational corporations now thriving in Europe.

The EC Commission has drafted an ambitious blueprint for a common industrial policy to promote a genuine European industrial network. Included are measures to speed up removal of technical barriers to trade within the Common Market, liberalization of access to public contracts, the abolition of tax frontiers, formation of a European capital market, and a common statute for a European company. Once enacted, this policy will attempt to foster conditions encouraging and enabling European companies to take advantage of the common market now being perfected. The fact is that industrial development still lags behind its potential.

The value added to the gross Community product per person employed in industry is roughly one-third less than in the United States. Average wages and salaries in industry are less than half US levels. Industrial mergers to assure economies of scale appropriate to a larger market have tended to occur between either companies of the same country or European and American companies.

Understandable as this may be, the implications for American corporations, which generally have been better able than their more parochial European counterparts to take advantage of the flowering of the Common Market, are not entirely reassuring.

The competitive thrust of the Community's common industrial policy is clear. A Common Market official speaks of a common industrial development policy as "essential" to "acquire a reasonable degree of technological independence of outside countries." However, the creation of a European company law raises the possibility of discrimination against US firms: "One problem is how to define a company as 'European'. Is this a matter of location or control? Must the headquarters be in the Community, or must effective control be in the hands of Community nationals?"[42]

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42. Barre, Raymond. *Address* to the Fifth International Investment Symposium, Belaggio, Italy, June 2, 1970.

The EC Commission, announcing its program for a common industrial policy, justified it in competitive terms:

"Europe's relative lag in industrial development and the keen competition from outside companies—either through direct exports or through the subsidiaries they have set up in the Community—make the creation of transnational European firms essential, particularly in the advanced technology industries."[43]

An obvious point of potential friction is over public procurement policies. These are seen by Europeans as a major means of giving European firms a leg up in competition with American multinational corporations.

Another European leader set the problem in the wider perspective of US-Community relations:

"At present, the subsidiaries of non-European corporations are in a position to share, together with the national industrial activities (when these exist), the advantages of national preferences in public procurement, at the same time being part of powerful multinational organizations capable of developing worldwide strategies for the production and marketing of their technology.

"This notwithstanding, I hope that these organizations do not oppose the suggested course. An accepting attitude on their part would be convincing evidence that multinational corporations are willing and able to reconcile their efforts for maximizing their opportunities with the loyalty they owe to the policies of the host countries. In our case the host countries are the members of a Community."[44]

Thus, while there may and probably will be problems in these areas, as in the others which currently are inflamed by friction, they are the inevitable by-products of the growth in strength and cohesion of the European Community. In any case, nostalgia for an American hegemony which was foresworn 20 years ago is no guide for realistic policy. Many American statesmen indeed welcome the emergence of a strong and unified European economy and see in it opportunities for strengthening the machinery of the international economy.

43. European Community Information Service, *Press Release*, "Commission Memorandum Gives Outline for Common Market Industrial Policy," April 1, 1970.
44. Colonna di Paliano, Guido. *Testimony* before the Joint Economic Committee of the US Congress, July 27, 1970.

COMMUNICATION 4

As the worldwide search for new international rules begins, the atmosphere of confrontation has subsided. A willingness to communicate has been reestablished, and new or revised frameworks for solving problems must be found before communication fails again.

Responding to the need for a closer institutionalized dialogue, the Community in the fall of 1971 established an official Delegation in Washington. Informal contacts have also been given renewed attention by exchanges between US and European legislators. At the end of one such visit to the United States, a member of the European Parliament commented: "We came to the United States with all of Europe's problems on our minds. Now we are richer. We return with all the problems of the United States." The late House of Representatives Majority Leader, Hale Boggs, concurred in the usefulness of these exchanges: "The more you meet people, the more the prospects for solving problems improve. If you don't do anything, you know nothing will improve."[45]

45. *European Community* No. 158, European Community Information Service, Washington, DC, August/September 1972, page 3.

DIALOGUE NEEDS INSTITUTIONS

These contacts continue as the United States and the Community focus on preparations for forthcoming trade, monetary, and security negotiations. The fact that these preparations have started in earnest seems to have improved the climate. One European thus summed up the current situation:

"The conditions of dialogue between Europe and the United States exist. But organizations barely exist. This dialogue will necessarily take place on the economic and monetary plane, and one must hope that it will not be a dialogue of the deaf. However, on the political and military level, everything depends on progress within Europe itself."[46]

He thus identified one of the difficulties that have plagued US-EC relations, the difficulty of dialogue between two partners of comparable size but of unequal political authority. With its enlargement to nine members, the Community overnight became the world's leading commercial power. But unless its institutions acquire adequate political power it could become "an economic giant without a political head, incapable of defending itself, a monster whose very survival would be in question."[47]

For trade and economic affairs the Community has a cumbersome procedure for delegating authority to negotiators; but it works. If the Community's decision-making process sometimes looks unwieldy, the US legislative process of approval is no less of a puzzle to many Europeans. Commented one of them: "it is often hard to ascertain who in the United States is influential in making what decision and how"; but, he admitted, "in the final analysis there is always the President who speaks for America...."[48]

A "summit" meeting of the political leaders of the Community of Nine and the US President has been suggested in some quarters as a means of bridging this institutional difference. It could also alleviate difficulties resulting from the conduct of negotiations in inter-related fields at different times and by separate organizations. Lastly, it could avoid the danger of negotiations' beginning with points of view already frozen at a low comprehension level concerning the real issues. A House Foreign Affairs Committee study mission to the Community identified the dangers inherent in this approach:

46. Laloy, Jean. "Does Europe Have a Future?" *Foreign Affairs* October 1972, page 161.
47. Reverdin, Olivier. *Report* on the Political Consequences of the Enlargement of the European Economic Community, Consultative Assembly of the Council of Europe, Strasbourg, France, May 4, 1972, page 2.
48. Dahrendorf, Ralf. "Ten Voices for Europe Is Nine Too Many." *Vision*. January 1972, page 59.

"Today we find talks in four separate fields conducted in circumstances conducive to an exaggeration of differences which is often without proper regard for our common interests. Sometimes this exaggeration seems to come from the bureaucracies of our governments which deal with specific matters of trade, defense, monetary affairs, and foreign aid. The views of these officials often represent the limited interests of their agencies and their domestic constituencies and thus preclude a balanced consideration. Defense questions, for example, should not interfere with our substantial and vital trade relations. . . ."[49]

BOTH SIDES MUST GIVE

Although the broad outline of Common US-EC interests has emerged, the forthcoming negotiations will exact concessions from both major trading partners, as was seen at the time of the Smithsonian Agreements. (see page 8). A veteran observer of the Atlantic scene explains the changes in US-EC relations in terms of game theory. Just after the war, "Europe needed something from the Untied States that it was in the US interest to give. The game theorists would call this 'a positive sum game,' in which both sides gained." Since the emergence of a collective Europe, ". . . transatlantic issues are increasingly becoming a zero-sum game where one side loses and the other wins. Europeans require things of the United States that would involve American sacrifices, and vice versa. . . .

"The danger is that the zero-sum games that now characterize many economic and political issues between the United States and the European Community will become negative-sum games — that both sides would lose. A negative-sum game would be a mercantilist trade war or an international monetary crisis in which the entire international monetary system collapsed."[50]

Without resorting to game theory jargon, it can be simply said that the common interest on both sides of the Atlantic is so deep and pervasive that any approach to dealing with shared problems dictates the acceptance of common objectives. These objectives must be fixed at a sufficiently high level so that the dialogue cannot fall to the level of adversary proceedings. Economic, monetary, and trade affairs today loom too largely as primary factors in world politics to be treated at the level of a greengrocer's dispute.

49. *The European Community and the American Interest*, House Committee on Foreign Affairs, 92nd Congress, 2nd Sess., March 1972, page 40.
50. Geiger, Theodore. "Atlantic Relations: A Negative-Sum Game?" *European Community* No. 160. European Community Information Service, Washington, DC, November 1972, pages 14-15.

GLOSSARY

ASP: American Selling Price, a customs valuation procedure of the United States under which the US wholesale price of certain products, notably chemicals, is used instead of the foreign price in arriving at the customs duty to be assessed.

CAP: abbreviation for the EC's common agricultural policy, which is designed to rationalize agricultural production and establish a Community-wide system of supports and import controls. It now covers over 90 per cent of the Community's agricultural production.

COMECON: Council for Mutual Economic Assistance. Members are the Soviet Union, Czechoslovakia, Poland, East Germany, Hungary, Romania, Bulgaria, and Outer Mongolia.

COMMUNITY OF SIX: European Communities. See EC below.

COMMUNITY OF NINE: the six founding members and the three new members, the United Kingdom, Ireland, and Denmark. See EC, below.

COMMON MARKET: popular name for the European Economic Community. See EC below.

CUSTOMS UNION: a group of countries that eliminates tariffs on trade between its members and adopts a common tariff on imports from the rest of the world.

DAC: Development Assistance Committee of the Organization for Economic Cooperation and Development.

ECSC: European Coal and Steel Community. See EC below.

EEC: European Economic Community. See EC below.

EC: European Community or European Communities. The collective name for the European Coal and Steel Community, the European Economic Community, and the European Atomic Energy Community. Founding members were Belgium, France, Italy, Germany, the Netherlands, and Luxembourg. The United Kingdom, Ireland, and Denmark joined on January 1, 1973.

EFTA: European Free Trade Association. Members were the United Kingdom, Denmark, Norway, Sweden, Switzerland, Austria, Portugal, and Iceland. Denmark and the United Kingdom withdrew after deciding to join the Community.

FREE TRADE AREA: a group of countries that eliminates tariffs on trade between its members but which does not adopt a common tariff on imports from the rest of the world.

GATT: General Agreement on Tariffs and Trade. An international accord signed in 1948 to foster growth of world trade. Provides a forum for multilateral tariff negotiations and, through semiannual meetings, a means for settling trade disputes and for discussing international trade problems. Has more than 80 members.

GNP: Gross National Product, usually defined as the sum total of goods and services produced in an economy and net foreign investments. This term is not to be confused with gross domestic product which is the sum total of final goods and services, excluding intermediary production, produced within national borders, plus import taxes.

KENNEDY ROUND: trade negotiations which took place in the GATT from 1964 to 1967. The impetus for the negotiations and US participation were made possible by the passage of the 1962 Trade Expansion Act. Resulted in lowering duties by some 35 per cent in industrial products, and somewhat less in agriculture, through agreements covering some $40 billion in world trade.

MFN: Most-favored-nation. The policy of non-discrimination in international trade which provides to all nations the same customs and tariff treatment as given the so-called "most-favored-nation."

NTB'S: Non-tariff barriers. Provisions such as quotas, import regulations, buying policies, and freight rate differentials which restrict the flow of goods by means other than tariffs.

OECD: Organization for Economic Cooperation and Development.

P.L. 480: US legislation first engaged in 1954 which channels US food and fiber aid to needy countries.

UNCTAD: United Nations Conference on Trade and Development.

VAT: Value Added Tax. An indirect tax which has the effect of a retail sales tax. Tax is collected on the value added to a product at each stage that the product passes before reaching the consumer.

YAOUNDE CONVENTION: Convention joining the Community to Madagascar, Mauritius, and 17 African States which are former colonies of Community member states.

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