

THE DEVELOPMENTS OF ECONOMIC AND TRADE  
RELATIONS BETWEEN THE UNITED STATES AND  
AN ENLARGING COMMUNITY CALL FOR  
NEW FORMS OF COOPERATION

---

Declaration of Mr. Pierre Malvé, Counselor for  
Economic and Trade Affairs at the Delegation of  
the Commission of the European Communities in Washington,  
before the International Committee of the Aerospace  
Industries Association of America, Inc.  
Santa Barbara, California, March 15, 1972

## INTRODUCTION

I would like to thank you very much for extending to a representative of the European Community the opportunity to speak before the International Committee of the Aerospace Industries Association of America.

To discuss at this time the subject of relations between an enlarging Community and the United States is a real challenge. The United States is becoming progressively more engaged in the upcoming Presidential election.

On the other side, the Community is preparing itself to welcome new members and to progress on the path of economic and monetary union. However, both the United States and the Community must define as soon as possible guidelines for a new foreign economic policy.

While recognizing the growing economic importance of the triangle formed by the United States, Japan, and the enlarged Europe, considerations relative to the U.S.S.R., to China, and to developing countries should be taken more and more into account in the definition of international economic relations.

The enlarged Europe and the United States' relations are already directly confronted by this new acceleration of History.

I would like to express a European's point of view :

- Firstly, the United States benefits greatly from the developments of European integration.
  
- Secondly, economic and trade relations between the United States and the enlarging Community have reached a turning point and calls for new forms of cooperation.

I. THE UNITED STATES BENEFITS GREATLY FROM THE DEVELOPMENTS  
OF EUROPEAN INTEGRATION.

1. The benefits which the United States enjoys in its relations  
with the Europe of Six should be maintained with the Europe  
of Ten.
  - a. The Europe of Six has a large balance of trade deficit  
-----  
with the United States.  
-----

I do not wish to quote too many statistics, but I would like to note however that between 1958 and 1970, trade between the United States and the Community tripled, reaching a total value of \$7 billion in 1970.

Between 1960 and 1970, the United benefitted from a surplus in its balance of trade with the Community of about \$2 billion per year and this surplus reached \$2.4 billion in 1970.

It is important to keep in mind this figure of \$2.4 billion at a moment when American authorities are so preoccupied with the deficit of their balance of trade.

It is appropriate to recall once again that the European Community, in relation to all countries, has the lowest average customs duty rates for industrial products and that these rates are grouped around the average, whereas the U.S. customs duties are still characterized by "peaks" for many products.

It must also be said that the quantitative restrictions in force in the Community have been decreasing, whereas in the United States, they keep increasing since the end of the Kennedy Round, whether in the form of restrictive measures at the border, or in the form of so-called voluntary export limitation agreements.

International trade occupies too large a place in the Community's gross national product for it to be protectionist.

.../...

It is true that little publicity is accorded in the United States to the surplus balance of trade with regard to the Community, and instead there is an effort to give an extremely negative picture of the common agricultural policy.

In 1970, however, the Europe of Six imported \$1.8 billion of American agricultural products, and during the last six years, U.S. agricultural exports have increased more toward the Community than toward the rest of the world.

The Community does not claim that the common agricultural policy, which is tied to its economic and social structures which are slowly evolving, is a model of economic policy. The Community is the first to admit that the C.A.P. needs to be modified progressively on certain points.

The European agricultural policy greatly resembles the American agricultural policy in the sense that it must guarantee a certain level of income to farmers and implies significant public expenditures. In fact, costs for support to agriculture are less important per farmer in Europe, and amount to \$860 per European farmer against \$1,300 for each American farmer.

The spokesmen for American agriculture, whoever they are, tend to speak too often about competitive products such as grains and soya. But it would be difficult indeed for them to defend the notion of comparative advantages with regard to American products such as dairy products, sugar, meat, and even wheat. When the Community proposes to negotiate international commodity agreements in order to try to put some order in the international market, it is confronted with an immediate refusal. It is, however, neither normal nor equitable to attack the common agricultural policy en bloc, but at the same time to wish to put aside from all negotiation, the American agricultural products which benefit from price support and from excessive import restriction measures.

For example, the price of milk in the United States is higher than in the Community, and U.S. imports of dairy products have not exceeded, between 1968 and 1970, a tonnage corresponding to 1.7 % of the milk production in the United States.

.../...

Another topic of discussion is aimed at the preferential agreements concluded by the Community, notably with African countries and countries on the Mediterranean border. We must admit that this policy was elaborated largely under the pressure of circumstances.

The creation of the Europe of Six could not brutally deprive African countries of the economic advantages which they used to benefit from through their particular relations with certain Member States. Agreements of Association have in fact been very often profitable to American exporter in that, thanks to their association with the Community, African countries have been able to obtain more currencies and to enlarge their purchases in the United States.

As for the Mediterranean countries, the agreements have had no negative effects regarding U.S. exports to Greece. Moreover, the Community has accepted to reduce considerably the entrance duty in Europe for citrus fruit exported by the United States which is competing with exports from Israel, Spain, Morocco, and Tunisia, all developing countries.

It is also appropriate to recall that the Community was the first to put into force a system of generalized preferences for all developing countries; this action constitutes the beginning of a global policy for development, which is already the subject of a memorandum of the Commission of the European Communities to the governments of the Member States.

This orientation of the Community merits some consideration if we remember the debates in the U.S. Congress on foreign economic aid and the discussions relative to the overall burden sustained by the United States in the world.

Concerning preferential arrangements with the industrialized European countries which will not become members of the enlarged Community, for example, the neutral countries Sweden, Switzerland, and Austria, the Community has declared that these agreements would be determined in conformity with the rules of the G.A.T.T.

.../...

- b. The enlargement of the community to include Great Britain, Denmark, Norway and Ireland, should foster a new growth in international trade.

A number of mechanical factors should contribute to this effect, one being the fact that the Community's average common external tariff on industrial goods is lower than the British tariff, or 6 % compared to the British 7.6 % tariff.

Duties on soybean meals and tobacco are higher in the United Kingdom than in the Community. The United Kingdom will continue to import wheat as it needs hard wheat, which is not produced in the Community.

It seems, though, that the prime mover to an increase in the trade between the United States and the Europe of Ten should be a dynamic economic growth comparable to the growth which the Members of the Community of Six have been enjoying since the beginning of the Common Market. Experience has shown that between 1960 and 1970, the growth rate of the economy was higher in the Community than in the United Kingdom, and this advantage of the Europe of Six was certainly an important factor in the desire of the United Kingdom to join the Community.

Imports from the Community of Six represented over \$45 billion in 1970, and, with the addition of the United Kingdom, Denmark, Norway and Ireland, a total of \$70 billion. It has been calculated that the Community of Ten could represent in 1980 an export market of \$130 billion, which gives an idea of the new responsibilities offered to American exporters.

.../...

2. European integration is particularly favorable to American investments.

- a. In fact, the Community constituted the region of the world where American investments increased the most rapidly.

The book value of those direct American investments jumped from \$1.9 billion in 1958 to \$10.2 in 1969.

Investments in Europe used to account for 7 % of all American investments abroad in 1958, but this percentage increased to 14 % in 1969.

Returns from these investments, not reinvested in Europe, constitute an important element in the American balance of payments. The Commission of the E.E.C. estimates that in 1970, returns from these investments repatriated to the United States reached about \$ 1 billion.

It is evident that U.S. direct investments in Europe have an impact on the American balance of trade. They lead to additional exports of American goods to subsidiaries located in Europe, and at the same time, productions in Europe by these subsidiaries allow for increasing exports on European markets and on markets outside the Community, contributing to the growth of international trade. Sales of American subsidiaries operating in Europe went from \$4.8 billion in 1961 to \$14 billion in 1968. Thus, they represented in 1968 more than two times the value of total American exports toward the Community, and nearly four times the value of manufactured products.

Direct European investment in the United States is much less significant since the book value grew from \$1.6 billion in 1960 to \$3.3 billion in 1969. In spite of recent progress of European investments in the United States, the motivations that inspire European firms to invest preferably in Europe and in developing countries are not perhaps far removed from the motivations of American companies to invest in Europe.

.../...

- b. Enlargement of the European Community should contribute  
-----  
to the expansion of American investments, even more in  
-----  
the view of the fact that industrial policy envisaged by  
-----  
the E.E.C. does not contain any discriminatory aspect against  
-----  
the United States.  
-----

Enlargement of the Community will provide for free circulation of goods within the entire territory of the Ten and consequently give opportunities for a better utilization of the potential for production and for marketing of American subsidiaries which up to now belonged either to the Europe of Six or to EFTA.

European firms are, moreover, becoming more and more competitive in relation to American firms. The industrial policy envisaged for the Community takes into account the growing internationalization of the economy because the competitiveness can no longer be confined to the European sphere, but must be viewed rather in the dimensions of the world market.

American firms seem to have quickly realized the positive aspects of the dimensions of the European market as illustrated by the relatively few mergers and take-overs which occurred among European firms compared to mergers and take-overs involving European and American firms.

The Commission made proposals which are still being discussed among the Member States in order to accelerate the creation of transnational companies in Europe. They will be invited to use a specific statute called the "European Commercial Corporation". The Commission intends also to make new propositions for the constitution of "European Groups of Economic Interest," which would benefit from a simple legal system recognized by all of the Member States of the E.E.C.

This industrial policy is a long-term affair, but it is important to stress that it contains no discriminatory measure against the United States.

.../...



Subsidiaries of American companies will be able, for example, to take part in the "European Groups of Economic Interest" and benefit from all of the advantages which will be eventually given to those groups, as the other companies.

Consequently, there are many in the Community who believe that the United States has benefitted greatly from the creation and from the continuing development of the European Community. One regrets only that these beneficial aspects have not been more widely recognized, and that, paradoxically, the most apparent results have been a hardening of the American positions with regard to the Community.

II. ECONOMIC AND TRADE RELATIONS BETWEEN THE COMMUNITY AND THE UNITED STATES ARE AT A TURNING POINT.

1. One might ask if progress in European integration condemns Europe and the United States to oppose each other.

a. The climate of the relations between the E.F.C. and the United States has not improved following the enactment of the New Economic Policy (N.E.P.), monetary difficulties and protectionist tendencies in Congress.

The introduction of an import surcharge, the discriminatory measures against goods produced abroad, the will to subsidize exports through a fiscal policy, have created grave concerns for the Community.

Trade measures are not considered the most appropriate way to remedy the balance of payments deficit. Moreover, introduced last August in a country where protectionist trends have been constantly growing for months, these measures not only question

the process of trade liberalization, but they also may impair any attempt to resist protectionist pleas in the future. One needs only to recall the contents of the Hartke-Burke bill and the pressure of the U.S. Congress exerted on most of its members to realize that these dangers are real.

Besides, the Community considered very early that the figure of \$13 billion, said to be necessary to restore the American balance of payments, was far too high.

Accounting for the degradation of the American balance of trade were a number of accidental factors, such as strikes or threats of strikes, threats of textile or shoe import restrictions, the fears raised by the dollar situation, all of which incited the importers to hasten their buyings and the exporters to slow their deliveries.

Moreover, the U.S. is turning increasingly into a country exporting services and capital, and we are witnessing the beginning of a process in which the returns of the investments should normally have an increasing importance in the balance of payments, in comparison to the balance of trade.

The Europeans still consider the deterioration of the U.S. balance of payments and of the U.S. balance of trade as mainly an internal problem.

Between 1964 and 1969, the size of the budget expenditures, together with the creation of vast liquidities have sustained inflation, causing an increase in the costs of wages which was not matched by a productivity improvement as great as in the other industrial countries.

In 1969, the reduction in budget expenditures together with a restrictive monetary policy resulted in a decline of economic activity and a considerable increase in the unemployment rate without succeeding to curb inflation.

Now, in the beginning of 1972, the size of the U.S. budget deficit forecast for the current year and for next year is not likely to calm the fears raised by the pressures exerted on prices and the difficulty to impose lasting curbs on inflation. In Europe, it has been noticed that the American

.../...

public raises more and more questions as to the real achievements of the wage and price controls mechanisms.

Europe, despite its reservations toward the trade policy adopted by the U.S. in August 1971, refrained from reacting negatively, and, on the contrary, accepted adjustments in the exchange rates last December and agreed to unilateral concessions in the trade sector at the beginning of February 1972.

It may be interesting to recall that West Germany had already proceeded to several monetary adjustments, 9 % in 1969, 8 % again in May, 1971, following the floating of the Deutschemark.

For all of these reasons, the Europeans feel that efforts have been made to help the U.S. at a difficult moment of its economic and financial situation, efforts which help also the international community as a whole as they avoided a drastic reduction in international trade.

However, in the United States, the concessions agreed upon are too often presented as the justification and the consecration of a rigorous and severe policy toward U.S. partners. One would prefer that these concessions be attributed to the advantages and merits of international cooperation.

b. While progressing toward economic and monetary union,  
-----  
Europe would like to keep its distance vis-à-vis the  
-----  
fluctuations of the dollar.  
-----

The hardening of positions in the United States regarding Europe appears in the proposal to create a dollar zone possibly comprising the United States, Canada, Australia, New Zealand, and Latin America. The projects aimed at modifying the composition of the group of Ten to reduce European representation also illustrate this hardening.

.../...

The decisions made by the Council of Ministers of the Community March 6 and 7, 1972, for the realization of an economic and monetary union, do not aim at creating a bloc. They constitute a first step toward the realization of a European monetary zone. Indeed, Europe is trying to define for itself a monetary personality which would contribute to a better functioning of the international monetary system.

These positive decisions for European integration mark in fact the materialization of a work which started long ago. But they have undoubtedly been accelerated by the vicissitudes of the international monetary system, the implications of the agreements of December in Washington, notably the difficulties arising from the non-convertibility of the dollar.

Europe is concerned by the reluctance displayed up to now by the American authorities to take measures to support the dollar on European financial markets, for example, the modification of present policy regarding interest rates. It is obvious that presently, the United States is giving priority to its domestic economic policy. However, European governments find it increasingly difficult to face a situation which obliges them either to continue to buy large quantities of inconvertible dollars, or to allow such a depreciation of the dollar on the foreign exchange markets that the competitiveness of European products in relation to American products would be seriously affected.

This situation was all the more critical for Europe in view of the fact that the currencies of certain Member States were still floating in relation to the dollar while others wanted to maintain a fixed parity and that Member States were applying exchange controls which others refused to apply.

Consequently, the monetary decisions of the Europe of Six during the month of March aim at re-establishing in a European framework, a certain degree of stability. The Six decided to reduce by one half the margin of fluctuation of Community currencies. This margin must not exceed 2.25 % beginning July 1, 1972, the long-term objective remaining to be the complete elimination of all fluctuations among European currencies. In this end, the interventions of central banks will be made in Community currencies. On the other hand, the interventions intended to correct the fluctuation of exchange rates between the currencies of the Member States and external currencies will be carried out in dollars.

This step forward is accompanied by a decision relative to the close coordination of economic policies which will progress from now on with the same rhythm as monetary cooperation.

2. In order to improve economic and trade relations between the United States and the Community, it is important to define as rapidly as possible a framework for a new cooperation.
  - a. One can first think about the preparation of future negotiations in the area of trade policy.

Following the reductions accepted at the time of the Kennedy Round, customs duties are less important than in the past. But their impact must not be underestimated. Still existing in numerous countries and particularly in the United States are important duties for a number of products for which a new reduction will certainly meet strong opposition. In this light, the objective recently advanced of a complete elimination of customs duties, even spread over a period of ten years, can appear very ambitious. In any case, the procedures which will allow exemptions from the general rules of the lowering of duties will need to be closely examined.

Moreover, it is necessary to show proof of imagination in order to proceed further than a negotiation of customs duties and to look at nontariff barriers, which include import restrictions as well as aids to exports, and are of a growing importance in the trade policy of various countries.

The negotiations would be undoubtedly facilitated if the different partners were able to reach an agreement on a range of criteria which would permit measures of economic and financial assistance to be taken in favor of companies and workers affected by international competition. The notion of "injury" must be defined and unanimously recognized within the framework of the G.A.T.T.

As for agriculture, it is necessary to consider the existing agricultural policies, to question oneself on their content and on their raison d'être, to examine the characteristics of international markets of agricultural products. International commodity agreements must serve as dynamic instruments for the

conciliation of the conflicting interests through commitments which may take various forms. Their goal must be to promote the expansion of agricultural trade. The industrial sector would be quite inspired to become interested in negotiations affecting agriculture, the outcome of which will largely determine the final result of all of the negotiations.

These negotiations must also give utmost consideration to the specific interests of developing countries. To do this, it is appropriate that the latter be included as fully as possible in the preparation of the negotiations.

Finally, it is important to re-examine the notion of reciprocity and to give it a meaning more suitable for the legitimate demands of the different partners and for the conditions of exchange between countries of different structures and economic weights.

One must not however underestimate the present difficulties of a large negotiation comparable to the Kennedy Round. The European Community, the United States, Japan, and other countries have already announced their agreement on a new set of negotiations beginning in 1973. A group of personalities, presided over by Mr. Rey, former President of the Commission of the European Communities, is presently striving, within the framework of the O.E.C.D., to define the large sectors and principles of a new negotiation.

We must be aware of the fact that the preparation of such negotiations will be a long and difficult process if one truly wants to redefine the conditions of world trade for the 1970's. If not, it could be difficult to go beyond a treading water approach, that is, a limited negotiation which would postpone problems the solution of which will become more and more difficult.

However, in this area, one must be realistic: the intensive preparation of the negotiations will not truly begin until the most important countries, and primarily the United States, will have been able to obtain from their respective governments and legislative bodies, negotiative authority which will define the economic framework and the political scope of these negotiations.

.../...

Above all, one needs to be completely convinced of the close links between monetary and trade policy. That is to say that cooperation among governments for a better functioning of the international monetary system constitutes one of the essentials for the opening and for the success of these trade negotiations.

- b. It would be especially appropriate to envisage the opportunity of the negotiation of a set of rules, a sort of code of good behavior, for multinational corporations.

Multinational corporations have multiplied so much during the last several years; they have developed such an influence in international economic life and their impact is so great on the economic and social policy of the different countries, that they ought to participate more and more in the search for an ever-increasing cooperation with governments and international economic organizations such as the O.E.C.D. and the G.A.T.T.

In the United States, considerations relative to the balance of trade and to the American balance of payments, discussions relative to the competitiveness and to the progress of technology in American firms, protectionist tendencies expressed by representatives of labor, all of these factors reveal the weight and the responsibilities of multinational corporations.

On the international scale, Japan's export policy, the Community's progress toward economic and monetary union and its enlargement, Canadian reactions to foreign investment, as well as the magnitude of transactions which may be envisaged with countries such as the U.S.S.R. and China, all stress the importance of multinational corporations, whether they are manufacturing industries or large commercial banks.

A proposal has already been made in academic circles to create a kind of G.A.T.T for investments and, without a doubt, such a proposal deserves to be examined carefully.

No one intends to enclose the multinational companies in a set of rigid rules which would restrain their operations and would be completely contrary to their dynamism and to their creativity,

.../...

or, in a word, to the unique rôle that they can play in international economic expansion. In reality, the code of good behavior which one might propose, could actually facilitate their activities and their development throughout the world and ease the tensions that their very success provokes.

Europe certainly does not intend to close itself to foreign investments and multinational companies. On the other hand, one might hope that European investments, not only in the form of financial participation but also in the form of direct investments will multiply in the United States. Nevertheless, it is not yet out of the question that the responsible authorities within the enlarged Community may wish to have assurances as to the compatibility of the activities and objectives of multinational companies with those of the Community.

So it seems appropriate that the multinational corporations themselves think over a set of international guidelines taking into consideration the following points :

- the subsidiaries of American companies in Europe must have the freedom to develop their production according to their specific needs, either on European markets or on export markets.
- they must especially be able to utilize sources of supply which are most convenient for them and to choose and develop freely their export markets.
- a subsidiary of an American company must not have a dominant position in the Community to the point of preventing the creation of competitive companies or to block all modification and improvement of industrial structures.
- the economy of the entire Community or a certain region of the Community must not be disrupted as a result of a sudden interruption or of a transfer of activity decided upon by a decision-making center outside the Community, without enough consideration for the political, economic, and social environment.

The recent events in the monetary area have also revealed the responsibilities, whether direct or indirect, of multinational corporations regarding short term capital movements. Thus, it is important to find formulas compatible with the requirements of a good financial management and the stabilization of the international monetary system.



## CONCLUSION

Relations between the United States and Europe are at a turning point in the sense that they must be adapted to an entirely new environment resulting either from changes occurring in the international community, or from the trends and features of their own development.

It would not be favorable for the future of U.S.-E.E.C. relations if the Community appeared as essentially preoccupied with achieving successfully its enlargement and eager to postpone the definition of its responsibilities with regard to the outside world.

It would be equally regrettable if the United States, deeply engaged in the definition of a new world strategy as well as in internal political and economic activities, were preoccupied exclusively by its own interests in the making of a foreign economic policy.

This would be all the more dangerous in view of the fact that since last fall, the climate of economic and trade relations between the United States and Europe has far from improved. It is necessary to recognize it without overdramatizing but at the same time being conscious of the necessity of searching constantly for favorable ground and the instruments for a new cooperation. It goes without saying that such an attempt requires bilateral efforts.

The countries that will soon become the Europe of Ten have decided to hold a European Summit in the course of next October. The heads of State and government will try to define, with the participation of the European Commission, the responsibilities of the enlarged Community and its relations with the United State and with the rest of the world.

The most recent events show how important and how urgent it is, in order to reach new forms of cooperation between the U.S. and the Community taken as a whole, to establish the conditions for an authentic dialogue.

For all of these reasons, government leaders, and also the principal spokesmen for economic and social forces, and the most enlightened part of public opinion will have in the U.S. and in the Community especially heavy responsibilities.

And among those, the members of the Aerospace Industries Association of America.

What is crucial to the development of fruitful economic and trade relations between the United States and the enlarged Europe is the ability to cope successfully with the overall change of a rapidly changing world.