

Speech given by Mr. A. G. JOHNSON, Special Assistant to the Head of the Delegation, at the joint meeting of the International Center of New England and the World Affairs Council in Boston.

May 29, 1974

#### U.S. - EUROPEAN COMMUNITY ECONOMIC RELATIONS

I should first of all like to thank you, Mr. Chairman, for your kind words of welcome, and to say what a privilege it is to have been given this opportunity to speak at the joint meeting of The International Center of New England and the World Affairs Council here in Boston today. I must say that the date and subject are very much appropriate.

I will dwell on two particular themes which I think are of great interest to us all, namely: the current developments in the European Economic Community, the EEC, in its relations with the United States and the prospects for future developments.

Links between the U.S. and Europe have always been and must continue to be of vital importance to both our peoples. The fact that the past year has been a difficult one for relations between the European Community and the United States should not allow us to forget how much we share in our common heritage and way of life.

We, in Europe, cannot forget the staunch support given by the United States to the creation and development of the European idea after the last world war. The result of the practical enthusiasm on both sides of the Atlantic to build a strong Europe led in the mid 1950's to establishment of the original European Economic Community. As it grew, the original community of the six continental countries became an entity of considerably economic consequence. With the entry of Britain, Denmark and Ireland in January 1973, the Community has now become a very big business indeed, as even a brief look at the relevant figures for the years will show.

The enlarged Community accounts for roughly 40 per cent of the world trade and 40 per cent of world monetary reserves. It is responsible for over a quarter of the free world's merchant fleet and virtually a third of the free world's development aid to the poor countries. It produces nearly a quarter of the world's steel, its population is larger than that of either the United States or the Soviet Union.

The opportunity and chance of our European Market is such that nearly a quarter of U.S. exports come to the Community, and there has been a continuous flow of direct American investment. On the other side, the importance of the U.S.

to the EEC is a matter of observable economic fact. The U.S. is by far the leading community trade partner with goods exchange in 1973 to the value of over 32 billion dollars. This represents approximately one fifth of the Community's total foreign trade.

Two sectors are particularly important. First, the U.S. agriculture, principally cereals, which meet a wider community need. Second, the Community is dependent on numerous U.S. high technology products. The United States' direct investment in the Community now exceed 25 billion dollars of book value, over one quarter of total estimated U.S. foreign investments. A number of crucial European high technology sectors are predominantly controlled by U.S. capital. The story of our trade relationship has so far been a success.

In the agricultural sector which is a sector where no country in the world is without a certain protection, the common agricultural policy of the Common Market has not - contrary to common belief - been a hindrance to the trade. American agricultural exports to the Community have consistently increased since the introduction of the common agricultural policy, and there is no reason to believe that this should not continue, although it is a question whether

the U.S. exports can keep up with the demand. 1972-1973 showed a record export of 2.9 billion dollars.

With the enlargement of the Common Market, new negotiations were opened in conformity with the rules of international trade that is in conformity with the GATT rules to see if the enlargement raised a need for regulating tariffs. These negotiations - called XXIV:6 - are just before termination. We expect that within a few weeks a result will be obtained and this rather small difficulty in our relationship will be ironed out.

In this connection, I would like to point out that the Community presents a good example of how a common tariff should be made, since the average of the Community tariff is very low. It is, as a matter of fact, the lowest average tariff of all the principal trading powers. It does not have the peaks which is one of the negative features of the U.S. tariffs. Only 1.4 per cent of the Community tariffs - compared to 13.6 per cent of U.S. tariffs - are higher than 20 per cent.

It would be very helpful, if we could get across some of the non-tariff barriers too, for instance if we could agree

with the United States that they should use the Brussels' tariffs nomenclature, and if we could work out some kind of a system on which both parties would base their duties on the same value of goods. We are, of course, following the passage in Congress of the Trade Reform Bill with close attention, since it is our hope that it will give the United States the basis for the coming multilateral negotiations.

As you can see, I feel that I have just demonstrated that in the field of trade and commerce in which the EEC through the creation of the Customs Union which has been largely a success, we have created the best relations with the United States, and that the differences or discussions, we have now, only represent what I should call routine consultations.

The original thought of the Treaty authors was the creation of a European union. With the enlargement with three more countries, and the completion of a customs union, and the common agricultural policy, the step or the stage is now reached at which much more difficult decisions have to be taken. Anyone will understand that so far the Common Market's member countries have been able to agree on lowering of

their tariffs and other barriers which were hindrances to the intra-Community trade. What, with the enlargement now became the next step, would be a Monetary Union. As you will understand, a Monetary Union touches the life blood of any of the individual member states' governments.

Today, the European Community stands at the crossroads. The events of the last few months and the behavior of the governments of the member states have disappointed many hopes. One wonders whether all those who made solemn declarations about economic and political union were prepared to draw all the consequences therefrom. Indeed, it seems doubtful that the governments of the member countries have the will and the courage to progress further on the road towards European unity and in particular towards monetary union.

In my opinion, there can be no doubt about the ultimate aim of achieving monetary union and its necessity, although the appropriateness of the methods and techniques used up to now, can be questioned. Today, European unity in the monetary field is important and urgent as never before, but if we are to succeed, we must reconsider the formulas and procedures and adjust them to the changed situation.

The oil crisis and its financial and economic repercussions on the economies of the member states have once again put the Community to the test. Up to now it has met this challenge. Different degrees of dependency and repercussions on prices, as well as varying balance of payments and employment situations, have further strengthened the tendency of the member states to follow a policy of "every man for himself" and "sauve qui peut."

As a result of the increase in the price of oil, the balance of payments of EC countries as a whole in 1974 will deteriorate by approximately fifteen to twenty billion dollars. The countries concerned have attempted to deal with this situation in different ways: some have tried to raise billions on the international capital market, to increase their swap agreements with the U.S. reserve system, to make use of IMF credits, or to let their exchange rates float downwards. Others have liberalized capital import controls and pointed to their comfortable cushion of large foreign exchange reserves. Instead of working out joint strategies to overcome the crisis, everyone is looking for national advantage. Instead of acting together, everyone is betting on national economic and monetary policies.

The European Community plays a decisive role in the world economy. It must therefore assume a corresponding responsibility for the orderly functioning of the world's economy, a duty which will be all the more crucial if the international economic system threatens to disintegrate. We have been able to put this off for a long time because the Bretton Woods agreement functioned tolerably well, but today swift action towards monetary cooperation is imperative.

Europe must give priority to progressing towards economic and monetary union. That may sound Utopian, but in reality it is the alternative Utopian: that is, in other words, to wait until the "20" or "30" have agreed on a new world monetary system. If we wait any longer we are in danger of gambling away the results of European integration, the unification of the markets of the member states.

It would be wrong to prophesy the collapse and disintegration of the European Community. But the member countries must not only combat the continuing weakening of the Community; they must also come to regard the Community as one of the last pillars which must not be allowed to collapse, if they are to continue to enjoy a minimum of economic stability.



Cooperation between the EC and the United States, as well as any other interested party, in the field of monetary affairs, could ensure a minimum of international monetary order and minimize the risk of a world-wide recession as a result of the cumulative effects of "beggar-my-neighbor" policies. Such a contribution to stability would also make it easier for the countries floating individually to maintain a sensible exchange rate. The experiences of 1973 pointed to the fact that undisciplined floating has tended to increase domestic inflationary tendencies and to promote speculation in raw materials.

Until now I have dealt with the economic relationship and shown our interdependence. As you will be aware, a number of political problems have clouded the horizon of the Atlantic relationship. The Year of Europe did not get the desired European response. Europeans felt left out of the decision-making process in the complex of the Middle East War and the following peace negotiations. The United States felt that the European decision to contact Arab oil producers was taken without due consultations, and harsh words were thrown across the Atlantic Ocean. I feel, however, that I through my words on economic relations have shown the will of Europe to cooperate and create

reasonable solutions and this will, I am sure, also be the case for our political relationship. Better consultations are again the key factor. Consultations in the economic field take place on a routine basis. In the foreign policy field such consultations should also take place. They do in fact but are often overloaded with undercurrents of mistrust which makes the parties complain of their quality. Nevertheless, the differences also in the political field are compared to the basic relationship of rather minor character.