

PROSPECTS FOR THE UNITED STATES
OF THE ENLARGEMENT OF THE
COMMUNITY IN TRADE AND ECONOMIC RELATIONS

Declaration by Pierre Malvé, Counselor for
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INTRODUCTION

I would like to thank you very much for having invited me to speak before the Management Purchasing Association of New York.

It has been pointed out in various circles that Europe is becoming progressively stronger economically and more conscious of the entity it represents politically at a moment when the United States is confronted with economic difficulties and is attempting to redefine the goals and responsibilities of its foreign policy.

These facts do not, however, justify the use of such labels as an "isolationist America" and an "inward-looking Europe".

Such clichés are dangerous in that they distort reality and risk creating reactions of mistrust at a moment which is essential for the evolution of the economic and trade relations between the enlarging Europe and the United States.

Never has Europe gone so far towards cooperation as it has since the advent of the European Economic Community.

In order to identify the new links which unite the Member States, it is better to speak of economic integration. The reinforcement of this Community and the enlargement of the Europe of Six to the Europe of Ten with the expected entry, on January 1, 1973, of the United Kingdom, Ireland, Denmark, and Norway, constitute a new phenomenon.

Because this phenomenon is new, it is disconcerting to the point that in the U.S., its positive results are easily forgotten and only the difficulties that integration could create for the American economy are emphasized.

I would like to express some thoughts concerning:

- firstly, the prospects for the United States vis-à-vis the enlargement of the European Community;
- secondly, in the context of the enlarged Community, the needs for new forms of cooperation between the U.S. and the Europe of Ten.

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I. ARE THE PROSPECTS OF ENLARGEMENT OF THE EUROPEAN COMMUNITY FOLLOWING THE ENTRY OF GREAT BRITAIN, IRELAND, DENMARK, AND NORWAY VERY FAVORABLE TO THE UNITED STATES ?

- 1) The enlargement of the Community should foster a new growth in international trade and consequently for U.S. exports.

A certain number of mechanical factors ought normally to have the effect of intensifying trade with the countries which will make up the Europe of Ten, notably with Great Britain.

The common external tariff of the Europe of Six, taking into account the final result of the Kennedy Round, is lower than that of the United Kingdom, 6 % for the Community and 7.6 % for the United Kingdom. Entry into the Common Market will be accompanied therefore by a reduction of British tariff protection.

Enlargement will also eliminate the preferences which the United Kingdom granted to products imported from Commonwealth countries.

The economic weight of the enlarged Community in relation to the United States is often overestimated as well as the degree to which the Community will be competing with American exports in the future. It has been emphasized, indeed, that the Europe of Ten alone is responsible for over 40 % of world trade and that its exports, valued at about \$55 billion in 1970, are considerably greater than those of the United States, which reached \$43 billion.

What must not be forgotten is the fact that the enlarged Community's gross national product is only \$635 billion compared with a GNP of more than \$1000 billion for the United States. Furthermore, per capita industrial production in the United States is double that of Europe.

The fact that the foreign trade of the Community is very important should be reassuring for those of its partners who fear that it could be protectionist. The Europe of Ten cannot afford to be protectionist because international trade represents too substantial a contribution to its GNP.

It is enough to recall, for example, that the United Kingdom's exports of goods and services represent 26 % of its GNP and that the U.K. imports about half of its foodstuffs and the bulk of its raw materials.

The dynamism of the economic expansion within the enlarged Community ought to be very important for the expansion of U.S. trade. Experience has shown that the Member States of the Europe of Six benefitted more than Great Britain from the period 1960-1970, enjoying a rate of economic growth of about 55 % a year, this rate being only about 3 % in the British economy.

The Community of Six's imports from third countries reached more than \$45 billion in 1970 and, on the same basis, the Community of Ten imported \$70 billion. It has been estimated that if the British entered the Common Market in 1973, the Community would represent an export market in 1980, seven years later, of about \$130 billion, which gives some idea of the possibilities that would be open to American exporters.

- 2) Though it is generally agreed that, in the long term, enlargement of the Community will be favorable to the United States, there are still exaggerated fears concerning short term risks.

Within the U.S. Government, attempts have been made to quantify the export losses which could result in the short term from enlargement, making a distinction between industrial and agricultural products.

For the industrial products exported by the United States to the ten countries of the enlarged Community, the maximum effect on U.S. exports would be an export loss of about \$70 billion.

This figure would be higher and would surpass \$300 million should the Community of Ten create a completely free trade zone with the EFTA members which will not join the Community, such as Switzerland, Sweden, and Austria.

Then, it would be necessary to add from \$50 to \$100 million to take into account the effects of the association's agreement signed with the Mediterranean countries and the countries of the African Commonwealth or the Caribbean.

For agricultural products, it is appropriate to note that U.S. agricultural exports to the new members - the United Kingdom, Ireland, Norway and Denmark - are much smaller than agricultural exports to the Europe of Six.

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The U.S. studies previously referred to have shown that for agricultural exports to the new members of the Community, which amount to \$600 million at the present time, export losses resulting from enlargement could be about \$100 million. The products most greatly affected would be coarse grains.

Of course, such figures entail a margin of uncertainty for it is very difficult to precisely define a changing reality. They are, however, very interesting as terms of reference.

For agricultural and industrial products taken as a whole, it is noticed that the volume of the export trade of the United States liable to be affected in the short term varies between \$220 and \$570 million.

If the above figures were compared to total U.S. exports not only toward the Europe of Ten, where they reached about \$12.5 billion in 1970, but also toward the non-candidate EFTA countries and countries associated with the Community, the possible U.S. export losses in the short term are really very low.

I would like to argue that the estimates of these losses are even much too high for the following reasons :

Firstly, these estimates were made before the conclusion of the monetary agreements of December, 1971, in Washington and, moreover, they do not take into account the trade concessions made by the Community in February, 1972.

Concerning the impact of the future agreements between the Community of Ten and the EFTA countries, the consequences of these agreements for the United States must be minimized. These arrangements relative to the new conditions of trade between the Europe of Ten on one hand, and Switzerland, Sweden, Austria, Portugal, Finland, and Iceland on the other hand, will be put into effect progressively, particularly for certain products considered "sensitive" by the Community.

For certain products of advanced technology such as aircraft and computers, entry into European market is affected less by the fact of enlargement than by the competitiveness of the American industry itself.

As for agriculture, U.S. soya exports to the British market are still insignificant since the United Kingdom utilizes essentially

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coarse grains for animal feed. The reduction of the United Kingdom's import duties on soya meal following the introduction of the Common External Tariff and also the price relationship in the enlarged Community between coarse grains and soya can result in a more significant growth of U.S. exports to the enlarged Community for these products than was predicted.

U.S. economists who formulated the short-term estimates have themselves noticed that different factors could still reduce their significance as, for example, a larger growth than expected of imports by the United Kingdom.

The fears manifested in the United States vis-à-vis eventual difficulties in the period following enlargement are similar to the fears of French industry at the opening of the Common Market of Six in 1958.

Experience proved that there are no rapid changes of trade patterns.

Moreover, the reduction of customs duties among the ten Member States will not have a great effect on trade considering the fact that following the Kennedy Round reductions, tariff rates were already very low.

Finally it is necessary to recall that in the enlarged Community, the elimination of customs duties does not mean complete freedom of circulation of products, given the existence of non-tariff barriers which are obstacles to trade. On this point, the position of the United States will not be appreciably different from that of the Member States. And when the technical obstacles to trade will have been eliminated within the Community, the United States will enjoy comparable benefits for their exports to Europe.

- 3) Enlargement of the European Community should also contribute to the expansion of American investments.

Direct American investments in the Europe of Ten already represented \$20 billion at the end of 1970, \$11.7 billion of which was invested in the present European Economic Community and \$8.3 billion invested in the United Kingdom, Ireland, Denmark, and Norway.

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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.

Enlargement of the Community will facilitate greatly 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 limited to the European sphere, but must be viewed rather in the dimensions of the world market.

The Commission made proposals which are still being discussed among the Member States in order to accelerate the creation of transnational companies in Europe.

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

The Community has not made as heavy direct investments in the U.S. as the U.S. has in the Europe of Ten. At the end of 1970, direct investments of the Europe of Six in the United States represented about \$3.5 billion and those of the United Kingdom, \$4.1 billion.

These figures signify that the earnings from European direct investments in the United States and repatriated to the Community are clearly not as great as the \$1.4 billion which the United States would have collected in 1970 from profits made by European subsidiaries of American companies.

This means that for the balance of payments of the Member States of the Europe of Ten or the Community as a whole, exports to the United States are significant.

Europe would be deeply affected and tempted to protect itself if certain of the protectionist proposals now in circulation were, one day, to become part of U.S. legislation or regulations.

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II. IN ORDER TO IMPROVE ECONOMIC AND TRADE RELATIONS BETWEEN THE UNITED STATES AND THE ENLARGING COMMUNITY, IT IS IMPORTANT TO DEFINE AS RAPIDLY AS POSSIBLE NEW FORMS OF COOPERATION.

1. One can first think about the preparation of future negotiations in the area of trade policy.

The rules of the GATT applicable to the formation of a customs union or a free trade zone provide for certain arrangements under Article XXIV, for the protection of the rights of countries which are not members of this customs union or this free trade zone.

The Community is willing to communicate to its partners all factors for evaluating the impact of enlargement on the tariffs of the Europe of Ten and the tariff bindings formerly negotiated in the GATT. The negotiations under this Article will begin immediately after ratification by the national Parliaments of the Ten of the treaties of membership.

It is, perhaps, appropriate to place even more emphasis on the declaration of intention of the United States, Japan, and the Community to begin a new large trade negotiation of the Kennedy Round type in 1973.

It will be 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 GATT.

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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.

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 would 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.

- 2) The United States and enlarged Europe should be able to reconcile the particulars and the requirements of their agricultural policies and their objectives for trade in agricultural products.

Experience in GATT over the years should have proven that most countries have developed very complex agricultural policies, characterized by governmental intervention to protect the farmers and that agricultural support is generalized.

Future agricultural negotiations, therefore, in order to be possible and effective, must deal with the content of these policies, the nature and the amount of the support given to the producers, and all the instruments which ensure this support.

For the most important agricultural products, it is no longer possible to arrive at satisfactory settlements in a bilateral framework.

Relations between the United States and the Community have provided many examples of the insufficiency of bilateralism in the case where several countries agree to grant export subsidies on a specific market.

It is also important to be convinced of the limits of a unilateral aggressive export policy founded on the lowest possible prices to penetrate consumers markets.

For useful negotiations in agriculture, a multilateral approach is the only possible way.

The Community, at the time of the Kennedy Round, was proposing the negotiation of international commodity agreements, for it considered that under certain conditions, these agreements could constitute an appropriate framework for a real cooperation.

Too many misunderstandings still exist on the subject of international commodity agreements. It is believed in certain circles in the United States that the mechanisms which would be set up for these agreements are opposed to the free mechanisms of the market, are too constricting and do not permit the most efficient countries to benefit from their comparative advantages.

To avoid defining new agreements, it has been argued that too many agreements have failed in the past, but no one wants to admit that these agreements have failed because they were insufficient from the beginning.

At the time of the Kennedy Round negotiations, the E.E.C. proposed to negotiate an international agreement which would have covered all grains and not only wheat. It would have combined commitments on the amount of price support, on production policy through the negotiation of a self-sufficiency ratio, on the minimum price level to be respected on the world market and finally, on food aid. It was impossible at that time to conclude such a type of agreement.

It would certainly be appropriate to again encourage such a global approach which, while giving priority to economic cooperation rather than to trade confrontation, appears necessary to obtain positive results in the agricultural negotiations.

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It is fundamental to discover new methods of negotiation and cooperation in agriculture in order to reach common objectives: the assurance of sufficient incomes of farmers, the limitation of public expenditures and the expansion of the international trade of agricultural products.

In any case, the industrial sector would be quite inspired to become interested in negotiations affecting agriculture, the outcome of which will largely determine the final results of all of the negotiations.

- 3) 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.

Jean-Jacques Servan-Schreiber suggests in his 1968 book, The American Challenge, "that fifteen years from now, it is quite possible the world's third greatest international power, just after the U.S. and Russia, will be not Europe but American industry in Europe." It has also been observed that "U.S. business is more and more the eleventh member of the Community in terms of its investments there."

The Ambassador of the United States in France recently recalled that in 1970, the subsidiaries of American companies established in that country employed 4 % of the workers of the industry, comprised 10 % of French exports, and paid 9 % of the taxes collected from private non-agricultural firms.

The controls established in the United States of capital outflows have not really affected the growth of American direct investments in Europe. They have changed only the source of financing, the firms willing to invest resorting to do so on the Eurodollar market.

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.

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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.

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, 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.

Moreover, 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 U.S.

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 interested parties 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.

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- 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.

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 the U.S.-E.E.C. relations if the Community appeared as essentially preoccupied with achieving successfully its enlargement.

Consequently, 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 new responsibilities of the enlarged Community in its relations with the United States and with the rest of the 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.

The United States must recognize and accept the fact that the interests of Europe are not in every case identical to those of the United States, but that these differences are not incompatible with their deep solidarity.

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What is essential now, for the United States and for enlarged Europe, is to give evidence of imagination in defining new relations between geopolitical entities that are in better balance but still interdependent.

They must act in such a way that the challenges posed by a rapidly changing world permit Europe and the United States relations, beyond the difficulties of the moment, to make new progress.