

EVOLVING ECONOMIC AND COMMERCIAL RELATIONS BETWEEN THE  
UNITED STATES AND THE EUROPEAN COMMUNITIES

Statement of Mr. Pierre Malvé, Representative for Trade Affairs, Delegation of the Commission of the European Communities, at the 1971 St. Louis World Trade Conference, on September 23, 1971 in St. Louis, Missouri.

Mr. President, Gentlemen:

It is a great honor for me to speak in St. Louis and I want to thank you very much for having invited me.

But it is also a challenge to speak before such an audience about the evolution of the relations between the United States and the expanding European Economic Community at this precise and delicate moment in international relations.

In fact, I would like to start my address by recalling the words used by President Nixon himself in his message to Congress on the foreign policy of the United States in February 1971, when he reaffirmed the interest of the United States in the success of the building of a more united Europe:

"We welcome cohesion in Europe because it makes Europe a sturdier pillar of peace. Regional cohesion contributes to world stability. America's and Western Europe's fundamental interests are parallel in most areas of policy."

The New Economic Policy -- the NEP -- announced by the President August 15, 1971 opened a new period in international relations. In both GATT in Geneva and the Group of Ten, composed of the Finance Ministers and the Governors of the Central Banks, in London, the United States is isolated from its partners.

It is useless to hide the fact that a period of confrontation has begun. What is important for Europe and the United States is that this confrontation produce positive results not only for these countries but for the entire international community.

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I would like to base my speech on two points:

- To show how, at the moment that the NEP was introduced, the United States had benefited greatly from the creation and the development of the Europe of Six, known as the Common Market;
- Then, taking the 15th of August 1971 as a turning point, I would like to stress the positive effects on the United States of the enlargement of the European Communities while hoping that the NEP and related measures will not ruin these prospects.

I. THE ANALYSIS OF PRESENT ECONOMIC AND COMMERCIAL RELATIONS BETWEEN THE UNITED STATES AND THE COMMUNITY SHOWS THAT THE UNITED STATES HAS BENEFITED GREATLY FROM EUROPEAN INTEGRATION.

A. One hears little discussion in the United States of the positive results of the increase in trade with the Europe of Six and of the growth of U.S. direct investment in Europe.

1. Trade between the United States and the Community has more than tripled between 1958 and 1970 reaching \$ 16 billion in 1970.

From 1960 to 1970, the United States has had a trade surplus averaging \$ 2 billion with the Community and this surplus reached \$ 2.4 billion in 1970.

It is important to keep in mind this figure of \$ 2.4 billion trade surplus with the Common Market at the moment that difficulties with the trade balance and the balance of payments preoccupy the leaders of this country.

In 1970, Community exports to the United States rose to \$ 9 billion.

Since the beginning of the Common Market in 1958 until this year 1970, it is towards the Common Market countries that United States exports have experienced by far their highest rate of expansion.

One of the explanations of this is that the European Economic Community has the lowest customs tariff of the large industrialized countries.

The Community's customs tariff on industrial products following the Kennedy Round reductions, the last of which is to take place on January 1, 1972, is 6.9 % as compared to 9.3 % for the United Kingdom, 9.4 % for Canada, 10.1 % for Japan and 10.9 % for the United States.

It should be noted, in addition, that for the various products imported by the Community, the customs duties vary little from this average whereas certain American products are protected by very high customs duties sometimes reaching 50 % ad valorem.

The European Economic Community applies also an international convention for setting customs value while the United States, which has not yet signed this convention, sometimes resorts to arbitrary methods such as the American Selling Price for certain chemical products, which constitutes an additional form of protection.

Consequently, it is wrong to pretend that the EEC is protectionist.

To the contrary, it is in the interest of the EEC to be an open market, because its foreign trade represents an important part of its gross national product -- close to 20 % -- whereas this percentage is only 7 % for the United States.

As for quantitative restrictions, the report of the Williams Commission on international trade and investment established that the restrictions of the United States and the EEC are entirely comparable.

2. The creation of the Common Market continues to benefit the United States by stimulating the development of American investment in the Europe of Six.

From 1958 to 1969, direct investment in the Community quintupled, increasing from \$ 1.9 billion in 1958 (expressed in book value) to \$ 10.2 billion in 1969, while the actual or replacement value is \$ 30 billion.

The return from this investment has been greatly increased and represents a positive element in the United States balance of payments. If one considers that these American investments have in recent years been more and more often made with funds borrowed in Europe, one better understands the attraction that the Common Market holds for large American firms.

However, one must not ignore the hesitation of a certain part of European public opinion which feels that the mechanism which permits European companies to be purchased by American companies with the aid of European capital secures exorbitant advantages for the United States.

- B. The friction points -- the common agricultural policy and preferential agreements -- receive greater publicity in the United States.

1. The United States feels that the European Economic Community offers producers the benefits of excessively high prices while not making sufficient effort to control its agricultural surpluses.

It is true that in the beginning, Community agricultural prices were too often set taking into account the most inefficient producers. But these prices remained frozen for three or four years. It is only very recently, with the greatest caution, that they were increased especially to compensate for the growing gap -- a gap that was politically unacceptable -- between farm incomes and the incomes of other social and professional categories.

At the same time, the Community decided to start a program of structural reform in agriculture, granting assistance of a social nature to the most inefficient producers which will permit prices to be set, in principle, on the basis of the most efficient farms.

As far as trade goes, the Community remains by far the most important export market of the United States as U.S. exports rose to \$ 1.4 billion for the fiscal year 1969/1970 and to \$ 1.8 billion -- an increase of 27 % -- for fiscal year 1970/1971.

While U.S. exports to the Community increased by 27 % from one year to another, total U.S. exports to all destinations increased only 15 %.

These figures are sufficiently meaningful, but they appear to be insufficient to resist the myth of a common agricultural policy that is considered in the United States to be scandalous and antediluvian.

As one of my Washington friends said, "Don't bother me with the facts. I don't care about the facts."

It is always possible, obviously, to isolate a few products to show that the common agricultural policy is contrary to American interests. It is true that between 1964 and 1970, exports of feed grains decreased from \$ 326 million to \$ 324 million, a decrease of \$ 2 million or 0.6 %. But over the same period, exports of soybeans doubled and increased by \$ 200 million.

In criticizing the protection and financial support that European producers benefit from, there is a tendency in the United States to forget the protection and support that benefit American agriculture.

It is difficult to accept that the policies followed by the United States on dairy products and sugar, for example, should be exempt from all criticism.

The European Economic Community has had a comparative study made of the direct subsidies to European and American farmers and the results are worth noting:

If direct subsidies were eliminated, the result would be a decrease in farm income of 44 % in the United States and of 50 % in the Community. Expressed in manpower units, direct support is even higher in the United States than in the Community.

One can understand all of the political problems of implementing the necessary reforms if it is recalled that the active agricultural population in relation to total active population is still

13 % in the Community whereas it is probably lower than 4 % in the United States.

It must be recalled also that, during the Kennedy Round, the Community proposed for all grains the negotiation of international commodity agreements including commitments on price levels and even, in an indirect way, on production policies and that the United States' refusal led to an agreement on wheat alone. The impact of this agreement was reduced during the renewal negotiations in Geneva in 1971 and it is now largely an empty framework.

2. The preferential agreements of the Community with the Mediterranean and African countries do not deserve the criticism that they have received from the United States.

The Community does not pursue a deliberate policy of discrimination and does not seek to acquire for itself an economic game preserve.

It is not stimulated either by expansionist ambitions but it is forced to face its responsibilities in the name of historical ties, of European identity, or of the necessity of maintaining regional balance.

In the agreements made with the African states and Madagascar, and with Tunisia and Morocco, the Community assumes the responsibilities originating in earlier historical ties between these countries and certain Member countries.

With Greece and Turkey, the Community concluded association agreements which, as in the case of Spain, constitute an intermediate step on the way to full membership.

Finally, with reference to Mediterranean countries such as Israel, for example, the Community is obliged to take into account the need for regional balance and to avoid all discrimination towards countries of this region having comparable economic and trade characteristics and for which Europe is a traditional market.

The absence of trade damage was formally recognized by the Contracting Parties of GATT during the examination of the new agreement of association with the African countries and Madagascar which went into effect June 1, 1971.

In this area, it is possible to isolate a product to show that it has been harmed. Such is the case of oranges exported by California which provoked so much discussion and led finally to a unilateral concession by the Community as a gesture of good will while the volume of trade being jeopardized, between \$ 2 million and \$ 3 million, is really of little importance if it is compared to EEC imports of \$ 9 billion of American products in 1970.

This would be a good time to recall also that the United States is somewhat behind in granting aid to developing countries in comparison to the European Economic Community. For several years, the large industrial countries have been discussing the idea of granting tariff preferences to developing countries, that is, the reduction of customs duties which would permit India, Brazil, Argentina, and the Saudi Arabia, for example, to export their industrial products more easily and to obtain the resources necessary for their development.

The U.S. Congress has not even discussed the American proposals while the European Economic Community, on July 1, 1971, put into effect a program of generalized preferences which should permit the developing countries to increase considerably their exports to the Community.

This policy constitutes a new demonstration that the preferential agreements with Africa, for example, are not incompatible with maintaining the Community open to the rest of the world.

II. FUTURE RELATIONS BETWEEN THE UNITED STATES AND THE EUROPEAN ECONOMIC COMMUNITY SHOULD BE EVEN STRONGER WITH EUROPE ENLARGED BY GREAT BRITAIN, IRELAND, AND THE SCANDINAVIAN COUNTRIES AND IT MUST BE HOPED THAT THE NEP DOES NOT SPOIL THIS OPPORTUNITY.

A. The enlargement of the Communities should be a positive evolution for the United States.

1. 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, 6.9 % for the Community and 9.3 % for the United Kingdom. Entry into the Common Market will be accompanied therefore by a lowering of British tariff protection.

The future of agricultural exports obviously worries Washington authorities, but the United Kingdom will continue to import considerable quantities of wheat, as hard wheat is not produced in the Community.

It is also likely that exports of soybeans, which are currently subject to U.K. customs duties but which enter the Community duty free, will increase significantly. Customs duties on tobacco also are lower in the Community than in the United Kingdom.

2. The very dynamism of the enlarged Community ought to be even more important for the expansion of trade.

Experience has shown that the member states of the Europe of Six benefited more than Great Britain from the period 1960-1970, enjoying a rate of economic growth of about 5 % a year.

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 would import \$ 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.



Besides, the American firms already established in Great Britain ought to reap the greatest benefits from this enlargement, not only from the internal economic expansion of Great Britain but also, thanks to the larger market of the Europe of Ten, facilitating especially the free circulation throughout Europe of the products currently manufactured in Germany and the United Kingdom by two subsidiaries of the same American firms.

B. The New Economic Policy could be a dangerous obstacle if both Europeans and Americans were lacking in understanding and the will to cooperate.

1. The import surcharge is a dangerous weapon.

At the end of 1970, Europe was already very uneasy about the general direction of the foreign economic policy of the United States when the Ways and Means Committee of the House of Representatives passed the Trade Act of 1970. Fortunately, this bill, with all its provisions for import quotas founded on unacceptable arithmetical criteria, was blocked in conference at the last moment.

It cannot be denied, obviously, that the U.S. economy is confronted with serious difficulties. In spite of a certain amount of progress made in the fight against inflation, economic activity is not satisfactory, wage demands are less and less easily rejected, and unemployment is assuming more and more alarming proportions. At the same time, imports are increasing, especially from Japan, the productivity of American industry is declining, and competition on foreign markets is becoming sharper.

In the past, Europeans have often reproached American officials for not introducing measures to fight inflation. Therefore, they have been impressed by the series of measures proposed by President Nixon on August 15, 1971, especially the wage-price freeze.

The partners of the United States were very surprised at the size of the figure -- 13 billion dollars -- proposed by the Secretary of the Treasury, Mr. Connally, to correct the U.S. balance of payments.

However, it is difficult to believe in the temporary nature of the import surcharge if it is really intended to be a multi-purpose tool. The partners of the United States find it difficult to imagine that the U.S. wants to use the import surcharge not only to obtain a significant revaluation of the yen, the deutsche-mark the pound sterling or of the franc, but also to fight against what is called in trade policy affairs "unfair practices" and finally, to change the formula for the sharing of military expenses among allies.

The decision of the President to eliminate the gold convertibility of the dollar and the introduction of the import surcharge obliged a certain number of countries to allow their currencies to float.

The present combination of the surcharge and the de facto revaluation of the principal currencies in relation to the dollar is shifting to the partners of the United States heavy burdens, thereby creating a very delicate situation.

The fact that the currencies no longer have fixed parities towards each other compromises the functioning of the single market in the Community by changing competitive conditions and by creating artificial movements of workers at the borders of the member states.

There is great uncertainty in international trade, and the American decisions have shaken the very foundations of the International Monetary Fund.

The surcharge is applied to 87 % of the Community's exports to the United States and the Community is far from accepting the hypothesis of the American administration that the surcharge will affect 50 % of the products imported by the United States.

The effect of the import surcharge is to practically double the duties applicable on entry to the United States and void most of the results of the Kennedy Round negotiations.

The surcharge has just as great an effect on the developing countries associated with the Community.

We have been able to calculate that the cumulative effect of the surcharge and the changes that have already occurred in the relations between currencies will tend to reduce by around \$ 2 billion the trade balance of the Community with third countries and to reduce by about half the rate of growth of its exports to non-member countries.

It is still too early to evaluate the effect of these measures on the economic situation and employment, but a certain number of tensions in the employment sector are beginning to appear in various member countries.

The Contracting Parties of GATT, meeting recently in Geneva, industrialized and developing countries, unanimously called for the removal of the surcharge judging that it is not in accordance with the terms of GATT, that it is inappropriate in view of the nature of the balance of payments deficit of the United States, and that it could have serious repercussions on international trade.

2. Europe fears also the introduction of tax relief for the purchases of American machinery and equipment or the resorting to direct governmental export aids.

Tensions have been increased even more by the bill to grant to American firms, in the form of a job development tax credit, a tax exemption which would favor the purchase of American machinery and equipment over foreign products. This would be a discriminatory practice contrary to the rules of GATT which provide that tax

regulations should be applied in the same way to both domestic and imported products. From the economic point of view, it is difficult to see the justification for such tax relief designed to facilitate the investment capability of firms that are already operating well below their production capacities or of so-called high technology firms whose equipment is already extremely sophisticated.

The attempt of the Ways and Means Committee to reduce the rate of this tax relief, a new form of the Buy-American Act, from 10 % to 7 %, thereby making it a permanent instrument of American economic and commercial policy, will not reduce opposition to this measure, the real effect of which on the cost of equipment is actually well above the 10 % or 7 % now under consideration.

On various occasions, the European Economic Community has also made known its objections to the creation of the Domestic International Sales Corporation or DISC.

The United States is trying to justify these proposed fiscal advantages for exporters by stressing the necessity for compensating for advantages that other countries grant to their exporters, especially Community countries.

It is not true that taxation of corporate profits is heavier in the United States than in Community countries. Certain European countries apply taxes on corporate profits that are higher than those in force in the United States.

It is also incorrect to say that the refund of indirect taxes to EEC exporters, who are under the value added tax system, disadvantages American exporters because the tax burdens on the profits of both are comparable.

A GATT working party, assigned the task of examining this question, concluded that the impact of the value added tax system of the Community was not likely to disrupt trade relations between the United States and the Community.

The DISC tax system is incompatible with Article XVI of GATT which forbids all exports subsidies on industrial products. The United States itself accepted the declaration of November 19, 1960 prohibiting export subsidies on industrial products. The declaration formally excludes all exemptions from direct taxes for commercial and industrial exporting firms.

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It must be pointed out that one of the first consequences of the current situation was to reinforce the cohesion of the Community, and, in fact, to accelerate the process of Great Britain's entry into the EEC in the sense that the British Government is more and more closely associated with the actions and the positions taken by the Europe of Six.

This convergence of positions was clearly apparent to the Group of Ten in London where the various spokesmen of the Community and the British Government, after having reminded of their attachment to a readjustment of monetary parities for all currencies, including the dollar, stressed the necessity of eliminating the American import surcharge and of reinforcing the role of the special drawing rights in relation to the dollar.

The interdependence of economies is an outstanding fact of our modern society. The exchange of goods, services and capital is indispensable to the economic growth of each country and, consequently, to social progress. But, international trade itself cannot occur and develop without the existence of monetary rules which are general, stable, and respected.

In conclusion:

It is important to do nothing at the present time to dramatize this particularly complex situation.

It is advisable especially to be very attentive to the reactions of public opinion. European public opinion is surely more sensitive to the consequences of a deterioration of international economic relations than is public opinion in the United States. But in the United States, as in Europe, unemployment appears more and more to be a major calamity, and the fear of unemployment as well as the fear of economic recession, could inspire defensive reactions which would be extremely damaging.

We must not underestimate the danger created by the approach of electoral campaigns, both in the United States and in Europe, which are not always conducive to an appropriate climate for the most objective discussions and decisions.

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

What must be avoided at all costs is to speak too rapidly of a trade war or to resort to retaliatory measures, even if it might appear necessary to insure the protection of particular sectors. However, as the Minister of Finance of the United Kingdom, Mr. Barber, says, "There is only a thin line between safeguards and retaliation."

Mr. Volcker, Under Secretary of the Treasury for Monetary Affairs, said on September 21, before the House Foreign Affairs Committee, that the lasting success of the New Economic Policy at the international level depends on the success of the domestic measures taken or to be taken. "Domestic stability," he said, "is a prerequisite to international stability."

Such a statement has a great effect, because if the United States is successful in its internal economic recovery, and the European Economic Community is especially hopeful that it will be, its situation will be much stronger vis-a-vis its partners, and its cooperation with the EEC will be fuller and more readily obtainable.

The meetings that have already taken place in GATT or the Group of Ten, like the International Monetary Fund discussions that will take place in Washington, will lead progressively to a better understanding of the various positions and possibilities.

In due course, the most rigid positions must become more flexible and all parties must reach the moment of negotiation.

We are well aware that times have changed, but it is important to know how to draw conclusions from this change. President Nixon, on several occasions, has been in favor of redefining the foreign policy of the United States, while recalling the urgency of seeking solutions to the internal problems of the country. The Europeans, for their part, in pursuing the reinforcement of the existing European Communities by the progressive implementation of an economic and monetary union, and in negotiating the enlargement of the Europe of Six, have shown that they too have a sense of perspective.

Sometimes, the United States has been uneasy about the lack of political progress in the Community. However, the Community has just taken a number of decisions in economic and monetary matters which are highly political. And the Community is now committing itself to cooperation in classic areas of politics as witnessed, for example by positions taken on the Middle East. The enlargement of the Community should further reinforce this progress.

I would like to quote, at this point in my statement, one of the members of the Williams Commission, Richard Gardner. He said, "Europe is in transition from a U.S.-dominated trade, monetary and security system to something else."

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

We must act in such a way that the challenge posed by the New Economic Policy permits Europe and the United States, both internally and in external relations, beyond the difficulties of the moment, to make new progress.

The United States would no longer be the United States if it turned inwards, and Europe would lack of appeal if it did not seek to define its role and its responsibilities in the world.

In St. Louis you built a fantastic and bold arch. I wish this arch, the big "wicket", might become the symbol of our mutual understanding, of interdependence and close cooperation.