OUTLINE OF AN ADDRESS TO THE WORLD AFFAIRS COUNCIL

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"US-EUROPEAN COMMUNITY TRADE RELATIONS IN THE LIGHT OF BRITISH ENTRY

... AND OF PRESIDENT NIXON'S "NEW ECONOMIC POLICY"

I am grateful to the Dayton World Affairs Council for its decision to maintain this scheduled luncheon program although the original speaker - a distinguished European official - was unable to attend. Your acceptance of such a last minute change assures me you consider the subject important enough to take a chance with a substitute speaker.

This in itself is encouraging to a man who recently had a depressing experience in this respect: one of my friends in Washington asked casually what my task was in the ECIS. I answered that my job consisted mainly in selling the image of the European Community on the North American continent. The friend in question did not react immediately. However, a day or so later he sent me a nicely wrapped book as a present. The book was Arthur Miller's Death of a Salesman.

Ever since, I have been wondering just how accurate this joke was. Have US-European relations reached the point where those who were allies for so long in peace as in war now are strangers? Is it possible that some even speak lightly of a prospective trade war as though it would amount to little more than a Saturday afternoon touch football game? Is that really the point to which an expanding European Community and US involvement in Asia have brought us?

I still think there is reasonable cause for optimism on US-EC relations, provided responsible political leaders on both sides keep their cool amid the divergent pressures that surround them. Just as important, the channels of transatlantic communication and mutual information must be widened and improved.

Unfortunately, the picture of US-European relations is heavily clouded with a number of cliches. In Europe, one of the fashionable cliches is the so-called "American Challenge". "Penetration of US direct investments in Europe has reached such an enormous level that the second economic power in the world after the US is bound to be - not the Soviet Union, not Japan, not Europe - but US business in Europe."

In the US, there seems to be increasing doubt whether European unification - which so far has been a constant goal of US foreign policy - has in effect been beneficial to the US. European integration is said to have developed essentially in the economic field whereas progress in the political arena has been disappointing. Thus Western Europe - personified by the European Community - is increasingly seen as a major economic competitor. This threat to American economic power has not been balanced by political advantages. Thus American apprehensions about European economic encroachments become still more vivid with the present European Common Market of six nations (Germany, France, Belgium, Netherlands, Italy, Luxembourg) about to add Great Britain, Ireland, Denmark, and Norway to its ranks.

It is my intention today to repudiate such stereotypes.

Without denying that disagreements exist, I contend that:

1) the European Community and the US have been beneficial for each other over the past decade (even if we confine our considerations strictly to the economic area.)

2) the enlargement of the European Community suggests no change in this basically favorable relationship.

I should like to summarize now the extent to which the US has benefitted from the Community, particularly in regard to economic activity and growth.

(The US and the Common Market together account for 38% of world trade. The figure will be 55% if the U.K., Ireland, Denmark, and Norway join the Common Market.)

The total US commodity trade with the European Community now exceeds three times the level of trade in 1958, when the Common Market was formed. US exports to the Community have thus risen from about 3 billion to 9 billion. Today, the Community is the US's best customer - excepting Canada - and an expanded Common Market would make it the number one market for US goods. Not only the volume of transatlantic trade is impressive, the pattern of this trade is equally significant: the US has scored a consistent surplus in its trade with the European Community. This surplus reached the 2.4 billion mark 1970. The figures available for 1971 show that the US surplus with the European Community reached $625 million in the first quarter,which is particularly significant in a period when the overall US trade balance is beginning to show a deficit.

Among the factors that have helped considerably the growth of US exports to the European Community has been the rapid rise in the standard of living which accompanied the creation of a large single market in the Community. Indeed we share the belief of the US that the key to economic progress lies in competition. The establishment of the European Community has considerably enhanced competition within the Common Market area, which in turn has boosted the economic growth and the inherent demand for investment and consumption goods. This situation doubtlessly has encouraged the liberal orientation of trade policy in the European Community.

Another factor behind the growth of US exports to the European Community has been the establishment of the Community's common customs tariff and the reductions made in this tariff as the result of major trade negotiations. The Community is now surrounded by the lowest tariff average among the leading industrialized nations (January 1, 1972: 6.9% against 9.3% for G.B., 10.1% for Japan, 10.9% for the US, not including the recent 10% surcharge.)

One of the obvious results of British entry into the European Community would be the reduction of Britain's tariff to the low level of the Community's protection.

The economic relations between the US and the Community not only include the flow of commodities. The rising activity of American firms within the Community must also be taken into account. These investments progressed from $1.9 billion in 1958 to an estimated book-value of $13 billion in 1970. The sales of American subsidiaries located in the Community are more than twice the value of total American exports to the Community. About 1 billion dollars in profits from those direct investments in the Community were repatriated last year. Thus the US economy benefits doubly from European integration: from a considerable increase in US-European Community trade and from the impressive income growth through investments in Europe. Both make a major contribution to the credit side of the US balance of payments.

The Community is one of the most open trade areas in the world - necessarily so because of its heavy dependence on trade for the development of its GNP (trade accounts for 20% of the GNP of the European Community and only for 7% of the US's GNP).

The economic structures of the UK and of the other applicant countries are, in this respect, similar to the structures of the Community countries: a large percentage of GNP is also dependent on foreign trade. Their policies towards direct US investments have also been extremely liberal.

When countries with open trade and investment policies decide to merge into a vast economic union there are good reasons to believe that the subsequent economic blending will bring about an open entity where increased competition creates increased wealth. Logically the US business world should contemplate the enlarged European Community as a more prosperous client and - as every salesman knows very well - the more prosperous a customer, the better chance there is of selling to him. (Incidentally, it is for this very reason that the rich American market is an important factor of world trade.)

The EC's trade approach is equally "open" in its relations with developing nations. The EC was the first economic entity to follow a U.N. recommendation intended to promote industrialization through trade with the developing nations of the world. On June 1st of this year, the EC abolished completely its customs duties on imports of finished and semi-finished goods produced by 91 developing countries. In addition to these generalized trade preferences applicable to the developing countries, the Community felt it had a special responsibility towards a number of specific African and Mediterranean countries. The latter enjoy not only trade preferences, but also special financial and technical assistance programs.

Calculated on the basis of GNP percentages, the total European Community contribution to development aid was 1.2 per cent (whereas the U.S. share, in relation to its GNP, amounts to .5 per cent) in 1969.

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American fears and criticisms towards the European Community are greatest in the field of agriculture. Preoccupations dwell both on access to the

Community's agricultural market and access to third country markets where U.S. farm exports meet competition from European farm exports aided by subsidies.

The fact is that the European Community remains the largest market by far for U.S. agricultural exports, which totalled 1.6 billion (FOB) in 1970. Since 1964, the last year before the effects of the Common Agricultural Policy (CAP) made themselves felt - the Common Market share of American farm exports has remained steady (between 21% and 23%).

During this period, American farm exports to the Community grew by 25% compared to 20% to the whole world and 6.8% to the rest of Europe. Not all of the U.S. agricultural produce has scored the fabulous growth of soybean exports to the European Community (91% over the past five years). Exports of other agricultural commodities remained stable, some have even dropped.

Naturally, such divergent developments reflect problems for which the CAP serves as an easy scapegoat. There is also the problem of conflicting interests between American producers and exporters of interchangeable and competing products.

Forty per cent of U.S. farm exports enter the Community facing neither duties nor quota restrictions. The other sixty per cent undergo what is called a variable levy or tariff, which is the basic CAP instrument of protecting the European farmer against a chaotic world market, against the world market's abnormally low prices. There is no point in denying that such protection exists around the European agricultural market. But there is no point either in pretending that a totally open, non-protected agricultural market exists in any of the industrialized states we know. The methods and devices of protection may be different from one country to another, but they exist in every country.

The U.S. protective system mainly consists of quotas. The European Community has the variable levies. Should we make a comparison of protection in the U.S. and the European Community? Supposing, for example, all supports in all forms were discontinued both in the U.S. and the Common Market. This would come to a $1,300 per capita income drop in the U.S. and a $840 per capita drop in the European Community. In other words, competition between agriculture of different countries amounts in fact to competition between public treasuries of these same countries.

Actually the European Community has tried to get to the roots of the agricultural policies. Such an approach was offered during the Kennedy Round. The U.S. said no.

Will Britain's entry into the Common Market have an impact on the agricultural world trade? The answer is yes. What exactly the impact will be is difficult to predict. There will be no problems of course, for products that have no tariffs, such as soybeans. (The U.K. will have to eliminate its present 10% duty on soybeans. Most of the agricultural products for which British entry may cause a change in trade patterns - butter, bacon, sugar - are not of major importance to U.S. exporters.

At any rate, the European Community is committed to take special measures to avoid adverse effects to third countries. Mr. Mansholt, who is the CAP's chief architect and manager, made this clear in a Minneapolis speech a few months ago.

The implication is that the CAP is not a rigid set of protectionist devices. It is a practical and relatively homogeneous system, replacing the previously existing panoplies of different national - and often very restrictive - regulations in the field of agriculture. It is conceived according to European agricultural situations, yet it also takes into account the interest of Europe's traditional trade partners.

Finally, the CAP is the prerequisite for the structural changes that will allow Europe to achieve successfully its green revolution.

Fourteen per cent of the total working population in the European Community is still employed in agriculture. The corresponding figure for the United States is four per cent.

Half a million people will leave the agricultural sector in Europe every year in the coming decade.

Allowing this massive process to take place smoothly is one of the goals of the CAP.

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You naturally expect this survey of European-American economic relations to include some comment or reaction from me on the present economic and monetary situation, and on the possible repercussions on the future of the European Community as well as on our mutual relationship.

President Nixon said that reactions abroad to his NEP were "measured and constructive". This is certainly the case for the E.C. Indeed, immediate retaliation or trade war were ruled out. The E.C. countries also have reached a common position establishing the groundrules for a thorough and far-reaching reform of the international monetary system.

Yet, in the New Economic Policy package, a number of measures are seen as unilateral moves which violate existing international monetary and trade rules and which hit European economies very hard.

1. The floating of the dollar actually dismantled the whole basis and framework of the Bretton Woods monetary system established some 25 years ago.

2. The ten per cent surcharge hits about 88 per cent of European exports on the U.S. market and is likely to worsen the already existing European trade deficit with the U.S. It also annuls unilaterally the effects of the Kennedy Round negotiations.

3. The 10 per cent credit on new investments includes an additional trade discrimination - in fact, it is a typical example of a very sizeable non-tariff barrier - since this tax credit is applicable only if the investments concerned relate to equipment made in the USA.

4. The Domestic International Sales Corporation is seen as a form of export subsidy.

The cumulative consequences of these measures provoke a sudden shift in tariff barriers of up to 30% for some European goods.

Some of these problems - like the floating of the dollar and the 10% surcharge - are understood to be of a temporary nature. Yet no indication exists as to <u>how temporary</u> these measures will be. Consequently, the whole world and especially Western Europe feels not only the shock effect of the measures but finds it extremely difficult to cope constructively with the situation.

Above, all the decisions announced by President Nixon on August 15th are seen by Europeans not as a routine economic incident but as a <u>turning point in the history of international, political, economic and monetary</u> developments.

The problems deriving from the U.S. decisions not only involve the reform of the international monetary system and the elimination of obstacles to world trade. These problems are also connected with financial participation in defense. The crucial issue is not the dollar but the reshaping of the monetary, commercial and political pattern of the West.

Under these circumstances, it would not be reasonable to assume that simple answers can be found to the problems we face. Also, in this initial phase of a vast process of global readjustments, we must realize that tactical considerations play an important part which, most likely, will be an additional obstacle to immediate solutions.

Unfortunately, the European Community is confronted with this external process of readjustment at a time when it is also going through a delicate phase of internal readjustment: the transition from a Community of six nations into a Community of ten nations and the building of its own economic and monetary union.

Consequently, the first priority of the Community will be to strengthen its own structure, to avoid the temptation of a return to national bilateralism which would deprive the European Community of its only weapon: concerted action to defend the interest of its countries. Together, the Community countries form the most formidable trading and monetary unit in the world. Divided we have the means neither to defend our interest nor to participate in the creation of a better international monetary order.

The other goal of the Community will be to prevent forthcoming developments from leading to a worldwide recession.

Until recently, initiatives of the U.S. Government provoked criticisms but no concrete and constructive proposals from the European side. The mid-August unilateral American measures dramatized the ineffectual decision-making machinery of the European Community.

However, the most recent Common Market's Council of Ministers meeting in Brussels as well as the "Group of Ten" meeting in London, demonstrated that European cohesion is improving.

It must be stressed that the emerging European cohesion and solidarity is not oriented against anybody, and certainly not against the United States. It is fully understood in Europe that it is in nobody's interest not to help the United States out of its present difficulties. But in order to be successful, our cooperation must be a two-way movement. This very idea of mutual concessions underlies the European Community's latest positions:

1) The reforms to be carried out within the international monetary system must respect the principle of fixed parities. Such a system is necessary for the orderly transaction and expansion of trade, in which the Community, as the most important trading unit, is particularly interested.

This will only be possible if a differentiated realignment is introduced in parity relations between currencies of industrialized countries. Such a realignment should include the currencies of all countries concerned, including the dollar.

2) The correct functioning of such a reformed international monetary system requires measures such as a limited increase in fluctuation bands in order to compensate for the consequences of interest rate differences and of appropriate measures to discourage short-term capital movements.

3) International reserve assets will continue to depend upon gold, and to an increasing degree, upon a collectively and internationally created and managed reserve system. This calls for the adaptation and the development of the special drawing rights system in connection with a gradual decrease in the importance of national currencies as reserve assets.

4) The new international payments balance can only be maintained if, in the future, all countries or associations of countries respect the obligations involved in the adjustment process of the balance of payments and if they

implement appropriate internal policies.

5) Within the framework of the reformed international monetary system, the authority and range of action of the I.M.F. must be reinforced in all fields of competence.

I started on a literary note, I may just as well end the same way. The word "crisis" is expressed in Chinese with two different signs: the first sign means "risk", the second "opportunities". This is, in short, the state of affairs that confront the U.S., Europe, and U.S.-European relations today.

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