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THE FUTURE OF RELATIONS BETWEEN THE UNITED STATES
AND THE EUROPEAN COMMUNITY : RIVALRY OR COOPERATION ?"

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the US and the European Community : Rivalry or Cooperation ? "

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Today I wish to discuss the mythology of partnership in the relations between the United States of America and the European Community, which I represent. As we look back at these relations since the inception of the European Community in 1958, I believe it is possible to distinguish between a sequence of stages in these relations which may be described in European or US terms. Let me try to do the latter.

There was an early stage of these relations, a spillover perhaps from the immediate postwar period, which was characterized by the benevolent support of European developments by the U.S. Administration, the majority of Congress and probably a large segment of public opinion in this country. Benevolent support meant support of a process of regional integration in our part of the world, a support which was given even if it turned out to be costly in economic, military or political terms. But some time ago this phase of benevolent support was replaced by a new phase which was aptly characterized by a statement made by Deputy Undersecretary Samuels in the interview with an international journal. He said that the United States was "no longer prepared to accept short term economic costs for long term political advantages."

This second stage was one which marked a stage of critical support of developments in Europe. There was still a fundamental sympathy for the movement toward European integration. There was still the intention to do everything which might reasonably be expected from an American government in support of this movement. But there was also a certain critical reserve in so far as this European development might turn out to be harmful to economic and other interests of the United States. Today this has been made evident - I don't believe it has been created -- by the measures announced or taken on the 15th of August.

Today, we are in a third phase of relations which I find it very hard to describe at this point and perhaps there is no just description at this early moment of the new phase of relations. Partnership is possibly not the worst term to describe this particular kind of relation which is now being created, except that it is of assumed equality where this equality is by no means absolutely real.

What I would like to do at this point is to try and review some of the major points which have determined relations between the United States and the European Community over the last ten or twelve years, with a view to drawing some careful conclusions about the future of a United Europe. In doing so, in a way I am trying to draw the background against which the monetary developments which have come to a climax this year have to be seen. First of all, a few remarks about direct relations between the US and the EC.

Since there has been a great deal of talk about the advantages and disadvantages which one or the other side has from these relations, I think it is important to state that the development of the EC has been economically favorable to both the US and the EC. Trade both ways has significantly expanded, though there has for a long time been a considerable deficit in the balance of trade on the European side. We have accepted this without liking it as part of what, for us, is one of our most important trade relationships. Though it is very hard to prove that the formation of the European Community, with a common commercial policy on the part of six countries, has contributed very considerably to this favorable development of trade, I think one is safe in assuming it was one of the contributing factors. Therefore, the process of integration that took place in Europe was favorable not only for Europe but also for the US. At the same time, during this period there has been an enormous expansion of American investment in the world, and of European investment in the US. This expansion continues to the present day. In this respect too there is a marked inequality. The ratio between

the amount of US investment in Europe and the size of European investment in the US is still three to one. At the same time it remains true, before and after the 15th of August, that there is no very deep resentment of this imbalance in Europe. We want to have more European investment in the United States than in the past but we do not believe in introducing any restrictive measure which will make American investment in Europe more difficult. We think this also is one of the favorable aspects of the interrelations between the EC and the US in the past 15 years.

And not only trade in general but trade in agricultural products has increased very considerably since the EC was founded and the Common Agricultural Policy was framed, even in the last few years. The most recent figures show an increase in the fiscal year 1970/71 of about 24 per cent of American agricultural exports to the EC, compared with the fiscal year 1969-70. This fairly steady expansion, based admittedly on a relatively small number of products, indicates that frequent criticism that the CAP makes trade relations with the US more difficult is not borne out by the figures. In fact, there has been an overall increase in agricultural exports from the US, but there was a disproportionate increase in agricultural exports to the Community in comparison to other countries in Europe.

These economic and commercial relations between the US and the EC were increasingly supplemented by a useful political relationship, a working relationship that promised well for the future. A consultative mechanism on economic and political matters between the EC and the US was created last year, and will be used for the third time towards the end of this month in Washington. Thus, bilateral relations, between the US and the EC were favorable for both sides, developed well and were full of auspicious elements.

There is a second point which has to be discussed in relation to the of this afternoon's session, "Rivalry or Cooperation". Here I refer to the developments which have taken place on our side of the Atlantic.

The EC from its inception felt a very special responsibility for a number of countries which have traditional ties to member states of the Community. It was on this historic basis that we formulated a policy for the African countries, notably for the Francophone countries of Africa. This was a policy of development, of aid, but beyond aid it was a policy of commercial agreements of a preferential character which were supposed to help these countries in developing their industries, which are, as you know, still at a very early stage of development. In the course of negotiations about British entry we tendered an offer of preferential trade agreements to the Anglophone countries of Africa. It remains to be seen whether these countries are interested in taking up the offer and thereby maintaining and perhaps intensifying their ties with the European countries in the EC. This development, based on preferential trade agreements, has meant a considerable increase in the trade of these African countries with the EC, and also of EC trade with Africa. While the US has not increased its trade with Africa quite as much as we have in the EC, it is, nevertheless, very hard to prove that the somewhat smaller increase in US trade with African countries is due to the specific arrangements which we have created, and which we intend to continue. Both the EC and the US have in any case expanded commercial relations with the African countries.

This is also true for our relations with countries of the Mediterranean area. We have tried over the last two years to develop specific commercial relations with most countries around the Mediterranean shore and as we get closer to the date of British entry we are about to combine all this in a true Mediterranean policy. Our intention is to contribute to the internal economic development of countries to which we feel close for historical reasons but which are important for our development in other respects, including political ones. We intend to render a peaceful, economic contribution to their development as we have done in the past, spending some of our own resources as well as giving these countries

preferential access to our own market.

Here I believe this policy has not done any particular harm to US trade. We have examined this question very carefully indeed, because it was put before us quite frequently by representative of the US government. We decided early this year - and this sounds almost ridiculous now, though at the time it was regarded even by the US as quite important - to make access for those American products which are competitive with products coming from countries in the Mediterranean area to the EC a little easier at important times of the year. We thereby tried to demonstrate that the preferential trade arrangement that we established in the Mediterranean was not intended to harm others, certainly not to harm the US. It was intended to develop a very specific political relationship which we feel we need with these countries.

In connection with British entry a new question arises, one which I believe is widely discussed in informed political circles in this country, namely, that of future relations between the EC and those European countries which have not applied for membership, but which intend to stay outside for whatever reason, and which remain united with Britain and the other three within the framework of the EFTA. It was decided at an early date in connection with the UK entry negotiations that no new trade barriers should be erected in Europe. For it was an open question whether after the entry of Britain and the other three there would be trade barriers between the old and the new members of the enlarged EC or whether some other kind of solution should be found. There were really three possible solutions debated:

1. Creation of new trade barriers, say between British-Swiss trade and German Swiss trade, by effectively maintaining EFTA connections even after the enlargement of the Community by four new members. This was soon discarded as the least attractive solution.

2. Forcing the new members of the EC, Britain, Denmark and Norway to use the common external tariff even vis-a-vis their present EFTA partners

and thereby effectively erecting new trade barriers within what is now EFTA. This was discarded, even though there were some advocates of this solution, as one that was not in keeping with the general principle of opening up trade rather than erecting new barriers.

3. Creating for the non applicant member states of EFTA which did not intend to become EC members the same entry to the market of the six today as they have now to EFTA, in other words, creating free trade throughout what is now the EC and EFTA.

This third solution has been adopted already in its basic outlines and, in my opinion, is a further step toward wider international liberalization of trade. It is a step which is contrary to some of the measures taken in the US this summer, one which is not only in keeping with our initial interest and our principles but also with our common concern for free trade. We hardly understand, therefore, the criticism which we hear of this particular solution.

I think it is necessary to add to this picture of regional development one crucial political point. If we in Europe develop a regional cohesiveness which is closed to the outside, then I believe that the dangers to world economic and world political development are not much smaller than the dangers of the nationalist developments of the 1930's. Regional developments of this kind can be acceptable only as part of the future order of world economic relations if they are combined with a commitment towards an outward looking attitude.

It has been one of my major theses ever since I took office that the best way to regulate our relations with the United States is effective cooperation in international multilateral organizations. We should pursue common goals, rather than try to attack each other or concentrate entirely on the direct relations between the Community and the US. One common goal which we thought we might have pursued together was development policy. The big countries or groups of countries

in this world bear a very special responsibility for promoting the development of those which are still more unfavorably placed in international economic relations. Here, there is not necessarily a contradiction between rivalry and cooperation between the EC and the US. For this reason we sincerely hoped that the important offer of generalized tariff preferences to all developing countries would in fact be made as promised by all developing countries, including the US, before the EC announced its own offer on July 1 this year. The offer is important because it gives access to the markets of developed countries to developing countries which are relatively close to the threshold of full industrial development. Yet at this point the last information that we have from Washington during the GATT meeting and the UNCTAD meeting in Geneva goes to say there will probably be no application of a scheme of this kind on the part of the US. Here I fear we shall get eventually into a rather unfortunate kind of rivalry which doesn't seem to help anybody, our bilateral relations nor our common responsibilities in the world.

On the problems surrounding the so called economic policy of the US, we are firmly convinced in Europe that the policy symbolizes a very profound change in relations between the EC and the US, though it may be difficult at this moment to define the change as clearly as one would like in order to influence it effectively in a direction which is in our mutual interest. But there are certain aspects of the measures taken on the 15th of August that are of particular concern to us in Europe. Many of us regretted that there was no consultation before the measures were taken although we thought our partnership had reached a point which implied effective consultation before measures are taken, or at least before they are announced. Many of us regretted and continue to regret that the external impact of many of these measures was really not in keeping with the internal needs to which these measures were a response. I would like

to say here what I have said on other occasions, notably in the GATT ministerial meeting on the 24th of August, that we in Europe do understand the severity of the problem with which the US is faced at the moment, and the necessity to take even drastic measures in order to solve this problem. Beyond that, I believe that we in Europe understand that measures might be taken which hurt us as well as the people of the USA. But there has to be a certain balance between the purpose that should be served and the injury that is done, notably the injury that is done to others. In the light of the relative insignificance of trade for the US balance of payments, we feel that the extraordinary trade measures of the new economic policy cannot be fully justified in terms of the balance of payments problem they are supposed to help solve. Indeed anybody who reads the important statement made by President Nixon on the 15th of August carefully will notice that in this statement the term "unfair" is used two or three times and that a new kind of argument is introduced in order to justify the creation of a surtax, and other measures which restrict capital equipment imports.

There are, in other words, elements of this new economic policy which we regard as an aggravation of the relations between the US and the EC, elements which we find not altogether easy to cope with. We hope that in trying to work out a solution in the next few months we will be able to distinguish between two important steps in this solution. Step number one should be a decision in the monetary field in the area of fixing parities. It should be taken at the earliest possible moment. Indeed I think that if we were to have to live with the surtax for a period of about a year this would mean that many other countries in the world would have to introduce measures of a similar effect or character. It would mean that we were right back far beyond the beginning of the Kennedy Round as far as the conditions of international trade are concerned. So when I talk about the earliest possible moment I really have the hope that this kind of decision will be taken within a matter of weeks, rather than months. Step number 2 however must mean a commitment to make a common effort to work out the necessary rules for an international system in the monetary

and in the trade field which is capable of offering more resistance to the kind of challenge and the kind of threat with which we have been faced this year. The EC must play a very important role in defining the rules of that system and I can say that, despite often exaggerated newspaper reports about the idiosyncrasies of certain members of the EC, we are close to working out a common position with respect not only to fixing parities again but also to reforming the international monetary and trade system. However, it should be quite clear the first step implies the abolition of the worst obstacles to trade which has been established by the US. Also, the effort to reform the international monetary system and to reform the international trade system must be seen as one and the same problem. It has never been as clear as it is today how closely connected agreements in the monetary field and in trade are. Bretton Woods and Havana have moved very close together. As we tackle this problem of reforming the systems we should tackle both problems at the same time and we should do so very soon.

There is one footnote on institutions which I must reluctantly add. Europe has become very big in world trade and large in economic terms in general. This big Europe does not find it easy to make decisions effectively and quickly. We are lacking some of the institutional prerequisites needed to make the size of Europe effective. I personally believe that on the whole we in Europe have taken a rather responsible stand in these difficult weeks. But a responsible stand is not enough. We have got to be able to make decisions and we are not yet able to do so. There are some (and this is not myself) who have described the EC as a dinosaur, a huge creature with a tiny decision making centre. I am sure that there is an element of truth in this. It is an element of truth which in a critical situation may be an extremely important factor, one which should be taken into account by those who sometimes use the term:

partnership in a too facile sense.

On the other hand we have a US government which I believe is about to change one of the basic guidelines of US policy throughout the last 20 years. Bigness must not mean that one can overlook the interests of the people to whom one is immediately responsible. But bigness always also involves tremendous responsibilities for others who are not one's own electorate. In the US over the last 20 years, we have experienced a precarious but important balance between a Congress which was always close to being protectionist, and an Administration which always emphasized the international responsibility of this important country. We are wondering what is going to happen to this particular balance. Our concern is all the greater because we in Europe know that we may be geographically a region, but we are not yet sufficiently integrated to be able to act with the same degree of clarity and rapidity that is characteristic of nation states. At this particular point it is too easy to say that we are already an effectively organized region and in that sense a full partner in the discussions. We are beginning to be, but we haven't quite reached that point yet. At this point it is very important indeed to remember that a sense of responsibility for the rest of the world, not making others dependent but thinking of others and their position, is part of a developing relation of partnership.

All this is certainly not easy to achieve. As I reflected on these terms "rivalry" and "cooperation" I remembered conversations that I have had in Asia, in Latin America and in Africa. Many people in the world expect us in Europe to do all the good which the US has done in the world, without doing any of the bad as well, There are many people who believe that Europe will be able to shoulder the responsibilities that highly developed nations have for the rest of the world without creating even the impression of dependence on the part of others. I think this kind of expectation associated with the great and important enterprise which I represent is going to determine much of what

is going to happen in the next ten years. And I am quite sure that this kind of expectation will not make relations between the US and the EC easier. For that reason, I am deeply convinced that we should remember that we are essentially pursuing the same goal in the US and in Europe, the goal of creating conditions of prosperity in peace and freedom. We are committed to this all important goal in our internal political structure. And this commitment should make it possible for us to develop a system of cooperation that deserves the term partnership, because it is based on acceptance of the equal rank of the other, on understanding of the specific problems of the other, and on a common responsibility for the rest of the world.