European Community Information Service
2100 M Street, N.W. - Suite 707
Washington, D.C. 20037
Tel. No.: (202) 872-8350

OUTLINE OF AN ADDRESS TO
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By Guy VANHAEVERBEKE

(Mr. Guy Vanhaeverbeke is Deputy Director of the Information Service at the European Community Delegation in Washington, D.C.)

The Impact of the Enlarged Europe on the United States and Europe

The subject of U.S.-European relations, increasingly receives a great deal - if not always the proper kind - of attention.

One of the Atlantic partners, the United States, has the most powerful economy on earth with a GNP well over the trillion dollar mark. The Common Market, on the other hand, forms the largest commercial power in the world. The economic, commercial and monetary data, covering the multi-faced relationship between the Atlantic partners, form a thickening and often confusing haze. Especially on the eve of major international trade and monetary negotiations, data are perceived differently and generate a curious mix of confidence, perplexity and apprehension.

Notwithstanding certain points of friction, the balance sheet of this relationship, so far, shows healthy profits for both sides. After the forthcoming enlargement of the Community, no fundamental change should occur in this basically favorable relationship, provided the major economic partners of the world avoid to get caught in their own rhetoric.

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What is the present status of the European Community?

The European Community is in the middle of a process of adjustment: first a group of six countries (Belgium, France, Germany, Italy, Luxembourg and Netherlands), it has on the 1st of January, 1973, become a community of nine countries with the addition of Great Britain, Denmark and Ireland.

The European Community has realized a full customs union among its member-states. It has developped common policies in areas such as trade, agriculture, antitrust legislation and - to a large extent - aid to the developing world. The European Community has embarked on an economic and monetary union plan. It is preparing a European policy in the area of environmental protection, industrial policy and regional policy.

The European Community disposes of its own institutional structure and a decision-making process producing "European" legislation applicable within all of the member-states. The European Community budget, formerly financed by member-state contributions, will soon be an autonomous tax-raising body.

Trade and Investment Patterns

A sound way to evaluate what the Enlarged European Community will mean to U.S.-European economic relations is perhaps to remember the effects of the former European Community in the area of trade and investments.

The total U.S. commodity trade with the European Community in 1972 exceeded three times the level of trade in 1958, when the Common Market was formed. U.S. exports to the Community had thus risen from 2.8 billion to 9 billion dollars. Department of Commerce statistics tell us that from 1960 to 1971 overall U.S. exports rose by 116% whereas toward the Community U.S. exports increased by 143%. The expanded Common Market will be the number one market for U.S. goods.

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The Community's overall imports from third countries reached more than 45 billion dollars in 1970. On the same basis, the enlarged European Community imported goods worth $70 billion. Forecasts for 1980 say that by then the European Community will represent a market of about 130 billion dollars. This gives some idea of the possibilities that are open to American exporters.

Not only the volume of transatlantic trade is impressive, the pattern of this trade is equally significant: the United States scored an average surplus -- of 1.7 billion dollars -- in its trade with the European Community. Even in 1971, the figures showed a substantial U.S. trade surplus with the European Community ($1.3 billion). Today it is particularly significant that whereas the overall U.S. trade balance is showing a $6.4 billion deficit, Japan alone accounts for more than $4 billion of that deficit, Canada $1.5 billion, and the rest of the world including the enlarged European Community, only $500 million. (The most recent Department of Commerce figures show, for 1972, a U.S. trade deficit of 165 million dollars with the Six.)

Among the factors that have helped considerably the growth of U.S. trade with the European Community is 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 United States 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 economic growth and the inherent demand for investment and consumer goods. This situation doublessly has encouraged the liberal orientation of the European Community trade policy.

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Another reason for the spectacular growth of U.S. exports to the European Community is the low level of the Community's common customs tariff. The Community is now surrounded by the lowest tariff average among the major industrial areas (Average post-Kennedy Round rates for industrial products are: 6.0% around the European Community against 7.6% for Great-Britain, 9.7% for Japan, 7.1% for the United States. Only 13.1% of European Community tariffs on industrial goods are over 10% and 2.4% are over 15% compared to 38.3% of U.S. tariffs over 10% and 23.7% over 15%).

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

The economic relations between the United States 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 have grown sixfold, from $1.9 billion in 1958 to an estimated book-value of $13 billion in 1971. In the past decade the Community has been the fastest growth area for American direct investment. In 1958, investment in the Community, largely in petroleum, comprised only 7 per cent of total American investment abroad. By 1970 the Community proportion had grown to 15 per cent of all American investments and three-fifths of it was by then in manufacturing.

The growth of direct American investment, however, is more accurately seen from the figures for the annual expenditure of American capital investment in the Community. Capital expenditure is made up of capital transferred from the United States, capital raised in Europe, and reinvested earnings. Annual capital expenditures in the six Community

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countries were $420 million in 1958 but are estimated at $3.3 billion for 1972.

This American direct investment has an impact on American exports to Europe and thus on the U.S. - Community balance of trade. Today more and more American products, from computers to detergents, are produced in Europe and are no longer being exported from the United States. In 1968, the last year for which complete figures are available, the sales of American manufacturing subsidiaries located within the Community totaled $14 billion. This was an increase from $12 billion in 1967 and $4.8 billion in 1961. Thus, in 1968, the sales of manufacturing subsidiaries were nearly 2.5 times the value of total American exports to the Community and nearly four times the value of exports of manufactured products. It is impossible to ascertain the exact amount of American exports which are displaced by production in Europe. But it is clear that a large degree of the capital migration from America to Europe was prompted by the conclusion of American companies that it was cheaper to produce in Europe than to export finished products from the United States. However, to me, the striking fact remains that it is precisely the area of the world where American investments grew most spectacularly, which is also the area of the world where the U.S. economy still maintains a relatively favorable trade balance.

Conversely, direct Community investment in the United States has not been large. The book value of this was $1.4 billion in 1960 and $3.5 billion in 1970. The reason for the low level of investment lies partly in U.S. policy toward foreign investment. As stated in the Commission's 1970 "Memorandum on Industrial Policy", certain features of American

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legislation hinder direct foreign investment in the United States. In a whole series of industries, such as aviation, electronics, insurance, and manufacturing of alcoholic beverages, no foreign investments are allowed. American antitrust laws, in addition, are applied not only against American subsidiaries of foreign firms but also against the parent company for their activities outside the United States. This restriction has stopped many European firms from investing in the United States. The European Community, on the other hand, only applies its antitrust rules against parent companies for their activities carried out either directly or through subsidiaries within the Community. As is shown by the investment patterns of American firms in Europe, a convenient way of establishing a foothold or extending company operations in a market is the acquisition of existing firms. Such transactions are often attacked in the United States by antitrust officials.

The repatriation of profits from American subsidiaries abroad has recently become a major new source of revenue in the American balance of payments. Remitted income on total U.S. direct investment abroad rose from $2.95 billion in 1960 to $9.3 billion in 1971. In 1971 American firms in the six original Community countries repatriated $1.2 billion, reinvesting the remaining profits in plant expansion in Europe.

Thus, the U.S. economy benefits doubly from European integration: from a considerable increase in U.S.-European Community trade and from the impressive income growth through investments in Europe. Both make a major contribution to the credit side of the U.S. balance of payments.

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 U.S. GNP), the Community had to follow "open" trade and investment policies.

The economic structures of the United Kingdom and of the other applicant countries are, in this respect, similar to the structures of the Community countries: also a large percentage of their GNP is dependent on foreign trade. Their policies toward direct U.S. investments have been equally liberal.

When countries or groups of 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 U.S. 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.)

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Agriculture

American officials contend that the Community's agricultural policy is excessively protectionist and harmful to U.S. interests. These charges are not supported by the U.S. Department of Agriculture statistics!

The fact is that the European Community remains the largest market by far for U.S. agricultural exports, which totalled $1 3/4 billion in 1971. Since 1964, the last year before the effects of the Common Agricultural Policy (CAP) made themselves felt, American farm exports to the Community grew by 42% as compared to 26% to the whole world. Of course, not all U.S. agricultural produce has scored the fabulous growth of soybean exports to the European Community over recent years ($800 million in sales in 1971). Exports of other agricultural commodities remained stable, some have even dropped.

Naturally, such divergent developments reflect problems for which the Common Agricultural Policy serves as an easy scapegoat. In reality, they often reflect 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.

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.

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The methods and devices of protection may be different from one country to another, but somehow they exist in every country.

The U.S. protective system mainly consists of quotas and governmental income support to farmers. The European Community has the variable levies and a price support system essentially carried by the consumer. Should we make a comparison of protection in the United States and the European Community? Supposing, for example, all supports in all forms were discontinued both in the United States and the Common Market. This would come to a $1,320 per capita income drop in the United States and a $860 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.

When the European Community proposed to bring some order in the world's markets through international commodity agreements during the Kennedy Round, the United States refused.

In February 1972 the United States and the Community reached an agreement on several agricultural issues, including grain stockpiling, citrus fruit, and tobacco. On the same occasion both sides concurred to initiate the long-term multilateral negotiations within GATT during 1973, which will cover both industrial and agricultural products. The Community maintained that one means of achieving order in world agriculture is through international commodity agreements. Such agreements are important for developed regions, such as Europe and America, but crucial for the developing countries, which despite efforts at economic diversification, still depend heavily on agricultural exports.

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Will Britain's entry into the Common Market have an impact on 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 United Kingdom will have to eliminate its present 10% duty on soybeans. Presently, tobacco undergoes more taxes and excises in the U.K. than in today's nine European Community countries. The agricultural products for which British entry may cuase a change in trade patterns -- butter, bacon, sugar -- are not of major importance to U.S. exporters.

The Common Agricultural Policy 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 the present 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 European left the agricultural sector every year in the sixties. The same flow is expected to continue in the coming decade. Allowing this massive process to take place smoothly is one of the goals of the CAP.

Basically the cost of this policy is picked up by the European consumer who pays a relatively high price for his food, not by Europe's trade partners as it is too often suggested by US spokesmen.

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Relations with the Third World.

The European Community's policy is also "open" vis-a-vis developing nations. The Common Market is the largest importer of third world products. From $6 billion in 1958 imports from developing countries grew to more than $16 billion in 1971. The Community has a trade deficit of over $4.7 billion with the third world. Despite this massive deficit, the European Community 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 July 1, 1971, the European Community abolished completely its customs duties on imports of finished and semi-finished goods produced by more than 90 developing countries. These measures are still considered insufficient for the needs of the third world. However, the main weakness of the plan is probably that it is not put into effect throughout the developed world!

In addition to these generalized trade preferences applicable to the developing countries, the Community felt it had a special responsibility toward a number of specific Mediterranean and African countries. The latter enjoy not only privileged access to European markets, but also special financial and technical assistance programs.

Agreements and associations of this nature - especially the recent European blueprint of a coherent Mediterranean policy - continue to be the object of complaints by U.S. spokesmen. All these agreements are aimed at the establishment of free trade areas or customs unions under which substantially all the trade of the countries concerned will be progressively freed from customs duties, thus fulfilling the rules of GATT. In the case of the original African agreements free trade has now been achieved. In fact, these agreements have often turned out to be profitable even to American

exporters in that they enabled African and Mediterranean countries to acquire the necessary currency to enlarge their purchases in the United States.

Indeed, both as a richer outlet for exports and because of the "trade creating effect" of any free trade area, the markets of these countries have been, and will continue to be, more attractive to U.S. interests.

When particular problems emerged, the European Community always showed willingness to discuss. For example, one of the products, on which some Mediterranean countries have received preferential access to the Community market, was citrus. After two rounds of negotiation, the Community, prompted by U.S. preoccupations, lowered its tariff on oranges from 15 per cent to 5 per cent during the four months of June through September, the period when over 80 per cent of American oranges are exported to the Community.

A final but important element in the Community's Mediterranean policy is the contribution which Western Europe can make in this troubled, and potentially explosive, part of the world. It is clear that such agreements are a first step toward an increased European presence in the Mediterranean area, as a factor for equilibrium and peace. The constructive role that can be played by Europe in relieving the strains and pressures felt by the countries bordering the Mediterranean is undeniable.

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It is true that such a role cannot find full expression merely in giving some tariff advantage for a product such as citrus fruit. For the moment, the Community does not have other instruments for assistance. The Community is aware of this lack. It is trying and will continue to try to find better and more efficient means to realize its aims.

Calculated on the basis of GNP percentage, the total European Community contribution to development aid is now 1.2 per cent (whereas the U.S. share, in relation to its GNP, amounts to half that figure.)

The Community's enlargement as well as the decreasing U.S. interest in development assistance gives a sense of immediacy to the European responsibilities vis-a-vis the developing world. A common policy of development has been proposed to the member states of the European Com munity. Meanwhile, it is difficult for Europeans to understand why American criticism concentrates on this area of aid to the developing world where the Communtiy has clearly taken over a considerable share of a task which was previously burdening the United States.

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Japanese-Community Trade Relations.

As an explanation for the rapidly rising Japanese exports to the American market, American and Japanese spokesmen have complained that this is due to European Community protectionism against Japanese products. This also is a facile argument not borne out by the facts.

Since the Community's founding in 1958, Japanese-Community trade has been one of the fastest growing in the world. In 1958, the Community exported $139 million worth of goods to Japan and imported $117 million worth from Japan. In 1971 the Community imported $1.542 billion from Japan and exported $937 million to Japan. In 1971 alone Japanese exports to the Community rose by 25 per cent over 1970; Japanese exports rose by 44 per cent to France and by 45 per cent to the Netherlands.

Prior to 1968 the Community had a small but regular trade surplus with Japan, but since then it has had an ever-increasing trade deficit. In 1968 the deficit was $16 million, in 1970 $245 million, and in 1971 $605 million.

Historically, the United States has been a more important trader with Japan than has the Community -- both for exports and for imports. In 1955, for example, 23 per cent of Japanese exports went to the U.S. market and only 4.0 per cent to the market of the six countries that now form the Community. In 1970, 31 per cent of Japanese exports went to the United States and 7 per cent to the Community. A similar situation existed for Japanese imports: in 1955, the United States accounted for 31 per cent of Japanese imports, while the Common Market "Six" supplied only 4 per cent. In 1970, the United States accounted for 29 per cent of Japanese imports, while the Community's market share was only 6 per cent.

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The causes for the different level of Community-Japanese trade as compared to American-Japanese trade are many. Among the most important is the distance between Japan and Europe and the resulting higher transportation costs. The distance between Tokyo and San Francisco, by sea, is 4,500 nautical miles; the distance between Tokyo and Rotterdam, also by sea, is 14,500 nautical miles.

The natural barrier of two oceans has limited trade between Asia and Europe. This has been true not only for commerce with Japan but also with other Asian nations.

Also limiting trade between Europe and Japan is the structure of industries and trade. U.S.-Japanese commerce is naturally complementary, with the United States exporting mainly agricultural products and raw materials to Japan and importing Japanese manufactured products and machinery. Japanese and European industries, however, specialize and have their competitive trade advantage in almost the same fields. The two also trade each other almost the same products -- consumer goods, chemicals, classical capital goods, and machinery. In America, for example, the major competition met by Japan in fields such as sub-compact cars or appliances comes not from American products but rather from European products. When this same competition is transferred to Europe, the local producer with low or nil transport costs has an obvious and important advantage over the product that has to be transported nearly 15,000 miles.

The Japanese thus have concentrated on the closer American market, with its totally unified economy without any internal barriers to trade, its single language, 200 million consumers, and the highest standard of living in the world.

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To take one important example -- automobiles. Japan in 1971 exported about 700,000 vehicles to the United States, with a large proportion being sold in the geographically closer Pacific Coast area. In the American market one of the major competitors for the Japanese car is the small European automobile. In 1971 Japan exported an estimated 120,000 vehicles to the Common Market. Only Italy maintains restrictions on importing Japanese automobiles. The explanation for the difference between Japanese auto exports to Europe and to the United States is found in the stronger competition the Japanese products face in the European market.

It is true that member states of the Community still maintain some quantitative restrictions against Japanese products, as does the United States especially through the so-called "voluntary self-limitations." The Community is negotiating a commercial agreement with Japan, which will replace the four treaties of Benelux, France, Germany, and Italy. The aim of this new treaty will be reciprocal reduction by 75 per cent of the quotas in effect on January 1, 1970.

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The Monetary Situation.

December 18, 1971, the world's ten leading industrial nations reached agreement on changing the parities of the major currencies. This ended the first phase of the international monetary crisis, which had begun with the floating of the West German mark last year in May and of the American dollar last year in August.

The member states of the Community played an important role in the attainment of the December agreement in Washington. This involved their acceptance of a substantial devaluation of the U.S. dollar as well as the revaluation of some European currencies. These heavy revaluations resulted in a commercial handicap for the Community member states and a weakening of their international competitive position. This took place at a time when there also existed a less favorable economic situation in certain Community countries. Currency revaluations vis-a-vis the U.S. dollar varied from 7 1/2 per cent for the Italian Lira to 13 1/2 per cent for the German Mark.

The Washington agreement, however, was but the first step in the more fundamental reform of the international monetary system. The Community's Monetary Committee in its annual report recently wrote: "The realignment of exchange rates ended the uncertainties which resulted from the floating of currencies and whose negative effects on economic expansion and trade had already begun to be felt in a number of countries. Nevertheless, the application of a mechanism better adapted to the present requirements presupposes that a certain number of other problems will be

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resolved concerning, in particular, the future system of convertibility, the role of gold, reserve currencies and special drawing rights, the supply of adequate instruments of reserve, the degree of exchange rate flexibility, at the same time as the control of undesirable capital movements."

In discussing its monetary situation, the U.S. Administration stresses the trade aspects of the American payments deficit. An analysis of the U.S. balance of payments, however, shows clearly that such an explanation provides only a partial answer. The origin of the payments disequilibrium must be found mainly in the continuing large outflows in short- and long-term American capital.

There is no doubt that there has been a decline in the American trade surplus since the Sixties when it averaged $5.4 billion annually; yet in 1970 the United States still had a trade surplus of $2.1 billion. In 1971 the United States ran a trade deficit of over $2 billion, although as noted above it still had a large trade surplus with the Community. This overall trade deficit was partially the result of temporary phenomena, such as extended dock strikes, persistent and high domestic inflation, and low productivity gains. It may also partially result from some slowly moving structural changes in international trade, such as the strong American increases in raw material imports, the change in the United States from a "manufacturing oriented" to a "service oriented" economy, and the impact of multinational corporations. The Community considers, though, that it is not up to the United States' trading partners, through substantial trade deficits, to carry the whole burden of achieving an adjustment in the American balance of payments.

The United States in 1971, according to American statistics, had a deficit in official reserve transactions of $30 billion. This was an increase of $20 billion over the $9.8 billion deficit in 1970. Of that payments 1971 deficit, only $3 billion was due to the trade deficit. Trade alone thus does not explain the American balance of payments deficit. The great bulk of the deficit was due to short- and long-term capital outflows. Direct investment capital outflow, for example, maintained its high level during 1971 and totaled more than $4 1/2 billion. Such outflows in investment capital took place despite American programs to control foreign direct investment. There is thus concern over recent proposals by some American officials to remove these controls at the same time as attempting to turn around the balance of payments.

These deficits in the American official reserve transactions, which were large even in the early Sixties, have been financed by limited American sales of gold but mainly by the accumulation of huge dollar holdings, especially by European central banks or liquid balances in the private sector, Eurodollars.

The decisions announced by President Nixon on August 15, 1971, were seen by Europeans not as a routine economic incident but as _a turning point in the history of international political, economic and monetary developments_. The problems deriving from the U.S. decisions not only involved the reform of the international monetary system and the elimination of obstacles to world trade. They were also connected with financial participation in defense (see Annex). The crucial issue was not only the dollar but the reshaping of the monetary, commercial and political pattern of the West. The problem is one of monumental dimensions.

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It would be unreasonable to assume that the answers will be easy.

The European Community is confronted with an external process of readjustment - the reconstruction of the shattered international monetary system and a new round of international trade negotiations - 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 nine nations and the building of its own economic and monetary union.

Under those circumstances, the Community wants to strengthen its own structure, to avoid the temptation of a return to national bilaterism 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 recent Summit meeting of nine European Heads of State and Government in Paris demonstrated that European cohesion is also improving in the monetary area. Gradual but important steps towards the realization of a European monetary zone, the definition of a European monetary identity which would help the international monetary system to function better. In the short term, the key provisions of the European monetary plan seek: firstly, a narrowing of the allowed fluctuation bands among Community currencies; secondly, a regulation of the unwanted, speculative, "hot" money flows in the European Community countries; thirdly, the creation of a "European Monetary Cooperation Fund".

It must be stressed that the emerging European cohesion and

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solidarity is not oriented <u>against</u> anybody, and certainly not against the United States. Its first goal is to prevent the existing European Community realizations from desintegrating. The Community will continue to work in the framework of international institutions. It is also understood that monetary and trade policies are closely linked, and that cooperation among governments for a better functioning of the international monetary system constitutes one of the essentials for the success of future negotiations in the area of trade policy.

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The Enlarged Community

The entry into the Community of Britain, Denmark, and Ireland on January 1, 1973, is an event of major significance for the Community and for the world.

The United States has steadfastly encouraged the Community's enlargement. In January 1973, following the official date of British entry, President Nixon repeated this support in a letter to the Commission President.

As noted above, the formation and development of the Community has been beneficial for both the political and economic interest of the United States. There is every reason to expect that these benefits will continue and increase in the enlarged Community.

One of the results of Community enlargement for American exports will be a major lowering of industrial tariffs. In four steps ending July 1, 1977, the British tariff will be brought into line with the lower Community tariff. Preferential treatment presently given by Britain to products from Commonwealth countries will be phased out. The tariffs on some industrial and agricultural products from the three new members will be raised as a result of entry. Under GATT procedures, compensation via other tariff reductions will be given to any country that suffers such tariff increases. Negotiations for such compensations are under way.

Of more importance than tariff reductions for American exports is the stimulation of the British economy which entry is expected to bring about. Since 1958 the Community Six have experienced a faster rate of growth than the overall European average. This is called the dynamic effect

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of economic integration. Increased prosperity of the three new member countries will make them a better market for American exports.

The enlargement of the Community will also undoubtedly see a rationalization of American direct investment in Europe. Britain and the Community of Six are both areas of high American investment, and firms will now be able to plan expenditures for one large unified market of nearly 260 million consumers. At the end of 1971 the book value of direct American investment in the enlarged Community was about 13 billion dollars in the Six, over 8 billion dollars in Britain.

The enlargement of the Community affects not only the three new members but also the remaining members or associate members of the European Free Trade Association. EFTA established an industrial free trade area comprised of Britain, Denmark, Norway, Austria, Finland, Sweden, Switzerland, Iceland, and Portugal. The seven latter countries could not or would not become full members of the Community. At the same time, however, they do not wish to re-erect the tariff walls between themselves and the four departing EFTA members. Future trade relations with the enlarged Community are very important for these EFTA countries. In each case, about half of their trade will be with the European Community.

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The Community, therefore, has negotiated industrial free trade agreements with six countries and is still negotiating such an agreement with Norway. These will fully conform with the GATT rules, which provide for the establishment of free trade areas.

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CONCLUSION

By way of conclusion, I would like to say that the reasons which call for common action and cooperation between the Community and the United States are innumerable. It is also evident that we are bound to have friction. However, we must prevent these cases of friction from developing into full-fledged crises: we should not speak lightly of trade wars, as if they amounted to little more than a Saturday afternoon touch-football game.

The European Community is going through a difficult process of internal adjustment, the United States faces its own political and economic tensions. The temptation is big to focus our attention excessively on our own internal developments, ignoring what is going on abroad or, even worse, of blaming our neighbors for some internal difficulties. There is also a natural human tendency to search for easy explanations to the many complexities of our situation. Easy explanations often take the shape of clichés which then sneak into the conventional wisdom. Finally, I think we live in a period where many of us find it hard to resist a morbid tendency to accentuate the negative. Or is this only a superficial impression due to the fact that most businessmen involved in transatlantic trade make excellent profits and remain discreet about them, whereas those who are hurt by international competition display great talent in publicizing their complaints?

Also, many Europeans are surprised by the way Americans suddenly start questioning all of the chapters of their foreign policy and foreign economic policy at the same time. It seems that this mood of excessive self-criticism does not allow for enough difference between successful and less successful chapters of policy. There seems to be a lack of recognition -- not so much from the part of the Europeans as from the

part of the Americans themselves -- that the story of Atlantic relations over the past quarter of a century is a brilliant success story. All of the established political and economic goals have been reached. There is full awareness from the European side that this was primarily made possible thanks to the enlightened and generous U.S. foreign policy of the post-World War II period.

Since the end of World War II, the world has experienced a great liberalization of trade, which has helped to raise the standards of living in all countries. The very existence of the European Economic Community since 1958 has been a stimulus for free trade in Europe and in the world. Neither the Dillon Round nor the Kennedy Round would have been possible without the existence of the Community. The Community firmly supports the new GATT negotiations due to start in 1973 and maintains that these talks should pay particular attention not only to the interests of the industrialized countries but also to those of the developing nations. The Community is committed to freer world trade and rejects any incipient trends toward protectionism or mercantilism.

The foundation of the European Community and its development have been good for Europe; they have likewise been good for America. The Community has been the most important element in the postwar movement to bring the peoples of Western Europe together. It has resulted in peace and prosperity on a continent that has known much bloodshed. For the United States, the Community and the policies it has followed since 1958 have benefited American interests in trade, monetary relations, and investments.

Perhaps, George Bernard Shaw offered the right **diagnosis** of what some describe as a transatlantic chill: there are, he said, two possible tragedies in human life: the failure to achieve one's desires, or the

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knowledge that one has achieved them.

Anyway, under those circumstances it is the role of the Governments to keep their cool, their sense of proportion, and in the final analysis to keep the real interests of their people squarely before their eyes. It is also the role of business organizations, from both sides of the Atlantic, to favor the flow of objective and complete information and to stimulate contacts at all levels. Your meeting today should be complimented as an example of a positive effort in this direction.

In Europe, the European Community and the Governments of member states seem well determined to search for a proper definition of relations between the European Community and the rest of the world -- especially with the United States. This is also the reason why it was recently proposed that, when President Nixon visits Europe, he should also plan a visit to the European Community institutions in Brussels.

The future of U.S.-European relations also depends largely on our faith in ourselves and our efforts. The final shape of our relationship involves, as with everything in the area of life and creation, an element of the unknown that we progressively reduce as we forge ahead.

ANNEX I

Military Burden Sharing

There is one issue which does not belong to the area of competence of the European Community, but which, in the mind of many Americans, seems to be linked with the economic dossier of our relations: the military burden sharing within NATO. Here also a few bare facts and figures might be recalled, first for the sake of completing the picture of U.S.-European relations and in order to illustrate the significant contribution of Europeans to Western defense.

1. The United States now has slightly more than 310 thousand troops in Europe. The European NATO Allies maintain almost three million men under arms. American troops are stationed in Germany, the United Kingdom, Greece, Turkey, Spain, Greenland and Iceland. In addition there is the Sixth Fleet in the Mediterranean. The bulk, about 225,000 military personnel, are located in Germany. Dependants of defense-related personnel number about 225,000 of which 150,000 are in Germany.

2. The annual budget cost to the United States of maintaining forces in Europe, associated with their deployment, is approximately 3 billion U.S. dollars. The cost to the European Allies of their men under arms is in excess of 26 billion U.S. dollars.

3. European NATO forces comprise almost 90% of NATO's ground forces, 80% of its sea power and 75% of its air power.

4. As a result of discussions in NATO the Europeans have now embarked on the "European Defense Improvement Programme" which totals approximately 2 billion dollars in addition to the normal defense expenditure of European NATO countries.

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5. European Allies have also embarked upon a five-year modernisation programme to strengthen their conventional capability, particularly in the fields of anti-tank armament, communications, mobilisation, improved stock-piling, air defense and maritime forces.

6. It was in the context of repeated assurances about U.S. force levels that Europeans decided to make greater efforts in their own defense. It could well be argued that unilateral American reductions could halt the trend of rising European efforts.

7. Some people argue that the cost of maintaining American forces in Europe runs to 14 billion dollars a year. This figure applies to the cost of all American forces which would be committed to action in Europe and the Atlantic in case of hostilities. Most of these forces are stationed in the United States, and in other parts of the world. Their cost would not be affected by a unilateral reduction in Europe.

8. America's first line of defense is in Europe. U.S. troops are therefore not in Europe simply to protect Europeans but to protect American security interests which center on Europe.

9. President Nixon said: "The peace of Europe is crucial to the peace of the world. This truth, a lesson learned at terrible cost twice in the twentieth century, is a central principle of United States foreign policy. For the foreseeable future, Europe must be the cornerstone of the structure of a durable peace."

10. Warsaw Pact forces constitute the principal military threat to Europe and a substantial reduction of U.S. forces could create new opportunities for the Soviet Union to extend its hegemony to Western Europe.

11. U.S. Forces in Europe permit the United States to protect vital areas adjacent to Europe such as the Middle East. It is

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clear that significant reductions would severely damage that ability.

12. The U.S. military presence in Europe, together with significant contributions by European NATO Allies, provide the basic strength from which the West can negotiate dětente with the East. It is essential for NATO to keep its side.

13. The recently completed Study "Atlantic Defense in the Seventies" of NATO, made it clear that a conventional defense against the Warsaw Pact is within NATO's grasp if force levels are maintained and qualitative improvements made. A reduction in Western deterrent capability would push the United States and Europe towards the choice in a crisis of resorting to nuclear war or yielding to the Soviet Union.