

STATEMENT BY
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TO THE
PRESIDENTIAL ADVISORY COMMISSION ON INTERNATIONAL TRADE AND
INVESTMENT POLICY

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I. As a result of The Hague meeting of December 1969, the movement towards integration in Europe has gathered a new sense of purpose: a program of work has been agreed upon which includes the eventual enlargement of the Community and the achievement of economic and monetary union.

The enlargement of the Community, if it comes about, will constitute an event of paramount importance for Europe and the world.

It is not surprising therefore, that attention is focused on this question.

An enlarged Community including the four countries which have applied for membership would have at the end of the seven years (1980) a population of approximately 275 million, a GNP of about 900 billion dollars, and its exports to the outside world would total more than 100 billion dollars. Such a Community would be second only to the United States in terms of GNP, but it would be the first trading area of the world, contributing one-third of the total volume of international trade. The policies developed by an enlarged Community evidently will be of the greatest importance for the United States.

The difficulty at the present time is that it is impossible to predict if the negotiations between the Six and the applicants will succeed and, in the affirmative, what will be the precise content of the treaty of accession, and what arrangements, if any, will have to be concluded with non-applicant EFTA countries. Hence the perplexities of our partners in the world.

I am glad to have the opportunity of contributing my own views to the analysis of this problem. My views, naturally, commit no one but myself.

II. As business leaders more interested in hard facts than in generalities, you will forgive me if I start by stressing that the Community's enlargement would be an event essentially of a political nature.

I raise this point because the Community has been criticised for the absence of progress toward European political unification; it has been said, for instance, that the United States should re-appraise its attitude in regard to a Community which tends to become a competing economic bloc without political ideals.

I am convinced that what has been achieved so far in the way of economic integration and what has been programmed for the next ten years is due essentially to the strong forces that have been and still are at play in Europe in favor of political unification. Furthermore, every step toward welding the member countries into one economic entity inevitably is one step away from the nineteenth century conception of the sovereign nation-state. The establishment of the Common Market alone cannot lead to integration in the field of foreign affairs and defense. But the Common Market's completion does depend upon the coordination and integration of the economic policies of the member countries. Conflicting economic policies would soon bring an end to the unification of the national markets. This was clearly understood at The Hague; hence the decision was made to embark upon a program leading to economic and monetary union.

Well, it is hard to conceive that the six countries, having committed themselves to carry out economic and monetary policies agreed upon in Brussels and supervised by the authorities of the Community, could pursue conflicting policies in regard to foreign affairs and defense. It is significant that the decision to proceed towards economic and monetary union was taken together

with the decision to open negotiations with Great Britain. Precisely because an economic and monetary union has deep political implications the Six could not accept this objective unless Great Britain, and also Norway and Denmark, both members of NATO, were given a fair chance to share it.

It would therefore be in my opinion a mistake if the problem of the enlargement is considered only from the narrow point of view of the changes which it will entail in the economic and commercial relations between Europe and the rest of the world. Much more is at stake.

Thus, the Ostpolitik now pursued by the West German Government deserves no doubt to be praised: but on the condition that it shall be pursued by Germany not as a substitute for the policy of European integration but on the contrary on the assumption that European integration shall be actively promoted and that Western Germany shall play a leading role in this respect. But the fulfillment of European integration requires the participation of Great Britain: hence the political significance of the problem of the enlargement.

III. And now to essential issues.

The questions raised in the United States in respect to the enlargement and the prospective behavior of the enlarged Community can be brought under the following four main headings:

- Impact on U.S. exports of manufactured goods
- Impact on U.S. agricultural exports
- Impact on American investments in Europe
- Impact on American interest in countries linked or to be linked to the Community by special arrangements.

I shall be concise in this opening statement. The ensuing discussion perhaps will give me an opportunity to elaborate further on these various points.

1 - Manufactured goods

Here the question is whether American exports to the enlarged Community shall be handicapped as a result of the expansion of the EEC's customs union and by future import policies of the enlarged Community. The situation at present is as follows:

- U.S. trade of these goods with the Six and the Four has shown a deficit since the middle sixties.

This seems to be due partly to U.S. inflation but also to increased competitiveness of European industry in fields such as automobiles, shoes, textiles, toys, steel, and chemicals. In this respect an important role has also been played by the increasing sales in Europe of American subsidiaries. These sales have tended to divert exports from the U.S.

- Nonetheless, in 1969, the ten European countries in question were still the foremost customer of the United States after Canada.

How will enlargement affect this trade?

I submit that there are good reasons to be fairly optimistic.

The EEC duties on manufactured goods resulting from the reductions agreed upon in the Kennedy Round is about between 7 and 8 %. The U.K. tariff average is between 11 and 12 %. The U.K. will align its tariff to that of the Community if it becomes a member. Access to the U.K. Market should therefore be easier for U.S. goods.

- The entry into the Community of the U.K. should also stimulate Britain's economic growth and thus offer greater opportunities for American exporters.

- U.S. exports of manufactured goods consists mainly of products of advanced technology for which, given the level of the duties, the tariff incidence has a relatively minor influence on competition.

As concerns future import policies of the enlarged Community, it must be noted that the EEC has pursued policies which are far more liberal than those of the U.S. and Japan. This was not due to a virtue of self denial but to the necessities of economic life in Europe. We must import most of our industrial raw materials and a large part of our foodstuffs. This is why we are in favor of freer trade. There is no indication that this attitude will change because as the U.K. is very much in the same boat.

In fact I believe, that an enlarged Community, far from adopting restrictive measures to trade - other than inevitable retaliation to any unilateral action that might be taken by one of its partners - will be even more insistent upon the pursuit by all concerned of more liberal trade policies, and it will be at the table for new international negotiations aimed at further reductions of barriers to trade among the industrialized countries. I do not exclude the possibility that the enlarged Community would take the initiative in this direction.

2- Let me now turn to what seems to be the main object of concern in the United States, namely agriculture.

I am fully aware that the ten countries in question imported in 1969 \$1.7 billion in U.S. agricultural goods and that they represent the largest market for American farm products.

The common agricultural policy has never been popular in the United States. The situation is not improved by the fear of a drastic reduction of U.S. agricultural exports to the applicant countries and to third countries, should the

present support price level for basic products and the present system of protection be extended to the four new members.

I have no intention of embarking upon a defense of the Common Agricultural Policy and the present level of support prices.

I shall limit myself to a few general remarks.

- Agriculture is a thorny economic and political problem in practically every industrialized country.

When the Six decided to create a Community, their agriculture employed an abnormally high proportion of the active population and its efficiency was generally low. Its survival was insured by different national policies of protection and price support.

The rapid development of European industry and services opened up alternative job opportunities, inviting a massive transfer of manpower from agriculture to other fields. This transfer is still going on at the rate of some 500,000 persons per year. As a result, the proportion of active population engaged in farming in the six countries has come down from over 20% as an average to 14%. But it still is far away from the 5% figure of the United States. Meanwhile, it simply is not feasible to oust overnight millions of farmers from their jobs: this would happen if world market prices were applied in our countries.

We are, however, exerting a great deal of effort to change this situation. A vast program of reform of farming structures is currently under consideration, including the early retirement for farmers, the restructuring of farms, and the elimination of less productive land from cultivation. On the other hand, a series of measures are also under consideration to promote a more rapid industrialization and to create more jobs and opportunities for persons willing to leave agriculture. In the meantime, for most products, the Community's export

prices have remained unchanged during the last years and inflation has considerably eroded the real value of these price levels. This applies to wheat, for instance.

Admittedly, a solution to the problem of European agriculture requires time. I am convinced, however, that government, consumers, tax payers and industrial producers are becoming conscious of the cost of the present CAP to our economies. It is probable that any unreasonable pressure exercised by our farming interests would meet with a growing opposition.

Let us now turn to U.S. farm exports to Europe.

The share of the Community in United States agricultural exports over the last ten years has remained constant, 21 to 22%.

The fact that the volume of these exports has not increased sufficiently to meet the expectations of the American exporters cannot be attributed exclusively to the Common Agricultural Policy. Indeed, total U.S. agricultural exports have been stagnating since 1964. This seems to be due to the great increase of agricultural productivity in all countries, and the higher degree of self-sufficiency in traditional deficit countries.

This being said, U.S. agricultural exports to Europe consist essentially of soybeans and animal feeds, grains, tobacco, and fruits, as well as vegetables and processed foods. The most important of these items, soybeans and animal feeds, enter into the Community duty-free and are not subject to any import restriction. These exports have soared over the last ten years.

The level of EEC protection on tobacco and fruits and vegetables is moderate. U.S. high-quality farm exports are mostly complementary to EEC production.

The Community's enlargement should not modify the situation to the detriment of U.S. farm exports. Exports of soybeans to the United Kingdom are still relatively insignificant, for Britain relies more on coarse grains for animal

feed and also on imports from the Commonwealth. Assuming the extension to the United Kingdom of the current EEC price relationship between soybeans and coarse grains, and in view of the termination of the Commonwealth preference, a very substantial increase of U.S. exports of soya to the U.K. can be expected.

For tobacco, fruits and vegetables, the same level of moderate protection would apply to the U.K. and the present preferential treatment for imports from the Commonwealth would cease to exist.

The case of grains is more complicated. Both the Community and the U.K. have been and are important outlets for U.S. corn, wheat and rice. Protection for grain currently is substantially higher in the Community than in the U.K. In fact, U.S. exports of grain to the EEC have dropped from \$414 million in 1964 to \$318 million in 1969. It is to be noticed, however, that exports to the U.K. have declined even more: from \$124 million in 1964 to \$85 million in 1969.

In any case, it is likely that British entry will hit U.S. grains exports, but the enlarged Community will continue to depend to an important extent on U.S. shipments of grains. Furthermore, a decline in exports of coarse grains to the U.K. would be offset by an increase of exports of soybeans and of similar low-cost duty-free feedstuff. Last but not least, an enlarged Community will have to offer the United States appropriate compensation for any British tariff-binding on grains.

I have assumed so far that the present general level of support-prices shall continue to apply. I personally believe that once the negotiations are completed, the members of the enlarged Community will wish to take a new and hard look at the Common Agricultural Policy which has proven to be, as a whole, expensive, unrewarding, and damaging to our external commercial relations. Perhaps the Six shall be forced to do so even before the conclusion of the negotiations, although this would be for many reasons rather difficult.

3 - Another area wherein ideas currently discussed in Brussels in the perspective of enlargement seem to create apprehension is the impact of Community policies on direct investment and business opportunities for U.S. companies in Europe.

Direct investment by American firms in the Community has increased nearly five-fold since 1958. The capital for these investments comes very often from issues floated in Europe, and the return on these investments has become not insignificant in regard to the U.S. balance of payments.

As U.S. investment has been so largely concentrated in the Community, the Community contributes a vast share of this income, while being at the same time in deficit with the United States in visible trade in excess of one billion dollars. Yet the policy of the Community has been, in respect to direct investments, one of great liberality. Any firm constituted according to the laws of one of the member countries is subject to the rules of the Treaty of Rome, irrespective of the nationality of the owners of the capital.

In fact, because of the advantages involved in the establishment in Europe of American industrial activities, there have been in the Community far more implantations of American subsidiaries than mergers between firms belonging to different member countries.

This liberal attitude is consistent with the real interests of the European countries. We require the stimulant provided by the active presence of the American subsidiaries on our soil and their greater experience in mastering technological progress and new managerial techniques. This attitude is not likely to be reversed either by the present Community or by an enlarged one, for the industrial development in Europe will increase the interdependence between Europe and the United States.

There are, however, certain problems in this respect.

Assuming that competition between industrialized countries will concentrate more and more on sophisticated products and be carried out not only through exports

but also and perhaps mainly by organizing production in the different markets of the world, it is important that there should not be an excessive imbalance between Europe and the United States. At present, Europe is lagging considerably behind the United States in direct investment and has to rely mainly on exports. This is why the Commission of the European Communities has suggested in a memorandum on industrial policy, published a few months ago, a series of measures designed to achieve a better balance. The member countries were invited in this memorandum to make more use of the Community. This means in practice the achievement of the Common Market through the suppression of all non-tariff barriers, including: national preference in public procurement; the elimination of wasteful and inconsistent state aids; the establishment of a common legal, financial, and fiscal framework intended to make it easier for firms to extend their activities over the border or to merge with firms of other member countries; the harmonization of the discretionary powers which governments exercise in regard to proposed transnational mergers; the creation of limited incentives in favor of transnational mergers where technologically advanced industrial activities are concerned.

There is no discrimination implied in this proposed policy, assuming, naturally, that subsidiaries of European industries would enjoy equally liberal treatment in third countries. Some exceptions of a limited scope and duration could be made for certain infant industries.

The accession of the applicant countries should not modify the situation to the detriment of the United States. On the contrary, assuming that the enlargement will result in a more rapid economic growth, there are likely to be more rather than less opportunities for U.S. investors, albeit in a climate of greater competition with powerful European firms.

This being said, if one considers, as one should, visible exports and foreign investments as two different methods of the same process of penetration

into foreign markets, it becomes clear that it would not be possible for the Europeans, given their present inferiority as earners of income from outside investments, to continue to be as liberal as they are, if their visible exports became subject to restrictions. This is the reason why I am so concerned with the legislation under consideration in Congress which would affect European exports to the U.S. market. Unilateral action of this kind would start a process whose ultimate result I would not like to dwell upon.

Finally, if we are to assume that the United States, Europe and other countries, such as Japan, will engage more and more in competition in the form of direct investment throughout the world, then the time has come to agree on certain general rules. There must be more clarity to the question of whether a country, where^a multinational corporation has its main decisional center, is entitled to impose its own regulations and policies on the subsidiaries of the corporation abroad, while at the same time expecting these subsidiaries to be treated by the host countries as nationals. This problem is linked with a general problem of the relationship that must exist between corporations developing world strategies, and the national authorities who are called upon to exercise a certain control on the orderly development of the economy.

4 - One more point of friction between the Community and the United States is provided by the EEC's special arrangements of a preferential nature with third countries which have been concluded or are envisaged.

I would have welcomed, for my part, an early statement of policy by the EEC in this respect: this would have avoided many present misunderstandings.

That fact is that while the Americans believe that the Europeans are attempting to secure for themselves preferential outlets, the Community has followed this course mainly for political reasons.

As far as Europe is concerned, the creation of the Community and its further enlargement create special problems for countries which cannot apply for membership because of their international status, because of their policy

of neutrality prevents them from entering into certain commitments, or because the level of development does not permit them to accept full competition with the EEC.

5- In 1947, the U.S. had suggested that the members of OEEC should form between themselves a customs union. It has taken us more than 20 years to achieve this custom's union on a semi-continental basis. However, after the enlargement there will remain a limited number of problem countries. I do not consider it politically wise to keep these countries entirely outside the movement towards greater unity. I believe that as a result of appropriate arrangements, assured by adequate rules of behaviour, most of these countries would be encouraged to become eligible and willing to join the group. The advantages entailed in these preferential arrangements for the Community and the corresponding disadvantages for the United States should be looked at in this political perspective; also taking into account the fact that there is a general trend for trade between nations within a well-defined geographical area to become gradually "internal". Finally, as I have indicated, in my opinion, the enlarged Community should take the initiative for a new round of negotiations in which the legitimate interests of our trading partners would be taken in account.

As concerns Africa, had the Community not concluded a Treaty of Association with the former colonies of certain members states these countries would have lost their traditional outlet. To my knowledge the United States have not suffered serious damage from these agreements and it has shared with the Community a political dividend. This consists of a more positive and cooperative attitude toward the West among these associated countries than has been the case generally for other developing countries. The accession of the U.K. will naturally raise the problem of the former British colonies. But I believe that, given the general plan of tariff preferences for manufactures now in the

process of becoming operative, the trade content - as against the financial and technical assistance content - of these special agreements will progressively fade out.

Finally, as concerns the Mediterranean countries, it should be realized that these are at our very door step. Admittedly U.S. exports to Spain and Israel are not insignificant. The Spanish economy however is on its way up and there should be room for an considerable expansion of U.S. exports and U.S. investments. The opening of Spain to competition with its neighbors on the Continent will have a beneficial effect on the overall evolution of this country, while its exclusion from the integrating group could have had the contrary effect. As for Israel I shall say quite frankly that I could not conceive granting preferential agreements to the Arabs and refusing them to this gallant country which is fighting for its survival.

These brief remarks lead me to the following conclusion:

In two or three years from now the European Community is likely to be enlarged and a number of European countries will be associated with it in one way or another. This is bound to create problems in relationship between the United States and Europe. These problems, if left without a solution, could become dangerous. The United States and Europe have common interests of such paramount importance, both in the political and economic field, that a deterioration of relations across the Atlantic would be most damaging to both sides.

Both sides should, therefore, avoid taking actions which could trigger this deterioration.

I shall note in passing that the Community refrained from introducing a tax on soybeans which would have been harmful to U.S. exports, although this

tax had been conceived, not as a means of discriminating against American interests, but in the framework of a system intended to establish a better balance for dairy products on the European market.

I do ^{not} hesitate to say that the passage by Congress of the current trade bill in its present form would gravely risk serious damage to U.S. - European relations - a risk neither of us can afford. Therefore I sincerely hope that it will not be enacted.

I recognize that mistakes have been made on our side. For instance, it would have been wise for the Community to have informed the United States in good time of the reasons why preferential agreements had to be conducted with countries where the United States has important interests, such as Spain and Israel. Likewise, the Community should have been far more diligent in explaining to the United States the social, economic, and political motivations of the common agricultural policy.

One difficulty lies in the fact that the Community is not yet fully in a position to speak to the outside world as an entity; another is that the Community has been so absorbed by its internal problems that not enough attention has been paid to the impact of its policies on its external relations. Particularly in the context of European and American relations, it has not always been possible to make clear-cut distinctions between commercial, economic, and political problems; and, for the time being, the Community has no competence in political affairs.

This being the situation, I believe full advantage should be taken of every existing opportunity for improving the mechanism of consultation and mutual information between Europe and the United States. There is still far too much misinformation, misinterpretation, and lack of understanding for each other's problems. I would think that contacts should be pursued with vigor

at different levels, including Parliament, business and labor. Useful initiatives have been taken already on the business level; they should be developed further. Thought is being given to bringing more often together members of Congress and members of the European Parliament. I would think that labor unions too, should try to better understand each other's interests because if the unions were to develop reciprocal, hostile feelings, there would be little hope to prevent the contagion from spreading.

As I have indicated, I feel that early in this decade the problem of international trade and international investment should be the object of a new round of negotiations. These negotiations could take into account the new situation emerging in Europe and those aspects of international economic relations which, until now, have been excluded from traditional international trade conferences. Naturally, negotiations of this kind would have to be carefully prepared. On the assumption that negotiations for the enlargement of the Community shall be over in a couple of years and that the applicants shall become members within three years; and on the assumption that the enlarged Community would be available for such negotiations shortly afterwards, it is perhaps not too soon to begin to think about the scope of these negotiations and work towards a successful outcome.