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A REVIEW OF ECONOMIC AND TRADE RELATIONS BETWEEN THE  
UNITED STATES AND THE COMMUNITY

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Economic and commercial relations between the United States and the Community are causing concern on both sides of the Atlantic. It has sometimes seemed in Europe that fairly profound misconceptions were current in certain American circles which have been trying to assess the results so far achieved by the United States policy of supporting European integration and to estimate its impact on economic relations between Europe and the United States. Consequently it is useful to recall certain facts which may help to correct these misconceptions. This paper does not cover certain questions which have recently arisen in relation either to Community agreements with Mediterranean countries or to the international consequences of the Community's enlargement. Such questions, whose importance cannot be minimized, will be examined in the appropriate framework, in particular that of GATT.

Favorable development of US-EEC trade

1. Particular attention should be given to the way economic relations between the United States and the Community are developing. On an overall basis, this development compares very favorably not only with the trend of relations between the United States and other parts of the world, but also with developments in the period before the Community was established; nothing suggests that the trend that has been characteristic of the last ten years and more will not be maintained in the future.

At present the total trade between the United States and the Community amounts to some 15 billion dollars, which is three times as high as in 1958. This growth of trade, both in agricultural and industrial products, has been uninterrupted, and has always been faster than the average for world trade. Every year from 1960 to 1967 the United States had a large surplus - averaging 1.2 billion dollars per annum - on its trade account with the Community.

From 1958 to 1969, exports from the United States to the EEC grew by 182%; during the same period American exports to the EFTA countries, for example increased by 143%, and to the rest of the world by 118%.

American exports to the Community have continued to grow, and it was only the abnormally rapid expansion of domestic demand in the United States in 1968 which led to an exceptional growth of imports and sharply reduced a long-standing trade surplus. But in 1969 the Community's trade deficit with the United States was once again in excess of one billion dollars, exports from the USA totalling 7 billion dollars and those from the EEC 5.8 billion dollars.

In 1969, American exports to the EEC were 13.9% higher than in 1968, while US exports to EFTA increased only 4% and to the rest of the world 9.5%. Conversely, American imports from the Community decreased by 1.4%, whereas those from the rest of the world went up by 10.6%.

Moderate tariff levels in the Community

2. Among the factors that contributed considerably to the growth of US exports to the EEC, a major element undoubtedly was the rapid rise in the standard of living which went hand in hand with the creation of a very large market in the Community.

But it must not be forgotten how much the establishment of the Community's common customs tariff and the reductions made on this tariff in the major trade negotiations have given an impetus toward a liberal trade policy in the world. The Community has, as a result of a series of tariff reductions, ended up with the lowest tariff among the leading industrialized nations. Once the last two reductions resulting from the Kennedy round are implemented between now and the end of 1971, the average Community tariff for industrial products will be substantially lower than the United States, United Kingdom or Japanese average. In addition, the Community's tariff structure, which resulted initially from the averaging of member states former tariffs, does not have any of those very high rates, in some cases above 100%, which are still characteristic of the American tariff for certain industrial products which are thus assured a very substantial and, in some cases, even prohibitive level of protection. On valuation for customs purposes, the Community, but not the United States, follows the rules of the Brussels Convention and cannot, therefore, resort to practices which artificially increase the incidence of customs duties by an arbitrary assessment of the value of a product.

The effort that has been made by the Community in its tariff policy should be recognized when its role in the field of international economic relations is appraised.

Non-tariff barriers both in the U.S and the E.E.C.

3. It has sometimes been suggested that the Community has systematically replaced its tariff barriers by non-tariff barriers. This impression in no way corresponds to the facts.

The added value tax (TVA) is sometimes referred to as a non-tariff barrier. A better understanding of how this tax works has helped to dispel the misconceptions which have arisen on this account and which have wrongly led to the term "border tax", with the implication that the added-value tax has the same effect as a customs duty. It should be stressed that the TVA applies to domestic products in exactly the same way as to imported products, just like the sales taxes of individual states in the US or other taxes of the same type at federal level.

On the subject of real non-tariff barriers, the United States and the Community have co-operated actively in the GATT in the preparation of a comprehensive survey which shows that these non-tariff barriers include a vast range of different measures, some intended to provide hidden protection, but many simply resulting from the proliferation of the technical, safety and health rules and regulations which are a feature of the modern world. In the synoptic table prepared by the GATT, the list of American measures to which other countries have raised objections is just as long as the list covering the Community and its member states. This was to be expected, and the reduction of these barriers on a reciprocal basis will require a considerable effort from all countries. Whatever the progress made in this direction, the partners of the Community will in any case benefit from what is being done to harmonize technical, safety and health rules and regulations in the Common Market, and will in the future be faced with a single set of rules or regulations whereas until now there have been as many as six. In related fields, such as that of monopolies, the work now being done in the Community will undoubtedly have beneficial effects for non-member countries.

In this context political and economic circles in Europe continue to express their disappointment at the existence of the American Selling Price, which the United States should have abolished two years ago in accordance with the "Chemicals Agreement" concluded in the Kennedy Round. This delay is all the more regrettable because of the symbolic value of this agreement, the first on a major non-tariff barrier, and also because it prevents the tariff and non-tariff concessions made by the Community in the agreement from being carried out.

Increasing activity of American firms in the Community

4. An analysis of the economic relations between the United States and the Community cannot overlook the extent to which a large number of American firms have developed their activities within the Community where they have found additional opportunities for expansion.

From 1958 to 1968 direct investment by American firms in the Community increased nearly five-fold, their total assets reaching a book value of 9 billion dollars in 1968 compared with 1.9 billion dollars in 1958. In no other region of the world has investment by American firms expanded at such a spectacular pace; in fact, their investments elsewhere have only doubled in the same period. At present, American firms established in the Community account for about one-seventh of all new industrial investment. While at the beginning this development was sustained by large exports of American capital, presently the capital for these investments very often comes from issues floated in Europe. The United States economy, therefore, benefits doubly from European integration; from a considerable increase in trade between the United States and the Community and from a substantial rise in income from investment in Europe which is making a major contribution to improvement of the U.S. balance of payments.

An outward-looking E.E.C.

5. This overall picture of EEC-US relations clearly shows that the Community is not following restrictive or protectionist policies. The Community is the world's largest importer from both industrialized and under-developed countries, and the growth rate of its foreign trade is higher than that of the other western nations. As a matter of fact, it is in the Community's interest to be outward-looking, because of its dependence on world trade in the formation and growth of its national product. The EEC's imports and exports

account for nearly 20%<sup>of</sup> its gross national product, while in the United States the corresponding figure is only 7%.

Tariff preferences for the developing countries

6. In view of its responsibility as the leading importer in the world the Community has, starting with the first United Nations Conference on Trade and Development in 1964, supported the establishment of a system of tariff preferences for manufactures and semi-manufactures exported by the developing countries, in order to help them overcome their competitive handicaps in these products. Since then, ideas on the subject have taken more definite shape and all the industrialized countries have declared themselves ready in principle to introduce tariff preferences for the developing countries. The system proposed by the Community would provide duty-free entry for all these products without exception up to a ceiling which, once the system comes into force, would immediately be equal to twice the present total volume of exports of those products from developing countries to the EEC. There is no safeguard clause, no reciprocity or any other condition for the participation of any developing country. These trade advantages would benefit primarily the developing countries in Latin America and Asia which are already relatively advanced on the road to industrialization. They would complement the considerable efforts already made by the Community and its member states through public and private development aid, which in relation to GNP is substantially greater than that made by the United States (in 1968, EEC: 4.2 billion dollars or 1.12% of GNP; United States: 5.7 billion dollars or 0.65% of GNP).

The Community's agricultural policies

7. Of course, a satisfactory overall situation may conceal difficulties in specific matters or certain sectors. In the Community there is an awareness that the common agricultural policy, for example, is sometimes strongly criticized by the United States and other countries. Here again, any serious analysis should include both a product-by-product examination and a look at overall trends. Within the Community, efforts are being made to bring under control the surpluses which have occurred in some sectors, especially in milk and milk products, and to start structural reforms that are indispensable.

However, the Community is still the most important market by far for US agricultural exports. In 1968 the Community imported American agricultural products worth 1.4 billion dollars <sup>FOB</sup> compared to 1.1 billion dollars in 1960. True, between 1966 and 1968 there was a drop in American agricultural exports, which in 1966 had risen to 1.6 billion dollars but the decline was not confined to exports to the Community. In the years 1967-69 American exports of agricultural products to all parts of the world were lower than in 1966, which was a record year. World trade in these products is slowed mainly by the stagnation of food consumption in the highly developed countries and by the rapid growth of agricultural productivity and production. It would therefore be unreasonable to attribute the recent drop in US agricultural exports to the Community solely to the effects of Community protection. Indeed, the share of the Community in US agricultural exports hardly changed during recent years (1964 : 22 %, 1966 : 23 %, 1968 : 22 %). In this context it must also be pointed out that approximately 40 % of the Community's imports of agricultural products from the United States come in duty free and without any restriction.

The growth of government expenditure on agriculture is common to all countries, even where the productivity per farm worker is higher and the farming population smaller than in the Community (in the United States 4.6 % of the working population was employed in agriculture in 1968; in the Community the figure was 20 % in 1960 and today it is still 14 %). If a comparison is made between agricultural support per person employed (budgetary expenditure plus cost borne by the consumer through higher prices) in the United States and the EEC, the figures are of the same magnitude, despite the fact that the competitiveness of agriculture in America is on the whole higher than in the Community.

Likewise, the difficulties encountered in reconciling domestic agricultural policy and its human and social problems with import policy are common to all developed countries, but they have decided to solve them in different ways. The United States was granted a waiver of the normal GATT rules which allows it to apply the Agricultural Adjustment Act of 1933, and it pursues restrictive import policies on items such as milk products, sugar, and meat, while it subsidizes certain exports. The Community has, for some major products, set up a levy system (which replaces the quantitative restrictions, customs duties and other charges applied earlier by the Member States) and export refunds. Other countries have other methods.

Greater discipline on world agricultural markets desirable

8. At present the international market for agricultural products is more often the scene of rivalry between public treasuries than of competition between producers.



On several occasions the press has spoken of "price wars" between the Community and other exporters on world markets for certain agricultural products, in particular grains and poultry. True, in some cases, Community grain exporters did not respect the minimum prices set by the International Grains Agreement. But the same has been true also for exporters of other countries, including the United States. Indeed, all had to cope with an excessive supply on the world market. With regards to poultry, American, Danish and Community exporters compete by means of substantial subsidies in some European markets where the price level has also been affected by competition from East European countries.

It is urgently necessary, if not to remedy this situation, at least to limit its consequences, and this requires an effort by all the leading exporting and importing countries. It was in this spirit that the Community proposed, as part of the Kennedy Round, that support in agriculture, whatever its form, should be frozen on the basis of reciprocity. Efforts must continue to find some form of international discipline which will obviate the damage produced by the clash of national policies on the world market.

Most cases which have of late created irritation on both sides of the Atlantic can reasonably be solved through a reciprocal effort.

American measures affecting the Community

9. In the United States one sometimes seems to have the idea that complaints about the Community by far exceed in number and importance any criticisms that the Community could make about the United States. It must be pointed out, however, that various events and tendencies in the United States have caused disappointment and concern in the Community.

For example, the GATT waiver obtained by the United States in order to protect its agriculture is considered an anomaly because of its comprehensive character and the fact that it has been maintained since 1955. Likewise, the fact that, because of earlier legislation, the United States is not subject to the common rules observed by other Contracting Parties concerning countervailing duties is meeting with less and less understanding, and this situation affects, for example, Community producers of canned tomatoes.

The American restrictions in the milk products sector, which were tightened up in 1968, seem excessive, and it is regrettable that the Community's efforts to solve by administrative cooperation the problems in this sector have met with no response.

In 1968, the United States unilaterally increased customs duties on certain woolen products which were consolidated in the Kennedy Round. This action, which was taken without following normal GATT procedures and without any offer of compensation, has caused understandable concern in the Community, particularly because of the precedent thus created.

Likewise the introduction in 1968 of import restrictions on certain products of the mechanical industries has done considerable harm to firms in the Community.

But there is also concern about the general direction of American trade policy, especially since sector-by-sector restrictions, either through private agreements or self-limitation imposed by the government, even through quotas for whole sectors have been advocated in the US. Abandonment of the broadly liberal policy pursued by the United States since the Second World War and a return to such restrictive practices would be inevitably start a chain reaction detrimental to the expansion of world trade. Such a development would not be in the common interest of the Western countries.

Necessity for cooperation between EEC and US

10. To the contrary, it would seem more necessary than ever for the two leading partners in world trade, the United States and the Community to agree that the problems affecting individual sectors or causing temporary difficulties between them must be overcome. They must also agree on their fundamental long term attitudes. In view of the importance of the United States and the Community, nothing that they do is without consequence for other countries.

Together, they have an essential responsibility for the future development of international economic relations. It is only through close cooperation between themselves and with the other trading nations that the continuation of the liberal trade policy which has been the major factor in promoting world trade in the past 25 years can be assured.

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