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THE YEAR OF EUROPE

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The member countries of the European Community are Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.

Community News

EC Enlargement Brings Claims of Damage

Britain's tastes in bread and beer will be key subjects in a tough round of international negotiations resulting from the European Community's enlargement.

Opening on March 12, the "compensatory" talks could mean a lot to traditional US, Canadian, South African, and Australian exporters of wheat, corn, and barley to the United Kingdom. These countries face the gradual elimination of duty-free entry into the British market as a result of EC enlargement. The question to be resolved is what damage, if any, EC trading partners' exports have suffered as a result of the Community's enlargement.

The talks will be conducted within the General Agreement on Tariffs and Trade (GATT), the world organization established after World War II to set a code of conduct for international trade. Article 24 (6) of the Agreement stipulates that the formation of a customs union between parties to the GATT must be examined to determine what effect it will have on other nations and, if damage is found, what compensation the customs union will have to make. Preparations for the talks have been going on since 1972. The negotiations themselves are expected to end before the scheduled opening of the major international round of tariff and trade negotiations in September.

A Community team of about 20 experts will deal with claims of the principal non-Community exporters to Britain, Ireland, and Denmark that the new member countries' adoption of Community policies restricts their former markets. Discussions with some countries may be relatively rapid and clear-cut, but encounters with such major British suppliers as the United States and Canada could be difficult.

FARM PICTURE COMPLICATED

Similar negotiations were held in the early Sixties, after the Community first set up its common external tariff in place of individual member countries' tariffs. At that time the process was easier because it involved primarily tariffs.

Now, however, the Community's common agricultural policy complicates the picture. This agricultural policy is aimed at raising farmers' incomes to the level of other occupations largely through a system of supporting farm product prices. To safeguard Community farmers, a variable levy is imposed on farm imports so that they will cost slightly more than their Community equivalents. This levy varies because Community and world prices both change. The Community believes that this adjustment is not a tariff but a domestic price support. Some of its trading partners contend, however, that it should be quantified as if it were a tariff. This controversy has already caused problems for the GATT working group that has been examining the issue since 1972.

UK TO LOWER INDUSTRIAL TARIFF

In the industrial sector, the problems are less complicated and have aroused fewer complaints. Enlargement will benefit industrial goods' exporters outside the Community because the Community's common external tariff is lower in nearly all product categories than Britain's tariffs. Britain, the major customer of many non-member countries, will gradually lower its tariffs to the Community average of 7 per cent in this sector from an average of about 9 per cent.

The Community Council of Ministers on December 18 decided that EC negotiators should maintain that the reduction in industrial tariffs would offset the possible increase in agricultural obstacles and that these industrial tariff cuts constitute more than enough compensation for the agricultural sector.

Community officials hold that enlargement constitutes a trade liberalization effort that will stimulate trade expansion with the rest of the world, as did the establishment of the European Economic Community in 1958. The Community position, however, does not preclude individual negotiations with aggrieved parties who can show that enlargement harms their trade.

The United States fears that US grain exports to the United Kingdom will decrease as that country adopts the European Community's common agricultural policy. US grain is loaded onto gondola railroad cars which will transport it to the docks for export. Photo: US Department of Agriculture

US Special Representative for Trade Negotiations William D. Eberle has refused to consider the case closed. "We expect that the European Community will make us fair offers for the replacement of any of our present concessions which will be impaired," he said in reaction to the Council position. "What is ultimately decided obviously remains to be negotiated with the United States and other countries affected by enlargement."

The US approach has been to bypass the Community's overall concept, which sees industrial tariff reductions as compensation for possible agricultural disruption. Instead, the United States has concentrated on the agricultural sector and especially the variable levies' effect on US wheat exports to Britain, worth $55 million annually under their former duty-free status.

SOME EC LEVY-FREE FARM IMPORTS

Countering these statements, Community officials point out that about 40 per cent of American agricultural products, including such high-income crops as soybeans, enter the Community free of the variable levy system. The variable levy affects only 5 per cent of total US exports, according to EC statistics.

In the past, the Community has been the most important market for American agricultural exports. In 1964, the last full year before the institution of the common agricultural policy, US agricultural exports amounted to $1.2 billion; by 1971 these had risen to $1.7 billion. This represented an increase in farm exports to the Community of 42 per cent, in contrast to a 26 per cent increase in US farm exports to the rest of the world during the same period.

The report on US exports by former Secretary of Commerce Peter G. Peterson noted that although US grain sales to the Community subject to the levies had slumped from their peak, the amount still represented a 15 per cent increase from 1956 to 1971.

CANADA: MIXED BENEFITS

The overall Canadian picture after enlargement is also mixed. The British market is the second largest export outlet for Canadian producers, amounting to $1.5 billion worth of goods annually. The Canadian Government states that about 50 per cent of this trade will be "adversely affected" by Britain's entry. The monetary loss is estimated at about $300 million.

However, Roy A. Matthews, former research director of the Canadian Economic Policy Committee, wrote recently in a report for the Canadian Institute of International Affairs: "Viewed dispassionately against the background of rapid change in international commerce, jeopardy to $300 million worth of exports does not seem a terribly critical problem for a country of Canada's trading importance." He forecast that demand for certain products, such as hard wheat and malting barley, most nickel, and copper, would continue, and he noted that in recent years Canadian exports to the Community had risen faster than those to Britain. Other experts expect British tastes for beer made from Canadian barley and bread made from Canadian wheat to maintain demand for Canadian grain exports despite their higher price.

Australia and South Africa will probably be seeking concessions to replace the Commonwealth tariff preferences on their farm products, in particular fresh and canned fruit and wine. Until US entry, only 3 per cent of South Africa's exports to Britain faced tariff hurdles. At the end of the transition period, 52 per cent of its exports will be subject to duties, levies, and similar measures.

Commission Criticizes "Voluntary" Steel Quotas

Appropriate trade policies adopted by public authorities should replace the "voluntary" quota agreement limiting Community steel exports to the United States, according to the Commission.

In a November 1972 response to a question by Hendrikus Vredeling, a Dutch Socialist member of the European Parliament, the Commission said that any agreements which limit exports should come under the purview of public authorities. The steel quota agreement, in force since May 4, 1972, was negotiated and signed by individual Community steel firms. The agreement restricts steel imports to the United States from the original six members of the Community and the United Kingdom to 8 million short tons in 1972 and allows a 2.5 per cent increase for each subsequent year.

Despite its displeasure with the agreement, the Commission can take action against the steel firms only if the agreement restricts competition within the Community borders. So far, the Commission has found no violation of the Community's competition laws.

Public authorities are committed at the international level to eliminate trade barriers. The private sector, which is not committed to the principle of free trade, should therefore leave matters of trade policy to the proper public authorities, the Commission said. The Commission had informed the steel companies of its opinion before the voluntary agreement had been signed.

Commission Repeats Opposition to DISC

The Domestic International Sales Corporation (DISC), established by the Nixon Administration in August 1971, is equivalent to a tax exemption on exports and thus violates the General Agreement on Tariffs and Trade (GATT).

The European Commission expressed this opinion in a November 1972 response to a question posed by Ernest Glinne, a Belgian Socialist member of the European Parliament. The DISC provisions relating to the reinvestment of profits benefiting from the tax postponement are so flexible that, in fact, the tax can be postponed indefinitely, the Commission said. Such tax exemptions are contrary to GATT provisions concerning subsidies for exports, the Commission said.

The DISC statute allows tax deferrals on 50 per cent of profits of American firms conducting 95 per cent of their business in exports.

The US Government maintains that the DISC eliminates discrimination against those American companies which export directly as opposed to those which export through a foreign subsidiary. DISC encourages direct exportation of goods by relieving export businesses of income tax levied on a certain percentage of their profits. The US government believes DISC to be similar to fiscal practices in other countries and denies that it constitutes a violation of GATT provisions.

Europeans Support Post-Apollo Program

Representatives of 12 nations at the December European space conference in Brussels gave general approval to participation in the American post-Apollo program and agreed to merge their two space programs.

The European Launcher Development Organization (ELDO) and the European Space Research Organization (ESRO) will be merged into a single agency by January 1, 1974. The space programs of the European countries will be gradually blended into a common European program which will include participation in the US space-shuttle program. Each country will maintain its independence in deciding what project to join.

Germany, the major advocate for European participation in the US post-Apollo program, argued that joint participation would contribute most to technological advance. France agreed to participate in future programs when the space conference gave general approval to the French launcher proposal which will replace Europa III.

Steel Recovers From a Bad Year

European Community steel production in 1973 could exceed 145.5 million metric tons, an increase of 5.6 per cent over the 1972 figure.

A December 18 Commission report estimated that production in the original six member countries will increase by 4.1 per cent compared to 12 per cent for the three new member countries, the United Kingdom, Ireland, and Denmark. All nine countries' steel industries are recovering from a 1972 downswing which was more severe in the United Kingdom than in the original Community member countries.

Trade in steel between the six original countries amounted to 22.8 per cent of crude steel production in the Community in 1971. In the past, trade between the United Kingdom and the original Six has been hampered by trade barriers. In 1971 the Community's steel imports from the United Kingdom were only 0.4 per cent of the Community's crude steel output, while Community exports to the United Kingdom amounted to 3.8 per cent of British output, the Commission reported. As trade barriers gradually diminish as a result of enlargement, however, steel trade between the "Six" and the United Kingdom should increase.

Consumer Attitudes Reflect Price Increases

Between April and October last year, many Italians lost confidence in the "penny-saved-is-a-penny-earned" philosophy, and almost half the German population remained convinced that the general economic situation in their country would remain unchanged.

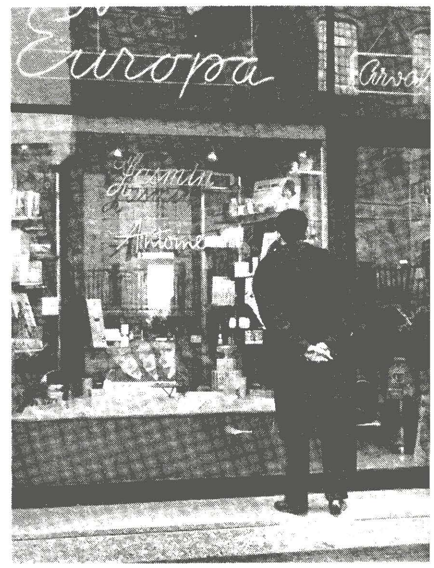
These were two trends uncovered by a Commission public opinion poll published in January 1973. About 25,000 persons in Germany, France, Italy, the Netherlands, and Belgium were questioned in April and again in October. Between September 1971 and September 1972, consumer price increases in the former Six ranged from a low of 5.4 per cent in Belgium to a high of 7.4 per cent in the Netherlands.

The Dutch appear to be the most pessimistic about the future with only 17 per cent of those questioned in October expecting their personal financial situation to improve within the next year and 20 per cent expecting it to deteriorate. The French were the optimists with 24 per cent expecting improvement and only 7 per cent anticipating deterioration. More than 50 per cent of those questioned in all countries expect their personal financial situation to remain the same.

Most Italians expect the general economic situation to change but are divided on which way it will go. Thirty-one per cent of those questioned in October expect it to improve, and 32 per cent see a general worsening of the economic picture. The Dutch see more trouble ahead, with 50 per cent expecting the general economic situation to deteriorate.

The Italians were the only consumers who have lost some confidence in the worth of a savings account. In April, 55 per cent considered saving "absolutely sensible," but in October the number dropped to 43 per cent.

The Community has recognized inflation as a general problem throughout Europe. In October 1972, the Council of Ministers set guidelines limiting consumer price increases to 4 per cent from December 1972 to December 1973. The Council also recommended limitations on government spending, business investment, and money supply (See *European Community* No. 161, page 6).



Buy today; it may cost more tomorrow. An Italian windowgazer hesitates.

EC Ends Compensatory Duties on US Exports

The European Community ended on January 1, 1973, the compensatory tariffs that it had applied to certain US exports after the "carpet and window glass war" of 1962. The Community had received approval from the General Agreement on Tariffs and Trade (GATT) to impose compensatory tariffs following the unilateral US move to increase tariff protection for rugs and glass. The US exports in question and the effects of the tariff reductions are as follows:

Brussels Nomenclature Tariff Position	Product	Compensatory Duty Rate	Reinstated Duty Rate
39.02C 1A	Polyethylene	32%	16%
51.04A	Woven fabrics of synthetic textile fibers	35%	13%
51.04B	Woven fabrics of regenerated textile fibers	30%	15%

The United States allowed its safeguard measures on carpets to expire after the domestic industry did not apply for an extension. The US safeguards on glass originally applied to all weights of sheet glass, but in January 1967 the escape clause duty increases were removed on lightweight and heavy sheet glass. The first reduction of tariffs on medium weight sheet glass, or window glass, was made on May 1, 1972. The remaining cuts will be made on January 31, 1973, and on January 31, 1974.

Notice

In accordance with the US Securities and Exchange Commission regulations, the European Coal and Steel Community published its Financial Statement of June 30, 1972, and its Statement of Revenues and Expenditure for the period January 1, 1972 to June 30, 1972.

This information is published in connection with European Coal and Steel Community Bonds issued in the United States under applications:
A-16929 A-19218 A-23715 A-24459
A-17648 A-20452 A-24049 A-25274

Copies of these documents have been deposited with the Chase Manhattan Bank, New York.

Chemical Agreement Expires

The Community's offer of additional tariff cuts on certain chemical products expired on January 1, 1973. During the Kennedy Round tariff negotiations, US representatives promised that the US Administration would work toward Congressional removal of the American Selling Price (ASP). (The United States assesses duties on some imports based on the ASP, the wholesale price of comparable American products, including all expenses and profits, determined by the US industry concerned.) To reciprocate, US trading partners including the Community, granted trade concessions on certain chemical products. However, Congress had not yet rescinded ASP five years after the conclusion of the Kennedy Round negotiations. Consequently, the Community, after postponing the deadline four times, finally allowed to expire its offer of additional tariff concessions which had been dependent on ASP repeal.

Heath Says US Will Profit from EC Prosperity

British Prime Minister Edward Heath said on February 1 that the European market for US goods is sure to grow in proportion with European prosperity, provided that "we can keep up the impetus for freer trade."

The international trade negotiations to begin next fall must be aimed at "balanced liberalization of international trade," he told the National Press Club. The Prime Minister, in Washington, DC for two days of talks with President Richard M. Nixon, said that the Community is serious about the proposed negotiations and "will not drag its feet."

"Protectionism is a sin of which no trading country is entirely free, even if each of us tends to believe that he is more sinned against than sinning," he said. "There are many American measures that effectively discriminate against overseas suppliers." Nontariff barriers, he said, will be "especially difficult" to reduce or eliminate.

Community Expands Links With Trade Partners

The last few weeks of 1972 were filled with the signing of new trade agreements between the Community and several of its trading partners. Negotiations for other accords have been extended into 1973.

The Community and the Republic of Cyprus signed an association agreement on December 19, 1972, by which virtually all trade barriers between Cyprus and the Nine will be removed. This liberalization will be achieved in two stages, over 9.5 years. Details of the second stage will be negotiated in the 18 months before the end of the first phase, ending on June 30, 1977.

The Community lowered its tariffs on all industrial goods except petroleum products from Cyprus by 70 per cent and on citrus fruits by 40 per cent on February 1, when the agreement went into force. Cyprus agreed to lower its tariffs by 35 per cent over four years. The Cypriots, who rely heavily on the British market, were given two years' grace before the Community's minimum reference price is imposed on their sherry exports to Britain and Ireland. Cyprus thus gained time to make arrangements to export its sherry as a quality wine, and so to avoid the reference price. Britain and Ireland will keep their lower tariffs on Cyprus exports until the end of the first phase.

Cyprus will retain tariffs on certain products to protect uncompetitive industries and maintain sources of revenue, according to the agreement.

EGYPT SIGNS FIVE-YEAR PACT

The Egyptian Arab Republic and the Community signed a five-year trade agreement on December 18, 1972. Over a five-year period, the Community will reduce tariffs on Egyptian exports by 55 per cent in the industrial sector and from 25 per cent to 50 per cent in the agricultural sector. Quota restrictions will remain on Egyptian petroleum products and cotton fabrics. Reductions made by Egypt vary from 30 per cent to 50 per cent on industrial EC exports.

LEBANON ACCORD REPLACED

The trade agreement signed by the Lebanese Republic and the Community on December 18, 1972, calls for a tariff reduction by the Community of 55 per cent on industrial imports and 14 per cent to 50 per cent on agricultural imports from Lebanon. Tariff concessions granted by Lebanon vary from 6 per cent to 70 per cent, depending on the level of development in each sector. The new five-year agreement replaces a 1968 non-preferential agreement.

ACCORDS WITH THAILAND, IRAN

Thailand and the Community signed a trade agreement on November 9, 1972, setting quotas on the European importation of Thai handwoven cotton and silk. Up to $1,085,700 worth of each fabric can be imported duty-free. This agreement is similar to those concluded with India and Pakistan.

The trade agreement between Iran and the Community, signed in October 1963, was extended for one year from December 1, 1972. Iran, in requesting this extension, expressed interest in expanding its trade with the Community.

EXTENSIONS FOR SPAIN, ISRAEL

The Community's preferential trade agreements with Spain and Israel will remain in force another year. During this time, new agreements will be negotiated between the Community and several Mediterranean nations as part of a "global policy" toward the Mediterranean. *(See European Community No. 161, page 12.)*

Turkey and the Community have agreed on a 22-year transitional period to remove all barriers to farm trade. Farmers in southern Turkey learn pruning techniques from a government agriculture expert. Photo: Organization for Economic Cooperation and Development, Paris.

More than $1 million worth of handmade silk from Thailand will be able to enter the Community duty-free, following a November 1972 trade agreement. Photo: Embassy of Thailand, Washington, D.C.

The three new EC members, the United Kingdom, Ireland, and Denmark will not adopt the higher Community tariffs imposed on imports from Spain and Israel until new agreements are reached.

India and the Community are currently negotiating an agreement to regulate Indian exports to the Community, particularly jute and cocoanut products. India fears losing much of its market due to Britain's entry into the Community and the resulting loss of Commonwealth preferences.

Norway and the Community are also negotiating an agreement, following Norway's rejection of full Community membership in September 1972. The Norwegian Government is seeking a free trade agreement similar to the agreements between the Community and the other non-candidate European Free Trade Area (EFTA) countries. The treatment of sensitive products, the Norwegian request for the inclusion of fish in the free trade settlement, and the consultation system are problems still unresolved. Norway would like to shorten the 11-year transition period for lowering tariffs on paper.

TURKEY-EC: NEW STAGE

Turkey moved into the second stage of its association with the Community on January 1. The three-stage agreement signed in September 1963 will lead to a full customs union between the Community and Turkey by 1995. The final phase, involving increased coordination of economic policies, could lead to Turkey's full membership in the Community.

The second stage of the association, known as the transitional phase, was agreed upon in 1970. Two years were needed for ratification by EC national parliaments. The Italian Parliament completed the procedure a few days before Christmas.

Some of the accord's trade provisions had already been put into effect under an interim agreement. The Community has abolished tariffs and quotas on all imports of Turkish industrial products except cotton yarn and fabrics, machine-made carpets, and petroleum products.

During the transitional phase, the Community will increase preferences for its imports of Turkish farm products. Free trade in agricultural goods is scheduled after the 22-year transitional period, during which time Turkey is expected to adapt itself to the Community's common agricultural policy.

Turkey is dismantling its barriers against Community industrial exports over a period of 12 years, with exceptions for certain sensitive products.

The Community also agreed to lend Turkey approximately $216 million during the first 5.5 years of the transitional phase.

"Power to the Parliament" Says UK Delegate

"Power to the Parliament" should be the policy, and "silence gives consent" the motto, of the enlarged Community's European Parliament (EP), according to Peter Kirk, leader of the British delegation to the European Parliament. In his opening address to the January 16-19 session of Parliament, Kirk emphasized that the European Parliament "is entitled to do anything which is not expressly prohibited."

Currently, the Parliament has the power to dismiss Commission members through a vote of censure and approve the Commission's administrative, but not the general, budget. It acts in an advisory capacity in other policy areas.

Kirk urged using EP powers to their fullest. His suggestion is apparently supported by many at home. An article in the January 13 issue of the British weekly magazine *The Economist* proposed that "to get surveillance of more, the Parliament should, at a well-judged moment during the next few years, exercise the one theoretical power which it has—to dismiss the Brussels Commission." Mr. Kirk also emphasized the need to cooperate closely with national legislatures to maintain contact with citizens at home so that interest in the direct election of EP members can be stimulated. Member states' legislatures currently appoint EP members, but the Treaties establishing the Communities specifically provide for direct elections to the Parliament.

In one of its first actions following enlargement, the European Parliament passed a resolution introducing a monthly 60-minute question period during which Commissioners will be expected to answer any questions posed by their Parliamentary colleagues.

MOTION OF CENSURE

Parliamentary action in the preceding two months had set the stage for the Parliament's assertiveness in January. In November, Georges Spenale, a French Socialist member of the European Parliament, introduced a motion of censure against the Commission, an unprecedented move in Community history. Spenale maintained that the Commission had failed to propose measures to strengthen the budgetary powers of the Parliament as it had promised to do in 1970. The Commission responded that it could not fulfill its promises due to the problems created by the Community's enlargement. Action had been delayed because, according to the Commission, all nine nations should have the opportunity to discuss expanding the EP's powers.

Spenale withdrew his censure motion in December stating that he accepted the Commission's reasoning. The Parliament did, however, pass a resolution urging the new Commission to fulfill its obligations and propose new budgetary powers for the Parliament.

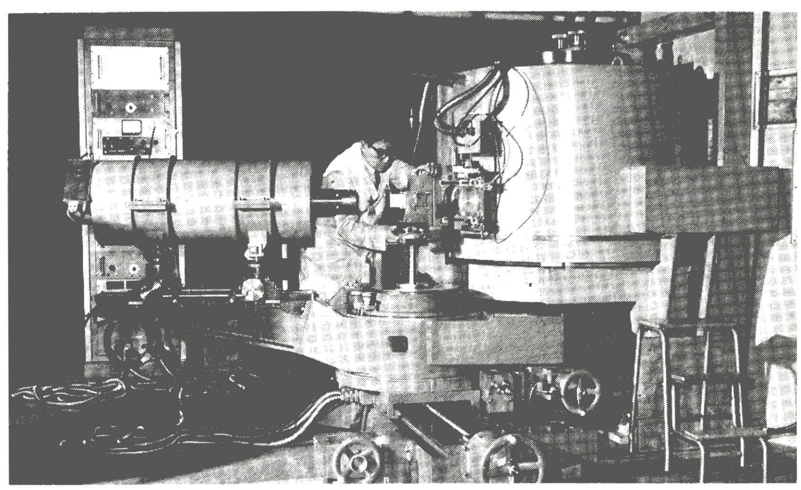
The European Parliament entered 1973 short 15 members of its enlarged membership of 198, due to a British Labour Party decision to boycott the Parliament. The Socialists would have formed the largest group in Parliament had Labour participated, but the Christian Democrats now number the most. Before enlargement, the European Parliament had 142 members.

Euratom Agrees on Multiannual Program

The Council of Ministers agreed on February 6 on a multiannual research program for the European Atomic Energy Community (Euratom) which has been operating on yearly budgets for the past five years.

In nuclear research, as in other types of research, only planning for a period of years assures continuity of effort and researchers' job security. The Council's decision will restore both imperatives to the Euratom research effort, expanded to include nonnuclear research. The decision was welcomed in Brussels as a political commitment to the Community's collective research effort.

The nine member countries agreed to finance jointly the Community's Joint Research Center's (JRC) nuclear research activities including such areas as long-term energy problems, waste treatment and storage, reactor safety, and data processing. The JRC will also perform jointly financed research in nonnuclear areas including environment and remote sensing of earth resources. Complementary research of the JRC, financed only by interested member countries, includes a research project for control of fissile materials and the operation of the high flux reactor in Petten, the Netherlands. The final decision on several other research projects will be made by the Council by the end of April.



Euratom's multiannual budget will give Community scientists the continuity they need to plan worthwhile and successful research programs. A Euratom scientist operates a neutron diffractometer, which analyzes the energy spectrum of neutron sources, at Ispra, Italy.

Commission Fines 16 Sugar Firms

The Commission announced on December 18 that it had fined 16 sugar producers for violating the Community's competition laws defined in Articles 85 and 86 of the Common Market Treaty. The Commission ruled that these firms agreed to control the sugar trade between Community nations to protect their respective national markets. The largest fine ($1.63 million) will be levied on Raffinerie Tirlemontoise, a Belgian sugar refiner.

Other Commission decisions in the area of competition include the following:

- Pittsburgh Corning Europe, a joint subsidiary of Pittsburgh Plate Glass and Corning Glassworks, was fined $108,571 for establishing a rebate system which allowed the company to sell cellular glass insulating material in Germany at prices 40 per cent above those in Belgium and the Netherlands. The fine was announced on November 29, 1972. ▶

• An agreement between the Belgian association of central heating equipment manufacturers and the association of central heating installers was prohibited. The installers association had agreed to purchase equipment made only by the association of equipment manufacturers, an arrangement limiting trade in central heating equipment between Belgium and other Community countries. The Commission's decision was made public on October 27, 1972.

• A request by the Belgian cement industry association, CIMBEL, to set prices, marketing conditions, and sales quotas was denied, it was announced January 3, 1973.

• Cement producers in Belgium, Germany, and the Netherlands were denied permission to divide the Dutch cement market and sell only within specific areas. According to a December 22, 1972, announcement, the Commission rejected the cement producers' argument that market division was necessary to ensure satisfaction of the Dutch demand for cement.

• WEA-Filipacchi Music of Paris was fined $65,100 on December 22, 1972, for preventing French distributors from exporting its records to Germany. The company's records were priced more than 50 per cent higher in Germany than in France.

• The Commercial Solvents Corporation of New York and its Italian subsidiary Istituto Chemioterapico Italiano (ITI) were fined $217,142 for taking unfair advantage of their monopoly of a raw material used to produce a common antituberculosis drug, it was announced December 22, 1972. The Commission said that ICI suspended sales of the raw material to one of its most important clients, Giorgio Zoja, without a valid commercial motive. The Commission asked ICI to resume selling to Zoja and threatened to impose a $1085 penalty for each day of noncompliance.

• Announced on January 5, 1973, the Dutch association of bathroom fixture wholesalers was forbidden to continue fixing prices according to product destination.

The "Nine" Set Compensatory Amounts

Marathon meetings and "package deals" are two traditions unaffected by the Community's enlargement.

At a 30-hour meeting which ended at 5:30 a.m. on January 24, the Council of Ministers agreed on a compromise package which included transitional measures for farm trade to be applied until the three new members fully adopt the Community's agricultural prices on January 1, 1978.

The compensatory amount for wheat provided the proverbial "sticky wicket." Compensatory amounts, which bridge the gap between the generally lower prices in the three new member states and the higher prices in the Six, act as export subsidies. They are financed through the Community's common agricultural fund. The new member countries' products entering the Six must be taxed by the compensatory amount to raise their prices to the Community's price level under the common agricultural policy. In trade with third countries, the new members are authorized to diminish EC import levies by the same compensatory amount.

Last July, the "Nine" agreed on compensatory amounts for wheat, but since that time wheat prices on the world market have risen by almost 100 per cent. If the July agreement had not been revised, what was initially a reduced levy for the United Kingdom would have been theoretically transformed into a subsidy for UK imports from third countries.

The Council finally agreed on a package arrangement whereby compensatory amounts will be reduced to take into account the development of world prices. To preserve the Community preference, compensatory amounts cannot exceed the levies payable. In the package agreement, compensatory levies were established for grains, pork, eggs, and poultry. Intervention prices for white and beet sugar and minimum prices for beet were also set for the new members amid the usual tug and pull of diverse interests which characterize EC meetings on farm policy.

The floating of the pound sterling added more technical difficulties to an already complicated situation. The United Kingdom and Ireland agreed to raise their intervention prices for cereals so that these prices, expressed in units of account, will correspond to the new market situation. For all other agricultural transactions the pound will be provisionally fixed at a *de facto* devaluation parity. This figure, which will be used exclusively for farm trade, will simplify the agricultural authorities' work in calculating the monetary compensatory amounts necessary to prevent harm to EC farmers' income as a result of the downward float of the pound.

The marathon's agreement allowed the Community to meet the February 1 deadline for the various price mechanisms to go into effect.

Community enlargement has not shortened Community debates on the politically sensitive common agricultural policy. A Dutch farmer inspects his newly harvested onion crop.

months in brief

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DECEMBER 1972

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19 The Community and the Republic of Cyprus sign an association agreement (page 6).
20 Twelve European nations, meeting in Brussels, agree to consolidate European space effort (page 4).

JANUARY 1973

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"Out With the Old, In With the New"

The New Commission Takes Office

The traditional New Year's promise of a fresh beginning brought the Community a new Commission of 13 members, nine from the original "Six" and four from the Community's three new members, the United Kingdom, Denmark, and Ireland.

The Commission's first meeting, on January 6, opened with members' pledges to pursue European integration with the imagination and political drive of their predecessors while adding new impetus to improving the living and working conditions of people residing within the enlarged Community.

"The popular catch cries of the present decade, such as 'quality of life' and 'people oriented policies' are signs of a deep-rooted malaise in complex modern societies," Patrick J. Hillery, Vice President of the Commission said. "The challenge of this Commission must be to examine these problems and meet them with positive action."

The next decade will be crucial to the process of European integration. The Commission's challenge is well-defined. It must realize the goals set forth by last fall's Summit meeting in Paris—aims which include economic and monetary union, common social, industrial, regional, and environmental policies, and "European union" by 1980.

The Commission is a collegial executive that administers the Communities' Treaties and proposes policy to the Council of Ministers, the Communities' decision-making body. Commission members are appointed unanimously by the member governments for four-year renewable terms, with the President and five Vice Presidents holding office for two-year, renewable terms. Commission members are required by the Community Treaties to perform their duties with complete independence; they may neither seek nor accept instructions from any government or any particular interest.

When preparing policy proposals, the Commission consults experts from the national administrations as well as the appropriate organizations representing workers, employers, farmers, professional bodies, and consumers. After consultations, the Commission proposes policies which it considers to be in the best interest of the Community as a whole. Before the Council of Ministers makes decisions on major Commission proposals, the European Parliament and the Economic and Social Committee must be consulted.

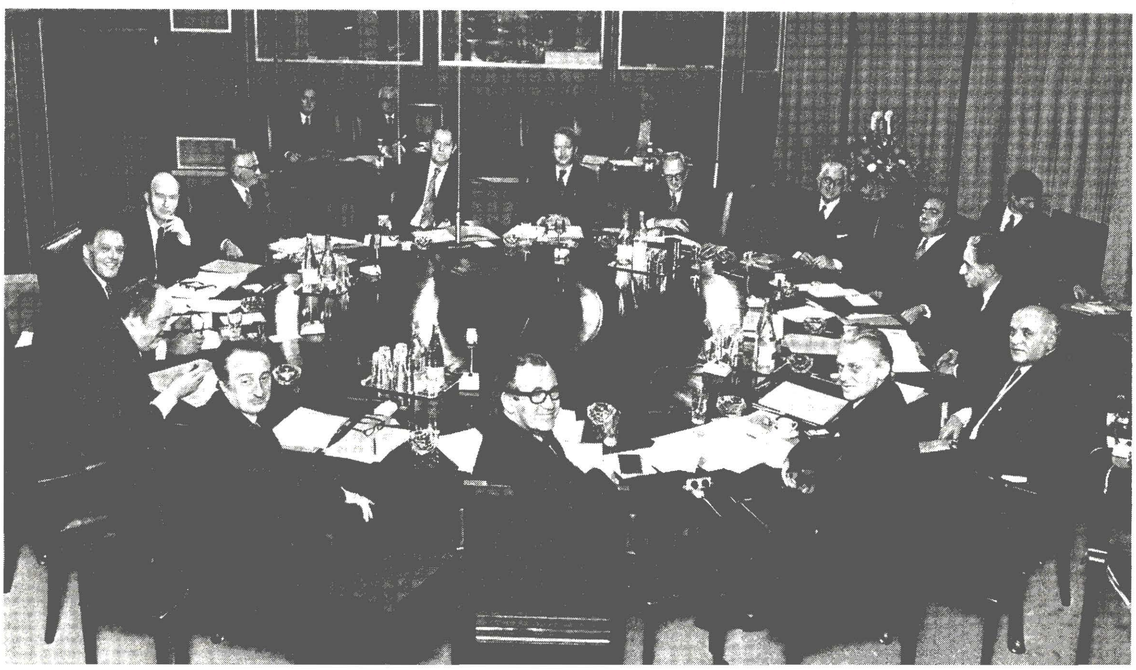
The Commission is represented when the Council discusses proposals. If the Council is unable to agree, the Commission frequently presents new proposals to meet specific demands, and thus plays a vital role in helping governments to compromise.

The Commission is also ultimately responsible for supervising the execution of Community policy, although in practice national civil servants often do. If a member state fails to carry out a Treaty provision or a Council decision, the Commission may refer the matter to the European Communities Court of Justice. Rulings of the Court are binding and are not subject to review.

Thus the Commission has a triple role as the initiator of Community action, mediator between the member governments, and watchdog or guardian of the Community Treaties. François-Xavier Ortoli, President of the Commission, summed up his hopes for the years ahead:

"It is for the Commission to make optimum use of its powers, especially its power to initiate Community action which enables it to combine imagination and effectiveness, boldness of design, and political realism," Ortoli said.

"The enlargement of the Community means much more than increased territory," he said. "It means that the Community has a new dimension which will enable it, indeed require it, to accept enlarged responsibilities towards the peoples of our own countries and towards the rest of the world as well. . . . We must make Europe a force in the world that is imbued with the spirit of peace, openness, and justice. . . ."



The new Commission (beginning in immediate foreground and continuing clockwise): George Thomson, Jean-François Deniau, Sir Christopher Soames, Wilhelm Haferkamp, Patrick J. Hillery, Albert Borschette, Petrus J. Lardinois, Ralf Dahrendorf, Henri Simonet, Carlo Scarascia Mugnozza, François-Xavier Ortoli, Secretary-General Emile Noël, Altiero Spinelli, and Finn O. Gundelach.

The New Commission

PRESIDENT

François-Xavier Ortoli
Born in Ajaccio, Corsica, February 16, 1925, President Ortoli grew up in Indochina, where his father was a French Government official. In World War II, he fought with the Resistance. He graduated from the French National School of Administration in Paris and was appointed a Finance Inspector. Ortoli has served as French Minister of Industrial and Scientific Development, Minister for Economic Affairs and Finance, and Minister for Education. In 1966-67, Mr. Ortoli was director of France's five-year development plan. In 1958, he served in the Commission of the European Economic Community as Director General for Internal Market Affairs.

VICE PRESIDENTS

Wilhelm Haferkamp
Born in Duisburg, Germany, July 1, 1923, Vice President Haferkamp is responsible for economic and financial affairs and the Community's statistical office. Appointed to the Commission in July 1967, Haferkamp formerly had special responsibility for the Community's energy policy, internal market, and approximation of legislation. In 1963-65, he was a member of the European Coal and Steel Community's Consultative Committee and a member of the Economic and Social Committee, which keeps the Commission and the Council informed of the views of labor, management, and consumers.

Patrick John Hillery
Born in Miltown-Malbay, Ireland, May 2, 1923, Vice President Hillery is responsible for the Community's social policy. From July 1969 until joining the EC Commission, Hillery was Irish Foreign Minister. He led the Irish delegation in negotiations for entry into the Community and then played a leading role in the successful Irish referendum on EC membership. Earlier, he served as Minister of Labor (1966-69), Minister of Industry and Commerce (1965-66), and Minister of Education (1959-65). A one-time practicing physician, Hillery became a member of the Irish Parliament in 1951.

Carlo Scarascia Mugnozza
Born in Rome, Italy, February 19, 1920, Vice President Scarascia Mugnozza is responsible for transport and environmental policies, protection of consumer interests, and public information activities. Together with President Ortoli, he is responsible for relations with the European Parliament. Appointed to the Commission in March 1972, Scarascia Mugnozza was responsible for the common agricultural policy. As a member of the Italian Chamber of Deputies from 1963 until his appointment to the Commission, he sponsored numerous agricultural reform bills. In 1961 he became a member of the European Parliament, where he served as chairman of the Committee on Energy and Scientific Research and, later, as chairman of the Political Affairs Committee.

Henri Simonet
Born in Brussels, Belgium, May 10, 1931, Vice President Simonet is in charge of energy policy, nuclear safeguards, fiscal policy, and financial institutions. Named Minister of Economic Affairs in 1972, Simonet has divided his time between the academic and political world. He has been a faculty member and an administrator at the Free University of Brussels. He has also served in the Ministry of Economic Affairs and Energy, in the office of Deputy Prime Minister with responsibility for Coordination of Economic Policy, and as mayor of Anderlecht. He has published several economic, financial, and political studies.

Sir Christopher Soames
Born in Penn, United Kingdom, October 12, 1920, Vice President Soames is responsible for the Community's external relations. In 1968, the Labour Government appointed Conservative Soames Ambassador to France, where he helped prepare the renewal of negotiations for the Communities' enlargement. He served as Ambassador until November 1972, when the Heath Government nominated him to the EC Commission. As Minister of Agriculture in the Macmillan Government, he was closely involved in the abortive 1961-63 negotiations for entry in the Communities. He began his political career in 1950 when he was elected to the British Parliament. Soames is married to Winston Churchill's daughter, Mary.

COMMISSIONERS

Albert Borschette
Born in Diekirch, Luxembourg, June 14, 1920, Commissioner Borschette is in charge of competition policy, personnel, and administration. He was first appointed to the Commission in 1970 after serving as a member of the Committee of Permanent Representatives from 1958 to 1970. During his first two years on the Commission, he had special responsibility for competition policy, regional policy, and information activities. As Deputy Chief of the Luxembourg delegation during 1956-57, he was involved in negotiations for the Rome Treaties creating the European Economic Community and the European Atomic Energy Community. Borschette served as a member of the Luxembourg Mission to the Allied Control Council in Berlin from 1949 to 1950.

Ralf Dahrendorf
Born in Hamburg, Germany, May 1, 1929, Commissioner Dahrendorf is responsible for research, science, and education. From 1970 through 1972, Dahrendorf served as the Commissioner in charge of external trade relations. Dahrendorf was elected to the Bundestag in 1969 after serving one year in the Baden-Wurttemberg (state) Parliament. Before entering politics in 1968, he had followed an academic career in the field of sociology. In the United States, Dahrendorf has been a fellow at Stanford University's Center for Advanced Study in Behavioral Sciences, a visiting professor at Columbia University, and a visitor in Harvard University's Department of Government.

Commission President François-Xavier Ortoli takes the oath before the Court of Justice of the European Communities.

Jean-François Deniau
Born in Paris, France, October 31, 1928, Commissioner Deniau is responsible for the Communities' budget and financial supervision and for development aid and cooperation. A member of the Commission since 1967, Deniau's responsibilities have included external relations, enlargement negotiations, and development aid. A member of the French delegation in the negotiations for the Common Market Treaty, Deniau became Assistant to the Director of External Economic Relations in the French Ministry of Finance and Economic Affairs. In 1963 he was appointed French Ambassador to Mauritania. Between his appointments in the French Government, Deniau worked for the Commission of the European Economic Community. From 1961 to 1963, he headed the Commission's delegation during negotiations with the United Kingdom.

Finn Olav Gundelach
Born in Vejle, Denmark, April 23, 1925, Commissioner Gundelach oversees the internal market and customs union. As Danish Ambassador to the Communities from 1967 through 1972, Gundelach was instrumental in the negotiations for the accession of Denmark to the Communities. From 1959 to 1967, he was the first Director, then Sub-Director General, then Deputy Director General of the General Agreement on Tariffs and Trade in Geneva. From 1955 to 1959, Gundelach served as Denmark's Permanent Representative to the United Nations in Geneva. From 1951 to 1955, in the Danish Ministry for Foreign Affairs, he was responsible for matters relating to the North Atlantic Treaty Organization and the Organization for Economic Cooperation and Development.

Petrus Josephus Lardinois
Born in Noorbeek, the Netherlands, August 13, 1924, Commissioner Lardinois is in charge of the common agricultural policy. Lardinois was Dutch Minister of Agriculture and Fisheries from 1967 until his appointment to the Commission. Elected to the Dutch Second Chamber of the States General in 1963, Lardinois sat the same year in the European Parliament. An agricultural engineer by profession, Lardinois began his public career in 1952 as State Agricultural Advisor for East Brabant.

Altiero Spinelli
Born in Rome, Italy, on August 31, 1907, Commissioner Spinelli is responsible for industrial policy and technology. Spinelli founded the European Federalist Movement in 1943 and took part in the Resistance after 10 years in Italian prisons and six years in exile for opposing Fascism. He has remained one of the most active proponents of the "European idea." He is a founder and director of the Institute for International Affairs of Rome.

George Thomson
Born in Stirling, Scotland, January 16, 1921, Commissioner Thomson is responsible for regional policy. A member of the British Parliament since 1952, Thomson resigned from the "Shadow Government" in April 1972 in protest over Labour's decision to vote against Community membership. In 1966 and again in 1969, he was appointed Chancellor of the Duchy of Lancaster (minister without portfolio) with special responsibilty for relations with the Communities. He led the Labour Government's negotiations for British entry into the Community in 1966-67. In 1964-67, he served twice as Minister of State in the Foreign Office.

Nixon Wishes Commission "Every Success"

Dear Mr. President:
As you and your colleagues of the Commission take up your new responsibilities you have my very best wishes for every success in guiding the enlarged European Communities during the important period which lies ahead. The coming years should prove especially challenging as the Commission draws up programs of action to carry out the ambitious goals set by the leaders of your member states at their recent Summit meeting.

On behalf of the United States, I am pleased to assure you, as you begin your new duties, of our continued interest in a constructive relationship with the Community. We face major common tasks and an unparalleled opportunity to build a more equitable and open international economic system. I am confident that, through close cooperation, our efforts will achieve success.

Sincerely,
Richard M. Nixon

(Letter sent to Commission President François-Xavier Ortoli on December 28.)

"The Year of Europe" *An Interview with Joseph A. Greenwald*

DAVID FOUQUET, *a former American journalist now working in Brussels for the Commission of the European Communities*

Joseph A. Greenwald's first year as the US Representative to the European Community may coincide with "The Year of Europe" in American foreign policy.

Officials on both sides of the Atlantic have entered 1973 hoping that the year contains answers to a range of economic, monetary, and security questions. Opportunities for solutions abound as nations approach the upcoming international trade and monetary negotiations, discussions on the effects of Community enlargement, talks on mutual and balanced force reductions (MBFR) in Eastern and Western Europe, and the Conference on European Security and Cooperation (CESC). The second round of the Strategic Arms Limitation Talks (SALT) between the Soviet Union and the United States, which may involve US arsenals in Europe, has already begun.

Greenwald got a head start on the Year of Europe by arriving in Brussels in the fall of 1972 and by having been professionally involved in US trade and European policy for more than 20 years. He resigned as Head of the US Mission to the Organization for Economic Cooperation and Development (OECD) in Paris to take on his Brussels assignment.

Ambassador Greenwald knew what awaited him in his new post. "The problems are pretty much the same as the ones we've been dealing with in Paris," he commented. "One way or another I've dealt with these issues for a long time—but the context was a bit different."

Ambassador Greenwald viewed his objective as trying "to promote good relations between the United States and the Community in the context of our common political, security, and economic objectives and to try to solve the difficult day-to-day economic problems that inevitably arise between two major trading partners such as the United States and the enlarged Community."

NO "TERRIBLE DECLINE" IN EC/US RELATIONS

Ambassador Greenwald is naturally hesitant to compare his views with those of his predecessor, J. Robert Schaetzel, who recently relinquished his long-held post with a gloomy evaluation of the state of US-EC relations. More hopeful than Schaetzel, Greenwald views US-EC relationsas "serious and important" but not somber. He sees encouraging signs in the nine-nations' Paris Summit communiqué which promised "to maintain a constructive dialogue" with the United States, Japan, Canada, and other industrialized nations, and a followup statement on October 27 by President Richard M. Nixon. The speeches by Mr. Nixon and Treasury Secretary George P. Shultz outlining a new international monetary system at the fall 1972 meeting of the International Monetary Fund (IMF), and the positive reception they received, especially from French Finance Minister Valéry Giscard d'Estaing, also lead to optimism, according to Greenwald.

"I haven't found, in the time I've been here, or in the past two or three years, that there has been a terrible decline in relations between the United States and the Community," he observed, "or that the problems between the two sides are totally intractable, or that people on both sides don't try to understand each other or don't try to deal with problems in a constructive manner."

What will this Year of Europe mean in terms of US policy and how will it manifest itself? Ambassador Greenwald said that it will primarily mean a high priority for European affairs and the definition of US policy in the context of the numerous intertwined negotiations. The meetings between President Nixon and his European counterparts, about which there has been so much speculation, will also deal with these delicate and important issues, he indicated.

Any evaluation of the existing state of affairs must take into account the historic negotiations between the major trading partners in the General Agreement on Tariffs and Trade (GATT). In Greenwald's view, these negotiations should arrive at a significant lowering of industrial tariffs, if not their total elimination, which was proposed as a possible working hypothesis at the GATT ministerial meeting last November. In addition, efforts should be made to dismantle nontariff trade barriers, such as subsidies, quotas, and restrictive practices that do not have protection as their primary goal but nonetheless impede trade. The negotiators should also move to liberalize world agricultural trade. In broad terms, they should erect a freer, fairer international trade system, Greenwald said.

US WILL RECIPROCATE FOR FARM CONCESSIONS

In agriculture, Greenwald noted that the United States, as an efficient producer and exporter of farm products, has much to gain by dismantling some agricultural trade barriers. In return, he said, the United States, to reciprocate for other countries' farm concessions, would be willing to review its restrictive practices not only in the farm area but also in other sectors, because precise reciprocity in each field might not be possible.

Before the negotiators sit down at the table in Geneva, they must receive mandates in compliance with their constitutional processes. The Community's mandate will be provided by the Council of Ministers; the US Congress must give the go-ahead to US negotiators. Some observers believe that the Congressional workload and increasingly evident protectionist tendencies might delay enactment of a negotiating mandate. Rapid Congressional action may depend on the priority and backing given to the trade legislation by the Nixon Administration, Greenwald said. He expects the legislation to include a US program for granting generalized tariff preferences on industrial products from the developing countries. The legislation could give US negotiators a specific allowable range on tariff reductions between industrialized countries but provide only general negotiating authority in the difficult, sometimes ill-defined world of nontariff barriers, he said. Without specific negotiating authority, Europeans fear that the United States might grant a concession and return to Congress for ratification only to find its legislators opposed. Indeed, during the Kennedy Round negotiations,

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the United States promised to work toward Congressional removal of the American Selling Price (ASP) system of duty assessment. When the Congress still had not rescinded the ASP by the end of 1972, the Community withdrew its offer of additional trade concessions which had been dependent upon ASP repeal. [*Ed. note: The ASP is the wholesale price of American products comparable to imported products. It includes all expenses and profits and is determined by the US industry concerned.*] The circumstances in the ASP case were unique, according to Greenwald. The Executive Branch has some leeway in the application of certain nontariff barriers and some changes would not require Congressional action, he said. For example, the "Buy American" price differential applied to the purchase of imported goods for government use is not specified in the law, he said.

US SEEKS COMPENSATION FOR PERCEIVED DAMAGE

The Community's enlargement from six to nine members has presented another negotiating hurdle for the United States and the Community. Beginning in March, compensatory talks in the GATT framework will be held to determine possible damage suffered by the United States and other GATT members as a result of the EC's enlargement and industrial free trade accords with other European nations. (See page 3.) In Greenwald's view, the Community's enlargement will provide mixed blessings to the United States. Borrowing President John F. Kennedy's phrase, "a rising tide lifts all boats," he said enlargement means a broader, more affluent market for US goods. He pointed out, however, that enlargement presents some disadvantages to the United States. The United Kingdom's industrial tariffs will be reduced, but the United States maintains that Great Britain will have to adopt the Community agricultural policy, thereby raising barriers to American farm exports. In addition to asking for compensation for damage to agricultural exports, the United States wishes to discuss the 16-nation European industrial free trade area, established to prevent trade barriers from being erected between the non-candidate European Free Trade Association (EFTA) members and the enlarged Community. The free trade area trade agreement, which came into effect January 1, includes trade in paper products on which the Community's European partners will begin to receive an advantage over US competitors, according to the United States.

In reflecting on some other current US-EC issues, Ambassador Greenwald made the following observations:

● The United States supports the objectives of political stability and economic development which the Community seeks through its "global" policy for Mediterranean nations, but it objects to the tariff preferences the latter grant to European goods, thereby placing US goods at a disadvantage, in the US view. He suggested that although the GATT requires free trade accords to cover the major part of commerce between the contracting parties, which necessitates reciprocal tariff reductions, the GATT and the United Nations Conference on Trade and Development (UNCTAD) also provide for non-reciprocal generalized preferences. He questioned how the Community could establish a free trade arrangement between such disparate economies as, for example, Germany and Libya. "Certainly the spirit of the GATT, if not the letter of it, did not foresee this," he said.

● The US balance-of-payments deficit should begin to show some improvement in 1973 and may turn around as early as 1974. Nonetheless, nations with constant balance-of-payments surpluses should review their policies with a view to contributing to correction of these imbalances. [*Ed. note: In 1972, the Community ran a balance-of-trade surplus with the United States for the first time in its history. The trade surplus of the Six with the United States was small, amounting to only $165.4 million, according to US statistics.*]

● The current wave of protectionist sentiment in the United States has to be viewed against a background of the slumping US balance-of-payments situation, the disruptive impact of imports in some areas, and high unemployment. Organized labor in the United States turned from its traditional support for liberal trade policies to a leadership role in the defense against imports. Greenwald noted that, although the national US labor leadership formerly supported free trade, numerous individual unions in such industries as textiles have consistently opposed trade liberalization.

GREENWALD STRESSES COMMON INTERESTS

The problems and issues in US-EC relations may get the most attention, but less publicized efforts at cooperation and areas of common interest are impressive, Greenwald said. He noted frequent contacts by groups of experts from the United States and the Community on aid to developing countries. He said such contacts involved livestock development programs, the European Development Fund's financial aid activities, and a yearly review of country-by-country aid programs.

He also noted that both the United States and the Community share a common interest in their political and economic relations with Japan. Greenwald said the United States would prefer to see the problem of Japanese imports solved within a cooperative multilateral framework rather than on a bilateral basis.

Two other areas of ongoing cooperation and concern are in the energy and environmental fields. The Ambassador pointed out that both problems were concerns which had to be confronted on an international basis. For instance, he suggested that both Europe and the United States had more to gain by coordinating their acquisition and development of scarce energy sources. He noted that an effort in the energy sector had already begun in the OECD and that exchanges between US environmental authorities and Community experts were occurring on a regular basis.

Former President of the Commission Sicco L. Mansholt (left) welcomes US Ambassador Joseph A. Greenwald to his new post, as EC Chief of Protocol Joseph Kasel looks on.

"What Europe Is About"

CHRISTOPHER SOAMES, *Vice President of the Commission of the European Communities*

Christopher Soames, Commission Vice President responsible for external relations, met with President Richard M. Nixon on February 16 during his two-day round of informal talks with top US officials in Washington, DC. During a press conference following the visit, Vice President Soames said that the Community intended to keep the proposed schedule of global trade talks which are to begin next fall. He also stressed the need for the United States to pass a trade liberalization bill and not just a trade bill with some liberal elements. This article has been adapted from Soames' address before the Overseas Bankers Club, Guildhall, London, England, February 5, 1973.

The responsibilities which the Community bears in regard to external relations and those which remain the prerogative of the individual member states are to a certain extent distinct. Broadly speaking, they can be described as external trade policy on one side and foreign policies on the other. Of course, the two fields are intimately and inextricably linked, and there is a consensus that Europe must work to achieve its own foreign policy in vital domains. This was indeed the burden of the exhortation given by the [October 1972 Paris] Summit conference to foreign ministers. Who can doubt that Europe's influence in the world will be directly related to the extent to which we can in the future speak with a single voice?

ENLARGED COMMUNITY DIFFERENT AS WELL AS BIGGER

This imperative stems also from the process of enlargement itself. We always knew, on both sides of the Channel, that the enlargement of the Community would change its character. It has made the Community not just bigger, but different. The Community of the "Six" already had its political dimensions, but the politics of those days were primarily the internal politics of Europe itself. Now that it is a Community of "Nine," sheer size makes it a different animal. It has grown to a mass that is critical for the environment in which it lives.

The Community always had many links with the rest of the world. Britain's entry has made these ties more substantial and numerous—the Community cannot but be conscious of the value of Britain's close ties of friendship with Canada, Australia, New Zealand, and the rest of the Commonwealth. With all Europe's human and historic, cultural, constitutional, and economic links with literally every continent of the globe, our prime challenge now arises out of our relations with the rest of the world. We cannot be one of the mightiest industrial complexes, the largest trading unit, the richest holder of currency reserves in the world and not live up to the global responsibilities for peace and prosperity that fall on us by virtue of that potential power. It can be no purpose of ours to be an economic colossus yet a political pygmy. The time has come for us to play an adult political role in the world: a role that will demand common expression of a European policy in foreign affairs.

EC PLEDGED TO INTERNATIONAL MONETARY REFORM

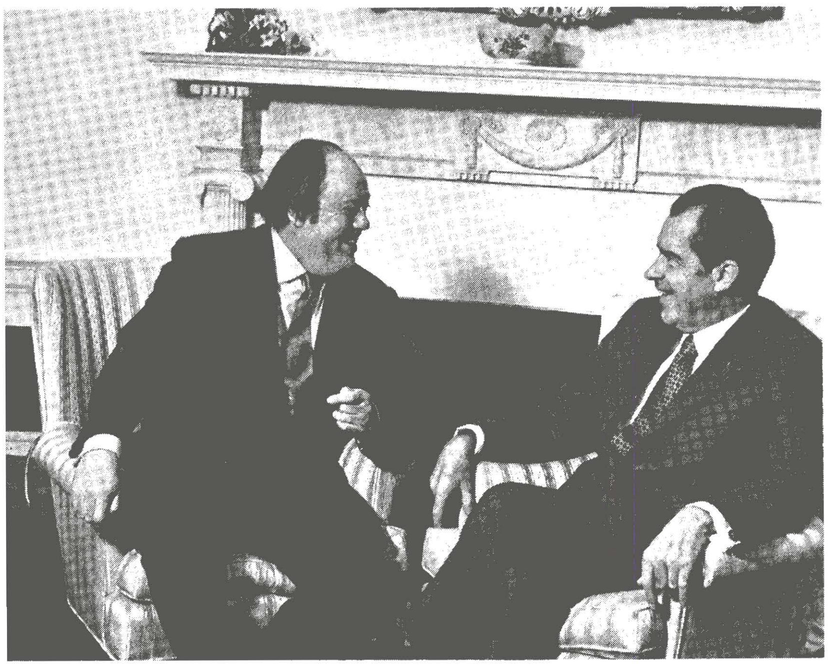
This need for common policies and a common voice extends also into the economic, the trade, and the monetary domains. . . . The heads of government at the Paris Summit expressed their determination to contribute to the reform of the international monetary system by a common attitude; they agreed on certain objectives, including the general convertibility of currencies, the reduction in the role of national currencies as reserve instruments, and an effective international regulation of world liquidity. As they recognized, this will require an effective adjustment process when the values of currencies, for any long term reasons, drift too far out of line. These problems are being discussed in the "Committee of 20," and will demand from the Community a common attitude on its external monetary relations which will need to be defined in parallel and in close conjunction with our progress towards internal monetary union. This is by no means a bad order of proceeding. It will ensure that whatever we Europeans do among ourselves will be done with our role in the world very much paramount in our thoughts.

EC COMMITTED TO FREE TRADE AND AID

Equally, Europe's commitment to work with other countries towards a still further freeing of international trade is unequivocal. This year we will be involved in a whole series of overlapping negotiations. The bilateral negotiations under the General Agreement on Tariffs and Trade (GATT) to look at the consequences of enlargement begin in a few weeks' time. Later in the year we hope to start on multilateral GATT negotiations—on nontariff barriers of all kinds as well as on customs duties, on agricultural as well as on industrial goods. We also have many other negotiations on our agenda.

We have already been able to reach free trade agreements with those European Free Trade Association (EFTA) countries which from the outset felt unable to join the Community. We have thus achieved enlargement without creating any new trade barriers in Western Europe. We are now on the last lap of negotiations with Norway, a country we hope will one day join us as a full member. We are negotiating with various Mediterranean countries and preparing to do so with our present and our potential future associates in Africa, the Caribbean, and the Pacific. The Community has acknowledged a special concern for the Asian countries of the Commonwealth, and expressed that concern in the declaration of intent signed at the same time as British accession.

There are other countries, in Latin America, the Middle East, and elsewhere, whom we must not and will not leave out of account. We know the developing world as a whole expects much from us: they look to us not for well intentioned sentiments, but for resolute and farsighted deeds. There is a great deal we can give. We have skills and experience, capital, and markets for their produce. Moreover, we are pledged to bear their interests in



Commission Vice President Christopher Soames chats with President Richard M. Nixon at the White House during his February visit to Washington, DC. Photo: The White House.

mind, both in our domestic policies and also in our future bilateral and multilateral negotiations.

Thus, we see ahead a complicated pattern of negotiations which we must fit into a global concept of how we see the future of the international economic order. Only when we have cleared our minds on the overall concept can we sensibly work out its many interlocking parts. The task before the Community in the coming months is not merely to administer its own current economic affairs. We face the challenge—and, united we have the opportunity—to make a major contribution to reshaping the whole system of trade, aid, and payments in the world.

CENTURIES OLD US-EUROPE TIES

In all this, the relationship between the Community and the United States will be crucial. The links between Europe and America are centuries old—centuries in which many of the most dynamic elements of our populations crossed the ocean to make North America what she is, and decades in which American money and technology came back across the water to make their contribution to Europe today. America's sacrifices in two European civil wars, and her great contribution to Europe's defense today, themselves bear eloquent witness to the extent of our community of interest. For a long time now the United States has wanted, for sound political reasons, to see a strong European Community. Those reasons are surely no less valid today. If as a result of the Community's enlargement we have to take a fresh look at world trade problems and economic relations, then we must look at them together. They are problems to be discussed frankly between friends, in a spirit that also respects the interest of the rest of the world.

JAPAN, UNITED STATES, EC SHARE COMMON INTERESTS

In some of these forthcoming negotiations we shall be joined by another major power, Japan. Through its spectacular industrial achievements, by the nature of its domestic problems, and in its inter-relationship with us in trade and in monetary affairs that proud nation is now an integral and indispensable part of the world system. Its political influence in Asia, its efforts to help developing nations, its fast expanding exports all make it a force to be reckoned with, a force whose power for good we recognize and welcome alongside our own. All industrialized countries, notably Japan, the United States, and Europe, share a common interest in the orderly evolution of the world trade and payments system. We must all of us make our contribution and bear our share in the necessary processes of mutual adjustment.

EC BRIDGES "POLITICAL RIFTS"

Let me, finally, say a word in regard to the Communist world. Between us and the countries of Eastern Europe, there are profound differences on a number of issues. Such differences inevitably stand in the way of their joining our Community, but they must not stand in the way of wider human and economic collaboration with them and the Soviet Union across these political rifts. We are also glad to note China's increasing interest in the enlarged European Community and are conscious of the human and economic potential of that vast country. It is too early to see just how our future relations could develop, but there is surely scope for the tenuous links between us being strengthened to our mutual economic advantage and in ways that could bring also real political benefits.

We may regret that the Community was not enlarged many years ago, but by great good fortune, enlargement has still come in time for us to seize a moment in history that can prove a turning point in world affairs. Between the great powers, this is a time when much that had been frozen for so long now seems at last to be very much on the move. The United States and the Soviet Union are working to put their mutual relations on a new and better footing. China and the United States are seeking to bridge the political void between them. In politics and in economics, options are opening up this year that just weren't there in the years gone by. This is a good moment for a wider, stronger, and more united Europe to emerge on the international scene with its own personality, to speak with a single voice, and to make its contribution in world affairs. Our old continent has been blessed with much experience and with many talents. It is not for us to hide those talents under a bushel any more than to brandish them vaingloriously about in the world. Our task is simply this: to use them, to the utmost, in the service of our own peoples, and for the benefit of our fellow men beyond our shores. That is what I think Europe is about.

Europe Still Matters

McGEORGE BUNDY

The European Community is an institution which I choose to admire, partly with a willing suspension of disbelief but also with a necessary confession of ignorance. I do not understand it, but I deeply believe in it.

My ignorance is readily explained. It goes back to the Kennedy Round, which began in 1962 while I was working in the White House and was still going on some four years later when I left. In those years the American Government was often divided within itself on various aspects of that intensely complex negotiation, but I never encountered any division on the proposition that the one person who did not understand the matter at all was the Special Assistant for National Security Affairs.

My belief in the Kennedy Round was more than half a matter of belief in the Common Market—as we then called it. In part, of course, it was a matter of a genuine and quite straightforward belief in free trade.

Even more important than free trade, however, was our broad view of Europe. The Kennedy Round was part of a policy of partnership. To have been against it, in 1962 or in any of the four following years, would have been to deny a fundamental axiom of policy: we believed in—we were committed to—the concept of a gradually uniting Western Europe.

EUROPE'S GOOD IS GOOD FOR THE UNITED STATES

I still believe that the United States will be safer, stronger, and happier as Western Europe is safer, stronger, and happier. I believe this proposition is as valid in the Seventies as it was 10 years ago.

In 1962 it was easy to identify the safety, strength, and happiness of Western Europe with the movement for European unity, and that movement in turn with the rise of the European Community. We believed it, and we even dared to preach it, moderating our tones only in deference to the political and psychological reality that Europe would never become truly Europe if it were stamped "made in USA." If we had a single agreed tactical hope it was that Britain would secure admission to the Community. Nonetheless we had just enough wit to keep from shouting this hope aloud—though not enough to prevent the President of France from sharing with us the responsibility for a decision which he had made all alone.

The tactical maneuvers of Rambouillet, Nassau, and the Elysee Press Conference are history now—and history overtaken by events. Today we have the reality of the enlarged Community. A result neither of American wit nor American folly, it is the product of extraordinary European determination and good sense. Those of us in the United States who cared about the effort of the Sixties are happy with the result of the Seventies. Only when we ask ourselves to explain that happiness do we meet questions that did not trouble us 10 years ago.

RHETORICAL DREAM DID NOT COME TRUE

We compare a visible and imperfect reality with a rhetorical dream. There is a wide distance between the words of John F. Kennedy, friend and student of Jean Monnet, preaching European unity in Frankfurt in 1963 and the extraordinarily complex realities of the nine-power Summit of 1972 in Paris. Each paragraph of the final communiqué requires a specialist to tell who did or did not score points in a game in which the players appear to be watching each other's moves in a way that does not imply totally carefree trust.

The Europe we face is not the one we dreamed of. The achievement so eagerly sought 10 years ago—the entry of Great Britain—turns out to be the prelude to a series of encounters now in prospect, on trade and money especially, which make the arcane disputes of the Kennedy Round seem like beginner's stuff. Americans conclude that, compared to such diplomatic events as Richard M. Nixon's trip to Peking, the Moscow Agreement on Strategic Arms Limitation Talks (SALT), and the Paris peace talks on Vietnam, our dealings with Europe are well left to the specialists. What does it matter to us?

In 1962 it was easy to assert the crucial importance of Europe and the need for West European unity. The simple doctrine was sustained by two fears that have greatly receded both in time and in urgency. One, fear of the Soviet Union could reappear if we seem weak. The other, a latent fear of Germany, has disappeared. The detailed discussions of the Kennedy era, especially the arguments surrounding the multilateral force (MLF), centered on the unity of Europe as the only safe harbor for Germany. The Germans themselves have extinguished that fear by a 25-year-old demonstration that there is no chance for a new policy of separatist adventurism. The new Germany's civility is now so much taken for granted among us that it takes an effort of will to understand how little her Western allies could feel such confidence even 10 years ago.

DOMESTIC PROBLEMS PREOCCUPY UNITED STATES

We see Europe today with eyes less widened by fear. We also see it across a decade of severe preoccupations of our own. Vietnam, racism, urban unrest, a conflict of cultures, and our own share of the general retreat from politics which has marked the whole Atlantic world—all these forces have worked to take our eyes off European politics.

If danger has receded and if our own preoccupations have grown, why *does* Europe still matter? Some of the answers are

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This article was adapted from remarks made November 29, 1972, by McGeorge Bundy, President of the Ford Foundation and former Special Assistant for National Security Affairs in the Kennedy and Johnson Administrations, at a Brussels conference organized by the European Community Institute for University Studies. The conference was entitled the "External Relations of the Enlarged European Community." Mr. Bundy stressed that he was speaking as a private citizen rather than as a representative of any organization or government.

as practical as they are complicated. Seen as an economic problem, US foreign relations must start with Europe for all the simple reasons of magnitude that the crudest indicators demonstrate. We must concern ourselves with Europe, and especially with the European Community, because that is where so large a share of our investments, our trade, and our wandering dollars are to be found.

Seen in this light, the European Community becomes not so much the partial product of a generous but unrealistic dream that nationality could be quickly transcended, but rather the most important economic center with which we must work to reinforce, redesign, and reconstruct the foundations of economic cooperation.

US CONGRESSMEN LINK DEFENSE AND TRADE

In an admirable essay, François Duchêne, Director of the International Institute of Strategic Studies, said quite correctly that Europe has so far been able to profit from its unique situation as a society which has seen its traditional military and political power ruined. Mr. Duchêne also said Europe had made the most of its assets, especially economic, and has the hope of becoming "the exemplar of a new stage in political civilization." I agree with this analysis and hope the United States may soon begin, in a number of ways, to follow the European example. For the present, however, Europe's "resolutely amilitary population" depends for its peace of mind, at least in part, upon the fact that the US population is prepared to pay twice as much of its national income for the common defense. I do not lament this expense. I think that a defense commitment to Europe is essential for our own security and that we should save few dollars if there were no Europe for us to help defend. Moreover, I recognize that much has already been and will be done in the way of burden-sharing. Nonetheless, I think it would be asking a great deal of my fellow citizens, and even more of their elected representatives, to expect them to neglect entirely, in the reconstruction of new economic and financial foundations, the fact that among the open societies of the North Atlantic and Pacific, there is one which does much more than the others to provide for a defense which is still common.

I cannot help hoping that from time to time, as some European expert finds his temper growing short over the American Selling Price (ASP) (which I do not admire), or the claims of grapefruit (which I happen not to like), he will remember that these same tiresome Americans, 27 years after a great common victory, are still doing somewhat more than anyone else wants to do for defense. The point is one which should not be overbargained, but history suggests that Americans, like others, will often trade quite a lot in return for understanding. One operational difficulty of Europe's present state is that its economic and security concerns are institutionally separate. These matters, however, are not separate in the mind of the American Senator or Congressman preparing to consider trade legislation. The words and actions of Europe's leaders, in the months ahead, can have great impact on the breadth and depth of the authority the US Government may get for negotiating the next long round of trade talks.

President John F. Kennedy signs the 1962 Trade Expansion Act which gave him the power to lower US tariffs during the Kennedy Round of trade talks. McGeorge Bundy (second from left) looks on.

Throttle Wide

European Auto Industry Meets Common Market Challenge

D.G. RHYS, *Economics Department, University College, Cardiff.*

The European automotive industry has distinguished itself from most other European industries by easily relinquishing its nation-state mentality. With Europe-wide vision, it has revised its manufacturing and marketing strategy to use the opportunities offered by economic integration within the Common Market.

During the Sixties, trade diversion stemming from the formation of the Common Market was slight. Few customers bought cars or commercial vehicles from abroad. Imported cars accounted for only 5 per cent of sales in Germany and France in 1960, compared to almost 25 per cent in 1971.

The merger movement between producers was the vanguard of the integration of the European car industry and market. In the Sixties, mergers resulted as financial pressure on smaller firms increased, and the larger firms rushed to create organizations big enough to use the opportunities offered by the Community's large market.

More than 20 take-overs and mergers took place in the Sixties. Among the most significant were:

- Volkswagen purchased Auto Union and NSU and joined them to form its Audi-NSU subsidiary to compete in the European luxury car market.
- Daimler Benz purchased Krupp's and Henschel-Hanomag to reinforce its preeminence in the Community's heavy truck and bus market, where the company accounts for 40 per cent of the production.
- In France, Peugeot, after failing to come to a satisfactory agreement with Citroën, formed close technical research and development links with state-owned Renault; one result was the jointly owned engine plant at Lille, started in 1969.
- In Italy, Fiat purchased the moribund Lancia concern to compete in the lucrative market for luxury cars.

Many links have been forged between commercial vehicle producers, including that between Volvo, Saviem, Magirus-Deutz, and DAF, to cooperate in research and in the development and production of a standard medium-weight truck. Competition from Mercedes and Fiat and potential competition from British firms spurred cooperation. Loose arrangements avoiding close integration will not necessarily allow small firms to compete on equal terms with larger producers, but the reduction and removal of tariffs does enable smaller firms in different countries to specialize in producing, and then to interchange, various components.

OUTSIDE FIRMS INCREASE PRODUCTION

To offset discrimination and participate in a growing market, firms outside the Community have increased their productive capacity within the Six. Scania of Sweden built an assembly plant in the Netherlands, while British Leyland expanded its investment in Belgium. In Italy, British Leyland cars were built under license by Innocenti, an agreement cemented in 1972 when Leyland finally purchased the plant. Half of the 500,000 cars Leyland plans to sell in Europe in 1974 will be assembled outside the United Kingdom.

Manufacturers based in the Community have expanded production facilities and located in other member countries. The main beneficiary so far has been Belgium, where government inducements are combined with relatively cheap and abundant labor. From 1961 to 1971, vehicle manufacture and assembly in Belgium grew from almost nothing to more than one million units. Ford, Opel, Renault, Volkswagen, and British Leyland together account for more than 80 per cent of output.

Ford in 1970 chose Bordeaux as the location for its plant supplying automatic transmissions for all its European subsidiaries' needs. Genk in Belgium is the site of Ford's highly automated plant to supply wheels to Ford's entire European operation.

EC WIDENS CHOICE FOR PLANT LOCATIONS

Economies of scale in the motor industry often require the use of plants with outputs large enough to supply the entire market, but different stages in the car-making process have different least-cost output levels. For example, expensive and specialized plants to forge machine components operate most efficiently at outputs above one million units a year. Assembly plants, however, achieve maximum efficiency at outputs as low as 200,000 a year. Thus, a few engine plants can supply a larger number of assembly plants located near strategic marketing points or where labor is available to man the assembly lines.

The emergence of a single Western European market unhindered by trade barriers clearly enlarges a company's choice of location for new plants. For example, Fiat closed its German assembly plant in 1971 when it became more efficient to supply the market from Italy.

A DIVIDED EUROPE AFFECTED US SUBSIDIARIES

Ford and General Motors from their American headquarters have obviously regarded Europe as a single entity, but the economic division of Western Europe into two areas (the European Community and the European Free Trade Association) tended to solidify the differences between the British and German controlled subsidiaries. The respective managements tended to treat one another with suspicion, and the relative success of one subsidiary was seen as a threat to the continued existence of the other.

Ironically, therefore, in the late Sixties the two companies' headquarters in Detroit had to try to integrate their separate and independently minded European subsidiaries to rationalize production in different plants and to persuade managements to look upon Europe as one market. After failing to persuade its two European subsidiaries to work in harmony, US Ford in 1968 created Ford of Europe as the body responsible for long-term European planning and for integrating production, organizing marketing, and bringing the European subsidiaries into line with Detroit's one-Europe philosophy. Neither subsidiary could make marketing or production decisions in disregard of the other or of Ford of Europe's long-term plans. By 1972 a common range of vehicles was being built in Germany and the United Kingdom, and many of the major components were also similar. With European integration's development, Ford of Europe is now unlikely to allow its subsidiaries to produce separate and competing products, any more than UK Ford has allowed its separate plants to compete.

Two other American firms are following Ford's lead. General Motors Corporation concentrates commercial vehicle manufacture in the United Kingdom and from there supplies assembly plants in Belgium and elsewhere. General Motors in 1970 put its entire European activities under one director to integrate the management of its European concerns so that they could compete with European firms, already highly integrated.

In the Sixties, Chrysler established its European activities by purchasing relatively small firms in financial difficulties. As these firms were too small to find life easy in their home markets, Chrysler attempted to introduce a policy of concentrating particular activities in the separate countries.

The economics of car production have Chrysler creating one of the most tightly integrated European enterprises. Already the company concentrates production of its 180 sedans in France for sale by both its French and UK subsidiaries.

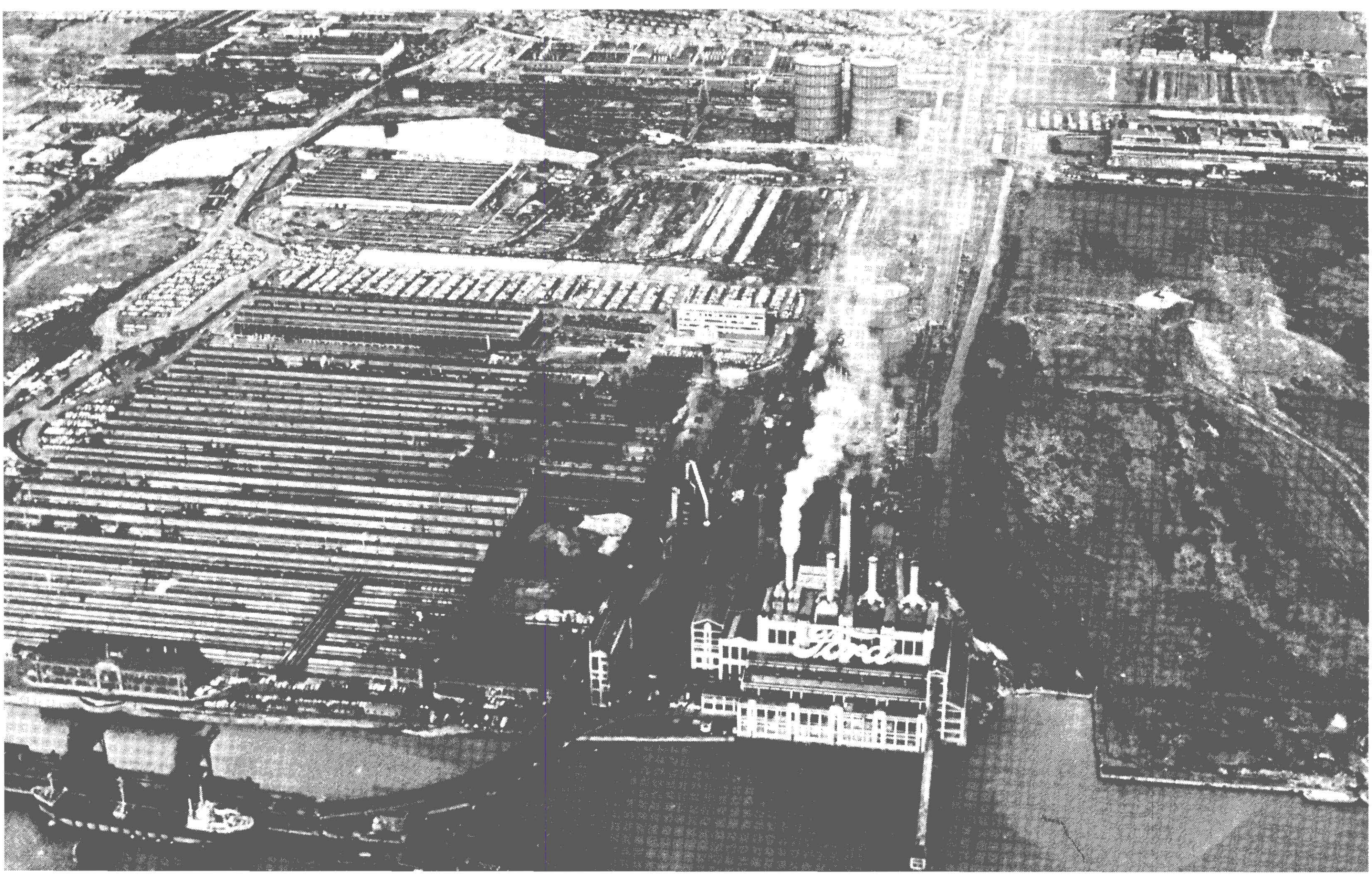
EUROPEAN FIRMS MEET MARKET'S CHALLENGES

The most obvious European initiatives in creating a pan-European firm have come from Fiat and Dunlop-Pirelli. Fiat, first by purchasing Unic as part of the deal whereby Fiat sold its shares in Simca to Chrysler, and then by its 49 per cent stake in the capital of Citroën, laid the basis for a corporation organized on European lines.

Fiat had been the first automobile firm to change its corporate planning, model, and marketing policy to one where the Community market as a whole took precedence. Since the mid-Sixties the cars Fiat has introduced have been directed at meeting European consumers' needs rather than those of its traditional low-income Italian clientele.

The Dunlop-Pirelli "merger" of January 1971 was aimed at establishing a corporation tailor-made to satisfy the European

Ford of Europe has integrated production, organized marketing, and brought its European subsidiaries into line with Detroit's one-Europe philosophy. The Ford plant in Dagenham, England. Photo: Ford Motor Company, Detroit, Mich.



market and to challenge Michelin, the market leader.

A "EUROPEAN" DESIGN

Some firms think in terms of a "European" car or shape while others produce nationally individualistic designs and market them vigorously and widely to make them generally acceptable.

The success of the individualistic designs of such firms as Renault or British Leyland illustrates that a single European market need not mean a universal conformity to a particular design philosophy. Homogeneity in design of the FD Vauxhall Victor and the Mark III Ford Cortina, for example, was as much a function of the influence of one design team on another as any limitation placed on design by market requirements.

The market does impose similarity, however, in price and, in the long run, unit production costs. To compete successfully, firms must profitably produce cars at a price, and therefore at a cost, similar to their competitors'. In other words, firms must offer the same amount of car for the customer's money.

Compact cars lead the market in some West European countries, but consumers increasingly choose medium-sized vehicles. The continued growth in real incomes has resulted in a rapid increase in sales of large family models, while significant growth has been experienced in the $3500 to $7500 luxury class.

The American controlled firms have successfully gauged and met the wants of European customers in the medium-sized car market with retail prices ranging between $2200 and $3600. In the luxury market these firms have been less successful.

FIRMS SHARE FINANCIAL FORTUNES

In the Sixties the growing market increased the profits of all firms. The slowdown in growth, complicated by inflationary pressures, however, led to a downturn for main producers in 1971-72. Volkswagen's German profits were little more than $2.4 million from a group turnover of $4 billion, whereas Renault lost $36 million.

VW's problems were compounded by its overdependence on the "Beetle" at a time when its market penetration in Germany fell, a situation analogous to US Ford's problems with the Model T in the late Twenties. Opel emerged as the market leader in early 1972, for the first time.

In general, the motor industry in northern Europe had difficulty finding indigenous labor willing to work on the final assembly lines, despite high wages. In France and Germany, immigrant labor is increasingly being used, and even in Belgium the car industry is becoming more dependent on Greeks and Italians. Monotony and boredom, major factors in automotive strikes, are problems still to be solved either through job enrichment or increased automation.

ONLY A FEW PRODUCERS DOMINATE MARKET

Medium-sized firms will have to coexist with giants in the car industry. By 1971 more than 75 per cent of the West European market was in the hands of just seven producers. The dozen or so medium-sized firms can survive by cultivating particular markets, if no new model fails to sell.

Within the enlarged Community, US-owned firms compete with one another in the market for the medium-sized car with straight-forward design. The Ford assembly line in Saarlouis, Germany. Photo: Ford Motor Company, Detroit, Mich.

For very small firms such as Lotus, the emergence of an integrated market could strengthen their position. Their market penetration is small, but their tariff-free selling area would expand.

Fiat is now the most alert, aggressive, and successful firm. Its current share of the Community market is 25 per cent, compared with Renault's 12 per cent. In the larger Community countries, Fiat leads the list of importers, ahead of Opel in France and Renault in Germany. Fiat's excellent sales network and large vehicle range have been major factors in the company's bid to establish a pan-European enterprise.

Within the enlarged Community the three US-owned firms compete with one another in the market for cars of straightforward design, while the main European firms—Fiat, Renault-Peugeot, Volkswagen, and British Leyland—develop and market more individualistic designs, each with its own particular appeal and growing market.

Forget Me Not

Europe's Underdeveloped Areas Need an Effective and Realistic Regional Policy

LORENZ WINTER, *a staff member of* Vision.

On an official visit to Norway last year Franco Maria Malfatti, former President of the Commission, is said to have exclaimed "Is this Europe too?" when he had his first glimpse of the northern part of the country.

In the meantime, of course, Norway voted against joining the Community. Denmark, Britain, and Ireland, however, joined, and even non-Italians should find it easy to understand the enlarged Community's significance for regional policy. The enlargement of the Common Market to nine countries and the extension of the industrial free trade area to 17 (including Norway) makes it even harder than it was earlier for Western European firms to decide where to locate.

Governments are maneuvering and arguing over the best way to tackle regional development problems in the wake of the EC Paris Summit in October and regional policy discussions in Brussels a month earlier. Their uppermost thought is, of course, to get the best possible deal for their own impoverished regions.

The discussions so far on European regional policy are a mixture of confusion and emotional involvement. According to one high-level EC official, "The individual states use the word regional as a sort of alibi for negotiating their own national interest."

The more Europe extends its frontiers, the more inclined the regions will be to take their troubles directly to Brussels. Nonetheless, Brussels has so far lacked the political authority to take full responsibility for the poorer regions, despite relevant, but vague, provisions in the Common Market Treaty. It still lacks the means.

EC government leaders at their Paris conference decided to set up a regional development fund. The financing mechanisms and administrative instruments of the fund, however, still have to be worked out by the Commission and approved by the EC Council of Ministers.

WHERE IT HURTS MOST

In the 14 years of the Community's existence, the outlying areas' share of Community gross domestic product (GDP)* has hardly changed. Not all these areas have the same problems, but a few figures will show that many areas have lagged behind the Community's general economic development. For example, Ireland has the highest birth rate in Western Europe, but its population density of 16 inhabitants per square mile is one of the lowest. In some parts of western Ireland it is only half this figure. Thus one quarter of the Irish population lives in a region comprising 56 per cent of Ireland's total surface area. In 1960, Ireland's net emigration was 44,000 (1.5 per cent of the total population). The current annual figure is about 12,000.

In the French regions of Limousin, Poitou, Brittany, and Normandy, agricultural employment is well above the EC average and twice the national average for 1954. In Italy's Abruzzi, Apulia, and Basilicata areas, the percentage of agricultural workers today is almost as high as the national average for 1951. Similar comparisons can also be made for large areas of Denmark and Ireland.

UNEMPLOYMENT INCREASES DESPITE INVESTMENT

In parts of Britain, such as northern England and Scotland, the level of unemployment runs almost twice as high as the national average. Indeed, the level of unemployment in these areas has not stopped rising since 1965, although more than half of all relocated jobs (438,000) have been directed to the area and 70 per cent of all foreign investment has been channeled there.

With a per capita GDP of $4,770, each inhabitant of the city of Hamburg contributes six times as much to EC production as an inhabitant of Calabria with a per capita GDP of only $760. This is a bigger difference than those encountered between industrialized countries and some developing nations. The purchasing power index in the nine countries of the enlarged Community ranges from 29.2 in Tyrone, Northern Ireland, to 181 in the area around Copenhagen, the European average being 100.

Mario Dido, Secretary General of the Italian communist labor union federation Confederazione Generale Italiana del Lavoro (CGIL), maintains that things are going to get worse: "The enlargement of the European Community only promotes the principle of free trade. It does nothing to promote balanced development of Europe's regions, a target that was laid down in the Treaty of Rome."

Brussels obviously cannot sit back and do nothing. "Serious regional differences in Western Europe could jeopardize economic and monetary union," warned Albert Borschette, Commission member formerly responsible for regional policy.

The Community, however, is neither obliged nor in a position to aid every area of Western Europe which can plead a low population density, slow, stagnant, or negative growth, a serious emigration flow, a high percentage of its population still on the land, or a lower-than-average per capita income. If the Community were to intervene, it would find itself responsible for economic affairs in 25 per cent to 30 per cent of the territory covered by the enlarged Common Market (excluding Greenland).

NEW DEFINITIONS NEEDED

Brussels must reassess its definitions of underdeveloped areas and its regional projects. Not every underdeveloped area is still a peripheral region. With enlargement, coastal areas around the North Sea, for example, will become well placed central sites.

Neither is every peripheral region underdeveloped. For instance, Volkswagen in Wolfsburg is the hub of an economically privileged area, although strictly speaking, it is on the edge of the Community (since it is only 30 minutes' drive from the border with East Germany).

* Gross domestic product is the sum total of final goods and services, excluding intermediary production, produced within national borders, plus import taxes.

An effective regional policy is a must if the benefits of European integration are to be felt by all Europeans. A farm woman from central Italy brings home kindling for her fire which serves both for cooking and warmth.

Authorities must avoid the unjustified designation of peripheral areas as underdeveloped simply because they are peripheral. This, for instance, is what happened—for postwar political reasons—when the West German Government gave special development area status to a strip of land 25 miles wide along the East-West demarcation line. Though accepted by the Community, the designation is no longer justified under existing EC regulations, and Bonn will have to revise the situation, as indeed it plans to.

An EC agreement has limited investment aid in such central areas as the Ruhr or northwest Italy to a maximum of 20 per cent of the total capital investment. This measure will hopefully contribute to a wider spread of industrialization and strong efforts to protect the environment.

EIB STRESSES REGIONAL DEVELOPMENT

What can the Community do to improve the economies of the peripheral regions? What can the regions do to exert more economic and political influence?

To start ironing out the uneven development which has occurred over the centuries, EC members set up the European Investment Bank (EIB) in 1958. The new members of the Community joined this organization on January 1, 1973, and now qualify for investments.

The Bank is no substitute for a common budget, but it does combine profit considerations with emphasis on EC member countries' regional goals. As a result, it tends to finance projects to improve the infrastructure such as telephone networks in western France and southern Italy, railway electrification in the Moselle valley, a European school in Luxembourg, as well as cross-border cooperation between firms in key industries (petrochemicals, nuclear power, and aerospace). Between 1958 and 1971, the Bank granted loans and guarantees worth more than $2.3 billion in the Community and in associated Mediterranean and African states.

In addition to the EIB's work, local and regional authorities in EC member countries must improve their information policies, even if for some of them it means heavy initial expenditure. Public relations campaigns to attract investors have proved worthwhile in the United States, but, with a few exceptions, are virtually unknown in Europe. Frequent and detailed publications by regional authorities must be oriented toward the information requirements of potential foreign investors. Persons in charge of promoting regions must realize that regional development planning is more than the simple economic equation of giving firms investment aid and using the corporate taxes they pay to improve the regional infrastructure. Initial investment subsidies are of interest mainly for small and medium-sized companies which are the companies most influenced by the need to be within cheap and easy reach of their markets. Without help in the fields of training and transportation, such companies will never be enticed to the virgin lands needing investment.

On the other hand, the theory that a perfect infrastructure will lure investors can also turn out to be a myth. Italian labor leader Dido comments, "Some of Europe's biggest companies would now rather invest in Eastern Europe or in the Third World than in the Community's poor regions, because, although they may not have the infrastructure, their market potential is vast."

BRUSSELS' BUDGET LIMITS POWERS

So far, Brussels has had to rely essentially on tariff and food import levy revenue to finance its budget and thus its regional policy. From 1975, however, up to 1 per cent of the revenue from the value added tax, a levy on goods at each stage of production and distribution, will go directly into Community coffers.

Brussels will be unable to carry out a comprehensive regional policy as long as it can count only on financial resources from the European Investment Bank and from the regional fund. What the Community really needs is a "political" budget, whose size would depend on tax revenue and public credits raised on the open market.

At the 1972 European Summit in Paris, Italy suggested setting up a European financial institution with the power to transfer resources from the central areas of the Community to the peripheral regions. Such a plan, however, has little chance of being put into practice at this time. Britain and Ireland were not opposed to the idea, but it remains to be seen whether their interests coincide with those of the Italians. Germany and the Netherlands, on the other hand, had understandable reservations since they would have to contribute most financially.

France rejects such suggestions out of hand. In Paris, British Premier Edward Heath came out in favor of putting more resources at the disposal of the Community, without which an effective regional policy would be impossible. French President Georges Pompidou, on the other hand, said more or less openly that such resources could be diverted from their original destinations by the beneficiaries. The latter, he suggested, instead of developing their backward regions, might be tempted to use the aid granted by the Community for new investment elsewhere.

In the light of the parochial philosophy of EC member governments and the European Parliament's limited budget-controlling powers, the wisest advice that one can now give to Europe's needy regions is: God helps those who help themselves.

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