MYTH AND REALITY

A REFERENCE MANUAL ON
US-EUROPEAN COMMUNITY RELATIONS

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NOTE TO USERS OF THIS MANUAL

This manual has been prepared to meet the need for a reference book on contemporary US-European Community relations. It is designed to help persons prepare articles or speeches on the subject. It is not intended for use by the general public. It is deliberately "one-sided." It presents the Community's case more fully than that of the United States in the debate on current issues. This is done because the US position has been more fully presented and has become, in many instances, frozen into cliches, many of which are either false or misleading.

The book has been prepared in loose-leaf form for ease of revision as situations and issues change. Too, the arguments presented here cannot be regarded as the last word. They are based mainly upon recent statements and views and the latest available facts and figures. As situations change, new sections and data can be added and out-of-date material discarded.

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I N T R O D U C T I O N

Relations between the United States and the European Community have been taxed for the past several years. With enlargement from six to nine members, the Community devised a broad agenda at the 1972 Paris Summit aimed at full economic, monetary, and possible political union. As the EC has sought to fulfill this mandate, tensions with the United States have increased not only in trade relations but also in the areas of security and political cooperation.

During the Copenhagen Summit of December 14-15, 1973, the EC leaders focused on the need for a speedier European union and a European identity in international relations, the energy crisis, and the backlog of Community work that had accumulated during the first year of expanded membership. The Nine also stressed their intention to "maintain their constructive dialogue and develop their cooperation with the United States on the basis of equality and in a spirit of friendship."

Major threats to Atlantic economic prosperity have resulted from the oil crisis, growing balance-of-payments deficits, and an unstable monetary system. A rational debate must be continued to clarify misunderstandings over issues jointly confronting the United States and the European Community.

This manual attempts to expose prevailing myths and rectify them through facts about the Community and its policies, especially as they pertain to the United States. The material contained herein should not be used merely as the means of confronting myth or misconception with fact, for this approach alone can be irritating and counterproductive. The dialogue can be best advanced if it is placed in a wider context of general and common objectives which can benefit jointly the United States and the Community.

Trends of the Community's growth and development are shown for the years 1958-72. Since EC enlargement to nine member states in 1973 changed the Community's entire economic dynamics, trends cannot be shown past that point. Patterns for the Nine will be discernible only after the three new members complete their tariff alignment with the Six, in 1977.

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I. POST WORLD WAR II: HOW INTEGRATION BEGAN

For centuries, a unified Europe has been the dream of many European philosophers, poets, and statesmen. The French romantic poet Victor Hugo once prophesied:

> "I represent a party which does not yet exist:
> The party of revolution, civilization.
> This party will make the Twentieth Century.
> There will issue from it first
> The United States of Europe, then
> The United States of the World."

The first steps toward political and economic union were taken in the aftermath of World War II. Aware of the need for Franco-German reconciliation, British Prime Minister Winston S. Churchill proposed the creation of "a kind of United States of Europe." His suggestion was backed by the United States which, through the Marshall Plan, made $13 billion available to 16 European nations for the reconstruction of a democratic Europe.

The US offer was contingent upon the Europeans' willingness to cooperate among themselves. Thus the Organization for European Economic Cooperation (OEEC) was born in 1948. Fullfilling the US condition, the OEEC created a European Payments Union to facilitate international exchanges.

The countries which would become the Common Market of Six received a total of approximately $7.2 billion in Marshall

Plan aid. Of that total, $6.4 billion was in grants and $756 million in loans. Approximately 97 per cent of the loans have been paid back with payments still being made and interest accruing on the remainder. The three new member countries received $2.8 billion in grants and $546 million in loans of which 42 per cent has been repaid.*

In 1948, the Council of Europe was formed grouping the future West European North Atlantic Treaty Organization (NATO) powers but omitting the trans-Atlantic partners. The Council, instead of becoming the starting point for a United States of Europe, remained an inter-parliamentary debating forum.

Progress was too slow for some impatient Europeans advocating European unity. They envisaged a rebirth of economic strength and political cohesion through unity and an end to the ancient conflicts which had divided Europe for so long.

"Europe will not be built all at once, or through a single comprehensive plan," Robert Schuman, French Foreign Minister, had said in 1950. "It will be built through concrete achievements, which will first create a *de facto* solidarity . . ."

<u>1950-58</u> In 1950, European integration was born when Robert Schuman, acting on a proposal of Jean Monnet, launched the idea of a European Coal and Steel Community (ECSC) designed to create a common market in Europe for coal and steel. Six countries -- France, Germany, Italy, Belgium, the Netherlands, and Luxembourg --

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* US Agency for International Development, Office of Statistics and Reports.

signed the Treaty of Paris in 1951. For various political reasons, the British Government did not respond.

The rule of unanimity which had for so long impeded the growth of international organizations was abandoned and replaced by majority voting, granting the ECSC's institutions power to determine policy and carry out programs.

The ECSC was Europe's first successful "pilot program" for broader European integration. It established the necessary institutional structure, invested its institutions with real power, created the first "European" civil service, and paved the way for the next steps toward economic integration.

In January 1958, the Treaties of Rome establishing the Common Market and The European Atomic Energy Community (Euratom) came into force and extended the integration formula to the whole field of economic activity.

US Goals For Europe

1. Economic: The very existence of the Marshall Plan was evidence that Western Europe's postwar difficulties were more than merely European. Statesmen had learned from pre-World War II experience that a nation involved in world trade cannot be insulated from the economic difficulties of its trading partners. Economic depressions were extremely contagious. Without assistance, the United States' most important trading partner, Western Europe, might have remained on the brink of economic disaster for years. A better balance in the world economy was advantageous to the United States as well as to Western Europe.

US Aid More Than Matched in Trade and Investment Returns

The rapid rise in the standard of living in the Community and the diminished barriers to commerce inside Europe made it an attractive export market for American consumer products and capital goods. The Common Market has had an average annual deficit of approximately 1.57 billion units of account (UA) in trade with the United States between 1958 and 1972. (One UA equals $1.20635 at current rates.) That brings the total EC trade deficit with the United States, during those years, to UA 23.5 billion, exceeding by more than $16 billion total Marshall Plan aid to Common Market countries. (For additional EC-US trade figures, see pages 19, 27, 28, 46.)

Since 1958, the book value of US direct investment in the Community of Six has grown more than eight times, rising from $1.9 billion to $15.7 billion in 1972, according to the US Department of Commerce. Including direct US investments in the United Kingdom and Denmark raises the 1972 figure to $25.6 billion. US 1973 investments in The Nine totaled $31.3 billion. The Community has been one of the most lucrative areas for American investment. Between 1960 and 1972, US earnings on investments in the Community of Six totaled $9.1 billion. During 1973 alone, US investments in the Nine earned $4.8 billion.

2. Political: Political considerations played an important role in the US interest in Europe's well-being. Europe had been the natal battle ground for the two most devastating conflicts of the Twentieth Century. Pooling the economic and human resources of France and Germany in an organization open to all European countries would make war between the two traditional rivals virtually impossible. Many

US and European statesmen considered it the only way for Europe to terminate the internal strife which had twice led the United States to intervene on the European scene.

European political stability was also considered a vital part of post-war American defense policy. Following the Soviet takeover of Poland and Hungary and the 1948 *coup d'etat* in Czechoslovakia, the United States and Western Europe felt a common need to resist expansionist pressures from the East. The protection of Western Europe, assured through the NATO alliance, became America's first line of defense in pursuing a policy of "containment" *vis a vis* the Communist world. Although the character of East-West relations has changed greatly, the durable nature of the NATO security pact, now the oldest military alliance in world history and reaffirmed in June 1974 for another 25 years, remains an essential part of US- European cooperation. The United States has staunchly supported the movement toward the unification of Europe right from the beginning.

Consistent US support

May 12, 1950, President Harry S. Truman: "Mr. Schuman's proposal for the pooling of French and German steel and coal industries is an act of constructive statesmanship. We welcome it . . . This proposal provides the basis for establishing an entirely new relationship between France and Germany and opens a new outlook for Europe."

June 25, 1959, President Dwight D. Eisenhower: "The United States supports the Common Market and the concept of increased European integration underlying it on political, economic, and security grounds. The Common Market promises to overcome many of the divisive national rivalries that have cost Europe so dearly in the past. In promoting internal economic strength, the Common Market will also provide a basis for more stable governments and for stronger defensive forces in the interests of world peace and security."

July 4, 1962, President John F. Kennedy: "We do not regard a strong and united Europe as a rival but a partner . . . capable of playing a greater role in the common defense, of responding more generously to the needs of poorer nations, of joining with the United States and others in lowering trade barriers, resolving problems of commerce and commodities and currency, and developing coordinated policies in all economic and diplomatic areas . . ."

February 25, 1971, President Richard M. Nixon: "The United States has always supported the strengthening and enlargement of the European Community. We still do. We welcome cohesion in Europe because it makes Europe a sturdier pillar of the structure of peace."

August 12, 1974, President Gerald R. Ford: "In promising continuity, I cannot promise simplicity. The problems and challenges of the world remain complex and difficult . . . I can offer the following: To our allies of a generation, in the Atlantic community and Japan, I pledge continuity in the loyal collaboration on our many mutual endeavors..."

II. COMMUNITY INSTITUTIONS AND ACCOMPLISHMENTS

I. Institutions:

The Community is more than a committee or international organization. In specific areas such as economic and social policy, Community institutions have the power to make decisions and execute policies. The major institutions are:

1) The Commission initiates policy, supervises the execution of decisions, and enforces the provisions of the treaties. Though appointed unanimously by member governments, the 13 Commissioners are required to act with total independence as exponents of the Community interest.

2) The Council of Ministers is composed of a minister from each member state and meets regularly to enact laws based upon Commission proposals. Daily work and preparations for Council meetings are done by the Committee of Permanent Representatives and the Council Secretariat.

3) The European Parliament is made up of 198 members who are grouped according to political affiliation and not nationality. Like US senators, who were appointed by state legislatures

before 1913, members of the European Parliament are appointed by member state parliaments. The Seventeenth Amendment to the US Constitution changed the election system in the United States so that senators were elected directly by the people. Similarly, a popular movement is building in Europe for direct election of members of the European Parliament, something foreseen in the three treaties establishing the Community but not yet applied. The powers of the European Parliament are limited to consultation on Commission proposals, but by 1975 will include partial control of the Community budget. The Commission is answerable to the Parliament which can dismiss it from office. Plans also call for the creation of upper and lower chambers and the enlargement of the Parliament to 426 members.

4) The Court of Justice consists of nine judges appointed for six-year terms by common consent of the national governments. As the supreme court of appeal on all Community matters, its rulings are binding and not subject to review in national courts. The Court is gradually building a tradition of European jurisprudence. By 1973, it had handed down over 400 decisions of suits brought by the Commission, national governments, and individuals.

II. Accomplishments:

Economic: The Community, working through its institutions, created a customs union 18 months ahead of schedule, removing customs duties and quota restrictions so that goods may move as freely among the member countries as they do among the 50 US states. It has also established a common agricultural policy (CAP) which includes price supports and Community aid to improve farm efficiency (page 39). The Community has issued and enforced "antitrust" regulations to protect free competition and has begun to harmonize member state laws in many areas, including indirect taxation and product standards.

Since 1968, a common external tariff has been applied by the Community to all goods imported from non-EC countries. Tariff reductions carried out under the 1967 Kennedy Round multilateral tariff agreement have made the Community's average industrial tariff the lowest in the world.

The Community has provided more than UA 3.65 billion in loans and guarantees for investment projects through its European Investment Bank. Under the ECSC Treaty, the steel industry has been reorganized and a single market has been formed for coal, steel, iron ore, and scrap. Investments in the coal and steel industries have been aided by Community loans totaling more than UA 1.19 billion by the end of 1973.

Energy: The enormous increase in oil prices in 1973-74 and the Community's heavy dependence on imported oil as an energy source have compelled the Commission to devise a new strategy for energy policy. This year the Council agreed to move toward a common energy policy.

According to the plan, nuclear energy and natural gas would become the Community's major sources of energy by the end of the century, reducing the Community's dependence on coal and oil to only a fourth of its total energy needs. In the short term, by 1985, imported energy's share of the Community's consumption would drop from 63 per cent to between 40 per cent and 50 per cent. At the same time, measures would be taken to rationalize EC energy use and drop the energy consumption level 15 per cent below pre-energy crisis forecasts.

The Community's coordination of member state efforts to develop nuclear power for peaceful energy purposes is being carried out by the Community's joint nuclear research center and its three branch establishments. By February 1974, Euratom had spent over $1 billion for nuclear research which has resulted in 1,463 patents and 5,000 scientific articles.

Economic and Monetary Union

In March 1971, the Community launched a three-stage plan for complete economic and monetary union (EMU). The first stage, which ended on December 31, 1973, attempted to coordinate member states' monetary, credit,and short-term economic policies and to combat inflation on a Community level. World monetary disorder and large increases in the price of raw materials limited progress, but the decision to move on to the second stage was made despite the failure to achieve all aims of the first stage.

At the Paris EC summit meeting, December 9-10, 1974, the nine heads of state or government reaffirmed the goal of EMU, resolved to work toward a convergence of member state economic policies, and called on the Council to draft appropriate guidelines.

Regional Policy Underway

The summitteers also approved creation of the European Regional Development Fund to be endowed with nearly $1.6 billion over the next three years. The fund will help underwrite projects to stimulate development and raise the standard of living in Europe's backward or industrially depressed regions. Italy, Britain, and Ireland will reap most of the fund's benefits.

Progressive Social Policy

Although many people perceive the European Community as an organization created solely to help business and industry, the Six set as a primary goal -- as stated in the Common Market Treaty-- "the constant improvement of the living and working conditions of their peoples."

Toward this end, the Community has spent some UA 225 million retraining over a half million workers in the coal and steel industries alone. Through UA 228.5 million in reconversion loans, new jobs in new industries have been brought to declining coal and steel regions. The Community has also helped finance nearly 138,000 dwellings for coal and steel workers. The Community's Permanent Committee on Mine Safety ensures that the member states adopt new safety techniques in the coal industry.

Through the European Social Fund, the Community has spent over UA 562 million promoting the "geographical and occupational mobility" of workers in every sector of the economy in the past decade. In 1973, the fund's scope was expanded to take account of EC enlargement and provide increased financial assistance within a Community framework to industries, vulnerable segments of the working population (such as migrant and handicapped workers, and regions with structural unemployment). The fund's budget has quadrupled over the last two years to UA 327.8 million for 1974.

In 1972, the Community created a standing committee on employment, instituted new social security rules for migrant workers, established vocational training program guidelines, and set up the first comprehensive plan for health care and environmental conservation. Proposals are under consideration to protect workers from mass dismissals by multinational corporations or. in the case of mergers, to safeguard the rights of temporary employees, and to help improve rehabilitation of the physically and mentally handicapped. The Community has consistently worked toward ensuring equal opportunities for all.

Although a common social policy for all the member states remains an overall goal, the Community encourages progressive social thinking on the national level. Each of the member states subsidizes building programs. Each member country gives workers incentives to accumulate wealth through wage investment and saving plans, profit sharing, and loans.

Social security expenditures in the Community are among the world's highest. Revenue for social security benefits comes primarily from employers and provides more benefits than the US system. Coverage includes health insurance, family benefits, and worker compensation. European workers do not have to wait until retirement to cash in on social security benefits.

Benefits to Consumers

Perhaps new consumer benefits since the Community's formation offer the best index of the Community's effect on the average man. Everyone is a consumer -- whether worker or businessman, student or housewife, city-dweller or farmer. Economically, consumerism is the one common denominator.

Since the Community's inception, European consumers have benefited from lower prices and a wider choice of products. Increased extra and intra-Community trade and strict enforcement of the Community competition policy have helped to raise the standard of living. In 1958, the year the EC was born, citizens of the original six member countries consumed an average of 2,856 calories per day (3,110 in the United States). By 1970, this amount had risen to 3,224 compared with 3,315 in the United States. Per capita meat consumption between 1958 and 1971 rose from 129 pounds to 175 pounds per year. Annual US consumption during that period rose from 191 pounds to 249 pounds per capita.

In 1960, only 78 persons out of 1,000 owned a car. By 1972, 237 people in a thousand owned cars in the Six and 233 in the Nine. US car ownership rose from 339 per thousand to 448 per thousand. World car ownership averaged 56 per thousand in 1972. Only 6 per cent of the EC population owned television sets in 1960 compared to 31.5 per cent in the United States. By 1971, more than 22 per cent of the Community's population owned sets, while in the United States, TV ownership had risen to 40 per cent.

During 1973, the Community initiated a major drive to protect consumer interests. An Environment and Consumer Protection Service was set up to coordinate, organize and give impetus to the Commission's work in this field. A consumers' advisory committee of EC consumer organization representatives and experts was also established to advise the Commission on forthcoming proposals.

The Council is currently considering a preliminary Community consumer information and protection program proposed by the Commission. The program calls for EC action to harmonize and improve national health and safety standards for a wide range of goods, especially foodstuffs and dangerous products; eliminate unfair and deceptive advertising and contracts, and supply of unsolicited goods; provide legal recourse for the consumer; require more complete labeling information, and establish fair pricing practices. Community action has already set hygiene standards for meat trading; limited animal feedstuff additives; subjected dangerous substances, such as hexachlorophene, to stiff packaging and labeling laws, and established common automobile safety standards for lights, exhaust emissions, brakes, inspections, and noise levels, for instance.

Model for World

In summary, the Community's linkage of social progress with economic growth has become a model for the world. When drawing up the adjustment assistance clause of the 1962 Trade Expansion Act, for example, US experts referred extensively to the Community's successful labor retraining programs and the European Social Fund as examples for future US policy. Former US Senator Kenneth B. Keating (D-NY) said at the time: "The most notable feature of EC trade adjustment since the Common Market Treaty took effect January 1, 1958, has been the almost total absence of serious adjustment problems for Community labor and industry..."

Political Cooperation

Though distinct from the Community institutions and the legal commitments that bind member states to the Treaty of Rome, political cooperation remains an essential part of the attempt to foster European unity.

At the 1972 Paris "Summit" meeting, the heads of member states of the Community decided to strengthen political solidarity by promoting closer coordination of their foreign policies. More frequent meetings of EC foreign ministers, who now meet at least four times a year, and continuing consultation within the Political Committee, a group composed of the political directors from each foreign ministry, have produced several joint EC positions where common foreign policy decisions have been desirable.

In 1973, the EC member states utilized political cooperation to present a common front on the most important issues at the Conference on Security and Cooperation in Europe. In June 1974, the EC foreign ministers agreed to establish flexible consultation procedures with the United States on matters of mutual concern. In addition, working parties have been set up within the Political Committee to study possibilities of coordinating foreign policy among the Nine in the Middle East, the Mediterranean area, and Asia.

III. MYTH AND REALITY

COMMUNITY AND US TRADE POLICY

MYTH: UNLIKE THE UNITED STATES, THE COMMUNITY IS DIFFICULT TO NEGOTIATE WITH BECAUSE RESPONSIBILITY IN THE COMMUNITY IS DIVIDED AMONG ITS INSTITUTIONS, AND MEMBER STATE VETO RIGHTS ARE STRONGLY UPHELD.

EC-US Similarities

REALITY: The situations with respect to the diffusion of governmental responsibility are similar in the Community and the United States. In certain matters, the Community member states reserve the right to reject proposed Community action. In the United States, the US Congress has the final say in many matters proposed by the Executive Branch.

When negotiating commercial policy agreements with third countries, the EC Commission conducts negotiations for the nine member states. Before negotiations can begin, the Council of Ministers must authorize the Commission to open and conduct the negotiations on the basis of a mandate approved by the Council.

This procedure can take time, but the final result is a clear mandate agreed to by all member countries. During negotiations, the Commission is assisted by a special committee appointed by the Council to ensure agreement on specific points. Thus, when Community representatives sit down at the negotiating table, there is little chance that agreements reached will be disapproved by a member country. Agreements which do not affect the Community treaties, like those on trade, do not require ratification by member state parliaments.

As for economic and industrial cooperation agreements with third countries, member states must consult and exchange information with the Commission before signing such accords, according to procedures adopted by the Council in 1974. The procedures cover both the text of proposed agreements and corresponding member state commitments and measures which may affect common EC policies.

The situation in the United States is similar. The US Executive Branch receives the approval of Congress to open negotiations. Unlike the Council of Ministers, however, Congress often reserves the right to give final approval to an agreement negotiated by the Executive. For instance, during the Kennedy Round negotiations in the General Agreement on Tariffs and Trade (GATT), Congress reserved the right to give final approval on any matter affecting the American Selling Price (ASP). (See pages 31-32 for details on ASP.) (The US representative during the Kennedy Round promised that the Administration would work toward Congressional removal of ASP.) To reciprocate, US trading partners including the Community, granted trade concessions on certain chemical products. However, because Congress had not yet rescinded ASP by the end of 1972, five years after the conclusion of the Kennedy Round negotiations, the Community withdrew its offer of additional trade concessions which had been dependent on ASP repeal.

In both the Community and the United States, more than one institution or branch of government plays a role in negotiating agreements with other countries. The Community approves agreements either before or while they are being negotiated. This is also true for the United States, except in special cases where agreements must still be approved after they are negotiated.

<u>MYTH</u>: "THERE IS NO REASON TODAY WHY THE UNITED STATES SHOULD INCUR SHORT-TERM ECONOMIC COSTS . . . FOR LONG-TERM POLITICAL ADVANTAGES."* FOR EXAMPLE, IT IS IN THE GEOPOLITICAL INTEREST OF THE UNITED STATES TO HAVE A STRONG AND UNITED EUROPE, BUT NOT AT THE COST OF TRADE AND PAYMENTS DEFICITS.

<u>REALITY</u>: The United States <u>has</u> enjoyed both short-and long-term economic gains as a result of European integration. These economic benefits include: growing US exports, a consistent US trade surplus with the Community, increasing US foreign investments, and an enlarged market for US goods in the African countries associated with the Community.

<u>US Trade Surplus with EC</u>

In 1958, when the Community was formed, US exports to the six Common Market member states amounted to $2.4 billion. In 1972, US exports to the Six came to $8.8 billion, an increase of 266 per cent, according to US Commerce Department statistics. During the same period, total US exports increased by only 177 per cent, again according to the US Government's own figures.

Between 1958 and 1972 US imports from the Six rose 429 per cent from $1.7 billion to $9 billion. Meanwhile, the Community has consistently exported less to the United States than it has bought from the United States. In 1972, for example, when the US trade deficit was $5.9 billion, according to US figures, the United States nonetheless ran a $165 million trade surplus with the Community. The Community's statistics put the US trade surplus with the Six higher, at UA 264 million. Since 1958, the United States has

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* Nathaniel Samuels, Deputy Under Secretary for Economic Affairs (April 1, 1969, to May 31, 1972), in an interview in <u>Vision Europe</u>, September 27, 1970.

run a consistent trade surplus with the EC averaging some UA 1.57 billion a year, according to EC figures. By 1973, following EC enlargement to nine member states, US exports to the Community had risen to $16.7 billion ($12.6 billion to the Six). The United States imported $15.5 billion in EC goods that year, running a trade surplus of $1.2 billion, according to US figures.

1973 US Trade Balance with the Community
($ millions)

	EC	France	Bel-Lux	Netherlands	Germany	Italy	Britain	Denmark	Ireland
US Exports	16,746	2,263	1,622	2,860	3,756	2,119	3,564	404	159
US Imports	15,508	1,715	1,260	923	5,318	1,988	3,642	459	203
	+1,238	+548	+362	+1,937	-1,562	+131	-79	-55	-44

Source: US Department of Commerce

US Profits From EC Investments

In the field of investment, the Community has been one of the fastest growth areas for American capital. Since 1958, the book value of US direct investment in the Six has grown eight-fold, rising from \$1.9 billion to \$15.7 billion in 1972. Investment in the Nine during 1973 totaled \$31.3 billion. In 1958 investment in the Community comprised only 6 per cent of the total American investment abroad. By 1973, US investments in the Nine had grown to about 29 per cent of the total US overseas investment (\$107.3 billion).

US investment abroad has increased employment in the United States and is "extremely favorable to the US balance of trade and the US balance of payments," according to a study of 125 US manufacturers published by the Business International Corporation in November 1972. "Without foreign investment by US companies, the economic position and power of the United States today would be far weaker than it is and the number of jobs in the United States would be much lower," the study reported. During 1973, US investments in The Nine earned \$4.8 billion of which over \$2 billion went toward balance of payments income.

More and more US products, from computers to detergents, are today produced in Europe and are no longer exported from the United States. In 1972, the last year for which figures are available, the sales of American manufacturing subsidiaries located in the Community of Six amounted to \$35.4 billion. This was an increase of \$23.9 billion since 1966. Thus, for 1972, the sales of US manufacturing subsidiaries were more than four times the value of total American exports to the Community and more than five times the value of exports of non agricultural goods.

Although small in comparison with American investment in Europe, investment in the United States has become more attractive to Europeans as a result of the major changes in currency parities over the past few years. Investment by the enlarged Community (except Denmark and Ireland) reached $9.9 billion in 1973 ($4.5 billion for the Six). British firms account for roughly half the total EC invest ment in the United States. Narrowing differences in US and European wage costs have also induced German and Dutch companies to expand their US investments.

COMMUNITY-US INVESTMENT (BOOK VALUE)
($ billions)

		EC-Six	EC-Nine
	1960	1972	1973
US investment in the Community	2.6	15.7	31.3
Community investment in the United States	1.4	3.9	9.9*

Trade With Yaounde Countries Boosted

The Community's high growth rate influences developments in other parts of the world, indirectly benefiting the US economy. The Community's growth is a powerful stimulant to trade. The fast growing Community import market has provided other countries with revenues to increase their exports, giving significant benefits to US trade. For example, US exports to the 17 African countries and Madagascar originally associated with the Community under the Yaounde Convention, although traditionally small, grew by 149 per cent between 1958 and 1972. During those years, Community exports to the Yaounde countries grew by only 104 per cent. EC exports to the Yaounde countries greatly exceed US exports, however. In 1972, for example, the United States exported $173.3 million in goods while

* except Ireland and Denmark

EC exports totaled $1.7 billion. In 1973 US exports to the Yaounde countries totaled $316.6 million, up 277 per cent from 1958. 1973 EC-Nine exports totaled $2.1 billion. (See pages 50-51 for further discussion of the Community and its associates.

<u>MYTH</u>: "THE EUROPEAN COMMON MARKET IS INCREASINGLY TAKING ON THE APPEARANCE OF A NARROW, INWARD-LOOKING PROTECTIONIST BLOC WHOSE TRADE POLICIES AS THEY AFFECT . . . INDUSTRIAL PRODUCTS INCREASINGLY DISCRIMINATE AGAINST NON-MEMBERS."*

<u>EC Industrial Tariffs Lower Than Those of United States</u>

<u>REALITY</u>: The Community's average industrial tariff following the completion of the Kennedy Round reductions on January 1, 1972, is 6.0 per cent. This is the lowest average tariff of all the principal trading powers. Both the US and the United Kingdom's average tariffs on industrial products are higher than the Community average. (See page 45 for effect of EC enlargement on UK tariffs.) Furthermore, because the Common Market countries harmonized their individual tariffs when creating their customs union, the Community tariffs are a more uniform height than those in other countries. They thereby avoid the "peaks" of many other nations' tariff structures which protect certain products.

<u>AVERAGE POST-KENNEDY ROUND TARIFFS</u>

(percentages)

	Raw Materials	Semi-mfd.	Finished mfd.	Industrial Average
Community	0.6	6.2	8.7	6.0
United States	3.8	8.3	8.1	7.1
United Kingdom	1.2	8.3	10.4	7.6
Japan	5.5	9.3	12.0	9.7

Source: Tariff Study, GATT, 1971.

Only 0.4 per cent of Community tariffs, compared to 13.6 per cent of US tariffs, are over 20 per cent.

*Senator Jacob K. Javits, <u>Congressional Record</u>, Vol. 115, No. 187, November 13, 1969.

MYTH: THE COMMUNITY'S VALUE ADDED TAX (VAT) IS A BORDER TAX WHICH UNFAIRLY TAXES IMPORTS AND SUBSIDIZES EXPORTS.

VAT--
An Indirect
Tax

REALITY: The VAT is an indirect tax which affects the cost of the European consumer's purchase in the same way a US sales tax affects US consumption. The VAT is recognized by The GATT as a valid fiscal measure which does not interfere with world trade.

The only essential difference between the VAT and a US sales tax is the method of application. The VAT is paid step by step at every stage of production, while the US sales tax is paid only at the consumer's point of purchase.

The common feature of these two taxes is their identity of purpose, namely taxation of the expenditure of final consumers, usually households. Since both taxes apply to domestic consumption, they are levied on all commodities, domestic and foreign alike.
A Frenchman choosing between a US-made shirt and a Community-made shirt must pay a tax on either purchase, just as a US citizen choosing between a Chevrolet and a Volkswagen pays federal and sometimes state sales tax on either purchase. Imports are taxed to put foreign and domestic suppliers on an equal footing.

Since both VAT and US sales taxes apply to domestic consumption, exports are exempt from taxation and any indirect taxes must be refunded. Tax relief on exports is necessary to avoid double taxation in countries which also levy an indirect tax on imports.

Under the value added tax, imports are taxed at the same rate as the corresponding domestic product, and exporters are rebated the amount of the domestic tax. Since foreign and domestic products are treated equally under the VAT system, the VAT cannot be considered a protectionist border tax.

DISC--
A US
Export
Subsidy

The United States, on the other hand, has what amounts to a tax subsidy for American exports. The Revenue Act of 1971 entitles Domestic International Sales Corporations (DISC's) to a tax deferral on half their earnings. To qualify as a DISC, a corporation must do 95 per cent of its business in exports; but any business may form a DISC as a "paper" subsidiary through which to channel export sales. By the end of 1973, some 3,500 companies had signed up for DISC status. Domestic critics of DISC point out that the tax deferral becomes, in reality, a tax exemption at an annual loss of up to $1 billion to the US Treasury.

The Community believes DISC violates Article XVl of the GATT. This question is being examined under GATT procedures.

MYTH: THE EUROPEAN COMMUNITY'S DISCRIMINATORY TRADING PRACTICES AND UNFAIR COMPETITION HAVE DAMAGED THE US TRADE BALANCE AND CAUSED THE OVERALL US BALANCE OF PAYMENTS TO DETERIORATE.

REALITY: Persistent US balance of payments disequilibria since the early Sixties were not caused by deficits on trade with the Community. The United States has consistently run a surplus on trade with the Community, averaging UA 1.57 billion during 1958-72, despite its overall trade deficit since 1971. In 1973, the US trade surplus with the Nine came to $1.2 billion, compared to trade deficits of $2.4 billion with Canada and $1.3 billion with Japan, according to US figures.

The true causes of US balance of payments disequilibria have been domestic inflation, low increases in productivity, and large capital outflows. Capital export controls, two dollar devaluations since 1971, and soaring world prices for agricultural goods (which boosted US 1973 farm exports) brought the US balance of payments into surplus in 1973. The US balance on current account showed a $667 million surplus in 1973, compared to a $9.8 billion deficit the year before.

Skyrocketing petroleum and raw material prices brought on by the energy crisis, however, moved the US balance into a $3.7 billion deficit through the third quarter of 1974.

1973 GENERAL TRADE FIGURES FOR THE NINE
(in millions UA)

	Imports	Exports	Balance
Intra EC	93.147.1	92,016.1	-1,131.0
World (Extra-EC)	89,506.9	84,561.5	-4,945.4
United States	15,459.9	13,537.9	-1,922.0
AASM*	2,464.3	1,794.8	-679.5
EFTA**	15,176.2	20,117.0	+4,940.7
Eastern Europe	6,242.2	6,672.2	+430.0

*Association of African States, Madagascar, and Mauritius

**European Free Trade Association

US TRANSACTIONS WITH THE EUROPEAN COMMUNITY, 1973

($ millions)

	Inflow	Outflow
Exports of Goods and Services	23,484	
Imports of Goods and Services		25,703
Net Unilateral Transfers (excluding military grants)		91
Net US Government Capital Flows	63	
Net US Private Capital Flows		4,227
Net Foreign Capital Flows	13,616	
Net Transactions in US Official Reserve Assets	63	
Net Errors and Omissions and Transfers of Funds Between Foreign Areas		7,204

(Source: US Department of Commerce "Survey of Current Business" June 1974 page 50)

MYTH: THE UNITED STATES IS THE MOST "OPEN MARKET" IN THE WORLD. UNLIKE MANY OF ITS TRADING PARTNERS, THE UNITED STATES HAS NOT RESORTED TO THE USE OF QUANTITATIVE RESTRICTIONS TO PROTECT ITS INDUSTRIES.

US Voluntary and Mandatory Quotas

REALITY: About 18 per cent of US industrial imports are controlled by voluntary or mandatory quotas. The 1972 value of industrial imports subject to quantitative restrictions was approximately $5.4 billion for the United States compared to $0.9 billion for the Community of Six.

From 1963 to March 1973, the number of product categories covered by US quantitative restrictions, including quotas and "voluntary" limitations rose from seven to 77.

The Community, on the other hand, has been steadily abolishing its quantitative restrictions. Between June 1968 and June 1973, the Six nearly halved the number of quotas, from 357 to 183. Although these figures are higher than those of the United States, they reflect an extensive amount of duplication, since the same products may be subject to restrictions in more than one member state. Figures are not available for the three new EC members.

<u>Countervailing Duties Conflict With GATT</u>

The US practice of imposing "countervailing duties" on imports of goods allegedly benefiting from a "bounty" or export subsidy is particularly disturbing to Europeans. The US countervailing duty statute, unlike countervailing duty practices of other nations, does not require a determination of injury to an American industry. This is in conflict with GATT rules. The Executive Branch has no flexibility in applying countervailing duties, which must be imposed automatically whenever imported products are found to be enjoying a subsidy, even if the goods are mutually beneficial items of trade which do not harm US industry or employment.

<u>Unfair Antidumping Practices</u>

Although there has been a decrease in the number of US complaints that the Community is dumping goods on the US market, recent changes in the US antidumping regulations cause Europe much anxiety. For example, one change allows the Secretary of the Treasury to determine the fair value of a product according to any method that seems appropriate, in cases where the home market price of an export is difficult to determine. Such discretionary leeway, the Community maintains, is incompatible with both the GATT and the Geneva Antidumping Code. One of the Community's main criticisms of US antidumping practices centers on the lack of sufficient investigation of "injury" before acting on a complaint and failure to carry on its formal injury investigation simultaneously with its investigation to determine the existence of dumping.

MYTH: THE UNITED STATES HAS FEW IF ANY NON-TARIFF BARRIERS.

REALITY: The US system of duty assessment constitutes almost as great a barrier to free trade as the uneven level of US tariffs.

Non-Adherence to the Brussels Tariff Nomenclature

Most of the world, including the Community countries, observes the Brussels Tariff Nomenclature (BTN), an international convention establishing a system of classification for virtually all goods traded in the world. For countries observing the BTN, duties are uniformly assessed on the sum of cost, insurance, and freight (cif).

The United States is one of the few major trading powers which does not use the BTN schedule. Instead, it has retained a complicated, arbitrary, and variable tariff structure of its own. The United States divides imports into three groups. Most duties are levied on the free on board (fob) price. Some 500 product categories, however, pay duty on the basis of their value in the American market or their fob value, whichever is higher. This US system of duty assessment breeds confusion.

The American Selling Price

ASP, another nontariff barrier, is the wholesale price of comparable American products, including all expenses and profits, determined by the US industry concerned. In practice, the ASP system, which violates the GATT, boosts the value on which duties are assessed by anything from two to four times the invoice value of the imported product. This means US producers have an ironclad price advantage in dealing with imports. In one field covered by ASP, synthetic organic chemicals, sales are made in bulk, and price is the decisive element in competition. In the dye field, the United States assesses duty on "standards of strength" determined as of July 1, 1914. This practice effectively doubles or triples the level of US duty.

In 1967, during the concluding days of the Kennedy Round trade negotiations, US representatives promised to work toward rescinding ASP in return for reciprocal tariff concessions on certain chemical products from the Community, the United Kingdom, and other nations. But Congressional approval was required. Congress had not rescinded the ASP by December 1972, so the Community, after extending the deadline for the package deal several times, finally allowed it to expire. (For additional reference to ASP see page 17.)

Representative Wilbur D. Mills (D.-Ark.) and other Congressmen have taken the position that the United States, in giving away its "only" nontariff barrier, ASP, should ask for further concessions from its trading partners over and above the deal struck in Geneva in 1967. In other words, the horse should be sold twice.

The "Buy American" Act

The "Buy American" Act requires the national Government to purchase American-made products unless domestic products are not available or unless the domestic product is over 6 per cent more expensive. The Pentagon applies a 50 per cent price differential and also maintains a long list of products including food and clothing which cannot be purchased abroad at any price. Other countries, including those in the European Community, practice "administrative discretion" in their public purchases. In the United States, this is done particularly at the state and local levels.

Administrative Barriers

A wide variety of administrative controls also impedes or complicates Community exports to the United States. No foreign vessel, for example, can engage in shipping between two ports along the US coast. "Marks of Origin" require labeling of imports such as "Made in Italy" or "Made in Japan" which adds to production costs and can result in discrimination against foreign-made goods.

MYTH: RAPIDLY RISING JAPANESE EXPORTS TO THE US MARKET ARE DUE TO COMMUNITY PROTECTIONISM AGAINST JAPANESE PRODUCTS.

Increased Community Imports of Japanese Products

REALITY: Since 1958, Japan's exports to the Community have jumped from UA 117 million to UA 1.9 billion in 1972. During the same period Japanese imports of Community products rose from UA 139 million to UA 1.1 billion. In 1973, The Nine imported $3.6 billion in Japanese goods while exporting $2.4 billion to that country. Japan does not have as extensive trade with the Community as it does in the United States. In 1972, 31.1 per cent of Japanese exports went to the United States, and only 7.7 per cent to the Common Market. The difference is due to stiff competition in the European market and to natural barriers, not trade barriers.

Competition

Japanese firms and Community firms both concentrate in many of the same industries and produce many of the same products, such as consumer electronics, small automobiles, and textiles. As a result, Japanese exports find stiff competition in the European market. In addition, delivery time and service after sale give European products the competitive edge. For example, of the Community members only Italy limits the entry of Japanese automobile imports. Yet, in 1972, the Community of Six imported $147 million in cars as compared to more than $1.1 billion in cars imported by the United States.

Natural Barriers

The natural barrier of distance also limits Japanese exports to Europe. One ocean separates the American market from Japan; two oceans separate the European market from Japan. The additional transportation costs make the European market less attractive to Japan.

EC - Japan Commercial Treaty

While import controls and higher oil costs have sharply reduced Japan's overall trade surplus, its trade surplus with the Community has continued to grow. Japanese trade with the Community registered its first surplus in 1965 at UA 112 million. By 1972, the surplus had reached UA 796 million, according to EC statistics. Japan had a $1.2 billion surplus with the Nine in 1973 -- bringing in $3.2 billion in EC goods and exporting $4.4 billion to the Community.

Some EC member states still impose a few quantitative restrictions against Japanese products, similar to those of the United States. There are no EC restrictions, although the Community is monitoring the heavy influx of electronic calculator imports mainly from Japan which may have strained EC producer's competitive ability. The Commission is trying to improve trade equilibrium by increasing European exports to Japan rather than cutting back imports. Toward this end, the Community is negotiating its first commercial treaty with Japan to replace national treaties. The negotiations have been held up pending the conclusion of the Tokyo round of GATT negotiations.

This fall the Community opened a delegation in Tokyo.

MYTH: THE EUROPEAN COMMUNITY IS A RICH MAN'S CLUB. ITS TARIFFS ARE PARTICULARLY HARMFUL TO EXPORTS FROM DEVELOPING COUNTRIES.

Generalized Preferences

REALITY: On July 1, 1971, the European Community became the first trading power to extend generalized tariff preferences to developing countries' manufactured and semifinished exports and some processed foods. The one-way preferences eliminated some or all import duties for specific products without requiring tariff concessions for Community products in the developing world. The 96 developing countries which make up the so-called "Group of 77" of the United Nations Conference on Trade and Development (UNCTAD) initially benefited from the preferences. Now, 110 developing countries and 43 dependencies are eligible for EC preferences.

The Common Market has continuously supported UNCTAD in seeking generalized preferences and has fought hard to get other developed countries, particularly the United States, to agree to preferential treatment for developing countries. Special treatment was necessary to counterbalance the rich countries' trade benefits resulting from the GATT tariff cuts, the Community argued. Canada instituted a preference system in 1974. The United States, which has not yet extended generalized preferences, opposed the Community's proposals on the grounds that the Community planned to continue to apply specific preferences to African and European countries already associated with it. The United States also objected because many agricultural products were excluded while certain industrial products the United States wanted to exclude were not. Agreement was finally reached in the Organization for Economic Cooperation and Development (OECD) permitting the developed countries to submit their own plans. It allows some countries to exclude certain types of products from the developing world.

The American plan, incorporated in the proposed Trade Reform Act, would extend preferences to products designated by the President. It would exclude any product subject to US import relief measures or whose imports exceed $25 million or 50 per cent of total US imports of that article. Eligible articles must be imported directly from the developing countries and the value added must be at least a minimum percentage of the value of the article (between 35 per cent and 50 per cent).

The developing countries were particularly eager for industrial products to be included in generalized preferences. Through new investment and liberalized exports of industrial goods, developing countries can be sure of benefiting directly from generalized preferences. The main reason is that world demand is more elastic for manufactured goods as regards both price and quantity than for raw materials or agricultural products. Generalized preferences will lead to the establishment of factories to process raw materials on the spot, leading to industrialization of developing countries and improvement of their terms of trade.

The Community's generalized preference system has set up quotas on specific imports from developing countries to protect the Community industries. The ceilings are fixed each year by product and country of origin. In the case of products like textiles, where the developing countries are highly competitive, the ceilings are pegged 5 per cent above the previous year's total exports. For sensitive industrial products in general, the Commission has proposed reducing the list of protected items from 51 in 1974 to seven in 1975. (See pages 50-57) for further discussion of Community relations with developing nations.)

For non-sensitive products, the ceilings are almost totally non-restrictive. The industrial products ceiling rose from UA 340 million in 1971 for the Six to UA 900 million in 1973. In 1974, the first year the three new members applied the system, the ceiling was set at UA 2 billion. The textile ceiling rose from 19.4 thousand tons for the second half of 1971 to 42.6 thousand tons in 1973. The 1974 ceiling for the Nine was 68.2 thousand tons or about UA 500 million. Between 1971 and 1974, the number of processed agricultural product categories rose from 147 to 187, raising the potential trade impact from UA 45 million to UA 450 million. In December 1973, the Community added flue-cured Virginia-type tobacco to the preference list, the first time a basic agricultural product had been included.

Despite the threat of recession, the Community plans to maintain and expand its generalized preference system. The Commission has drafted a plan to revise the ceiling calculation system and raise the 1975 agricultural ceiling to UA 650 million and the industrial product ceiling to UA 2.3 billion. The Community's annual capacity for imports from developing countries is estimated at about UA 25 billion.

Since the eligible countries have not taken full advantage of the EC preference system, (only 42 per cent of the industrial goods ceiling was met in 1972) the Community will introduce a "reserve proportion" into the quotas in 1975. Individual countries' unused quotas could then be transferred into the reserve and made available to other countries.

MYTH: THE COMMON AGRICULTURAL POLICY (CAP) DAMAGES THE INTERESTS OF THE US FARMER WHO SEES HIS EXPORTS TO EUROPE INCREASINGLY DIMINISHED BY CAP'S TARIFFS ON AGRICULTURAL PRODUCTS.

Top Market for US Farm Goods

REALITY: American agricultural exports to the Community have consistently increased since the introduction of the common agricultural policy (CAP). In 1964, the last full trade year prior to the beginning of the CAP, American agricultural exports to the Six amounted to $1.4 billion. By the end of 1972, they had risen to a record $2.1 billion annually, according to US Department of Commerce statistics. Exports to The Nine in 1973 came to $4.5 billion. This $4.5 billion figure accounted for over a quarter of the $17.7 billion in total US farm exports during that year.

Viewed another way, the CAP has apparently had little adverse effect on US farm exports. Between 1964 and 1972, American agricultural exports to the Community have increased 49 per cent. Between 1971 and 1972 alone, US farm exports to the Community rose 15.4 per cent, while total US exports to the Community increased only 4.8 per cent, according to the US Department of Commerce.

American agricultural exports to the former nine-nation European Free Trade Association (EFTA),* which had no common agricultural policy, grew more slowly and declined relative to total farm exports. In 1958,US farm exports to EFTA amounted to $585 million; in 1972, $890 million, according to US statistics. As a percentage of total US farm exports, however, they declined from 15.2 per cent in 1958 to 9.5 per cent in 1972.

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*Britain, Iceland, Sweden, Norway, Finland, Denmark, Austria, Switzerland and Portugal.

In contrast, Community agricultural exports to the United States are smaller than imports from the United States. In 1958, the Community exported $205 million in farm products to the United States. By 1972, EC-Six farm exports had risen to $531 million. The Community thus had an agricultural trade <u>deficit</u> of $1.58 billion with the United States, according to US Statistics. In 1973, the Nine's farm exports to the United States totaled $1.12 billion or 13.2 per cent of total US farm imports.

MYTH: THE COMMUNITY'S SYSTEM OF AGRICULTURAL SUPPORT IS MORE DISCRIMINATORY AGAINST FOREIGN FARM GOODS THAN THE US SUPPORT SYSTEM.

REALITY: All major industrial countries support the incomes of agricultural workers. Governments seek to integrate agricultural workers into an industrial society and give them an adequate income. In the Community, where 9 per cent of the working population is employed in agriculture (over 50 per cent in certain regions of southern Italy), the political pressure for farm support is very great. Agriculture employs only 4 per cent of the US labor force. The lag in efficiency of the Community's agricultural economy poses social and political problems for Europe of such magnitude that they can be solved only by gradual reform of the basic farm economy structure. There are no short-term solutions.

Comparing Farm Support Systems

The CAP is based on a price support system including a variable levy or import duty on foreign goods. Most CAP products are quota free. The US system is an income support method combined with quantitative import restrictions. Therefore, while the farmer is protected under both systems, with few temporary exceptions, imports are not limited in the Community as they are in the United States. Although the Community was forced to impose a temporary embargo on beef imports when faced with excess production and limited storage capacity, it also instituted a program of delaying slaughter to remedy the situation.

Reduced Community Tariff for Oranges

The Community has also made allowance for certain US farm imports which may have been affected through EC trade arrangements with other countries or through enlargement. (see page 47). For instance in February 1972, the Community decreased its tariffs on citrus fruits from 8 per cent to 5 per cent from June through September to meet US objections to EC preferential arrangements with Morocco, Tunisia, Israel, Spain, and Turkey. The summer months are the peak season for US oranges, while the Mediterranean orange season occurs in the winter.

Following the GATT Article XXIV-6 renegotiations in connection with EC enlargement which were successfully concluded with the United States, among others, the Community tariff on fresh sweet oranges has been reduced even further and the period of application has been extended.

MYTH: THE COMMUNITY'S FARM POLICY IS BECOMING INCREASINGLY PROTECTIONIST AND WILL SERVE AS A STUMBLING BLOCK DURING THE UPCOMING GATT NEGOTIATIONS.

REALITY: On the contrary, the Community stands committed to working for free world trade in agricultural products. Every country maintains a certain degree of protectionism in the interest of it's farmers' welfare. However, the onslaught of inflation and problems of over-production of some products (beef), and shortages of others (sugar, grains, and soybeans) threaten to disrupt the orderly flow of trade and reverse the trend toward liberalization.

The Community is attempting to reform its own agricultural policy to restore a balance to consumption and production and to avoid protectionism. It is also working internationally to restabilize and liberalize farm trade. Commission officials maintain regular contacts with the Community's major trading partners, such as the United States, Japan, and Canada, to ensure the continued orderly exchange of goods. It is also negotiating new trade agreements with the developing and Mediterranean countries.

In addition to working through international forums such as the United Nations World Food Conference, the Community will participate in the GATT negotiations whose success it sees as a vehicle for further reducing trade barriers and for achieving a new economic equilibrium throughout the world. In the words of EC Commission Vice President in charge of external relations, Christopher Soames: "It is not by a theoretical argument as to whether such and such an agricultural policy is more or less protectionist than the next one that we are going to get places, rather it is by seeking common reciprocal international solutions to the problems that have beset agricultural trade in recent years that we shall make progress."*

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* Address to the Australian National Press Club, Canberra, September 6, 1974

BRITISH ENTRY--
IS IT A BOON OR A BUST FOR US EXPORTERS?

MYTH: THE UNITED STATES HAS LITTLE TO GAIN AND MUCH TO LOSE FROM EC ENLARGEMENT.

Enlarged Market Advantages

REALITY: With the accession to the Treaty of Rome by Britain, Ireland, and Denmark, the Community became a single trading group of 253 million people. By July 1, 1977, it will become a single market with one set of tariffs and harmonized regulations. American firms are accustomed and equipped to tackle such a market. They have the funds and the organization to sell successfully in that market, assets that European companies are only beginning to match.

The United States can gain much from British entry. In addition to the possibility that the United Kingdom may have a liberalizing effect on Common Market policy, the United States can take advantage of an enlarged market for its exports and investments.

UK May Have Liberalizing Effect

Both Britain and the Community depend more heavily on foreign trade than does the United States and thus have a greater economic interest in liberal world trade. In 1973, US export earnings (goods and services) accounted for 7.7 per cent of its GNP; Community exports accounted for about 20.3 per cent.

Moreover, the United Kingdom's tariffs on industrial goods will be gradually lowered to conform to the Community's common external tariff. Before entry, the United Kingdom's average tariff on industrial goods was 7.6 per cent, compared to the Community's 6 per cent tariff. (for post-Kennedy Round comparisons of tariffs on industrial goods, see page 23).

THE ENLARGED COMMUNITY -- A NEW PROFILE -- 1973

	Community of Six	Community of Nine
Area (thousand sq. miles)	449	589
Population ($ millions)	192.5	256.6
Gross National Product ($ billions)	843.2	1,083.7
Exports ($ billions)	86.1	102.1
Imports ($ billions)	81.3	108.0
Percentage of world exports*	16.6	19.7
Percentage of world imports*	15.4	20.4

Source: EC Statistical Office - 1973 figures

*Based on International Monetary Fund 1974 figures.

US TRADE WITH THE COMMUNITY -- 1973*

	Community of Six	Community of Nine
US Exports ($ billions)	12.6	16.7
As a percentage of total US exports	17.7	23.5
US Imports ($ billions)	11.2	15.5
As a percentage of total US imports	16.2	22.4

US TRADE WITH THE "THREE"*
($ millions)

US Imports	1972	1973	Per Cent Increase
Britain	2,987.1	3,642.1	22
Denmark	366.9	458.5	25
Ireland	151.9	202.5	33
Total	3,505.9	4,303.1	23
US Exports			
Britain	2,658.2	3,563.5	34
Denmark	257.7	403.6	57
Ireland	125.0	158.9	27
Total	3,040.9	4,126.0	36

*Source: US Department of Commerce

Myth: THE ENLARGEMENT OF THE COMMUNITY WILL CUT OFF ONE OF THE BEST MARKETS FOR US FARM PRODUCTS -- BRITAIN.

REALITY: Although import duties and agricultural levies did go up on certain US industrial and agricultural products in the three new members when they joined the Community, a US-EC agreement on a formula for reducing certain of those duties was reached in mid-1974. Products covered in the agreement include: unmanufactured tobacco (the second most important US farm export to Britain), oranges, grapefruit, raisins, liver, salmon, plywood, photographic film, certain types of paper, tractors, engines, pumps, and measuring instruments. These US exports are worth nearly a billion dollars annually. The accord was reached through negotiations under the GATT's Article XXIV-6. Negotiations are underway concerning certain types of grains. Grains are the top US farm export to Britain ($165.7 million in 1973).

Liberalizing Effect on CAP

The interests of the Three as food importers coincides with US export interests. As Common Market market members, they will work to hasten the reform of the Community's agricultural sector, including a lowering of the CAP support prices. As the farm population in the Community countries continues to shrink over the next decade, it will become politically possible for the Community to liberalize the CAP. British, Irish, and Danish participation in the Community could tip the balance toward a liberalization of tariff barriers that might not have been politically feasible without it.

MYTH: THE AGREEMENTS WITH THE MEMBERS OF THE EUROPEAN FREE TRADE ASSOCIATION THAT DECIDED NOT TO JOIN THE COMMUNITY THREATEN US TRADE INTERESTS.

Efta Free Trade Retained

REALITY: The European Community has negotiated agreements with all European Free Trade Association (EFTA) members (Iceland, Sweden, Finland, Portugal, Switzerland, Norway, and Austria) to prevent the growth of new trade barriers to Intra-European trade. These agreements conform to the GATT rules concerning free trade areas. Free trade in manufactured goods within EFTA -- that is, between the new Community members (Britain and Denmark) and the remaining members had been achieved. Without new agreements, enlargement would have curtailed the existing free trade between these nine countries.

The United States' total exports to the remaining EFTA countries grew nearly 30 per cent, from \$1.8 billion to \$2.3 billion, between 1972 and 1973.

US EXPORTS TO EFTA NON-CANDIDATE COUNTRIES -- 1973

(\$ millions)

US Exports to EFTA Minimal

Austria	118.3
Finland	132.6
Iceland	25.9
Portugal	232.2
Sweden	541.6
Switzerland	959.8
Norway	296.8
Total	2,306.6

Source: US Commerce Department

In no case did the US share of these countries' total imports exceed 10 per cent. The United States can hardly claim that these agreements will create a new pattern of trade with these countries or that it will be hurt since such trade is insignificant.

The new EC-EFTA agreements are subject to the review and approval of the GATT whose more than 80 members, including the United States, have a voice.

THE COMMUNITY AND THE WORLD

MYTH: "THE UNITED STATES HAS GLOBAL INTERESTS AND RESPONSIBILITIES. OUR EUROPEAN ALLIES HAVE REGIONAL INTERESTS."*

REALITY: Since the Community began, it has given close attention to relations with developing countries especially those linked by tradition to its members. The EC Treaty provided for the economic interests of Belgian, French, Italian, and Dutch overseas territories and dependencies, mainly in Africa and the Carribean. These provisions still apply to overseas territories. Had special relations been terminated, these new African nations would have faced economic ruin. These nations sent more than half their exports to the Community countries before the Common Market's creation.

Accepting a political responsibility, the Community granted association, at their request, to: Burundi, Cameroon, the Central African Republic, Chad, the Peoples' Republic of the Congo, Dahomey, Gabon, Ivory Coast, Mali, Madagascar, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo, Upper Volta, Zaire, and as of January 1, 1973, Mauritius. This association, governed by the Yaounde Convention, has resulted in an industrial free trade area as sanctioned by Article XXIV of the GATT. (For information on aid to these African states and Madagascar, see page 21; for more information on trade, see pages 27, 36-38.)

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* US Secretary of State Henry A. Kissinger addressing the Annual Meeting of the Associated Press Editors at New York, NY, April 23, 1973.

Other Community associates are: Greece, Turkey, the East African Community (Kenya, Uganda, Tanzania), Tunisia, Morocco, Malta, and Cyprus. The current and second five-year "Yaounde Convention" went into force on January 1, 1971.

Ties With Underdeveloped Commonwealth Countries

On joining the Community, Britain agreed to phase out Commonwealth tariff preferences. As a result, underdeveloped Commonwealth countries in Africa and in the Indian, Caribbean, and Pacific Oceans were invited to seek preferential trade ties with the Community. The Nine and the 47 "associables" (ACP countries) -- including the Yaounde associates and the East African Community nations -- have been negotiating a new five year treaty of association scheduled to go into effect on February 1, 1975. The new pact will supersede the two previous Yaounde conventions and the Arusha Convention signed by the Community and the East African Community.

During the EC-ACP ministerial meeting in Kingston, Jamaica, in July 1974, the Community agreed to stabilize ACP export commodity earnings by compensating for any drop in world prices below agreed reference prices. It also abandoned efforts to secure "reverse preferences" for EC exports on ACP markets. This step seems sure to silence US complaints.

MYTH: THE COMMUNITY'S PREFERENTIAL AND NON-PREFERENTIAL COMMERCIAL ARRANGEMENTS WITH MEDITERRANEAN, AFRICAN, AND ASIAN COUNTRIES DEMONSTRATE THE COMMON MARKET'S COMMERCIAL EXPANSIONISM.

REALITY: Certain countries do have special trade relations with the Community. However, these trade relations were in every case initiated by the third country concerned and cannot be considered economic expansionism on the part of the Common Market.

Four principal reasons led the Community to respond to their requests:

Historic Ties

- In the case of Tunisia and Morocco, association agreements were necessary to extend the special economic links which existed between these countries and France to the entire Community.

Future Membership

- In the case of Greece and Turkey, the agreements are designed to enable these countries to participate as full members in the European Community when their economies are sufficiently developed. Recently a new step in this direction was taken with Turkey (as with Greece) when that country accepted a schedule for gradually establishing a customs union with the Community.

Equal Treatment

- In the case of the three East African states--Kenya, Uganda, and Tanzania--the Community accepted requests for special trade relations for the sake of equity. The economies of these three countries are comparable to the economies of other developing African countries associated with the Common Market.

Equilibrium Maintained

- In the case of Spain, Israel, Malta, and Egypt, special trade arrangements are regarded by the Community as essential to maintain economic and commercial equilibrium among nations in the Mediterranean Basin.

Redefining Relations

The Community has opened negotiations to redefine its relations with the Mediterranean basin countries.

Non-Preferential Agreements

Non-preferential agreements are non-discriminatory as the preferences extended are given to all GATT members. The Community has non-preferential trade agreements with Yugoslavia, Brazil, India, Argentina, and Uruguay. The EC-Indian accord is also a commercial cooperation agreement. Similar agreements are being negotiated with Pakistan, Banglaḋesh, and Sri Lanka. Negotiations have begun with Iran to replace a non-preferential agreement which expired on December 1, 1973.

Exploratory talks have also begun to explore the possibility of negotiating some sort of trade agreement with Canada and Mexico.

MYTH: THE EUROPEAN COMMUNITY DOES NOT "SHARE THE BURDEN" IN AIDING DEVELOPING COUNTRIES.

Community Gives Proportionally More Aid

REALITY: US development assistance is greater in absolute terms than Community aid, but every Community member country contributes a higher percentage of gross national product (GNP) to the "Third World" than does the United States (see table, page 55). (US GNP is 41 per cent more than the combined GNP of the Nine.) According to the Organization for Economic Cooperation and Development (OECD), development aid as a percentage of GNP is the only valid comparison.

In 1973, according to OECD figures, the United States contributed .64 per cent of its GNP to developing countries. The Community member countries, on the other hand, contributed as follows: Belgium 1.10 per cent; France, 1.10 per cent; Germany, .51 per cent; Italy, .46 per cent; the Netherlands, 1.03 per cent; Denmark, .70 per cent; United Kingdom, .61 per cent. (All percentages include both government aid and grants by private voluntary agencies; figures for Luxembourg and Ireland, which do not belong to the OECD's Development Assistance Committee (DAC) are unavailable.

Thus, the Community comes closer than the United States to the DAC's goal of 1 per cent of GNP for aid to the Third World, and three countries -- Holland, France, and Belgium -- have surpassed it.

Common Development Policy

DAC figures include aid channeled by member states through Community institutions, as well as their bilateral aid programs. The Community created the European Development Fund (EDF) in 1958 to aid its members' overseas territories' social and economic development. The first EDF paid out $581 million. After many of these territories had achieved independence and the signature of the Yaounde Convention, the second EDF was formed. It was endowed with $800 million to spend over five years. The third EDF has $1.2 billion to spend over the same period. Nearly all EDF aid to the Yaounde associates is given in the form of outright grants.

Between 1958 and 1972, the Community also made available UA 142.3 million for loans to the Yaounde countries through the European Investment Bank (see page 9.)

Following is a breakdown of foreign aid, official and private, in 1973.

	Private Aid ($ Millions)	Total Aid ($ Millions)	Percent of GNP
Belgium	268.0	506.8	1.10
Britain	414.4	1,058.2	.61
Denmark	63.4	195.0	.70
France	1,234.3	2,800.1	1.10
Germany	458.8	1,790.0	.51
Ireland*	NA	NA	--
Italy	109.2	645.0	.46
Luxembourg*	NA	NA	--
Netherlands	275.2	612.1	1.03
EC total*	2,823.3	7,607.2	.73
United States	4,901.0	8,346.0	.64
Japan	3,654.3	5,844.2	1.42

Source: OECD Development and Cooperation Review 1974.

*OECD statistics are unavailable for Ireland and Luxembourg, which are not DAC members.

EC Food Aid Program

To alleviate hunger in famine or disaster stricken countries, the Community has given food aid since 1968. After the Kennedy Round of GATT negotiations, the Six agreed to supply 1,035,000 metric tons of grain a year as part of the 1967 International Food Aid Convention. In 1973-74, the Nine will supply 1,287,000 tons of grain. Without any international commitment, the Community also contributes powdered skim milk, butteroil, sugar, and powdered eggs to needy countries. The products donated are sold on the recipient country's local market with the resulting collateral funds used for financing development projects.

The Community also sets up emergency food aid operations to help disaster stricken countries. In 1973 alone, such operations involved delivery of 313,000 tons of cereals and 16,000 tons of skimmed milk powder to such countries as Bangladesh, Ethiopia, Pakistan, and the Sahel countries.

Aid for the Sahel Region

Since the EDF was set up, the Sahel countries (Mauritania, Senegal, Mali, Upper Volta, Niger, and Chad), have received UA 128 million for improving irrigation and stock breeding. When the peoples in the Sahel were hit by the prolonged drought, an EC emergency aid program was launched which by the end of 1973 had provided UA 60 million in cereals and milk supplies. UA 40 million in emergency financial aid has thus far been budgeted for the Sahel and Ethiopia in 1974.

MYTH: THE EUROPEAN COMMUNITY HAS HAD AN ADVERSE EFFECT ON EAST-WEST DETENTE.

Increased Trade

REALITY: On the contrary, by expanding trade with east European countries, the Common Market has been a harbinger of East-West detente. Brussels officials compare this trade trend with the effect of former President Richard M. Nixon's Moscow trip and West German President Willy Brandt's Ostpolitik. Between 1958 and 1972, trade between the Nine and the East European countries of the Council for Mutual Economic Aid (Comecon) grew from \$1.9 billion to \$9.7 billion. EC imports from those countries grew from \$1.1 billion to \$4.7 billion. EC trade with Comecon countries grew faster than trade with external countries as a whole.

EC Tariff Concessions

Beginning in December 1969, the Community established a policy of liberalizing quotas on products of special interest to East European countries. Romania, whose trade with the Community amounts to almost 50 per cent of its total trade outside the Eastern Bloc, has been included in the Community's generalized preference plan since January 1, 1974--the first official request from a Comecon country to a European Community institution.

The Soviet Union, though recognizing the Community as "a fact of life," has preferred to deal bilaterally with Community countries. After January 1, 1973, however, the EC Council of Ministers has decided that trade negotiations with East European countries will be conducted by the Community, instead of by its individual member countries. After that date, the conclusion of bilateral agreements between individual Common Market countries and Comecon states will no longer be permitted. Most trade agreements between the Community and East European countries will expire at the end of 1974. Then the Community will indeed be a "fact of life" for the East.

There has already been a noticeable change in the state trading countries' attitude toward the Community. On December 21, 1972, Soviet Communist Party Secretary Leonid I.Brezhnev said it was possible "to discover the elements of certain forms of relationship between the Common Market and Comecon . . . provided the countries of the Common Market abstain from any attempt at discrimination against the other party and permit the development of authentic bilateral links and pan-European cooperation."

Prospects for official Comecon-EC relations improved August 27,1973, when Comecon secretary Nicolai Fedeyev put forward the idea of negotiations to the President of the Council of Ministers, in Copenhagen. The Council replied, through the Danish Ambassador to Moscow that if Comecon wanted to approach the Community the appropriate body to deal with was the Commission. This year, Commission President Francois-Xavier Ortoli was invited by Fedeyev to meet with him in Moscow. The invitation is under study by the Community.

Background for Detente

Besides this functional approach through trade to a "generation of peace," the European Community's very existence has provided the necessary background for East-West detente. Without the Community, Western Europe today might have been this century's third world battleground instead of a source of political and economic stability.

Improved Relations With China

China already has strong commercial ties with the Community and its growing interest in and increased contact with EC and national officials raises the possibility of official Chinese recognition of the Community. The EC-Nine officially recognize China--Denmark was first in 1950; Ireland last, in 1972.

China welcomed the Community's enlargement in 1973. During the late French President Georges Pompidou's visit to Peking, in September 1973, Chinese Premier Chou En-lai told him, "We... support the peoples of Europe in uniting themselves to support their sovereignty and independence." He added: "The cause of European unity, if it is carried out well, will contribute to the improvement of the situation and the whole world."

The Community is China's second largest trading partner after Japan. For the first time in many years, the 1972 EC trade balance showed a UA 50 million deficit in favor of China that year. In 1958, the EC had a UA 197.7 million trade surplus with China. EC-China trade rose 54 per cent between 1958 and 1972, from UA 409.7 million to UA 630 million. Trade with the Nine rose from UA 546.7 million to UA 811 million during that period. Chinese exports to the Six rose 212 per cent from UA 106.7 million to UA 333 million. That country's imports from the Six, on the other hand, showed a slight drop from UA 303 million to UA 297 million during those years.

MYTH: SINCE WORLD WAR II, EUROPE HAS PROSPERED AT THE EXPENSE OF THE AVERAGE AMERICAN TAXPAYER WHO PAYS THE BILL FOR EUROPE'S DEFENSE.

REALITY: The United States maintains a military presence in Western Europe of more than 300,000 defense and defense-related personnel. The US commitment to the North Atlantic Treaty Organization (NATO) accounts for about $17 billion or about 22 per cent of the Defense Department's annual budget, but this figure includes the costs of all forces pledged to NATO in case of emergency, including some troops stationed in the United States and in other non-European parts of the world. Furthermore, this myth overlooks the basic reality: that the US military commitment to Europe does as much for Atlantic security as for European security.

Sharing Defense Burdens

Moreover, Europe's contribution to Atlantic security is steadily increasing. EC defense expenditures between 1972 and 1973 rose from $31.2 billion to $40.4 billion. (Figures for Ireland are not available.)

European forces (including Greece and Turkey) now comprise about 90 per cent of the ground troops, 93 per cent of the sea power, and 93 per cent of the air power of NATO forces in Europe. While the operating costs of maintaining US forces in Europe amount to about $ 7.7 billion, the EC countries in NATO (except Ireland and France) spend more than $30.2 billion annually on NATO, "America's first line of defense."

The burden borne by Europeans for their own defense is put into perspective when viewed in terms of their gross national product (GNP). While the United States spends 6.7 per cent of GNP on defense worldwide, but only about 1.3 per cent of GNP on defense of Europe, the Europeans spend about 4.5 per cent of GNP on defense, nearly all of it on defending Europe. Europe is indeed sharing the defense burden.

The House Foreign Affairs Subcommittee on Europe thus evaluated the European defense effort: "On most balanced measures of the Western defense effort, the NATO European countries seem to be providing a reasonable share of the collective defense. The burden of proof does seem to be on assertions to the contrary."*

The European Community, of course, is not directly involved with NATO. However, as the Community's political cohesion grows, common defense and foreign policies become foreseeable, indeed desirable. Until the day when a common European defense policy becomes a reality, the Community can and does seek to share the burden of US worldwide responsibilities in other, more appropriate ways.

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*"Turbulent Era: The Year of Europe in Retrospect, Florence, 1974," Report on the Fifth Meeting of Members of Congress and of the European Parliament, paper by International Institute of Strategic Studies (London), March 1974, House Foreign Affairs Committee Publication.

MYTH: THE EUROPEAN COMMUNITY'S PLANNED MONETARY UNION MAY HAVE AN ADVERSE EFFECT ON THE UNITED STATES AND THE ENTIRE INTERNATIONAL MONETARY SYSTEM.

REALITY: In February 1971, the Community launched a three-stage plan for economic and monetary union (EMU) by the end of the decade. There is no reason to fear that plans for EMU will adversely affect the United States or other trading partners. The results will be quite the contrary, providing advantages to the United States and benefiting, the entire international system.

With economic and monetary union, the domestic monetary policies of the member countries will be fully coordinated, opening the way for a "European unit of account." The situation will be similar to that in the United States where economic and monetary policy is determined by the federal rather than state governments. This will ease international coordination of economic and monetary policies. Such coordination will be more efficient when carried out between several large economic and monetary entities rather than small units, thus making a stronger and healthier trading partner for the United States.

In October 1972, the political leaders of the Nine reaffirmed their intention of proceeding with such a union by establishing a European Monetary Cooperation Fund, April 1, 1973, The second stage of EMU which will go through 1976, was begun this year. During this period, member states plan to continue working out conflicts in their economic policies and to consolidate other common policies. Employment and other social policies and regional policy have been marked for close attention during the second phase.

The consequences of the energy crisis on growth, employment, balance of payments, inflation, and instability of the international monetary system have slowed the pace toward EMU but also underlined the need for the Community to move toward that goal. The member countries can confront the current dangers by reinforcing their solidarity.

GNP. Gross national product, usually defined as the sum total of goods and services produced in an economy and net foreign investments. This term is not to be confused with gross domestic product which is the sum total of final goods and services, excluding intermediary production, produced within national borders, plus import taxes.

KENNEDY ROUND. Trade negotiations which took place in the GATT from 1964 to 1967. The impetus for the negotiations and US participation were made possible by the passage of the 1962 Trade Expansion Act. Resulted in lowering duties by some 35-40 per cent in industrial products, and somewhat less in agriculture, through agreements covering some $40 billion in world trade.

NONTARIFF BARRIERS. Provisions such as quotas, import regulations, buying policies, and freight rate differentials which restrict the flow of goods by means other than tariffs.

OECD. Organization for Economic Cooperation and Development.

UA. Unit of account. One unit of account equals one 1970 US dollar, 1.0857 1972 dollars, or 1.20635 1973 dollars. Units of account are the Community's basic accounting unit. They are defined in terms of the gold weight of a 1970 dollar. The Community did not change its definition after the US devaluation.

UNCTAD. United Nations Conference on Trade and Development.

VAT. Value added tax. An indirect tax which has the effect of a retail sales tax. Tax is collected on the value added to a product at each stage that the product passes before reaching the consumer.

YAOUNDE CONVENTION. Convention joining the Community to Madagascar and 18 African States which are former colonies of Community member states.

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