



EUROPEAN BACKGROUND INFORMATION COMMUNITY

EUROPEAN COMMUNITY INFORMATION SERVICE

2100 M Street NW, Washington DC 20037 Telephone (202) 872-8350

New York Office: 277 Park Avenue, New York NY 10017 Telephone (212) 371-3804

BACKGROUND NOTE

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TRADE TRENDS: THE EUROPEAN COMMUNITY AND THE UNITED STATES

INTRODUCTION

Two major events have occurred since the European Community last published a survey of its economic and trade relations with the United States, in November 1973:

- In January 1975, serious bargaining began in the Multilateral Trade Negotiations (MTN) within the General Agreement on Tariffs and Trade (GATT), more than a year after the official opening in Tokyo.
- The industrialized world was plunged into a major recession.

With these events in mind, this note presents up-to-date facts on trade between the Community and the United States. It makes no attempt to assess progress in the MTN or to examine current sources of friction between the United States and the European Community.

OVERALL US TRADE POSITION

The US overall trade position now looks better than the Community's, after a sharp dip in 1974. In 1974, soaring oil import bills cancelled out a large rise in US exports.

In 1975, a complete turnaround took place, as US exports rose nearly 10 per cent over their 1974 value. A large jump in the price index, however, hides a fall in US export volume as a result of the recession. Part of this improvement in the US trade balance can be attributed to the deterioration of the dollar vis-a-vis European currencies. (See Annex, Table 1.)

The three major trade partners of the United States are (in this order) the European Economic Community, Canada and Japan. The recession has affected American trade with all three, but in different ways. US exports to Japan, however, have fallen more than the average. US exports to the Community have increased

slightly, but US imports from the Community have plummeted.

US agricultural exports accounted for 22.6 per cent of total US exports in 1974, as compared with 25 per cent in 1973. US farm exports have nearly tripled since 1968. Judging from figures for the first 11 months of 1975, the US surplus on farm trade is likely to reach or exceed its 1974 record size. (See Table 2.)

THE COMMUNITY'S OVERALL TRADE POSITION

In contrast with the United States, the nine EC member countries have run a trade deficit every year but one since 1958 when the Community began. In 1972, the Community ran a surplus of 170 million units of account (UA)*. The Community's average annual trade deficit amounted to UA 4 billion between 1958 and 1974, a figure inflated by the massive deficit in 1974 largely due to the high cost of oil imports. (See Table 3.)

The Community's liberal trade policy toward developing countries, especially through its system of generalized tariff preferences, has boosted imports from those countries. The Nine's deficit on trade with the developing world has risen from UA 5.542 billion in 1972 to UA 8.825 billion in 1973 to UA 25.007 in 1974. Higher prices for oil and raw materials figured heavily in this deficit, but rises in imports of semifinished and finished goods also contributed to it. Between 1972 and 1973, they accounted for UA 1.4 billion of the UA 3.7 billion increase in the deficit. Detailed figures for 1974 (not yet available) are expected to show a further increase in the Community's imports of these goods from developing countries.

EC-US TRADE

Since 1958, US-EC trade has grown steadily and fast. Every year the Community has run a deficit on trade with the US. Rising living standards and lowered trade barriers have attracted US exports to the Community. While the average level of EC and US tariffs on finished and semifinished industrial products differ only slightly, the EC tariff is much more uniform. (See Table 4.) The Community has fewer very high tariffs than does the United States. Only 13.1 per cent of EC tariffs on industrial goods exceed 10 per cent and 2.4 per cent exceed 15 per cent. For comparison, 38.3 per cent of US industrial tariffs exceed 10 per cent and 23.7 per cent exceed 15 per cent.

The United Kingdom, Ireland, and Denmark, which joined the Community in 1972, have half completed the alignment of their customs tariffs with the Community's, and will finish on July 1, 1977. This process will result in a lowering of British and Irish tariffs which were higher than the Community's in 1972. For example, the British tariff on industrial products averaged 7.6 per cent compared with the Community's 6 per cent. (See Table 4.)

*The average annual values of the unit of account (UA) are the following: 1970 = \$1.00; 1972 = \$1.085; 1973 = \$1.25; 1974 = \$1.25, and 1975 = \$1.25 (estimated).

THE TRADE RECORD

The Community is the United States' most important trade partner for imports as well as for exports. It is, and has always been, a fast growing market for both US farm products and industrial goods.

Between 1958 and 1972, the Community's six founding members ran a deficit on trade with the United States, averaging UA 2 billion a year. In 1973, the Nine's deficit on trade with the United States reached UA 3 billion, and in 1974 UA 4.2 billion. Over the first nine months of 1975, this deficit reached UA 5.2 billion (\$6.2 billion) and most likely exceed \$8 billion by the end of the year. (See Table 5.)

The Community's huge deficit on trade with the United States in 1975 is explained more by the slump in US imports from the Community than by a large increase in US exports to the Nine. US imports from the Community dropped by \$2 billion during the year. Neither Canada nor Japan had such a setback in their trade with the United States.

The drop in EC exports to the United States in the first nine months of 1975 was especially steep in transport equipment (mainly cars, down \$375 million), mineral fuels (down \$437 million), and food and live animals (down \$142 million).

AGRICULTURAL TRADE

The Community is America's best market for farm products, buying about 25 per cent of total US agricultural exports. The Six increased their share of total US farm exports from 21.3 per cent in 1958 to 23 per cent in 1972. (See Table 6.) Between 1958 and 1972, US farm exports to the Six grew faster than those to the rest of the world. Farm exports to the Nine have also been rising fast, from \$2.7 billion in 1972 to nearly \$5 billion in 1975. From 1968 to 1974, US farm exports to the Community expanded by 203.5 per cent, as compared with a 253.7 per cent overall growth of US farm exports.

The Community has always sold far less farm products to the United States than it has bought from that country. Farm exports from the Six to the United States rose from \$205 million in 1958 to \$531 million in 1972, giving the United States a \$1.5 billion farm trade surplus. Farm exports from the Nine to the United States reached \$1.2 billion in 1974 and probably did not grow in 1975. In 1974 the US surplus on farm trade with the Community reached \$4.2 billion.

Table 1

TOTAL US TRADE
(in billions of dollars)

	Exports -----	Imports (Customs Value)	Balance -----
1971	44.1	45.6	- 1.4
1972	49.8	55.6	- 5.8
1973	71.3	69.5	+ 1.9
1974	98.5	101.0	- 2.5
1975 (Provi- sional)	107.2	96.1	+11.1

Source: "Highlights of US Import and Export Trade" :
US Department of Commerce

Table 2

US AGRICULTURAL TRADE
(in billions of dollars)

	Exports -----	Imports (Customs Value)	Balance -----
1968	6.2	5.0	+ 1.2
1972	9.4	6.5	+ 3.0
1973	17.7	8.5	+ 9.3
1974	22.3	10.4	+11.0
1975 (Jan.- Nov.)	20.1	8.7	+11.4

Source: Foreign Agricultural Trade of the United States (FATUS)

Table 3

COMMUNITY of NINE TOTAL TRADE
(in billions of units of account*)

	Exports -----	Imports -----	Balance -----
1958	22.102	22.654	- 1.552
1972	67.357	67.187	+ .170
1973	79.366	82.933	- 3.567
1974	109.023	124.861	-15.838
1975 (Jan.- Sept.)	83.378	85.371	- 2.093

Source: European Communities Statistical Office.

Table 4

AVERAGE TARIFFS ON INDUSTRIAL PRODUCTS
AND RAW MATERIALS (PERCENTAGES)

	Raw Materials -----	Semi-Finis. Products -----	Finished Products -----	All Industrial Products -----
EEC (Nine)	0.7	7.1	9.2	7.0
USA	3.8	9.1	8.2	7.5
JAPAN	6.0	9.6	11.5	9.8

Source: "Basic Documentation for the Tariff Study," General Agreement on Tariffs and Trade, Geneva, 1974.

*The average annual values of the unit of account (UA) are the following:
1970 = \$1.00; 1972 = \$1.085; 1973 = \$1.25; 1974 = \$1.25, and 1975 =
\$1.25 (estimated).

Table 5

COMMUNITY OF NINE'S TRADE WITH THE UNITED STATES
(in billions of units of account)

	EC Imports -----	EC Exports -----	EC Balance With USA -----
1958	3.952	2.622	- 1.330
1969	10.473	8.524	- 1.949
1970	12.300	9.306	- 2.994
1971	12.149	10.758	- 1.391
1972	11.783	11.594	- .189
1973	14.433	12.592	- 1.841
1974	19.405	15.182	- 4.223
1975 (Jan.- Sept.)	13.990	8.696	- 5.293

SOURCE: European Community Statistical Office

Table 6

US-EC (NINE) AGRICULTURAL TRADE (EXCLUDING COTTON)
(in billions of dollars)

	US Exports -----	US Imports -----	Balance -----
1968	1.8	0.4	+ 1.4
1972	2.7	0.8	+ 1.9
1973	4.4	1.1	+ 3.3
1974	5.4	1.2	+ 4.2
1975	4.5	0.9	+ 3.6

SOURCE: FATUS