The United States & The European Community

Their Common Interests

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Introduction

Drastic changes in the organization of the world economy since 1973 call for a third edition of this essay. In the past three years, exchange rates have been realigned, an international boom gave way to deep recession, reforms have been introduced into the world's monetary system, oil prices have quadrupled, and multilateral trade negotiations are in full swing.

Despite these changes and the resulting strains on the international economy, the partnership between the European Community (EC) and the United States, based on common interests, remains unimpaired. The Community and America can and must work together to help adjust the international economic system to changing circumstances.

The climate of EC-US relations can turn chilly, but impatience and anger are transient, while interdependence has become imperative. Neither the United States nor the Community could successfully pursue its objectives without the cooperation of the other. Their common political interests impel them to solve a variety of mutual problems.

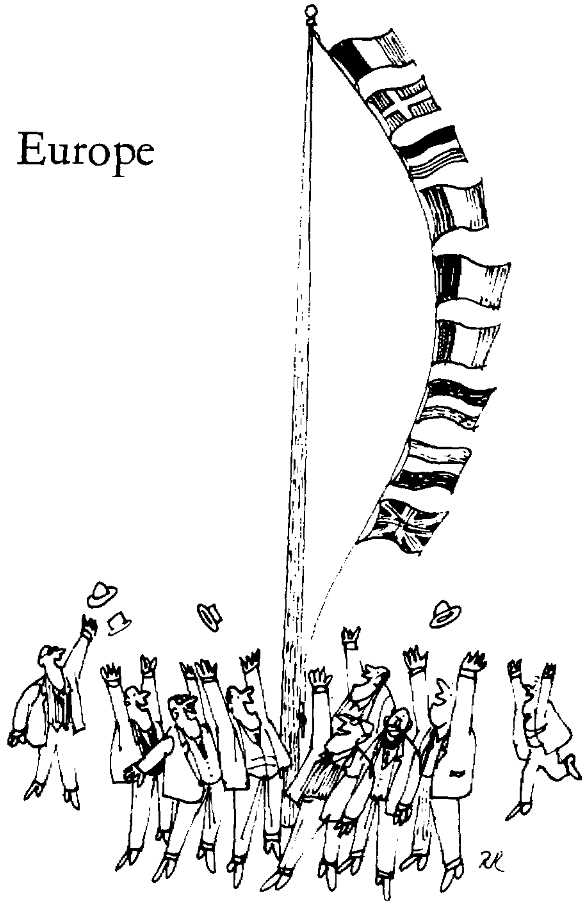
A US spokesman once said that the United States would no longer pay an economic price for Europe's non-existent political unity. This review indicates that the United States has benefited, not suffered, economically from Europe's nascent unity. The European Community today, although not yet united politically, is more than a great trading unit. It is an international entity, willing and able to work with the United States on the world's many problems.

The Community's enlargement to nine members makes its economy more comparable to that of the United States, thereby heightening awareness of its worldwide responsibilities and of the need to exercise a leadership role befitting its economic strength and cultural heritage. The European Community is becoming the "partner" that US postwar policy has consistently fostered.

The purpose of this booklet is threefold: to explain the effects of the European unification movement, to survey the frictions and misconceptions that have strained EC-US relations, and to analyze the political and economic means whereby their common interests are served.

CHAPTER I.

A United Europe



The impetus for the uniting of Western Europe arose from the identical European and American belief 30 years ago that major steps had to be taken to promote a permanent state of multilateral friendship and cooperation throughout a war-torn continent. In the spring of 1945, Europe's political and economic structures again lay in ruins. For the second time this century, the massive destructive power of national armies had brought death and physical devastation.

Old antagonisms between the European nation states had once more caused cataclysmic problems. But there were now two critical differences. The first was the rise of the United States as a world power. Emerging comparatively unscathed from World War II, America found itself in an international environment which precluded any revival of its traditional isolationism. The second factor was the threat of encroachment from the Soviet Union and the start of the Cold War. An international crisis was perceived, one which required extraordinary action.

To speed Europe's economic recovery, redirect national military might, and provide for the common defense, the United States financed the Marshall Plan and helped forge the North Atlantic Treaty Organization (NATO). But external economic and military aid could not save Europe indefinitely. The continent's political and economic fabric appeared to need radical change. Many people believed that it was the nation-state system itself that was delaying Europe's economic recovery.

Europe's First Step Toward Unity

Some people advocated nothing less than an Atlantic federation, marrying the strength and optimism of America to an exhausted Europe. But there was little support in the United States for sharing sovereignty and much fear on the part of Europeans that their distinctive cultures would be crushed in the embrace of the American giant.

The Atlantic option was preempted on May 9, 1950, when Jean Monnet and Robert Schuman proposed the creation of a European Coal and Steel Community (ECSC) to be run by supranational European institutions. Set up in 1952, the ECSC was a first step toward an economically and politically united Europe.

The US Government welcomed the initiative and gave its support to the creation in 1958 of the European Economic Community (EEC) and the European Atomic Energy Community (Euratom).[1] The United States later supported the Community's enlargement, in 1973, to include the United Kingdom, Ireland, and Denmark.

President Kennedy's Grand Design

American encouragement of Europe's search for unity found its fullest expression in President John F. Kennedy's Grand Design for an Atlantic partnership between the new Europe and the United States. The President summed up the mood of the times: "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. We will be prepared to discuss with a united Europe the ways and means of forming an Atlantic

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[1] Technically, the European Economic Community, together with the European Coal and Steel Community and the European Atomic Energy Community, comprise the "European Community" or "Communities." Their founding members were Belgium, France, Germany, Italy, Luxembourg, and the Netherlands. Denmark, Ireland, and the United Kingdom joined on January 1, 1973.

partnership . . . between the new union emerging in Europe and the old American union founded here 175 years ago."[2]

Internal Free Trade and a Common External Tariff

The EEC is based on a customs union backed by joint policies to promote economic integration. The customs union's most visible result has been the removal of traditional economic borders and barriers in favor of a larger, more efficient continental market. By July 1, 1968, well ahead of the timetable set by the EEC Treaty, the six founding members had achieved free trade in industrial goods, had erected a common external tariff on imports of manufactured goods from non-member countries, and had begun to develop a common foreign trade policy. One of the first signs of this policy was the Community's participation, as its members' representative, in tariff-cutting negotiations within the Geneva-based General Agreement on Tariffs and Trade (GATT).

The customs union is only one part of the Community's larger process of economic integration. Free movement of labor within the Community, the continuing attempt to dovetail national economic and monetary policies, the common competition policy, the common agricultural policy (CAP), and the increasingly sophisticated economic relationship between the Community and developing countries are all examples of EC policies which extend beyond the traditional customs union. One of these policies, in particular, has often been a source of misunderstanding in the United States—the farm policy.

Common Farm Policy

The Community's farm policy replaced the member nations' nine separate agricultural policies with a single policy. It was designed to open up agricultural trade among member states, stabilize markets, guarantee adequate supplies at fair consumer prices, and increase the efficiency of Community farming. These objectives have largely been realized.

A policy of agrarian reform has also been launched to speed up the already fast decline in the number of farmers and farm workers. The Community employs 13 workers out of 100 in agriculture, while only four out of 100 American workers are on the land. For the first five years of the farm reform plan, the Community earmarked $900 million to help farmers modernize and enlarge their holdings, to retrain farm workers for jobs in other industries, and to pay older farmers retirement pensions.

The common agricultural policy is based on common prices for major

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[2] Kennedy, John F. *Independence Day Address*, Philadelphia, Pa., July 4, 1962.

products, variable levies that align the prices of imports with Community prices, and a common farm fund that uses proceeds of import levies to buy farmers' produce when prices fall below set prices. Import levies protect Community farmers' income, while export levies benefit Community consumers by keeping scarce products at home. Part of the farm fund pays for farm modernization.

Like farm policies around the globe, the CAP tries to protect farmers' incomes. It thus, necessarily, gives preference to Community farm produce. The CAP is also tilted against major Community food importers, like Britain, Germany, and Italy, in favor of France and other exporting member countries.

CAP: An American View

The CAP has incurred the wrath of American administrations since its creation. Just after the opening of the Tokyo Round of GATT negotiations, the US Secretary of Agriculture Earl L. Butz summarized US complaints in the agricultural sphere in the following manner: "Some of our major trading partners—the Common Market and Japan particularly—want to negotiate their industrial and agricultural sectors separately because they want to protect their highly subsidized agricultures . . . we gave in and agreed to such a separation in the Kennedy Round. Barriers on manufactured goods were lowered—but our farm products were held back from Western Europe, Japan, and other markets. This unwise strategy in the Kennedy Round contributed heavily to our recent balance-of-payments problem and our dollar devaluations."[3]

The situation is not as clear-cut as US critics indicate. Typical of the conflicting point of view is the conclusion by another agricultural expert: "Even with obstacles that the EC erects against imports, with its high volume and dependability, it is still a tremendous market for the American farmer."[4]

Commented another: ". . . the key to greater stability in the world market for both the United States and the [Community] . . . is cooperative negotiation, such as is taking place in the multilateral trade negotiations in Geneva. Both the US and EC negotiators realize that to sell one also must buy."[5]

Forging a common agricultural policy was an essential factor in the

[3] Butz, Earl L. *Address* at the Indiana Farm Bureau Convention, Indianapolis, Ind., December 10, 1973.

[4] Thomson, Jim. "Common Market Unhappy With US Protectionism," *Wisconsin Agriculturalist*, Racine, Wis., November 8, 1975.

[5] Doughty, Tom. "Will We Be Selling Less to the Common Market?" *The Farmer*, St. Paul, Minn., December 1975.

creation of the Community. It was demanded by France, one of the most efficient farm producers in the original Community, in return for exposing French industry to its German competition.

The CAP cost the Community $6 billion last year, and a series of reforms are now being weighed. Suggested improvements involve cost reduction, market balance by product and by region, and long-term production and consumption forecasting.

The Community's farm modernization incentives should also make it increasingly easier, politically, to follow an economically realistic farm policy. But sweeping socio-economic changes take time.

Some CAP Facts and Figures

The Community remains by far the best market for US farm products. In 1975, US sales of farm products to the Community amounted to $5.6 billion, a quarter of all US farm exports.[6]

The answer to recent US balance-of-payments deficits does not lie in EC-US farm trade. In fact, the Community has always bought more farm produce from the United States than the United States has bought from it. In 1974, the Community ran a farm trade deficit of $4.3 billion with the United States.[7]

In one area alone, fats and oils, the United States increased its exports to the Community of Six from $96 million in 1958 to $937 million in 1972, due mainly to the CAP's encouragement of animal husbandry and dairy production. In 1974, US exports of fats and oils (mainly soybeans and cakes) to the Nine amounted to $1.8 billion, despite the US temporary embargo on soybean exports.[8]

The US share of the Community's agricultural market has also grown. In 1958, the Community of Six bought 21.3 per cent of US farm exports, 21.7 per cent in 1964, and 22.4 per cent in 1972. In 1974, the Community of Nine bought 25 per cent of all US farm exports.[9]

The Nine: The World's Biggest Trading Power

Successive US Administrations attached high importance to Britain's casting its destiny with continental Europe. Clearly, the United Kingdom's, Ireland's, and Denmark's accession to the Community was an event of major importance to the United States and every trading na-

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[6] US Department of Commerce.

[7] According to US Commerce Department statistics, US imports of EC farm products totaled $1.2 billion, 11.6 per cent of all US farm imports in 1974.

[8] US Department of Commerce.

[9] *Ibid.*

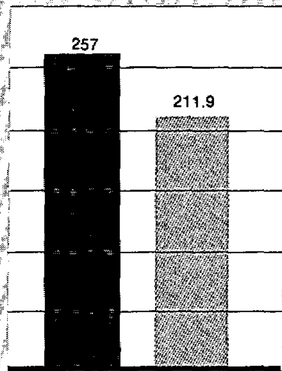
The Enlarged Community

a new profile — 1974

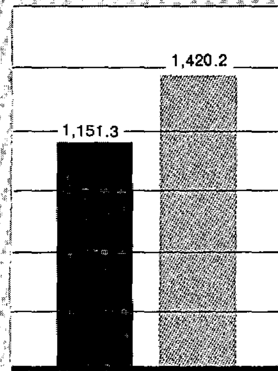
■ *Community of Nine*

▨ *United States*

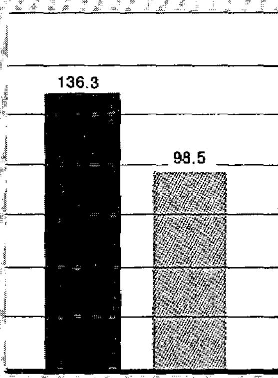
POPULATION
(millions)



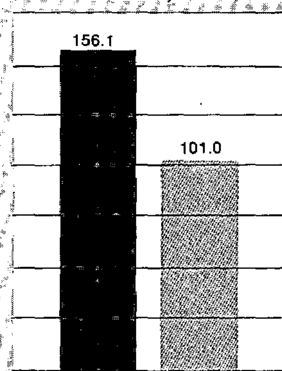
GROSS DOMESTIC PRODUCT
(millions of dollars)



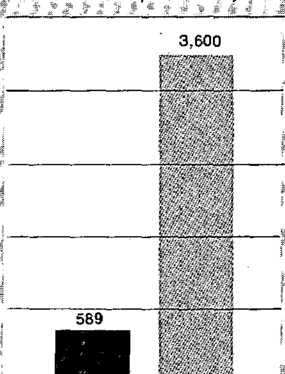
EXPORTS
(billions of dollars)



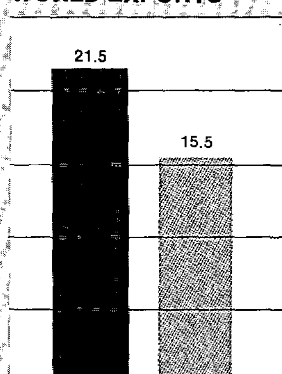
IMPORTS
(billions of dollars)



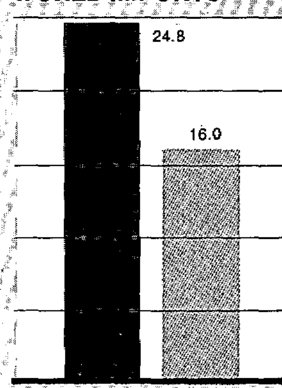
AREA
(thousands of square miles)



PERCENTAGE OF WORLD EXPORTS



PERCENTAGE OF WORLD IMPORTS



Source: European Community Statistical Office tion.[10] The enlarged Community is the world's most important trading power.

In 1973, the first year of the enlarged Community, US exports to the Nine reached $16.7 billion, 23.5 per cent of all US exports. US exports to the United Kingdom, Denmark, and Ireland increased by 22 per cent, 25 per cent, and 33 per cent, respectively, compared with 24 per cent growth of total US exports.[11]

These figures and the healthy development of US-EC commercial relations during the lifetime of the Community of Six strongly suggest that the impact of the Community's enlargement will benefit not only US-EC trade but also US investments in the Community, which make an increasingly important contribution to the US balance of payments in the form of repatriated profits.

New Members Lower Their Tariffs

Although the Community's enlargement inevitably broadened the area of tariff discrimination against US goods, it lowered the average level of duties on American exports entering the combined market of the Nine. The United Kingdom's average post-Kennedy Round industrial tariff level of 7.6 per cent will drop to the Common Market's average level of 7.0 per cent by July 1977. The average US industrial tariff level is 7.5 per cent.[12]

Then, too, the Community, under the GATT's Article XXIV-6 reduced tariffs on products such as textiles and clothing, paper, photographic equipment, and pharmaceutical supplies, which the United States claimed would be raised as a result of the Community's enlargement. The Community felt no obligation to do so, because enlargement reduced many tariffs for US exports. Generally speaking, the trading relationship between America and the Community should continue to be mutually beneficial.

[10] To prevent the reimposition of tariff barriers as a result of the Community's enlargement, the Community signed free trade agreements with Britain's former partners in the European Free Trade Association (EFTA). They were: Iceland, Sweden, Portugal, Switzerland, Austria, Norway, and associated Finland.

[11] US Department of Commerce.

[12] *Tariff Study*, General Agreement on Tariffs and Trade, Geneva, March 1974.

CHAPTER II.

Shared Worldwide Economic Aid Responsibilities

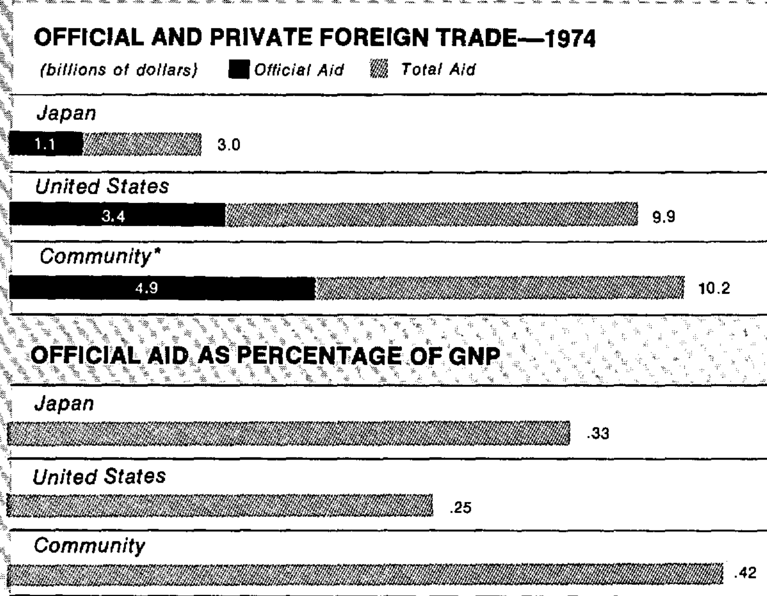
Since the postwar recovery, Community members have cooperated in giving economic aid to the developing world. The Community spends more of its national wealth on economic aid than does the United States.

Preferential Agreements as Aid

Bowing to the wishes expressed by the developing countries, the Community also gives aid by encouraging them to export under generalized and specialized preferences.

The Community's imports from developing countries amounted to $73.3 billion in 1974. The Community has consistently run a deficit on trade with the developing world, more than $31.3 billion in 1974, while the United States traditionally runs a surplus.[13]

[13] Statistical Office of the European Communities.



* Excludes Ireland and Luxembourg which do not participate in OECD's Development Assistance Committee (DAC), the source of these provisional figures.

One preferential arrangement—the Lomé Convention grouping 46 African, Caribbean, and Pacific (ACP) countries[14]—includes features to stabilize the ACP's export earnings. This convention rationalizes and extends special trade relationships in existence before Community membership between one or more Community members and the ACP's. Eighteen of the ACP countries are on the United Nations (UN) list of "poorest" countries. The per capita GNP of these 18 countries averaged $148 in 1971, compared to the EC average of $2,743 and the US average of $5,162. In 1973, the ACP's sold $6.2 billion of their exports to the Nine, nearly half their total exports.[15] Had special trade rela-

[14] Bahamas, Barbados, Benin, Botswana, Burundi, Cameroon, Centrafrican Republic, Chad, Congo-Brazzaville, Equatorial Guinea, Ethiopia, Fiji, Gabon, Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Guyana, Ivory Coast, Jamaica, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Tonga, Trinidad and Tobago, Uganda, Voltaic Republic, Western Samoa, Zaire, Zambia. Surinam, the Seychelles Islands, the Comoro Islands, Sao Tome/Principe, the Cape Verde Islands, and Papua New Guinea have asked to join the convention.

[15] Statistical Office of the European Communities.

tionships not been continued with the newly enlarged Community, these nations would have been forced to shoulder an even heavier burden of economic problems.

The Lomé Convention gives the ACP countries free access to the Community market for 99.2 per cent of their exports. Community development aid during the five-year life of the treaty will total more than 3.4 billion units of account (UA),[16] most of it in the form of grants. An additional UA 400 million has been earmarked to protect the ACP's from sharp drops in prices or demand.

Generalized Tariff Preferences

Despite its preferential agreements, the Community was the second trading power (after Australia) to enact a system of generalized preferences, granting developing countries tariff advantages on their industrial exports. This system went into effect on July 1, 1971, and has been expanded each year since then. The US system went into effect on January 1, 1976.

Granting developing countries tariff preferences by industrialized countries is based on the theory that between unequal trading partners, equality oppresses while unequal treatment restores justice. Tariff preferences involve giving up all or part of the customs duties levied on goods imported from specific countries. These preferences are not reciprocal, since the beneficiaries do not have to reduce their own tariffs, non-discriminatory because they are granted to all developing countries, and generalized because they are to be granted by all developed countries.

Under the Community system, developing countries' manufactured and semimanufactured goods enter duty-free up to tariff quota ceilings. The system has been expanded to include 104 countries and 43 dependencies and covered trade worth $2.88 billion in 1975. Tariff preferences are also given to processed farm goods and covered trade worth $600 million in 1975.

Joint Action on World Hunger

The Community also contributes to the world food aid program. In 1975, the Nine supplied 1.3 million metric tons of grain under the 1968 Food Aid Convention, compared to the US 1.9 million metric tons. Like the United States, the Community contributes other products, without any international commitment, to needy countries, and is working on a worldwide stockpiling system within the UN Food and Agriculture Organization (FAO).

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[16] One unit of account used for calculating aid is defined in terms of a basket of Community currencies. Its dollar value ranged from $1.31 to $1.16 in 1975.

Some Not-Strictly Aid Assistance

The Community also gives aid through other not-strictly aid arrangements.

Under the Mediterranean policy, for instance, trade and cooperation agreements are being negotiated to end discrimination which came about when the Community took over France's special links with Morocco and Tunisia. To avoid political partiality, the Community also has agreements with Malta, Cyprus, Egypt, and Israel. These countries do a major part of their trade with the Nine, and most of them are either contiguous European nations or former dependencies of EC members.

Where US complaints of export damage from preferential agreements have proven justified, the Community has made adjustments. This was the case in the "citrus war," which the Community ended by making unilateral tariff concessions on citrus imports from June through September, California's peak growing season. Since the Mediterranean season ends in May, the Community could make this adjustment without harming Spanish, North African, and Israeli exports.

The Community also has two association agreements, with Greece and Turkey, two countries too underdeveloped to aspire to full membership in the early Sixties, but which could some day join. Both agreements provide development aid to strengthen these countries' economies and allow them to align their tariffs gradually with the Community's, more slowly than did the original members. On June 12, 1975, Greece asked to be considered for full membership.

The Enlarged Community's Responsibilities

Even though the Community is proud of its record, it is the first to admit that there is always room for improvement. Its and its members' aid policies are being sifted in the hope of improving the effectiveness of its economic aid. The enlarged Community is convinced that "There can be no real peace if the developed countries do not pay more heed to the less favored nations . . . conscious of their responsibilities and particular obligations, the Nine attach very great importance to the struggle against underdevelopment. They are, therefore, resolved to intensify their efforts in the fields of trade and development aid and to strengthen international cooperation toward these ends."[17]

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[17] Heads of State or Government of the European Communities' Nine Member Countries. *Declaration* on Europe's Identity, Summit Meeting, Copenhagen, December 14, 1973.

CHAPTER III.

Reducing International Economic Strains

A number of prevalent assumptions in the United States color its trade relations with the Community. These assumptions include:

- Imports threaten a number of important US industries with injury or ruin, and consequent loss of jobs. Textiles, automobiles, shoes, steel, and consumer electronics are the industrial sectors most often cited, along with the dairy sector of agriculture, as being vulnerable.
- Many US products can no longer compete in world markets.
- The United States is the world's "most open" market.
- Successive US administrations played the role of the beneficent uncle and failed to obtain enough concessions in postwar tariff cutting talks.
- The Community's preferential arrangements with less developed countries (LDC's) are on balance bad.

But despite these assumptions, US-EC relations were aimiable, even idealistic through the early Sixties, until they deteriorated under the pressures of economic change. Europe's continued economic and political recovery was in the national interests of the United States, and a close working relationship with the United States was in the Community's interests. However, few people on either side of the Atlantic were prepared for the speed of international economic change. Although the United States never became poorer or weaker in absolute terms, the resurgent Community gained economic power in relation to the United States. As Europe's strength grew, American complaints proliferated. A succinct summary of the prevailing mood was voiced by a senior US Senator: "I regret that the European Common Market is increasingly taking on the appearance of a narrow, inward-looking protectionist bloc whose trade policies as they affect agricultural as well as industrial products increasingly discriminate against non-members."[18]

Some European Complaints About US Policy

Some Europeans accused the United States of dominating the world with its technology, of exploiting the primacy of the dollar to buy up European industries, and of protecting its less efficient industries from the first breath of international competition.

It is true that, like other nations, America protects its economy. With more than 20 per cent of US imports by value controlled by voluntary or mandatory quotas and the US market surrounded by as many nontariff barriers as most other trading powers have, it is hard to see how the United States could be termed "the last open market." The United States maintains quotas or similar devices on textiles, wool, cotton, meat, wheat, and dairy products, among others. Imports of other goods, such as steel, have been restricted by enforced "voluntary" export restraints. It is true, however, that the United States imposes fewer quotas on imports from Japan than does Western Europe.

The US average tariff level of 7.5 per cent is slightly higher than the Community average of 7 per cent,[19] but the high peaks in the US tariff schedules are more restrictive than the more evenly distributed EC duties.

Some US Complaints About European Policy

American politicians and businessmen often accuse the European Community of erecting new nontariff barriers (NTB's) to imports to replace the tariffs reduced in the Kennedy Round of GATT negotiations. The

[18] Javits, Jacob K. *Congressional Record*, Vol. 115, No. 187, November 13, 1969, S 14253.

[19] *Op. cit. supra* at 12.

European Community sees this situation differently.

All countries have rules or policies, in addition to customs duties, which may restrict imports or favor exports. Most of these practices were prompted by domestic reasons and only inadvertently affect international trade. Nontariff barriers include import quotas, customs valuation procedures, public procurement policies, border tax adjustments, antidumping regulations, technical and health regulations, and export subsidies. A GATT working party has catalogued more than 800 NTB's which may restrict trade. The United States has its share of NTB's, as does the Community.

Toward Protectionism or Liberalization?

The US Trade Reform Act of 1974 authorizes the Executive Branch to reduce American trade barriers but also eases the path for new import barriers. The bill makes it easier for workers and industries to collect adjustment assistance when import competition causes injury. But the bill also liberalizes the criteria for invoking the "escape clause" to provide for increased tariffs or quotas when industries or workers can show that imports are a "substantial cause of serious injury, or the threat thereof," to the domestic industry. "Substantial cause" is defined as being "important and not less than any other cause."

Using the new legislative guidelines, the US International Trade Commission (formerly called the Tariff Commission) in early 1976 determined that imports of footwear and specialty steels were injuring those two industries. Increased tariffs were recommended for footwear and quotas for specialty steel. In both cases, the question of real injury was dubious and incomplete. More important is the fact that these findings could encourage other industries to apply for similar protection, whether or not they have a legitimate need. That the Trade Reform Act of 1974 has whetted the appetite of protectionist forces by liberalizing and expanding the criteria for restricting imports can be seen by the fact that within 10 months of the bill's passage, 51 petitions for import relief had been filed. This was occurring while the overall US trade surplus was reaching historic highs.

US Countervailing and Antidumping Duties

The European Community is disturbed by other protectionist measures.

The US Treasury Department imposes "countervailing" duties on 11 imports of goods allegedly benefiting from a "bounty" or export subsidy. The US countervailing duty statute, unlike countervailing duty practices of other nations and in conflict with GATT rules, does not require a determination of injury to an American industry. The Executive Branch has no flexibility in applying it. It must be imposed automatically whenever an imported product is found to be enjoying a bounty, even if it is a mutually beneficial item of trade which does not harm American industry or employment.

There has been a slight decrease in the number of US complaints that the Community is dumping goods (selling them at below domestic prices) on the US market. But recent changes in the US Antidumping Regulations cause the Community some 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 to him 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, both of which define an import's value either in relation to the price on the exporting country's market or in relation to the export price to a third country or to the product's production cost.

In August 1975, the United Auto Workers filed the biggest antidumping complaint in US history, alleging that the Community and other car exporters were selling cars in the United States at prices below those on their home markets. In 1974, Community car exports to the United States amounted to $2.5 billion, as compared with total US car imports of $7.5 billion. The Community, expressing regrets about the investigation, pointed out that these steps were being taken even though "the Treasury's statement itself suggests there is substantial doubt that imports are causing injury to the US industry" [20] and in the absence of a complaint by the industry.

Speaking in favor of imports as a damper on inflation, a distinguished American economist put his finger on a more likely cause of the US car industry's troubles: ". . . it was imports which finally persuaded the US automobile industry to at least begin manufacturing smaller cars—without which the energy crisis would be costing us even more dearly, in terms of both jobs and prices. . . ."[21]

US Customs Assessment

In the area of customs classification and nomenclature, most of the major trading nations, in 1950, adopted the Brussels Tariff Nomenclature (BTN) which defines customs values and prescribes a uniform system of

[20] Commission of the European Communities. *Note Verbale* to US Department of State, Washington, August 8, 1975.

[21] Bergsten, C. Fred. *Statement* of the Consumers Union of the United States, Inc. Before the Trade Policy Staff Committee, Washington, July 28, 1975.

duty assessment based on a standard nomenclature with a limited number of tariff schedules. The United States is practically the only major holdout, although the International Trade Commission is studying ways of converting US tariffs into BTN.

The current US system retains complicated, arbitrary, and variable tariff structure that leaves foreign firms exporting to the United States in doubt about the amounts of duty they will have to pay. This uncertainty is compounded by arbitrary changes in classifications.

A related problem for the foreign exporter is the US system of duty assessment. Under the Brussels Tariff Nomenclature, duties are assessed on the sum of cost, insurance, and freight (CIF). The United States divides imports into three groups. Most duties are levied on the free on board (FOB) price. Some 500 categories of products, however, pay duties on the basis of their value in the home market or their FOB value, whichever is higher.

For organic chemicals, rubber soled shoes, canned clams, knitted woolen gloves and mittens whose value does not exceed $1.75 per dozen pairs, for instance, the duty is based on the American selling price (ASP). ASP is the wholesale price of comparable American products, including all expenses and profits, as determined by the American industry concerned.

In practice, ASP boosts the value by which duties are multiplied by anything from twice to four times the invoice value of the imported product. It gives American producers an ironclad price advantage in competing with imports. In the field of synthetic organic chemicals where sales are made in bulk, price is the decisive element in competition. In the dye field, for example, US duties are assessed on "standards of strength" determined as of July 1, 1914. This practice doubles or triples the level of the US duty. The ASP system violates the GATT.

The history of the controversy over ASP illustrates a more general problem which confuses foreign nations trading with the United States—the way in which the US constitutional system itself places them in double jeopardy.

In 1967, in the concluding days of the Kennedy Round trade negotiations, the American negotiators agreed to abolish ASP in return for substantial reciprocal concessions by the Community, Britain, and other nations. But as the new round of multilateral trade negotiations approached, at the end of 1972, the Congress had still not approved the repeal of ASP, and the Community withdrew its offers of additional concessions. A number of Congressmen have taken the position that in repealing ASP, the United States would be giving away one of its only nontariff barriers for nothing and should instead use it to bargain for further concessions. In other words, the horse should be sold twice.

This problem led more than one veteran of trade negotiations to insist that any future international negotiation on nontariff barriers must be preceded by a grant of authority from the US Congress to the American negotiators.

DISC: Export Subsidy or Competition Equalizer?

Another US action has figured in US-EC discussions on export subsidies: the tax deferral on 50 per cent of export profits granted to Domestic International Sales Corporations (DISC's). There are more than 7,300 of them, handling exports worth $98 billion.

The Community and other exporting powers maintain that the DISC constitutes an export subsidy, outlawed by Article XVI of the GATT. The United States replies that countries such as France, the Netherlands, and Belgium have had similar provisions for years, and that since taxes will eventually be paid, DISC cannot be considered a subsidy. Complaints have been filed with the GATT; bilateral US-EC consultations have been held, and there the matter rests.

Other Barriers to Free Competition

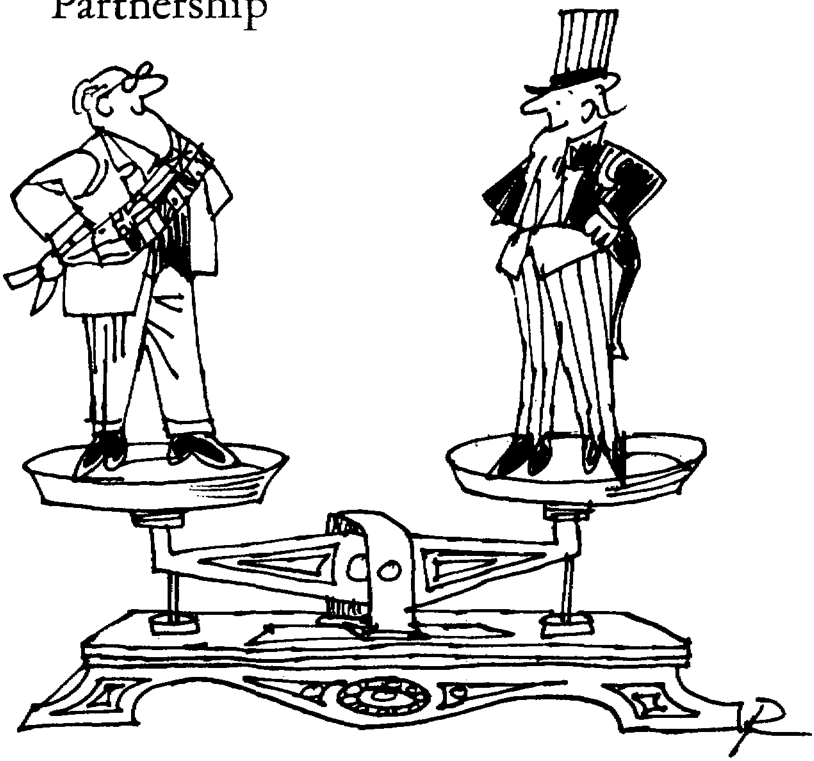
For the Community and other exporters, obstacles to entering the American market abound. There is the Buy American Act of 1933 which directs the Executive Branch to give a preference to American over foreign goods in government buying. Price differentials, which can be changed at any time by Executive Order, currently are 6 per cent to 12 per cent for civilian US government agencies and 50 per cent for military procurement at home or overseas. In addition to the general provisions of the Buy American Act, more than 90 per cent of procurement under US foreign aid programs is restricted to purchases of American products. Moreover, a growing list of states are enacting Buy American rules of their own.

Administrative, technical, health, and sanitation regulations further shield the American market. In addition, since 1955 the United States has enjoyed a general waiver exempting its farm trade restrictions from GATT rules.

There probably will continue to be friction in these and other areas. Indeed, such friction is the inevitable by-product of the Community's growth in strength and cohesion. Nevertheless, many Americans welcome the emergence of a strong and unified European economy and see in it opportunities for strengthening the machinery of international cooperation.

CHAPTER IV.

Revitalizing the EC-US Economic Partnership



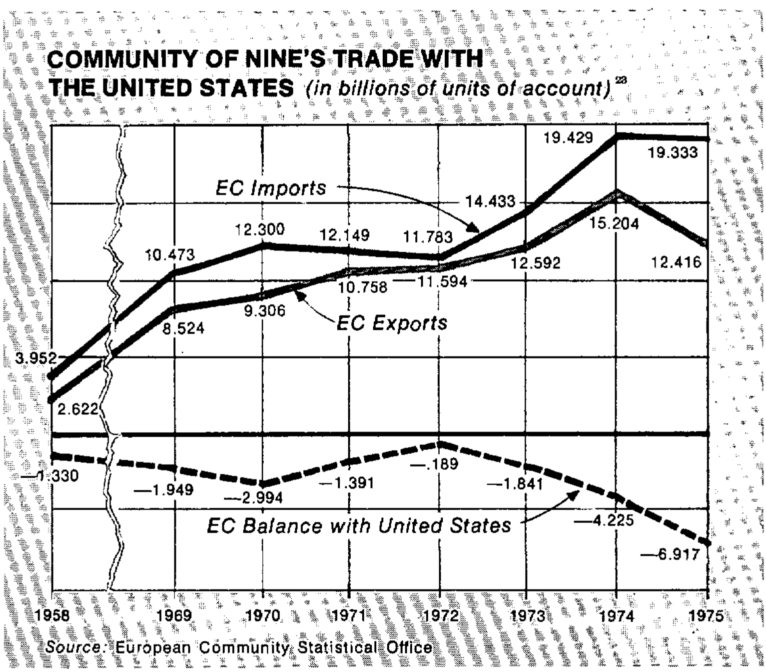
The United States and the European Community are the two giants of the world economy. Together, they account for half the world's gross national product of about $5.1 trillion and just under half of the world's exports. In 1974, the volume of US-EC trade was $34 billion, of which $19.4 billion was US exports.

Between partners of such size, economic frictions inevitably exist. But the waters of partnership run deeper and wider than economics. In his "New Atlantic Charter" speech of April 23, 1973, US Secretary of State Henry A. Kissinger stated: "The alliance between the United States and Europe has been the cornerstone of all [American] postwar foreign policy, provided the political framework for American engagements in Europe, and marked the definitive end of US isolationism. . . . It was the stimulus for an unprecedented endeavor in European unity and the principal means to forge the common policies that safeguarded Western security in an era of prolonged tension and confrontation. Our values, our goals, and our basic interests are most closely identified with those of Europe."[22]

A Pattern of Trade Cooperation

The common interests of Europe and the United States in the postwar period were born out of the national security considerations associated with the advent of the Cold War. These same common interests have matured so that they now include economic interests.

The successful end of two major rounds of tariff-cutting exercises in the Sixties—the Dillon and Kennedy Rounds had two far-reaching results. The rounds demonstrated not only the Community's commitment to certain GATT obligations concerning the creation of customs unions but also its desire to reduce its common external tariff. These two policies of internal free trade and reduced external tariff barriers have been a major factor in the unprecedented rate of increase in US-EC and world trade in the past 15 years.



[22] Kissinger, Henry A. *Address* to the Associated Press, New York, NY, April 23, 1973.

[23] One trade unit of account equaled $1.00 in 1958-71, $1.085 in 1972, $1.25 in 1973-74, and $1.32 in 1975.

In 1975, the Community took 21.2 per cent of US exports and provided 17.3 per cent of US imports.

The US-EC Dialogue's Crowded Agenda

The leadership role in the management and development of international economic relations which the Community and the United States still exert has quickened the pace of mutual efforts to seek multilateral cooperation.

Right now, these two economic super powers are participating in the most ambitious series of trade liberalization negotiations ever held. The so-called Tokyo Round of GATT talks is proof of dedication to reduce further not only tariff barriers but also nontariff barriers to trade. The ability of the United States and the Community to reach agreement will clearly play a large part in the outcome of the talks.

Other current multilateral economic negotiations concern industralized countries' efforts to transfer resources to the poorer countries most seriously affected by higher oil prices. A number of international recycling and lending arrangements have already been agreed upon.[24] In addition, the United States and the Community have been working together closely in the Organization for Economic Cooperation and Development (OECD) to devise a code of good behavior for multinational enterprises.

Further efforts are under way to increase consultations on overall economic policy coordination. The November 1975 summit meeting in Rambouillet, France, emphasized the need for better management of economic interdependence, a fact driven home by the recent simultaneous swings in the international business cycle.

Restoring International Economic Order

The strength and value of the US-EC partnership were tested throughout the early Seventies. Neither side fully listened to the other's complaints; neither fully appreciated the swift pace of international economic change. Against this background of trans-Atlantic insensitivity, President Richard M. Nixon promulgated a "New Economic Policy" on August 15, 1971. The international measures—suspension of dollar-

[24] These arrangements include: the OECD's $20 billion "safety net," the IMF's $5 billion Special Drawing Rights (SDR's) Oil Facility, the Community system of borrowing up to $3 billion on international capital markets, and the United Nations' Secretary General's Special Account for Emergency Operations in favor of the world's poorest countries. The latter account, to which the oil exporting countries contributed $32 million and the Community pledged $500 million, was to collect $3 billion.

gold convertibility and an import surcharge—abruptly ended the international monetary system negotiated at Bretton Woods in 1944 and upset the pattern of international trade cooperation.

The US import surcharge removed most concessions obtained through the careful balancing of interests in trade talks. In the interest of avoiding a trade war, the Community did not retaliate. It began negotiations with the United States, though preoccupied at the time with enlargement negotiations and with plans for the closest economic unity ever tried by sovereign countries.

One immediate effect of the Nixon move was the start of a series of international monetary negotiations to realign the exchange rates of the world's currencies. The resulting Smithsonian Agreements of December 1971, together with a second dollar devaluation, in February 1973, greatly lowered the value of the dollar relative to most of the EC countries' currencies. The gradual improvement in the US trade balance has been due largely to these exchange rate realignments. With US exports now cheaper on the world markets and imports more expensive in the domestic market, a US trade deficit of $2.3 billion in 1974 was transformed into a $11.1 billion surplus in 1975.

The realignment of exchange rates led to still another agreement between the United States and the Community countries on how much exchange rates would be allowed to fluctuate in the future. A basic agreement at the Rambouillet summit soon led to a formal agreement by the International Monetary Fund members to opt for a monetary system which avoids the rigidities of the old fixed rate system and the uncertainties of a freely floating rate system.

The search for a "new world economic order" continues. Of the period ahead, EC Commission Vice President Henri Simonet commented: ". . . there is a very large area of common interest to be built on, provided that each party respects the reality of the divergencies of interest which are no less present." [25]

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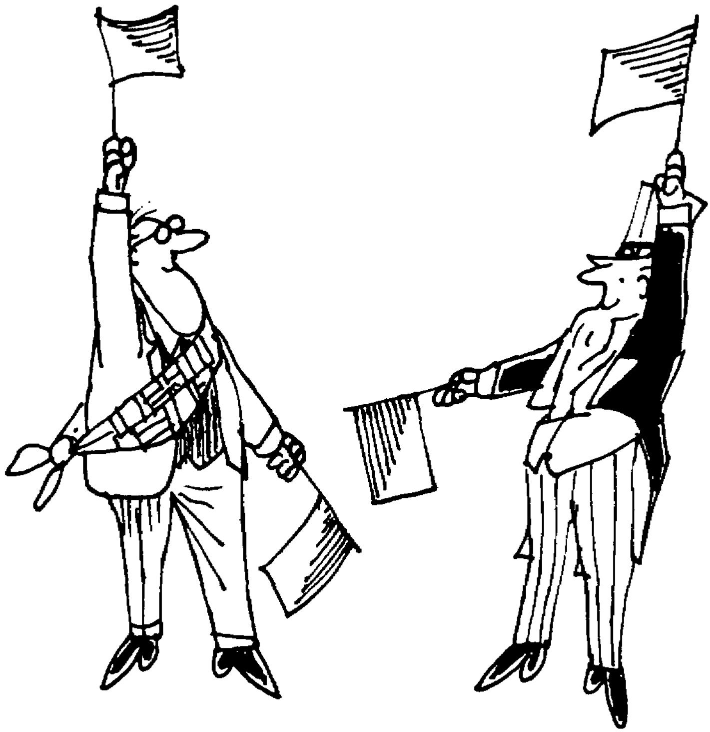
[25] Simonet, Henri. *Address* to the Foreign Affairs Club, Oxford University, Oxford, England, December 5, 1974.

CHAPTER V. Communication



As the search for new international rules continues, a willingness to communicate has been restored. The high stakes involved in keeping EC-US relations harmonious include other efforts at cooperation.

Semiannual "high level" consultations on common problems have been inaugurated between senior officials of the Community and the United States. Both sides have acknowledged the value of these opportunities to discuss the full range of mutual interests.

Responding to the need for a closer institutionalized dialogue, the Community, in the fall of 1971, established an official Delegation in Washington. Informal contacts have also been given renewed attention by exchanges between US and European legislators. At the end of one such visit to the United States, a member of the European Parliament commented: "We came to the United States with all of Europe's problems on our minds. Now we are richer. We return with all the problems of the United States." The then House of Representatives Majority Leader, Hale Boggs, concurred in the usefulness of these exchanges:

"The more you meet people, the more the prospects for solving problems improve. If you don't do anything, you know nothing will improve." [26]

Dialogue Needs Institutions

These contacts continue as the United States and the Community focus on the GATT trade negotiations. One European thus summed up the problem of communication:

"The conditions of dialogue between Europe and the United States exist. But organizations barely exist. This dialogue will necessarily take place on the economic and monetary plane, and one must hope that it will not be a dialogue of the deaf. However, on the political and military level, everything depends on progress within Europe itself." [27]

This has been one of the difficulties in US-EC relations, the difficulty of dialogue between two partners of comparable size but of unequal political authority. With its enlargement to nine members, the Community overnight became one of the world's leading commercial powers. But unless it achieves some degree of political integration, it could become "an economic giant without a political head, incapable of defending itself, a monster whose very survival would be in question." [28]

The Community's present system for delegating authority to its negotiators sometimes looks unwieldy to outsiders, but the American system is no less a puzzle to many Europeans. Commented one of them: "It is often hard to ascertain who in the United States is influential in making what decision and how." But, he admitted, "in the final analysis there is always the President who speaks for America. . ." [29]

Compromise Is Essential

Although the broad outline of common US-EC interests has emerged, negotiations will exact concessions from both major trading partners. But the common interest on both sides of the Atlantic is so deep and pervasive that any approach to dealing with shared problems means

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[26] *European Community*, No. 158, European Community Information Service, Washington, August-September 1972, page 3.

[27] Laloy, Jean. "Does Europe Have a Future?" *Foreign Affairs*, October 1972, page 161.

[28] Reverdin, Olivier. *Report* on the Political Consequences of the Enlargement of the European Economic Community, Consultative Assembly of the Council of Europe, Strasbourg, France, May 4, 1972, page 2.

[29] Dahrendorf, Ralf. "Ten Voices for Europe Is Nine Too Many," *Vision*. January 1972, page 59.

the acceptance of common goals. These goals must be fixed high enough so that the dialogue cannot lapse into conflict.

As EC Commission Vice President for external affairs Christopher Soames put it: ". . . if a close relationship and a mutual understanding between Western Europe and North America were vital in the years of wartime danger and of peacetime political tension, they are no less vital now when the world's economy has to adjust itself to a highly uncertain future." [30]

[30] Soames, Christopher. *Address* Before the European Parliament, Strasbourg, France, January 16, 1974.

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Glossary

Ad valorem duty. A customs duty levied as a percentage of a product's assessed value.

ASP. American Selling Price. A US customs valuation procedure whereby the US wholesale price, instead of the foreign selling price, is used as the basis for assessing customs duties. Applies to benzenoid chemicals, rubber-soled footwear with fabric uppers, canned clams, and certain wool knit gloves.

CAP. Common agricultural policy. The Community's farm policy which is designed to rationalize agricultural production and establish a Community-wide system of supports and import controls. The CAP covers more than 95 per cent of the Community's agricultural production.

CET. Common external tariff. The Community's common customs tariff which replaces those of its nine members.

Commission. The policy-proposing arm of the Community's dual executive.

Council of Ministers. Enacts laws and sets policies based on proposals by the Commission.

Countervailing duty. An import charge designed to offset an export subsidy by another country.

Customs union. A group of countries that eliminates tariffs on trade between its members and adopts a common tariff on imports from the rest of the world.

Disparity. A significant difference in tariff rates between countries on identical products.

EEC. European Economic Community. See EC.

EC. European Community or European Communities. The collective name for three "communities" created by three different treaties: the European Coal and Steel Community, the European Economic Community, and the European Atomic Energy Community. Founding members were Belgium, France, Italy, Germany, the Netherlands, and Luxembourg. The United Kingdom, Ireland, and Denmark joined on January 1, 1973.

EFTA. European Free Trade Association. Founding members were the United Kingdom, Denmark, Norway, Sweden, Switzerland, Austria, Portugal, and Iceland. Denmark and the United Kingdom withdrew after deciding to join the Community. Finland is an associate member.

Free trade area. A group of countries that eliminates tariffs on trade between its members but which does not adopt a common tariff on imports from the rest of the world.

GATT. General Agreement on Tariffs and Trade. An international accord, signed in 1948, to foster growth of world trade. Provides a forum for multilateral tariff negotiations and, through semiannual meetings, a means for settling trade disputes and for discussing international trade problems. Has more than 80 members.

Generalized tariff preferences. Preferential tariff treatment for manufactured and semimanufactured goods from developing countries. The Community's system, begun in 1971, covers some processed agricultural products as well.

IMF. International Monetary Fund. Organization established in 1947 to promote international monetary stability through consultation and cooperation.

LDC. Less developed country.

Lomé Convention. Convention associating the Community with 46 African, Caribbean, and Pacific (ACP) developing countries. The convention provides UA 3.4 billion in aid over a five-year period which includes a UA 375 million export stabilization fund and about UA 2.6 billion in financial aid. The treaty allows 96 per cent of ACP exports to enter the Community free of import duties and quotas. The remaining 4 per cent of ACP farm products receive preferential access. The ACP give the Community MFN treatment. The pact was due to go into force on April 1, 1976, for a term of five years.

MFN. Most-favored-nation. The policy of nondiscrimination in international trade which provides to all nations the same customs and tariff treatment as given the so-called "most-favored-nation."

MTN. Multilateral Tariff Negotiations. The Tokyo Round, which opened in Tokyo in September 1973, is being conducted at GATT headquarters in Geneva, Switzerland.

NTB. See NTM

NTM. Nontariff measure, formerly known as NTB's or nontariff barriers. A practice other than the use of customs tariffs which restricts or distorts trade.

Safeguards clause. Outlines the conditions under which trade restrictions that had been relaxed in negotiations may be reinstated.

SDR. Special Drawing Right. An International Monetary Fund unit of account based on a "basket" of 16 currencies. Its dollar value ranged from $1.20 to $1.18 in 1975.

Tariff preference. Tariff treatment that favors certain products from a country or group of countries.

Tokyo Round. The current round of GATT negotiations. The main forum for the Tokyo Round is the Trade Negotiating Committee, formed to allow non-members of the GATT to participate in the negotiations.

UA. An EC unit of account, the basic accounting unit. Its value averaged $1.32 in 1975.