EUROPEAN ECONOMIC INTEGRATION

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A couple of weeks ago one Mr. S. S. Enid from Oklahoma wrote to Walter Scott, author of the weekly news feature "Personality Parade" and stated, "I've been told the most important treaty signed in the twentieth century is the treaty of Rome. What is it? Who signed it?" To these questions Mr. Scott replied:

> The treaty of Rome signed in 1957 is the basis of the so-called "common market." It is an agreement by Six European countries – West Germany, France, Belgium, Italy, the Netherlands, and Luxembourg – to abolish all economic barriers between their respective countries by 1970. The men behind it: Monnet, Schuman, De Gasperi, Spaak, and Adenauer.

I gained a firm impression in visiting the Common Market capitals early this summer, that the leaders and the people of the member countries are tremendously enthusiastic about their undertaking, and view it as the momentous event of the century. They see in this great undertaking a way to a better life, membership in a powerful club which can hold its own in international affairs, and a way to reduce or eliminate the ancient conflicts that have periodically beset their members.

How is the Common Market viewed by others?

Latin Americans have a continuing interest and concern in the effects that Common Market regulations and agreements may have on their future competitive position and exports of tropical products. On the other hand, a group of countries in Central America and another group in South America are making a start at forming their own Common Market.

The member countries of the European Free Trade Association are now all seeking membership in, or association with, the Common Market. Assurance of future trade access to that important trading area is probably the magnet which is drawing the EFTA toward the Common Market.

The Soviet Bloc has repeatedly attacked the Common Market, declaring it, among other things, to be an exploitive monopolistic union.

The United States has not only steadfastly supported the development of the European Common Market but has actively participated in laying some of the foundation stones of the new edifice. The Marshall Plan encouraged the countries of Western Europe to enter into joint economic recovery planning, and the OEEC was established as a mechanism. This was followed by NATO for common defense, the Coal and Steel Community, and Euratom. From joint planning and action under these and other measures the Treaty of Rome seems a momentous but natural step.

The U. S. sees in the Common Market a great viable economic area–desirable as a future friendly trading partner. An economically strong and growing Western Europe in turn suggests a strong area of defense. Finally, a prosperous European Community may share in greater measure with the U. S. the burden of aid to less developed areas of the world.

The successful organization of the Common Market clearly offers great prospective advantages for the U. S. Can we assume that this shaping of a great unified economy in Western Europe will result in no disadvantage or problems for the U. S.? In considering this question we may well ask if the trade policies of the Common Market will be more restrictive than were the prior trade regulations of the member countries. Will policies and programs for self-sufficiency and restrictions on trade with the outer world reduce or eliminate the prospective gains from the new mobility of capital and labor, and economies of scale associated with the new mass market? Will the phenomenal growth in national income continue?

Perhaps we cannot yet frame a definitive answer to these queries. At this stage we must settle for tentative conclusions based on declarations of intent and on the early lines of trade policy being pursued.

The members of the Common Market, in signing the Treaty of Rome, declared their intention of pursuing outgoing policies–of seeking, not inhibiting, economic intercourse with the outside world. Thus, the founding principles are reassuring in terms of prospective trade policies.

These principles were put to an initial test in the trade and tariff negotiations with the Common Market which ended early in March 1962. On this occasion Common Market officials agreed, as a general rule, to limit the level of the new community duties to the arithmetic average of the duties which previously had been in effect in the member countries. Furthermore, willingness was exhibited to moderate the common tariffs if outside countries, including the U. S., offer compensating duty reductions. The results of this initial negotiation with the Common Market were, in general, favorable to U. S. trade. Tariff reductions in this round of negotiations were limited by and large by the restrictions on offerings which U. S. negotiators could make under the then existing trade authority.

New and enlarged trade authority, such as now being considered by the Congress, would offer ample reason to expect that further trade accommodations can be arranged with the Common Market which will result in expanded, mutually beneficial trade.

At this point the question may well be asked: Does this favorable prospect include trade in agricultural products? European agriculture, in general, consists of a larger number of small, relatively inefficient farm units; also, agricultural protectionism is a general and deep-seated policy. Further, the agricultural policy of the Common Market, agreed upon by the members in January 1962, provides for the use of the so-called variable levy for protecting domestic producers of cereals, certain livestock products, and poultry from foreign competition. The variable levy is especially restrictive because it is generally calculated by taking the difference between minimum CIF price and the domestic support price of the importing area.

These considerations, viewed separately, might well cast a shadow on the agricultural trade prospect. Therefore, we must look at the over-all agricultural trade prospect to gain a better perspective.

Most significant is the fact that the common agricultural policy now in force allows the entry, on a free or relatively liberal basis, of U. S. agricultural products which accounted for 70 percent of our exports to the Common Market area in 1961. This includes, for the most part, cotton, oilseeds, hides and skins, and tallow. The future of exports of these raw material commodities to the rapidly growing Common Market economy seems well assured.

Cereals and dressed poultry are the items of major export importance to the U. S. which are subject to the restrictive variable levy.

The Common Market area is a substantial importer of strong protein bread wheats and feed grains. Experience has demonstrated that this area cannot produce strong bread wheats and must, therefore, continue these imports for blending purposes. On the other hand, careful studies show that technical improvements will enable the Common Market area to expand production of grain sufficiently to meet the increase in requirements over the next seven years. These studies conclude that this production would increase further in this period, perhaps by 5 million tons, if grain prices in the community were to be raised sharply, say to the high level prevailing in West Germany.

If these studies are correct, it follows that the outside supplier market for feed grain in the Common Market depends upon the grain price policy pursued by the Common Market. A high grain price policy by the Common Market would tend to raise bread prices, and, even more important, it would sharply increase the cost of producing livestock products. Common Market officials are keenly aware of these implications of a high grain price policy and in this lies the hope that a low or moderate grain price policy will be followed. If a low or moderate grain price policy is adopted, the future export of U. S. and other grain suppliers will be fairly well assured. The difference between CIF import prices and a low Common Market internal support price would result in a tolerable levy.

The grain price policy in turn has an important bearing on the variable levy applicable to poultry imports. This follows because the cost of poultry feed domestically as compared with efficient producing areas abroad is an important factor in the poultry levy calculation. In addition to this source of hope for moderation in the poultry import levy, the main importer of U. S. poultry in the area has shown willingness to consider moderation of this levy by invoking a provision of the Common Market poultry regulation which authorizes in certain cases a lowering of the levy.

Agricultural products of considerable importance in U. S. trade with the Common Market include fresh and processed fruits, and raw and manufactured tobacco products. These and some items of less significance, as measured on total volume of trade, are subject to the common external tariff of the Common Market and thus are subject to adjustment in the process of future tariff and trade negotiations with the Common Market. If we assume that the Congress will shortly make available new trade expansion authority, the general prospect for an expanded export outlet for these products is good.

What can be concluded regarding our agricultural trade prospects with the Common Market, as now constituted, in the years just ahead?

First, if we assume that the economy of the Common Market will continue to expand at a rate approximating the high level of recent years, that the Common Market will pursue a moderate grain price policy, and finally that U. S. trade expansion legislation is forthcoming, then it appears that we face an expanding over-all market for agricultural imports into the Common Market.

You may all now have a question—namely, how will our agricultural trade prospects be altered if the United Kingdom joins the Common Market club? The United Kingdom alone imports from the

U. S. upward of half the value of agricultural products imported by the present six Common Market countries.

With some risk of oversimplification and with one or two qualifications, I am prone to conclude that U. K. accession (together with Denmark and Ireland) to the Common Market would not materially or greatly alter the conclusions already reached regarding our future trade prospects with the Common Market as now constituted.

The qualifications to be noted are these: (1) that trade preferences now accorded by the U. K. on temperate agricultural products to the members of the Commonwealth will not be increased or generalized to the expanded Common Market and that they will be gradually phased out over time; and (2) that no other trade preference to a Commonwealth member now accorded by the U. K. on products competitive with U. S. exports will be generalized in the Common Market.

This simplification is perhaps less risky than it would seem on first thought for the reason that the major agricultural imports from U. S. by the U. K. are the same raw materials that bulk large in our trade with the Common Market as it now stands.