

**THE EUROPEAN ECONOMIC COMMUNITY AND ITS COMMERCIAL  
RELATIONS WITH THE UNITED STATES**

by

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**Bachelor of Arts**

**Ecole Superieure de Commerce**

**Clermont-Ferrant, France**

1953

Submitted to the Faculty of the Graduate School  
of the Oklahoma State University in partial  
fulfillment of the requirements  
for the degree of  
**MASTER OF SCIENCE**  
May, 1958

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## PREFACE

On March 25, 1957 in Rome, Italy, the representatives of the six European countries, namely, Belgium, France, Italy, Germany, Luxembourg and the Netherlands, signed a treaty called Treaty of European Economic Community (subsequently referred to as E.E.C.).

Most of the attention of the writers has been attracted by the study of the treaty and its economic consequences on the member countries. It seems, however, interesting to consider the economic consequences this integration will have on the outside countries. The purpose of this work is an investigation of the commercial relations of the U.S. with the E.E.C.

Indebtedness is greatly acknowledged to Dr. Trenton for his valuable guidance which made this work possible and my study in the United States meaningful; Dr. Klein for his useful suggestions; the members of the library staff of Oklahoma State University for their cooperation; the French, Belgian, German, and Italian Embassies for the procurement of documents; Miss Sittel for her assistance in compiling the materials; and finally Miss Pechdimaldji for typing the manuscript.

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## CHAPTER I

### INTRODUCTION

The treaty establishing the European Economic Community was signed on March 25, 1957, in Rome by the representatives of the six participating countries: Belgium, France, Germany, Italy, Luxembourg, and the Netherlands. This treaty is considered as one of the most important steps taken towards the complete political and economic integration of Western Europe.

The E.E.C. is a new approach toward a European market. The attention of most writers has been attracted to the analysis of the articles of the treaty, their implications, the chances of success of the treaty, and the influence it will have on the participating countries. However, in addition to these factors, such a tremendous economic power will certainly bring important changes to the rest of the world. Since the participants will try to coordinate their tariffs, these changes executed simultaneously will be an important influence in world trade.

It is the perspective of this influence that decided the orientation of this study. A consideration of the relations with the United States was chosen because this country is one of the most important suppliers of the E.E.C. and a relatively important consumer for the E.E.C. products.

In order to arrive at any valid conclusion on the economic consequences of a common market between the six countries of Europe the following points shall be determined:

1. Will trade change as a result of the new arrangement?
2. Will any new allocation of resources be an economic improvement?

It shall be considered a mis-allocation of resources if the changes in the trade channels from the low cost supplier to the high cost supplier are caused only by the disappearance of import tariffs against the high cost supplier.

The creation of new trade and a previously non-existing flow of goods and services between the six countries shall be considered an improvement in the allocation of resources.

The economic effect of E.E.C. will then be determined, by the balance of these two expected flows of trade resulting from the introduction of a common market.

This study will test only the expected changes in the trade relations of the E.E.C. area and the United States. Trade with the United States has been traditionally very large, second only to the trade within the common market and overseas territories, bound through close political ties to the E.E.C. countries. The trade with the United States covers such a wide variety of products that it may be considered a representative sample of the consequences which the change will involve in the world trade.

The presentation of the problem will introduce first some economic facts about the participants: population, main resources, trade activity.

A brief history leading to the E.E.C. treaty will be the subject of the following chapter.

The estimate of the expected changes will be based first on the recent precedent of the European Coal and Steel Community (subsequent references will be abbreviated as E.C. and S.C.) The nature of the trade with the United States will then be shown in considerable detail. Then comparisons will be made in the resource movements not previously covered.

The preliminary result of this economic comparison can then be drawn. In conclusion the effect must be qualified by political considerations involving possible trade diversion with Russia.



## CHAPTER II

### ECONOMIC FACTS ABOUT THE E.E.C. COUNTRIES

An investigation of the economic situation of the members of the E.E.C. before proceeding further in the discussion of the subject, is indispensable. The characteristics of the economic situation are given by population, resources, and the trade activity.

The six participating countries form a part of Western Europe. They extend from the Northern Netherlands to the Mediterranean Italy and even to the equatorial Africa if the overseas territories are included.

#### Population

The area will have a population of about 174 million inhabitants.<sup>1</sup> Compared to the great economic powers, the E.E.C. with the United States, comes just after Russia. More important, however, than the total population figure is the number of active inhabitants, i.e., those capable of entering the labor force. It averages around 70 millions.<sup>2</sup>

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<sup>1</sup>A New Step in Building Europe, Service de Presse et d'Information, Ambassade de France, European Affairs, Document No.10, p.6

<sup>2</sup>Ibid.

Also this population is well trained for modern ways of production and available to take any advantage of any opportunity to enter the production process. This large number of economically active population is one of the great assets of the countries of the E.E.C.

Resources

For the purpose of evaluating the wealth of the E.E.C., the following resources have been selected: Electricity, coal, steel, and agricultural products. The total production of electricity (172.8 billion kWh. per year) places the E.E.C. second in the world, with the United States first. Also its natural position gives bright perspectives to the development of its hydroelectric power.<sup>3</sup>

The E.E.C. has always been a large producer of coal. To-day, with a total of 249.1 million tons, it is the largest producer in the world after the United States and Russia.

As for the production of steel the E.E.C., with a production of 56.7 million tons, comes second only to the United States.

TABLE I  
PRINCIPAL PRODUCERS OF STEEL IN THE WORLD IN 1957.<sup>4</sup>

	<u>In Million Tons</u>
United States	104.3
E.E.C.	56.7
U.S.S.R.	48.6
Great Britain	21

<sup>3</sup>A New Step in Building Europe, Service de Presse et d'Information, Ambassade de France, European Affairs, Document No.10, 1957, p.6.

<sup>4</sup>Ibid

In the domain of agriculture, the climate of the countries involved in the E.E.C. provides for a wide range of products. However, E.E.C. is not quite self-sufficient.

TABLE II  
IMPORTS OF AGRICULTURAL PRODUCTS BY E.E.C.<sup>5</sup>  
(AVERAGE FOR THE YEARS 1953-54-55)

<u>Products</u>	<u>In Thousands of Tons</u>	<u>Products</u>	<u>In Thousands of Tons</u>
Meat	200	Fruits	1500
Animal Fats	430	Wheat	3300
Oils	500	Eggs	75
Cereals	5100		

There is, however, hope for progress in the field of agriculture. The yields are very different from country to country, due not only to the difference in the soil but also to the difference in the efficiency of the methods used. As an indicator, the yields in the wheat and potato production are:<sup>6</sup>

Wheat:

France 23 to 26 bushels per acre.  
Belgium 37.4 to 43 bushels per acre.

Potato:

France 160 bushels per acre.  
Belgium 306 bushels per acre.

<sup>5</sup>Rene Miquel and Pierre Soury and Pierre Chavaroche, L'Europe et Nous, Science et Vie, No.477, Juin 1957, p.66

<sup>6</sup>Puissance Economique de l'Europe Unie, Commission Internationale de Sociologie Appliquee, (Paris, 1952), p.11.

## Trade

The E.E.C. countries have always been very active in international trade. In 1956 their total exports amounted to 20,077 million dollars; their imports 22, 323 million dollars,<sup>7</sup> including intra-trade and trade with overseas territories of the E.E.C. members (around 39 per cent). This illustrates the active role the E.E.C. countries play in international affairs and shows the importance they will acquire when they follow the same trade policy. This rapid survey of the economic situation of the E.E.C. shows also some of the characteristics of this association, which is unique in history.

The six participants are old and industrialized, with highly diversified, non-complementary, industries. Each of them has an old distinctive political, economic, monetary, and fiscal policy. In these conditions it is very difficult for any of them to stop following the old ways and adopt a new pattern. Consequently, this treaty was not simple to build; it was done because the members realized the extreme necessity for doing so if Europe was to survive. The existing differences explain the number, and sometimes over-complication of some of the articles, and the numerous clauses of escape of the treaty, and the length envisioned for its complete realization.<sup>8</sup>

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<sup>7</sup>See Table X.

<sup>8</sup>Paul Guerin, Le Marche Commun a Six. Il Existe de Meilleures solutions, (Paris, Fevrier, 1957), p.18.

### CHAPTER III

#### TREATY OF E.E.C.

The next chapter will introduce the following facts pertaining to the treaty itself: First, the reasons back of its origin since World War II and the circumstances of its establishment; Secondly, an analysis of the main provisions of the E.E.C. treaty, together with a discussion of its commercial articles. The chapter will also contain a statement showing the philosophy of the treaty.

#### Background History

The reasons that brought the idea of an economic community among the six countries of Europe can be divided into two groups; namely, the poor state of economics in Europe after the War and the insufficiency of the short- and long-run solutions provided to take care of the problem.

Many attempts to unite Europe have been made throughout the centuries. They were, generally, the results of political ambitions. Today the latest endeavors to reach this goal are the results of economic considerations.

This can be attributed to the economic state of Europe and its declining economic power. After World War II, the situation in Europe was not very encouraging; the countries of Europe were in a desperate financial situation. Their reserves of gold, dollars, and foreign exchange had been depleted -- one portion had gone to pay for a part of

the war equipment and another was sent overseas as flight capital in the years just preceding the war. Europe was also divided, with the parting of Germany between the four Allies. Finally, it suffered from great impoverishment in man power as a result of war losses.

To rebuild Europe was the aim of the European governments, a task which demanded a tremendous amount of capital, principally dollars which were not available. In order to help the recovery of the free world, the United States sponsored many programs of help, providing money, food and clothing gifts for the devastated countries. The American help took the form of lend-lease during the War and expired August 21, 1946. The assistance program took over with the formation of the U.N.R.R.A. (United Nations Relief and Rehabilitation Administration) in which the United States participated in the amount of \$2,700,000 out of a total of \$3,500,000. The application of a massive program of help was set up on April 12, 1948, with the vote of the Marshall Plan by the Congress of the United States.<sup>1</sup>

Such help could not go on forever, and the European governments soon realized that the recovery rested in mutual help through more freedom in trade, and in unity. In order to find substitutes for American help, to fill their dollar gap and to regain their prestige and power, Western European countries arrived at various agreements on trade and price stabilization. However, as soon as 1944, more general agreements known as customs unions began. Two types of customs unions can be distinguished. The first, or partial union covers only specified

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<sup>1</sup> Andre Philip, L'Europe Unie et sa Place dans l'Economie Internationale (Paris, 1955), p.p.104-114.

products such as coal and steel, for instance, in the Schuman Plan; and agricultural products in the Green Pool. The second, such as Benelux, involves all products of the participants.<sup>2</sup>

The very reason of the present success of the Schuman Plan encouraged the formation of similar agreements with resulting confusion. The question then arose as to whether this was the fastest way to achieve the goal of a general economic union of all the participants.

It seems, at first sight, to be easier to overcome the difficulties of integration, one by one, between industries or groups of products than to integrate all at one time. This, however, created further difficulties. When a customs union is created for two products only, the industries concerned will follow some new regulations and perhaps change their trend in order to adjust to the new situation. In the mean time, the other products in the economy will follow their own way, which is not necessarily the same as the trend of the products included in the customs union. As a consequence it becomes more and more difficult for those products to enter the customs union later on.<sup>3</sup>

The problem became more acute when the E.C. and S.C. was created and appeared to be a success. This community has for its goal the common exploitation and production of coal and steel in the six-member countries, which are identical with those in the E.E.C. Of the economic problems created two will be mentioned -- transportation and the wage problem.

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<sup>2</sup>Ibid, p.169

<sup>3</sup>Ibid, p.254

In the industry of transport, a problem was created by the fact that the E.C. and S.C. prohibits any discrimination against transports. As a consequence, some countries had to have two transportation tariffs at the same time one for coal and steel, and another for other products. The same problem arises for certain production and indirect taxes.

The wage policy of the E.C. and S.C. needs to be harmonized, and the treaty provides some directives to attain harmony. It is a well known fact, however, that the wages in the iron, coal and steel industries set up a pattern followed by the wages in other industries. Thus, there were possibilities of conflict between the governments, the unions, and the executive organ of the E.C. and S.C.<sup>4</sup>

In addition to the problem created by the realization of the E.C. and S.C., there is always greater danger in the partial integration of countries than exists in a general customs union. When a part of an economy enters into a customs union there are chances that it may be hurt in the process if it is not competitive enough. These chances decrease in an over all integration. If one sector is hurt, another sector may profit, even more than proportionately.<sup>5</sup>

#### Establishment

It was the purpose of solving those pending problems that the foreign ministers of the six countries involved met at Messina, June 1, 1955.

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<sup>4</sup>Ibid, p.p.254-255.

<sup>5</sup>Ibid, p.256.



Some agreements of principle were reached including the necessity of eliminating tariffs between the member countries and the willingness to create a common organization for the development of atomic energy. A Committee for Further Integration was created.

On September 6, 1955 in Noordwijk, the Committee for Further Integration presented an interim report before the council of foreign ministers. On May 19, 1956 the final report of the Committee was heard in a ministerial conference in Venice. At the same meeting a working party was set up to write the treaty. On January 26, 1957, in Hergoignedal, the first draft of the treaty was presented at a meeting of foreign ministers.<sup>6</sup>

Other meetings were held on February 4, 1957 in Brussels and on February 17, 1957 in Paris, to clarify some difficulties. The treaty was signed by the representatives of the six participating countries on March 25, 1957 in Rome.<sup>7</sup>

#### Analysis

It is not the purpose of this work to present the detailed economic analysis of the E.E.C. treaty. However, a brief analysis of its goal, main provisions and institutions should be helpful to an understanding of the second part of the study. The following considerations of these factors are therefore presented.

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<sup>6</sup> Le Marche Commun Europeen, Bulletin Hebdomadaire de la Kredietbank of Brussels, No.15, Avril, 1957, p.p.141-143.

<sup>7</sup> Ibid.

The purpose of the treaty is: "To promote throughout the community an harmonious development of economic activity, a continuous and balanced expansion, an increased stability, an accelerated standard of living and a closer relation between its member states."<sup>8</sup>

The treaty has two main objectives: First, the establishment of a customs union concerned with the commercial relations between the members themselves and the rest of the world; second, the harmonization of the economic, transport and social policy.

A long transitional period of twelve to seventeen years is foreseen for its complete realization. This transition period is divided into three stages of four years each.

The first objective will be carried out by freeing the circulation of goods, persons, services, and capital throughout the E.E.C. In the next section the main provisions under which this objective is carried out are examined.

In the first stage the elimination of the internal tariff starts with a decrease of 10 per cent (effective January, 1959) of the duties applied on January 1, 1957. Two additional decreases of 10 per cent each will occur in the following two years. In the second stage, the duties will be reduced by 30 per cent; and in the third and last stage, by 40 per cent.<sup>9</sup>

Some maximum tariffs have already been fixed by common agreement. Some provisions have been made regarding the quantitative restrictions on imports and exports.

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<sup>8</sup> Treaty Establishing the E.E.C. and Connected Documents, Secretariat of the Interim Committee of the Common Market and Euratom, (Brussels, 1957), p.17

<sup>9</sup> Ibid, p.30

The quotas against imports from member countries should be removed at the end of the transitional period. At the end of the first year each state will create for each product one global quota toward all the countries of the E.E.C. The elimination of quotas will proceed at the rate of 20 per cent annually for the global quota, with 10 per cent at least for each quota. The quantitative restrictions against exports to the members of E.E.C. should be removed at the end of the first stage.<sup>10</sup>

The circulation of persons, services, and capital should be free by the end of the transitional period.<sup>11</sup>

Agricultural products occupy a very special place among the products of the E.E.C. This is because agriculture is of vital importance to the members of E.E.C. and because its status varies widely throughout the E.E.C. Special clauses have been provided for the rate of change in tariff and quotas. However, the movements of agricultural products must be free by the end of the transitional period. The direction of the new policy will be given by a common organ for agriculture. The duty of it is to maintain equilibrium between exports and imports, and stabilize prices. This is why American exports may suffer from the customs union, above all if the American government continues its policy of selling surpluses, even by dumping practices. The Agricultural Council can institute minimum prices, quotas, temporary suspensions of the treaty. However, once the escape clauses of the E.E.C. treaty are used they should not be a pretext to restrict trade, impede its expansion, or "prevent the development of a natural preference among the member states."<sup>12</sup>

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<sup>10</sup> Ibid, p.p.59-66

<sup>11</sup> Ibid, p.p.40, 41.

<sup>12</sup> Ibid, p.p.59-66.

For the relations with the rest of the world a common external tariff has been established. It will be the arithmetic mean of the duties of the four tariff zones, (France, Benelux, Germany, Italy), as on January 1, 1957.<sup>13</sup>

The reductions of the difference between the external common tariff and the national tariffs will take place as follows:

1. 30 per cent reduction by the end of the first stage.
2. 20 per cent additional reduction by the end of the second stage.
3. Complete elimination of the difference by the end of the third and last stage.<sup>14</sup>

The policy of the treaty provides merely a pattern from which each country will have to harmonize its own policy. The field covered by the policy includes: Competition, agriculture (previously mentioned), transport, finance, monetary system, external trade, and social policy. The commercial policy pertaining to the subject directly will be studied at some length; other policies will receive less attention.

As far as competition is concerned, the E.E.C. treaty points out the willingness of the member states to help to promote competition by prohibiting any kind of agreement on price, output, market sharing, and monopoly. However, some of the prohibitions will be permitted as long as they do not restrain trade and as long as the consumer benefits from them. This policy applies also to the public services, public enterprises, and revenue monopolies.<sup>15</sup>

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<sup>13</sup>Ibid, p.33

<sup>14</sup>Ibid, p.34

<sup>15</sup>Ibid, pp.85-92

The transport policy has three main objectives:

1. The freedom of transports inside the E.E.C.
2. The abolishment of discrimination.
3. The abolishment of subsidies.<sup>16</sup>

As to finance and monetary policies, the treaty merely recommends that the members try to maintain an economic equilibrium as stable as possible through a sane balance of payments and a stable currency. If this economic state is realized, it will allow the member countries to participate in building the E.E.C. as fast and as smoothly as possible.<sup>17</sup>

The social policy, which is concerned with the workers' problems, is more developed and more specific than other policies. It will provide help for the resettlement of workers on new jobs and it will help while they are waiting for the old factories to be modernized or to transform their products; at the same time, it will retrain workers if necessary. The social policy recognizes the importance of full employment to take advantage of the potential labor capacity, to raise the national income, to promote the welfare of the workers, and to bring about a higher standard of living, which will help in the development of the community. Any sacrifices and changes that may be necessary will be better accepted in time of prosperity.<sup>18</sup>

The commercial policy stands for the ensemble of the treaty's articles that concern the attitude and an over-all pattern for the decision to be taken in the future by member countries with regard to the tariffs and commercial relations with the countries outside E.E.C.<sup>19</sup>

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<sup>16</sup> Ibid, p.p.77-80

<sup>17</sup> Ibid, p.p.100-104

<sup>18</sup> Ibid, p.p.113-115

<sup>19</sup> Ibid, p.p.105-109

This commercial policy provides for the establishment of the common tariff, the negotiations of tariff with outside countries, the liberalization of quotas, the effort to be put forth to increase members' exports, and the importance to be given to protective commercial measures. The main point of the policy are as follows:

1. Control of the establishment of the tariff as set forth by the regulations of the treaty (articles 18, 19 and 20).
2. Control of the execution of the other proposals by the end of the transitional period.

It is foreseen that negotiations will be undertaken concerning the common tariff. It will be the task of the institutions of the E.E.C. to negotiate the lowering of the tariff for the good of the whole community.

Regarding quotas toward outside countries, the treaty states that the E.E.C. members "shall aim at securing uniformity among themselves at as high a level as possible of their lists of liberalization."<sup>20</sup> The provision does not stipulate, however, any deadline or give any precise informations as to the way or the extent of so doing. It is to be undertaken under the recommendations of the E.E.C. authorities.

The commercial policy is also concerned with the desire to promote increased international trade by the creation of a common policy aiming at the development of E.E.C. exports to outside countries.<sup>21</sup>

The articles relative to this particular point indicate a willingness on the part of the E.E.C. members to free trade from governmental control. The first article is significant:

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<sup>20</sup> Ibid, p.106

<sup>21</sup> Ibid, p.p.105-109

Member states hereby declare their willingness to contribute to the development of international commerce and the reductions of barriers to trade by entering into reciprocal and mutually advantageous agreements directed to the reduction of custom duties below the general level they could claim as a result of the establishment of a custom union between themselves.<sup>22</sup>

The development of the E.E.C. exports toward outside countries should not distort competition between the members. Such practices as tax exemptions, double standard price systems and government subsidies will be the object of common regulations. This harmonization in the commercial policy is expected to be effective before the end of the transitional period.

Almost each part of the treaty is followed by escape clauses or opportunities for delays. Such clauses make it possible for a state in difficulty to suspend the application of the treaty for sometime. None of those difficulties (they refer to situations of dangerous disequilibrium in the balance of payments, endangering the whole economy of the country in question) have been defined in the treaty. However, the end of the transitional period shall be the complete realization of the treaty.

#### Institutions

Four institutions have been created in the treaty, a Council of Ministers, an Assembly, a Court of Justice and the Commission. In addition, two organizations have been provided, a Social European Fund and an Investment Bank.

The following discussion will present some informations on the composition, purposes, and means of action of the E.E.C. institutions.

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<sup>22</sup>Ibid, p.33

The Council. The Council is formed by the representatives of the governments of the participants, each country delegating one representative. <sup>25</sup> The Council is the final organ of decision of the E.E.C. It is in principle the main organism of the E.E.C. "It holds alone the power of decision, fixing the conditions in which it can exert it, emphasizes the care of the promoters of the treaty to avoid the critics formulated against the supra-national character of the institutions of the E.C. and S.C."<sup>24</sup>

The Commission. The Commission is the executive organ of the E.E.C. "It will acquire the supra-national character. It is a permanent organ, true mandatory agent of the Council."<sup>25</sup> It is composed of nine members chosen by the governments for their general competence and indisputable independence."<sup>26</sup> The Commission has the power to ensure the "functioning and development of the common market."<sup>27</sup> It ensures the application of the provisions of the treaty, makes recommendations to the Assembly and the Council, publishes a general report of the activities of the E.E.C. to be presented at the general meeting of the Assembly. The provisions of the treaty insist upon the necessity for a member to remain independent from any outside political or interested influence. The decisions may be reached only by a majority of the members. <sup>28</sup>

Two committees have been set up to help the Commission in economic, social and monetary matters: The Economic and Social Committee, composed

<sup>23</sup> Ibid, p.p.135-138

<sup>24</sup> Jean Mayenne, Etudes, Le Marche Commun Européen, Nov. 1957, p.43.

<sup>25</sup> Ibid

<sup>26</sup> The Treaty Establishing the E.E.C. and Connected Documents, Secretariat of the Interim Committee of the Common Market and Euratom, Brussels, 1957, p.p.138-140

<sup>27</sup> Ibid.

<sup>28</sup> Ibid, p.p.138-140



of representatives of Unions and Employers' organizations in equal numbers. The Monetary Committee is merely a consultative agency.<sup>29</sup>

The Assembly. The Assembly will be composed of representatives of the people of the member states. The Assembly will review the Council and Commission proposals in the cases where the treaty so provides. It can force the Commission to resign.<sup>30</sup>

The Court of Justice. The Court is composed of seven judges assisted by two advocate-generals. They are nominated by the governments of the different states. They must meet the requirement of being "jurists of recognized competence, who could have been designated for the highest charges ...". They are nominated for six years (renewable every three years) and eligible for re-nomination. The court of Justice renders judgments in case of conflict. It ensures the application of the articles of the treaty, judges the matters related to the non-compliance of any state to the regulations. The conflict may be brought up by a member or by the Commission. The Court of Justice can also make some preliminary decisions concerning the interpretation of the articles of the treaty. It has also some competence in connection with the Bank of Investment.<sup>31</sup>

Two organizations have been set up to help smooth the difficulties that might arise with the disappearance of the trade barriers in the E.E.C. (1) A Social European Fund, and (2) a European Investment Bank.

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<sup>29</sup> *Ibid*, p.p.151-153

<sup>30</sup> *Ibid*, p.142

<sup>31</sup> *Ibid*, p.p.143-148

The purpose of the Social European Fund is to "improve the opportunities for employment of the workers in the common market... To promote within the community employment facilities and the geographical and occupational mobility of the workers."<sup>32</sup>

The European Investment Bank has a capital of a billion dollars. It will help industries in difficulties subsequent to E.E.C., create new industries in underdeveloped regions of the E.E.C., and finance projects of common interest. It will give help only in cases where investment could not be provided otherwise.<sup>33</sup>

#### Main Characteristics of the Treaty

A brief examination of the treaty shows its two main characteristics, first it is not a supra-national organization, secondly its foreign trade policy is rather liberal.

First it is not a supra-national organization such as the E.C. and S.C. The institutions are, however, built in the same pattern. There is a Court of Justice, an Assembly, a Council of Ministers, and a Commission. However, there are important differences as follows: The Commission, which corresponds to the High Authority, does not enjoy as does the latter, a power of decision -- it is merely an executive organ. On the other hand, the Council of Ministers has different powers from that of the E.C. and S.C. In the E.C. and S.C. the Council is only a linking organ between the E.C. and S.C. and the governments, "establishing necessary

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<sup>32</sup>Ibid, p.116

<sup>33</sup>Ibid, p.121

relations between the decisions taken by the community within the limits of its authority and the governmental decisions on a national level."<sup>34</sup> On the contrary, in the E.E.C. the Council of Ministers is the organ of decision, "the leading political organ of the community."<sup>35</sup> This organ of decision is composed of members of the parliaments of the six countries. It is difficult for them to forget that the national interest is only secondary, and that they have to act impartially for the good of the E.E.C. Furthermore the members of the parliaments are not entirely independent, they are subordinate to their respective governments. There is, however, something good about this relationship. The scope of the E.E.C. is by far wider than the scope of the E.C. and S.C., and its objective is the assimilation in the community of all the parts of the economic system of the members. In the case of the E.C. and S.C. the products in consideration, namely, coal and steel, enjoyed a special position. Their industries worked under almost the same conditions in all the countries, and the supra-national authority, by working for the best of the community, as a whole, was not imperilling the above industries of any of the members. It is evident from the fact that E.E.C. did not give to its most important organ this supra-national characteristic, that a consequence may be the slowing down of the realization of the union (in the time allocated) by the use of the various escape clauses and delays whenever there is pressure on the economy.

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<sup>34</sup> Van Houtte, Nouvelles Benelux, July-August 1957, p.21

<sup>35</sup> Ibid

A second characteristic of this treaty is its rather liberal conception of international trade. Indeed the countries of Europe could have decided to become autarkic. On the contrary, they affirm in various articles of the treaty their willingness not to increase duties, negotiate reductions, increase the liberalization of quotas, and negotiate agreements with outside countries. Here again the national character of the Council will perhaps slow down this tendency, although among the six participants three are more liberal (Belgium, Netherlands, Luxembourg) and three more protective (France, Germany, Italy).

## CHAPTER IV

### ANALYSIS OF THE CHANGES BROUGHT ABOUT BY E.C. and S.C. TO THE E.E.C. COUNTRIES

It seems interesting to introduce here a brief summary of the changes brought in the six countries of Europe by the E.C. and S.C. Changes in trade, direction and volume, changes in production, and standard of living.

#### Intra Trade

The changes brought by the E.C. and S.C. are tremendous. Because of the disappearance of the tariffs between members, the trade received a strong impetus. It became easier in the absence of formalities; faster, with no delay in route; and cheaper than before for the members of the E.C. and S.C. to trade with each other. The first consequence was a great increase in the volume of trade inside the E.C. and S.C.

Table III, shows that the volume of trade between the countries of the E.C. and S.C. increased by 93 per cent for coal and steel and only by 59 per cent for the rest of the products not included in the customs union. This was due chiefly to a change in the direction of trade.

TABLE III

INTRA-TRADE OF THE E.C. and S.C. COUNTRIES IN 1955<sup>1</sup>

## VOLUME AT 1952 PRICES

Year	Iron	Scrap	Steel	Coal	Averages	All other Products
1952	100	100	100	100	100	100
1953	112	226	127	111	121	115
1954	117	434	191	125	160	138
1955*	137	437	251	140	193	159

\*First six months.

## Production

The second consequence was a great increase in the production of coal and steel. Table IV indicates a rise of 12.4 per cent above the 1952 level. However, the increase in production did not equal the increase in trade. This shows that the disappearance of trade barriers induces by itself a great amount of inter-exchange.

## Standard of Living

The third consequence of the increase in trade and in production was an improvement in the standard of living of the workers as shown in Table V. After the decrease of 1952-1953 the wages in the coal and steel industry caught up with the wages in the processing industries and

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<sup>1</sup>Towards European Integration; First Results for Coal and Steel, Information Service of the High Authority, E.C. and S.C., (Luxembourg, June 1956), p.8

in some cases reached a higher level. The trend is more significant in Germany and in the Netherlands where the starting wages were lower. The exception of Italy comes from the fact that wages in the coal and steel industry in Italy have always been higher than in the other processing industries. Finally, the volume of trade with the countries outside E.C. and S.C. rose steadily.

#### External Trade

As a consequence of the increase in production, the capacity for exports rose by 23 per cent above its 1952 level. Even more significant is the rise in imports of the E.C. and S.C. In 1956 the increase was 69 per cent above the 1952 level due to needs of raw materials not existing in the member countries or existing only in insufficient quantities.<sup>2</sup> This increase is more important than the increase in the intra-trade and the increase in production. It shows that new trade had been taking place. As the production increased, the standard of living increased; the demand on the market became more pressing, and a new rise in the production level was reached. Europe was already importing certain raw materials which she does not possess at all or in sufficient quantities. (Some special grades of coal and some iron for the supply of Italy). Additional imports were needed and in increasing quantities.

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<sup>2</sup> See Table IV.

**TABLE IV**  
**INCREASE IN IMPORTS, EXPORTS AND PRODUCTION<sup>3</sup>**  
**OF THE E.C. and S.C. COUNTRIES**  
**1952 TO 1955-1956**

Products	Imports*			Exports*			Production*		
	1952	1955 1956	o/o incr. over 1952	1952	1955 1956	o/o incr. over 1952	1952	1955 1956	o/o incr. over 1952
Coal	22.4	30.9	38	9.8	12.5	27	301.3	421.8	4
Iron Ore	13.5	20.3	50	0.6	1	73	65.3	79.4	22
Scrap	0.5	2.6	450	0.42	0.03	-93	41.8	54.7	12
Steel	0.8	1.6	102	6.64	8.30	25	20	22.7	31

\* In Thousands of Tons

<sup>3</sup> Pierre Vigny, Un Temoignage sur la Communauté des Six, E.C. and S.C., p.p.90, 110.



TABLE V

WAGE TRENDS IN THE IRON AND STEEL INDUSTRIES COMPARED  
WITH PROCESSING INDUSTRIES OF THE E.C. and S.C.<sup>4</sup>

EARNINGS PER HOUR, 1952 = 100

<u>Country</u>	<u>Industries</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
Germany	Iron and Steel	100	104	108	117
	Processing	100	105	107	114
Belgium	Iron and Steel	100	97	100	105
	Processing	100	100	103	105
France	Iron and Steel	100	100	103	116
	Processing	100	103	109	117
Italy	Iron and Steel	100	98	102	106
	Processing	100	102	106	110
Luxembourg	Iron and Steel	100	98	99	107
	Processing	100	98	97	--
Netherlands	Iron and Steel	100	113	122	121
	Processing	100	102	113	--

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<sup>4</sup>Towards European Integration; First Results for Coal and Steel,  
Information Service of the High Authority, E.C. and S.C., (Luxembourg,  
June 1956), p.21.

## CHAPTER V

### UNITED STATES COMMERCIAL RELATIONS WITH E.E.C.

The purpose of this chapter is to show the position of the United States which causes it to be selected as a representative of the changes likely to occur in the trading pattern of the E.E.C.

First, there will be a presentation of the trade between the E.E.C. and some important customers and suppliers. Table VI shows that the countries of the E.E.C. were quite dependent upon each other economically before the integration. The amount of trade inside the E.E.C. consisted of 31 per cent of their total exports (even with the existence of the tariff barriers), which shows that E.E.C. producers had found in the future members of the community their most important trading partners, both as suppliers and consumers. This situation will not change with the E.E.C.

Table VII shows the rank of the most important trading partners of the E.E.C.

#### Important Customers and Suppliers of the E.E.C.

Europe outside the E.E.C. occupies the second rank, with a trade reaching 25 per cent of the total exports of the E.E.C. The countries included in this category, mainly the Organization for European Economic Cooperation Countries, are trying to adjust by creating a free-trade area.

TABLE VI  
 INTER-COUNTRY TRADE OF THE E.E.C. NATIONS IN 1955<sup>1</sup>  
 IN MILLION DOLLARS

Exporting Countries	Importing Countries					Total E.E.C.	Exports to the World
	B. and L.	N.	F.	G.	I.		
Belgium and Luxembourg	--	575	278	327	61	1241	2779
Netherlands	371	--	133	459	66	1029	2688
France	337	144	--	504	186	1170	4798
Germany	413	578	434	--	342	1767	6135
Italy	50	45	108	233	--	436	1857
Total Imports From E.E.C.	1171	1747	953	1523	655	5643	18257

$5643 \div 18257 = 30.9$

TABLE VII  
 ALLOCATION OF EXPORTS OF THE E.E.C. COUNTRIES<sup>2</sup>  
 AS A PERCENTAGE OF TOTAL EXPORTS IN 1955.

<u>Destination of E.E.C. Exports</u>	<u>o/o of Total Exports E.E.C. Countries</u>
E.E.C.	31
Rest of Europe	25
Overseas Territories	9.5
United States	7.7
Others	26.80
TOTAL	100

<sup>1</sup> Economic Survey of Europe, U.N., (Geneva, 1957), Chapt. IV, pp. 8, 9

<sup>2</sup> Ibid, p. 7

Relations between the two communities (E.E.C. and the free-trade area) are under discussion at the present time.

The overseas territories hold the third place. They belong chiefly to Belgium and France. Those territories will be integrated in the E.E.C. in the same way as the other members will be. The only change to be made there will be the opportunity for the countries not possessing overseas territories to take advantage of new markets by sharing the privileges of the duty free exports of the French and the Belgians.

The United States holds a very special position in the trade of the E.E.C. In the fourth place, it is the first major country not included in the tariff free area. The pattern of competition that existed before is changed.

#### Composition

A knowledge of the composition of the trade is a prerequisite for an evaluation of the possible changes that may result from the E.E.C. treaty.

From the data given by a survey of the United Nations, made in Europe in 1955-1956,<sup>3</sup> the intra-trade in the E.E.C. consists primarily of manufactured products. In 1955, this particular trade reached a level of 50 to 60 per cent of the total imports from the E.E.C. In the case of the Netherlands, its trade with E.E.C. countries in manufactured products was as high as 80 per cent of the total trade with the other member countries of the E.E.C.

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<sup>3</sup> Etude Economique de l'Europe en 1956, United Nations, (Geneva, 1957) Chapt. IV, p.8.

With the rest of the world, outside the E.E.C., on the contrary, the exports of the E.E.C. countries are mainly composed of manufactured products, while the imports involve chiefly foodstuff and raw materials.<sup>4</sup>

TABLE VIII

COMPOSITION OF THE UNITED STATES EXPORTS TO E.E.C.<sup>5</sup>

IN THOUSANDS OF DOLLARS IN 1956

<u>Products</u>	<u>France</u>	<u>Italy</u>	<u>Luxembourg and Belgium</u>	<u>Germany</u>	<u>Nether- lands</u>	<u>Total</u>
Foodstuff	105,600	94,600	153,432	306,491	263,230	923,353
Raw Materials	276,200	379,851	118,592	327,927	197,824	1300,404
Manufactured Products	161,789	143,015	152,900	137,727	99,669	695,100

<sup>4</sup> Economic Survey of Europe in 1956, Research and Planning Division and Economic Commission for Europe, U.N., (Geneva, 1957), Chapt. IV, p.9.

<sup>5</sup> U.S. Exports of Domestic and Foreign Merchandise, No. FT. 420, Calendar Year 1956, p.p.26-29.

## CHAPTER VI

### PLACE OF E.E.C. IN UNITED STATES TRADE

The American producers and consumers are most interested in the realization of the E.E.C. common market. Some of them predict shrinkage of their markets; others, on the contrary, foresee the opportunities for great expansion of their trade, due in part, to the expected increase in the standard of living.

The purpose of the following discussion is to show the place occupied by the E.E.C. countries in the commerce of the United States, to emphasize the discrepancies between the United States' exports to and imports from the E.E.C.; and to point out some of the consequences of the disequilibrium of the balance of payments of the E.E.C. members resulting from this fact.

Table IX, clearly indicates the big difference between the importance of the exports and the imports of the United States to the E.E.C. The total of United States imports of E.E.C. products represents an impressive amount, but is only 1/9 of the total imports of the United States. Its significance is less than 7 cents, per year, per capita, in the United States, and puts them in the second place in the analysis of the problem. The E.E.C. is a good buyer of United States goods; also the market has enjoyed in the past few years a fairly stable and increasing demand for United States products. This explains why any major changes in the custom tariffs, quotas, commercial or economic policy of the E.E.C.

members is of such importance and is the object of such a concern on the part of the United States exporters. What is to happen as a result of this will be shown in the latter part of this study.

In addition to the importance of the United States exports to the E.E.C., the existence of a great discrepancy between the exports and the imports from the United States brings a considerable uneasiness concerning the balance of payments of most of the E.E.C. partners, principally France and Italy. The necessary dollars are hard to find, and, in spite of the deficit, imports are increasing under the pressure of demand. Table XII, will show that everywhere in the E.E.C. countries the deficit of dollars is important. There are only two ways to remedy the situation, decrease the need for dollars or increase their supply. The choice of solution will affect the trade of the E.E.C. in its distribution.

This general deficit in the balance of trade with the United States illustrates one of the reasons for the importance of the imports in Europe from the United States. Imports are too costly, for the balance of payments, since dollars are too limited, and the possibilities of increasing them are very limited.

TABLE IX

EXPORTS AND IMPORTS OF THE UNITED STATES WITH  
E.E.C. IN 1956, IN MILLIONS OF DOLLARS<sup>1</sup>

<u>Country of Trade Flow</u>	<u>U.S. Exports to</u>	<u>U.S. Imports From</u>
Belgium and Luxembourg	432.8	303.1
France	558.2	235.8
Germany	780.9	494.1
Italy	523.4	215.8
Netherlands	565.4	165.2
<b>TOTAL:</b>	<b>2,853.6</b>	<b>1,414.0</b>

TABLE X

RELATIVE SHARE OF U.S. TRADE WITH E.E.C. IN 1956<sup>2</sup>

<u>Country of Origin for Exports</u> <u>Destination For Imports</u>	<u>Exports</u>	<u>Imports</u>
Total U.S. Foreign Trade	18,987 million \$	12,859 million \$
U.S. Trade with E.E.C.	2,853.6 " "	1,414 " "
o/o of Total U.S. Trade Centered on E.E.C.	15 o/o	11.2 o/o

<sup>1</sup> Statistical Abstract of the United States for 1957, U.S. Dept. of Commerce, p.906

<sup>2</sup> Ibid



TABLE XI

E.E.C. TRADE WITH THE WORLD IN 1956<sup>3</sup>  
 IN MILLION OF DOLLARS

<u>Country of Trade Flow</u>	<u>Imports from All Countries Including Other E.E.C. Nations</u>	<u>Exports to the World</u>
Belgium and Luxembourg	3,272.5	3,162.4
France	5,553	4,538.5
Germany	6,616.5	7,357.7
Italy	3,169.1	2,156.8
Netherlands	3,711.9	2,861.8
<b>TOTALS:</b>	<b>22,323.0</b>	<b>20,077.2</b>

TABLE XII

DEFICIT BETWEEN IMPORTS AND EXPORTS IN THE E.E.C. TRADE  
 WITH U.S. IN MILLION OF DOLLARS IN 1956<sup>4</sup>

<u>Countries</u>	<u>Exports</u>	<u>Imports</u>	<u>Deficit</u>
Belgium and Luxembourg	304.1	432.8	129.7
France	235.8	558.2	322.4
Germany	494.1	780.8	286.7
Italy	215.8	523.4	307.6
Netherlands	165.2	565.4	400.2

<sup>3</sup> Statistical Yearbook 1957, U.N., (New York, 1957), p.p.428-429

<sup>4</sup> Statistical Abstract 1957, U.S. Dept. of Commerce, p.940

## CHAPTER VII

### INFLUENCE OF THE E.E.C. TREATY ON THE COMMERCIAL RELATIONS BETWEEN THE UNITED STATES AND E.E.C.

The purpose of this chapter is to analyse the changes that may be brought in the trade of the United States with the E.E.C. when the provisions of the treaty will be carried out. There are three questions to be answered:

1. Will there be any changes, and in the affirmative
2. Will there be only a diversion in trade, or
3. Will there be creation of new trade?

#### Exports

Tables IX and X, show the relative unimportance of the U.S. imports in general and the U.S. imports from E.E.C. in particular. In consequence, the following discussion of the problem includes only a detailed analysis of the changes that may appear in the U.S. exports to the E.E.C. For clarification of the analysis a representative sample of the exports to the E.E.C. has been drawn. It includes the products, the export value of which in 1956 was more than \$10,000,000. This figure has been chosen arbitrarily as the criterium of minimum size to be included. The total value of the U.S. exports to E.E.C. meeting this qualification represents about two-thirds of the U.S. exports to the E.E.C. countries.<sup>1</sup>

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<sup>1</sup>See Tables IX and XIII

For further convenience, the different products composing those exports are arranged into three groups: Raw materials, agricultural products, and manufactured products. For each group all the elements entering into the conclusion about the expected changes in that particular export are presented. Among those elements are: their importance, present situation, special articles of the treaty relative to the products, and economic conditions affecting them.

Will there be any change? The countries of the E.E.C. form a homogeneous geographic ensemble. In the past their trade has always been very active inspite of the tariff barriers. When the barriers are removed and trade becomes easier and cheaper, there will be some change in trade. E.C. and S.C. is an example for further argument in favor of this possibility.

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The second and third questions will be answered together for each group of products separately.

Raw Materials: The first group of products includes raw materials. This group is the most important group, with a total of 1,077 million dollars, representing 34 per cent of the United States' exports to the E.E.C.<sup>2</sup> It will be divided into two sub-groups. The first one includes coal, steel, scraps, and coal and tar. Those products occupy a special position in the E.E.C. They are already the object of a former custom union instituted by the six E.E.C. members on a two product basis, the E.C. and S.C. coal and steel enjoy a complete freedom of movement inside the E.C. and S.C. and are subject to the same external tariff in the trade

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<sup>2</sup>See Table XIII

with the rest of the world. The changes brought about by the institution of this first custom union have been analysed previously. No further major change is expected with the E.E.C. market.

The second sub-group includes some basic raw materials missing in the E.E.C., such as copper, rubber, petroleum, cotton, and tobacco. The total amounts to 561 million dollars. There is no doubt that no significant changes in the direction of trade will occur. Those products will still be needed by the members of E.E.C. On the contrary, with the expected rise in production due to the increase in the intra-trade of the E.E.C., an increase in the American exports of raw materials can be foreseen. No one member of the E.E.C. possesses them in sufficient quantities. Some of them are even completely missing, such as cotton, rubber, etc.

A conclusion on this first group may be drawn. There will be no change as far as the direction of trade is concerned. The products in this group that were bought in the U.S. will still be bought there. But there will be a change, because new trade will be created. When the industries work more efficiently for a bigger market and use a bigger scale of production, the demand for American raw materials will increase. An idea of this increase may be given by a survey of the Organization for European Economic Cooperation. This organization estimates that in 1975 the E.E.C. will need to import 37 per cent of its needs in energy. Today, it needs to import only 20 percent.<sup>3</sup>

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<sup>3</sup>Situation et Probleme a Fin Mai, 1957; Les Etats Unis et le Marche Commun, Mr. Le Conseiller a l'Ambassade de France de Washington, No.495, p.16.

TABLE XIII

U.S. EXPORTS TO E.E.C. MAIN COMMODITIES<sup>4</sup>

(OVER \$10,000,000) - 1956

In Millions of Dollars

<u>Products</u>	<u>Totals</u>	<u>Nether- lands</u>	<u>Belgium and Luxem- burg</u>	<u>France</u>	<u>Germany</u>	<u>Italy</u>
Raw Materials.....	1077					
Coal	359	90	24	74	102	79
Steel Products	47	17			17	13
Scrap	100		12	16	11	61
Coal and Tar	10					
Copper and Ores	110			52	35	23
Copper Alloys	12				12	
Rubber	26			13	13	
Petroleum	95	21	18	32	14	10
Cotton	225	20	25	53	71	56
Tobacco	73	17	11		45	
Synthetic Fiber					10	
Non Ferrous Ore					10	
Agricultural Products...	625					
Meat and Meat Products	11	11				
Fish Oil and Grease	61	24			17	20
Grains and Preparations	358	111	82	57	92	16
Fruits and Preparations	53	21	12		20	
Oilseeds	86	40	15		31	
Vegetable Oil and Fats	38	10			28	
Dairy Products	18					18
Manufactures Products...	305					
Industrial Machinery	56	11	10	19		16
Electric Machinery	26			12		14
Mining Machinery	39			19	10	10
Machine Tools	13			13		
Autos	66	12	44	10		
Aircrafts	16		16			
Medical Preparations	11		11			
Chemical Specialties	67	10	11	22	13	11
Industrial Chemicals	11				11	

<sup>4</sup>U.S. Exports of Domestic and Foreign Merchandise, Report No. FT 420, Department of Commerce, Calendar Year 1956, p.p.24, 25, 29.

Agricultural Products. The second group (agricultural products) includes U.S. exports to E.E.C. of foodstuffs. It represents a total of 625 millions dollars, about 21.5 per cent of the total U.S. exports to E.E.C. Those exports have a special position, because of the vast protection the treaty accords agriculture. Agriculture constitutes a system closely linked with the economy as a whole; furthermore, the majority of the countries of the E.E.C. have a prosperous agriculture. This is why American exports of foodstuff may suffer from the E.E.C. above all if the American government continues its policy to sell surpluses by dumping drawing the local prices down. However, it must be noticed that agriculture was very protected before the treaty and that a certain amount of discrimination and protectionism seems to exist between the E.E.C. members.

Manufactured Products. The third group is mainly composed of manufactured products and its total amounts to 315 millions or 11 per cent of the U.S. exports to the E.E.C.<sup>5</sup> The carrying out of the common tariff will certainly have an effect on those exports since the six participants are also producers. This applies principally to Germany, which has the smallest place in the exports of manufactured products. It is expected that the disappearance of the custom barriers between the member states will greatly stimulate a more efficient production. Producing for a non-discriminatory market of 170 million people is more encouraging by its perspectives of profit than producing for various small communities separated by tariff barriers. The emphasis of the changes in the trade of manufactured products lies in the importance of the new tariff. If it

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<sup>5</sup>See Table XIII

is not too high competition will still be possible; on the contrary a prohibitive tariff will be discouraging for any outside countries. At first glance the situation seems discouraging for the U.S. exports. When the products of Italy and Germany will reach the French and Belgian markets without paying any duty, the U.S. will have tougher competition. A great effort will be made by some country like France, for instance, to increase their competitiveness.

It is interesting at this stage to examine the tariff structure of the four customs areas represented in the E.E.C. concerning the manufactured products. The tariff of 300 manufactured products have been analysed in each zone. The range of the tariff incidences has been classified in figure No.1. Two examples of the computation of the tariff of two important E.E.C. imports from the U.S. will help to reach a conclusion as to the changes brought about by the tariff itself.

From Figure No.1 three groups of countries can be differentiated. Benelux and Germany belong to the first group. The majority of the tariffs on the products in those two countries belongs to the division containing tariffs from 6 to 15 per cent ad valorem. Only 1/4 of the products under consideration are found in the division of the 15 to 20 per cent ad valorem duties. France forms the second group, the majority of its products bears a tariff of 21 to 30 per cent ad valorem. An important remaining group is in the 16 to 20 per cent range, Italy is in the third group; 70 per cent of the products under consideration pertains to the 21 to 30 per cent range; the remaining 30 per cent of the products under consideration, to the range 21 to 40 per cent.<sup>6</sup>

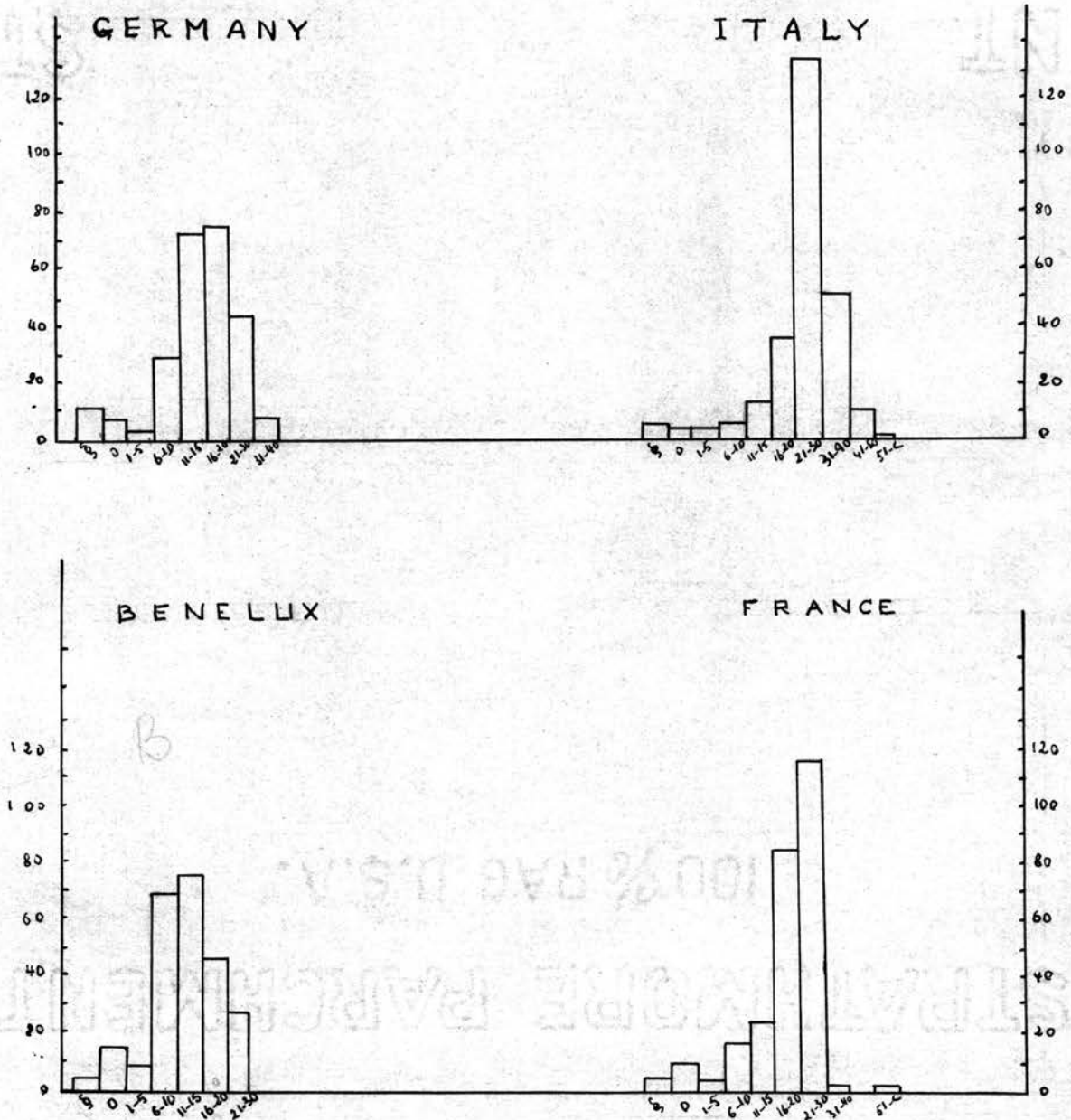
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<sup>6</sup> See Figure No.1.

### Ad Valorem Incidences of Tariffs in the E.E.C.<sup>7</sup>

Frequency distribution of incidences for 300 manufactured products.

The vertical scale indicates the number of products bearing the tariff incidences shown in the horizontal scale.



<sup>7</sup> Etude sur la Situation Economique de l'Europe en 1956, U.N., (Geneva, 1957), Chapt. IV, p.p. 14, 15



The conclusion on the tariff structure of the E.E.C. for manufactured products is that there are two tariff protective countries in the Community, and two more liberal trade countries or groups of countries (Benelux and Germany).

An example will illustrate what the combination of those two groups gives as an external tariff.

Computation of the New Tariff of Two Manufactured Products. The two products are (1) automobiles and accessories, and (2) machine tools.

The old tariffs for the automobiles were:<sup>8</sup>

Per Cent Ad Valorem	
Belgium	24
France	30
Germany	32
Italy	40 (legal tariff)

The new tariff will be (simple arithmetic mean of the old tariffs) 31.5 per cent. This change in the tariff represents a great handicap for the U.S. exports to Benelux, Belgium in particular, but a marked improvement for the Italian market.

The old tariff for machine tools were:<sup>9</sup>

Per Cent Ad Valorem	
Benelux	6
France	16
Germany	32
Italy	17

The new tariff (simple arithmetic mean of the old tariffs) will be: 12 per cent.

The new tariffs are not very protective. It cannot be said that because of a discriminatory tariff of 12 per cent the U.S. exports of such product will be cut completely. The difference in price is not tremendous. The biggest problem does not seem to be where the U.S.

<sup>8</sup> Economic Survey of Europe in 1956, Research and Planning Division and Commission for Europe, (Geneva, 1957), Chapt. IV, p.17.

<sup>9</sup> Ibid.

producer puts it. However, small a tariff may be, it is still bigger than the tariff applied to the members of E.E.C. (when the treaty articles will be carried out). Even if no tariff were to be maintained against U.S. exports, they will still face a greater competition. The disappearance of customs barriers will greatly stimulate intra-trade in the E.E.C. market (example of the E.S. and S.C.) Already two of the countries of the E.E.C. are great exporters of manufactured products (Germany and Italy) inside and outside the E.E.C. market. Their production will certainly be stimulated, they have modern plans which will gain efficiency in producing at their full capacity for a larger market. Their export capacity and their competitiveness will be sufficient to keep the U.S. producers out of the E.E.C. market. However, by differentiating their products to meet the requirements of a population with a growing standard of living the U.S. producers can find in the development of the E.E.C. a wonderful opportunity to increase its market. Some producers (large companies in general) are trying another way to stay in the E.E.C. market. They are building branches, increasing the capacity of the old ones or negotiation agreements to use the facilities of E.E.C. factories in order to get the manufacturing of their products inside the tariff-free area.

내부의 무역 장벽

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## CHAPTER VIII

### CONCLUSION

#### U.S. Exports to E.E.C.

The changes brought about by the E.E.C. will be of two kinds, viz., diversion of trade or creation of new trade.

The diversion of trade will be particularly important in the first years. Since the U.S. will lose some of its European market, it is necessary to evaluate this loss. It will only apply to certain categories of products, particularly manufactured products which are available in the E.E.C. and will be competitive when the tariff is removed. These products represent only 1/6 of the exports under consideration.<sup>1</sup> It is probable that the trade of such products between the E.E.C. members will increase to the detriment of the U.S. exports.

The agricultural products are well protected. Since the treaty is not very explicit about the protection granted to them, conclusions cannot be very specific regarding the effect of the changes in the future of U.S. exports of agricultural products to E.E.C. However, with an expected development of new mechanized techniques in agriculture, the efficiency of the E.E.C. countries will increase and these countries will become more self-sufficient. The chances are that the situation would have been the same even without the treaty.

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<sup>1</sup>See Table XIII

Raw materials will still be needed since they cannot be found inside the E.E.C. In consequence, no diversion of trade from the U.S. to members is possible. The total exports of raw materials about one-half of the exports under consideration, represents the most important item of the U.S. exports to the E.E.C.

In conclusion, the diversion of trade that will close the E.E.C. market to the U.S. products is not of tremendous importance since the majority of the products will not be affected by it.

New trade will be created. It will appear inside the community of E.E.C. when communications and transfers of goods and services become easier. This increase in trade, bringing an increase in the welfare of the countries, will improve the standard of living of E.E.C. members. It is this improvement in the consumer situation that will in turn create opportunities for new trade with the outside countries. First, as pressure on the consumer market increases, production will be pushed, which in turn, will increase the demand for necessary raw materials; for those raw materials not available in the E.E.C. and imported at the present time from the U.S., there will be increase in imports. Secondly, the improved standard of living will create new demand for new products, which could not be afforded previously. Here also lie great possibilities for development of exports from the U.S. In the case of the E.E.C., there is much work to do in order to satisfy the demand and improve the standard of living to the U.S. level.

As an example, Table XV shows what a tremendous discrepancy exists between the consumption of energy and food in the U.S. and the E.E.C. countries.

TABLE XIV

Comparison of the U.S. and E.E.C. Consumption of  
Electricity and Food Calories in 1957<sup>2</sup>

Products	E.E.C. Consumption	U.S. Consumption
Hard Coal Equivalent per Year per Person.	2.7-tons	9-tons
Calories per Day per Inhabitant.	2,800	3,150

There are great possibilities for the U.S. exporters of consumer goods if they can adjust to the new conditions by producing the kind of goods the countries of the E.E.C. do not produce at the present time. For the raw material exporters, the market has great prospects of increase in trade with the increase in production foreseen. For the U.S. farmers the situation does not seem to offer brighter prospects than before. However, this is not due to the formation of the E.E.C.

#### U.S. Imports From E.E.C.

In the following paragraph the problem of the E.E.C. exports will be taken into consideration. Their importance after the E.E.C. becomes effective, and their prospective customers will be discussed.

The experience of the E.C. and S.C. proves that the capacity of the E.E.C. for export will increase with the increase in production. It can be normally expected from economic units with factors of production available and know-how, which have their market increased by considerable

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<sup>2</sup> Rene Miquel and Pierre Soury, and Pierre Chevaroché, *l'Europe et Nous, Science et Vie*, No.477, Juin 1957, p.p.52-58

proportions. There is a question as to whether those exports find a market. The disproportion between the exports and the imports of E.E.C. with U.S. cannot be maintained. One cannot expect to sell without buying in a modern economic circuit. Inter-exchanges are enriching for both traders. The difficulty comes mainly from the U.S. side, which raises tariffs and quotas to prevent foreign products from entering the market. On one hand, this is not a healthy attitude for an advanced and well established competitive system -- the producer should not fear competition; with equal weapon there is equal chance..

Secondly, it creates ill feelings against the too protective countries. The members of the E.E.C. declare themselves ready to negotiate tariff reductions and commercial agreements. Attempts to free international trade have to be reciprocal. However, the U.S. Tariff League and other protectionist groups push Congress to increase the tariffs or the quotas. Between 1954 and 1955 the exports of the U.S. increased by 30 per cent, the imports by 6 per cent. One of the main reasons for this difference is the increase in the import tariffs of some important products. By 1956 there were 18 products on the lists for increased tariffs; most of them were rejected by the President. However, two were granted. The products concerned were watches and bicycles. Their imports to the U.S. represented 85 millions of dollars. The total value of the imports of the products on the list was 125 millions of dollars.<sup>3</sup>

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<sup>3</sup>Economic Bulletin for Europe, Research and Planning Division, Economic Commission for Europe, U.N. Vol.7, No.4, p.3

### Trade Between the E.E.C. and Russia

The growing problem of imports for the E.E.C. leads to the examination of the prospective customers for E.E.C. exports. Will the rising importance of new customers solve the import problem? And will they be able to supply the E.E.C. countries with the raw materials it needs? This is to be considered next.

Among the new customers of the E.E.C. in the recent years the Soviet Union occupies a special place. The total amount of trade between the E.E.C. and Russia is not comparable to the amount of trade with the U.S. but the trend is very significant.

TABLE XV

Increase in Trade Between the E.E.C. and  
Certain Other Countries, 1951-1956<sup>4</sup>

In Percentage of Exports

<u>Countries</u>	<u>Per Cent Increase In Trade with E.E.C.</u>
U.S.A.	50
Europe	40
Canada and Latin America	33
Middle East, Asia and Africa	30
Soviet Union	200

<sup>4</sup>New York Time, January 19, 1958, p.p.1, 8.

The increase in the trade with the E.E.C. countries is considerable. Important, however, is Russia's ability to supply the E.E.C. needs which the U.S. is satisfying now. It has comparable resources and a prosperous agriculture. The products they lack most will be manufactured in increasing quantities in the E.E.C. and will be available for export. Among those products are consumer goods. There is perhaps a very bright opportunity for the E.E.C. exports. For the time being it exists only in perspectives. It is evident that if E.E.C. is able to sell to the Soviet Union, it will try to buy from them instead of buying from the U.S., which is the result of its being possible to get Russian foreign exchange in this case.

It seems interesting at this point to examine the trade with Russia more closely. There was a great increase in the E.E.C. Russian trade in 1955 and a more significant increase in 1956. The main beneficiaries of the latter increase were Germany and France.

TABLE XVI

Increase in the Imports and Exports of  
Germany and France With Russia<sup>5</sup>  
1955-1956, In Millions of Dollars

Countries	Imports from Russia			Exports to Russia		
	1955	1956	o/o Increase	1955	1956	o/o Increase
France	60	81	54	100	88	-12
Germany	170	281	35	158	281	78

<sup>5</sup>Economic Bulletin for Europe, Research and Planning Division, Economic Commission for Europe, Vol.7, Chapt. I, p.19.



A considerable increase in the German trade with the Soviet Union can be noticed both for imports and for exports but more accentuated for the former. For France the same tendency exists for the imports; however, the exports have dropped, following the general tendency of the French exports of that period. Of course, nothing absolutely certain can be said about the future, but there seems to be a willingness on the part of the Russians to begin the commercial relations interrupted by the War. It is important to classify the products composing this trade. An important group of the Soviet exports to the E.E.C. is formed by raw materials, wool, coal, timber, pig iron, and petroleum. They have increased in 1957 and the prospects for petroleum in particular are quite satisfactory. The prospects of enlarging trade with the Russians is brighter now. The possibilities are great. Will Europe try to find in Russia what they cannot afford to buy in the U.S.? It seems to depend very much on the willingness of the U.S. to reconsider its foreign commercial policy.

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