U.S. competitive response to Common Market preferences has been surprisingly good thus far. Dollar volume continues to mount, and though the overall percentage share has weakened, the loss is less than many anticipated

EEC Tariff Walls: No Ministep But No High Hurdle Either

HAROLD HECK

THE HEART of a preferential trading arrangement, be it a common market or a free-trade area, is simply this: the "ins" drop trade barriers among themselves while retaining them against the "outs." This sets the latter to worrying about the survival of market positions in the integrated area. Their best hope is that the *trade-creating* effects of the arrangement will offset its *trade-diverting* aspects.

Trade creation occurs when wider geographic markets and reduced obstacles to commerce within a given region (1) stimulate efficiency through increased competition of an acceptable type, (2) promote a better allocation of economic resources, (3) increase investment opportunities, and (4) raise economic growth. When this happens import demand increases and countries outside the preference area end up supplying more goods to the affected region than formerly. At the same time the added dose of efficiency streamlines the export industries of the trade-group area, thereby creating more selling opportunities outside the bloc.

Trade diversion, on the other hand, means the simple replacement of one supplier, who can't hurdle tariff walls, by another supplier, who is safely ensconced inside these walls. This may mean that business is diverted from low-cost outside producers to higher-cost inside producers. For their part outsiders hope and urge that preferential arrangements remain "outward" rather than "inward" looking: in other words, that the possibility of harm to outsiders is duly considered by the bloc membership and is deliberately avoided.

The leading economic union in the postwar period is, of course, the European Economic Community. And the leading outsider is naturally the United States. Until recently the effects of the Common Market on this principal outsider's sales have been hotly debated but highly conjectural. Now, however, statistics are available to provide factual evidence of what the exporter's experience actually has been.

Before and After

This article contrasts U.S. performance in the EEC market in 1965 (in most cases the latest year for which figures are available) with that in a base period (1958–62 average). This base period covers the five years just prior to the effective "bite" of most EEC preferences. However, it should be recognized that, along with the preferential elimination of tariffs within the Common Market, there has been a steady decline in the use of nontariff trade barriers, with concomitant benefits to outside suppliers as well as those within the market. The outstanding case is the rather complete lifting of quantitative import restrictions and of rigid import licensing, which had been serious impediments as recently as 1962. The analysis of the U.S. experience is based on import statistics of the Common Market itself. All data are taken from or based on the annual EEC Analytical Tables-Import published by the Statistical Office of the European Communities.

Currently Chairman of the Department of International Trade and Transportation at Georgetown University, HAROLD J. HECK *sports impressive government as well as academic credentials. He was commercial attaché in the U.S. Embassy in Paris from 1957 to 1962, and then director of the International Trade Analysis Division, Department of Commerce. Among his publications: "Foreign Commerce" and "The Most-Favored-Nation Principle."*

EEC imports from the United States during the period were:

Year	Value ($ Million)	U.S. Share of EEC Total
1958–62 average	$3,349.0	12.29
1963	3,395.0	12.47
1964	5,046.7	12.09
1965	5,687.8	11.61
1966	6,021.0	11.22

Of course, an overall statistic showing U.S. participation in a foreign market necessarily clouds the performance of individual industries or products that make up the total. To remedy this deficiency one must, figuratively, put on bifocals. This is done by means of an analysis of the 177 groups in the Standard International Trade Classification (SITC). This is the finest detail in which import statistics are reported. Since an across-the-board reduction of trade barriers within a customs union might be expected to result in a rather *widespread* displacement of outside suppliers as insiders reap the benefit of their competitive preferences, this analysis is based on group performances relative to those in the base period, *regardless of the absolute importance of the individual groups.*

In each of the 177 SITC groups, some imports were reported by the EEC from the United States in at least one year since 1958. But since many of these are of no significance, those classifications in which imports did not amount to at least $1 million in *any* year since 1958 were eliminated in order to make the mass of data more manageable. There were 31 of these undersized entries, which left 146 groups with an annual volume of $1 million or more.

Not Outpriced Yet

A raw count of the groups, regardless of individual importance or size, discloses that in 121 there was an increase in dollar value in 1965 as compared with the base period, while in 23 there was a decrease. In two, the dollar total remained the same. In 70 product groups the U.S. *share* of total EEC imports (including intra-EEC trade) rose, while in 74 classes it dipped. Shares remained the same in two. In 69 groups there was an *increase in both dollar value and U.S. share,* while in only 22 groups was there a decrease in both *dollar value and market share.*

This record is revealing and encouraging. It shows a broad and generally consistent pattern of the competitive dynamism of the U.S. economy. It seems to demonstrate that the U.S. has not priced itself out of world markets—at least not out of the most competitive one. It suggests that, given a chance, the American economy responds fairly effectively—though it must be remembered that exporters in 74 groups found themselves supplying less, relatively, than in the base period.

As may have been expected, U.S. business with the EEC is inconsequential in many SITC groups, while it is very important in others. The leading five groups in 1965 accounted for 25% of U.S. exports to the Common Market. The leading ten represented 40% of total exports.

The relative performance of these ten is shown in Table 1. The U.S. seems to have held its own, competitively, against EEC and/or other suppliers of corn; coal, coke and briquettes; oilseeds; feed for animals; and tobacco. These are items in whose production it has some natural advantages. On the other hand, it appears to have lost ground to EEC and/or other suppliers of nonelectrical machinery and appliances; of aircraft; organic chemicals; other electrical machinery and apparatus; and cotton. These are items in which the natural or technological advantages are not so great. While some of these developments may have been due to special circumstances that are unconnected with normal competition—such as a large order in one year instead of another for aircraft—it may be that the majority represent the simple working out of comparative cost and specialization advantages in a changed set of circumstances. As such, they may adumbrate logical shifts in the pattern of international trade.

In order to narrow down the individual groups to those of consequence, a cutoff point of $10 million each was selected. The 85 groups whose volume was in this range constituted 88% of total imports from the U.S. in 1965. In 43 of these 85 more important groups, United States exporters not only held their own; they took a larger share of the market. The total dollar value of these 43 groups in 1965 was $2,328 million. In the other 42—with a dollar value of $2,655 million—American exporters lost ground, sharewise, but in only nine cases did both dollar value and share decrease.

One is led to inquire whether the percentage losses suffered by the United States in the 42 groups were to EEC members themselves. In other words, did the U.S. hand over its shares to those producers that were favored with preferences, or were third parties in-

Table 1: Ten Leading Items Imported by EEC from U.S. in 1965

Items	*EEC Imports from U.S., 1965 ($ Millon)*	*Gain or Loss from 1958–62 Average in Share Supplied (In % of Total EEC Imports)*	
		U.S.	*EEC*
Corn	379.9	+13.6	+11.6
Machinery and appliances, other than electric	283.9	— 1.2	+ 4.1
Coal, coke and briquettes	277.9	+ 1.2	— 3.6
Oilseeds	271.1	+11.3	+ 1.1
Aircraft	228.4	— 3.8	+ 9.0
Organic chemicals	212.8	— 2.4	+ 2.3
Other electrical machinery and apparatus	178.1	— 1.6	+ 3.0
Feed for animals	152.8	+12.7	— 3.4
Tobacco	116.8	+ .5	— .1
Cotton	110.4	—15.2	+ .2

Table 2: Comparative U.S. and EEC Record in Selected Groups, 1965 vs. 1958–62

Products	Imports from U.S. 1965 $ Million	Duty Range	Point Change in Share U.S. Share Loss	EEC Share Change[1]
Wheat & meslin, unmilled	$73.2	variable	—2.2	14.3
Meat, fresh, chilled or frozen	66.5	5–variable	—5.4	3.4
Barley, unmilled	34.2	variable	—15.5	23.6
Fruit, fresh, & nuts (not incl. oil nuts), fresh or dried	28.2	10–15	— .2	3.8
Fruit, preserved, & fruit preparations	44.0	20–25	—4.6	2.4
Vegetable roots & tubers	9.6	20–25	—3.3	6.1
Crude rubber (incl. synthetic & reclaimed)	52.8	5–10	—3.1	13.7
Cotton	110.4	0–5	—15.2	.2
Synthetic & regenerated (artificial) fibers	19.1	10–15	—6.2	12.7
Waste materials from textile fabrics (incl. rags)	14.6	0–5	—5.8	6.9
Iron & steel scrap	33.4	0–5	—17.0	18.9
Nonferrous metal scrap	38.4	0–5	—12.2	13.5
Petroleum products	64.1	5–10	—2.3	14.4
Animal oils & fats	48.9	5–10	—6.3	4.2
Organic chemicals	212.8	10–15	—2.4	2.3
Inorganic chemicals: Elements, oxides & halogen salts	24.9	0–5	—10.9	11.7
Pigments, paints, varnishes & related materials	11.8	10–15	—4.9	7.4
Medicinal & pharmaceutical products	42.2	15–20	—8.2	5.0
Plastic materials, regenerated cellulose & artificial resins	88.0	15–20	—9.6	15.9
Chemical materials and products, n.e.s.	80.2	5–10	—6.2	12.8
Leather	12.0	5–10	—3.9	4.5
Textile yarn & thread	22.1	10–15	—1.3	7.6
Textile fabrics, woven, other than cotton fabrics	16.0	15–20	— .3	11.3
Special textile fabrics & related products	12.0	10–15	—4.5	9.2
Pearls, precious & semiprecious stones	20.7	0–5	— .2	2.5
Universals, plates & sheets of iron or steel	13.5	5–10	—5.6	6.1
Tubes, pipes & fittings of iron or steel	9.9	10–15	—1.4	4.8
Copper	136.5	0–5	—4.2	8.5
Power generating machinery, nonelectric	117.4	10–15	—2.0	1.3
Agricultural machinery & implements	26.2	10–15	— .9	12.5
Metalworking machinery	51.8	5–10	—11.1	9.5
Textile & leather machinery	31.4	10–15	—1.8	2.7
Machines for special industries	111.1	10–15	— .3	4.2
Machinery & appliances, nonelectrical	283.9	10–15	—1.2	4.1
Telecommunications apparatus	50.1	15–20	—4.0	2.2
Other electrical machinery & apparatus	178.1	10–15	—1.6	3.0
Road motor vehicles	80.1	15–20	—3.0	4.4
Aircraft	228.4	10–15	—3.8	9.0
Clothing (except fur clothing)	19.1	15–20	—1.5	.2
Scientific, medical, optical, measuring & controlling instr. & apparatus	99.6	10–15	—2.5	1.6
Musical instr., sound recorders & reproducers & parts & accessories	22.8	10–15	—2.3	—6.5
Printed matter	14.9	0–5	— .2	.2

[1] Increase unless otherwise indicated

volved? Table 2 indicates the *share points* lost by the U.S. and picked up by the EEC. In sum, out of the 42 groups listed, the U.S. share loss was fully captured by the EEC in 30 cases. It was partially captured in 11, i.e., EEC suppliers gained, but not so much as U.S. suppliers lost; and the EEC loss was greater than that of the U.S. in one case.

Table 3 was developed in order to determine whether there is a noticeable correlation between the ranges of duty and the U.S. position compared to that of the EEC supplier. The data do not suggest any clear relationship between rates of duty and relative performance. For instance, while the U.S. lost ground in 23 groups on which the duty range was 10% through 25%, it also dropped in 16 groups with a duty range below 10%. And though it gained in 22 groups with low rates of duty, it also picked up in 18 product areas where the tariff was high. It even increased its share relative to that of the EEC in quite a number of cases in which the duty range was 10–15 percent and above. All of this seems to indicate that the preferences thus far available to them did not materially help EEC producers, and that factors other than the rate of duty are more important in determining the flow of trade.

A side observation is that the true casualty in many cases is not the United States so much as other suppliers. No attempt was made to determine which countries were the major losers, *by product*, in the competitive race, but perhaps some research could profitably be slanted in this direction as more statistics become available.

Overall, the major loser, competitively, appears to have been the EFTA countries as a group. Changes in overall share of the market captured by principal suppliers were, from year to year:

Changes in Percent of Total EEC Import Market Supplied by Selected Areas and Countries (compared with preceding year)

Year	EEC	EFTA	U.S.	UK
1963	+1.41	—.12	—.01	+.23
1964	+1.28	—.58	—.38	—.30
1965	+1.52	—.61	—.48	—.44
1966	+1.00	—.58	—.39	—.14

Such, in brief, are the facts. Let us review eight tentative conclusions based on this and related information.

1. Increased demand by the EEC countries (due in part to the group's very formation) has generated strong response by U.S. export businesses. The response was increased sales to the EEC as reflected in its imports. However, part of the increase is traceable to price increases and to U.S.-government-aided exports.

2. The U.S. competitive position in the EEC (as compared with all suppliers, including those within the EEC) has improved in not one or a few, but in many lines of products. The improvement was in both dollar value and, more surprisingly, in the *share* of

Table 3: U.S. Share Increases or Decreases, According to Duty Ranges
(Figures in table indicate number of SITC groups)

	Duty Ranges 0–5	5–10	10–15	15–20	20–25	Variable
A—Product Groups in which U.S. Share Decreased (42):						
U.S. share decreased, EEC share increased	8	8	14	6	2	3[a]
U.S. share decreased less than that of EEC, but both decreased	–	–	1	–	–	–
B—Product Groups in which U.S. Share Increased (43):						
U.S. share increased, EEC share decreased	7	3	1	3	–	–
U.S. share increased more than that of EEC	4[b]	–	1[c]	2	–	2
U.S. share increased less than that of EEC	3	5	9	2	–	1

[a] 5 percent to variable within one group [b] In one case, EEC share was unchanged [c] EEC share was unchanged

the EEC market captured by some U.S. exporters, although the overall U.S. share of the market has dropped. However, the 1965 results are less encouraging than the 1964 figures. The U.S. share in 1965 increased in 60 groups over what it was in 1964; it decreased in 105, and it was the same in 12.

3. The U.S. performance reflects good response to competitive opportunity, despite the preferences that EEC members are granting each other by the progressive elimination of tariffs and other internal barriers to trade. With few exceptions, intra-EEC tariffs are only 20% of what they were in 1957, and by mid-1968 they will be completely eliminated. These preferences mean, in many cases, an added competitive hurdle to be overcome by the U.S. and other nonmember exporters. On the other hand, the removal of quantitative restrictions on most products gave U.S. exporters a previously unavailable opportunity to cultivate the EEC's growing market. This was no doubt a factor in the relatively favorable dollar-volume showing by American exporters across the board after 1962.

4. In only a few cases in which the U.S. export position has been captured by EEC suppliers are American investments in the EEC known to have been important. Examples are crude rubber (which includes synthetic and reclaimed), synthetic and regenerated artificial fibers, and petroleum products. Quite possibly investments and/or licensing in the industries represented by the machinery and fabrics areas of the SITC played an important role in the picture, but supporting data are not available. On the other side of the ledger U.S. direct-investment enterprises have proved important outlets for U.S. exports. The Department of Commerce estimates that about 25% of U.S. exports (one-third of nonagricultural exports) go to subsidiaries and affiliates of U.S. firms overseas. Obviously part of the strength of U.S. export performance should be attributed to the enlarged flow of its direct investments in the Common Market.

5. It remains to be seen whether the common agricultural policy agreed to by the EEC in 1966 will result in increased output of several products and in the exclusion of U.S. products through the variable import levy. Some of the products affected are so important, in volume, that they could noticeably influence competitive performance in its entirety.

6. The apparently encouraging U.S. trade picture might change materially in a short time if Common Market membership is enlarged, and particularly if any additional countries having duty-free access to the EEC markets can supply important industrial and agricultural products in one or more categories.

7. Whether this all means that a moderate duty is not an effective trade barrier, or that the vastly enlarged EEC production capacity has not yet made its full force felt, or that the resiliency of the American economy can meet and overcome most price competition, given the opportunity to trade, are questions which may be clarified by subsequent specialized analysis.

8. The Kennedy Round of GATT negotiations, completed in June, will assure continued and increasing opportunity for American exports to the EEC. Without the negotiations, this opportunity may not have existed and trade could have been impaired by a significant spread between the next year's zero EEC internal tariff and its Common External Tariff. The latter has now been scheduled for substantial reduction over the next five years. The opportunity has thus been negotiated. If U.S. business continues its highly competitive performance, which should prove possible unless tariff cuts are negated by an extension of the still substantial nontariff curbs, fears of exclusion may be substantially allayed.

NOTE

The author wishes to acknowledge the statistical assistance given him in the preparation of this paper by Stephen P. Farrar, a graduate student at Georgetown University.