A Letter From EUROPE

A monthly update on the European Community from its Delegation in Washington

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THE BRUSSELS SUMMIT

"If you can meet with Triumph and Disaster
and treat those two impostors just the same.."
-Rudyard Kipling-

GLOOMY ASSESSMENTS

Failure. Fiasco. The Common Market on the brink of collapse. Such has been the reaction in the American press to the news from the European Summit in Brussels. The Summit ended in disarray earlier this month after the European Community's leaders failed to agree on a comprehensive solution to the Community's increasingly serious financial problems. In fact, enough gloom came from the meeting to convince many that all had been lost. It was not so.

The meeting failed. But it was not a fiasco. The Common Market is not about to collapse. Reading last week's news accounts reminded me of the line in Gilbert and Sullivan's H.M.S. Pinafore:

"Things are seldom what they seem,
Skim milk masquerades as cream."

COMMON GROUND

In this case quantities of high quality cream have been mis-perceived as skim milk. For EC leaders found much more common ground at their Summit than they have been given credit for.

KEY ISSUES

What were these leaders arguing about and how far did they get towards finding a compromise, helped by a meeting of Agriculture Ministers the previous week? There were five main issues. The first involved a substantial cut in dairy price supports. The dairy lobby in the United States is a powerful one. The EC, however, has not one, but 10 powerful dairy lobbies--one in each of its member countries. But despite the political clout of the EC's dairy industries, EC leaders--with only an Irish difficulty outstanding--agreed on the outline of a plan to cut dairy support expenditures.

The second issue was control over EC expenditures, an essential part of any EC financial reform formula, but traditionally a touchy subject. Here an outline settlement was found. Third on the list was a much-needed increase in the EC's revenues from value-added tax (VAT) collections in EC member countries. Present law puts a 1% ceiling on the percentage of the VAT tax assessment in each EC member country that the EC can claim for its own uses. The VAT is by far the EC's largest source of revenue. A tentative agreement--as with the previously outlined agreements, subject to approval as part of an overall final package--was reached to increase the VAT ceiling to 1.4% and under certain circumstances to 1.6%.

TENTATIVE ACCORD

The fourth concern--again resolved subject to the adoption of a comprehensive package--was the elimination of border taxes (Monetary Compensatory Amounts), which hinder agricultural trade between EC member states. Fifth was the British concern over their net contribution to the EC budget. The argument here is bound to be fierce because one country paying less would inexorably require others to pay more. But the gap between the British and the EC's other members has been reduced to a few hundred million dollars.

SOLUTION WILL BE FOUND

All of this is not to gloss over the fact that the Summit meeting failed to agree on a comprehensive reform package. But it agreed on far more of the various components of that package than almost anyone expected. There may be little progress this week or next, for the last lap of a negotiation is always the toughest. But enough has been achieved to give us hope that over the next three months a solution to the outstanding elements will be found.

The path to union is not easy. The wealth and the power of the United States make it possible to forget that there were grim and desperate moments in its own great history. Who would have wagered much on the Union's chances when the windows of Washington were rattling with the thunder of Confederate cannons on the other side of the Potomac and there was talk of the impeachment of Lincoln? But the Union survived and prospered.

Europe has its problems. Its unification is one of the great adventures of the twentieth century. It carries the enormous burden of different languages and opposing traditions. It must proceed by democratic argument. It has no banners, no marching songs and its romanticism is buried by the endless paper of the formulas of compromise. All this means argument, difficult and technical argument, for months on end on almost any issue. Europe will face many, many more defeats and disappointments and it will be open to all to doubt and to mock. But we shall get there in the end, for there is no where else for us to go.

Roy Jenkins

US TRADE AGENCY REJECTS CASE AGAINST FRENCH AND ITALIAN WINES

The US International Trade Commission this month in effect nixed a call for penalty duties on US imports of ordinary table wines from France and Italy. The USITC unanimously rejected allegations made in US industry group petitions that wine imports from France and Italy had hurt the US domestic wine industry. The group, the American Grape Growers Alliance for Free Trade, had complained to the US Commerce Department that the American industry had suffered from competition with allegedly subsidized and unfairly priced imports from those two EC countries and asked that countervailing and anti-dumping duties be imposed on those imports. he recent USITC ruling ended the US government investigation into those charges.

In a statement welcoming the USITC decision, the EC Commission said that cooperation, rather than litigation, was the most appropriate way to develop two-way wine trade. The US and the EC are already cooperating in an effort to narrow the differences in their respective wine production regulations.

EC PROTESTS PROPOSED US EXPORT CONTROLS ON HIGH-TECH GOODS

The EC and its member countries have protested to the US State Department over proposed new controls on exports of American high-technology products. In a memorandum to the State Department, the EC said the proposed new curbs would create severe legal and dministrative problems for European companies doing business with the US.

The proposed new rules would require importers of US high technology goods to provide a list of any of their potential customers for those goods located in other than the NATO countries, Australia, New Zealand or Japan. They would also bar importers of US high technology products from re-selling those products to customers outside NATO, Australia, New Zealand or Japan unless those customers agreed not to re-export those goods without the written permission of the US Commerce Department. The proposed rules, ostensibly designed to keep US technology from finding its way to the USSR or Eastern Europe, apply to products exported under so-called distribution licenses. Distribution licenses allow US exporters to sell their products to Western countries without having to apply to US authorities for a separate export license to cover each new sale.

The EC criticized the proposed new export controls as attempts to extend the reach of US law outside of American territory. The EC recalled that it had objected in the past on legal grounds to export controls applied by the US to goods or companies located in the EC and was "equally opposed to any extension of these controls.

The EC said the new controls could require European firms to refuse to sell to potential customers unless the US Commerce Department approved the deal. They would thus have the unacceptable effect of subjecting foreign buyers of US technology to US export policies, rather than the export policies of their own nations, the EC said. The EC also charged that the new curbs would force importers of US technology to try to exert extraterritorial controls over their own foreign customers in order to comply with US regulations. This would put European companies in an unacceptable position, the EC said.

EURO-MONEY SYSTEM GETS GOOD REVIEW FROM EC FINANCE MINISTERS

The European Monetary System (EMS) got a 5th anniversary present this month in the form of a vote of confidence from EC Finance Ministers. In a session held to evaluate the system's performance during its first five years, the Ministers agreed that the system had helped to create a "zone of monetary stability in Europe." They also agreed that the system's longer term goals remained worth pursuing. Such goals include closer economic and monetary policy cooperation between EC member countries, the creation of a European Monetary Fund and the adoption of a single currency good throughout the entire Community.

In a report to the Council of Ministers on the system's performance thus far, the EC Commission concluded that the EMS had succeeded in smoothing out exchange rate fluctuations among participating currencies despite strong destabilizing forces. These forces included the 1979 oil shock and the surge in recent years in the value of the US dollar.

The EMS encourages exchange rate stability by obliging its participants to intervene if need be to prevent the value of their currencies from rising or falling beyond certain limits. These boundaries restrict the amounts by which participating currencies may change in value relative to one another. The boundaries have been re-drawn, or rather "realigned" seven times in the EMS' five-year history. All EC currencies except the British pound and the Greek drachma participate in the EMS exchange system.

But while the EMS has encouraged closer economic cooperation between EC members, the system's scope remains limited, the Commission said. EC member countries remain free to steer their own economic policy courses in response to domestic political pressures, enabling them to deviate from the policies pursued by their Community counterparts. The Commission also cited the absence of the British pound as one of the system's major weaknesses. It said the pound's continued absence from the EMS helped keep the EMS from achieving its full potential and has limited its influence in international monetary discussions.

EC COMMISSION SEES IMPROVED PROSPECTS FOR EUROPE'S ECONOMY

The EC's economic output may rise by more than previously expected this year, but not by enough to halt gains in the jobless rate in most of the EC member countries except Germany and the UK. In a report this month on the Community's economic situation, the EC Commission said it now expects the EC's gross domestic product to increase by 2% in 1984, up from the 1.5% forecast it published last October. The Commission attributed the brighter economic growth prospects to a recovery in world trade and "corrective" economic policies implemented by EC members.

The Commission cited an upsurge in business confidence and investment intentions as signs that the EC's economy will continue to pick up in 1984. It said the outlook for increased industrial investment was particularly good in Denmark and the Netherlands, but also bright in France and the UK. After declining in real terms for the past three years, business investment in the EC is expected to increase by an average of 2%. The EC's average jobless rate may rise to 11% this year. However, declining inflation will give a small boost to the disposable incomes of the Community's jobholders.