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CENTRAL INTELLIGENCE AGENCY

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SFRC

STAT

TO: Ms. Diana Smith
Committee on Foreign Relations
United States Senate
Washington, D.C. 20510

cc to
HAND CARRY

Diana:

Enclosed is the document per your request. Hope this is helpful.

Sincerely,

[redacted signature]

Legislative Liaison

STAT

Enclosure

Distribution:

- Original - Addressee
- 1 - OEXA Record
- 1 - OEXA Chrono

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3 AUG 1982

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EC: Economic Relations With the United States on the Skids

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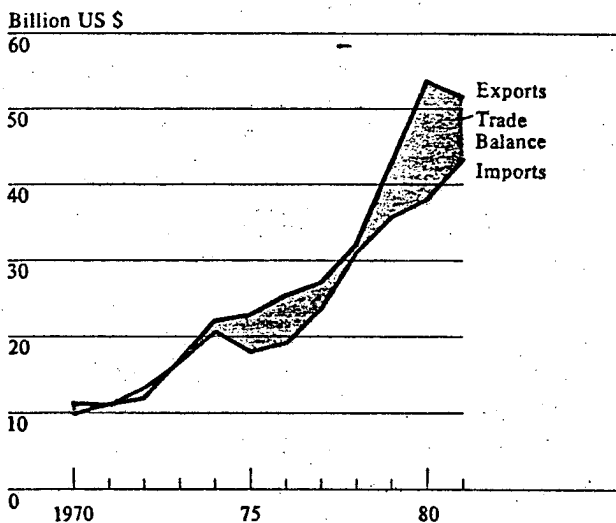
Economic tensions between the United States and the European Community are approaching a post-war high. Although a number of the trade disputes such as steel and agriculture have been simmering for years, depressed economic conditions in Western Europe have now magnified their importance. In particular, the 18 June decision by the United States to extend sanctions against the Soviet Union to include licensees of US firms has made West European governments question the motives behind US international economic policies and the US commitment to international economic agreements. Nevertheless, we believe that the West Europeans do not want the present disagreements to erupt into an overall trade war—they realize the importance of their longstanding economic and security relationships with the United States.

The rhetoric surrounding US-EC problems could be muted quickly if an agreement on steel were reached and a common approach to East-West trade found. The current prickly atmosphere suggests that the economic relationship will remain contentious for some time. Continuing economic tensions with the EC almost certainly will spill over on other important US policies, including those in the political and security areas.

The Economic Relationship

Over the past three decades economic relationships between the member countries of the European Community and the United States have expanded rapidly, with trade between the two areas expanding almost fourfold just since 1970. Integration of business activity has become greater than trade statistics would indicate because of (a) the enormous growth in foreign investment and (b) the establishment of a strong international banking

United States: Trade With the European Community



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network, which services not just US-EC transactions but those of the entire world. The overall economic relationship now affects millions of jobs on both sides of the Atlantic.

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Trade Flows. In 1981 the total value of trade between the two areas was almost \$100 billion. Between 1971 and 1980 the importance of this trade for the United States had been growing fairly steadily. In 1980 US exports to the EC as a share of US GNP peaked at 2.1 percent. For the EC, the US market during this same period declined in importance and by 1980 equaled only 1.3 percent