

European Economic Community - Commission

**The first stage  
of the Common Market**

REPORT  
ON THE EXECUTION  
OF THE TREATY  
(January 1958 - January 1962)

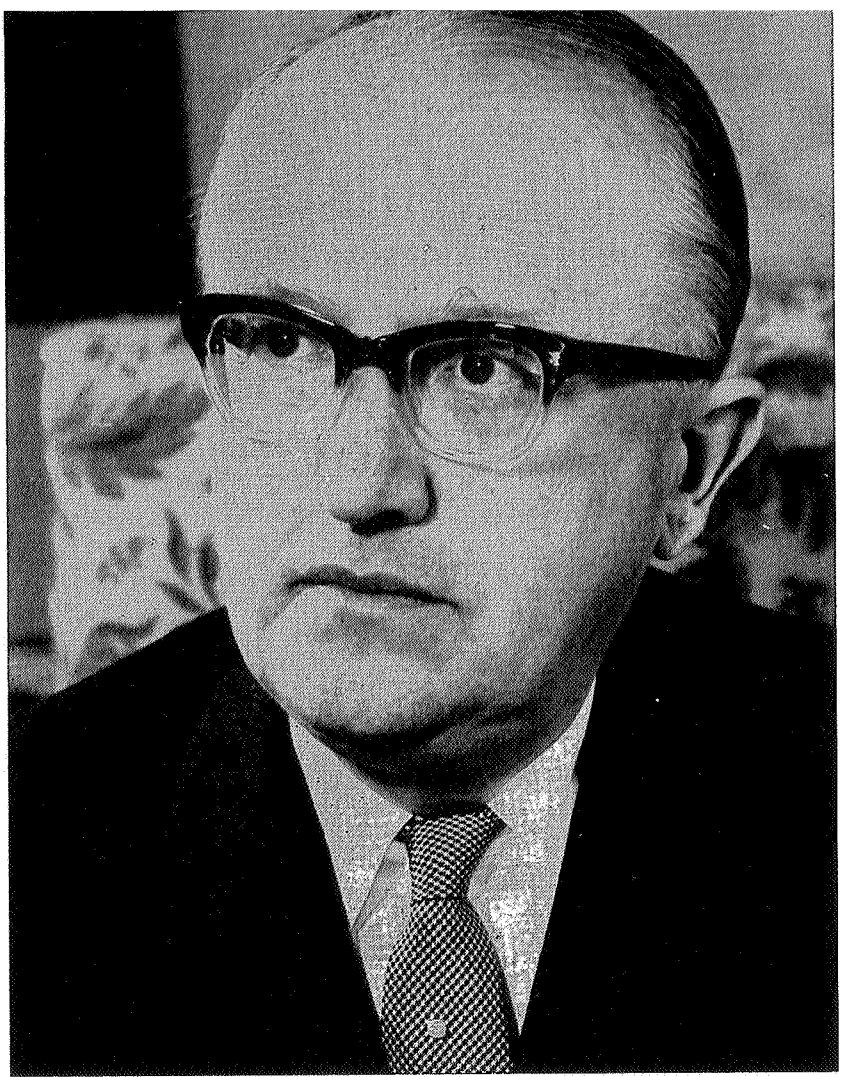
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## INTRODUCTION

*By Walter Hallstein*

There are certain milestones in the life of an international organization, as in that of an individual, at which we must stand back from day-to-day happenings and take stock of what has been achieved and what is still to be done. By laying down a transition period in three stages each lasting four years, the Treaty establishing the EEC made the beginning of 1962 a critical date, whose significance was all the greater as there was associated with it a decision that the Council had to take by unanimous vote.

The Commission had to submit a report to the Council so that the latter could take the “confirmatory decision” provided for in the Treaty. This led the Commission not only to give the Council the information it needed for the procedure laid down in Article 8 but also to draw up a veritable balance sheet for the European Parliament showing how far the Treaty had been put into effect during the first four years of the Community’s existence. Despite its intentional dryness, this balance sheet, which was sent at the time to the members of the European Parliament, may also be of interest to many people inside and outside the Community. The Commission has therefore decided to publish it, and I am happy to present it today to its future readers, those who will peruse it tomorrow and those who in later years may find in it a witness to what has been accomplished.



When Robert Schuman launched the idea of the coal and steel pool, the main concern—as expressed in the famous declaration of 9 May 1950—was to make any new conflict in Europe “not only unthinkable, but materially impossible”.

Five years later, on the eve of the Messina Conference, European statesmen were a prey to new anxieties, as a result of changes in the balance of power in the world.

The Common Market and the establishment of a united Europe were recognized as indispensable, according to the terms of the Messina resolution, “to maintain Europe’s place in the world and to restore its influence and its authority”.

It is in relation to this objective that we must evaluate the progress made since the beginning of 1958, progress that has been achieved on both the economic and political planes.

Even when solemnly signed and ratified, a treaty is no more than a piece of paper, inert save for the vitality infused into it by the human beings, governors and governed, to whom it is addressed. It must be acknowledged in the first place that the Governments are steadfast in their resolve of the Governments to bring the treaty fully

into operation. This resolve has been manifested with particular clarity in the decisions to speed up the reduction of customs tariffs between Member States, and particularly in the decisions embodying the first and the most important of the common policies—that relating to agriculture.

It is also noteworthy that the reaction of business circles to the creation of the Common Market has been very favourable. Confidence in the development of the Community and the remarkable dynamic which this confidence has bred, have had a great deal to do with the increase in trade and the high level of activity reflected in the statistics of recent years.

The results on the political plane, though not always so immediately apparent, are also positive. The clearest confirmation of this comes from outside the Community. Let us recall how at its birth it was greeted by many with indifference or scepticism, sometimes even with alarm and hostility. And now behold the number of nations who wish either to join us or to become associates, or to settle in conjunction with the Community the lines of the commercial and economic system of the free world. Moreover, the ever more virulent attacks upon the Community from the Communist camp are a further pointer to our success.

Within the Community, the consequences of the joint activity can be expressed in a few simple but significant words: greater solidarity between Member States, the recognition by public opinion of the need for concerted action (with the advantages and the sacrifices that it entails) and wider acceptance of the aim of unification, and experience of methods of integration. All these factors are the foundation on which co-operation between Member States must be extended to the fields of foreign policy, defence and cultural affairs.

Every balance sheet closes with a summing up: that of the Community must be recognized as a record of success, and this was the conclusion drawn by the Council when it decided to move on to the second stage.

This success is certainly that of a few men who have spared no effort, but it is above all the success of an idea, and that idea has



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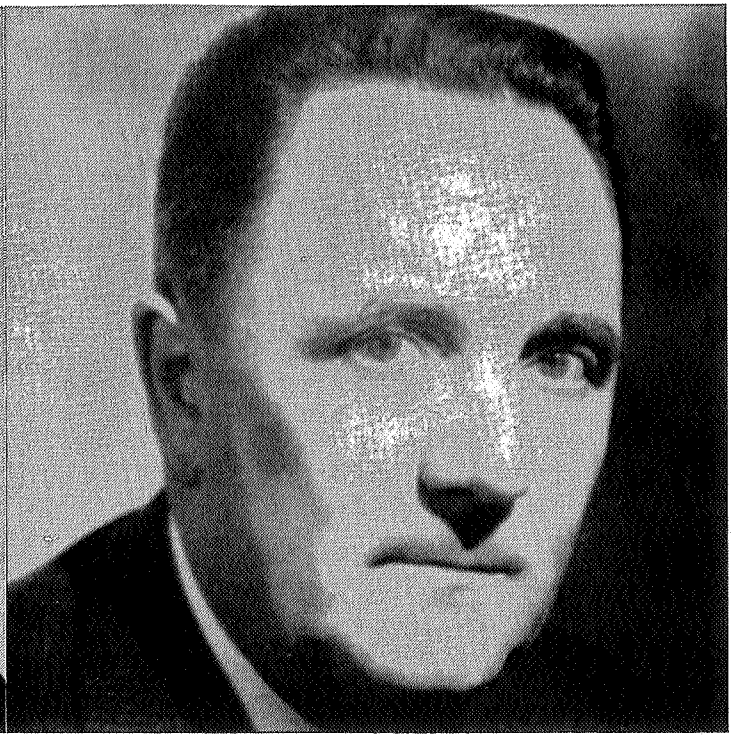
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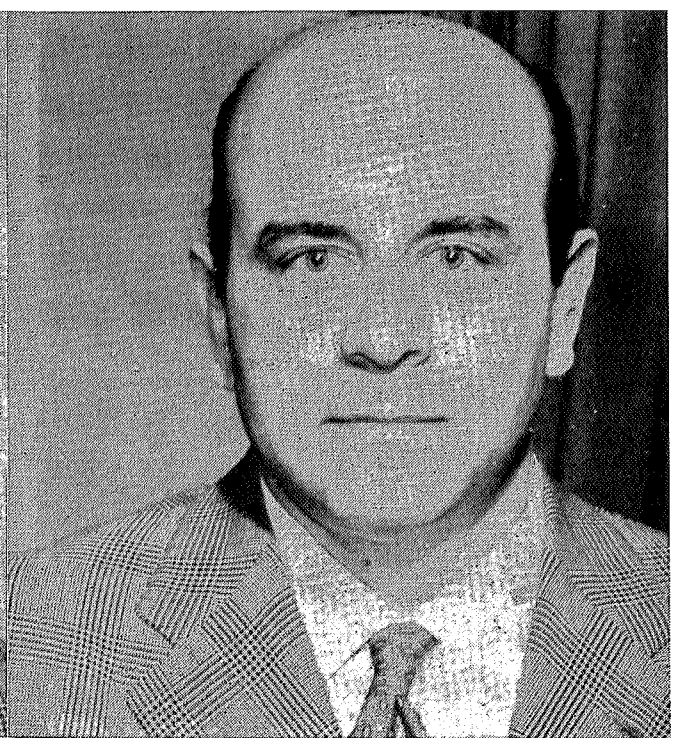
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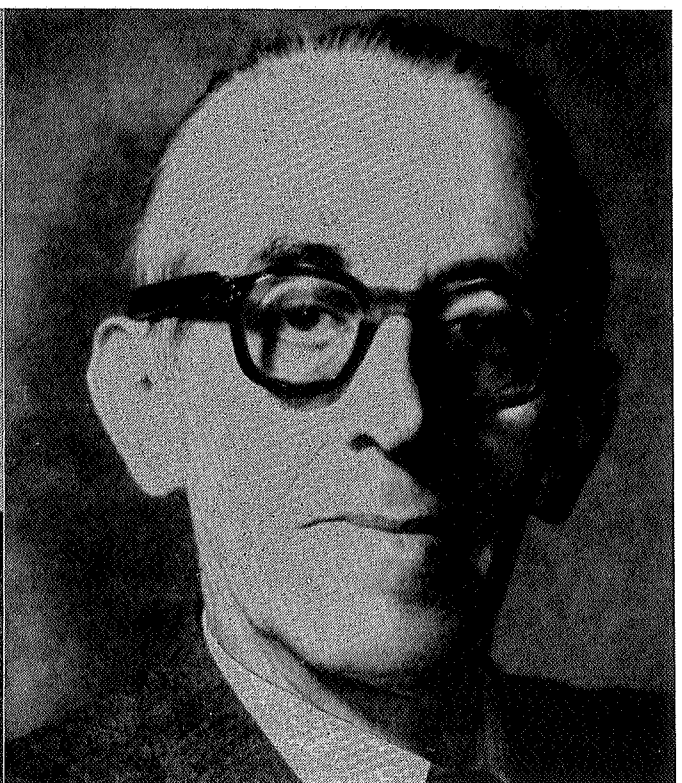
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not yet reached full fruition. The results obtained will be of no real value unless they are surpassed by further progress in the future.

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Fortunately, it is already possible to point to some new advances in the period between the end of the first stage and the date on which the present report went to press. They are in three main fields: the reduction of tariffs between the Member States; the working out of common policies; and the first steps in the implementation and day-to-day administration of the far-reaching regulations adopted for agriculture and in the matter of cartels.

The speed-up decision of 12 March 1962, the political and psychological importance of which can never be sufficiently stressed, was in fact only a first instalment of the original acceleration plan, which envisaged two anticipatory cuts each of 10%. The problems raised by such cuts will be readily appreciated, more especially those involved in setting up the agricultural market and maintaining the balance between trade in industrial and agricultural products. Despite these difficulties the Community again showed its dynamic spirit by making the second anticipatory cut; on 1 July 1962 customs duties on industrial goods will be lowered to 50% of the basic duties, those on non-liberalized agricultural products will be reduced by 35%, and those on liberalized agricultural products by 30%. Thus Article 14 (6) of the Treaty, which stipulates that the cuts must amount to at least 50% of the basic duties by the end of the second stage, will have been put into effect in respect of all industrial products three and a half years ahead of time.

The framing of broad common policies has been actively pursued. Of particular importance were the Commission's submission to the Council of a practical programme for a common transport policy, and the drafting of detailed proposals for the establishment of a common energy policy by the Inter-Executive Working Party on Energy.

Finally, the basic regulations already adopted for agriculture and cartels are being followed up by a great number of supplementary

provisions, regulations and directives, as well as by organizational measures concerning day-to-day management. The Management Committee for Cereals has already met, and the other Management Committees will convene in the next few weeks. The Commission, which has wide responsibilities for the application of the regulations, has made preparations to set up the necessary administrative machinery.

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Developments in the first months of 1962, both within the Community and with regard to other countries, show that the Community is continuing on its course after the flying start of the first four years.

It can now be claimed with certainty that the Common Market can no longer be called in question and that there will be no going back; it may also be affirmed that this economic unification is part of an advance towards political unification which is being pursued on parallel lines, going beyond economic and social policy and extending to the spheres of defence and diplomacy.

The constitutional foundation for the Community's continuing advance has been laid, since it is only by unanimous decision of the Council on a proposal of the Commission that the two final stages of the transition period can be prolonged.

The economic conditions are present, since Europe has experienced and is experiencing a much more vigorous upsurge than the other large economic units in the world.

The political, psychological and human prerequisites are also fulfilled, because the Member States and the Community institutions have shown their resolve to pursue without respite the goal that has been set, because the Community has the means to move ahead, and finally because it has the support of public opinion in taking this course.

Naturally much remains to be done. But the progress already made is an augury that no further obstacle can be regarded as insurmountable.

## FOREWORD

Now that the Council has approved the transition to the second stage of the Treaty of Rome, it may be useful to review the progress made during the first four years of the Community's existence.

Thanks to the important decisions taken at the end of 1961, this review is in fact a record of successes achieved: the Community has from the outset been making its mark as a factor of real importance in international life. The steady progress in internal consolidation achieved during these years and confirmed by the acceleration measures decided on in May 1960, has strengthened the attraction which the Community exerts on the outside world. The current negotiations being held with certain European countries on the possibility of membership and the desire of other states to become associated with the Community are the most convincing evidence of the Community's power of attraction. Elsewhere, new approaches to the problem of readjusting the balance of world trade show that the Community has stirred the forces of progress in the free world.

Internally, the objectives laid down by the Treaty of Rome for the first stage have in the main been achieved and in some important fields even greater advances have been made. The internal balance of the Treaty has on the whole been maintained, despite the increased pace at which the establishment of the customs union has been pressed ahead. Both inside and outside the countries of the European Economic Community everyone now accepts that the position attained by the Community at the end of the first stage is irreversible.

Transition to the second stage was dependent on a finding by the Council that sufficient progress had been made in establishing the common market. This progress was made thanks to the Member States' will to act as a community and the support given by those most closely concerned, in particular the employers' and workers' organizations and those engaged in agriculture.

This common will of the six countries found expression in the institutions set up by the Treaty; each of these, within the limits

of its responsibilities and its powers, has shown itself to be imbued with a dynamic spirit and a powerful urge to move forward. The way these institutions have functioned and the relations they have established between themselves have proved satisfactory; for the reaching of decisions streamlined machinery has been set up which increases the efficiency of the Community and a constant interchange of ideas and opinions has been initiated which has helped forward the task of implementing the Treaty. The Commission—as watchdog of the Treaty, which confers upon the Commission the initiative for making the proposals required for its implementation—can bear witness to the vigour of the European Parliament's activity on behalf of Europe and to its unswerving determination to fulfil its supervisory function, as well as to the tenacity shown by the Council in finding solutions worthy of the Community, even in the most difficult cases.

Of the various lessons to be drawn from the past four years the Commission, at the outset of the new phase, wishes to lay particular stress on the following principle: the protection of the Community's integrity, which is accepted by all Member States and recognized by the non-member countries which have asked to open negotiations with a view to membership, should continue to dominate the acts and decisions of the Community. This integrity can only be safeguarded if the Community, without prejudicing the internal balance of the Treaty, continues to make rapid progress in strengthening its institutions and adapting its economic structure.

## The internal development of the Community

1. The experience gained in the Community's first four years of existence has given the lie to the fears that were rife when the Treaty of Rome came into force. Not only have the dangers and more or less unsurmountable difficulties in removing the various barriers to trade failed to materialize, but the Community has already achieved a broad measure of success in creating a common market of the Six, a factor of expansion and of internal progress.

Articles 2 and 104 of the Treaty define the objectives of economic policy: continuous and balanced expansion, a general raising of the standard of living, a high level of employment and a stable level of prices, the maintenance of confidence in the currency of each Member State and equilibrium in the balance of payments. By and large, these objectives have been attained by the Community in the first four years since it came into being.

Economic growth in all Member States has been considerable, the gross product of the Community being some 20% by volume above the 1957 level. In addition, growth has on the whole been more balanced than in the past.

The expansion of economic activity has made a considerable contribution to reducing the unemployment which existed before the Treaty of Rome came into force.

Moreover, prices were on the whole more stable from 1958 to 1961 than in previous years.

Finally, the balance-of-payments difficulties which certain Member States experienced in 1957, and to a lesser extent in 1958, have not only not recurred in subsequent years but have, on the contrary, given place to a sound financial position vis-à-vis non-member countries.

## THE GRADUAL CREATION OF THE COMMON MARKET

### *INDUSTRIAL TRADE*

2. While from 1958 to 1961 the economic situation within each Member State has been very satisfactory, it is the spectacular progress of trade between Member States that most clearly proves the reality of the common market. The volume of this trade has increased by an average of 21% per annum during the period 1959-1961. This steep increase in trade between Community countries has not, however, prevented a considerable rise in imports from non-member states.

The economic situation has doubtless played a decisive part in the expansion of trade within the Community, and this expansion has also been stimulated by the gradual elimination of quantitative restrictions and the reduction of customs duties between the Member States. However, as the first tariff reduction applied to imports from all countries and as the subsequent reductions were followed by the first approximation of duties applied to non-member countries on a common external tariff reduced by 20%, the importance of this factor should not be exaggerated. The Commission considers that the expansion of trade between Member States is attributable not only to the favourable economic situation and the direct effects of tariff and quota measures but also, and perhaps primarily, to the attitude adopted by businessmen who have been led by the prospects of increased competition to seek new outlets in other Member States.

The heads of business establishments, already thinking in terms of a unified European market, have often moved ahead of the rate at which the Treaty was being implemented, so that the first speed-up—decided on 12 May 1960—looked in many respects like an effort to catch up on the advance made in business circles on the practical introduction of the common market.

The dynamic attitude of businessmen has been particularly evident in the field of specialization which has made remarkable strides, and also in the way investment has grown and holdings in foreign firms, have expanded. Increasing specialization will probably remain one

of the most important structural consequences of the common market. The growth of investment is apparently due in part to the streamlining made necessary by the opening up of the common market. The favourable economic situation, the application of the first measures establishing the customs union and the will to adapt evinced by transactors have between them given the common market a send-off that could hardly have been foreseen.

### *Customs reductions and the first approximations to the CET*

3. The implementation of the Treaty is everywhere linked with a time-table which for the establishment of a customs union is fixed but which is, within certain limits, more flexible for the common policies. Even in the first stage care was taken that there should be a balance between the various spheres in the proposed economic union, but the results achieved can be assessed more easily in those spheres where, as with tariff and quotas, a system was laid down in detail by the Treaty of Rome and has now been brought into operation.

4. The tariff reductions made on industrial products within the Community by the end of the first stage go beyond what is required by the Treaty.

As a result of the speed-up decision of 12 May 1960 the reductions in customs duties on industrial products amount on 1 January 1962 to 40%, on non-liberalized agricultural products to 35% and to 30% on those that have been liberalized.

As the reductions effected to date have been linear, the Treaty's requirement of a minimum cut of 25% in the basic duty on all products during the first stage has been more than met.

Under the terms of the Treaty the Commission must supervise the application of the standstill on the one hand and of the subsequent reductions on the other. The Commission can state that by and large the standstill has been respected and that the cuts have been duly made. In the few cases where a Member State has failed in one of its obligations, the Commission has been able to ensure that action was taken to put matters right.



5. While the first tariff reductions were being made between Member States, preparatory work began on the common customs tariff; the greater part was approved by the Council in its decisions of 13 February 1960, which covered duties established on the basis of the arithmetical average of national duties, and by the Member States in the decisions taken on 2 March 1960, which dealt with the duties to be levied on List G products. Petroleum products are the only group for which common customs duties are not yet fixed <sup>(1)</sup>. The speed with which the common customs tariff was settled made it possible for the Community to begin, from September 1960, re-negotiations pursuant to Article XXIV (6) of GATT and to take full part in the general round of tariff negotiations opened in May 1961 on the initiative of Mr. Dillon, at that time Under-Secretary of State in the State Department.

6. The speed-up decision of 12 May 1960 was led to a first alignment of national duties on the common customs tariff for industrial products, made on 31 December 1960; under the terms of the Treaty this need not have been done until 31 December 1961. The basis used for calculating the new duties was the common customs tariff reduced by 20%. Where national duties in force on 1 January 1957 were 15% above the common customs tariff, they were brought into line immediately. In other cases the gap between national tariffs and the common customs tariff was reduced by 30%. The alignment of duties on the common external tariff for the products listed in Annex II to the Treaty was carried out in conformity with the Treaty on 1 January 1962.

Various exceptions of no great importance were provided for in calculating the new rates, particularly for the products in List G. The Commission, called upon to give a ruling, decided that the alignment on the common external tariff should be made in accordance with normal procedure for products comprising 3 to 4% by volume of the imports made by the Community in 1957.

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<sup>(1)</sup> Duties for manufactured tobaccos were fixed by the Council at its session on 5 and 6 February 1962.

On the occasion of the first alignment there was a risk that Member States might make considerable use of the facilities offered by Article 26 of the Treaty, under which they may postpone lowering or raising duties if they encounter any special difficulties. The number of products in connection with which Member States have asked the Commission for the authorization required by this Article is limited, and in most cases the request has been based on reasons of commercial policy.

### *Tariff quotas*

7. Member States were also entitled, when making the first alignment of national customs tariffs on the common customs tariff, to resort to tariff quotas in order to restrict the effects of the alignment. The Commission was aware that for the Community these tariff quotas could involve a certain number of risks such as a breach in the unity of the tariff and failure to establish a complete customs union.

8. The Commission believed that the best solution would be to forestall recourse to tariff quotas by adapting customs duties to the realities of the economic situation in the Member States, and it therefore undertook both in 1961 and in 1962 a strict examination of the requests made to it, using criteria laid down in Article 25 (1 and 2) and in the Protocols annexed to the List G agreement of 2 March 1960. Its decisions or proposals to the Council took into account the fact that such quotas were not to exceed the limits beyond which the transfer of activities to the detriment of other Member States was to be feared.

Out of 159 requests, a number of which were later withdrawn, 78 were granted for 1961.

9. For instance, a particularly important problem was raised by requests for tariff quotas on tropical woods. These quotas, granted provisionally for 1961 to all Member States except France, were the object of considerable criticism from the associated African States, which insisted on the special importance to them of starting to establish a really preferential market.

This problem was resolved in two ways: by a Council decisions suspending until 31 December 1961 the duties of the common customs tariff on one important variety of tropical wood (obeche) and by the action of the Member States concerned, which gave up the quotas granted by the Commission for 1961. An exception was made, however, in the case of Italy, for it was recognized that a renunciation of quotas would force her to apply a duty of 4.3% on imports of tropical woods from non-member countries (other than obeche), while her partners would levy a duty of only 1.5% on these same imports. In view of the resultant disadvantages, the Commission granted this Member State a tariff quota as a duty of 1.5% for the period from 1 October to 31 December 1961 for tropical woods in the rough other than obeche.

#### *Harmonization of customs regulations*

10. The effectiveness of the steps to abolish internal frontiers by eliminating tariffs and quotas will depend on the readiness of the customs authorities of the six Member States to respect common principles and to apply the same rules in taxing goods. The incidence of a rate of duty depends on many factors (value for customs purposes, effective date of the duty, payment credit, clearance procedure). Common rules will have to be worked out for exemption from duty, for suspending duties and for goods in transit.

Acting under Article 27 of the Treaty and in close collaboration with the national authorities, the Commission has started to put through a programme of harmonization based on a system of priorities. Some recommendations have been submitted to all the Member States. They refer to the tariff treatment of containers imported filled, the definition of dutiable weight, and the treatment of goods reimported after temporary exportation for the purpose of processing, reworking or repair, the date to be taken into consideration for determining the rate of customs duty applicable to goods declared for consumption, and the levying of a flat-rate duty on small consignments of goods sent to individuals or carried in travellers' luggage. (The rate for this flat-rate duty was fixed at 10% by a decision of the Council dated 6 February 1962; it is a basic

duty on which are calculated the cuts provided for in the Treaty, whether already applied or still to be applied in the future.) Another recommendation submitted to the Member States concerns the rules for the duty-free admission of goods imported in small consignments of a non-commercial nature. Duty-free entry will also be accorded for consignments of this nature up to a value not exceeding twelve units of account.

Working out a set of customs regulations to apply throughout the Community seems to be essential if the progress made on tariffs is to be consolidated and the Community's customs policy defined.

#### *The Community's rules for dealing with processing traffic*

11. On the other hand, the Commission laid down as early as 1958 Community rules for dealing with processing traffic. The system is intended to help those activities in the various countries which are concerned with exports; various methods are used to allow the duty-free import of foreign products, provided these are to be re-exported after processing. The advent of the Common Market raises this problem in quite new terms, as it is not possible to adapt the preferences between Member States to the presence in the goods being traded of "non-member" elements on which the appropriate duty has not been paid. To solve this problem the Commission has instituted a customs levy at a rate equal to a percentage of the national duty applicable to products imported from non-member countries. This rate goes up as the duties between Member States come down, till it falls into line with the relevant rate in the common customs tariff. For the period from 1 January to 31 December 1961 the rate was 25%. The levy had not been collected before 1 January 1961 because of the low incidence of the first customs reductions and their more or less general extension to non-member countries. After a transition period, "non-member" products will be free to circulate throughout the Community once the duty shown in the common customs tariff has been paid.

The formula for the levy caused no major difficulty from the point of view of customs technicalities, nor did it place any great burden on traders. A feature of the levy is that it will lead to the collection

of the common customs duty, of which it is a percentage, well before the end of the transition period.

*Elimination of quotas in the industrial sector*

12. As far as the elimination of quotas is concerned, suffice it to say that more has already been done than is required by the Treaty and that, as the result of the speed-up decision of 12 May 1960, the process of eliminating quotas on industrial products has at the end of the first stage almost ceased for lack of quotas to eliminate. The age of quantitative restrictions may be considered to be passed and in future trade will be carried on under the system of liberalization, except in agriculture and the sectors where the State intervenes directly in selling.

As early as 1958 a considerable part of trade between Member States was freed from all quantitative restrictions. Only France was an exception, but the policy of financial recovery instituted by the French Government at the end of 1958 has enabled the situation in France to be brought gradually into line with that in the other Member States.

Under Article 31 of the Treaty Member States have bound between themselves the level of liberalization and the lists of products liberalized by them within the framework of the OEEC on 14 January 1955. It is of course not possible to apply new restrictions on the imports of liberalized and bound products unless one of the safeguard clauses of the Treaty has been invoked.

From 1959 onwards a multilateral system was substituted for the previous bilateral system, when global quotas were opened on a non-discriminatory basis to other Member States. Three successive increases in the global quotas were made in 1959, 1960 and 1961. The acceleration decision included an additional increase on quotas for certain agricultural products in 1961, and industrial quotas were abolished on 31 December 1961.

This increase had a remarkable effect on the opening of markets for products that had enjoyed strict protection when the Treaty came into force.

During the first four years of the Community's activities, however, an appreciable part of the non-liberalized sector was outside the scope of the general rules on the gradual elimination of quantitative restrictions either because of the existence of a State monopoly of a commercial nature or of a national marketing organization, or because of the introduction of a minimum price system.

#### *Progressive adjustment of State monopolies*

13. Member States have begun to carry out provisions of Article 37 which prescribes the progressive adjustment of the State monopolies which exist in the Federal Republic of Germany, in France and in Italy. Thus Italy has authorized imports of tobacco from the five other Member States without restriction on quantity, but the foreign supplier has to take the risks involved in marketing his goods. As for France, it has negotiated definite purchases with the German Federal Republic and Benelux for a trial period; the quantities purchased, however, do not represent more than 1% of the output of the countries concerned.

In return the Federal Republic has opened tariff quotas for tobacco at a rate which has been significantly reduced and corresponds approximately to an ad valorem import duty of 25%. The quantities involved are for Italy 3% and for France 4% of the quantities produced in 1961. The Benelux countries have made autonomous reductions which bring their duties down to 25%. It should be noted that duties on tobacco also give rise to problems which, although not directly connected with those of Article 37, make it necessary to examine both sets of problems together.

The Italian Government for its part has consented to make a big effort towards adjusting the monopolies in salt, cigarette paper, lighters, flints, quinine, amounting in some cases to the abolition of the monopoly.

Pending its final decision as to the applicability of Article 37, the Commission has drawn the attention of certain Member States to the need for them to open or increase quotas for certain products, the most important case being that concerning French imports of petroleum products.

### *Recourse to safeguard clauses*

14. Recourse to the safeguard clauses provided by Article 226 of the Treaty has been limited as a result of the harmonious development of the customs union. Only Italy and Germany have requested authorization to take measures of safeguard. The Italian requests referred mainly to the products which have been the subject of negotiations in connection with List G; in most cases they constituted economic or social problems of regional importance. The German requests covered items manufactured from agricultural produce and not included in Annex II to the Treaty <sup>(1)</sup>. The Commission approved the applications made by the Italian Government in respect of sulphur, carbon sulphide, sodium sulphide, iodine, lead, zinc, citric acid and calcium citrate for varying but limited periods and has generally attached conditions for the re-organization of the sectors in question.

Recourse to safeguard clauses has made it possible in the last four years to reach an agreement on the import and export of certain processed agricultural products which takes account of their prices; the main products concerned are bread, fondant paste and quality wines in the wood for Germany. An arrangement of a more general scope was agreed on when the decisions of 14 January 1962 were taken.

### *COMMON AGRICULTURAL POLICY*

15. The important decisions on agriculture taken by the Council at the beginning of 1962 constitute the first measures for the practical application of a common agricultural policy. These measures are decisive; by creating various market organizations for the most important products, by instituting, in the shape of a Guidance and Guarantee Fund, a Community system for the supply of finance by applying rules of competition to all products these decisions enable trade in agricultural products to take its full part in the common market, as has already been done in the case of industrial products.

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<sup>(1)</sup> See the decisions on the common agricultural policy taken by the Council on 14 January 1962, sec. 17 below.

Before summarizing the main points of these decisions, we shall first give a short historical survey.

Article 43 (1) of the Treaty provides that a Conference of Member States shall be convened, upon the entry into force of the Treaty, with a view to confronting their agricultural policies. This Conference met at Stresa from 3 to 11 July 1958.

Draft proposals for a common agricultural policy as required by Article 43 of the Treaty were submitted by the Commission to the Council in December 1959, i.e. within the period laid down in Article 43 (2). So as to give the widest possible consideration to the views which had meanwhile been expressed by the Economic and Social Committee and to the opinions put forward in farming and political circles, revised proposals were submitted in June 1960. In October 1960 the European Parliament published its opinion on the Commission's proposals in a Resolution on the establishment of the common agricultural policy.

In November 1960, the Special Committee for Agriculture established some months earlier by the Council to make a thorough examination of the Commission's proposals and to prepare the Council's decisions, submitted the conclusions drawn from the discussions on the principles of the common agricultural policy. On 15 November 1960, the Council ratified the conclusions reached by the Special Committee. In this document the Member States subscribe to the principle that within the Community agricultural products shall be free to move under conditions similar to those existing in a domestic market. They accept that the establishment of a common market for agricultural products should be coupled with the establishment of a common policy for trade in these products and that the common market in these products implies a common level of prices. They note, moreover, that the common market policy ought to produce a balance between supply and demand, including imports and exports, and that it should also help to produce reasonable incomes for those employed in agriculture. The document underlines the need to find solutions at Community level to the problems



raised by actions which distort competition, and it shows that Member States wish to co-ordinate the measures of structural improvement taken at national level.

On 20 December 1960 the Council adopted a resolution on the principles to be incorporated in a system of levies to be charged on certain products, the list of which was to be drawn up later; by so doing, it for the first time expressed an opinion on an essential element of the Commission's proposals concerning the preparatory stage of the common market organization for agriculture. It agreed that the intra-Community levy should become the chief instrument for the alignment of national agricultural policies which was to prepare the final stage of a common organization of the agricultural market. When on 20 December 1960 the Council took its decision it was not yet in a position to give its agreement in principle to the Commission's proposals under which the establishment of the system of levies between the Member States would be followed by the suspension of all other protective measures still permitted by the Treaty.

The decision in principle taken by the Council in December 1960 enabled the Commission to present its draft proposals to the Council product by product from May 1961 onwards.

16. In choosing the products to be the subject of the first Regulations, the Commission was guided by the principle that from the outset the development of the common market should maintain a balance between products for which a system of levies was envisaged and products to which other systems would apply.

As for trade in agricultural produce under national marketing organizations, a major difficulty is encountered in the absence of any definition in the Treaty of the concept of a national market organization. The Commission has defined this concept and has thus been able to draw a line between the field in which general rules for the increase of trade apply and the special provisions under Article 45 which, for the products covered by a national marketing organization, provides for the conclusion of long-term agreements or contracts during the first stage of the common market. Only one long-term agree-

ment has been formally concluded, between the Federal Republic of Germany and France; it covers the delivery of grain.

The efforts made to stimulate the conclusion of other agreements between Member States have not proved successful. In practice the problem no longer arises, as the Council has adopted rules on the principal agricultural products which enable a common organization to be substituted for the national market organizations.

*The Council's decisions on the common agricultural policy*

17. On 14 January 1962 the Council, when it decided in favour of transition to the second stage, approved a series of Regulations, Decisions and Resolutions to implement the common agricultural policy. The relevant texts, which were adopted in final form on 4 April 1962, include:

- a) A number of items on the organization of the different markets:
  - i) Regulation on grain;
  - ii) Regulation on pigmeat;
  - iii) Regulation on poultry;
  - iv) Regulation on eggs;
  - v) Regulation on fruit and vegetables;
  - vi) Regulation on wine-growing;
  - vii) Decision on wine quotas for Germany, France and Italy.
  
- b) Items of general import establishing rules applicable to all products;
  - i) Financial Regulation (establishment of the Guidance and Guarantee Fund);
  - ii) Regulation on rules of competition pursuant to Article 42;
  - iii) Decision concerning certain goods manufactured from agricultural products, taken under Article 235;
  - iv) Decision laying down a list of products in respect of which an import duty may be charged in certain circumstances;
  - v) Decision pursuant to Article 44 concerning objective criteria for the establishment of minimum prices.

c) Two Resolutions laying down principles and timing of the action to be taken:

- i) Resolution on dairy produce;
- ii) Resolution on beef and sugar;

Stress should be laid on the amount of work that has been necessary to arrive at this agreement, to which the Council devoted more than a 140 hours of deliberation. In Articles 38 to 47 the Treaty in fact provides no more than a general framework, the only point spelt out in detail being the procedure to be followed. Thus the task of the Ministers of the Six was not merely to draw up simple explanatory texts but to elaborate a whole complex of Regulations defining and launching the Community's agricultural policy. The Regulations provided a legal basis for the common market organizations covering the main agricultural products, and at the same time gave concrete form to the provisions in the Treaty which relate the rules governing competition and minimum prices to agricultural products. The Resolutions give a first outline of the common market organizations for certain other sectors (dairy produce, sugar, beef) for which Regulations have still to be drawn up.

#### *The Regulation on grain*

18. This Regulation, together with others on the products derived from grain, is based on the principle of the levy. From 1 July 1962, trade in grain will be liberalized both among the Six and between them and non-member countries; customs duties and charges with equivalent effect, quotas and measures with equivalent effect, long-term contracts and minimum prices will then be abolished. All these measures will be replaced by the "levy", a variable tax equal to the difference between the price prevailing in the importing country and any lower price offered by the exporting country.

The amount of the intra-Community levy is equal to the difference between the price of the product coming from the exporting Member State delivered free frontier to the importing Member State, and the threshold price of the importing Member State less a lump sum.

The amount of the levy on imports from non-member countries is equal to the difference between the cif price of the product concerned, calculated on the basis of the most favourable terms of purchase on the world market, and the threshold price of the importing country.

The threshold price is fixed in each Member State in such a manner that, in the marketing centre of the area with the largest deficit, the sale price of the imported product is after allowance for the lump sum, equal to the basic target price.

The purpose of the lump sum is to ensure preference for members of the Community. It will be fixed annually according to certain criteria drawn up by the Council.

Prices on the domestic market will be formed around the target price of the region with the greatest deficit by the operation of the law of supply and demand. There will also be a minimum price known as the "intervention price" (i.e. the target price, less 5 - 10%). This will constitute the main guarantee for farmers, since it is the price at which the authorities will intervene and buy any surpluses.

It has been decided that for the quality standards of wheat, barley and rye at present in force in each Member State, the Council, acting by unanimous vote on a proposal from the Commission, shall before 1 April 1962 fix upper and lower target price limits for the marketing year beginning on 1 July 1962. These limits will be valid in the marketing centres of the areas with the greatest deficiency and the areas with the highest surpluses in the States.

In the case of maize only the lower limit is fixed.

These limits are valid for all the Member States.

For the marketing year beginning on 1 July 1963 the prices will be fixed before 1 April 1963.

For the marketing of those sorts of grain where the crop year begins on 1 October the price measures to be applied by the Member States will be fixed by the Council each year before the preceding 1 July;

for 1963, the first year in which these prices will be fixed, the decision will be made before 1 September.

Acting in accordance with the voting procedure laid down by Article 43 of the Treaty (i.e. unanimous vote during the first two stages, and a qualified majority thereafter), the Council will decide on the measures that will be needed to arrive at a uniform price system for grain in the Community when the common market stage is reached: a basic target price throughout the Community for each product, a single threshold price and a single method of determining intervention prices.

#### *Regulations on products based on the conversion of grain*

19. Prices on the domestic market will be formed according to the law of supply and demand. The intra-Community levies for the three products derived from grain (pigmeat, poultry meat and eggs) contain two elements. The first corresponds to the incidence on feeding costs of the differences between the cost of feed grain in the importing and the exporting Member States. As the gap between these grain prices narrows the amount will be reduced gradually until it disappears.

A second fixed element is added to the first, and this must be such that the sum of the two in no case exceeds the difference between certain average market prices recorded during the reference period. For eggs and poultry, this second amount corresponds to customs duties at present applied in the Member States. The levies on imports from non-member countries are fixed in a manner similar to that used for intra-Community levies; they also are made up of the differences in feeding costs, the second amount mentioned above, and a third amount equal to 2% of the average price quoted for the item to be imported. This third amount, representing the preferential element, will gradually be raised to 7% in the course of the transition period.

#### *The Regulations on fruit and vegetables and wine*

20. The Regulation on fruit and vegetables establishes a common market organization in the sector on the basis of common rules to

govern competition, including the application of common quality standards.

Thus with effect from 1 July 1962 grading is made applicable to the majority of products in intra-Community trade and will be gradually applied to trade within each Member State.

Graded products may not be subject to quantitative restrictions or to the measures provided for in Article 44 (minimum prices) after the following dates:

- a) "Special" grade by 1 July 1962;
- b) Grade I by 1 January 1964;
- c) Grade II by 1 January 1966.

The regulation on the gradual establishment of a common market organization in the wine-growing sector is based chiefly on the need to have available as soon as possible statistical material which will give an idea of the extent and quality of the vineyards in the Community and of the relation between available resources and the requirements. The regulation is accompanied by a decision concerning quotas.

### *Safeguard measures*

21. The various Regulations institute safeguard measures applying to all products for which a common market organization has been established. If a Member State suffers from or is threatened with disturbances likely to jeopardize the objectives defined in Article 39 of the Treaty, it may take the necessary safeguard measures, such as suspending imports from Member States. It is required, however, to apply the same measures to its trade with non-member countries.

The Commission and the other Member States must be notified of such safeguard measures. By emergency procedure the Commission decides, within a maximum period of four working days from the time of notification, whether the measures are to be upheld, amended or withdrawn. The Commission's decision has immediate force of law.

Any Member State which cannot conform to the measure taken by the Commission is free to appeal to the Council, which will decide

by qualified majority. This appeal will not, however, suspend the decision of the Commission. The Member States are therefore able to take autonomous measures only for a period of four days.

Two exceptions to this general clause are allowed. These are:

- a) For grain: the appeal to the Council will suspend the Commission's decision for ten days;
- b) For special grade fruit and vegetables: no autonomous measures may be taken.

Nevertheless, each Member State may request the Commission for prior authorization to take safeguard measures. The only possibility of appeal is to the Court of Justice.

### *Institutional rules*

22. The importance of the institutional rules laid down by these decisions should be stressed. They make agricultural policy an entirely Community question at the end of the transition period (seven and a half years) and confer a large measure of responsibility on the institutions of the Community, and particularly on the Commission, from 1 July 1962.

The voting procedure within the Council is that provided for by Article 43, i.e. unanimity during the second stage and a qualified majority thereafter. But the procedure by which the Council can revise a given decision of the Commission on the one hand and the operation of the Management Committees on the other make it possible for voting by qualified majority to be applied from the second stage. The Management Committees instituted for each product subject to a common market organization have a chairman provided by the Commission and consist of representatives of the Member States; they give their opinions by a qualified majority; lastly, purely executive measures are decided by the Commission alone.

### *The Regulation on financing*

23. An important regulation relating to the financing of the common agricultural policy sets up a European Agricultural Guidance and Guarantee Fund.

The Fund is part of the Community's budget. During the first three years it will receive financial contributions from the Member States. One part of these contributions will be calculated according to the scale laid down in Article 200 (1) of the Treaty and another proportionately to the net imports made by each Member State from non-member countries. The percentages used are such that the bulk of the money will be paid on the basis of the scale shown in Article 200 (1), although the proportion related to net imports will constantly increase.

It is intended that in the single market stage the procedure under Article 201 will be used so that the proceeds of levies on imports from non-member countries may be used to meet Community expenditure.

For the period from 1 July 1965 until the end of the transition period, the Council will take a decision on the pace at which expenditure will be taken over and on the contributions to be made on each of the two scales, in such a way as to settle expenditure and receipts during this period.

Since the price systems will then be unified for the Six, the financial burdens of the common agricultural policy will be borne by the Community. The Fund will for example finance refunds on exports to non-member countries, action for the regularization of markets and measures to achieve the objectives of Article 39 of the Treaty, including any structural changes needed for the efficient operation of the common market, without encroaching upon the activities of the European Investment Bank or the European Social Fund.

In the first year, from 1 July 1962 to 30 June 1963, the Fund will bear one-sixth of the cost to Member States of refunds and of intervention on the internal market. In the second year the proportion will be two-sixths, and in the third year three-sixths.

#### *Minimum prices*

24. A decision of the Council taken on 14 January also lays down objective criteria for the establishment of minimum price systems and for the fixing of such prices.



In order to ward off any harmful effects which might result from tariff and quota reductions, the Treaty provides for a special procedure under which a minimum price system may be set up; below this price imports can be either temporarily suspended or reduced, or subjected to the condition that they should be carried out at a price above the fixed minimum price for the product concerned. However, the application of such a system is only permissible under certain conditions and provided certain rules are observed.

During the first four years, minimum prices have been applied in most Member States for various products, particularly in the fruit and vegetables sector and in the meat sector. The conclusion can be drawn even from the experience of the two years 1959 and 1960 that the use made of minimum prices has been kept within reasonable bounds and that the introduction of this procedure has not prevented trade from expanding, except in a few cases where it replaced a system of free trading. None the less, the system has throughout the first stage been subject to no form of control by the Community. Meanwhile the Commission, as required by Article 44 (3), has elaborated objective criteria. Proposals on this matter had been submitted to the Council in November 1960.

The criteria approved by the Council stipulate, *inter alia*, that any Member State proposing to set up a minimum price system must observe an advance notification procedure consisting of two stages: the declaration of intention, and the fixing of the minimum price level. Notice of intention is to be given to the Commission and the other Member States at least two weeks before the date on which it is intended that the minimum price system should come into force.

The level of the minimum price fixed is to be notified to the Commission and the other Member States at least three working days before the system comes into force.

As far as the price is concerned, it has been decided that, in the case of products for which there exists, within a national market organization, an intervention price system tending to establish a predetermined price level in the producer's favour, the Member State

may not fix the minimum price at more than 105% of this intervention price. For other products, the minimum price level may not exceed 92% of the average wholesale prices during the three years preceding the entry into force of the minimum price system.

*Applying the rules on competition to agricultural products*

25. The regulation applying certain rules of competition to output of and trade in agricultural products provides that Articles 85 - 90 of the Treaty (cartels and dominant positions), together with the provisions for their application, shall apply to all agreements, decisions or practices covered by Articles 85 (1) and 86 of the Treaty. However, Article 85 (1) (cartels) does not apply to agreements, decisions and practices which form an integral part of a natural market organization or which are necessary to attain the objectives set forth in Article 39 of the Treaty. This exception refers in particular to certain farmers' associations and federations.

The Commission, after consulting the Member States, has sole power to decide what agreements, decisions or practices fulfil the conditions required for exemption.

Cases of dumping are covered by Article 91 (1), which is applicable to trade in the products listed in Annex II to the Treaty. The Commission, however, must determine all the factors underlying the alleged malpractices, and in particular the level of prices at which goods from other sources are imported into the market under consideration.

Finally, it is laid down that the provisions of Article 93 (1) and (3) (first sentence) shall apply to aids intended to increase the output of, and trade in, these products.

*Approximation of legislative and administrative provisions on food and agriculture*

26. Work has continued on the approximation of legislation. In addition to the working parties and sub-groups established in 1960 to deal with regulations on foodstuffs, veterinary law, plant health regulations and regulations applicable to agricultural seeds and seeds

of forest trees, new sub-groups have been set up and committees of scientific experts convened to deal with special questions.

It has already been possible in many meetings to obtain satisfactory if incomplete results. The Commission has for example submitted proposals to the Council for a directive on the approximation of the regulations by which Member States control the use of colouring matters in food and a Council directive concerning the campaign against bluemould in tobacco.

A certain amount of preparatory work has been undertaken on many questions, such as health control in connection with food-stuffs, problems of veterinary control for animals, methods of defining wines, quality standards for tinned foods, etc.

The work of harmonization has been helped forward by co-operation between the Commission and the trade organizations which have been set up at Community level.

#### *Working programme for other products*

27. The Commission is to put forward by 1 May 1962 draft regulations on dairy produce and beef and, by 15 July 1962, a draft regulation on sugar. The regulation on dairy produce and beef is intended to come into force on 1 November 1962, that on sugar on 1 January 1963.

For rice and for fats and oils the drafts of proposals have been worked out. Proposals will later be submitted on fish, potatoes, unmanufactured tobacco, spirits and horticultural products not meant for human consumption.

Despite the impression of complexity that the overall system may give, the measures that have just been adopted by the Council are much simpler than the complex of measures in force in each Member State. In fact, no country has ever adopted concurrently and as an organic whole such a complex of measures, for the national market organizations were created and expanded as necessity arose and, in most cases, to meet the difficulties produced by crises.

28. The decisions taken in January 1962 provide the Community with the necessary instruments for defining and applying in agriculture a common market policy and a common trade policy. In the two other key spheres of agricultural policy—structural policy and social policy—work is already at quite an advanced stage.

The Commission has just submitted to the Council a draft decision on measures to co-ordinate the policies on agricultural structure pursued by the Member States. The decision is in effect an outline law which would require the co-ordination of the structural policies of the Member States and place at the disposal of the Commission the instruments necessary to achieve this co-ordination.

This first step towards co-ordination of agricultural structure policy will soon be followed by another when, in 1962, the Commission submits to the Council a draft decision on the establishment of a European fund for structural improvements in agriculture. The resources of this fund are intended for the joint financing of schemes for structural improvements which will certainly benefit the Community as a whole.

These two draft decisions must be considered as the two chief means of intervention which will be available to the Commission in its endeavours to co-ordinate policies on structure as part of the common agricultural policy. These drafts have been proposed in order to enable the Council to ensure that during 1962 a start will be made with common action which will also be of prime importance for the future of agriculture.

In addition, the principles and objectives of a common social policy in agriculture were broadly discussed at the consultative conference on the social aspects of the common agricultural policy organized by the Community from 28 September to 4 October 1961 in Rome. Representatives of producers' and workers' organizations took part as full members, while the Governments of the Member States were represented by observers.

The results of the conference will enable the Commission to draw up proposals for a working programme to implement a social policy for agriculture as part of the overall social policy of the Community.

In addition, studies are being actively pursued in the setting of Article 41 of the Treaty. They will produce concrete proposals for the co-ordination of the work of the member Governments in the fields of agricultural advisory services, occupational training and scientific research.

#### *THE FREE MOVEMENT OF PERSONS, SERVICES AND CAPITAL*

29. The free movement of workers, the right of establishment, freedom to supply services and to move capital constitute, in the establishment of a common market, necessary corollaries to the liberalization of trade in goods.

30. The first regulation on the free movement of workers within the Community was adopted by the Council on 12 June 1961 and came into force on 1 September 1961 (Regulation No. 15). An accompanying directive addressed to the Member States on 4 August lays down the measures required for the progressive abolition of any administrative procedure and practice by which action to liberalize the movement of manpower is hampered. This first regulation still recognizes, albeit with adjustments and restrictions, the principle of priority for the labour market of each country and settles the conditions under which the rights granted under Article 48 shall be exercised. It also lays down the necessary measures to enable workers' families, once certain conditions have been fulfilled, to take up residence in the country receiving the foreign worker and there to enjoy certain rights with respect to employment and education, in particular occupational training. It sets up machinery to promote and co-ordinate the clearance of vacancies and applications for employment at Community level and lays down the principle of Community priority on the labour market, thus favouring manpower from the Member States. Two committees, one of representatives from the national administrations and the other of representatives from the Governments and the two sides of industry, will watch over the implementation of these first regulations and will advise the Commission, both on this question and on the development of the policy of free movement, until the end of the transition period.

The action taken by the Community institutions on the free movement of workers cannot be considered to have ended with the elaboration of these instruments. The first regulation takes account of the principle of gradualness to which the Treaty refers in many places. To respect this principle the regulation and the directive have their validity limited to two years, during which time the traditional emigration policies of Member States will have to be adapted to the criteria and the limits imposed by the new legislation. In a later phase of liberalization, the Commission is not to limit its action to abolishing the obstacles presented to the free movement of workers by the restrictive provisions of a national legislation, but will endeavour to facilitate and direct the natural flow of emigration in the light of the needs observed in the various labour markets.

The preparation of the first measures to implement the free movement of workers was preceded by the study of the measures to guarantee the social security of migrant workers and by the Council's adoption, pursuant to Articles 51 and 227 of the Treaty, of Regulations Nos. 3 and 4 on the social security of migrant workers. These regulations came into force in January 1959.

### *The right of establishment and services*

31. The free movement of workers envisaged by Articles 48 and 51 does not cover the whole field of application of the Treaty's provision on the free movement of persons. Great importance also attaches to the freedom of self-employed persons to establish themselves, a freedom covered by the right of establishment, and freedom to supply services throughout the whole Community.

Apart from physical persons, companies also benefit from the commercial provisions connected with the right of establishment. On 18 December 1961 the Council, after consulting the Economic and Social Committee and the European Parliament, adopted the general programme drawn up by the Commission to implement Articles 54 (1) and 63 (1). These general programmes settle the order of priority to be accorded to the various activities in eliminating restrictions on freedom of establishment and freedom to supply

services. Both lay down the principle that in each Member State the national of another Member State shall be assimilated to the nationals of the receiving country.

The guiding line is supplied by Article 54 (3a) of the Treaty, which accords priority treatment to "activities in regard to which freedom of establishment constitutes a specially valuable contribution to the development of production and trade".

Consequently, most industrial and commercial activities will be liberalized before the end of the second year of the second stage. Where these activities are exercised on a non-industrial scale, they will be liberalized at the same time under conditions laid down in the general programme and intended to allow both great flexibility as regards co-ordination and the safeguarding of the essential interests of the small craftsmen.

In addition to the economic criterion indicated by the Treaty, the time-table takes into account the more or less detailed regulations to be found in the different States, regulations which might need to be co-ordinated before, at the same time as, or after the lifting of restrictions.

In the agricultural sphere the Commission will submit two directives to the Council, one detailing the procedures for the introduction of freedom of establishment on farms abandoned or left uncultivated for more than two years, and the other to increase the rights of farm labourers who have worked in this capacity for at least two years in the receiving country.

In transport the right of establishment should, in principle, be realized in the same way as in the other sectors of the economy.

The Commission's proposals provide for the abolition of restrictions before the end of the second year of the third stage for carriers and at the end of the second year of the second stage for the ancillary trades.

The Commission has carried out preparatory work on the co-ordination of the legislative and administrative provisions for admission to the profession of carrier.

It has also, on 5 May 1961, submitted to the Consultative Committee on Transport a study on the introduction of freedom of establishment for transport enterprises and forwarding agents within the Community.

32. The general programme on "Services" also lays down priorities for the liberalization of services. The definition given to services is negative in form and, one might say "residual".

By the terms of Article 61 (1), the free movement of services connected with transport must form part of the common transport policy (Article 75 and the immediately following Articles). Moreover, in view of the special provisions of Article 75 (1a), the supply of services in respect of transport cannot be included in the draft general programme for the suppression of restrictions on the free movement of services.

As part of the action to establish free movement of services in connection with transport, the Commission has sent the Council a draft directive on certain common rules for the international transport of goods by road.

The Commission has also proposed that discrimination against the access of non-resident carriers to national transport services should be abolished before the end of the second year of the third stage.

33. The implementation of the general programme will have to be done by means of directives. The Commission has already begun preparatory work on certain general problems involved and on particular activities or branches of activity.

It should be noted that from the second stage onward the directives laying down the methods for realizing the right of establishment and services are to be adopted by the Council acting on a qualified majority vote.

#### *The first directive on the free movement of capital*

34. Article 67 of the Treaty provides that restrictions on the movement of capital shall be abolished during the transition period to the extent necessary for the proper functioning of the common



market. After careful study the Commission has come to the conclusion that there would have to be the broadest and most rapid liberalization possible, linked with the progress made in liberalizing trade, services and manpower movements. This conclusion rests on arguments which spring from the mechanics of economic development in the Community: liberalization measures under the Treaty affecting the movement of persons, goods and services and the right of establishment cannot yield the desired results unless the capital that is available can be transferred and invested without let or hindrance and unless the factors of production can all be brought to bear with maximum effectiveness.

The first directive pursuant to Article 67 of the Treaty, prepared by the Commission in close co-operation with the Monetary Committee, was adopted by the Council on 11 May 1960. It provides for the unconditional freeing of a considerable range of capital movements, the conditional liberalization of others, and indicates a third category of capital movements in connection with which Member States have as yet given no undertaking that they will be liberalized.

Liberalization of the first category cannot be reserved unless the safeguard clauses have been invoked (Articles 73, 108 and 109); this category comprises direct investment, capital movements of a personal nature, credits for particular commercial operations and dealings in securities quoted on stock exchanges, i.e. the movement of capital connected with the free movement of goods, services and persons, and with the right of establishment.

The second category of capital movements, which are to be liberalized subject to certain conditions, consists mainly of loans raised by business houses on the capital market, loans and credits of a purely financial character, whether medium-term or long-term, and dealings in papers not quoted on the stock exchanges. These capital movements are not liberalized if this would be likely to hamper the achievement of the economic policy objectives of the State concerned.

The third category, covering capital movements that are not to be liberalized immediately, comprises mainly the movement of short-term capital.

The practical scope of the directive lies primarily in the fact that businesses in the Member States will in future be more sure of the legal position, since the measures taken to liberalize the movement of capital can no longer be revoked unilaterally, but only after the Community procedure has been strictly observed.

35. In June 1961 the Monetary Committee <sup>(1)</sup>, acting upon Article 4 of the directive, began a further examination of restrictions still in force. On the basis of the Monetary Committee's conclusion, the Commission suggested to the Governments of Member States that they adopt several measures to make their regulations more flexible. It also drew the attention of Member States to the advisability of adopting a liberal attitude towards foreign firms which wished to raise money on their capital markets; this liberal attitude should be possible in view of the favourable way their economic and financial situation was shaping in the member countries and the progress achieved in co-ordinating monetary policies within the Community.

## II. TOWARDS A COMMON POLICY

36. The aim of the Treaty of Rome is not only to form a customs union and a common market, but also to promote common policies in a number of sectors.

The common policies to be worked out with respect to the economy, agriculture, trade, transport and competition are as much a part of the general economic union as are the customs union, free movement of workers and the right of establishment for persons and companies. Moreover, a social policy aiming at the constant improvement of living and working conditions is an integral part of the Community.

Member States were aware, when they decided on 12 May 1960 to speed up the implementation of the Common Market, that a balance would have to be maintained between these various elements as they moved towards the establishment of economic union. The firm decisions taken on that occasion, which were mainly concerned

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<sup>(1)</sup> See below, activities of the Monetary Committee.

with tariffs and quotas, were accompanied by a declaration in which the Member States expressed their intention of ensuring that rapid and substantial progress should be made in all the fields of application of the Treaty and in particular in the common agricultural policy. The Commission was invited to put forward firm proposals without delay.

The decisions by which the Council's intentions have been put into effect have been described in the preceding pages.

### *ECONOMIC POLICY*

37. By the terms of Article 103 of the Treaty, the Member States consider that the policy by which they deal with economic developments is a matter of common interest. They co-ordinate their economic policies in close collaboration with the Community's institutions and consult with each other and with the Commission on the measures to be taken in the light of developments.

Since the Treaty came into force, the Commission has drawn up periodic analyses of the economic situation and endeavoured, in collaboration with the national administrations, to improve methods of analysis and forecasting by working the information available in Member States into the most harmonious form possible, so that it should be easier to make comparisons and to draw up tables covering the Community as a whole. A panel of economic experts is attached to the Commission to assist with this work.

Some of the findings of these studies are published periodically in the form of detailed quarterly surveys covering the economic situation and the outlook, and of monthly graphs and notes. In addition, a large number of special studies have been published.

To ensure the co-ordination of policies in this field, two consultative bodies have been constituted—the Monetary Committee and the Economic Policy Committee.

38. The task of the Monetary Committee set up under Article 105 of the Treaty is to help Member States to co-ordinate their policies in monetary and financial matters—two very important aspects of

general economic policy. The Committee carries out periodical examinations of the situation in the member countries, and reports its findings to the Council and the Commission. In 1958 the Commission requested the Committee's opinion on the situation in France, and in 1960 on the consequences of the restrictive monetary measures then being applied by the German authorities. At each meeting of the Committee members report on the most recent monetary and financial trends in their respective countries and the measures introduced or planned by the authorities. In this way Member States are able to consult each other their monetary and financial policies both as part of the regular reviews of the situation in the various countries, and whenever the monetary and financial policy of a country calls for special attention.

39. The Economic Policy Committee was proposed to the Council in January 1960 as part of the Commission's action to start the consultations on economic policy required by Article 103 of the Treaty; by its terms of reference the Committee was to analyse the way in which the instruments of economic policy were used and the economic effects they produced, and to make any necessary proposals. The Committee was set up by the Council at its session of 9 March 1960 and held its first meeting on 7 April of the same year. The Committee consists of three representatives from the Commission and three from each Member State. Its task is to advise the Commission on the proposals it makes to the Council whenever the economic and monetary situation requires it. This task had proved very necessary, for the economic climate created by the re-establishment of external convertibility for the European currencies and by the measures of commercial liberalization which accompanied this move has reinforced the interdependence of the economies of the various countries in Europe, and particularly among the Six.

40. The economic policy pursued at Community level has constantly reflected the desire to maintain a rapid rate of economic expansion, which is all the more desirable as the Community's surpluses on external account have continued to be high.

With this in mind, the Commission has repeatedly recommended that any measures which might prove necessary in certain countries

to combat the strains caused by the boom should be such that they would have as little influence as possible on the economies of other countries. At the same time, the Commission has made quite clear its preference for action which would increase supplies on the domestic market and reduce existing strains by stepping up trade and intensifying the mobility of labour.

41. In this connection the Commission has insisted first and foremost on the advisability of ensuring a better use of manpower within the Community. As soon as severe labour shortages appeared in certain member countries, a working party was set up to study the lack of balance on labour markets and to propose remedies. One result has been the setting up of a vocational training programme for Italian workers <sup>(1)</sup>.

42. The commercial policy that the Commission considered it should advocate also aimed at maintaining equilibrium in the various Member States by increasing supply rather than by putting a brake on demand. Because of the persistence of a considerable overall surplus in the Community's external payments, the pursuit of a liberal policy towards the non-member countries not only contributed to an improvement in the economic situation throughout the world and in the balance-of-payments position of the various countries, but it eased the strains felt on domestic markets. The simultaneous existence of surplus demand on some markets and of unused capacity on others made a more rapid expansion of trade between Member States desirable.

Various measures taken by the Community since the end of 1958 have in fact shown, sometimes in spectacular fashion, the Community's desire to apply a liberal commercial policy towards non-member countries both by eliminating quotas and by vigorous action to encourage the reductions of customs duties throughout the world (cf. Chapter II, sec. 88 below).

The Commission has found it necessary to introduce important measures concerning trade between Community countries. The

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<sup>(1)</sup> See below, sec. 56.

speed-up in the implementation of the Treaty of Rome was looked upon not only as an aim of general policy but also as an instrument of economic policy.

43. It is not possible in this report to review, however briefly, the economic developments which have occurred in the Member States between 1958 and 1961. As is shown by the indications below, the trend has on the whole been very satisfactory. The results obtained in the course of the Community's first four years of existence doubtless reflect in large measure the dynamism displayed by economic circles in connection with the gradual advance being made towards the Common Market. But, as can be seen from what has been said above, the high rate of growth in conditions approaching equilibrium is in part due to the measures taken by Governments and to the action of the Commission.

Some economic indicators (combined Community figures):

	1961 index (1957 = 100)
Gross national product (volume)	121
Industrial production	132
Consumption per head (volume)	115
Gross fixed capital formation (volume) <sup>(1)</sup>	131
Intra-Community trade (value)	173

#### *STRUCTURAL POLICY AND REGIONAL POLICY*

44. During the four years of the first stage the Commission, in conformity with the Treaty, has tried to work out the long-term aims that will have to be pursued if the economic development of the Community is to be harmonious not only in its overall aspects but also from the regional angle.

With the help of independent experts, the Commission's staff have studied two general hypotheses concerning the Community's economic expansion up to 1970, based on estimates of the way in which the labour force and productivity may develop.

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<sup>(1)</sup> Estimated.

The forecasts of future expansion used in structural policy cannot be based exclusively on global figures; they must also give due weight to the analysis of inter-industrial flows, which are at present being studied by the staff of the Commission. Substantial progress has also been achieved in the examination in ad hoc working parties of the particular problems affecting various industries.

As for regional policy, the Commission has from the beginning sought to define the regional problems arising within the Community (under-development of the South of Italy and of certain outlying areas of Europe, the decline of certain industrial areas, economic concentrations with an excessive industrial density, etc.).

With the aid of a working party of national experts an attempt has been made to agree on the boundaries of regions. The experts took as their basic social and economic regions those used by Member States in applying their own policies. These basic regions have been regrouped to create larger areas which will make possible structural analysis on a Community scale and will constitute the framework of the Community's regional policy. In addition, the Commission has also undertaken, with assistance from experts, an analysis of the regional repercussions of the policies followed by Member States and has systematically examined the regional implication of the common policies elaborated by the EEC.

At the end of 1961 the Commission convened a conference on regional economies at which 300 representatives of the public, the universities, industry, agriculture, the trade unions, etc., in the six countries of the Community took part in a broad discussion on a score of reports on the experience recently gained in the Community on the development of the regions. This conference brought out the lessons to be drawn from the measures intended to promote a more harmonious development of the various regions and highlighted those aspects of regional problems which are of common interest.

The European Investment Bank gave particular attention to projects for developing underdeveloped regions and took an interest in the schemes of modernization and conversion made necessary by the gradual establishment of the Common Market, and also to certain

projects which were of interest to several Member States. Since it was set up at the end of 1961, the Bank has approved 22 loans totalling 160.2 million units of account. The investments which the Bank has helped to finance in this way add up to more than 1 000 million units of account.

### *POLICY ON ENERGY*

45. The crisis on the energy market had led the three Executives of the European Communities to make a joint study of energy problems and to collaborate in the search for solutions. At the end of 1958 they set up an inter-executive working party on energy with instructions to submit to the Special Council of Ministers of the ECSC proposals on the principles to be adopted and the actual measures that could be taken. The action of the Executives was in conformity with the decision of 8 October 1957, by which the Special Council of Ministers called on the High Authority of the ECSC to make proposals for the co-ordination of national policies on energy in co-operation with the other two European Executives.

In December 1959, the High Authority acting on behalf of the three Executives, laid before the Special Council of Ministers a working programme drawn up by the inter-executive working party.

In March 1960 the inter-executive working party adopted, in the form of an Interim Memorandum, a first report containing its preliminary idea on the method by which policies on energy should be co-ordinated. This document was submitted on 22 March 1960 to the Special Council of Ministers of the ECSC and to those committees of the European Parliament which are concerned.

In January 1961 the inter-executive working party submitted to the Special Council of Ministers, in accordance with the general lines proposed in the Interim Memorandum of March 1960 and after its approval by the three Executives, a programme comprising an initial series of measures for the co-ordination of national policies and an "emergency" agreement on measures to be taken immediately should the coal crisis get worse. This action programme was examined by the Special Council on 10 January 1961, and during 1961



was the subject of bilateral talks between the administrations of the Member States and the representatives of the inter-executive working party.

After these talks the Special Council of Ministers, during its session of 26 October 1961, was presented by the High Authority with a series of proposals on preliminary measures to be applied to imports of coal from non-member countries. These proposals were immediately examined by the Special Council and were subsequently studied in the various Member States. The inter-executive working party also prepared studies on the problems raised by the harmonization of the rules of competition between coal and oil.

Co-operation between the European Institutions was also undertaken on the change-over to new industries in the declining coal-mining areas. At the beginning of 1961 an ad hoc group was set up between the EEC, the ECSC and the European Investment Bank to co-ordinate the action of the European Institutions for redevelopment of the areas affected by the closing down of coal mines.

Apart from its participation in the work of the inter-executive working party, the Commission has carried on its work on oil, a field for which it is responsible; this work is intended to ensure the free movement of crude petroleum and petroleum products within the Community.

It will be recalled that the Member States have not yet agreed on the duties applicable to the petroleum products mentioned in List G. As these duties had not been fixed by the end of the first stage, as required by Article 20 of the Treaty, the Commission will make proposals to the Council on this subject in the second stage.

The Commission has submitted proposals for harmonizing the policy of Member States on trade in petroleum products. Here imports of oil from the Soviet Union constitute a special problem. An initial success has been achieved in the agreement reached by the Council on 25 July 1961, which sets up a system of consultation before trade agreements are concluded with non-member countries.

In addition, the Commission has established machinery for the exchange of information on the investments made by the oil industry; this machinery is now functioning smoothly. The exchange of information should enable Member States to get to know each other's projects and thus to avoid possible duplication of refining or pipelines capacity.

Better harmonization of economic policy in the Member States through improvements in the flow of information was the aim behind a request from the Commission that experts from the six Governments should draw up a table showing the legislative and other measures or practices by which Member States organize or control the market in petroleum products. An initial inventory of these measures will be made at the beginning of 1962.

At the same time the Commission, acting under Article 93 (1) of the Treaty, has put in hand an inventory of aids granted by States, or out of State funds, to refineries in the Community.

#### *COMPETITION POLICY*

46. It would be useless to abolish trade barriers between the Member States if they or private industry were left free, through legislation in the fiscal and economic fields, through subsidies or understandings which restrict competition, virtually to multiply the desired widening of markets and to prevent, or at least to delay unduly, the changes which are essential if there is to be a Common Market. The need for a policy on competition stems therefore from the objectives of the Common Market itself.

However, competition policy has a still more important function to fulfil in the Common Market than that of ensuring the opening up of markets. The Treaty also requires that a system be established which shall provide general protection for competition within the Common Market against distortions of all kinds. Competition is intended therefore to play an important role in the Common Market as an instrument of guidance for the co-ordination of the various economic programmes. Moreover any distortion of competition is a threat to the optimum supply of goods for the Community and

consequently to the economic growth of the Common Market and so to the merging of the national economies.

Competition on the markets has the effect that consumers adapt their wants as far as possible to what can be produced and suppliers make the best possible use of the means of production. Of course in practice the ideal is rarely reached, but it cannot be denied that competition does work in this direction and that therefore it is an essential instrument for the guidance of an economic system in which there is private enterprise and in which workers can choose their employment, and consumers what they wish to consume. It follows logically that we have the greatest interest in preserving that instrument and in making sure that it is not rendered useless, not reversed, not limited in its effectiveness.

The promotion of competition based on free price formation is in itself enough to establish a satisfactory economic and social order. On the contrary, if the objectives of the Treaty are to be attained, the competitive system cannot only benefit from but actually needs amplification or even some degree of rectification by means of common monetary and economic policies, an active regional policy, and measures of social policy. Therefore the Treaty provides that the Community shall act in all these fields to ensure justice and a balanced, harmonious economic development in all the parts of the Common Market.

Since 1 February 1960 the Council, on a proposal from the Commission, approved the main points of the Community's competition policy. These points provide the basis on which the Commission, acting mainly under the powers conferred on it by the Treaty, has pressed forward its task of opening the markets completely.

Article 88 of the Treaty provides that until the date of entry into force of the implementing provisions adopted under Article 87, the authorities of Member States must, in accordance with their respective municipal law and with the provisions of Article 85, particularly paragraph 3, and of Article 86, lay down rules concerning the admissibility of any understanding, decision or concerted practice and also concerning abuse of a dominant position.

The disparities between current legislation on competition in the various Member States and the total lack, so far, of any such legislation in Italy and in the Grand Duchy of Luxembourg, has proved a serious obstacle to the development of a uniform policy in this field.

In view of the need to ensure effective and harmonized implementation of the rules of competition set out in the Treaty, the Commission organized a series of plenary conferences with government experts from November 1958 onwards. These were supplemented by meetings of working parties to consider specific cases concerning understandings or to study more limited or more specialized problems.

The main achievements of these conferences were:

- a)* Clarification of a number of concepts concerning the interpretation of the Treaty's provisions;
- b)* Greater co-operation between the national administrations and the Commission, particularly thanks to the introduction of a procedure for multilateral consultation prior to any decisions bearing on Articles 85 or 86 and involving an interpretation of these provisions;
- c)* Comparison of investigation procedures and of the principles underlying the competition policies of those Member States which already had legislation in this field;
- d)* Agreement on certain methods for seeking out understandings and abuse of dominant positions.

Under Article 89 (1) the Commission has undertaken the investigation of specific cases of suspected infringement of the Articles 85 and 86. This has been done either at the request of a Member State, or ex officio on the basis of information obtained by its staff, or on receipt of complaints from natural or legal persons. Numerous cases have been examined with government experts from several countries.

In a certain number of cases intervention by the Commission and by the national authorities concerned has led to the cessation of the practices complained about. In six cases for which there was con-

sultation, the national authorities have had the benefit of an opinion worked out jointly by experts from the several countries and from the Commission. In several other cases investigations are still in hand.

*First Regulation on understandings*

47. At its sessions of 19 December 1961 and 5 February 1962 the EEC Council of Ministers, acting on a proposal from the Commission and after consulting the Parliament and the Economic and Social Committee, unanimously adopted a first Regulation implementing the principles set out in Articles 85 and 86 of the Treaty.

The main provisions of the Regulation are as follows:

a) It confirms that the prohibitions laid down in Articles 85 (1) and 86 are directly applicable to enterprises and associations of enterprises and that no prior decision to this effect is needed.

b) So that any enterprise which is a party to an agreement, decision or concerted practice may ascertain its position with regard to the prohibitions set out in Articles 85 (1) and 86, the Regulation gives it the opportunity of applying to the Commission for a special declaration ("negative clearance"). Where appropriate, the Commission certifies in this declaration that to the best of its knowledge there are no grounds for action under Articles 85 (1) and 86.

c) The Commission may, either ex officio or at the request of a Member State or of a third party showing evidence of a justified interest, find that Article 85 or 86 of the Treaty has been infringed. It can order the enterprises concerned to put an end to the infringement. According to Article 189, such decisions are binding in every respect upon those to whom they are addressed, but under Article 173 there is a right of appeal to the Court of Justice <sup>(1)</sup>.

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<sup>(1)</sup> Proceedings against the decision can be instituted within two months after its publication by any natural or legal person to whom it has been addressed and by any other person who is directly and personally affected, even if the decision is not actually addressed to him.

*d)* The Commission must be notified when the parties to any restrictive cartel forbidden under Article 85 (1) of the Treaty wish to invoke Article 85 (3). For cartels already in existence when the Regulation came into force, notification must take place before 1 August 1962.

For the time being the following are not subject to compulsory notification: agreements, decisions and concerted practices in which enterprises of only one Member State take part, where such agreements, decisions and practices involve neither imports nor exports between Member States; bilateral agreements which have the sole effect of fixing resale prices or imposing restraints on the rights of any person acquiring or using of industrial property rights; cartels in which the sole object in the development or uniform application of standards and types or joint research in pursuit of technical improvements.

These agreements, decisions and practices may however be voluntarily brought to the attention of the Commission. Agreements, decisions and practices which existed before the entry into force of the Regulation are not subject to compulsory notification if the competent authority in a Member State has in the light of Article 85 (3) declared Article 85 (1) to be inapplicable.

Exemption from compulsory notification does not mean that such arrangements comply with the conditions laid down in Article 85(1); the intention is mainly to give certain categories of cartels provisional exemption from a formality which precedes a decision under Article 85 (3). The Council may, on a proposal of the Commission, alter or limit the cases of exemption from compulsory notification.

*e)* The immediate consequence of failure to notify is that the provisions of Article 85 (1) cannot be declared inapplicable under Article 85 (3).

In the cases of "new" cartels <sup>(1)</sup> subject to compulsory notification but fulfilling the conditions laid down in Article 85 (3), the Com-

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<sup>(1)</sup> Any agreement, decision or practice of this type which comes into evidence after the entry into force of the Regulation.

mission's decision that Article 85 (3) is applicable cannot render Article 85 (1) inapplicable prior to the date of notification. On the other hand, for " new " and " old " cartels for which notification is optional, and for those old cartels not exempt from compulsory notification provided in each case notification has taken place within the stipulated time-limits, the Commission may under Article 85 (3) declare Article 85 (1) inapplicable; this declaration may have retroactive effect to the date on which the conditions for the application of Article 85 (3) were fulfilled.

f) The decision applying Article 85 (3) is valid for a specified period; certain conditions and stipulations may be attached to it; it may be revoked, and in certain cases may even be revoked with retroactive effect.

g) Where the competent authorities of a Member State have, before the entry into force of the Regulation, declared that Article 85 (3) is applicable, this decision shall have the same force as a decision by the Commission; its validity in time is however limited, and the Commission has sole competence to rule on applications for its renewal.

h) Transitional provisions have been laid down for cartels already in existence when the Regulation enters into force which do not meet the requirements of Article 85 (3) of the Treaty. Provided that these cartels are notified before 1 August 1962 and that the participating enterprises or associations of enterprises put an end to them or modify them so that they no longer fall under the prohibition laid down in Article 85 (1), or so that they then meet the requirements of Article 85 (3), the Commission can determine the period for which the prohibition laid down in Article 85 (1) is to apply. A decision by the Commission pursuant to the foregoing sentence cannot be invoked against enterprises or associations of enterprises which have not given their express assent to the notification.

These arrangements were desirable for several reasons: in the first place, old cartels had to be given the opportunity to adapt themselves to the requirements of Article 85 (3), and secondly, all enter-

prises had to be given an opportunity to apply to the Commission to claim benefit of Article 85 (3) for existing agreements.

*i)* Until the entry into force of the Regulation, the question of the distribution of power between the Commission and the competent authorities of the Member States was governed by Articles 88 and 89 of the Treaty. The Member States were competent to issue a decision pursuant to Article 85 (3). In order to ensure uniform application of Articles 85 and 86 in the six Member States the Regulation now provides that from the date of entry into force of the Regulation the Commission shall have exclusive competence to make a declaration under Article 85 (3) and to give negative clearance.

Infringements of Article 85 (1) and of Article 86 may be established either by the appropriate authorities of the Member States or by the Commission; the competence of the national authorities ends however as soon as the Commission has initiated action to grant a negative clearance, to establish an infringement or to make a declaration under Article 85 (3).

*j)* The Regulation lays down detailed procedures for close and constant liaison between the Commission and the competent authorities of the Member States in dealing with cases referred to the Commission.

A point of major importance in the liaison between the Member States and the Commission is that before any major decision the Commission must obtain the views of a "Consultative Committee on Cartels and Monopolies", comprising one official from each Member State. The minutes of the discussion in this Committee are sent to the Commission together with the Committee's proposal on the decision to be taken. The conclusion reached by the Committee is not published.

*k)* The Regulation sets out clearly the extent of the Commission's powers to call for information from enterprises and to check the information received. Where enterprises refuse to supply the information requested by decision of the Commission or to submit to the



investigations so ordered, the Commission can impose fines and other penalties.

*l)* Apart from requests for information addressed individually to enterprises or associations of enterprises the Commission may, after consulting the above-mentioned Committee, carry out inquiries in an entire economic sector and require enterprises in this sector to supply any information it considers necessary for the implementation of Articles 85 and 86 and for the accomplishment of the tasks entrusted to it by the Treaty of Rome. Such inquiries into individual sectors of the economy can only be made where, on the basis of certain indications, the Commission has reason to suppose that competition in the sector concerned is being restricted or distorted within the Common Market. In this case the Commission can, among other things, require the enterprises concerned to notify it of all agreements, decisions and concerted practices which are not subject to compulsory notification. In the sector concerned it can also ask enterprises whose size suggests that they occupy a dominant position in the Common Market to supply particulars relating to their structure and their methods of operation. This last provision is designed, as are other provisions in the Regulation (establishment of infringements, sanctions, powers of investigation), to enable action to be taken against abuse of a dominant position as well as against agreements, decisions and practices prohibited by Article 85 (3).

*m)* In the event of an infringement of the provisions of Article 85 (1) or Article 86, or of a stipulation attached to a declaration made under Article 85 (3), the Commission may impose fines on enterprises or associations of enterprises. In fixing the amount of the fine, the Commission will take into account the gravity of the infringement and its duration. The fine can reach a sum of 1 million units of account <sup>(1)</sup>, and this figure may be increased to 10%

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<sup>(1)</sup> Article 18 of the financial Regulation concerning the establishment and the execution of the EEC budget, approved on 15 December 1960, (official gazette of the European Communities, No. 83, 29 December 1960, p. 1943/60) fixes the value of the unit of account at 0.88867088 grm. of fine gold, which is at present equivalent to DM 4, Bfrs. 50, NF 4.93706, lire 625 or guilders 3.62.

of the turnover of the preceding business year of each of the enterprises party to the infringement.

All decisions by which the Commission fixes a fine or other pecuniary penalty are open to review by the Court of Justice, which may annul the fine or penalty or vary its amount.

*n)* The Regulation also establishes the right of enterprises and associations of enterprises to be heard by the Commission before it takes any decision concerning them, thus giving them an opportunity to express their views on the complaints against them.

Moreover, in order to enable the Commission and the competent authorities of the Member States to be as fully informed as possible, provision is made that any natural or legal persons or associations of persons who can show that they have a sufficient interest must be heard if they make a request to this effect.

*o)* When the Commission intends to grant negative clearance or to declare the provisions of Article 85 (1) inapplicable by virtue of Article 85 (3), it must publish the substance of the relevant application or notification, inviting interested third parties to submit to it their comments within a time-limit which may not be less than one month.

The Commission is also required to publish the decisions by which it grants negative clearance, orders that an infringement of Articles 85 or 86 be terminated, declares the provisions of Article 85 (1) inapplicable by virtue of Article 85 (3) or cancels or modifies such a decision. It must also publish the decisions by which it grants the benefits of the transitional system in respect of agreements, decisions or practices existing at the time when the Regulation came into force.

On the occasion of the publication of applications, declarations or decisions, the Commission must therefore bear in mind the legitimate interest of the enterprises that their business secrets should not be divulged.

*p)* Furthermore the Regulation ensures that professional secrets shall be respected. Information obtained may not be used for any purpose other than that for which it was requested or for which the

investigation was carried out. The Commission and the competent authorities of the Member States are required to abstain from disclosing matters which by their nature are professional secrets.

q) Finally, the Commission is empowered to lay down implementing provisions pursuant to the Regulation, concerning the form, content and other details of applications, notifications or objections, as well as those for the hearings provided for in the Regulation.

The fact that the Council of Ministers reached this decision unanimously, where a qualified majority would have sufficed, is of great significance for the future application of the Regulation.

Even outside the field of competition this Regulation is of capital importance for the Community. Over a wide area the combined effect of Treaty and Regulation has created a system of European law directly applicable to the individual through the courts and which at the same time confers on the Commission direct powers in its dealings with enterprises.

### *Dumping*

48. The Commission's measures in the field of dumping have been based on the results of two meetings of government experts arranged by the Commission. The procedures adopted have so far proved successful, and there has been no need to resort to the protective measures provided for in Article 91 (1): in most cases the practices complained of were abandoned when the Commission intervened, and there was no need for it to issue a formal recommendation; in the two cases where recommendations proved necessary, they were at once complied with by the firms concerned.

In conclusion it should be mentioned that on 11 March 1960 the Commission published a regulation implementing the right to re-import, duty-free, goods exported from one Member State to another Member State. This is an anti-dumping measure provided for in Article 91 (2).

### *State aids*

49. In the field of aids granted by States or from State resources, the Treaty of Rome lays down rules to be applied by the Commission. No time-limits are fixed, but the procedural provisions of Article 93 mean that the examination of aid measures already in force must be undertaken as quickly as possible so that the Commission can appraise their situation in relation to the progress made by the Common Market. On the other hand the responsibility for action on plans to institute or alter aids lies with the Member States.

In order to carry out this task the Commission has, from the very outset, endeavoured to define the extent of the obligations which rest on the Member States and to explain the details of the investigation procedure which has to be applied by the Commission. The national authorities have been associated with this work.

In the work done so far the emphasis has been on the application of Article 93 (3), which provides for the prior examination of plans to introduce new aids or change existing ones. In addition, it has been decided that an inventory should be made of the aids in force, as a first step towards the implementation of Article 93 (1). The establishment of such an inventory could only be carried out by stages. Aids intended to promote the production of and trade in products listed in Annex II to the Treaty (agricultural products) have been excluded, since Article 42 has made the application of the rules of competition to this sector subject to a Council decision, which was only taken on 14 January 1962. Although this proviso does not apply to transport, this activity has also been excluded from the inventory for the time being. The most recent of the work done concerns fiscal aids in connection with indirect taxes.

The appraisal of aid measures is carried out on the basis of two principles. The first is that a measure of this kind in force in one of the countries should not be judged in isolation but that, on the contrary, it should be considered in the light of all the other measures which are also likely to affect competitive relations between enterprises or within the industrial sectors concerned. The second

principle is set out explicitly in Article 93 (1): it requires that any action undertaken with regard to aids be adapted to the progressive development of the Common Market.

### *Fiscal provisions*

50. As for the impact of fiscal provisions on conditions of competition, the provisions of the Treaty dealing with indirect taxes lay down that there shall be no discrimination between domestic products and like products imported from abroad. Certain changes which the Member States have made in their excise duties and internal taxes have therefore been investigated to make sure that the principle of non-discrimination is complied with. As a first step, a procedure for consultation between the Member States and the Commission was adopted for dealing with compensatory charges and drawback in connection with turnover taxes; a common method of calculating these amounts was worked out, and this should make it easier for the Commission to accomplish its task of supervising the proper observance of the Treaty.

It has, however, become evident that harmonization of the law governing turnover taxes in the various countries, which is in any case provided for in Article 99, is essential in order to eliminate all the distortions these taxes are apt to engender. This work is now under way. The results of research into possible solutions have been set out in a general report.

In the field of direct taxes the first of a number of comparative studies have been carried out.

A technical committee of economists and academic experts, known as the Fiscal and Financial Committee, has been inquiring how far economic integration makes harmonization of the various fiscal systems necessary. This Committee has presented an interim draft of its report, which can serve as a basis from which a programme of further work on the harmonization of taxes can start.

The provisions on approximation of legislation constitute one of the most significant innovations of the Treaty of Rome in the field of

international relations, since they reflect the determination of the Six to co-operate in building a real economic unit comparable to the domestic markets which it will replace. In order to do this, the States concerned have conferred on the Community's institutions the power to decide on and carry out any adjustments to the legislative and administrative provisions deemed necessary for the establishment or functioning of the Common Market. This task is one of the most difficult and lengthy set by the Treaty. The Commission has agreed with the Member States on an order of priorities.

While this problem was being examined, it became apparent that in certain fields there was good reason to go beyond the letter of the Treaty. For instance, the Commission and the Member States came to the conclusion that an approximation of laws in the form required by Article 100 would not be enough to eliminate the disadvantages of all kinds which wide disparities in laws in the six countries engender for the Common Market in fields such as that of industrial property rights. Here drafts are being prepared for multilateral conventions which will create a system of European law governing patents, trade-marks, and designs and models. The work done since 1959 led to an agreement in 1961 between the six Governments on the principles for draft conventions to settle the problems common to these three sectors of industrial property. There is a fair prospect that the initial draft of a convention establishing a European patent will be ready in 1962.

Work has also been undertaken on the harmonization of statutory and administrative regulations on the manufacture and distribution of pharmaceutical products. The results already obtained have been embodied in the draft for a first directive.

Under the final clause of Article 220 of the Treaty, two other draft conventions are in preparation: the first on the reciprocal recognition and execution of judicial decisions, the second on problems on international bankruptcy law. A Committee of government experts, set up at the invitation of the Commission, has agreed on new solutions to these problems, by which legal relations between countries in the Common Market would be simplified.

## *THE COMMON TRANSPORT POLICY*

51. The basic requirement of the Treaty in the transport sphere, as expressed in Articles 3, 74 and 75, is that the Community's institutions should work out a common policy. As the Treaty does not lay down the principles of such a policy with any precision, the Commission has as a start made a study of the general lines which should underlie a common transport policy and has submitted its conclusions for thorough examination in the Council, the European Parliament, the Economic and Social Committee and the circles directly concerned. On 10 April 1961 the Commission submitted to the Council a "Memorandum on the general lines of a common transport policy". This is an overall plan to attain, on the basis of the Treaty and in the light of economic requirements, the following three objectives:

- i) Elimination of any difficulties in the general implementation of the common market which might be due to transport;
- ii) Integration of transport throughout the Community;
- iii) Organization of the transport system in the Community.

The Memorandum deals in the first place with the economic and legal foundations of the common transport policy. It replies "Yes" to the question whether the general rules of the Treaty apply to transport and contains observations on the relevant provisions. It also raises the problem of the special situation of sea and air transport. Although the Commission feels that in principle these two forms of transport come under the provisions of the Treaty, they are not for the time being included in the programme for the implementation of a common transport policy because Articles 74 to 83 do not apply to them.

The Commission's economic and legal reflections on the three forms of inland transport have led to the conclusion that the common transport policy must in principle be based on competition between carriers. Nevertheless, account must be taken of the special aspects of transport, which require that the free play of competition be to some extent adapted to the particular conditions of the transport market.

In the Commission's view the three objectives of the common policy—implementation of the common market, integration of transport throughout the Community, and general organization of transport in the Community—must be attained on the basis of the following five principles:

1. Equality of treatment for all enterprises and forms of transport on the one hand and for users on the other (this being a fundamental principle governing the rest);
2. Financial independence of transport enterprises, which implies among other things that they shall carry their part of the burden of expenditure on infrastructure;
3. Freedom of action in the management of their affairs, a principle which applies in particular to the right of enterprises to compete on domestic and international markets, and to the formation of prices, which should be free up to a certain point;
4. Freedom of choice for the user as to the form of transport he wishes to employ, which implies the possibility of using transport on own account;
5. Co-ordination of investment, for which the institutions of the Community and the authorities of the Member States are to assume responsibility.

When the discussion of the Commission's memorandum in the Council has been completed, and the European Parliament and the Economic and Social Committee have issued their opinions (<sup>1</sup>), the Commission will make the necessary proposals for regulations or directives in the various fields covered by the common policy.

The aim of the consultations which the Commission is at present carrying on is not to seek prior agreement on the common transport policy as a whole. It will be possible to make proposals for decisions in certain fields even before all the discussions concerning other fields are concluded. The Council has already adopted—on 28 November 1961—a decision under which any important provisions

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(<sup>1</sup>) These opinions were issued in February (Committee) and May (Parliament).



which the Member States intend to introduce on the national plane will be submitted for joint examination and consultation. In fact, this decision is the first measure taken to implement the common transport policy.

52. As the Commission is anxious that the common transport policy should not be rendered inoperative by an expansion in the use of pipelines which had not been considered from the angle of its effect on transport, it prepared a working document on this matter, which was submitted to the Council on 26 June 1961.

With the aid of the Governments of the Member States the Commission has put in hand a series of studies which will serve as background in drawing up the common policy; they cover matters such as the economic and statutory rules governing rail, road and inland waterways transport in the Member States, transport costs and the establishment of a uniform nomenclature to be used in statistics on the transport of merchandise. On this latter point the Commission addressed a recommendation to the Member States on 26 July 1961.

With the same aims in view the Commission has taken a number of special measures. It has considered the co-ordination of investment with a view to ensuring that the transport network should expand in step with the Common Market, and on 21 June 1960 it addressed to the six Governments recommendations on the introduction for each type of transport of a system of Community trunk routes. In the light of suggestions on this point from the Council of Ministers and the European Parliament the Commission, working in co-operation with experts from the various countries, prepared "supplementary recommendations" which were transmitted to the six Governments on 8 August 1961. The Commission has also put in hand the study of problems relating to the improvement of the regional infrastructure of transport. Lastly, it has taken up the problem of harmonizing the rules which apply in the various Member States to traffic, to the technical characteristics of road vehicles and to the rationalization and standardization of inland waterways transport.



*President Kennedy welcomes Professor Hallstein, on his visit to the United States (7-25 April 1962).*



*The Council of Ministers (See p. 114)*

*The European Parliament (See p. 114)*



En foi de quoi les plénipotentiaires soussignés ont apposé leurs signatures  
au bas de la présente Convention.

ZU URKUND DESSEN haben die unterzeichneten Bevollmächtigten ihre Unterschriften unter dieses Abkommen gesetzt.

IN FEDE DI CHE i plenipotenziari sottoscritti hanno apposto le loro firme in calce alla presente Convenzione.

TEN BELIJE WAARVAN de ondergetekende gevolmachtigden hun handtekening onder deze Overeenkomst hebben gesteld.

Fait à Rome, le vingt-cinq mars mil neuf cent cinquante-sept.

Geschehen zu Rom, am fünfundanzigsten März neunzehnhundert-siebenundfünfzig.

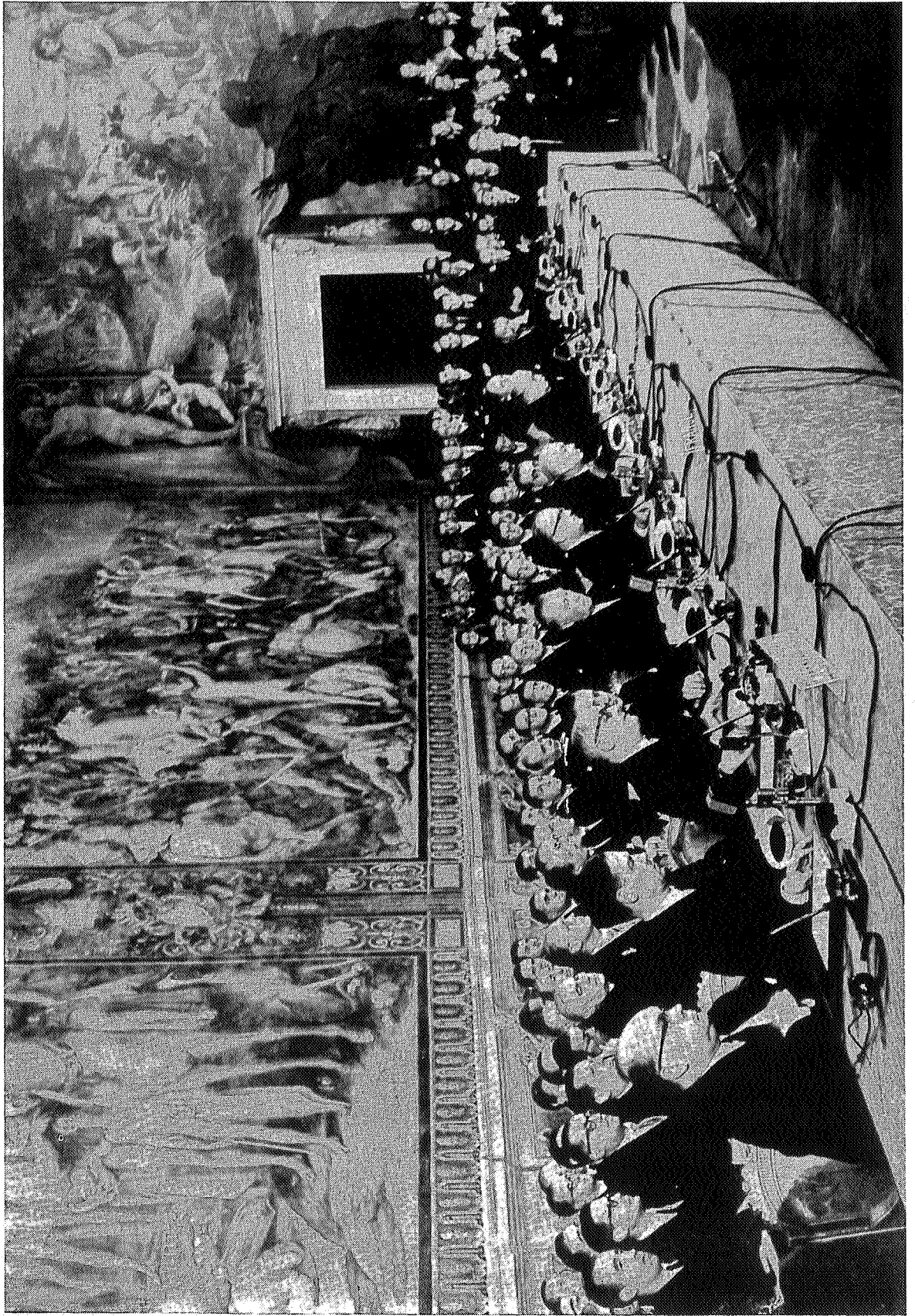
Fatto a Roma, il venticinque marzo millenovecentocinquantesette.

Gedaan te Rome, de vijfentwintigste maart negentienhonderd zeven en vijftig.

The image shows a collection of handwritten signatures in four columns. The first column contains signatures in French, including names like 'C. A. ...', 'Adenauer', 'Düren', 'Mansholt', 'Berth', and 'S...'. The second column contains signatures in German, including 'Möller', 'Wagner', 'Götter', and 'K...'. The third column contains a signature in Italian, 'Mansholt'. The fourth column contains a signature in Dutch, 'K...'. The signatures are written in various styles of cursive and are arranged in two columns of two.

Signatures appended to the Treaty of Rome (See p. 114)

*Signature of the Treaty of Rome, the 25 March 1957, in the Capitol at Rome.*



53. In implementation of Article 79 (3) the Council, on 27 July 1960, adopted Regulation No. 11 on the abolition of discrimination in transport rates and conditions. This regulation prohibited with effect from 1 July 1961 any discrimination which consists in the application by a carrier, in respect of the same goods conveyed within the Community in the same circumstances, of transport rates and conditions which differ on the ground of the country of origin or destination of the goods carried.

On 22 June 1961 the Commission sent the Member States a recommendation concerning the application of Regulation No. 11 and an opinion on certain terms contained in Article 8 thereof.

With a view to the fact that Article 80, which concerns the prohibition of support rates, would come into force at the beginning of the second stage, the Commission has studied the interpretation and manner of application of this provision and, after consulting all the States concerned, has prepared a number of decisions to be taken in this field.

The Commission's staff have studied the factual situation in the matter of charges and dues collected for the crossing of frontiers with a view to preparing the recommendations which the Commission intends to make after consulting experts from the Member States.

The Committee of government experts set up on 6 December 1960 by the Council of Ministers on a proposal of the Commission to assist the latter in its studies of transport costs began work in March 1961. The Committee is examining the infrastructure costs which can be charged to the various types of transport and carrying out a comparative study of the actual burdens falling on individual undertakings and on the different types of transport.

During the period under review the Commission asked the Consultative Committee on Transport for an opinion on certain problems arising from Article 79 (3), on freedom of establishment and on the application of Article 75 (1a and b) (transport for hire or reward, transport on own account, and admission of non-resident carriers to national transport services).

The Commission has also collaborated effectively with the High Authority of the ECSC, with the international organizations responsible for transport (Central Commission for the Navigation of the Rhine, European Conference of Ministers of Transport, United Nations Economic Commission for Europe) and the carriers' organizations.

### *SOCIAL POLICY*

54. It is difficult to picture a social policy which is not bound up with the other Community policies. By aiming at "equalization in an upward direction" through the improvement of the living and working conditions of workers, Article 117 of the Treaty makes it incumbent on the Community's institutions to see that the social aims of the Treaty are pursued concurrently with its economic objectives: social advance cannot be a mere consequence of economic progress but must march hand in hand with it.

This principle is in conformity with the essential aim of the Community as stated in the Preamble to the Treaty of Rome: the constant improvement of living and working conditions. The ultimate social aim of EEC is thus clearly affirmed from the outset. The Treaty of Rome confirms it by its references to harmonious development, balanced expansion and a raising of the standard of living: the Community is aiming at a stage when a better distribution of wealth will be considered as a concomitant factor of expansion.

To the Commission "the improvement of living and working conditions" cannot mean alignment on a theoretical average standard of living, which would compel the most advanced to wait until the least favoured had made up their leeway. The notion of "equalization in an upward direction" must never be allowed to halt evolution in the most advanced countries, or be used as an argument for seeking a mechanical levelling of the conditions of work and of living. The Commission regards this notion as a call to offer individuals, groups, regions and sectors equal opportunities for contributing to social progress. Therefore this "equalization in an upward direction" must be looked upon as a *sine qua non* of economic

expansion, as it can be expected to promote the most efficient use of technical capacity, and this is the mainspring in any policy of expansion.

Ever since its inception the Community has endeavoured to outline and to put into practice a general policy on employment, labour problems, vocational training, and the harmonization of social systems. It has also tried to bear in mind the social effects of the economic steps taken in certain fields such as agriculture or transport.

The Regulation on the free movement of workers has already been referred to. It is an essential element in a common labour policy, as indeed are the other measures intended to promote the mobility of labour. On its effectiveness will depend the results of the progressive liberalization of the labour market. But it is from the point of view of quantity that these results will be assessed in the first place; they will be judged by the efficiency with which vacancies and the supply of labour are balanced.

#### *European Social Fund*

55. The Social Fund was set up under Article 123 of the Treaty as a sort of equalization account for the joint financing of what might be called the "social cost of the Common Market". Its scope and procedure are laid down in Regulation No. 9, which was adopted by the Council on 25 August 1960. Its purpose is not only to ensure employment and guarantee the income of wage-earners against the risks arising from the integration of the national economies, but also to promote the expansion of employment through action which will stimulate the struggle against structural unemployment.

The first requests for refunds were received from the Member States in the first quarter of 1961. By the end of 1961 these requests amounted to Bfrs. 1 345 900 000, or 26 918 090 u.a. composed of roughly Bfrs. 928 million for retraining and Bfrs. 418 million for resettlement purposes.

The various legal and administrative instruments required to put the Social Fund into operation—Regulation No. 9, the Statute of



the Committee of the Social Fund and financial regulations—are now in force and are being applied in the normal way.

*Vocational training.*

56. In submitting the draft regulation for the Social Fund the Commission was aware of the need to draw up quickly a common policy on vocational training which could serve as a corollary to the regulation on the Fund. Article 128 of the Treaty requires that the Council shall lay down the general principles of such a policy on a proposal of the Commission. These will cover the rules of conduct in this field and the main lines of common action on the training and further training of all sections of the labour force, whether adolescent or adult, and not to limit action to the training of certain groups of workers.

There is no need to stress that vocational training is one of the essential factors in the endeavour to achieve the fundamental aims of the Treaty of Rome. It is the link between demographic expansion and technological change and will make it possible for the labour force to adapt itself steadily to the requirements of an economic policy which aims at continuous and balanced expansion. Vocational training is one aspect of the policy of integration, in which the mobility of workers—form one occupation to another as well as from one place to another—is of considerable importance.

The Commission believes that to bring the levels of training gradually into line is a priority aim and that for any given calling all workers should have comparable training and comparable experience. The introduction of uniform tests throughout the Community and the organization of European competitive examinations could contribute to bringing the levels of training into line. The Commission further proposes that for certain categories action be taken in the light of the requirements of economic expansion and of shortages or surpluses of labour. Problems connected with more rapid vocational training could be overcome by financial measures; one such measure is explicitly provided for by Article 41 in the agricultural sector.

The Commission's proposal on the general principles of occupational training has been submitted by the Council to the European Par-

liament for its opinion, and also to the Economic and Social Committee.

In an endeavour to remedy by practical measures the disequilibrium which exists on the labour market of several Member States, the Commission has worked out a programme for the rapid vocational training of Italian workers who are to take up jobs in the Federal Republic of Germany and in the Netherlands. This programme, which covers 10 000 workers, is being put through with the help of the Governments of the three countries concerned.

### *Equal pay for men and women workers*

57. The Council's wish to proceed more speedily with putting into practice the principle of equal remuneration for equal work as between men and women workers (Article 119) appears in the declaration of intention attached to the programme, approved by the representatives of the Member States in May 1960, for speeding up the implementation of the Treaty. In line with this programme the Commission on 20 July 1960 submitted to the Member States a recommendation summing up its interpretation of Article 119 and indicating the ways and means by which it should be applied from 1 July 1961 onward.

The Commission believes that the principle of equal pay rules out discrimination on the basis of sex in the determination of wages, whilst the other customary criteria such as ability, age, seniority on the job and family circumstances can continue to be taken into consideration.

Job classifications must apply to male and female workers without distinction, and it would be incompatible with the principle of equal pay to lay down lower rates or special categories for women workers.

As a result of this recommendation numerous studies have been made by the Commission and the Member States jointly to determine in common accord the procedures for the practical application of the principle of equality. As a result of this work and in fulfilment of the obligations arising out of Article 119 of the Treaty the representatives of the Governments of the Member States agreed at the

60th session of the Council (30 December 1961) to bring the pay of men and women workers progressively into line.

The following time-table has been adopted:

- a) By 30 June 1962 any difference exceeding 15% to be reduced to that amount;
- b) By 30 June 1963 any difference exceeding 10% to be reduced to that amount;
- c) By 31 December 1964 all discrimination should be abolished.

Various supplementary measures have been adopted.

The Member States will apply, in accordance with their national systems for the fixing of wages, the appropriate procedures to ensure that the principle of equal remuneration for men and women workers can be enforced by the Courts.

The Member States have further undertaken to co-operate in organizing a statistical enquiry into the wages structure of the six countries.

#### *Other achievements in the social field*

58. The Commission's work in the social field is inspired by two aims: on the one hand, to expand employment and, on the other, to harmonize living and working conditions in an upward direction.

With this second aim in view, the first care of the Commission's staff was to organize enquiries and carry out legal, financial and statistical studies concerning the six countries, with the active assistance of both sides of industry. Mention should be made of Regulations No. 10 and No. 14 (adopted by the Council in 1960 and 1961 respectively); under these regulations enquiries into wages have been carried out in several branches of industry.

A survey of employment trends between 1954 and 1958 has been made. Studies have dealt with under-employment in France and Italy and others are planned for the remaining Community countries; yet others have dealt with social security, industrial hygiene and safety. Finally, mention should be made of the studies and enquiries con-

cerning the financing of low-cost housing and the housing conditions of migrant workers in receiving countries.

These studies and enquiries form the basis of the programmes undertaken or planned in the fields covered by Article 118 of the Treaty. Measures which will be progressively intensified have already been put in hand, in close co-operation with the Member States and both sides of industry. They deal with labour relations (collective bargaining), the protection of young people and women, industrial hygiene and safety and social security.

At the end of the first stage the Commission after consultation of the Parliament and the Economic and Social Committee, approved several measures: the drafts for regulations on free movement and on the social security of frontier and seasonal workers, and the draft of a directive for a joint list of illnesses and infirmities which might justify a Member State in refusing admission to a national of another Member State. At the same time certain opinions or recommendations were prepared on the activities of social services in connection with migrant workers, on industrial medicine in enterprises and on a European list of industrial diseases.

An outstanding part of the Statistical work accomplished in the social field has been the study of wages in industry, in which the information mustered in the 1960 survey of 14 branches of industry is analysed.

### *The common agricultural policy*

59. The Council's decisions in this field have already been described <sup>(1)</sup>. They deal mainly with the organization of markets and cover a vast programme of work to be done in other fields, such as structural problems, trade policy and social policy in the agricultural sphere.

60. Commercial policy is the remaining aspect of common policy which the Treaty of Rome says shall be worked out during the transition period. A description of what has been done in this field will be found <sup>(1)</sup> in Chapter II, "The Community and the outside world".

<sup>(1)</sup> See sec. 17.

### III. THE COMMUNITY AND THE ASSOCIATED OVERSEAS STATES

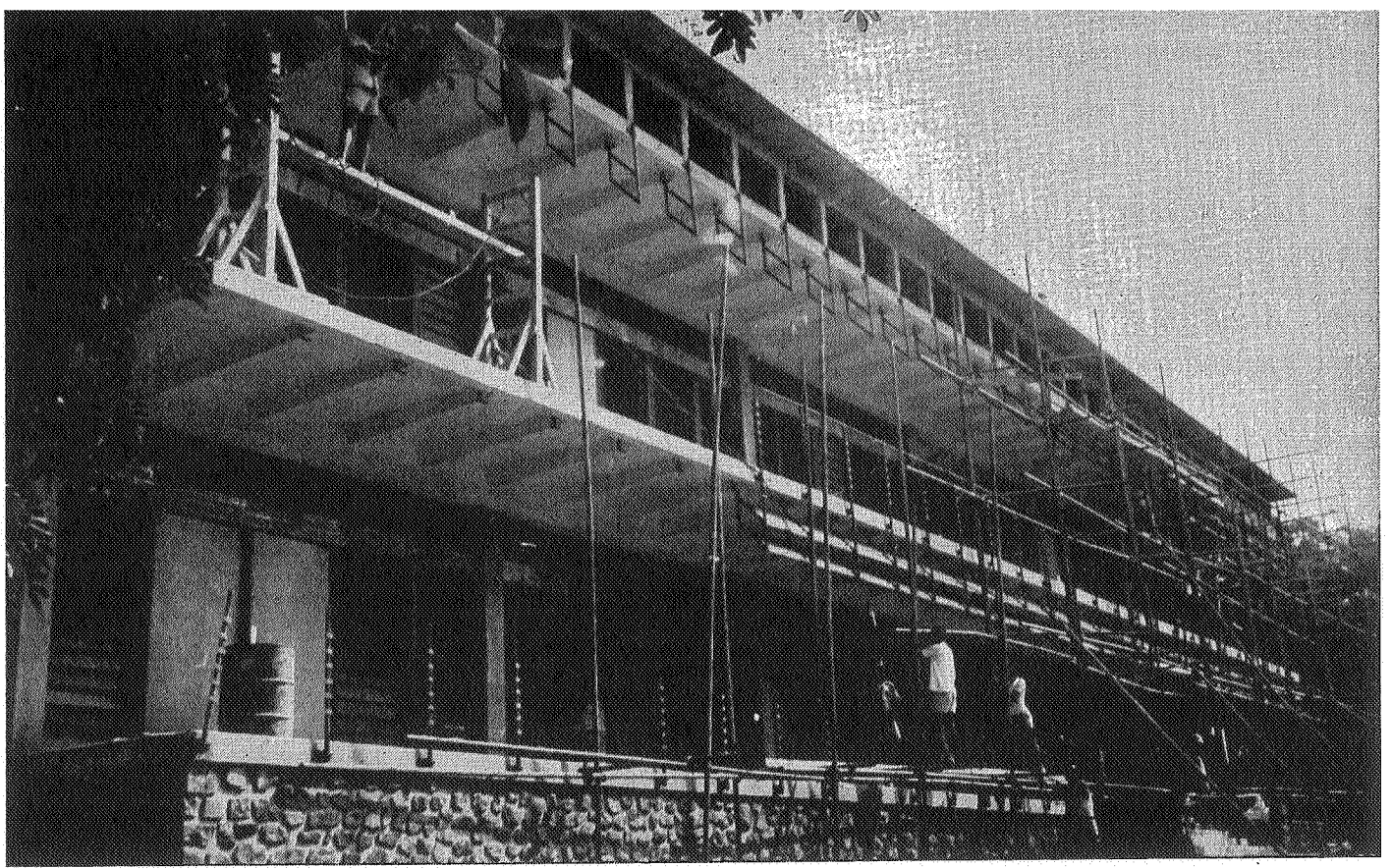
61. The links between the Community and the associated African States and Madagascar have been very fruitful; this is worth noting now that the Treaty has been in force for four years, and that the negotiations opened for the renewal of the association convention mark an important milestone. Here are 16 States, all associated with the Community, which have now achieved independence, and which have indicated that they wish to maintain this association; in the months to come they will be thrashing out with the Community, on a footing of equality, a system consonant with the changed political situation and with the interests of all concerned. The new association regime will come into force on the expiry of the present Implementing Convention on 31 December 1962. Meanwhile adjustments have been made in the relationships based on Part IV of the Treaty and the Implementing Convention. They are of an essentially institutional character and in no way prejudice the system which is to be established by common agreement.

#### *THE EUROPEAN DEVELOPMENT FUND*

62. The association has been given practical content by the financial efforts of the Community, which generally complement the bilateral aid already being received by the associated States from the State with which they maintained special relationships. The commitments of the European Development Fund on 31 December 1961 represented about 43% of its total resources and 70% of the credits opened in respect of the first four years. Action by the Fund, which could not commence until one year after the Treaty came into force, was speeded up considerably in 1960 and in 1961. The difficulty however remains that the projects submitted usually require adjustments on the spot and time is lost because of the investigation which this involves. Nevertheless, procedures have been introduced which make it possible to speed up considerably the work of examining the dossiers.

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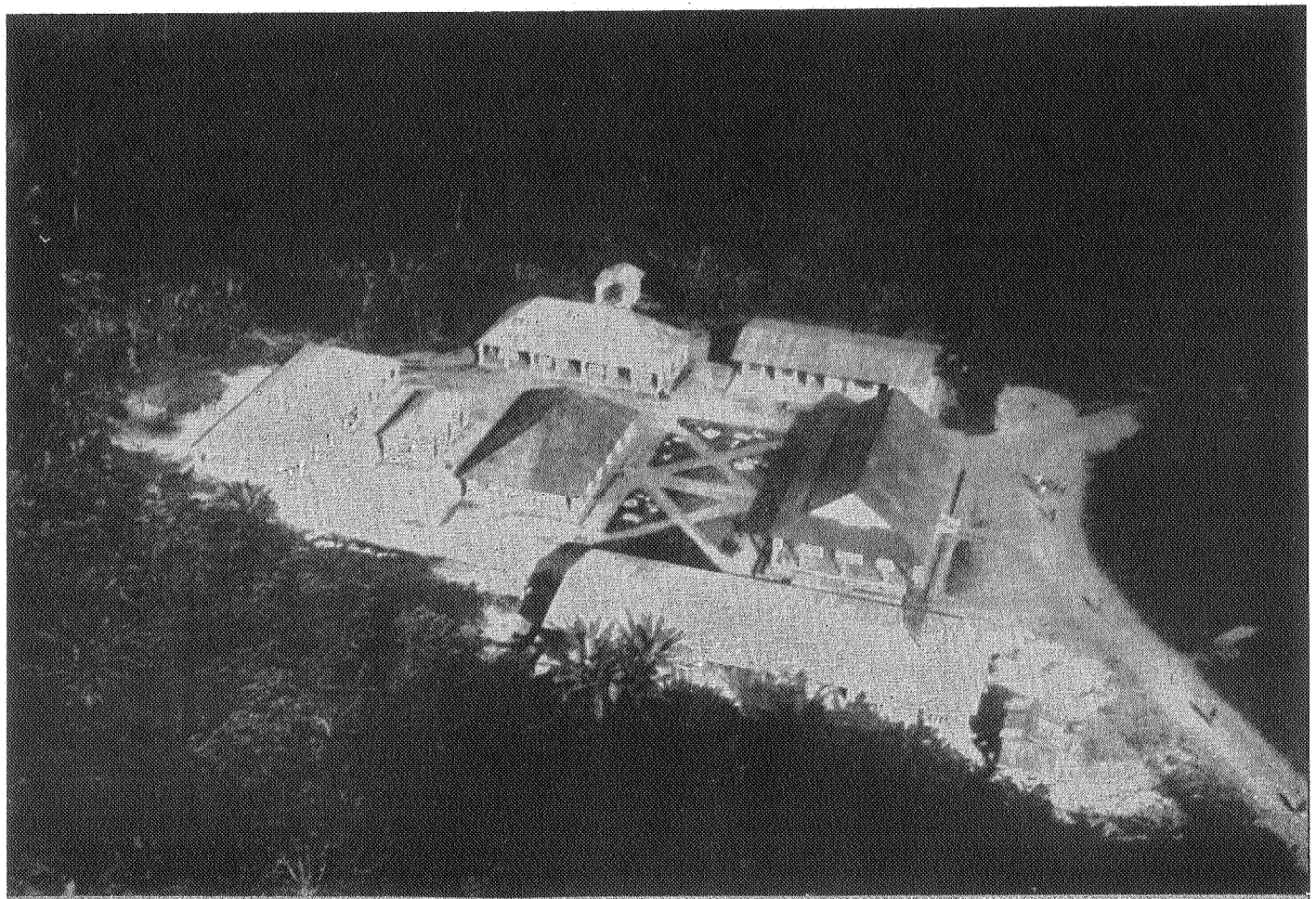
(<sup>1</sup>) See sec. 92.

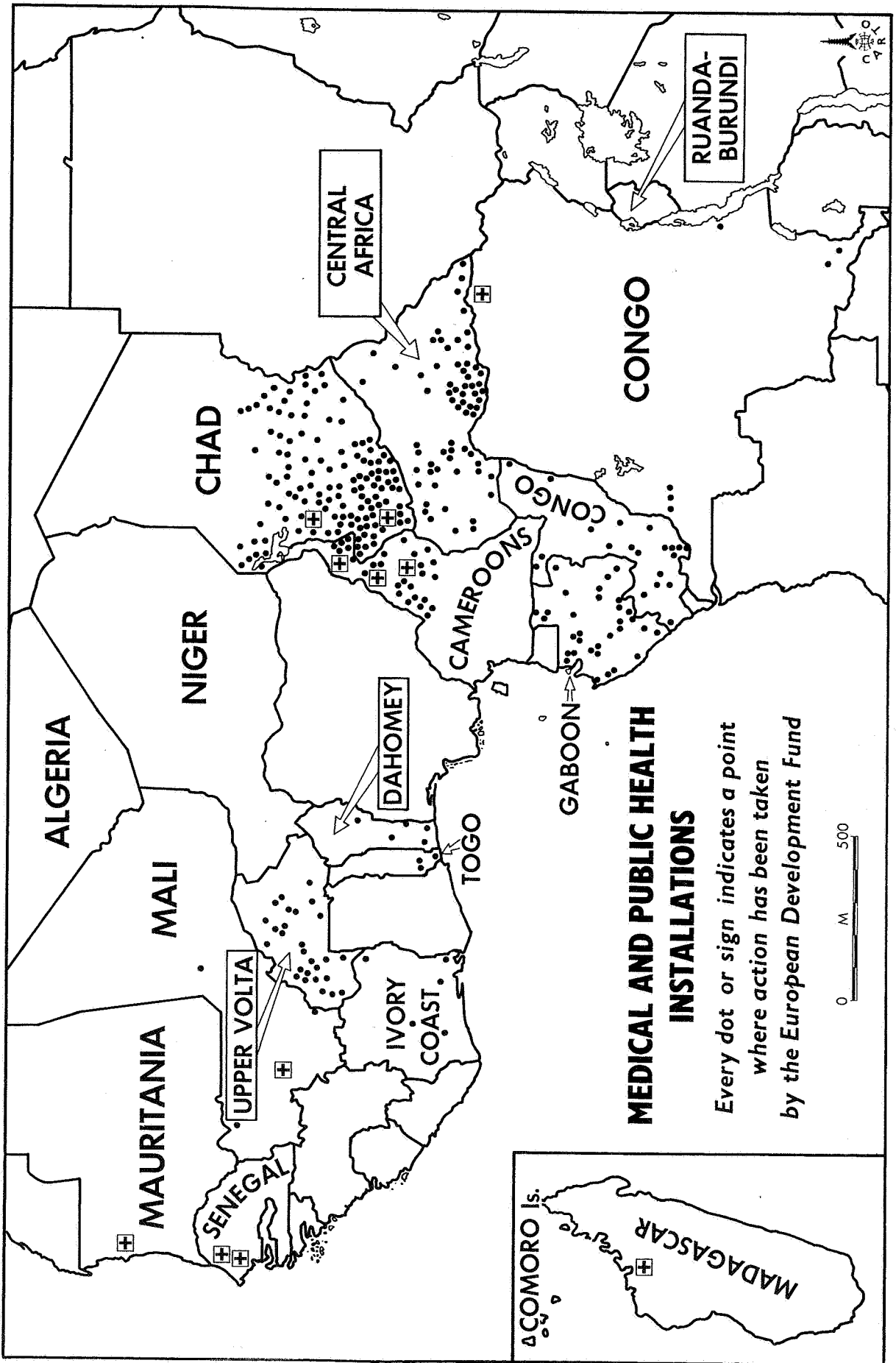


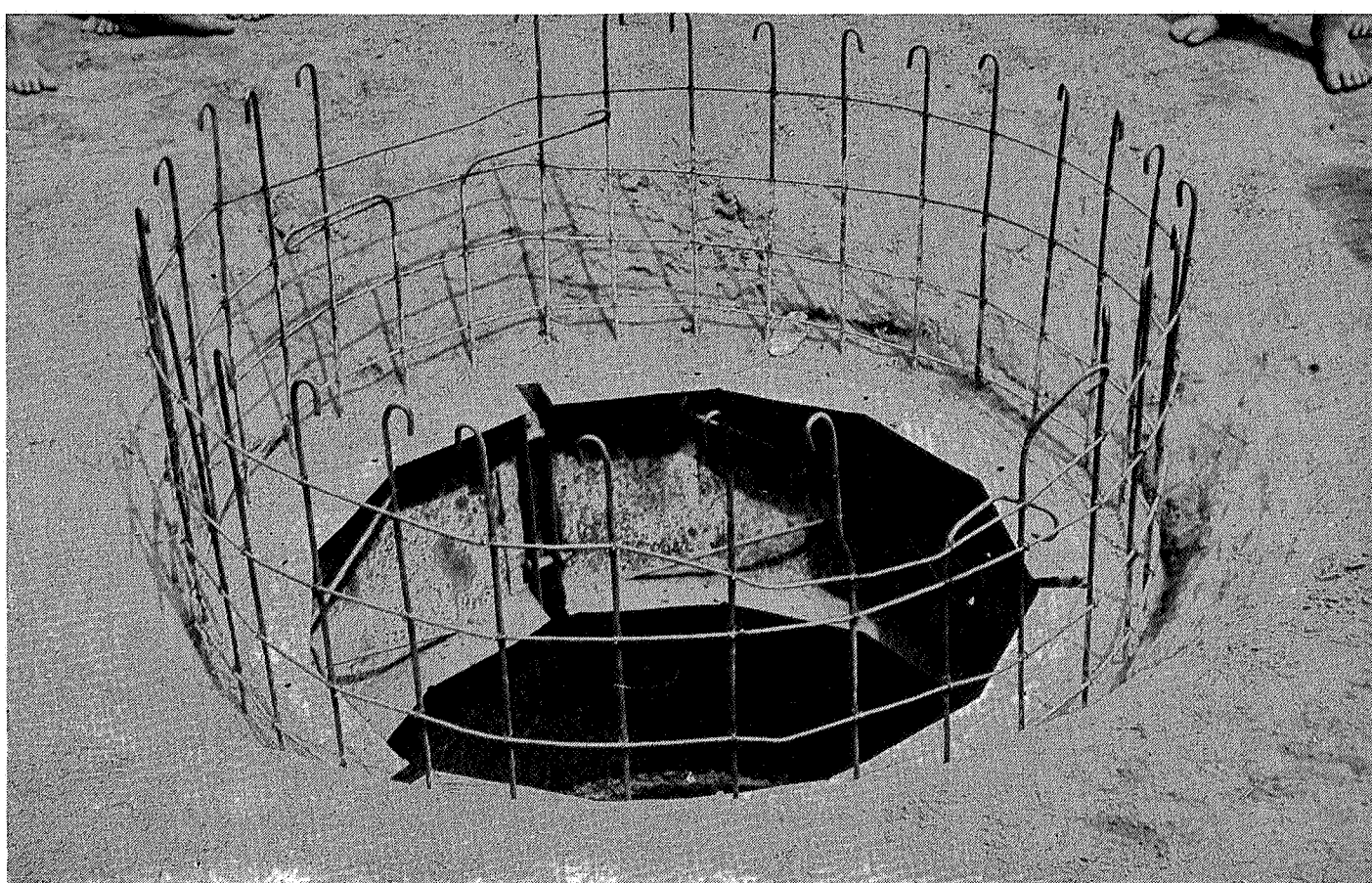
*Building a school at Bangui (See p. 114)*

*Hospital at N'Dole (Gabon) (See p. 114)*

For map p.t.o.







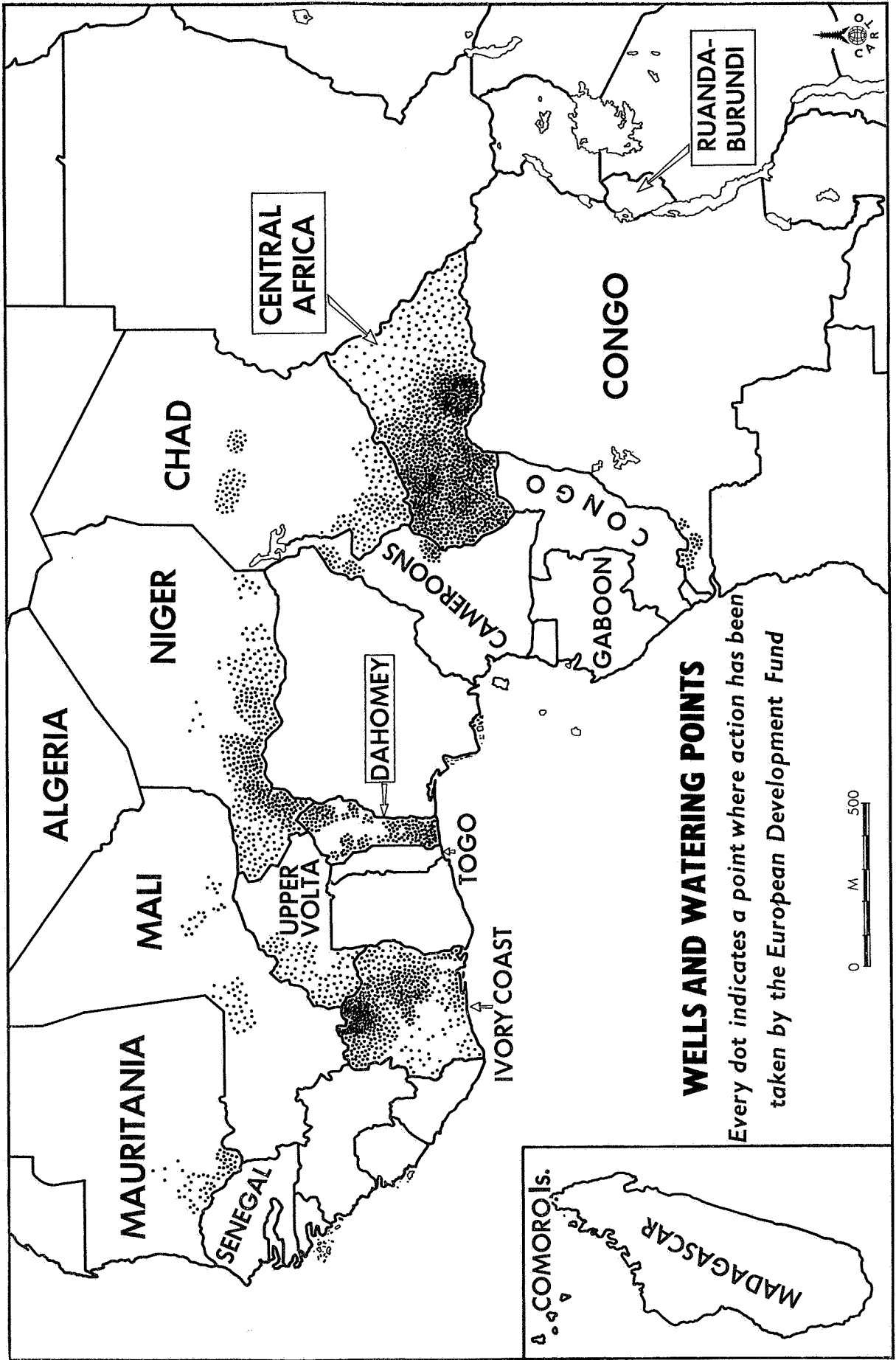
For map p.t.o.

*Sinking a well at Dono Manga (Chad) (See p. 114)*

*Road in Madagascar (See p. 114)*







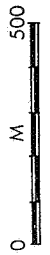
RUANDA-BURUNDI

CENTRAL AFRICA

DAHOMEY

**WELLS AND WATERING POINTS**

Every dot indicates a point where action has been taken by the European Development Fund



## TRADE

63. In the field of trade the association's achievements have been more modest in scope. The Member States did indeed carry out the provisions of the Treaty on liberalization of tariffs and quotas, but these had no great impact before 1 January 1962, the date on which Member States made changes in duties on the majority of tropical products, as a first step in aligning national tariffs on the common external tariff. Preferences were thereby introduced on imports of a large number of these products which had till then been imported duty-free or on payments of a very low rate of duty.

On the other hand, the measures designed to liberalize tariffs and quotas have as yet exerted only a limited effect on the growth of exports from the Member States to the overseas countries and territories.

It should be noted, however, that the Community's imports from the associated overseas countries and territories rose about 6% in 1961, while in 1960 they had already increased by about 3% over 1959. Exports to the associated overseas States rose by almost 13% in 1960 and by almost 11% in 1961.

After sixteen of the associated countries had become independent, various problems that arose in applying the Convention were studied in common; an important point raised was the possibility that these countries might resort to quantitative restrictions on their imports from the Six, in order to give the necessary initial protection to industries being fostered in order to diversify the economy. It was agreed that for the period until 1 January 1963 no quantitative restrictions would be imposed by the associated States without prior consultation with the Commission.

64. Article 8 of the Implementing Convention relating to the association stipulates that the Council, acting on a proposal of the Commission, should in the course of the first year determine particulars of the progressive extension to nationals and companies of Member States other than those which had special relations with

the country or territory concerned of the right of establishment in the overseas countries to which the Convention relates.

Directives, taken by the Council in November 1959, took as their aim the progressive abolition during the transitional period of discrimination particularly in those sectors of the economy in which an equal right of establishment for all could make a special contribution to the expansion of investment and trade.

At the present time certain legal or administrative discriminatory restrictions do still exist. The Commission has, in consequence, submitted appropriate observations to the States concerned.

#### *TECHNICAL CO-OPERATION*

65. The Community has made a considerable effort to develop technical co-operation by the training of African and Malagasy personnel. Nationals of the associated States have been able to acquire administrative experience as trainees in the Commission's offices. Furthermore, 70 fellowships were awarded in the year 1960-1961, enabling nationals of the associated States to receive a specialized training in various institutes or organizations of the six Member States. The success of this first venture encouraged the Commission to propose to the Council, who agreed, that the number of fellows should be increased to 300 during the year 1961-1962.

The Commission also financed many important studies on the development of the associated States.

#### *THE FUTURE SYSTEM OF ASSOCIATION*

66. One of the Community's key tasks throughout the year 1961 was the preparation of the future system of association. The problem has been studied by the various institutions of the Community as well as by the associated African States and Madagascar, and work has now progressed to a point which augurs well for its satisfactory completion.

From the beginning the European Parliament, has shown its interest in this crucial problem. Moreover the European Parliament invited a number of African and Malagasy parliamentarians to a Conference which took place in Strasbourg, from 19 to 24 June 1961, and at which 103 representatives from these countries were able to discuss the problem with parliamentarians from the six Member States. The discussions centered round a number of principles designed to intensify co-operation between the Community and the newly independent States in the institutional, economic, commercial, financial and technical spheres.

The European Commission took part in these discussions. It largely subscribed to the views expressed which formed the basis of important recommendations made by the Conference.

Furthermore, the European Parliament asked the Council that the question of the future system of association should be one of the subjects discussed at the Institutions' annual symposium. This took place in Strasbourg on 20 and 21 November 1961; it explored in detail the major problems in this sphere and reached agreement on many matters. There was unanimous agreement on the importance of having the overseas countries play their part in the formation of a wider Community. The President of the European Commission put forward the Commission's views and welcomed the identity of view which existed between the Parliament and the Commission.

During this session the Parliament adopted a number of resolutions and urged the Council to conduct the negotiations as speedily as possible, so as to enable the national Parliaments to ratify the new Convention before the end of 1962. The President in office of the Council gave the Parliament assurances on this point.

#### *The Commission's message to the Council*

67. In July 1961, the European Commission addressed a message to the Council on the future system of association between the overseas States and the Community. In this message the Commis-

sion stated that, subject to any necessary adjustments, the Community should continue to develop the association in the same spirit as that in which it had originally been conceived, and went on to suggest certain basic principles for the new system:

- a)* The association must be founded on the voluntary and unconditional adherence of all its members and on effective co-operation between them;
- b)* No new provision could be accepted unless it offered the associated States benefits which, taken as a whole, were comparable with those they already enjoyed;
- c)* The essential aim of the association was to raise the living standard of the associated peoples.

The document reviewed the juridical, the economic and commercial and the institutional aspects of the association.

As the association had been established for an unlimited period, the Commission considered that the existing agreement had not lapsed when the associated overseas countries became independent.

So long as the Member States had not expressed an unanimous desire to revise the Treaty, problems would have to be dealt with according to its terms, especially those in Part IV. It was for the Council to determine before 31 December 1962 the arrangements to be made for the future system of association, but the position adopted could only commit the Community and would provide the elements of an offer to be made to the overseas countries. This meant that the particulars of the future implementation of Part IV of the Treaty would be the subject of agreements between the Community and the associated countries on the basis of an outline agreement drafted jointly and having the approval of all parties concerned.

As regards the economic and commercial aspects, the system of trade to be set up would remain substantially that embodied in Part IV of the Treaty.

In the resolutions adopted by the Afro-Malagasy Organization for Economic Co-operation at its meeting at Ouagadougou, some of the

associated States pressed strongly for maintenance of the advantages which they had originally enjoyed.

The Commission proposed that the pace of tariff reductions should be speeded up and the common external tariff be applied on imports of three products, namely bananas, coffee and cocoa, which would have free access to the markets of the Six from 1 January 1965, while the duties would be reduced by 50% on 1 January 1963.

A time-table was included for the freeing of trade between the associated States and the Member States: quantitative restrictions would be abolished by 1 January 1963, and customs duties and import charges with equivalent effect by 1 January 1965.

The Community and the associated overseas States would determine their respective commercial policies and external tariffs. A number of measures would be adopted to benefit tropical products: loans would be made available to tide over temporary difficulties; the Commission would take part in the international agreements regulating prices, and direct assistance would be given (especially for coffee, bananas and cotton). The funds that became available would be credited to special accounts for each product. A common production fund with a yearly income of \$ 25 million would be established, to which the associated countries and the Six would contribute; its object would be to help in diversifying the economy and making agriculture viable without outside support.

The Commission's message proposes various measures designed to promote trade in and consumption of tropical products. It raises the question whether in principle the Community could not broaden the assistance given through the European Development Fund by making its terms of reference more elastic and thus making it possible for the work done by the Fund to correspond more closely with the multiplicity of situations and problems. Programming, private investment and public investment are three fields in which the Community should offer assistance.

As regards technical co-operation, the European Commission proposes an annual expenditure of \$ 25 million on the training of specialists

and also that experts should be assigned to the associated countries where required for their investment projects. Finally, a joint development institute might set up teams able to work in a number of fields and help with the training of personnel.

On the institutional side, the Commission's memorandum recommends that the association should have its own institutions to resolve the problems which might arise from any disputes and to ensure the inter-parliamentary co-operation that would be necessary.

The governing body of the association would be a joint Council of Ministers, in which decisions would be taken by unanimous vote. Under the control of the Council, an Association Committee composed on a basis of parity would supervise the working of the associations.

This message, which has been used extensively as a basis for discussion in the work so far done, has enabled the Commission to play an active part in the negotiations.

#### *Start of the negotiations*

68. The responsibility for the negotiations lies with the Council, and at the end of 1960 it had arranged for a meeting at ministerial level to prepare them. The first meeting between the Council of the Community and Ministers from African countries and Madagascar took place in Paris on 6 and 7 December 1961, with the European Commission taking part. Its aim was to define in clear terms the principles and aims of the new association convention.

The meeting approved a document setting out the principles and aims of the new association convention. This states that the association shall be based on a mutual desire for co-operation freely expressed by sovereign States negotiating on a footing of complete equality; its aims shall be the expansion of co-operation and trade, the diversification of the economy, the industrialization of the associated States and the strengthening of both their economic independence and their inter-African trade with each other.

The new convention could take the form of a standard agreement capable of adaptation to which protocols would be attached. Its duration would be 5 to 7 years.

The ministerial meeting which took place in Paris enabled some measure of agreement to be reached on economic problems, technical co-operation, financial co-operation and the Fund, as well as on institutional problems. The convention will still have to provide institutions corresponding with the new status which the associated States have now acquired under international law: an Association Council at ministerial level, an Association Committee and a parliamentary institution.

The Paris meeting also drew up a procedure and time-table for the negotiations, and it provided for the formation of a steering committee and three working parties to deal with institutional and administrative matters, financial and technical co-operation, and trade and sale of goods respectively (this last being broken up into sub-groups for each product). Further ministerial meetings are planned for April and the end of June 1962.

69. In 1960 and 1961 the Kingdom of the Netherlands submitted requests that the Netherlands Antilles and Surinam be associated with the Community.

Agreement was reached that these two territories should be included in Annex IV to the Treaty which, with the Implementing Convention relating to associated overseas countries and territories, will consequently be applied to them.

In the case of the Netherlands Antilles, a Protocol concerning the Community's imports of refined petroleum oil from this area places a ceiling on the quantity of petroleum products which may be imported from the Antilles, in order to avoid complications for the introduction of a common energy policy. The procedure for revising the Treaty should shortly be set in motion, on the initiative of the Government of the Netherlands, in order to give effect to these measures.



For Surinam a "belated ratification procedure" has been adopted, by which the Government of the Kingdom of the Netherlands, after ratification by the Netherlands Parliament, will notify the Community of the addition of this territory to the Protocol annexed to the Treaty concerning the non-European parts of the Netherlands.

## CHAPTER II

### The Community and the outside world

70. We have seen in the preceding chapter the various ways in which the Member States of the Community are being gradually welded together into a customs union and an economic union. This internal consolidation adds to the Community's stature in the outside world, but has not let its external relations wait upon that development. The EEC has from the outset played an active part in international organizations, at international conferences and in the economic groupings of the free world. The appearance of the Community was a new factor which naturally raised delicate problems, chiefly in GATT but also in OEEC.

Since its inception the Community has caused a certain crystallization of forces around it and has made its presence felt by the rest of the world even before attaining internal cohesion. Then, gaining strength by the strict and sometimes anticipatory application of the Treaty in every field and by the satisfactory functioning of its institutions, the Community has come to exert a truly magnetic attraction.

The mere de facto recognition that was first accorded the Community has given way over these four years to recognition of its dynamism and of the leaven it provides for progress throughout the free world.

#### I. APPLICATION FOR MEMBERSHIP OR ASSOCIATION

##### *FROM PROPOSALS FOR A FREE TRADE AREA TO APPLICATIONS FOR MEMBERSHIP BY GREAT BRITAIN, DENMARK AND IRELAND*

71. From the moment the Treaty came into force the Community had to face difficult problems raised by the negotiations which had been on foot for several months to create a free trade area embracing the Community countries and the other Member States of OEEC.

The latter States were reluctant to surrender any aspect of sovereignty, to harmonize their economic policies and to accept the common external tariff, but they wished to share in the work of the Community and enjoy the advantages of tariff disarmament and the liberalization of trade in industrial products.

*Negotiations on the free trade area*

72. In these negotiations, where good will on both sides was undeniable but the difficulties very real, the Community was constantly on its guard to preserve its integrity. Its institutions had a duty to avoid solutions that might have robbed the Community of its effectiveness and entailed the risk of its disruption. Furthermore, the Community had to bear in mind the interests of the non-European states of the free world.

There is no need to review here the various stages of these negotiations. In December 1958 the other parties expressed dissatisfaction with the Community's proposals. These were, first, to apply unilaterally to the Contracting Parties of GATT the initial reduction, required by the Treaty as between the Member States of the Community, of 10% in customs duties on industrial products wherever these duties were higher than the future common external tariff; and, secondly, to increase by 20%—subject to reciprocity—the quotas for industrial products from the other OEEC countries. These proposals were put forward with the object of keeping the door open, without prejudice to final solutions, while offering another token of the Community's good will. But the other side were not prepared to accept an arrangement, even if provisional, which introduced an initial discrimination in trade by denying them the benefit of the Treaty provisions bringing nil or negligible quotas up to 3% of national output and making of them a global quota open to all Member States. Despite lack of agreement, the Community later applied unilaterally to all outside countries the tariff reduction offered on 3 December 1958.

The negotiations for a multilateral association of the other Member States of OEEC with the Community ended with an adjournment sine die and were not resumed in 1959.

Apart from the reasons given above, the breaking-off of negotiations resulted mainly from a misunderstanding of the nature of the Europe that was being built and of the aims of the Six. The Community Member States, true to the spirit of the Treaty of Rome, held that liberalization of trade would only be feasible and lasting if it were based on firm and precise commitments, not only as to tariffs and trade but in all matters fundamentally affecting national economies, and hence indirectly trade. Furthermore, the Six considered that the European preference system to be set up could only be really justified in the eyes of the outside world by the economic union and political rapprochement of European peoples that should be its final outcome.

On these points there were major differences of opinion, but the negotiations also laboured under the great difficulty presented on the technical plane by the formula of a free-trade area championed by the United Kingdom, largely with an eye to maintaining the system of Commonwealth preference. Lastly, the diversity of the economic structures of the seventeen European members of OEEC made it difficult to find common solutions.

#### *The Commission's two memoranda*

73. The negotiations having failed, the Community made another survey of the situation between January and November 1959. In February the Commission submitted to the Council a memorandum in which, drawing a lesson from the events of 1958, it put forward two ideas which, once they had gained acceptance, were to guide the Community's external policy. Firstly, the Community with its worldwide responsibilities could not treat the European aspect of its external relations in isolation from the world aspect. Secondly, the Community was in its infancy and could not make firm arrangements for long-term co-operation until it had itself gained more vigour and substance.

74. In a second memorandum, which was submitted in September 1959 to a Special Committee set up in the meantime to study how the Commission's proposals and the comments of the Member States

should be followed up, the Commission amplified its views, pointing out that any European arrangement should take account of the position of the United States, rendered difficult by the trend in its balance of payments, and of the need for the European countries to maintain and foster solidarity with the developing countries.

With these considerations in mind the Commission recommended a pragmatic approach to the European problem in order to break through the deadlock caused by the failure of the negotiations in OEEC. This pragmatic approach called for the immediate adoption of a set of practical measures which should encourage intra-European trade but which, by their inclusion in the GATT framework, should also have a liberalizing and non-discriminatory effect on world trade.

75. The policy outlined by the Commission in its two memoranda was approved by the Member States in November 1959.

Basing itself on this policy, the Community endeavoured, in the Dillon negotiations, to promote a general cut in tariffs on a basis of reciprocity, particularly in Europe, and proposed that machinery should be set up for consultation between the other European countries and itself which would make it possible to pinpoint and resolve any special difficulties.

#### *The contact procedure*

76. On this last point the Community proposed to set up a "Contact Committee" to study the flow of trade between the Community and other European countries, propose methods of ironing out any special difficulties and hold consultations with a view to broadening the scope of the proposed tariff negotiations in GATT during 1960 and 1961. The tasks that the Community intended to entrust to the Contact Committee were finally taken over by the Committee on Trade Problems—made up of the Member States of OEEC, the USA, Canada and the EEC Commission—set up after the intergovernmental conferences in December 1959 and January 1960, and more particularly by a study group drawn from that Committee.

This study group carried out two of the tasks that the Community had had in mind for the Contact Committee: to analyze intra-

European trade flows and to draw up a programme, if only in outline, for the tariff negotiations in GATT.

On the other hand, no special difficulties were referred to the group. However, this absence of complaints is not surprising if it is borne in mind that exports from non-member countries to the Community market have progressed very favourably in recent years.

*Developments in the British position and applications for membership*

77. In addition to the questions mentioned above, the Committee on Trade Problems was asked to study the problems involved in a long-term settlement of economic and commercial relations in Europe. In actual fact the most important developments in this matter took place outside this Committee from the autumn of 1960 onwards. Although a member of the European Free Trade Association since 20 November 1959, the British Government had apparently realized that some form of association with the Community was the only way the United Kingdom could play an effective part in creating an economically integrated Europe and share on an equal footing in any political union that might emerge.

In the autumn of 1960 British experts began discussions with experts from the Six on the possibilities and chances of success of a plan for British membership of the Community.

The Commission welcomed the change in the British attitude. Though it had denied that the existence of the Community, with its liberal policy, represented any threat to the interests of the other European countries, it had never questioned that there was a great deal to be gained by extending the Common Market in Europe. It regarded its "pragmatic" policy as one fitted to meet the needs of the hour and not an ideal long-term solution.

While the British experts and those of the Six continued their discussions, the Commission made it clear that the idea of membership and the advantages that went with it presupposed that the applicant State fully accepted the principles and content of the Treaty of Rome; the entry of a new member should not jeopardize the aims of the Community, and consequently the Treaty should not be

subjected to any changes other than those required by the actual expansion of the Community to take in a new member.

78. On 31 July 1961, Mr. Macmillan, the British Prime Minister, announced in the House of Commons that Her Majesty's Government intended to open negotiations with a view to signing the Treaty of Rome. In a letter dated 9 August to the President of the EEC Council, the Prime Minister informed the Community of the British Government's intentions; this letter states that "Her Majesty's Government have need to take account of the special Commonwealth relationship as well as of the essential interests of British agriculture and of the other Members of the European Free Trade Association". On 2 August the President of the EFTA Council of Ministers presented to the Community a statement in which all the Members of EFTA expressed their desire to achieve a single European market by way of membership of, or association with, the Community and reaffirmed their solidarity at a time when some of their number were about to open negotiations. In the summer of 1961 applications for membership of the Community were also submitted by the Government of the Republic of Ireland and by the Danish Government.

79. In accordance with the procedure laid down in Article 237 of the Treaty of Rome, the Council referred each of the applications to the Commission for its opinion. In its reply to the Council the Commission said that it would render its opinion only as the negotiations proceeded and in the light of their outcome.

#### *THE OPENING OF NEGOTIATIONS WITH GREAT BRITAIN AND DENMARK*

80. A ministerial meeting took place on 10 October 1961 between the Six and Great Britain, the Commission being represented, and this was followed on 26 October by a meeting of the ministers of the Six and Denmark. As the Community had requested, the British and Danish delegations put forward at these first meetings their views on the specific problems that would arise from accession to the Treaty of Rome and on means of cushioning their effects. The negotiations proper began on 9 and 10 November with Great Britain

and on 30 November with Denmark. At these meetings, which were again at ministerial level, the Six and the Commission made known their initial reactions to the British and Danish applications. The day after the second ministerial meeting between the Six and Great Britain, the senior officials entrusted with the next stage of negotiations started work on the basis of a programme prepared by the ministers. As for the negotiations with Denmark—and in particular their timing—agreement was reached with the Danish representatives that the Community's negotiations with the United Kingdom should have a certain priority, since any progress made in negotiations with the United Kingdom would greatly simplify those between the Community and Denmark.

The Commission feels it appropriate to express in this report the satisfaction felt by the Community's at the British Government's declaration, made in the first ministerial meeting, that the objectives set out in Articles 2 and 3 of the Treaty and the institutions provided for in Article 4 were accepted without reservation. The Commission also recognizes the importance of Great Britain's acceptance in principle of the common customs tariff. Finally, it has noted that the United Kingdom intends to join the European Atomic Energy Community and the European Coal and Steel Community when the current negotiations have been successfully concluded. The Commission has always contended that membership of all three Communities is the only way for a European State to play a full part in any one of them.

81. The attitude of the Six and the Commission in negotiating with Great Britain and other countries wishing to adhere to the Treaty of Rome will be determined by their determination to preserve the Community's integrity at all costs and in particular to maintain the balance established by the Treaty between the several elements of the economic union and between one Member State and another. The Community, aware that continued economic and political links between the Commonwealth countries are of value to the free world, will therefore try to work out with Great Britain solutions to the problems which will face certain Commonwealth countries if Great Britain enters the Community, so as to give these countries the time



and the opportunity to adapt their economies to the new situation. But the Community could never agree to schemes that might, by means of protocols or otherwise, introduce exceptions to the Treaty's rules which would be permanent or on so large a scale as to make the application of these rules an exception in itself. But thus setting the limits within which negotiations may proceed, the Community is making sure that its vital interests are respected.

#### *APPLICATIONS FOR ASSOCIATION*

82. Whereas Article 237 of the Treaty enables European countries to apply for membership of the Community, under Article 238 the Community may conclude "with a non-member country, a union of States or an international organization" agreements creating an association embodying reciprocal rights and obligations.

At the beginning of 1959 the Tunisian Government said that it would be interested to know what possibility there was of negotiating an association agreement under Article 238. Exploratory discussions were held in a cordial atmosphere at the beginning of June 1959, but there the matter rested.

83. Greece and Turkey also applied for association under Article 238 of the Treaty. The Greek application, which was the first to be made (8 June 1959), met with a favourable reception from the EEC Council in July 1959, as did that of Turkey some months later. Whereas the negotiations with Greece, in spite of difficulties due to the economic situation both in Greece and in certain Member States, issued in an agreement, the talks with Turkey were held up by various circumstances.

#### *ASSOCIATION OF GREECE WITH THE COMMUNITY*

84. The agreement associating Greece with the Community, which was signed in Athens on 9 July 1961 by plenipotentiaries of the EEC, the Member States and Greece, gives the Greek economy twenty-two years in which to adapt itself. At the end of this transition period Greece will be in full customs union with the Community. Moreover, the work done on structural adjustment (thanks

partly to financial assistance granted by the Community for an initial period of five years and partly to the concurrent harmonization of Greece's general economic policy with that of the Community) should enable Greece to make a smooth transition from associate status to full membership.

The association of Greece with the Community was no easy matter; the rather long interval between the original application in June 1959 and the conclusion of the agreement is explained by the wide differences in economic structure and the acute nature of certain problems such as agriculture. Furthermore the association of Greece, as it was the first time Article 238 came into play, raised a question of interpretation of that Article.

The extended transition period was to enable Greece to catch up with the Six without too much difficulty, and the general spirit of the agreement and its specific provisions will demand sustained effort from the Greek economy. As President Hallstein remarked in an address to the European Parliament, it is perhaps easier to bring 80 million people from a number of industrial nations into a free-trade system than to find a solution for a single nation with no answer to its problems other than its own toil. As the Greek economy is in some respects under-developed and the agreement associating it with the Community relates not only to tariffs and quotas but also to the other fields covered by the Treaty, it must be admitted that the undertaking is a bold one and that it bears witness to the confidence of the Six in the vitality of Europe.

Si this agreement is evidence that, contrary to certain criticisms that have been levelled at it, the Community is not a self-centred undertaking seeking only the profit of its members but a factor making for the prosperity of others.

#### *GENERAL PROBLEMS OF ASSOCIATION*

85. The balance achieved in the agreement with Greece cannot be transposed at will into agreements with other applicants, as it is designed to meet special needs and to allow for specific possibilities of development and for Greece to make-up leeway. It is conceivable

that another developing country, even if it had comparable political or economic features, might not be prepared to accept or might obviously be unable to fulfil the very firm obligations contained in the Greek agreement; in such a case the obligations undertaken by the Community would have to be altered correspondingly.

The flexibility of Article 238 as regards the content of an association agreement makes it possible in each case to suit the terms to the particular circumstances, provided a balance is maintained in reciprocal undertakings. It is in this spirit that the Community will approach the negotiations with Turkey, on the basis of proposals adapted to the economic potentialities of that country.

86. During the coming months the Community will have to clarify the policy it intends to follow with regard to association. The Community has already received applications from the three neutral members of EFTA. On 12 December 1961 the Austrian and Swedish Governments, and on 15 December the Swiss Government, addressed their requests for the opening of negotiations to the President of the Council. Although couched in different terms, all three applications envisage agreements on the basis of Article 238. In view of these applications and in anticipation of other similar requests, the European Parliament has recently held its first debate on general problems of association, which afforded the opportunity for a very useful exchange of views.

## II. THE COMMUNITY AND THE NON-MEMBER COUNTRIES

87. International recognition of the Community has been steadily extended and strengthened ever since the Treaty of Rome came into force. On 1 January 1962 the Community had diplomatic relations with twenty countries and ten others had begun the procedure for accrediting a Head of Mission <sup>(1)</sup>. In most cases the heads of missions are of ambassadorial rank.

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<sup>(1)</sup> These figures do not include the delegations of the countries listed in Annex IV to the Treaty.

This report is not the place for a detailed account of the Community's relations with all the non-member countries. As economic integration has developed and, especially, as the common trade policy has taken shape, contacts between the Community and the non-member countries have become closer and more frequent. Under the pressure of events, certain countries or groups of countries have asked for talks on specific points. Others have taken similar action within GATT. Thanks to the missions accredited to it and to delegations of leading political figures or representatives of national administrations, the Community has been able to establish close relations with many countries, and the opening of the tariff negotiations drew these relations even closer. Studies for the renewal of the Association Convention with the countries listed in Annex IV to the Treaty prompted non-member countries which export tropical products—in particular Brazil for coffee and cocoa, and some Central American countries for bananas—to open discussions with the Community. Finally, the working out of the common agricultural policy has naturally aroused the interest of countries which are leading agricultural producers. Argentina, Australia, New Zealand, the United States and Canada for instance, have requested that their interests be reconciled with those of the Community by a liberal policy ensuring the maintenance of their markets and enabling them to benefit from the internal expansion of the Six.

In the many international meetings at which it has been represented by an observer, particularly the sessions of the various regional Commissions of the United Nations, the Community has seized every opportunity to confront its views with those of non-member countries.

88. The desire to help strengthen the free world is also behind the determination which the Community has shown in exploring ways and means of rapidly liberalizing trade policies and at the same time consolidating the Community.

No time was lost in drawing up the common customs list and in opening negotiations on the List G products; the Community was then in a position to work out the common customs tariff more

speedily and to offer in the GATT negotiations proposed in 1958 by Mr. Dillon, then United States Under-Secretary of State, an across-the-board reduction of 20%, subject to reciprocity, in the duties on industrial products shown in the common customs tariff.

#### *THE COMMUNITY AND GATT*

89. By offering this reduction and negotiating on this basis the Community, to which legal objections had been raised in GATT even before the Treaty came into force (this legal discussion was subsequently dropped) has helped considerably to liberalize trade, both by the concrete results of the Conference which has been going on for nearly eighteen months in Geneva, and by the effects which the linear method employed has had and is having in certain non-member countries, more particularly the United States. If the United States Congress agrees to the President's request for wider tariff-negotiating powers from 1 July 1962 onwards, including the right to offer across-the-board reductions, the breach in tariff walls opened by the Community's offer will rapidly widen<sup>(1)</sup>. Before embarking on the multilateral negotiations proper at the Tariff Conference which opened in Geneva on 1 September 1960, the Commission went through a first phase of negotiations for the replacement, under Article XXIV (6) of GATT, of the former tariff concessions of the Member States by new concessions in the common tariff. On the conclusion of these negotiations the Commission reported to the Council, which confirmed on behalf of the Community the agreements signed with seventeen Contracting Parties. The Commission then fixed the implementing details of the tariff concessions granted to the member countries under these agreements.

The second phase of the Conference, consisting of multilateral negotiations for new tariff concessions on a reciprocal basis, opened on 29 May 1961. In view of its offer of a 20% across-the-board reduction in the common tariff, made in accordance with the Council's acceleration decision of 12 May 1960, the Commission invited

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<sup>(1)</sup> See Chapter III.

the countries taking part to put forward offers of substantial concessions which would make it possible to balance concessions on both sides.

An important stage in the tariff negotiations was completed by the agreement in principle reached in Brussels on 16 January 1962 between the United States and the Commission, negotiating on behalf of the Community. The agreement covers both re-negotiations under Article XXIV (6) and concessions to be exchanged in the multilateral negotiations.

90. As for the other activities of GATT, the Commission took an active part in the three special committees set up in 1958 under GATT's programme to expand international trade. In Committee I, dealing with tariff problems, the Commission helped to draw up the rules for the Tariff Conference. When this Committee had finished its work, the Commission—negotiating on behalf of the Community—was also represented on the Tariff Negotiations Committee, the GATT organ entrusted with all matters concerning the negotiations.

The part played by the Commission in the work of Committee II, which dealt with problems relating to trade in agricultural produce, was also important, having regard to the influence that it could have on the Community's future agricultural policy. The Commission considers that the discussions on national agricultural policies in this Committee will lay the foundation for a "code of good behaviour" in agriculture. Finally, the Commission displayed keen interest in the activities of Committee III, which was studying means of increasing the export earnings of developing countries. It was as a result of this Committee's work that the Commission stated that the Community would not insist on a strict balance of tariff concessions being maintained in its negotiations with developing countries.

Among the subsidiary organs of GATT in whose work the Commission participated, special mention may be made of the working party on the general incidence of the common customs tariff as compared with that of the former national tariffs of Member States. Although

differences in interpreting the relevant provisions of the General Agreement prevented the working party from reaching final conclusions on all points, it did confirm that the general incidence of the common tariff on Community imports from non-member countries was less than the general incidence of the autonomous or bound duties of Member States on 1 January 1957.

91. It should finally be noted that the Council has acceded to the Commission's request for a general authorization to negotiate with non-member countries which are Contracting Parties to the General Agreement whenever these countries wish to amend or withdraw tariff concessions which concern the Community. Tariff negotiations of this kind had hitherto been conducted by the Member States benefiting by the concessions to be re-negotiated.

In the first stage the outstanding event affecting the development of trade relations between the Community and non-member countries was the first 30% approximation of national tariffs to the common tariff introduced, for almost all industrial products, on 31 December 1960 instead of 31 December 1961, and the Commission's negotiations in GATT have until quite recently been the most discussed element of commercial policy at Community level; the Community has not, however, in any way neglected the important task, whose effects are in some cases more remote, of gradually adjusting national trade policies in such a way that by the end of the transition period the necessary conditions will exist for implementing the common trade policy.

#### *LIBERALIZATION MEASURES*

92. It is significant that the liberalization measures vis-à-vis non-member countries taken since 1959 and more particularly in 1960 and 1961 by the Member States, especially France, and which in a way were the natural corollary to the Community's effort in the tariff field, have had the important side effect of eliminating many divergencies between the national trade policies while strengthening the liberal character of the Community's courses of commercial policy. These measures have smoothed the path for applying Article 111 (5)

of the Treaty, which provides for bringing into alignment at the highest possible level the Member States' lists of liberalized products in trade with third countries. At the same time they have made it possible to eliminate in substantial measure the discrimination which existed against the dollar area. As regards industrial products, there are only 37 tariff headings in Germany and 9 in Italy for which differences remain. For agricultural products there are differences in only 3 headings in Germany, 1 in France and 9 in Italy. In addition, new liberalization measures have been introduced vis-à-vis other GATT countries and countries not belonging to GATT. This trend is in keeping with the spirit of the decision which the Council took on 12 May 1960 as part of the decision to speed up the implementation of the Treaty of Rome, which provided for the abolition of quantitative restrictions in the industrial sector of the Common Market by 31 December 1961 and the elimination as soon as possible of restrictions still existing in respect of all the GATT countries. In future more systematic means of bringing about uniformity of liberalization lists in the Member States will be sought through the consultation procedure agreed to by the Council on 25 July 1961 on a proposal from the Commission.

#### *THE COMMON COMMERCIAL POLICY*

93. The capital importance of co-ordinating the trade policies of the Member States, in particular with respect to low-wage or State-trading countries, rapidly became apparent. With a view to implementing Article 111 of the Treaty on the co-ordination of the trade relations of the Member States with non-member countries, the Commission as early as 1959 undertook a number of studies on the contractual obligations of the Member States.

On 20 July 1960 a first Council decision, made on a Commission recommendation, stipulated that in trade agreements with non-member countries Member States must arrange for the insertion of an EEC clause whereby any amendments to such agreements made necessary by obligations under the Treaty of Rome may be negotiated without delay.



On 25 July 1961 the Council took two decisions proposed by the Commission: the first concerned a procedure for consultation on the negotiation of agreements relating to trade between Member States and non-member countries and changes in liberalization arrangements vis-à-vis these countries, and the second concerned uniformity in the duration of trade agreements with non-member countries.

The first decision introduces a systematic procedure for reciprocal information on any negotiations for trade agreements undertaken by the Member States and for consultations on all the terms of such agreements; the second decision restricts the duration of trade agreements to the transition period under the Treaty and fixes at one year the maximum duration for agreements which include neither an EEC clause nor a clause providing that the agreement may be denounced any year. These two decisions provide solid foundations for an approximation of the trade policies of the Member States and a transition towards the common trade policy.

94. Independently of the Council's formal decisions, other steps are being taken towards this same end. Thus the Member States have become more and more accustomed to consulting among themselves and with the Commission and to having a single spokesman in international bodies on these matters, showing that it is their intention to propound a uniform Community policy.

One of the most striking examples was the attitude adopted by the Member States and the Commission at the international conference on trade in cotton textiles held in Geneva, at the instance of the United States Government and in the framework of GATT, from 17 to 21 July 1961. The parties to this conference decided to conclude a short-term agreement and to prepare a long-term agreement on opening the markets of certain industrialized countries to imports of low-price cotton goods, while avoiding any disruption of markets in the importing countries.

To sum up in a few words the Commission's course of action in keeping national trade policies under review, in making proposals for approximating those policies and in the decisions taken, it may be said that the aim of the Treaty—that the commercial policy of

the Community shall contribute to “the harmonious development of world trade, the progressive abolition of restrictions on international exchanges”—has been unremittingly pursued.

But the Community’s commercial policy must also pay due heed to the economic situation of the various non-member countries or groups of non-member countries. This means a differentiation of attitude towards industrialized countries and developing countries, countries in and outside GATT and in particular the State-trading countries, whose trade presents special problems because of its strict bilateralism and the fact that it is designed to serve the aims of national planning.

Finally, on a special plane, future trade co-operation with the developing countries poses specific problems which have engaged the attention of the Commission, particularly from the angle of finding possible ways of increasing the consumption of basic products in Community countries so as to stabilize the incomes of the developing countries and ensure a better division of labour throughout the world.

Under the Treaty the Community must apply a common commercial policy vis-à-vis non-member countries at the latest by the end of the transition period. The Commission has always considered that this common policy was indispensable for an effective merging of markets within the Community. The common commercial policy is also a corollary to this merging of markets. The extensive work already accomplished with a view to better co-ordination of the national policies is therefore only a stage towards the more far-reaching integration which will give the Community its definitive image in the eyes of the outside world.

95. The need for a common policy that will take account of special conditions in the various non-member countries or groups of non-member countries and of their relations with Member States has led the Community:

- i) To set up its own information system, with the assistance of Member States’ diplomatic posts outside the Community working in conjunction;

ii) Thanks to the information thus obtained, to form an idea of the relative importance of the problems raised by each or these non-member countries or groups of non-member countries (experts of the Member States and of the Commission will meet at regular intervals for this purpose);

iii) To make a systematic study of the 250 or so economic agreements between Member States to non-member countries.

Arrangements have been made for a regular exchange of information between the Community's institutions and the Governments in the six capitals so as to pursue this study in the light of the constant development of individual situations.

#### *PROTECTIVE MEASURES*

96. In the transition period the Treaty has provided for measures to alleviate any grave difficulties which might arise in a Member State, since the cumulative effect of internal tariff and quota disarmament measures, of freedom for products from non-member States to be moved from State to State when accompanied by free circulation certificates, and of any divergences between national trade policies which persist in other fields may well be to place certain States in situations where protective measures are called for. In such cases the Treaty has provided for recourse to co-operation among the Member States by methods recommended by the Commission; failing this, the Commission may authorize the Member State affected to take protective measures. In urgent cases the Treaty provides that the Member State may itself take protective measures, but may later be required by the Commission to amend or withdraw them.

In 1959 and early in 1960, certain Member States (Germany, France and Italy) made use of the emergency procedure and excluded from free circulation about 70 products, chiefly from low-wage or State-trading countries. The Commission recognized that the Governments had sound reasons for taking such measures, but urged the Member States in future to follow the normal procedure under Article 115, which provides for prior approval by the Commission, and not to take emergency action without showing good cause.

Although one other product (roasted coffee) was the subject of further protective action by France in 1961, new liberalization measures introduced since 1959 have reduced by about 20 the number of products from non-member countries still excluded from Community treatment.

### III. THE COMMUNITY AND THE DEVELOPING COUNTRIES

97. Under the Treaty the Community assumes a special responsibility for the development of the overseas States associated with it, and it has always considered action in this field as a part of the efforts undertaken by the industrialized countries of the free world for the benefit of the developing countries. As early as 1959 the Commission concluded that the problem of under-development could not be solved by occasional or haphazard action; what was needed was a systematic study of its three main aspects: instability of trade, scarcity of capital and lack of qualified personnel. The Commission suggested to the Council the part which the United States, Great Britain, the Community and its Member States should play in a co-ordinated policy to raise the level of the developing countries. Since then the Community has worked out, either alone or in co-operation with other bodies, various schemes to assist these countries. Some steps to be taken by the Community itself were decided upon by an ad hoc committee set up by the six Governments at the suggestion of the Commission in October 1959. These included the co-ordination of technical assistance and of financial assistance.

98. In this last field, the Council adopted in September 1960 a proposal of the Commission to set up a Group for the co-ordination of policy on credit insurance, guarantees and financial credits.

This Group was set up to consider various matters, concerning not only aid to developing countries but also the harmonization of competitive conditions in the capital-goods sector, which is of special interest to Member States. In the first place, the Group studies any practical measures of harmonization that may be envisaged, any adjustments that may have to be made in national systems to allow

of joint operations, and arrangements for consultation with a view to a common attitude being adopted by the Six. In addition, it suggests means of providing the developing countries with equipment and studies methods whereby the funds advanced to them may be spent in any of several countries. The Commission's studies have not as yet led to Community decisions in matters other than trade co-operation.

#### *TECHNICAL AND FINANCIAL ASSISTANCE*

99. On a proposal from the Commission, the Council has set up a permanent body, the Technical Assistance Group for the developing countries, to co-ordinate the technical assistance granted by the Member States and by the Commission to all the developing countries. The Group has approved the participation of the Community as a principal partner in an international campaign against rinderpest in the Lake Chad region of Africa, which is divided between three associated countries and one Commonwealth country.

A proposal is being studied for direct Community action in the form of a European Development Institute to be set up by the three European Communities and supported by a network of correspondents formed by existing institutes and training centres in Europe and other parts of the world. The task of such an institute would be to train supervisory personnel and carry out surveys.

Since 1960 the Commission has taken a very active part in the work of the Development Assistance Group set up at the inter-governmental conference held at Paris on 13 and 14 January 1960, and later in that of the Development Aid Committee which superseded the Group as part of OECD when the latter took the place of OEEC. The Development Assistance Group and the Committee which succeeded it were set up to meet two requirements: first, the co-ordination of methods of making funds available, coupled with regular consultation between the lending countries so as to pool their experience in this field; and secondly, the need to find ways of increasing the efficacy of the action undertaken, with due regard to the common aim of increasing the overall volume of financial and technical aid.

## *TRADE CO-OPERATION*

100. Trade co-operation is the third aspect of action for the benefit of the developing countries. As the leading world importer for a great number of raw materials and tropical products, the Community has an outstanding part to play in international efforts to remedy the imbalance which has been aggravated in recent years between the export outlets of the developing countries and their growing needs for imports, particularly of equipment goods.

The Community can help the associated African countries to stabilize their income from exports of a number of products, of which by far the most important is coffee. The Commission is making a thorough study of this question.

No doubt the part which the Community, as distinct from the individual Member States, is playing in the assistance given by the free world to the developing countries as a whole has so far been limited. This is due to the slender budget resources of the Community and to the fact that commercial policy will not become a truly Community matter until the end of the transition period.

On the other hand, it seems unnecessary at this point to explain the need for studies and co-ordination or to stress the importance of the results to which they will eventually lead.

## General conclusions

101. It is clear from the foregoing account that the place which the Community now occupies in the "concert" of economic groupings in the free world, while conferring upon it special responsibilities, requires it to shown ever greater cohesion and continually to strengthen its internal structure, not only by establishing the customs union, which is already well under way, but above all by building up an economic union through the application of common policies in the various fields laid down by the Treaty.

In fact, whether it is a matter of policy on trade with the outside world, the association of non-member States, the accession of other States, or co-operation with the developing countries, the external efficacy strength of the Community depends on its internal strength. The Community's voice in GAAT and in so many other international and European bodies and the impact which it is producing on the world, as witness the number of diplomatic missions established with it, make it imperative that the Community should develop its personality and that it should grow in vigour and in stature.

The Commission is optimistic about the European economic edifice which will result from the conclusion of the negotiations with Great Britain and the other countries which have applied for membership, from the success of the negotiations in GATT and from co-operation with the United States of America. It is convinced that the experience of these four years, the possibilities offered by the Treaty and the action to be taken in OECD and GATT will make it possible to find constructive solutions for the problems raised by economic and commercial relations in the Western world.

## LEGENDS

### *Council and Parliament*

*The Council of Ministers, the decision-making body of the Community, should normally meet once a month, but since 1960 the pace of the Community's work has necessitated much more frequent meetings of Foreign Ministers, Ministers of Agriculture and Ministers of Transport.*

*The European Parliament holds eight or nine plenary sessions every year. Past Presidents of the Parliament have been M. Robert Schuman from 19 March 1958 to 28 March 1960 (he was made Honorary President in May 1960) and M. Hans Furler from 28 March 1960 to 27 March 1962. M. Gaetano Martino has been President since 27 March 1962.*

### *Hospital at N'Dole (Gabon)*

*The European Development Fund's assistance to medical services has covered 23 hospitals, 39 operating theatres, 24 maternity clinics, 14 maternity and infant welfare centres, 5 social centres and 165 dispensaries. The total number of beds provided is 8 153. In addition, 5 training colleges for nurses and a blood-transfusion centre have been set up; mobile X-ray units are also in operation. So far the sum of 36 277 000 units of account has been voted for this work.*

### *Sinking a well at Dono Manga (Chad)*

*More than 2 500 wells or water points of this kind have been sunk; a total of 25 051 000 units of account has been spent on water supply for human and animal consumption, irrigation and drainage, and much has also been done for crop development, soil conservation, stock breeding and the construction of agricultural research institutes and centres.*

### *Building a school at Bangui*

*In the associated countries the European Development Fund has financed school building to a total of 396 elementary classes (9 701 000 units of account), 166 continuation classes (6 303 000 units of account) and 7 lycées, both day and boarding (7 501 000 units of account).*

*10 776 000 units of account have been spent on rural training centres, "seasonal" schools, commercial training departments, agricultural pilot schemes, etc. A total of 41 191 000 units of account has been devoted to schools and education.*



### *Road in Madagascar*

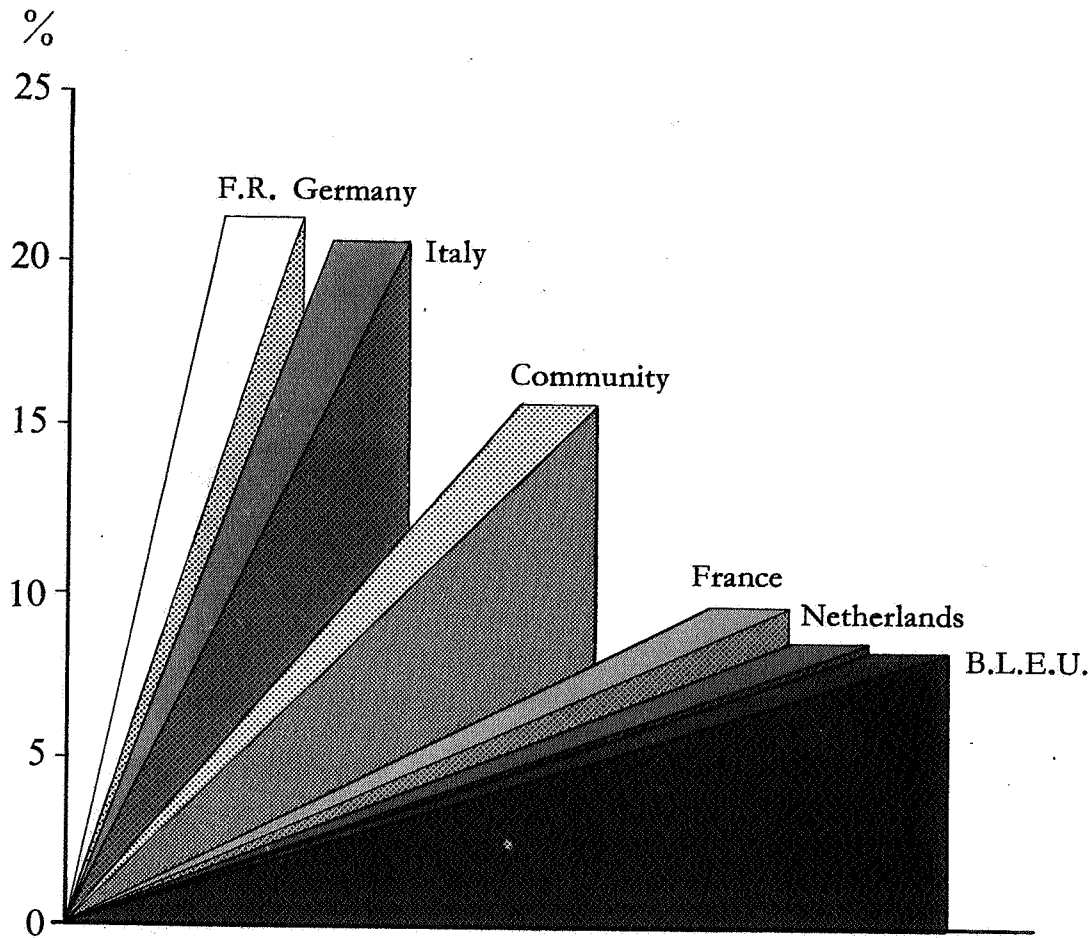
*The European Development Fund contributed nearly 3 000 000 units of account to the reconstruction of a road and a railway in Madagascar after the cyclone in 1959.*

*In all, 66 993 000 units of account has been spent on building roads, tracks and bridges in the different countries concerned. Railway infrastructure work includes 50 kilometres of track in Senegal and 347 in Cameroun, and 33 metal bridges have been built in the Ivory Coast. Rolling stock has been provided for the Ivory Coast, Togo and the Congo (Brazzaville).*

### *Signatures appended to the Treaty of Rome*

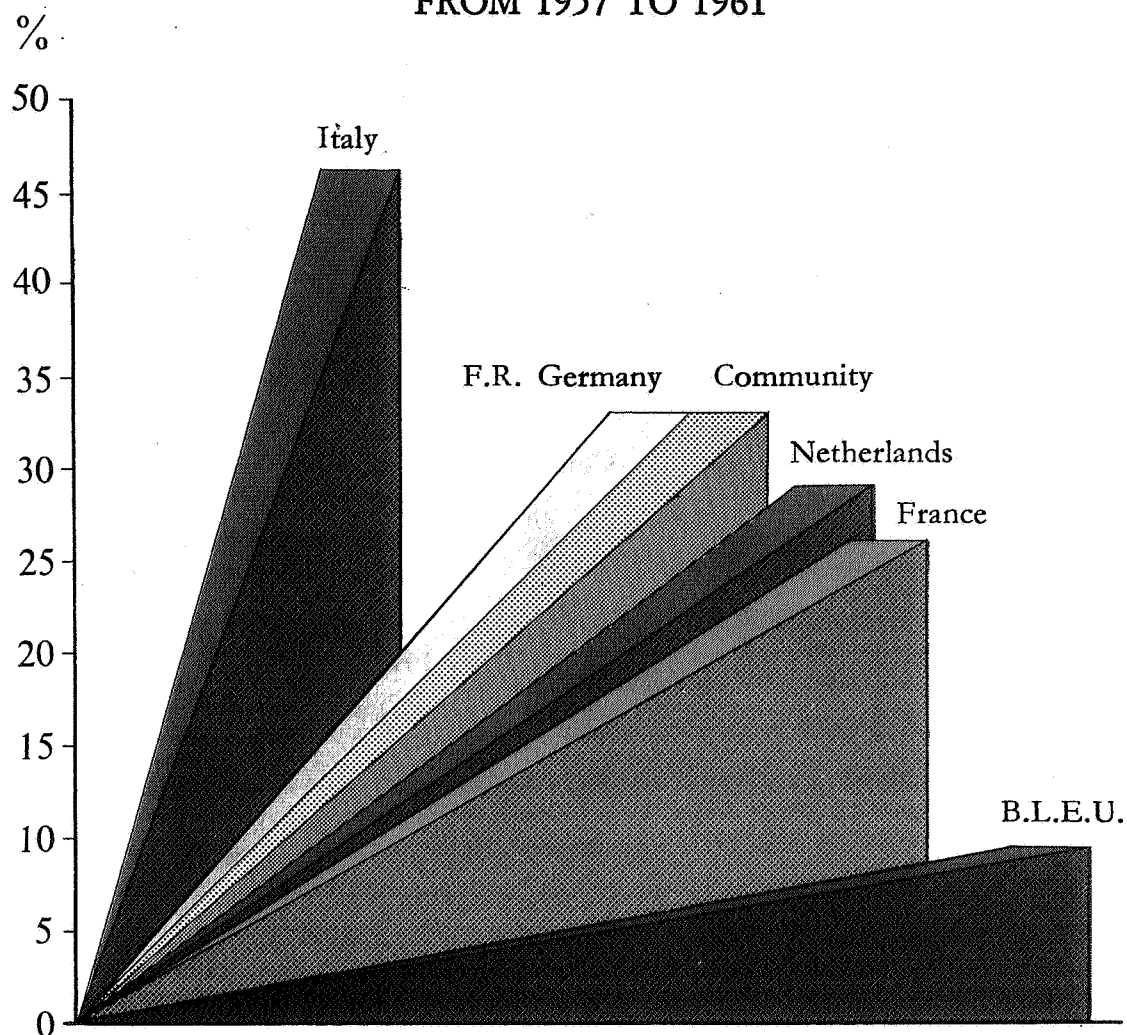
*From left to right and from top to bottom, one can read the signatures of MM. P.H. Spaak and J.Ch. Snoy et d'Oppuers (Belgium), Adenauer and Hallstein (Federal Republic of Germany), Pineau and M. Faure (France), Antonio Segni and Gaetano Martino (Italy), Bech and Lambert Schaus (Luxembourg), Luns and Linthorst Homan (Netherlands).*

## GROWTH OF PER CAPITA CONSUMPTION IN TERMS OF VOLUME FROM 1957 TO 1961



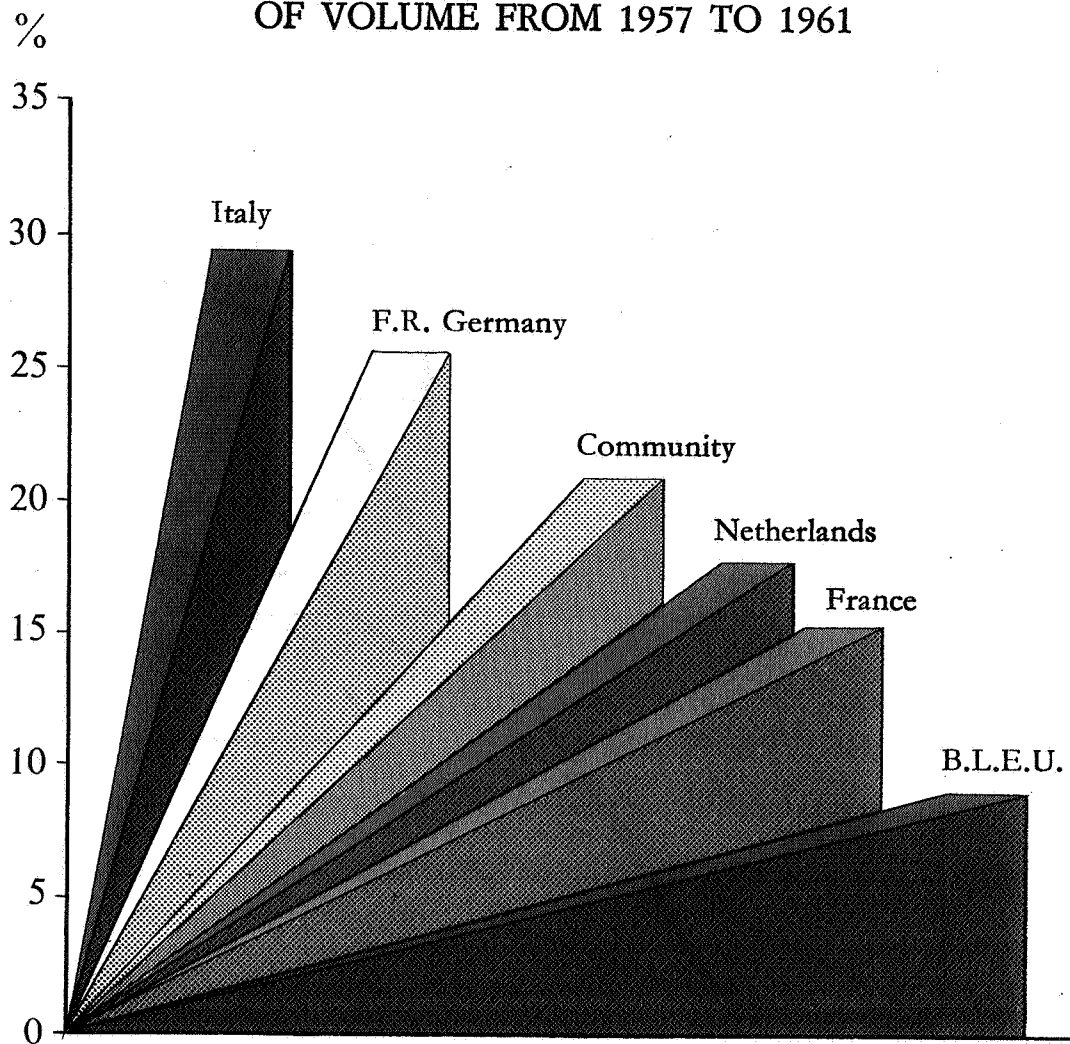
*Per capita consumption, which rose only moderately in 1958, increased rapidly in 1960 and 1961, mainly because of sharp wage increases. The divergences in growth from one country to another are largely due to structural causes and the different stage reached in long-term development.*

### GROWTH OF INDUSTRIAL PRODUCTION FROM 1957 TO 1961



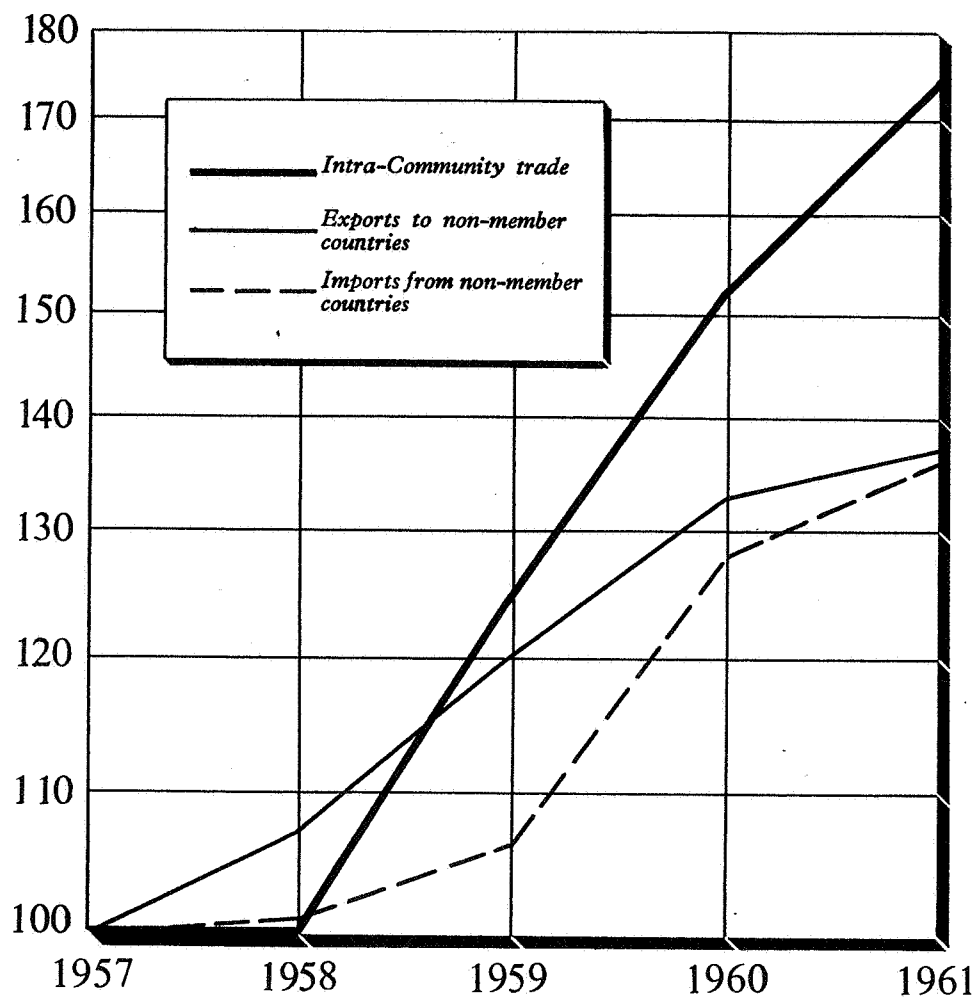
*Industrial production in all Member States experienced no great difficulty in keeping pace with the growth in overall demand up to the middle of 1960. Since then there have been serious labour shortages in West Germany and the Netherlands; in the other Member States the factors of production had little if any restrictive effect.*

### GROWTH OF GROSS NATIONAL PRODUCT IN TERMS OF VOLUME FROM 1957 TO 1961



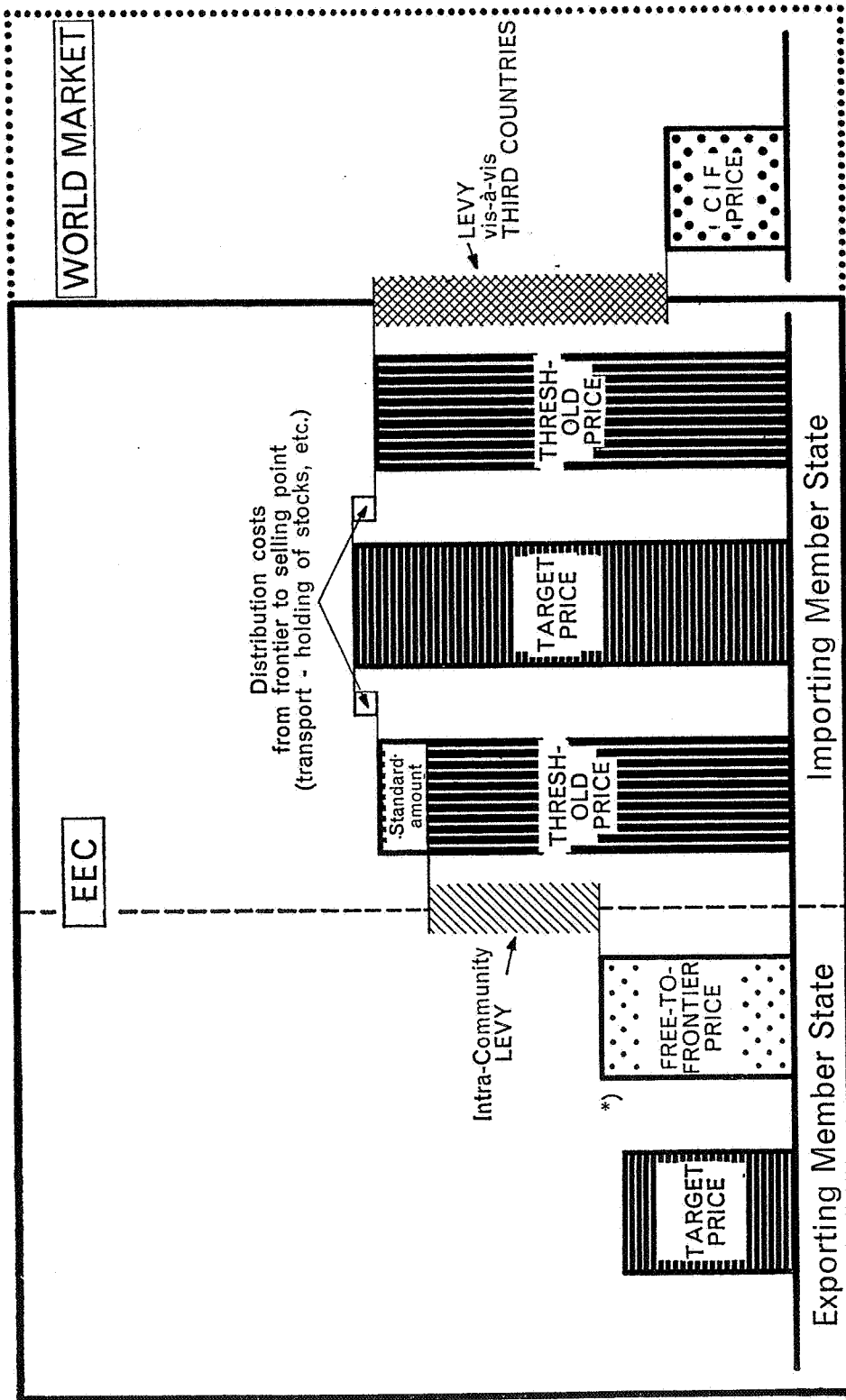
*Despite the slower rate of expansion in 1958 economic growth in all Member States has been appreciable. The Community's gross product in 1961 was about 21% by volume above the 1957 level, as against a rise of 12% during the same period in the United States and Great Britain.*

INTERNAL AND EXTERNAL TRADE OF THE COMMUNITY  
(Index by volume: 1957 = 100)



*In spite of short-term fluctuations due to the economic situation in the United States, external demand has been one of the most forceful factors of expansion. Community imports expanded greatly, particularly when economic activity picked up in 1959. Intra-Community trade went ahead even more rapidly, and the consequent increase in the flexibility of markets helped to restrain price increases.*

# CEREALS LEVY SYSTEM



\*) The free-to-frontier price may, according to the market price and distribution costs as far as the selling point, be above or below the target price of the exporting member country.