

SPEECH BY VICE-PRESIDENT MANSHOLT
BEFORE BRITAIN IN EUROPE AND EUROPE HOUSE
28 March, 1961

Ladies and Gentlemen,

May I begin by saying what a very great pleasure it is for me to have the opportunity of talking to the Members of Europe House. After having been in touch in Brussels with "Britain in Europe", I have been looking forward to meeting "Europe in Britain", so to speak. And I must add that I am very honoured to do so within the buildings of the House of Commons. Perhaps, indeed, there is something symbolic about this.

Near the French-German border, some of you may have noticed the sign which, on the eastern bank of the Rhine, warns you that "you are now leaving a European country", only to remind you on the French bank that "you are now entering another European country". Well, even if the Channel may still be somewhat larger to cross than the Rhine, the sensation of coming to just another European country remains. The idea that during a foggy day the Continent should be isolated seems to have been buried for ever. And this is not only due to the development of technical equipment like radar, but also to a change of mind and attitude.

This change of attitude is certainly taking place on both sides of the Channel. Today more especially I should like to explain to you how the entry into force of the Rome Treaty setting up the European Economic Community is beginning to change the face of Europe.

Wherever one looks, in all the countries of the Community, business is in a state of anticipation and preparation. Mergers, specialisation agreements, and other forms of collaboration are in full swing. People in the six countries are actively looking ahead, and industry is bracing itself for the common market that is to be.

Some of this new activity is of course due to other causes: but the effects of the Treaty of Rome are regarded almost everywhere as one of the main impulses behind present economic developments.

Indeed, while the breaking down of trade barriers is clearly of importance in this context, the psychological effect of knowing that they are to be broken down by the machinery of a Treaty which provides for the progressive unification of the economies and the economic policies of the Member States is perhaps even more decisive.

Remarkable changes have indeed taken place in the economy of Western Europe since the Treaty became a reality: currencies have been made convertible, the French economy - for many years the problem child of the Continent - has fundamentally recovered, and the employment situation as well as the balance of payments are on the whole perfectly sound in the Community.

Partly for this reason, the coming into force of the Treaty of Rome has virtually nowhere given rise to serious criticism within the Community. Generally speaking, it is an accepted fact that the Common Market is here to stay. And everyone, I think, welcomes the opportunities that it offers for the economic strengthening of the West as a whole.

But I do not need to remind you that the significance of the Rome Treaty is not purely economic. It is also a point of departure for the further political strengthening of the West. Indeed, the European Community itself rests upon a political basis. As the preamble to the Treaty of Rome says, it is "determined to establish the foundations of an ever closer union among the European peoples". To this end, the Treaty has established institutions whose purpose is to bring about a reasonable balance between national and Community interests. The way is left open for further political developments. Thus, the Community is not an economic device, or even a political device for achieving economic ends. It is also the instrument and the expression of a fundamental political idea.

The general welcome which the Community has so far received is naturally a source of great satisfaction to us. But it would be idle to pretend that the Community's policy in its foreign relations has been quite so widely applauded. There are those, indeed, who have voiced some fairly sharp criticisms.

./...

The first complaint that has been made against the Community is that it would operate in a discriminatory fashion.

I think we have to be quite frank about this, and say quite clearly that to accept the Common Market as a fact implies the conscious acceptance of discrimination. Full acceptance of the principles of the Community necessarily means acceptance of the shape in which it is moulded - that is, the customs union, or rather the economic union, based on the principle that the home market of the Community is gradually to be approximated to the conditions of a home market within any national state. In other words, if the customs union of the Six is accepted, its common tariff, its commercial and agricultural policies, must also be accepted. A customs union without a common external tariff is a contradiction in terms: an economic union which did not include agriculture would be a house divided against itself. I may add, without malice aforethought, that a free trade area, although it lacks a common tariff, is also a discriminatory arrangement.

What is important, therefore, is not the fact of discrimination, but the degree of discrimination. Criticism on this point is, of course, a different matter. Clearly, the degree of discrimination must not be unreasonably high: to use the Prime Minister's expression, it must be small enough for other countries to "wear it".

.../...

In my view, it would be unjust to criticise the Community on these grounds.

In fact, both for reasons of self-interest and for broader reasons, the Community's economic structure - highly industrialised but lacking raw materials - of necessity implies that the Community's policy with regard to foreign trade must be a liberal one. Protectionism, shutting oneself off from the rest of the world, seeking greater self-sufficiency, and discriminating in a high degree against non-member countries, would make no sense at all. Add to this that the Treaty of Rome pledges the member countries to an open-door policy, and to facing their world responsibilities.

For the time being, therefore, I think we may sum up by saying that the integration of the Six must of necessity entail a certain degree of discrimination, but that in view of the Community's economic structure this degree must be kept as low as possible.

For this reason, since the entry into force of the Treaty, the Community has constantly stressed its willingness to follow a liberal policy vis-à-vis the rest of the world. This, I may add, is not the mere lip service that it might seem. On the contrary, it is the necessary expression of vital interests.

.../...

Among other things, it means that the Community's common external tariff should not be locked at in isolation as a kind of static fact, but should be seen as a negotiating tariff, a point of departure for tariff reductions, and a lever for achieving greater liberalism in world trade policies. Moreover, it means that the Community will try, wherever possible, to conclude treaties of accession or association with non-member countries. So far, it is true, we have not been able to reach any final settlement of the question of association with our other European partners. This does not mean, however, that nothing has been done. In fact, the Community has, until now, followed the so-called "pragmatic" method in dealing with this problem in order to reduce to the smallest possible proportions the degree of discrimination which is inherent in any attempt at economic union. As you know, on proposal by the Commission, the Community's Council of Ministers has taken a number of practical steps which aim at enabling others to share, wherever possible, in the mutual advantages which the Community's Member States have granted to each other.

Thus, for instance, the first internal tariff reductions were extended, *erga omnes*, to non-member countries in cases where the national tariff being reduced was higher than the common external tariff. The same was done for the majority of industrial quotas. Then, later, at the time of the decision to speed up the application of the Rome Treaty, it was decided that the first moves towards the common external tariff should be made on a basis of that tariff reduced by 20 per cent. At this time, true, it began to be clear that industrial quotas, which under the acceleration timetable will be abolished within the Community by the end of this year, may also be abolished very rapidly *vis-à-vis* other countries. Finally, I think it is worth pointing out that on the Commission's proposal the Council of Ministers of the Community put forward the suggestion of a European Contact Committee in which we and our European partners might seek practical solutions to any real difficulties which might emerge in certain sectors of the economy.

The discussions between the Six and the Seven, in fact, have so far taken place in the twenty-one-member Committee on Trade Problems, presided over by the Dutch Minister Mr. Joseph LUNS, or in the special Study Group set up by this Committee. But, despite the hard work which has gone into their discussions, we cannot yet say that a satisfactory solution has been reached. The problem is still with us.

I think that the basic reason for this is that hitherto we have proceeded on both sides from points of view which are too divergent to be brought easily under one common denominator. It was rather like trying to square the circle, or rather, trying to draw a square which would be a circle at the same time.

Let me give one example to show you what I mean. The recent discussions at expert level between delegations of the British Government and Members of the Six have produced the following five basic conditions for any solution. First, it must not lead to a weakening of the Common Market. Secondly, it must not impair to any major extent the relations between Great

.../...

Britain and the Commonwealth. Thirdly, it must be compatible with GATT. Fourthly, it must take into account the interests of non-member countries, and especially of the United States. Fifthly, it must have regard for the interests of the other members of the Seven.

However much sympathy one may have for these various aspirations, they are clearly not easily reconcilable; and to state them as generalities in this way will not get us very much further. For this reason, it is not surprising that the results obtained so far in the expert discussions have been somewhat meagre.

It would be equally unhelpful, in my view, to seek closer links with the Community while at the same time repudiating its essential elements, which include, as I have said, a common tariff, a common trade policy, and a common agricultural policy. If one really seeks close integration, therefore, these essentials must be respected. The Community can hardly deny its own character. On these three points, it can hardly be expected to make major concessions. And a solution which begins by making conditions which would require the Community to repudiate its own nature is not a solution at all.

For these reasons, it is important, I think, to give due weight to the statement made by Mr. Heath on February 27th this year. As you will remember, the Lord Privy Seal said on that occasion that the United Kingdom would be prepared to consider a system based on a common or harmonised tariff limited to raw materials and equipment goods, and leaving trade with the Commonwealth and the EFTA countries untouched. He also envisaged a discussion on the reduction of Commonwealth preferences, and declared that the institutional question remained open.

Personally, I do not think that Mr. Heath's statement should be considered too strictly on the merits of its actual economic proposals. These, in my view, are its least important aspect: it excludes all Commonwealth and EFTA trade, and with it, all trade in agricultural products; moreover, its suggestions are not new.

Nevertheless, I would not wish to pour cold water on Mr. Heath's statement, for it undoubtedly is a valuable contribution, and its value is primarily political. It shows, I think, a changing attitude on the part of the British Government with regard to the forging of closer links with the Community. No longer is the idea of a common external tariff regarded as unacceptable. On the contrary, this idea, which is essential to the achievement of a final solution, is now being given support as a part of what is now seen as conceivable, even though this support is being hedged about with conditions. The same applies to the question of Commonwealth preferences as such. In my view, it marks an important step in the right direction.

Another subject which is of vital importance in this debate is that of agricultural policy. But on this issue, too, it is important to avoid proposals which would necessarily involve jettisoning the principles underlying the agricultural policy of either the United Kingdom or the Community. One must not, in other words, substitute expediency for policy.

Paradoxical as it may seem, the problem of agriculture in the Community is not so very different from that of agriculture in the EFTA. In both, there is one country with large agricultural exports - Holland in the Community, and Denmark in the Seven. Both groups, too, have one member which is principally a food importer - in the Community, Germany, in the EFTA, the United Kingdom. And if, within the Community, we manage to find a solution for these divergent interests, this may help us towards finding the right approach elsewhere, and particularly some means of reconciling the British agricultural system with the common agricultural policy of the Community.

At the present time, all the national farm policies now operative on the Continent are, to a greater or lesser degree, protectionist. None of them has managed to solve such problems as assuring to the farmers an income comparable with that in other sectors of the economy, or achieving a fair balance between production and consumption. It is obvious, then, that we must change our system. As you know, we intend to do this by adopting

the system of variable levies. At the same time, we shall have to get rid of a long list of present-day protective devices, such as state-controlled trading and mixing regulations. There is no reason, therefore, for thinking that the proposed system of variable levies is inherently more protectionist than present systems. The system as such is neutral.

It may be, of course, that the variability of the levies, rather than the levies themselves, is what worries our trading partners. If this is so, I might point out that there is always the possibility of guarantees as regards the limits within which the levies may vary. In fact, one of the member countries of the EFTA - Sweden - has practised this system already, using such guarantees, and so far as I am aware this has never caused any undue difficulty or criticism within GATT.

Clearly, the decisive factor in determining the measure of protection which our agriculture will enjoy is not the levy system but the future level of prices. And this is a crucial problem not only for our trading partners, but also for ourselves. I know what you are wanting to ask me: that is, "how high will your price level be?" I am not going to answer this question, not because I don't want to, but because I would like to know the answer myself. Here, once more, we are forced to practise the so-called "pragmatic" approach.

We cannot, that is, base our prices on the production costs of sub-marginal farms in the country with the highest price level. For this reason - and also because we need to raise farm incomes - it is vital for us to improve the structure of agriculture. For this purpose a special fund is to be set up: with its aid, we hope to increase the productivity of our agriculture. But because we have decided that there shall be a common price level, the lowest prices on the Continent will in their turn have to be somewhat raised. How far we can safely go in this direction without provoking over-production, only experience will teach.

In parenthesis, I may perhaps add that the British system of deficiency payments would be very ill-fitted for use on the Continent - not because of any inherent weakness in it, but because something like 20 per cent of our active population is employed in agriculture, as against I think 5 per cent in Great Britain. If we were to subsidise our agriculture in the British way, we should place an intolerable burden on the national budget.

At this point, I should like to say something about the problem of agriculture in the context of a possible agreement between Great Britain and the Community. Up till now, agriculture has always seemed to have been a stumbling block, and it has sometimes been said that agriculture should be excluded. Let me say at once that this is not my opinion.

In my view we cannot speak of membership or association in which agriculture does not form an integral part of an agreement. Of course, we shall have to follow a different procedure for agriculture, and it is quite clear that the general rules that govern industrial goods within an agreement for membership or association cannot be applied to agriculture. In the Rome Treaty, agriculture is dealt with in a separate section; we shall have to do the same in the future in a treaty, should Britain associate with, or join, the Six.

There are many reasons for this. First of all, the great problem of agriculture is that the marketing of agricultural products is controlled by policies of a very specialised character, not only in the Six at this moment with their six national policies, but also in the future common policy of the Six, and in the United Kingdom too. It is for that reason that a reduction of tariffs and increase of quotas would not bring us very close to integrated markets; only by a harmonisation of agricultural policies can we reach our objective.

.../...

As I have already said, there is a great difference between British agriculture policy and - may I say - agriculture policy in the Community. We, for our part, are looking for the optimum price - that is to say, a price level that will give the largest income to farmers. In doing so, we have to take account of a balance between production and consumption, because we want to avoid surpluses. It is for that reason that the optimum price level will have its limits. Very much simplified, we can say that the British system is a low price level with direct Governmental subsidies. It is quite clear that both systems will have an influence on the cost of living, and it is for that reason that integration in the industrial field will force us to harmonise these systems, because a customs union for industrial goods - that is, a Common Market for these goods - can only exist when there are no elements which could distort competition.

Will it be possible to harmonise our agriculture policies? In my opinion, yes. In any case, we shall have to do it. It is my personal opinion that we should not fail to tackle this problem right at the beginning, while the integration of the industrial sector is being discussed. If we were to leave it, then we should soon find that it was too late, because the political momentum would soon be lost, and we should find ourselves as a consequence with two quite different agricultural systems. Of course it will take more time to harmonise our policies in this sector than with industrial goods. In my opinion the best way would be that we in the Community should carry on with our own agricultural policy, but at the same time consult regularly with Britain. We should also lay down a time-table for the harmonisation of our two systems.

.../...

In achieving harmonisation, the various price levels are the greatest problem. The price level for agricultural goods in the United Kingdom would have to rise, and of course we in the Common Market would have to be very careful with our price levels. In the meantime, subsidies and deficiency payments in the United Kingdom would have to be reduced, and it is obvious that we should have to examine with care the possibility of deficiency payments or subsidies for marginal farming in our Community. In this way, it would be possible - in my opinion - to harmonise our price levels.

Studies should also be undertaken to examine whether the temporary system of levies that we are to use during the transition period in our Community - because of the existing differences in price levels - could also be used between the United Kingdom and the Six; that is to say, levies that replace quotas or other restrictive measures. When I say that this process will take more time, then of course we have to make sure that, during the transition period, we can - by means of long-term contracts - maintain a balance of trade in industrial and agricultural products between the Community and Great Britain.

I say all this to show that I do not regard agriculture, difficult though it is, as an insuperable barrier. It might be, however, if the parties concerned were to take up rigid positions and, in particular, to exclude from the start certain possibilities. I need not remind you that the door of the Rome Treaty is an open door, although its handle needs to be firmly grasped. Nor need I add that there is little point, when we consider these problems, in talking generalities: It is essential to talk in concrete details, about products rather than about general principles.

.../...

All this, of course, requires both good will and imagination; and the same is true of the difficult question of preferences and the relationship both of Great Britain with the Commonwealth and of the Community with the associated overseas countries. I am glad to see that no final word has yet been said on this problem, as has been proved by recent developments in the thinking, both official and unofficial, which has been going on in this country. Here, once again, I should like to recall the important statement made by the Lord Privy Seal.

To this I would add that, in my personal opinion, if the United Kingdom were to consider adopting a common trade policy with the Six, this should certainly mean some form of compensation on the Continent for losses sustained by Commonwealth countries in the British market.

The problem of the new countries in Africa is of course of a somewhat different order. The original constitutional ties which bound the former French colonies to the so-called mother country have been replaced, as you know, by a voluntary link. Meanwhile, their economic relations with France had been multilateralised in the form of a voluntary association with the European Economic Community. It is quite clear what the new countries in Africa expect of this association: that is, in the first place, guaranteed markets. Given their circumstances, it is impossible to reproach them for this point of view. After all, out of some fifty African countries and territories, only three do not enjoy some form of preference in one or other European market, either through the Commonwealth, or through our own association, or bilaterally.

.../...

Nevertheless, this state of affairs, we know, preoccupies some Africans, particularly those who have in mind some form of economic integration on their own continent. They see no reason why such possibilities should be hindered or delayed by purely European problems. In my view, we cannot but sympathise with these preoccupations; and if we are to do something about them, it must be done not only on two fronts in Europe, but also in full consultation with the African countries concerned.

It may be worth pointing out here that the association with the European Community of the overseas countries and territories is in itself a flexible institution, planned as it was in the form of a free trade area before most of the African countries themselves became independent. The practical details of the association were in fact established by the Implementing Convention for an initial period of five years, which will end at the end of 1962. Already, two conferences have been planned, one on the parliamentary level, and the other on an executive level between the governments, to study the future development of the association. In my view, our endeavours should not stop here; it is not only in trade preferences or financial aid that we can help the developing countries. One other means, for example, might be the establishment of buffer funds to stabilise price of primary products: I am sure that you can think of others. It is our hope that in all these respects both Great Britain and the Community will be able to compare and harmonise their efforts - not only as regards Africa, but also as regards the other parts of the developing world. The vehicle for such co-operation is the new organisation of the OECD. Perhaps the fact that the Development Assistance Group is meeting this week in London may be a good augury for the future.

.../...

I am afraid that I have ranged rather widely and superficially in these few remarks. I am looking forward to hearing from you and to discussing with you our joint preoccupations. But before I step down, I should like to express one more wish. You will have noticed that the Community's approach in most matters now is the so-called "pragmatic" approach. In a sense, this is something new. The early days of European integration, as you will remember, were marked by the conflict of doctrine. We had functionalists and constitutionalists: we had the supporters of sector integration and those who favoured global integration: we had supranationalists and super-nationalists: to-day, we have federalists and confederalists. But I doubt whether the historians of the future will find much meaning in these terms: for, in reality, there are finally only two tendencies - the maximalist and the minimalist, those who want to go farther and faster, and those who want to move a little distance in a long time. I would put myself in the former category. I am afraid that, in the past, at least, your country often seemed to belong to the latter.

Now, something strange has happened. It is not that our roles are reversed. It is rather that we have become less doctrinaire and more pragmatic, while you have looked to us in vain for doctrinaire ideas. Can it be that the greatest exponents of pragmatism have forsaken their ancient habits? Can it be that we, for our side, have outgrown our pragmatic teachers? I sincerely hope not. For I am convinced that only by the combination of pragmatic methods and maximalist drive can we reach the goal that lies ahead: the integration of Europe.
