

EUROPEAN ECONOMIC COMMUNITY
COMMISSION

Ninth

GENERAL REPORT

on the

Activities of the Community

(1 April 1965 — 31 March 1966)

JUNE 1966

The President
and the Members of the Commission
of the European Economic Community
to the
President of the European Parliament

Mr President,

We have the honour to submit the Ninth General Report on the Activities of the Community, which the Commission is required to publish in pursuance of Article 156 of the Treaty establishing the European Economic Community.

In accordance with Article 122 of the Treaty the Commission also prepares a Report on the Social Situation in the Community, to be included in the General Report. This document will be submitted to you in the near future.

Please accept, Mr President, the expression of our high consideration.

Brussels, 1 June 1966.

Walter HALLSTEIN
President

Sicco L. MANSHOLT
Vice-President

Robert MARJOLIN
Vice-President

Lionello LEVI SANDRI
Vice-President

Jean REY
Hans VON DER GROEBEN
Lambert SCHAUS
Henri ROCHEREAU
Guido COLONNA DI PALIANO

CONTENTS

	Page
Introduction	13
Chapter I — The general situation of the Community (July 1965 to February 1966)	21
Chapter II — Establishment of the common market	39
<i>Free movement of goods</i>	39
Tariff disarmament: further reduction of intra-Community duties, p. 39 — Elimination of charges with equivalent effect to customs duties, p. 41 — Common customs tariff, p. 41 — Modifications and suspension or temporary reduction, p. 43 — Application of the common customs tariff, p. 45 — Tariff quotas, p. 45 — Customs value, p. 47 — Customs legislation, p. 48 — Removal of quantitative restrictions and of measures with equivalent effect, p. 50 — Government monopolies, p. 50 — Miscellaneous waivers (Arts. 235, 226), p. 52.	
<i>Freedom of establishment and freedom to supply services</i>	53
General, p. 53 — Council directives, p. 55 — Reference to European Parliament and Economic and Social Committee, p. 55 — New proposals submitted by the Commission to the Council, p. 56 — Co-ordination of company law, p. 57 — Effect given to freedom of establishment, p. 57.	
<i>Common competition policy</i>	59
General, p. 59 — Restrictive agreements and dominant positions, p. 61 — Industrial combination and international competition, p. 79 — State aids, p. 83 — General aids schemes, p. 84 — Aids for exports to other Member States, p. 84 — Aids to specific industries, p. 85 — Approxim- ation of national legislation and the creation of European law, p. 89 — General, p. 89 — Public law, p. 99 — Private law and law governing legal procedures, p. 102 — Economic law: Specific cases of provisions distorting competition (Arts. 101 and 102), p. 104 — Approximation of tax provisions, p. 106 — Taxation policy, p. 106 — Indirect taxes, p. 107 — Direct taxes, p. 111.	
<i>Interpenetration of markets</i>	112
Development of intra-Community trade in 1965, p. 112. The Common Market and the consumer, p. 119.	

	Page
Chapter III — Towards a common policy	129
<i>Economic and financial policy</i>	129
Short-term economic policy: the economic situation in the Community, p. 129 — Short-term economic policy of the Community in 1965, p. 132 — Improving instruments of policy, p. 136.	
Co-ordination of monetary and financial policies, p. 139 — The Community's balance of payments, p. 141 — Free movement of capital within the Community, p. 143 — The European Investment Bank, p. 145.	
Medium-term economic policy, p. 146 — Development prospects 1965-70, p. 146 — Preparation of the first programme, p. 147 — Preparatory work on future programmes, p. 149 — Co-operation with the European Parliament and the Economic and Social Committee, p. 150.	
Regional policy: a general conception of regional policy, p. 150 — Co-ordinated application of the instruments of regional policy: study of the promotion of an industrial development pole in southern Italy, p. 152 — Co-operation in the frontier areas of France, Belgium and Luxembourg, p. 153.	
<i>Industrial structure policy</i> , p. 154.	
Energy policy: development of the fuel and power market, p. 156 — Measures by the Member States, p. 157 — Action by the Commission, p. 158 — Application of the Protocol of Agreement relating to energy problems of 21 April 1964, p. 159.	
<i>Common agricultural policy</i>	161
Foreword, p. 161 — Common organization of agricultural markets: market trends, p. 162 — Price trends, p. 170 — Functioning of the common organization of markets, p. 172 — cereals and rice, p. 172 — pigmeat, p. 173 — beef and veal, p. 174 — eggs and poultry, p. 175 — milk and milk products, p. 176 — fruit and vegetables, p. 176 — vine products, p. 179 — ethyl alcohol and spirits, p. 180.	
Agricultural price policy: the Commission's proposals concerning a common price level for milk, milk products, beef and veal, sugar, rice, oilseeds and olive oil from 1967/68, p. 180 — Progressive alignment of agricultural prices for the 1965/66 marketing year, p. 188.	
<i>Proposals for the establishment of new market organizations</i> : sugar, p. 190 — oils and fats, p. 191 — non-edible horticultural products, p. 191.	
<i>Financing of the common agricultural policy</i> : financial arrangements, the Commission's memorandum of 22 July 1965 and subsequent work, p. 193	

— The European Agricultural Guidance and Guarantee Fund (EAGGF), p. 195 — Other aspects of the common agricultural policy: establishment of competitive conditions, p. 198 — Harmonization and approximation of legislation: foodstuffs, (colouring matters, preserving agents, antioxidants), p. 200 — Veterinary legislation, p. 202 — Legislation on animal feedingstuffs, p. 203 — Plant health legislation, p. 203 — Forestry legislation, p. 204 — Fisheries, p. 205 — Application of minimum prices, p. 205 — Improvement of agricultural structures, p. 206 — Social aspects of the common agricultural policy, p. 207 — Co-ordination of agricultural research, p. 209 — Co-operation with farmers' and farmworkers' organizations, p. 209 — Sources of information required for the common agricultural policy, p. 211.

Common transport policy

212

Organization of the transport market, p. 212 — Access to the market, p. 213 — Transport rates and conditions, p. 213 — Discrimination and support tariffs, p. 215 — Harmonization of terms of competition, p. 217 — Social policy in transport, p. 218 — Application of the rules of competition to transport, p. 218 — Aids to transport enterprises, p. 219 — Prior examination of Member States' proposed laws and regulations, p. 220 — Infrastructure investment in transport, p. 221 — Survey on infrastructure costs, p. 223 — The Consultative Committee on Transport, p. 224.

Social policy

225

Employment and vocational training: employment policy, p. 225 — Common vocational training policy, p. 226 — European Social Fund, p. 228 — Free movement of workers, p. 232 — Social security for migrant workers, p. 234 — Working conditions and wages, p. 236 — Equal pay for men and women (Article 119), p. 237 — Social security, p. 237 — Industrial health and safety, p. 238 — Social services, p. 242 — Housing policy and family questions, p. 242.

Towards a Community policy on education and research

243

Training: mutual recognition of diplomas, p. 244 — Co-operation with the universities, p. 245 — Programme of youth information and adult education, p. 246 — Scientific and technical research, p. 247.

Chapter IV — The Associated African States and the Associated Overseas Countries and Territories

250

Institution of the Association: the Association Council, p. 250 — The Parliamentary Conference of the Association, p. 250.

Development of trade: definition of the concept "goods originating in...", p. 251 — Removal of quotas and customs barriers, p. 252 — Volume of trade, p. 252 — Aids to production, p. 253 — Stabilization of prices, p. 255 — Accommodating the interest of the associated States as regards agricultural products similar to and competing with European products, p. 255 — The Associated Overseas Countries and Territories, p. 256 — The Association and GATT, p. 257.

Co-operation in vocational training: Scholarships, p. 257 — Traineeships, p. 259.

European Development Fund: the first Fund, p. 259 — The second Fund, p. 260 — Commitments shown according to beneficiary country (tables, pp. 261 and 262) — Execution of work financed by the EDF, p. 266.

Research on the associated States: General documentation, p. 267 — Special problems of investments, p. 268 — Stepping up trade by sales promotion for certain products, p. 268.

Chapter V — Association of European countries with the Community 270

Greece 270

Turkey 273

Chapter VI — External relations 276

The Kennedy round of trade negotiations in GATT: Disparities, p. 276 — The industrial sector, p. 277 — The agricultural sector, p. 278 — Non-tariff barriers, p. 280.

Common commercial policy: General principles and manner of implementation, p. 280 — Liberalization, p. 280 — Quotas, p. 281 — Measures in defence of trade, p. 282 — Co-ordination of policy on credit insurance, p. 284 — Bilateral trade agreements, p. 285.

Common commercial policy vis-à-vis certain countries or groups of countries: Trade agreement with Israel, p. 285 — Relations with state-trading countries, p. 286 — with Yugoslavia, p. 286 — Exploratory talks with Spain, p. 286.

Negotiations with Austria: Industrial sector, p. 286 — Agricultural sector, p. 287 — Harmonization of economic policies, p. 287.

The Community and the world: European countries, p. 288 — United Kingdom, p. 288 — Denmark, p. 289 — European organizations (EFTA, Council of Europe, WEU), pp. 290-291.

The Community and the developing countries: The trend of trade, p. 291 UN Conference on Trade and Development, p. 292 — Co-ordination of development aid and technical assistance, p. 293 — GATT activities in the trade and development field, p. 294 — The OECD and development work, p. 295 — Commodities and international commodity agreements, p. 296 — Agreement with Lebanon, p. 297 — Negotiations with the Maghreb countries, p. 298 — Negotiations with Nigeria, p. 298 — Negotiations with the East African States: Kenya, Uganda and Tanzania, p. 299 — Asian countries, p. 299 — Latin American countries, p. 300 —

Relations with international organizations: The Community and OECD, p. 300 — Relations with GATT, p. 302 — Relations with the United Nations, p. 303.

The Community's diplomatic relations, p. 304.

Chapter VII — Activities of the Institutions

305

The European Parliament

305

General, p. 305 — Sessions of 22-26 March 1965, p. 306; 10-14 May 1965, p. 306; 14-18 June 1965, p. 308; 24 September 1965, p. 309; twelfth joint meeting of the European Parliament and the Consultative Assembly of the Council of Europe (24 and 25 September 1965), p. 310; sessions of 18-22 October 1965, p. 311; 23-26 November 1965, p. 313; 18-21 January 1966, p. 314; joint meeting of the Institutions (20 January 1966), p. 314; session of 7-11 March 1966, p. 315.

The Council

317

General, p. 317 — 165th and 166th sessions, p. 318; 167th session, p. 319; 168th session, p. 319; 169th and 170th sessions, p. 320; 171st and 172nd sessions, p. 321; 173rd, 174th and 175th sessions, p. 321-322; 176th session, p. 323; special meeting of the Council (17-18 January and 28-29 January 1966), p. 323; 177th and 178th sessions, p. 323; 179th, 180th and 181st sessions, p. 324.

The merger of the Executives (ratification by national Parliaments)

324

The Court of Justice

325

New cases, p. 325 — Cases decided, p. 328 — Cases brought by Commission staff, p. 333.

	Page
<i>Economic and Social Committee</i>	333
General, p. 333— 45th and 46th sessions, p. 334; 47th session, p. 335; 48th session, p. 335; 49th session, p. 336; 50th and 51st sessions, p. 337; 52nd session, p. 338.	
<i>Other Community Institutions</i>	338
Monetary Committee, p. 338 — Short-term Economic Policy Committee, p. 338 — Budget Policy Committee, p. 339 — Medium-term Economic Policy Committee, p. 339 — Audit Board, p. 340 — Consultative Committee on Transport, p. 340.	
<i>Co-operation between the Executives and the Joint Services</i>	340
Co-operation in matters of common interest, p. 340 — Statistical Office of the Communities, p. 342.	
<i>Community law: Joint Legal Service, p. 345 — The Community legal system, p. 349 — The machinery of the Community legal system, p. 351 — Uniform application, p. 353 — Machinery for settling disputes, p. 356 — Interpretation and application of substantive rules of Community law, p. 358 — Suits broken dow by subject (table, p. 363) — Suits broken down by type (table, p. 364).</i>	
<i>Information: Joint Information Service, p. 362 — Spokesman's Group, p. 370.</i>	
<i>The internal administration of the Community: Establishment, p. 371 — Total strength, p. 371 — Budgetary matters, p. 371 — Other matters, p. 373.</i>	

INTRODUCTION

I. In its Eighth General Report, the Commission sketched out the main lines of activity which the Community (and particularly the future single Executive) might follow during the last stage of the transition period: rapid achievement of free circulation of industrial and agricultural products; elimination of other obstacles to trade so as to establish in the Community the conditions of an internal market; concentration on the economic union, of which the medium-term economic programmes should plot the framework and trace the main lines of advance. Finally, in conjunction with the decisions on financing the common agricultural policy, the Commission proposed recasting the Community's financial structure, providing it with independent revenues and organizing parliamentary control of their use.

The Community's "crisis" made such an impact on public opinion that many citizens of our countries may have got the impression that nothing else happened during the past year. However, despite the seriousness of the crisis and its duration, real progress was made with the programme which the Commission had presented and by which it still stands.

II. The decisions reached by the Council during the night of 10 to 11 May last represent a considerable advance for the Community. As the Commission had requested in its "Initiative 1964", a definite date (1 July 1968) was agreed for the completion of customs union for industrial products and an exact time-table laid down for the simultaneous introduction of the free circulation of practically all farm products. The Commission had suggested an earlier date than July 1968. Although the Council finally chose a rather later date, customs union will in any case be complete a year and a half in advance of the date laid down in the Rome Treaty. Furthermore, it was of decisive importance to business circles in the Community that a firm date be fixed for the completion of customs union. All uncertainty has been dispelled: European industrialists, farmers and traders can from now on make their plans for production and marketing and organize their sales networks for a market of 180 million inhabitants.

Another main feature of the decisions of 11 May is the agreement on the financing of the common agricultural policy up to the end of the transition period. This rounds off and amplifies the solidarity which the first financial regulation had instituted in the marketing of farm products and the improvement of agricultural structures. The solidarity thus established at Community level will be as close as that which existed in each of our countries between agriculture and the other economic sectors.

Finally, certain precise objectives have been fixed, particularly in the commercial, social and fiscal fields to ensure the smooth progress of the Community. In particular, the Commission will submit before the end of 1966 a proposal for completely free movement of workers in the Community by 1 July 1968.

It remains to fill out these decisions. The Commission has good reason to hope that the Council will be able in the near future to decide on the common level of the chief agricultural prices, on the market systems at present under discussion and also on further terms of reference for the Kennedy round negotiations. The will exists on all sides to deal with these matters expeditiously. They are moreover interrelated.

III. Although the discussions on agricultural financing and the introduction of customs union have long held the front of the European stage they should not make us oblivious of the advances accomplished by the Community in other spheres during the period under review. Progress towards economic union: the draft of a first medium-term economic policy programme for the period 1966-1970 has been submitted to the Council. In one year of sustained effort the Medium-term Economic Policy Committee has established joint methods of work and proposed the first guide lines and priorities for the Community's economic and social policy; these have been accepted by the Commission, which in some cases has amplified them. During the coming months this programme will be fully debated in the Parliament and the Economic and Social Committee, after which a decision will be taken on it in the Council.

IV. There has also been progress in each separate sector of Community activity. In June 1965 the Council reached agreement on the principles of a common transport policy. A Commission proposal to widen the scope

of the European Social Fund is under discussion, and specific Community action is planned to redeploy and retrain labour—the Sicilian sulphur miners—directly affected by the establishment of the common market. All the basic instruments for harmonization of turnover tax systems are now ready for a rapid Council decision and the Commission has made known its position regarding company mergers and the formation of European companies. This list is by no means exhaustive.

Advances in the Community's external relations have gone hand in hand with this internal progress. Although the crisis embarrassed the Geneva trade negotiations (Kennedy round) for several months, the Community is now in a position to play an active part in them and there is every reason to think that its determination to contribute to their success will not falter. The negotiations with Nigeria, and also an initial phase of those with Austria, have been concluded. Finally, the Council has decided to resume study of all the Commission's proposals on commercial policy.

V. If we look back on all that has been accomplished since the beginning of the second stage of the Treaty and compare it with what the Commission proposed in its "Action Programme for the second stage", the advances are sometimes impressive, although the Community was twice shaken during these four years by serious difficulties. The common agricultural system has been almost completely built up and the principles of transport policy have been decided. Intra-Community customs disarmament has advanced at the same accelerated pace as during the first stage and intra-Community trade has grown by 300% in relation to 1958. In the particularly delicate matter of measures with effect equivalent to customs duties or quantitative restrictions, most of the cases have now been examined and in many instances settled.

The drawing up of the first European development programme marks a new advance in the co-ordination of Member States' economic policies, a co-ordination whose most striking manifestation was the joint action taken in 1964 against the wave of inflation which was threatening the Community.

The Community's policy on competition has been set out in detail and the machinery for implementing it put to work, particularly as regards

State aids and fiscal discrimination. The entry into force of the basic regulations on cartels and monopolies coincides with the beginning of the second stage. Successive Commission decisions on representative cases have made clear how the Commission will use the powers vested in it.

There have also been successes in the social field: adoption of the second regulation on the free movement of workers; common principles for vocational training; improvement of the system governing the social security of migrant workers; recommendations for harmonizing regulations on social benefits and proposals to the Council on industrial safety and hygiene.

VI. The association of the African and Malagasy States with the Community has been reinforced and developed and, thanks to the experience acquired during the first years of the Treaty and special efforts by those concerned, the execution of the Yaoundé Convention is proceeding smoothly and without delay, particularly as regards the European Development Fund.

Two European States—Greece and Turkey—have become associates of the Community, while Austria asked to continue negotiations for association in accordance with the application it submitted at the time of the talks for United Kingdom accession. Negotiations have been entered into with Morocco and Tunisia and exploratory talks begun with Algeria and Spain. Trade agreements have been concluded with Israel, Iran and Lebanon. There have been lengthy discussions with the Missions of Latin American countries. Finally, following President Kennedy's initiative, the trade negotiations in GATT, of which the Community is one of the chief partners, have become a major concern of the Institutions.

VII. True, there are darker sides to this picture. Progress with commercial policy is still disappointing, particularly in relation to the strict time-table laid down by the Treaty. The harmonization of customs legislation has not kept up with customs disarmament and now that the final time-limits have been set the Governments will have to display the political will to reach a solution. Progress in eliminating other obstacles to trade due to differences in regulations has been very meagre. As to freedom of establishment and freedom to supply services, the rate of

advance is now satisfactory, although it has not been possible to keep to the time-limits laid down in the 1961 General Programme. There does not yet exist in the real sense a Community capital market. Much patience and tenacity were needed for the Council and the Commission to overcome fundamental opposition to an agreement on transport policies. Finally, in the social field the Commission would have liked to see less reserve and more will to collaborate on the part of all Member States in promoting progress comparable to that in other sectors.

VIII. Despite these shortcomings, the Community, as it enters the third stage, is solidly anchored in the economic life of the six countries. The interdependence of economic sectors seems even to offer an assurance of progress in fields where it has so far been less marked.

Does what is true on the economic plane also apply at political and institutional level? Everyone knows—and recent months have abundantly demonstrated it—that there are still wide divergences between Member States in this field.

The Commission would have liked the completion of customs union to be accompanied by the creation of independent Community revenue and by some institutional progress, even if only limited. This was one aspect of its proposals of 31 March 1965, and it was in connection with institutional questions especially that the crisis of 30 June 1965 broke out.

The institutions continued to function throughout the duration of the crisis. Not only did the Parliament, the Commission, the Court and the Economic and Social Committee continue their work regularly and in conformity with the Treaty, but the Council itself met several times and took decisions on the most urgent matters.

IX. On 9 March 1966 a Commission representative addressed the European Parliament on the conclusions of the extraordinary session of the Council at Luxembourg. The Commission considered that these conclusions did not call into question the Treaty or the regulations made thereunder. It therefore welcomed a solution which, as the decisions of 11 May showed, made possible the resumption of work in common and a further strengthening of Community solidarity.

The Council's seven points concerning its relations with the Commission will have to be discussed between the Council and the Commission in order to reach the common agreement provided for in the Treaty. The Commission will thus be able to set out its own ideas or desiderata in this matter.

As to the point concerning decisions by majority, the Commission cannot but approve the intention expressed by all the members of the Council that they will endeavour to attain unanimity when very important interests are at stake. The Commission has always been concerned to do this and its power to intervene is in itself an assurance that the interests of each Member State receive due consideration.

The Luxembourg resolutions note the disagreement of the Member States as to the possibility of concluding deliberations on such questions by a majority vote. The Ministers considered that this disagreement should not prevent the pursuit of Community activity. The Commission, while holding that the Treaty must be executed, shares this view.

The only possible course for the Commission is therefore to continue to press for the full execution of the Treaty, to draw all the conclusions inherent in it, to assume all the responsibilities it confers and to watch over the proper functioning of the institutional system. At the last Council sessions the Commission was able to play its part as in the past. The fact that these meetings ended in agreement is one further proof of the effectiveness of the Community system.

X. In essentials the Council decision of 11 May 1966 and those expected in the near future are the consummation of a whole period of Community activity: the period in which trade—both intra-Community and external—and agriculture held the centre of the stage. True, day-to-day administration in these fields will continue to be a heavy burden, and many further measures will have to be taken before the Community becomes a single economic area. Nevertheless, the road is sufficiently well marked out for the creative effort of the institutions to be directed elsewhere: to the determination of the Community's economic and social policy objectives and methods to attain them. We must know how we wish to live in this new economic area and what future we desire. It is not only a matter

of working out "European" solutions to our economic problems. We must find a satisfactory answer to the problems posed by the rapid evolution of the society in which we are living and by the greater responsibilities which the Community will assume towards the rest of the world.

As the initial results have shown, it is possible, under the medium-term economic programme, to harmonize and combine the steps taken in competition policy, social policy, economic and financial policy, agricultural policy and transport policy.

In this first programme the Commission placed the stress both on a danger—the rise in production costs and the risk of inflation it involves—and on certain courses of action: increase in public investment, expansion of vocational training, more intensive regional policy action co-ordinated at European level. In the year ahead other questions, such as scientific and technical research and co-ordinated action to help branches of industry in difficulties, will be studied. By pooling the experience which the High Authority, Euratom and the Commission itself have gained in these fields, the merger of the Executives will help to give these studies the necessary broad scope.

XI. This tightening up of the Community's economic structure is all the more necessary since in the near future it will have to face a twofold transformation. Internally, the removal of customs barriers in 1968 and the other obstacles at the frontiers in the following years will create increased competition in industry and services and also in agriculture; even if this is cushioned by the guarantees of the common market systems. Externally, the success of the Geneva negotiations, which is the Commission's primary aim in the commercial field, will lead to an appreciable lowering of the common customs tariff by an agreed graduation. The Community will be more exposed to international competition and it will also have better access to the world market. Dynamic economic and dynamic commercial policies therefore go hand in hand.

XII. The Commission has noted the recent declaration of the British Government, reiterating its interest in joining the Community and announcing its intention of holding unofficial talks with the six Governments on this matter.

The Commission does not intend to prejudice the results of these contacts nor the conclusions which the British Government will draw from them. It has always favoured the participation in the Community of the other democratic States of western Europe, in particular Great Britain. At the same time it must recall the position it took up in 1962 on the terms upon which these States must join. In the introduction to the Fifth General Report, it expressed itself as follows: "With the exception of the changes which the entry of new members in any case makes necessary, the measures of adaptation to be taken must be defined within the framework of the Treaty itself and the regulations made thereunder and be based on Community procedures. The execution of these measures must be ensured by the institutions of the enlarged Community exercising the powers of supervision and decision conferred on them by the Treaty". This view is still held by the Commission: Community regulations which are now tried and tested must not be called into question or the authority of the institutions impaired.

XIII. In spite of the difficulties experienced in the course of the year, the Commission takes a confident view of the future of the Community. It does not close its eyes to the extent of disagreement between Member States on the institutional content of the Treaty and on the Community's future prospects. However, too many factors militate in favour of the completion of the Community for any doubt to be possible. It is not in the interest of any European State to impair the strongest factor for cohesion existing in western Europe. To maintain the Community is an advantage for the whole of the free world and, more decisive still, the wholehearted support which all sectors of economic life—trade unions, professional groupings, agricultural federations and large sectors of the population gave the Community and its institutions in the difficult periods it has just gone through constitutes the most solid basis for European action.

CHAPTER I

THE GENERAL SITUATION OF THE COMMUNITY (July 1965 to February 1966)

1. It seems appropriate to devote a special chapter to all the events during the period covered by the present General Report that were connected with the "crisis" in the Community which began on 30 June 1965.

THE COMMISSION'S PROPOSALS

2. On 31 March 1965, the date appointed by the Council resolution of 15 December 1964, the Commission laid before the Council its proposals concerning the financing of the common agricultural policy, independent revenue for the Community, and wider powers for the European Parliament. These proposals dealt, in particular, with the way in which the common agricultural policy should be financed between 1 July 1965 and the end of the transition period. A summary of their content was given in the Eighth General Report ⁽¹⁾. Regulation No. 25 stipulated that these arrangements should be decided upon before 1 July 1965.

In drawing up its proposals, the Commission had had to take into account the decisions already made by the Council, the position the Commission had already adopted with regard to the completion of the common agricultural market and customs union by 1 July 1967, and the interests considered essential by the various Member States. It had sought a comprehensive and balanced solution which would give new impetus to the development of the Community.

3. On 15 December 1964 the Council had instructed the Commission to submit proposals on the financing of the common agricultural policy

(1) See secs. 214 sqq.

before 1 April 1965, to enter into force on 1 July 1965. At the same time the Council had asked the Commission to submit proposals on the conditions for implementing Article 2 of Regulation No. 25, which concerned the transfer to the Community budget of levies on agricultural imports.

On 15 December 1964 the Council had also fixed 1 July 1967 as the date on which the decision concerning the common level of cereal prices would come into effect. In order to ensure harmonious development of the agricultural policy, the Council agreed at the same time that the Community's financial responsibility should shortly be extended to other sectors (fruit and vegetables, tobacco). On 25-26 January 1965 the Council (meeting with the Ministers of Agriculture) agreed to move towards an overall balance resting upon single prices and free movement for all agricultural products from 1 July 1967. The same date had already been proposed by the Commission, in its "Initiative 1964", for the completion of customs union.

The Commission therefore based its proposals on these instructions and considerations. As the Council had suggested, it proposed at the same time that the Community should possess independent revenue from that date. The arrangements put forward by the Commission concerned both customs duties and levies, as was suggested in Article 2 of Regulation No. 25.

The Commission considered that such a large budget arising from independent Community revenues raised the question of parliamentary control over the use of these funds, and therefore felt impelled to propose that the budgetary powers of the European Parliament be strengthened. It also felt obliged to take into consideration the similar views expressed by several members of the Council. The Commission was aware that any decision taken by the Council with regard to independent revenue must be approved by the Member States in accordance with their respective constitutional rules (Art. 201), which meant that in several Member States the consent of Parliament would be required. Lastly, the Council itself had on 23 December 1963 said that it attached great importance to strengthening the budgetary powers of the European Parliament.

Such were, in brief, the main reasons behind the Commission's proposals.

*OPINIONS OF THE EUROPEAN PARLIAMENT AND OF THE ECONOMIC
AND SOCIAL COMMITTEE*

4. At its session of 12-13 April 1965, the Council decided in accordance with the Treaty to refer the Commission's proposals to the European Parliament. It also decided to consult the Economic and Social Committee on the economic and technical aspects of the proposals.

The Parliament debated the Commission's proposals on 11-12 May 1965. In its resolution endorsing the proposals, the Parliament stressed their political, institutional and economic importance, and the fact that they formed an indivisible whole; it was essential that the common agricultural market and the common industrial market should be completed on the same date—1 July 1967, and that common agricultural prices should therefore apply from that date. It supported, in particular, the principles and methods laid down by the Commission to ensure the solidarity of the Member States with regard to common financing of the agricultural policy and independent revenue for the Community from 1 July 1967, and the gradual transition from the payment of national contributions to the stage when the Community would have its own revenue, any surpluses being applied to Community investment. Finally, the Parliament called for a tightening of the arrangements envisaged by the Commission to increase its budgetary powers and recommended that very wide powers be conferred upon it in two stages, the second to begin on 1 January 1972, the date by which the Community would have its entirely independent revenue.

On 28 May 1965 the Economic and Social Committee approved the Commission's proposals, expressing agreement with the financing system envisaged and stressing that the Member States would have to show a spirit of solidarity if the EAGGF were to be able to cover the expenditure of the common agricultural policy and satisfy the requirements of balanced development on an equitable basis. The Committee also considered that the creation of a budget maintained by independent revenues necessitated effective control by the European Parliament.

*PROCEEDINGS OF THE COUNCIL AND THE OUTBREAK
OF THE "CRISIS"*

5. The Commission's proposals, which had been studied by the Committee of Permanent Representatives on several occasions, were on the

agenda of the Council meeting of 13-14 May for a preliminary general discussion.

The first discussion of the substance of the proposals took place on 14-15 June 1965. While recognizing the merits of the Commission's proposals, various members of the Council nevertheless expressed reservations or objections on certain essential points.

The full set of proposals was not discussed in detail until 28-30 June. Progress had been made and convergent views expressed on several points. Partial agreement had been reached, for example on fixing 1 July 1967 as the date for the realization of free movement of industrial and agricultural products, and on a time-table for interim measures. Progress had also been made on the principle that, after 1970, the whole of the Communities' budget should be financed from independent revenues (agricultural levies and other resources).

On other points, however, very serious differences of opinion persisted, especially with regard to the period of validity of the regulation to be adopted. (Could commitments be accepted at this stage for the whole of the transition period, as envisaged in Regulation No. 25, or should the Council confine itself to adopting an interim regulation for one or two years ;) No agreement had been reached on the apportionment of contributions to the Fund among Member States. Lastly, the question of the powers of the European Parliament had hardly been touched on.

This was the position when, in the night of 30 June-1 July 1965, the session was closed by M. Couve de Murville, the President of the Council, who said that the Council had not been able to reach agreement on the financial regulation by the appointed time. Speaking as the French member of the Council, he declared that a solemn undertaking had not been fulfilled and that the French Government must draw the necessary conclusions, words which he was later to repeat in public.

In the hours that followed, the other members of the Council and the President of the Commission also repeated in public the statements they had made within the Council, pointing out that, in view of the partial agreement already reached, there had been reason to expect that full agreement would subsequently be reached within a reasonable time, and that

they were willing to resume work in the Council forthwith. The Commission, for its part, announced that it would submit to the Council a communication containing suggestions to facilitate agreement, which it still considered possible in the light of the discussions.

6. On the same day, however, 1 July 1965, the French Government issued a communiqué after a meeting of the French Council of Ministers, saying that the Community was faced with a crisis which was all the more serious since it was on the basis of the financial regulation that the French Government had agreed, in January 1962, to embark on the second stage of the Rome Treaty, and since the decision on common cereal prices reached on 15 December 1964 had been accompanied by explicit assurances that the financial regulation would be completed by 30 June 1965. It therefore considered that nothing more could be done in Brussels until it had "drawn the obvious political, economic and legal conclusions from the situation thus created".

On 6 July 1965 the Secretary-General of the Councils was told by the French Government, for the information of Council members, that the French Permanent Representative to the Communities had been invited to return to Paris. For the time being, the French Government would not be represented at Council sessions, nor at meetings of the Committee of Permanent Representatives, and the French delegation would not attend meetings of committees and working parties preparing projects or carrying out studies for economic union or continuing previous negotiations. For the duration of the crisis, however, the French experts continued to attend meetings of certain technical committees dealing with day-to-day matters, such as the Management Committees, the EDF and EAGGF Committees, etc.

The French point of view was to be expressed in greater detail by the President of the French Republic at a press conference on 9 September 1965, and later in a statement to the French National Assembly from the French Foreign Minister on 20 October 1965. On these occasions the French Government pointed out that, in addition to its concern that "the entry of agriculture into the common market" should be finally assured, it felt much anxiety as to the functioning of the Community institutions, especially with regard to majority voting in the Council, and relations between the Council and the Commission.

THE COMMISSION'S MEMORANDUM

7. On 22 July the Commission submitted its promised memorandum to the Council.

In order to facilitate agreement and meet the objections expressed at the discussions in June, the Commission put forward new suggestions concerning the Fund's revenue and the pace at which the EAGGF should take over expenditure until 1970; these replaced the Commission's previous proposals on independent revenues for the Community from 1967.

A detailed summary of this memorandum, which concerned the free movement of both industrial and agricultural products, the financial regulation and independent revenues, is given in the part of Chapter III that deals with the common agricultural policy⁽¹⁾.

On the question of widening the budgetary powers of the European Parliament, the Commission reserved its position until a later stage in the discussion.

The memorandum contained one new element that had not been included in the Commission's original proposals. In the second part, on "The balanced development of the Community", the Commission drew attention to other important matters on which decisions would have to be taken in the near future: harmonization of taxation (turnover taxes), commercial policy (including common rules on export credit as regards East bloc countries and the Soviet Zone of Germany), social policy (particularly extension of the scope of the European Social Fund) and regional policy.

PROCEEDINGS OF THE COUNCIL PRIOR TO THE EXTRAORDINARY MEETING IN LUXEMBOURG

8. While the Commission continued its work in all the fields for which it is competent, the organization of the Council's work raised more delicate problems.

(¹) See sec. 183.

The President of the Council—the Italian member since 1 July 1965—sought to ensure continuity in the working of the Council, the Committee of Permanent Representatives and their subcommittees and working parties by seeking first and foremost to persuade the absent member to resume its seat.

The Committee of Permanent Representatives met on 7 July 1965 in the absence of the French representative. A Council meeting was called for 26-27 July.

At this 173rd session, the Council affirmed that it could properly meet and deliberate. If the Community were not to be paralysed, the first concern must be to solve the problems raised since 1 July, and preference would each time be given to solutions of procedure that would be acceptable to the absent member. Thus without attempting to examine in detail the legal aspects and consequences of the situation, the Council agreed, without prejudice to the future, that for the moment the most urgent decisions should be taken by the written procedure, and this was accepted by France. In accordance with Article 6 (2) of the Council's rules of procedure, the Commission gave its approval to the initiation of written procedure in these cases.

The Council's intention was to devote itself to seeking agreement on the financial regulation in order, as the Commission had suggested, to "take up the threads again where they had been broken". Instructions to this effect were given to the Committee of Permanent Representatives, and another Council meeting was called for October 1965.

During September and October 1965 the Committee of Permanent Representatives made great exertions to reconcile different points of view on the questions dealt with in the memorandum that had been submitted by the Commission on 22 July. At the same time the public statements of the French Government had amplified the political and institutional aspects of the crisis, and these were also studied by the five other Governments and the Commission. The current President of the Council, M. Fanfani, received M. Couve de Murville, the French Foreign Minister, on 29 September 1965 in New York, where the United Nations General Assembly was in session. At the end of September M. Spaak, the Belgian Foreign Minister, put forward suggestions for resolving the crisis.

9. The results of these various efforts were seen at the 174th session of the Council, which was held on 25-26 October 1965 with M. Colombo in the chair in the absence of M. Fanfani. The Council adopted:

- i) "Guidelines" on the financing of the common agricultural policy, combining the views shared by the five members present. The Commission's memorandum of 22 July had served as a basis for the discussion;
- ii) A "Council declaration" (dated 26 October 1965) on the political and institutional problems, in which some of M. Spaak's ideas were incorporated. It ran, "The Governments of the Federal Republic of Germany, Belgium, Italy, Luxembourg and the Netherlands solemnly reaffirm the necessity of continuing to implement the Treaties of Paris and Rome in accordance with the principles contained therein, in order to achieve the progressive merger of their national economies in both the industrial and agricultural sectors. This is the only policy which can enable Europe to develop, to raise the standard of living of its population and to guarantee its influence in the world. The Governments consider that the solution of the problems confronting the Communities must be found within the framework of the Treaties and of their institutions.

"They feel strongly that the negotiations interrupted on 30 June should be resumed as quickly as possible. To this end, the delegations have examined the suggestions contained in the two parts of the Commission's memorandum. They are agreed upon the fundamental principles which, in their opinion, should enable negotiations among the Six to succeed. They have instructed the President of the Council to inform the French Government of this and to appeal urgently to it to resume its place in the Community's institutions. They are convinced that it will then be possible, following Community procedures, to adopt the regulations required in order to complete the common agricultural policy within the harmonious development of the Community.

"Taking into account the statements made by the President of the French Republic on 9 September and by the French Minister of Foreign Affairs on 20 October, the delegations have also instructed the President of the Council to invite the French Government, within the framework of the Treaty of Rome, to join them in a special meeting of the Council of Ministers in Brussels. As an exception to the usual practice, this meeting could be held with only the Ministers present, as provided for by the

Council's rules of procedure. The agenda should be restricted to an examination of the general situation of the Communities.

"It is highly desirable that this meeting should be held as soon as possible".

On 27 October 1965, as requested by his colleagues, M. Colombo transmitted to the French Foreign Minister this declaration and the "guidelines" on the financing of the agricultural policy.

10. In reply, the French Government informed its partners of its views, through their ambassadors in Paris. The French Foreign Minister had talks with several other members of the Council who happened to be in Paris at that time.

At its 175th session on 20-30 November, the Council confirmed its previous position by issuing the following communiqué (dated 30 November 1965):

"(1) The representatives of the Governments of the German Federal Republic, Belgium, Italy, Luxembourg and the Netherlands, meeting at the Council session of 29 and 30 November 1965, have taken note of the reception accorded by the French Government to the letter from the President of the Council dated 27 October 1965.

(2) They have asked the President of the Council to communicate to the French Government the common position of their five Governments.

(3) They persist in their view that the problems under discussion should be resolved in accordance with the terms of the Treaties and in the framework of the institutions.

(4) They regret that the French Government has not seen its way to an immediate resumption of the negotiations broken off on 30 June. They reiterate their appeal of 27 October for the French Government to resume its place in the Community institutions and for an extraordinary session of the Council to be held in Brussels as soon as possible".

The Council also gave its approval in principle to the draft budgets of the Communities for 1966 and agreed that final approval should be given by written procedure. It planned to meet again before the end of December.

11. In accordance with the instructions, the President of the Council, M. Colombo, received M. Couve de Murville on 8 December 1965 when

the latter was in Rome for the closing ceremonies of the Vatican Council. From their conversations it appeared that an agreement was possible on the basis of the proposals of 26 October and 30 November. This impression was shortly to be confirmed by various conversations between the Ministers outside the formal sessions of the NATO Council in Paris (14-16 December 1965).

The Council met again on 20 December 1965 and surveyed the situation.

By a *note verbale* handed to the Italian Ambassador in Paris by M. Couve de Murville on 23 December 1965, France let it be known that she was willing to take part in a meeting of Foreign Ministers in Luxembourg.

M. Werner, Prime Minister of the Grand Duchy of Luxembourg, who had become the new President of the Council, then called this extraordinary session of the Council for 17 January in Luxembourg.

EXTRAORDINARY SESSION OF THE COUNCIL IN LUXEMBOURG

12. At the first part of the session (17-18 January 1966), the Council first heard the French requests concerning the application of the majority rule and the role of the Commission.

Discussion on the application of the majority rule revealed profound differences of opinion between the French and the other delegations. Various compromise proposals were, however, submitted (particularly by M. Colombo and M. Spaak). They aimed at giving an assurance that in such cases persistent efforts would be made to arrive at unanimous decisions without, however, excluding the ultimate possibility of a majority decision.

As regards the role of the Commission and its relations with the Council, M. Couve de Murville submitted a ten-point *aide-mémoire* to assist in subsequent discussions. At the last session of the meeting he also proposed a draft timetable.

On the first two points, the Council instructed the Committee of Permanent Representatives to prepare the ground for decisions to be taken in the near future. It then decided to suspend the extraordinary session and resume it in Luxembourg on 28-29 January 1966.

13. At the second part of the session, the Member States reached agreement, and the following statements were issued after the meeting:

a) *Relations between the Commission and the Council*

“Close co-operation between the Council and the Commission is essential to the functioning and development of the Community.

“In order to improve and strengthen this co-operation at every level, the Council considers that the following practical methods of co-operation should be applied, these methods to be adopted by joint agreement, on the basis of Article 162 of the EEC Treaty, without compromising the respective competences and powers of the two institutions.

“(1) Before adopting any particularly important proposal, it is desirable that the Commission should establish the appropriate contacts with the Governments of the Member States, through the Permanent Representatives, without this procedure compromising the right of initiative which the Commission derives from the Treaty.

“(2) Proposals and any other official acts which the Commission submits to the Council and to the Member States are not to be made public until the recipients have had formal notice of them and are in possession of the texts.

“The Official Gazette should show clearly which acts are of binding force. How those texts that must by law be made public are in fact published will be decided in the course of work now being done on the reorganization of the Official Gazette.

“(3) The credentials of Heads of Missions of non-member States to the Community will be submitted jointly to the President of the Council and to the President of the Commission, meeting together for this purpose.

“(4) The Council and the Commission will inform each other rapidly and fully of any approaches relating to fundamental questions made to either institution by the representatives of non-member States.

“(5) In accordance with Article 162, the Council and the Commission will consult together on the advisability of, the procedure for, and the nature of any links which the Commission may establish with international organizations pursuant to Article 229 of the Treaty.

“(6) Co-operation between the Council and the Commission on the Community’s information policy, which was the subject of the Council’s discussions on 24 September 1963, will be strengthened in such a way that the programme of the Joint Information Service will be drawn up and carried out in accordance with procedures which are to be decided upon at a later date, and which may include the establishment of an *ad hoc* body.

“(7) Under the financial regulations relating to the drawing up and execution of the Communities’ budgets, the Council and the Commission will decide on means for more effective control over the commitment and expenditure of Community funds”.

b) *Majority voting*

“I. Where, in the case of decisions which may be taken by majority vote on a proposal of the Commission, very important interests of one or more partners are at stake, the Members of the Council will endeavour, within a reasonable time, to reach solutions which can be adopted by all the Members of the Council while respecting their mutual interests and those of the Community, in accordance with Article 2 of the Treaty.

“II. With regard to the foregoing paragraph, the French delegation considers that where very important interests are at stake the discussion must be continued until unanimous agreement is reached.

“III. The six delegations note that there is a divergence of views on what should be done in the event of failure to reach complete agreement.

“IV. The six delegations nevertheless consider that this divergence does not prevent the Community’s work being resumed in accordance with the normal procedure”.

14. In addition, “the Members of the Council propose to adopt the following decisions by common consent: the financial regulation for agriculture; extensions to the market organization for fruit and vegetables; the regulation on the organization of sugar markets; the regulation on the organization of markets in oils and fats; the fixing of common prices for milk, beef and veal, rice, sugar, olive oil and oilseeds.” These are all questions that were under discussion before 1 July 1965.

15. Finally, the Council adopted the following programme of work:

“Having reached agreement on the problem of the qualified majority vote and on co-operation between the Council and the Commission, the delegations of the Member States adopt the following programme of work:

“A. The draft EEC and Euratom budgets will be approved by written procedure before 15 February 1966 and transmitted forthwith to the Parliament.

“B. The EEC Council will meet as soon as possible to settle as a matter of priority the problem of financing the common agricultural policy. Concurrently, discussions will be resumed on the other questions, particularly the trade negotiations in GATT and the problems of adjusting national duties on imports from non-member countries.

“C. The Representatives of the Member States’ Governments will meet on the day fixed for the next Council meeting and will begin discussions on the composition of the new single Commission and on the election of its President and Vice-Presidents.

“D. They will also agree on the date—in the first half of 1966—when instruments of ratification of the Treaty on the merger of the institutions are to be deposited, on condition that the required parliamentary ratifications have been obtained and agreement has been reached on the composition and on the presidency and vice-presidency of the Commission”.

16. The six Governments announced that they were in general satisfied with the agreement reached in Luxembourg.

On 2 February 1966 the Commission issued a communiqué saying that it was pleased that, after the Council meeting in Luxembourg, the Community could now resume its normal activities, both internal and external. It pointed out that there was a great deal of work to be done in the coming months, and many decisions would have to be taken, to make real progress towards economic union. It declared itself ready to hold consultations with the Council, in due course, in a spirit of co-operation and in accordance with Article 162 of the Treaty, in order to make even closer collaboration possible between itself and the Council.

ACTION TAKEN BY THE EUROPEAN PARLIAMENT

17. The European Parliament had followed these developments attentively, taking every opportunity to reaffirm its confidence in the future of the Communities and its resolve that the Treaty should be respected and the institutions maintained.

At its session of 24 September 1965 the Parliament adopted a resolution reminding the six member countries that the Treaties must be complied with and implemented in full, notably in respect of the powers and the obligations of each Community institution. It stressed that no member country could evade its commitments under the Treaties, appealed to the national Parliaments to prevail upon their Governments to pursue this policy, and endorsed the action of the EEC Commission.

Similar anxieties were expressed at the Joint Meeting of the European Parliament and the Consultative Assembly of the Council of Europe, which took place after this session, on 24-25 September 1965.

The Parliament's debate on the Eighth General Report on the Activities of the Community (20 October 1965) ⁽¹⁾ was mainly devoted to the origin and development of the crisis. In the resolution it adopted on 21 October, the Parliament hoped that the present crisis might soon be resolved, and addressed a solemn appeal to the other Community institutions and to the Governments and public opinion of the six countries.

At its session of 23-26 November 1965, the Parliament held a brief political debate on the Council declaration of 26 October. M. Furler (Germany, Christian Democrat), M. Kapteyn (Netherlands, Socialist) and M. De Clercq (Belgium, Liberal), speaking on behalf of their groups, affirmed their attachment to the Treaty of Rome and expressed their concern at the crisis. They each spoke of the importance of the role that the Commission was called upon to play within the framework of the Treaty. M. de Lipkowski, on behalf of the European Democratic Union group, expressed confidence in the future of the Community once an inter-governmental conference had been held to dispel misunderstandings.

(¹) See "The European Parliament", session of 18-22 October 1965, sec. 337.

18. The principal trade union and professional organizations at Community level clearly expressed their hope that European integration would continue and addressed urgent appeals to the Governments of all the Member States, calling upon them to re-establish unity among the Six on the basis of the Treaty of Rome.

19. At the annual joint meeting between the European institutions, on 20 January 1966, a discussion was held on "The present situation of the Communities". This was of particular interest because it took place between the two sessions of the extraordinary meeting of the Council in Luxembourg (17-18 January and 27-28 January 1966). The discussions dealt mainly with two institutional problems: co-operation between the Commission and the Council, and decisions by majority in the Council. The meeting showed above all that it was the unanimous desire of the members of the European Parliament and the representatives of the other institutions to remain faithful to the letter and spirit of the Treaties.

After speaking of the efforts made by the Council in the past six months to keep the Community working and find a solution to the crisis that began on 30 June 1965, M. Pierre Werner, Prime Minister of Luxembourg and current President of the Council, gave the general purport of the two questions raised by the French delegation, and these were also discussed by subsequent speakers.

M. E. Martino, on behalf of the Christian Democrat group, expressed concern at the proposal made in Luxembourg to institute a "two-way traffic" between the Council and the Commission prior to the majority vote, and feared that such a procedure might not encroach on the prerogatives of the European Parliament. He emphasized the need to ensure that the balance created between the institutions by the Treaty was maintained.

Speaking for the Socialist group, Mme Strobel said that to impose the unanimity rule in cases other than those specified in the Treaty would be to introduce a right of veto, which would be inadmissible. Moreover, she considered that the ten points presented by the French Government on the subject of relations between the Council and the Commission would impair the independence of the latter.

M. G. Martino, for the Liberal group, said he feared that the plans concerning the Commission would provide an excuse for transforming the latter from a political body into a technical body. He added that he was in favour of maintaining the procedure of decision by majority vote, even though it was not used in practice, because it constituted a safeguard against recourse to veto.

Speaking on behalf of the European Democratic Union group, M. de Lipkowski declared, on the other hand, that it would be well to limit the application of majority rule because political integration had not kept abreast of economic integration. He justified the ten points presented by the French Government by the need to enable the Commission to resume its proper role as conciliator.

The members of the Council present at the meeting, M. Luns, M. Spaak, M. Lahr and M. Storchi, clarified the positions of their respective countries, pointing out that the majority vote could not be used except in the common interest without negating the existence of the Community, and that the necessary attempt to improve relations between the Council and the Commission must not impair the responsibilities and authority of the latter. They pointed out that majority vote was the rule of the Treaty, whereas unanimity constituted an exception; but it could be agreed, without prejudice to this principle, that decision by majority vote should only be used as a last resort.

Members of the Parliament and members of the Council alike recalled that collaboration between the Council and the Commission should be the outcome of mutual agreement, as stated in Article 162 of the Treaty. Finally, several members of the Parliament recommended that some kind of parallel relationship should be maintained between the deposit of instruments of ratification of the Treaty merging the Executives and the agreement on the composition of the new single Commission.

20. At its session of 9 March 1966, the European Parliament considered the results of the extraordinary meeting of the Council in Luxembourg as summarized in a report from the Political Committee presented by M. Metzger. After hearing the spokesmen of the various political groups,

and M. Levi Sandri on behalf of the Commission, the Parliament passed a resolution, which read in part:

“The European Parliament,

...

1. Welcomes what it considers the most important result of this meeting, that is to say, the agreement between the members of the Council on a resumption of the normal course of the Community's work, in conformity with the Treaty—a resumption whose first practical manifestation was the elaboration of a programme of work and the adoption of the budget of the European Economic Community...;

2. Is concerned nevertheless at the uncertainties which still prevail as to the interpretation of certain points in the documents published after the session of the Council concerning the ideas and decisions of the latter—uncertainties which call for certain reservations on the part of the Parliament;

...

4. Considers that the Council should not renounce the possibility of taking decisions by majority vote;

5. Is concerned at the incalculable consequences which might follow if the Council, in a given situation, were to note the existence of “overriding interests” preventing the application of the majority rule;

6. Welcomes the Council's declaration that the principles of future co-operation will be drawn up by agreement with the Commission on the basis of Article 162 of the EEC Treaty, and that the powers and attributions of the two institutions must not be impaired;

7. Considers it indispensable that the rules which will govern relations between the Council and the Commission should be agreed to jointly when the Executives are merged;

...

9. Urges that these procedures should not in any case curtail the rights of the Parliament as an institution exercising—in conformity with the Treaty—political control over the Executive Commission;

...”

Implementation of decisions of the extraordinary session of the Council

21. The Permanent Representative of France returned to Brussels on 7 February 1966, and on the following day, 8 February, he attended a meeting of the Committee of Permanent Representatives.

The draft budget was adopted by written procedure on 15 February 1966 and transmitted forthwith to the European Parliament.

The Council met on 28 February and 1 March 1966, all its members being present. There were two points on the agenda: the financing of the common agricultural policy and the trade negotiations in GATT. Since that date the Council has held several meetings, and progress has been made on the principal problems still outstanding, as is recounted on later pages of this report.

CHAPTER II

ESTABLISHMENT OF THE COMMON MARKET

Free movement of goods

TARIFF DISARMAMENT

Further reduction of intra-Community duties

22. A further reduction of intra-Community customs duties was made on 1 January 1966. Like the earlier ones, it represented about 10% of the duties applicable on 1 January 1957. With a few exceptions it was linear.

This reduction was the eighth since the Treaty came into force. Under the acceleration decisions two extra reductions were made, so that customs disarmament is ahead of the timetable in Article 14 of the Treaty, which provided for only six reductions by 1 January 1966. The result for industrial products is a total reduction of 80% of the original duties (leaving 20%) and for agricultural products a total reduction of 65 or 60% according to products (leaving 35 or 40%). However, for products covered by a common market organization, levies replace the customs duties.

The table on page 29 shows the present state of tariff disarmament.

There have been a few exceptions to the linear reduction rule.

23. Invoking the provisions of the Treaty which permit "adjusted" reductions, Germany limited to 75% the reduction of duties on seven headings comprising leather and certain leather articles, and to 78% the reductions on certain fabrics under heading 56.07 B. Moreover on 1 July 1964 Germany had already brought the total reduction in duties on certain industrial products to 80%. It therefore did not make any new reduction on 1 January 1966 in respect of these products.

24. Certain special cases of countries and products should also be mentioned:

In conformity with what was agreed during the exploratory talks with Algeria, the Member States with the exception of Germany decided not

to include Algerian products in the reduction on 1 January 1966 pending the conclusion of an agreement between Algeria and the Community. The problem does not arise for Franco-Algerian trade because of the special system applied under agreements between France and Algeria.

Unmanufactured tobacco and dried grapes—products of particular interest to Greece and covered by a special system under the Association Agreement with that country—were not affected by the tariff reduction on 1 January 1966.

However, for unmanufactured tobacco, a product for which the reductions so far made total 70% of the original duties, the EEC Council decided on 22 March 1966 that there would be further reductions of 5% on 1 July 1966 and on 1 January 1967. These intra-Community reductions will also apply to imports of Greek tobacco. For dried grapes (in packages of up to 15 kg. net weight) the total reductions on 1 January 1966 were 90% of the original duty (with total exemption in the case of Germany).

The following table shows the customs duty position in the six Member States after this eighth intra-Community customs disarmament operation.

TABLE 1

Intra-Community duties as a percentage of the total number of duties

Member State	Position	Nil duties (other than ECSC and Euratom)	ECSC and Euratom duties (nil duties on 1.1.66)	Specific duties (varying incidence)	Ad valorem duties				
					0.1 to 5 %	5.1 to 10 %	10.1 to 20 %	20.1 to 30 %	Above 30 %
Germany	1.1.57	22.3	2.95	2.5	4.55	27.0	34.4	5.4	0.9
	1.1.66	20.7	3.3	3.1	60.8	8.7	3.4	—	—
Benelux	1.1.57	20.0	3.0	1.35	7.75	29.1	33.4	5.3	0.1
	1.1.66	29.8	3.0	1.5	60.1	5.0	0.5	—	—
France	1.1.57	13.3	3.2	0.5	1.9	6.7	40.9	31.2	2.3
	1.1.66	13.45	2.7	0.25	67.75	12.0	3.3	0.4	0.15
Italy	1.1.57	6.8	2.1	1.4	6.0	11.3	45.6	22.6	4
	1.1.66	11.4	2.1	1.3	70.0	12.2	2.0	0.3	0.4

Elimination of charges with equivalent effect to customs duties

25. Measures to abolish charges with equivalent effect to customs duties between Member States have been taken wherever it was established that the charges corresponded to the definition applicable. ⁽¹⁾ Certain charges are still being studied.

Progress in this field is shown in the following table:

TABLE 2

Charges equivalent in effect to customs duties	On imports	On exports
Charges registered	284	73
Charges abolished	224	14
Charges which have been found not equivalent in effect to customs duty	3	1
Charges on imports in respect of which the Commission has sent directives to the Member States laying down a timetable for abolition [Art. 13 (2)]	5	—
Charges on exports in respect of which the Commission has taken the necessary abolition measures	—	24
Charges still being studied	52	34

COMMON CUSTOMS TARIFF ⁽²⁾

Implementation

26. The end of the second stage was the second time-limit fixed in Article 23 (1, c) of the Treaty for the progressive introduction of the

⁽¹⁾ See Fifth General Report, sec. 7 and (for certain cases) sec. 392 below.

⁽²⁾ The Customs Tariff of the European Communities (July 1963 edition) has been kept up to date by loose leaves issued regularly which give the Council decisions amending or suspending duties. The tenth set of these leaves dealt chiefly with a new list of suspensions of duty applicable on 1 January 1966.

common customs tariff. These provisions lay down that the difference between the rates actually applied by the Member States on 1 January 1957 and those of the common customs tariff should again be reduced by 30%.

For industrial products, and in conformity with the acceleration decisions ⁽¹⁾, the difference had already been reduced twice—on 1 January 1961 and 1 July 1963—but on the basis of the common customs tariff less 20%. Because of this the Member States were to calculate afresh the approximation on 1 January 1966 for those tariff headings whose rates were not reduced by at least 20% at the 1960/61 GATT Conference or by a Council decision after 1 July 1963. Certain adjustments of rates would thus be made unless appropriate decisions were taken under the Treaty by the competent Community authorities.

During the last quarter of 1965 the Commission had drawn the Council's attention to this special situation of customs duties applicable to industrial products imported from non-member countries after 1 January 1966.

The Commission also pointed out that the Treaty provisions which could fit the case were those in Articles 26 and 28. Article 26 permits the Commission to authorize any Member State encountering special difficulties to postpone the lowering or the raising, in accordance with the provisions of Article 23, of the duties under certain of its tariff headings up to a limit of 5% of the value of its total imports from non-member countries. Article 28 empowers the Council to decide upon modifications or suspensions of the CCT duties, i.e. to fix a new basis for the approximation of national duties.

Following these Commission representations, the Council instructed a working party to make a study covering various classes of products grouped in the light of the Community's attitude in the Kennedy round negotiations. This work is going on and a conclusion may be expected fairly soon.

Approximation has also been carried out for the agricultural products mentioned in Annex II to the Treaty, the duties on which had undergone a first approximation in the normal way on 1 January 1962.

(¹) Decisions taken by the Representatives of the Governments of the Member States meeting in the Council on 12 May 1960, 15 May 1962 and 22 May 1963. See official gazette No. 58, 12 September 1960, No. 41, 28 May 1962 and No. 83, 1 June 1963.

The table below gives the calendar for implementation of customs union and the pace so far achieved in introducing the common customs tariff and abolishing intra-Community duties.

MODIFICATIONS OF THE COMMON CUSTOMS TARIFF AND SUSPENSION OR TEMPORARY REDUCTION OF DUTIES (ARTICLE 28 OF THE TREATY)

27. The duties of the common customs tariff have not undergone any real modification during the period under review. Only a few minor corrections were made on 1 March 1966 ⁽¹⁾ to eliminate certain defects or drafting errors from the official versions of the tariff and bring the four texts more into line with each other.

As regards suspension or temporary reduction of duties, a further decision, valid for 1965, was taken by the Council on 15 June of that year ⁽²⁾. As was generally the case with the earlier ones, it concerned commodities from non-member countries. In the last quarter of 1965 the Commission studied with experts from the six Member States suspensions and reductions due to terminate on 31 December 1965 and new applications from Member States for 1966.

The first list, which was the subject of a Council decision on 28 December 1965 ⁽³⁾, contains 58 items, on 18 of which the duties are suspended altogether. These include various chemical substances used in the manufacture of pharmaceutical products, insecticides, etc. A second list ⁽⁴⁾ covers other basic materials, spirits of turpentine, rosin, and uranium depleted in U 235. The reduction in duties on nuclear reactors and their parts (heading 84.59 B) was also maintained for 1966 after consultation with the Euratom Council and Commission ⁽⁵⁾.

On the basis of a Commission draft the Council, acting under Article 28, also decided to prolong until 31 December 1966 the suspensions of duties

⁽¹⁾ Council decision of 4 January 1966, official gazette of the European Communities, No. 10, 18 January 1966.

⁽²⁾ See official gazette No. 109, 23 June 1965.

⁽³⁾ *Ibid.*, No. 223, 29 December 1965.

⁽⁴⁾ Council decision of 29 December 1965. See official gazette No. 225, 31 December 1965.

⁽⁵⁾ Council decision of 23 December 1965. See official gazette No. 222, 28 December 1965.

TABLE 3

Progress towards customs union in the Community

	1st stage			2nd stage			3rd stage			
	1.1.59	1.1.60	1.1.61 (acceleration)	1.1.62	1.7.62 (acceleration)	1.7.63	1.1.65	1.1.66	1.1.67	1.1.70
A. Elimination of intra-Community duties :										
1. Agricultural products (Annex II to the Treaty):										
i) Reduction made (on the basis of national duties on 1 Jan. 57)	10 %	10 %	5 % ⁽¹⁾	10 %	5 % ⁽²⁾	10 %	10 %	10 %		
ii) Total reduction	10 %	20 %	25 % ⁽¹⁾	35 % ⁽¹⁾	35 % ⁽¹⁾	45 %	55 %	65 %		
2. Industrial products:										
i) Reduction made (on the basis of national duties on 1 Jan. 57)	10 %	10 %	10 %	10 %	10 %	10 %	10 %	10 %		
ii) Total reduction	10 %	20 %	30 %	40 %	50 %	60 %	70 %	80 %		
B. Institution of CCT:										
1. Agricultural products (Annex II to the Treaty):										
i) Adjustment made ⁽³⁾										
ii) Total adjustment			30 % ⁽⁵⁾	30 %				30 %		
2. Industrial products:										
i) Adjustment made ⁽⁴⁾										
ii) Total adjustment			30 % ⁽⁵⁾	30 %		30 %	30 %	30 %	30 %	Regularization of previous adjustment ⁽⁶⁾

⁽¹⁾ Reduction applicable only to non-liberalized products.

⁽²⁾ Reduction applicable only to liberalized products.

⁽³⁾ Total reduction applicable to certain liberalized products only.

⁽⁴⁾ i.e. narrowing of the gap between national duties at 1 January 1957 and CCT duties.

⁽⁵⁾ The CCT duties were applied immediately where the difference between them and national duties on 1 January 1957 was no more than 15 %.

⁽⁶⁾ See sec. 26: the adjustments made at this stage regularize the situation resulting from arrangements whereby a 20 % advance reduction was accorded other GATT countries on the occasion of the Dillon Round and maintained during the Kennedy Round.

scheduled to expire on 31 December 1965 in respect of certain Indian products ⁽¹⁾. It was also to meet the concerns of the developing countries that the decisions suspending CCT duties on tea, maté and tropical hardwoods was extended and the tariff arrangement concluded earlier between the Community and the United Kingdom for these products simultaneously renewed.

Application of the common customs tariff

28. To prevent distortions of competition and risk of deflection of trade arising from a lack of uniformity in the tariff classification of goods and valuation for customs purposes in the Community, the Commission is giving all its attention to uniform interpretation of tariff nomenclature. This is the more necessary since the nomenclature is also used for other purposes than customs duties, in particular for drawing up external trade statistics. This is why in 1965 the Commission continued the publication of explanatory notes on the subheadings of the CCT which it had begun in 1964 with the co-operation of national experts. On 31 December 1965 the working party on customs nomenclature, which meets under Commission chairmanship, had examined drafts of explanatory notes concerning 43 chapters out of a total of 99. The working party has also formulated numerous opinions on classification problems submitted to it with a view to putting an end to tariff divergences within the Community.

On 1 January 1966 a harmonized nomenclature was introduced for the EEC countries' external trade statistics. This nomenclature had been established on the basis of the one used in the CCT by statistical and customs experts under the aegis of the Statistical Office of the Community.

Tariff quotas

29. The number of request for tariff quotas declined again in 1965/66. Thanks to the efforts of the Commission, and in conformity with the wishes of the European Parliament, the number of quotas granted is also decreasing. This is due in particular to the implementation of Community

⁽¹⁾ Council decision of 23 December 1965. See official gazette of the European Communities, No. 4, 8 January 1966.

TABLE
Applications for tariff
(Under Article 25 (1))

	1961					1962				
	para. 1	para. 2	para. 3	List G	Total	para. 1	para. 2	para. 3	List G	Total
Number of applications	55	58	—	46	159	58	92	85	43	278
Withdrawn:										
<i>a)</i> by the Member State applying	13	21	—	2	36	17	41	22	1	81
<i>b)</i> after a Community solution had been found	12	19	—	9	40	13	32	5	5	55
Total	25	40	—	11	76	30	73	27	6	136
Applications left to be dealt with:										
Refused	4	7	—	1	12	—	9	28	1	38
Granted	26	11	—	34	71	28	10	30	36	104
Applications outstanding										

Applications submitted for 1960: Art. 25 (1): 9; Art. 25 (2): 2; Art. 25 (3): 31; List G: 35; Total: 77

solutions, such as suspension or temporary reduction of duties or the opening of autonomous Community tariff quotas.

The proportion of trade falling under the tariff quota system can only be estimated approximately, but it is less than 3%.

In most cases, the Council and the Commission link the quotas with increased, and no longer with nil duties. The level to which these quota duties are to be raised is fixed after study of the special situation of each product concerned. It is generally equal to half the adjustment towards the common customs tariff already made by the applicant Member State.

votes (1961 to 1965)
2), (3), or List G)

1963					1964					1965				
para. 1	para. 2	para. 3	List G	Total	para. 1	para. 2	para. 3	List G	Total	para. 1	para. 2	para. 3	List G	Total
29	29	47	36	141	21	7	34	37	99	23	8	32	37	100
5	20	8	—	33	3	2	3	—	8	2	2	3	2	9
2	6	6	—	14	8	—	—	—	8	11	1	1	—	13
7	26	14	—	47	11	2	3	—	16	13	3	4	2	22
22	3	33	36	94	10	5	31	37	83	10	5	28	35	78
—	—	4	—	4	—	—	4	—	4	—	—	4	—	4
22	3	29	36	90	10	5	27	37	79	10	5	23	34	72
—	—	—	—	—	—	—	—	—	—	—	—	1	1	2

Customs value

30. Work on Community regulations in this field has been pursued with the aim of ensuring uniform application of the Definition of Value annexed to the 1950 Brussels Convention on the Valuation of Goods for Customs Purposes.

An agreement in principle has been reached at expert level on the Community interpretation of the concept of "port or place of introduction".

This concept is important in determining transport costs to be included in the customs value of goods imported into the Community. Certain details still have to be settled.

A second important problem is how far the price paid or payable for imported goods can in general be considered a reliable indication of the normal price mentioned in the Definition, which in fact stipulates that the customs value is the normal price at the time when the duties become payable. However, in most cases the time when the price was agreed and the time mentioned in the Definition are separated by an interval needed for dispatch, transport and import operations. Strict application of this provision would therefore mean rejecting many prices agreed on in sales contracts, and this could not fail to create difficulties both for international trade and for customs departments. To avoid these drawbacks, the Interpretative Notes to the Definition allow for reasonable time-limits (tolerances) within which prices in commercial contracts would be accepted as a basis of evaluation. However, it has become clear that the Member States have often handled this question of tolerances in very different ways. Nevertheless it has proved possible on a proposal from the Commission to reach an agreement in principle at expert level (certain implementing details remain to be settled) on tolerances which could be uniformly applied in the Community.

Some time will still be needed to finalize the Community arrangements on customs value. The working programme comprises such questions as authors' rights, the right to use distinctive trade marks even after further processing, advertising costs, branches, discount and adjustments for sole representatives or agents, Community application of discounts for quantity, etc.

Customs legislation

31. In the framework of "Initiative 64" ⁽¹⁾ a draft decision providing for an inventory and a timetable of the measures advocated in this field was proposed to the Council on 11 November 1964. Discussions on this draft, which were interrupted after 30 June 1965, were resumed early

(¹) See Eighth General Report, sec. 3, 8th paragraph.

in March 1966. The Commission has continued the drafting of the harmonization measures which it considers necessary.

The recommendation concerning duty-free import of small consignments of Community goods addressed to private persons or carried in travellers' luggage ⁽¹⁾ has been largely incorporated into the domestic regulations of the Community countries. However, Member States have maintained more or less extensive lists of products which are an exception to this rule.

The recommendation on the temporary admission of teaching or training media used by public or private bodies ⁽²⁾ has been put into effect by the various States with the exception of one, which has not yet made known its attitude.

Free entry on economic grounds and miscellaneous provisions ⁽³⁾

32. As regards duty-free entry on economic grounds, the Commission has suspended until the end of 1965 the proceedings under Article 169 against five Member States for non-observance of Article 23 of the Treaty in respect of duty-free import of products intended for the building, repair or equipment of civil aircraft. The Commission later decided to extend this suspension until 1 April 1966.

Statistical studies of inwards processing traffic with non-member countries have been put in hand in order to work out a Community system of temporary admission based on reliable data. Consultations with the national administrations are continuing.

Studies are being made on bonded warehouses and free ports to prepare common arrangements for entry of goods in entrepôt trade.

As regards visible trade between Member States, studies on the Community system for goods in transit are advancing. The aim is the gradual abolition of formalities and control at internal frontiers.

Arduous discussion continued in the Council's economic questions group on the proposed regulation defining the concept of the origin of goods.

⁽¹⁾ See official gazette No. 7, 22 January 1965, and Eighth General Report, sec. 24.

⁽²⁾ *Ibid.* No. 112, 14 July 1964, and Eighth General Report, sec. 24.

⁽³⁾ See also sec. 298: proposed anti-dumping regulation.

*Removal of quantitative restrictions and of measures
with equivalent effect*

33. The quantitative restrictions on imports affect only a very small number of agricultural products in the fish, fats, wine, tropical products and preserving sectors. These quotas are established in conformity with Article 33 of the Treaty. They have been supervised by the Commission in the normal way.

The Commission has also seen to the strict implementation of the other Treaty provisions concerning quantitative restrictions on both imports and exports. The few infringements of Article 34 noted have incurred sanctions under the Article 169 procedure.

Although the removal of quantitative restrictions is now at an advanced stage, there remains a great deal for the Commission to do in eliminating measures with equivalent effect.

In accordance with the intention expressed in its Action Programme (¹), the Commission is preparing a draft Council decision, based on Article 235, under which the Member States will abstain from making imports and exports subject to such formalities as licences, visas, authorization, etc., except in a few duly motivated cases.

The drafting of directives pursuant to Article 33 (7) is already fairly well advanced. Their object is to abolish measures which make the import of Community products subjects to export or purchase of domestic products and measures forbidding or limiting the use, consumption or processing of Community products.

GOVERNMENT MONOPOLIES

34. The Commission continued to study the problems involved in the application of Article 37 and considered that, along with the study of the legal problems arising, positive results could be obtained in the modi-

(¹) See Sixth General Report, sec. 1.

fication of monopolies by a pragmatic approach to the problems. It has therefore undertaken:

- a) To define the various existing monopolies in the light of their origin and their objects on the internal plane in the Member States concerned;
- b) To evaluate the compatibility or incompatibility of these national considerations with Community policy;
- c) To identify the links between the modification of a given monopoly and the solution of wider problems, such as energy policy as applied to petroleum, the common market organization for tobacco, etc.

It is from this angle that the examination of a certain number of monopolies whose relaxation poses fewer economic and fiscal problems has been undertaken. Among these we may mention the Italian banana, quinine, salt, cigarette paper, lighter and lighterflint monopolies, the French potash and explosives monopolies and the match monopolies in France, Italy and Germany.

The Italian banana monopoly has been transformed into an import system comprising certain measures to ensure gradual change-over from the monopoly system to complete freedom of trade.

In respect of all these monopolies or import systems the Commission has drawn up proposals which it will shortly send to the Member States concerned, it being understood that these proposals represent only a stage in the relaxation of the monopolies in question and not a complete solution of the problem. The Commission also took the view that in the relaxation of other monopolies the objectives aimed at should be borne in mind. As regards the French petroleum import system, it is important to take account of the future guide lines of the common energy policy. The Commission has formulated proposals for procedures in the memorandum on policy in the petroleum and natural gas fields transmitted to the Council on 16 February 1966.

Similarly, as regards relaxation of the tobacco monopolies in Italy and France, the measures to be taken are studied in connection with the problem posed by the establishment of a common market system for manufactured tobacco in the framework of the common agricultural policy.

MISCELLANEOUS WAIVERS

Countervailing charges on processed agricultural products

35. In pursuance of the Council decision of 4 April 1962 based on Article 235 of the Treaty, the Commission has taken 24 decisions in the period covered by this report granting or refusing permission to levy such charges or varying their amount. Three Member States (France, Germany and Italy) have benefited, as they did last year, by the same countervailing charges under this decision ⁽¹⁾.

The decision of 4 April 1962 was extended for the first time on 29 March 1965 ⁽²⁾ and again on 15 June of the same year—until 30 October 1965 ⁽³⁾. On 26 October 1965 the Council renewed this decision until 30 June 1966, but amended it: with effect from 1 March 1966 the common computing factor to determine the *ad valorem* protection of processing was reduced from 2.5% to 1.5%.

Safeguard measures (recourse to Article 226)

36. As was the case last year, no application for authority to apply Article 226 for new products has been submitted.

The measures previously authorized for the reorganization of certain basic sectors (sulphur, silk) and those concerning some semi-finished products obtained by processing these raw materials have been extended or modified. The situation is the same as regards lead, zinc, and certain of their derived products ⁽⁴⁾.

The safeguard measures allowed to Italy for silk and certain silk products were extended until 30 September 1966, i.e. for seven months longer than laid down in Protocol VIII to the Agreement of 2 March 1960, in order to ensure the marketing at the most stable price possible of cocoons of the 1965 harvest and the raw silk to be extracted from them.

⁽¹⁾ See Eighth General Report, sec. 31.

⁽²⁾ Official gazette No. 51, 30 March 1965, p. 754.

⁽³⁾ Official gazette No. 109, 23 June 1965, p. 1886.

⁽⁴⁾ See Eighth General Report, sec. 33.

In collaboration with the Italian authorities the Commission has continued its studies on sulphur and its products with a view to the final and complete opening of the Italian market. The Commission has studied the Italian Government's proposals for reorganizing this industry.

These proposals aim at half-yearly quotas, beginning 1 January 1966, for the direct import of sulphur and the complete freeing of the market in principle on 1 January 1967.

Following changes which have occurred on the international sulphur market, the Italian Government and the Commission have also studied how far these would be likely to entail modifications in the reorganization plan, assuming that the timetable for opening the market is not changed.

In conformity with the Italian proposals for the gradual liberalization of the sulphur industry, and in the framework of Protocol III to the List G Agreement, the Commission adopted two decisions concerning sulphur and carbon disulphide on 21 December 1965 ⁽¹⁾.

Freedom of establishment and freedom to supply services

General

37. Freedom of establishment and freedom to supply services, which are provided for in Articles 52 to 56 of the Treaty, are being introduced in three ways: abolition of restrictions for reasons of nationality on engagement in self-employed activities; recognition of degrees, certificates and other qualifications; co-ordination of conditions for the exercise of the said activities. Lastly, if these two freedoms are to be ensured there must be co-ordination of company law (Article 54 (3 g) of the Treaty).

a) Work with a view to enabling individuals and corporations of a Member State to set up in another Member State or to provide services there has continued as regards both the elaboration of directives by the

(¹) See official gazette No. 6, 14 January 1966.

Community institutions and their implementation through domestic measures in Member States. In many self-employed activities it is now actually possible to set up a stable and permanent subsidiary, branch or agency in any other Member State and there to carry out a large number of individual economic operations with the same rights as nationals of the host State. Fourteen directives, based on Articles 52 to 66 of the Treaty and on the General Programmes, and relating to the removal of restrictions on the exercise of activities in manufacturing and craft industries, mining, agriculture, wholesale trade, the film industry and reinsurance, are at present in force. Proposals are being framed and new drafts prepared by the Commission, which also supervises the application of the directives by the Member States (Article 155 of the Treaty).

b) On the basis of Article 57 of the Treaty, the Commission has continued to study the co-ordination of arrangements in the Member States governing the exercise of self-employed activities.

When such co-ordination cannot be effected rapidly, the Commission proposes that the Council adopt transitional measures to replace equivalence of qualifications under certain conditions and, where appropriate, with complementary examinations. Two directives are already in force, and the Commission has also published three recommendations to facilitate their implementation. Four new proposals have been submitted to the Council and are going through the normal procedure in the Parliament and the Economic and Social Committee, while three others will shortly be submitted to the Council.

One particular sector of co-ordination, whose legal basis is Article 54(3 g) of the Treaty, concerns companies.

c) Studies on the mutual recognition of degrees etc., which is particularly necessary in the Liberal professions, are at present going on in the Commission. However, because of the differences in both training courses and the *effectus civilis* of degrees, progress is slow. The fact that for the same activity, particularly in crafts, certain States insist on a diploma and others do not creates a further difficulty as regards the system likely to result from co-ordination of the conditions for exercise of these activities. Two draft directives will shortly be submitted to the Council.

Introduction of the relevant law: measures in various branches

38. *Council directives.* The Council has adopted two directives. The first (13 May 1965) concerns the film industry ⁽¹⁾ and removes restrictions on the opening of cinemas specializing in films in the language of the country of origin, eliminates quotas on the import of dubbed films, extends the screening quotas established by the Member States to protect their own production to films originating in one or more Member States, and abolishes restrictions on the dubbing of films in the language of the importing State. The second directive, adopted on 28 February 1966, abolishes restrictions based on nationality on freedom of establishment and freedom to supply services in self-employed activities in the electricity, gas, water and sanitary industries ⁽²⁾.

39. *Reference to European Parliament and Economic and Social Committee.* During the period under review the European Parliament or the Economic and Social Committee, or both these institutions, rendered favourable opinions on ten draft directives, some of them already discussed in the Eighth General Report ⁽³⁾. They concern the following industries: electricity, gas, water and sanitary services (Economic and Social Committee on 28 April 1965 and European Parliament on 12 May 1965); retail trade, except in medicaments, drugs and plant health products, for which other directives will be issued (abolition of restrictions and transitional measures—Economic and Social Committee on 29 September 1965 and European Parliament on 22 October 1965); food and beverages (Economic and Social Committee on 7 December 1965 and European Parliament on 18 January 1966); hotels, restaurants, cafes and the like (abolition of restrictions and transitional measures—Economic and Social Committee on 28 October 1965 and European Parliament on 18 January 1966); in the agricultural sector the benefit of legislation on farm leases and the possibility of changing from one farm to another (Economic and Social Committee on 1 July 1965 and European Parliament on 21 January 1966); real property business and services supplied to firms (Economic and Social Committee on 28 January 1965, European Parliament on 14 May 1965). The proposed directive on press activities was examined

⁽¹⁾ Official gazette No. 85, 19 May 1965.

⁽²⁾ See official gazette No. 42, 8 March 1966.

⁽³⁾ See Eighth General Report, secs. 39 to 50.

by the European Parliament on 20 October 1965 (the Economic and Social Committee gave its opinion on 27 January 1965). On 28 October 1964 the Committee rendered its opinion on the proposed directive on the co-ordination of guarantees required of companies to project the interest both of their members and of third parties. This proposal is now before the Parliament for its opinion. On 28 October 1965 the Economic and Social Committee formulated its opinion on a directive concerning self-employed activities in forestry.

40. *New proposals submitted by the Commission to the Council.* On 28 June 1965 the Commission, acting under Article 149 of the Treaty, submitted to the Council a new version of its proposal of 16 March 1964 on public works contracts embodying the amendments proposed by the Parliament and the Economic and Social Committee. These reflected the desiderata of certain European circles directly interested (local authorities, public undertakings and private firms, crafts, railways). An important feature of the new text is that it simplifies the present quota system (a supplementary safeguard clause to the one in Article 226 of the Treaty).

The Commission has sent to the Council twelve draft directives, on six of which the European Parliament and the Economic and Social Committee have given their opinion⁽¹⁾. The drafts concern retail trade (two proposals submitted on 20 March and 13 April 1965); food and beverages (two proposals submitted on 15 April 1965); personal services in hotels and restaurants (two proposals submitted on 8 and 9 April 1965). Opinions are at present being sought on six proposals concerning forestry activities (submitted to the Council on 8 April 1965); banks and financial establishments (30 July 1965); access to credit and co-operatives (two proposals) and transport auxiliaries (two proposals) (21 December 1965).

41. *Proposals at present being prepared.* The Commission is putting into final form fresh proposals in the industrial, crafts and commercial sectors: insurance (abolition of restrictions and co-ordination for direct insurance other than life insurance), trade in toxic substances (abolition of restrictions and transitional measures); exploration and drilling for oil or natural gas; films (third directive). Drafts are being prepared on the

(¹) See above, sec. 39.

following liberal professions: surveyors, agricultural engineers, architects, accountants and tax consultants (abolition of restrictions and co-ordination of degrees ⁽¹⁾).

CO-ORDINATION OF COMPANY LAW

42. Article 58 of the Treaty lays down that companies incorporated in any Member State shall enjoy freedom of establishment on the sole condition that their registered office, central administration or main establishment is within the Community. It is therefore important to see that this freedom does not impair protection of members of such companies or third parties. The co-ordination of national legislation on companies provided for in Article 54 (3 g) of the Treaty ⁽²⁾—the counterpart of freedom of establishment—consequently concerns those provisions of company law which protect members of companies or third parties or both.

On 21 February 1964 the Commission submitted to the Council a first draft directive on the co-ordination of provisions concerning the publication of particulars, the validity of commitments and causes of nullity of joint stock companies, partnerships and limited liability companies. This is at present being examined in detail in the European Parliament. A working party is currently making preparatory studies for provisions to complete co-ordination of the laws on joint stock companies. A first working document dealt with four questions: constitution of the company; formation and preservation of corporate assets, particularly where there is a holding of part interest in other companies or companies are merged; increase of capital; reduction of capital. Studies have also been carried out on: the issue of stocks and shares; company organization, structure and control; mergers, conversion, winding-up and liquidation; balance sheets and profit-and-loss accounts.

Effect given to freedom of establishment

43. As directives are not self-executing, co-operation by the Member States is necessary for them to take effect. But because of their number

⁽¹⁾ See also sec. 259.

⁽²⁾ See Eighth General Report, sec. 39.

and the diversity of the sectors concerned, the States are sometimes obliged to amend many laws or regulations. The Commission supervises implementation in accordance with the Treaty.

Measures by the Member States. There has been progress in this field. Thus, since 13 August 1965, Germany has had a law amending Section 12 of the Gewerbeordnung and deleting Section 292 of the Aktiengesetz, thus eliminating the general restrictions on the exercise of self-employed activities.

A considerable number of restrictions concerning individual sectors have already been eliminated by measures taken by the States pursuant to the directives ⁽¹⁾. True, there are still delays, due especially to the lengthy legislative procedure sometimes required by reason of the rule of similarity of form. To remedy these drawbacks, first France (law of 14 December 1964 ⁽²⁾) and Belgium (law of 19 February 1965), then Italy passed a law on the delegation of powers (on 13 July 1965) enabling the Government to conform with Council directives without the need for parliamentary procedure in each case. These preliminary measures augur well for the future. However, delays in drafting proposals, due to the Commission's limited means, have repercussions on national procedures. Finally, in Germany the Government has had to draft new laws governing entry and stay.

Supervision of implementation by the Commission. In conformity with Article 155, paragraph 2, of the Treaty, the Commission sees that the directives are put into effect by the Member States. Since sixteen Council directives are in force, this involves a good deal of work and will involve more as time goes on. The Commission watches that action by the Member States really ensures for beneficiaries the same conditions as nationals of the host country when restrictions are abolished, and in a general way that the aims of the directives are really attained by national measures,

(¹) The following are the main laws or regulations pursuant to the directives promulgated to date: Germany: Law of 2 April 1964, regulation of 3 August 1965; France: Decrees 63-1019, 64-1049, 63-1257, 63-1258; Belgium: Law of 8 July 1964, Royal decrees of 15 December 1965 and Royal decree of 21 December 1965; Luxembourg: Grand-ducal regulation of 11 April 1964, ministerial regulation of 12 April 1964; Netherlands: Decree of 2 September 1964; Italy: Law of 4 November 1965.

(²) The validity of this law expired on 31 December 1965.

i.e. that the latter give full effect to Community rules. The nature of the national laws and regulations must also be such as to enable beneficiaries to avail themselves of their rights under the directives and if necessary vindicate them before the courts in the host country. In some cases the measures taken by Member States, although faithfully reflecting the content of Council directives, lack the legal force which would ensure completely equal treatment with nationals in the event of disputes.

Common competition policy

GENERAL

44. In the period under review the Commission paid special attention to the study of a large number of practical competition problems, to strengthening the foundations of the common competition policy and to translating this policy into practice. Work in this field is guided by the basic principles of the competition policy outlined on behalf of the Commission by M. von der Groeben, when on 16 June 1965 he addressed the European Parliament on "Competition policy as part of economic policy in the Common Market". The basic principles are as follows:

- i) To open up the domestic markets;
- ii) To dismantle internal frontiers and frontier controls;
- iii) To eliminate distortions of competition;
- iv) To establish an effective and workable competitive system;
- v) To encourage a system of international competition as free of distortions as possible.

This competition policy is not an end in itself but an essential means of attaining maximum productivity, satisfaction of demand, well-being and economic freedom for everybody in the Community. But competition has these socially, economically and politically desirable consequences in equal measure only when it is "workable" competition, i.e. when it is neither artificially distorted nor restricted. In ensuring this, the Commission is making an effective contribution to reinforcing the intra-

Community and international competitive power of the firms of the Common Market.

Interpenetration between competition policy and the other branches of economic policy is becoming ever closer. For those problems that cannot be solved through competition policy, what is most needed is a medium-term economic policy.

The principles of the Commission's policy with regard to industrial combination, which were also explained to the European Parliament in June 1965, were restated and amplified in a memorandum submitted to Governments in December 1965. The memorandum argued that the aim was not to create artificial inducements to concentration, but to remove any legal or other artificial obstacles standing in the way of amalgamations that would be in the general economic interest. The most urgent needs are a "European" form of company, a "European" patent, and harmonization of certain major tax laws. The Commission is, then, favourably disposed to most amalgamations. But the limit to these is set by Article 86 of the Treaty, which prohibits amalgamations leading to monopolization of markets. The memorandum also deals with the problems facing small and medium-sized enterprises, which are often handicapped in competition by artificial distortions, and suggests a series of measures to remove such distortions.

As one of the steps towards translating into practice the common policy on competition, the Commission asked a number of academic experts from the member countries to undertake studies on the role of competition policy in the general economic policies of Member States.

Professor Zijlstra of The Hague then combined the country studies and drafted a report on the lines that should be followed in competition policy and on its relationship with economic policy in the Community. Part I of this comprehensive report is based on the country studies and examines the similarities and the differences in current ideas on competition policy and economic policy in the Member States. Part II examines the likely impact of the further development of the Community on economic policy in the Member States. Part III of the report examines economic policy and competition policy in the Community in the light of the economic

order aimed at by the EEC. The size of the public sector and the competition policy to be aimed at are also dealt with. The Commission believes that this report, especially because of the views and the explanatory material it contains, makes a useful and important contribution to the discussion of the relations between the various aspects of competition policy and also between competition policy itself and medium-term economic policy. It will be published as one of the "Studies" in the competition series.

RESTRICTIVE AGREEMENTS AND DOMINANT POSITIONS

45. *Individual cases pending before the Commission, number and stage reached.* The number of individual cases pending before the Commission as a result of applications, complaints or action on the Commission's own initiative amounts—as Table 5 shows in detail—to 38 297. The bulk of these—38 045—are cases of which the Commission was informed by the parties to the agreement themselves. These parties sought approval of the agreements—i.e. negative clearance stating that there were no grounds for intervention by the Commission under Articles 85 or 86—or exemption from the cartel ban under Article 85 (3).

The figure of 38 045 notifications and applications for negative clearance includes 594 cases received during the period under review. Once again, most of the new applications and notifications concern exclusive dealing and licensing contracts. Horizontal restraints of competition between enterprises at the same stage in the economic process are less often notified to the Commission by the parties themselves, and in general only when they expect clearance in view of the favourable effects of the restraint of competition or when they assume that the restraint of competition is already known to the Commission through the press or through other cases pending, or might well become known in one of these ways. It is therefore an important task for the Commission to track down such horizontal restraints of competition and to check their compatibility with Article 85.

Of the 38 297 individual cases, 1 180 have been settled before investigations began, the agreements for which negative clearance had been requested having been terminated.

TABLE 5
*Individual cases dealt with by 31 March 1966:
 numbers and stage reached*

	Notifications and clearance applications received		Proceedings based on complaint or opened on the Commission's own initiative			Total
	on the basis of negative clearance applications and/or notifications	on the basis of notifications on Form B 1	Complaints from enterprises	Requisites from Member States	Proceedings on the Commission's own initiative	
Number of individual cases	25 946	12 099	109	—	143	38 297
Cases withdrawn before opening of investigations ⁽¹⁾	874	306	—	—	—	1 180
Cases investigated by Commission ⁽²⁾	327	27	109	—	143	606
Number of cases settled by decision, of which:	8	—	[?] (?)	—	—	8
i) Orders to desist under Art. 3, Reg. 17 ⁽³⁾	1	—	[?] (?)	—	—	1
ii) Exemption and application of Art. 7, Reg. 17	4	—	—	—	—	4
iii) Negative clearance under Art. 2, Reg. 17	3	—	—	—	—	3
iv) Rejection of a complaint under Art. 3 Reg. 17	—	—	—	—	—	—
Number of cases closed without decision after opening of investigations, of which:	80	18	28	—	96	222
i) Withdrawal of applications, notifications or complaints, or cases lapsing because Commission decision no longer needed	41	16	5	—	—	62

TABLE 5 (cont.)

Individual cases dealt with by 31 March 1966:
numbers and stage reached

	Notifications and clearance applications received		Proceedings based on complaint or opened on the Commission's own initiative			Total
	on the basis of negative clearance applications and/or notifications	on the basis of notifications on Form B 1	Complaints from enterprises	Requisites from Member States	Proceedings on the Commission's own initiative	
ii) Cases of parties terminating restraints of competition ⁽⁴⁾	39	2	7	—	6	54
iii) Proceedings closed for other reasons ⁽⁵⁾	—	—	16	—	90	106
Number of cases in which the Commission's investigations are still in hand ⁽⁶⁾	239	9	81	—	47	376
Number of cases in which the Commission has formally opened proceedings	179	5	40	—	1	225 ^(*)

⁽¹⁾ Withdrawal of notifications and negative clearance applications due to termination of contracts.

⁽²⁾ Investigation measures of all kinds to establish the facts of the case, notably requests for information and investigations under Article 14.

⁽³⁾ In some cases coupled with refusal of exemption under Article 85 (3).

⁽⁴⁾ Voluntary termination, after the opening of investigation, of restraint of competition challenged by the Commission, in some cases after the despatch of a communication under Article 15 (6) or of a recommendation to parties to desist under Article 3(3).

⁽⁵⁾ e.g. lack of competence, closure of own initiative procedure (and opening of notification procedure) after notification of the restraint challenged, tacit withdrawal of complaints through failure of complainants to answer questions addressed to him.

⁽⁶⁾ This figure is the total number of cases in which investigations were undertaken, minus the cases settled by decisions or by closure. For measures taken in the course of investigations, see Table 6.

^(*) The decision on the complaint is coupled with that concerning the notification, because the two concern the same case.

^(*) These individual cases have been regrouped in 80 proceedings on the basis of similarity of content.

TABLE 6

Measures taken as part of current investigations but which do not conclude the proceedings — 31 March 1966 (1)

	Notifications and clearance applications received		Proceedings based on complaint or opened on the Commission's own initiative			Total
	on the basis of negative clearance applications and/or notifications	on the basis of notifications on Form B 1	Complaints from enterprises	Requisites from Member States	Proceedings on the Commission's own initiative	
Investigations (Art. 14)						
i) Number undertaken	8	—	2	—	7	17
ii) Individual cases concerned	9	—	6	—	10	25
iii) Enterprises involved	66	—	18	—	80	164
Decisions to call for information and institute investigations [Art. 11 (5) and Art. 14 (3)]						
i) Number	1	—	—	—	—	1
ii) Individual cases concerned	1	—	—	—	—	1
iii) Enterprises involved	1	—	—	—	—	1
Recommendations to parties to desist [Art. 3 (3)]						
i) Number	1	—	—	—	—	1
ii) Individual cases concerned	1	—	—	—	—	1
iii) Enterprises involved	930	—	—	—	—	930
Communications [Art. 15 (5)]						
i) Number	5	—	—	—	—	5
ii) Individual cases concerned	15	—	—	—	—	15
iii) Enterprises involved	226	—	—	—	—	226
Fines and penalties (Art. 15 and 16)	—	—	—	—	—	—

TABLE 6 (cont.)

Measures taken as part of current investigations but which do not conclude the proceedings — 31 March 1966 ⁽¹⁾

	Notifications and clearance applications received		Proceedings based on complaint or opened on the Commission's own initiative			Total
	on the basis of negative clearance applications and/or notifications	on the basis of notifications on Form B 1	Complaints from enterprises	Requisitions from Member States	Proceedings on the Commission's own initiative	
Hearing of parties concerned and third parties: Notification of "acts or omissions" [Art. 19 (1)]						
i) Number	5	—	3	—	—	8
ii) Individual cases concerned	5	—	8	—	—	13
iii) Enterprises involved	31	—	29	—	—	60
Publication of application or notifications [Art. 19 (4)]						
i) Number	10	—	—	—	—	10
ii) Individual cases concerned	18	—	—	—	—	18
Consultation of Cartels and Monopolies Committee prior to decisions under Art. 10						
i) Number	10	—	1	—	—	11
ii) Individual cases concerned	12	—	2	—	—	14

⁽¹⁾ The table gives the number of certain measures other than those that conclude the procedure which have been taken in the individual cases. Requests for information under Article 11, which are made in almost every case, are not included.

46. So far the Commission has undertaken investigations in 606 cases. These investigations are carried out partly before and partly after the

formal opening of the proceedings ⁽¹⁾. The investigations carried out before the formal opening of the proceedings are designed to throw light on the scope and economic significance of the restraints of competition under scrutiny. In addition, the parties to the agreement are, at this stage of the proceedings, given an opportunity—of which they often take advantage—to adjust their agreements so that they no longer fall within the ban of Article 85 (1) or that they qualify for exemption under Article 85 (3).

In selecting the individual cases in which investigations were to be carried out, the Commission based itself on the priority principles it had already established ⁽²⁾. Of the individual notifications and applications for negative clearance, it has accorded priority to some 354 cases which involve major horizontal restraints of competition or which could serve as test cases for the block exemptions now contemplated. It has also undertaken investigations into possible infringements of Articles 85 or 86 in all 109 cases of complaints received and in 143 cases where it has acted on its own initiative. Apart from complaints, evidence of the existence of these infringements is gained mainly through informal information received from third parties, from information published in the press and from the systematic sifting of the many reports on restraints of competition in specific industries. As long as the evidence of infringement does not warrant the formal opening of proceedings ⁽³⁾, the Commission confines its action to preliminary investigation. In many cases this action has induced the parties concerned to notify the agreements to the Commission after the restraints of competition had been discovered, so that the original proceedings opened on the Commission's own initiative (Article 3 (1) of Regulation No. 17) was replaced by action taken under the procedures for dealing with notifications.

47. The number of individual cases which have led to decisions is eight, four of them reached during the period covered by this report ⁽⁴⁾. In addition to these decisions, the number of cases is steadily increasing in which the parties concerned voluntarily terminated the

⁽¹⁾ The Eighth General Report (sec. 57) gave only the number of proceedings formally opened.

⁽²⁾ See Seventh General Report, sec. 66.

⁽³⁾ The Eighth General Report gave only the number of proceedings formally opened by the Commission on its own initiative.

⁽⁴⁾ See below, secs. 61 to 63.

restraints of competition in question during the investigation but before a decision was reached, in order to bring about the closure of the proceedings and so avoid an unfavourable decision (e.g. order to desist under Article 3 of Regulation No. 17). So far 54 cases have been settled in this way ⁽¹⁾.

Apart from these cases of voluntary termination of infringements, the number of cases in which notifications or applications for negative clearance were withdrawn and for which there was therefore no reason to proceed further with investigations is by no means negligible. In many of these cases, the parties concerned terminated the contract or allowed it to lapse because, in view of the Commission's cartel policy, they could not expect negative clearance or exemption under Article 85 (3). Most of the withdrawals of complaints were due to the fact that the complainant had decided that the situation complained of did not in fact justify action by the Commission.

48. Table 6 gives information on the specific measures adopted in the course of current investigations. These are measures that do not in themselves conclude the proceedings, but represent major steps on the road to a decision or may induce those concerned to terminate the infringement.

Apart from the requests for information under Article 11 of Regulation No. 17, which the Commission normally addresses to enterprises whenever a case is under investigation, the Commission has undertaken a larger number of investigations on the basis of Article 14 ⁽²⁾ and issued further communications under Article 15 (6) ⁽³⁾.

The hearing of the parties concerned and of third parties is a direct contribution to the preparation of the decision. Once the proceedings in a case have been opened and the investigations are nearing completion, the Commission gives those concerned an opportunity to express their views and to submit for consideration any facts they believe relevant. So far parties to agreements have been informed in eight cases (six of them in the reporting period) of the grounds why the Commission considered it could not grant negative clearance or exemption under Article 85 (3) as requested. These hearings are of special importance

⁽¹⁾ See below, sec. 53, for details of the most important cases.

⁽²⁾ See below, sec. 49.

⁽³⁾ For fuller details see below, secs. 54 to 57.

for the parties to the agreements, since they give them a chance to express their views on the points which have weighed with the Commission, i.e. to submit all evidence relevant to their defence. They also provide an opportunity for the parties to forestall an unfavourable decision by desisting from the practices attacked.

By publishing pursuant to Article 19 (3) the relevant notifications or applications for negative clearance, the Commission has in ten cases given the sections of the business community concerned an opportunity to express their views and to submit facts and other evidence which may be relevant to its decision on the application for negative clearance of exemption applied for under Article 85 (3).

During the period under review, the last phase of the proceedings prior to a decision was initiated in three cases. The opening step is the consultation of the Consultative Committee on Cartels and Monopolies under Article 10 on the basis of a preliminary proposal for a decision.

49. *Investigations.* Under Article 14 (1 and 2) of Regulation No. 17, 164 investigations concerning a total of 25 individual cases have been carried out in enterprises in all the Member States either on the Commission's own initiative, as a result of complaints from outside, or before deciding that Article 85 (3) is applicable. Where the investigations were carried out by agents of the Commission, the enterprises replied to the questions addressed to them and presented the books and documents required. In only one case was the Commission obliged to order an investigation by means of decision taken under Article 11. In many cases the competent authorities of the Member States on the territory of which the investigations were effected exercised their right to help the agents of the Commission in carrying out their task.

In accordance with Article 13, the Member States' authorities also carried out investigations at the request of the Commission.

50. In order to be able to give assistance to servants of the Commission engaged in an investigation, the Member States are required, under Article 14 (6) of Regulation No. 17, to arm themselves with the necessary powers; this has been done so far in Italy, Luxembourg and Belgium (1).

(1) See Eighth General Report, sec. 70.

The relevant official acts are the Presidential Decree No. 1884 of 22 September 1963 ⁽¹⁾, the Grand Ducal Decree of 26 May 1963 ⁽²⁾ and the Royal Decree of 18 January 1966 ⁽³⁾. The Belgian decree is to be amplified, since it does not yet fulfil all the requirements of Article 14 (6). The Commission has proposed certain amendments to the texts which France and the Netherlands had referred to it in draft form, and the two Member States have informed the Commission that they would bear these amendments in mind, thus completing consultations on the matter with these countries. Consultation on a draft submitted by Germany is still in progress.

51. *Decisions requesting information.* In a case concerning the sales organization of a Dutch enterprise, the enterprise had supplied incomplete information in response to a request from the Commission. The Commission therefore adopted a decision under Article 11 of Regulation No. 17, requiring the enterprise to provide the information called for.

52. *Inquiries by economic sectors.* Under Article 12 (1) of Regulation No. 17, the Commission has power to conduct a general inquiry into a specific economic sector ⁽⁴⁾. In June 1965 it took its first decision under this Article after consulting the Consultative Committee on Cartels and Monopolies, and embarked upon an inquiry into the margarine industry. This sector was chosen for investigation because, despite sharp price differences in individual member countries, trade in margarine between them had lagged strikingly behind the general development of trade in other products, and the Commission wished to know why. The inquiry covers not only the manufacture of and trade in margarine but also the differences in Member States' laws and regulations on the composition, packaging and pricing of margarine.

53. *Settlement of cases through dropping of restraints on competition.* In the following cases, the enterprises have terminated agreements in restraint of competition or amended them after objections had been raised by the Commission.

⁽¹⁾ *Gazetta Ufficiale della Repubblica Italiana*, 11 January 1964, p. 142.

⁽²⁾ *Mémorial, Recueil de législation*, No. 31, 15 June 1965, p. 592.

⁽³⁾ *Moniteur*, 22 January 1966, p. 759.

⁽⁴⁾ See Eighth General Report, sec. 66.

a) Four German manufacturers of industrial plant had notified an export agreement providing for the exchange of information on sales opportunities abroad, for deciding on a price level applicable to their exports, and for the maintenance of minimum prices. This system is no longer applied to exports within the Common Market;

b) Following a complaint, a Swiss manufacturer of machinery has dropped the arrangement for absolute territorial protection between the Member States that had been a part of his exclusive dealing agreements;

c) Two French manufacturers of motor spares, who had signed a specialization agreement and set up a joint sales organization, have announced that the agreement has been terminated;

d) An agreement conferring the right to use secret chemical processes for the manufacture of basic dyestuffs for paint but containing export prohibitions has been terminated;

e) The work of an office for the joint supply of services for the establishment of nuclear plant has been terminated;

f) Four drug manufacturers have dismantled a joint sales organization mainly concerned with exports;

g) A plastics manufacturer had filed a complaint against two competitors owning two patented processes who had written procurement requirements into a licence exchange contract and into sublicensing contracts; these contracts have been dropped or declared inoperative in respect of the two patents;

h) A cartel in the paper industry fixing quotas for the Dutch market and requiring members to charge the same prices has been dissolved.

54. *Bans notified.* Since the entry into force of Regulation No. 17 in 1962 the Commission, acting in accordance with Article 15 (6) of Regulation No. 17, has in five cases informed enterprises parties to restrictive agreements that, after a preliminary examination, an agreement notified by them was considered to fall under the cartel ban of Article 85 (1) and that clearance under Article 85 (3) was not warranted.

The effect of thus notifying the enterprises concerned was that from then on the Commission could be means of a decision impose fines on them if

they persisted in applying the agreements despite the Treaty ban on restrictive agreements. The Commission considers notifying enterprises in this way if, after preliminary examination, it has reached the conclusion that there is manifest infringement of the Treaty rules on competition.

TABLE 7

	Number of communications	Cases concerned	Number of enterprises concerned
Building materials	3	13	113
Liquid soap	1	1	27
Water heaters	1	1	86
Total	5	15	226

55. During the period under review, enterprises informed the Commission in two cases in which communications had been sent—one concerning water heaters ⁽¹⁾ and the other liquid soap ⁽²⁾—that they had terminated the agreements in question.

56. In the building materials sector (natural sand), the Commission had sent a group of six manufacturers a communication concerning their quota and price arrangement for the Dutch market. The parties to this arrangement (one German, one Dutch and four Belgian enterprises) had notified two agreements to the Commission. The first fixed sales quotas on the Dutch market for natural sand, used mainly in the pottery industry and for the manufacture of abrasives, soaps, paints and enamel. Under the terms of the second agreement, the four sales agents concerned were to procure natural sand solely from manufacturers party to the first agreement, save where none of these manufactured the product required. In addition, the group of sales agents fixed minimum sales prices. Penalties

⁽¹⁾ See Eighth General Report, sec. 65.

⁽²⁾ *Ibid.*, sec. 64.

were provided for in case of infringement of the agreement. After a preliminary examination, the Commission reached the conclusion that on the Dutch market competition in the product concerned had been eliminated between the German and Belgian enterprises and the only Dutch manufacturer of the product in question and that it was therefore incompatible with the Common Market and prohibited. The enterprises concerned informed the Commission that they would terminate the agreements.

57. A further ban was notified to 53 enterprises in the cement industry in Belgium, Holland, Germany and the Netherlands, which had notified an agreement designed to regulate trade in cement on the Dutch market. The agreement included provisions fixing quotas for the supply of cement and clinker to the Netherlands and fixed uniform prices and terms of sale. Each party also undertook not to set up cement works on the national territory of any other party without the consent of any parties to the agreement established in that territory. After a preliminary examination of the facts, the Commission came to the conclusion that this agreement adversely affected trade in cement and clinker between the Netherlands on the one hand and Belgium and Germany on the other, and at the same time restricted competition in these products on Dutch markets. The preliminary examination yielded no evidence that the agreement helped to improve production or distribution of the products, or to further technical or economic progress, while "reserving to users an equitable share in the resultant benefit" (Article 85 (3)), circumstances which might have allowed it to qualify for exemption from the ban on cartels.

Early in March 1966, the Dutch, Belgian and German enterprises concerned appealed to the Court of Justice against the communications received from the Commission. The main point at issue here is whether communications issued in accordance with Article 15 (6) of Regulation No. 17 are decisions within the meaning of the second paragraph of

58. *Notices concerning intended exemptions and negative clearances.* On 25 March 1965 ⁽¹⁾, the Commission published, in accordance with Article 173 of the Treaty.

(¹) See official gazette No. 49, 25 March 1965.

Article 19 (3) of Regulation No. 17, the "essential content" of three exclusive dealing agreements concluded by the French enterprise Père Anselme concerning the purchase and sale of Rhône valley wines. No objection to the Commission's intention to issue negative clearance or a declaration under Article 85 (2) was raised as a result of this publication, and it will shortly be possible to complete the proceedings.

The comments made by the parties concerned further to the notice published in the "Convention Faïence" (1) case have led to the resumption of investigations.

After publication of a notice concerning the exclusive concession for alarm clocks manufactured by Jaccard Frères (2), a change in the circumstances of the case made it necessary to postpone the decision.

59. *Points taken into consideration by the Commission.* Before taking a decision, the Commission must, under Article 19 (1) of Regulation No. 17, inform the enterprises concerned of the points objected to which have been taken into consideration, so that the enterprises may have an opportunity to express their views on these points. The Commission has taken this step in several cases, the restraints of competition involved being:

- a) Exclusive purchasing commitments in the textile industries;
- b) Exclusive distribution arrangements with absolute territorial protection in connection with publishing;
- c) Exclusive dealing commitments with absolute territorial protection in the beverage industry;
- d) A collective trade-mark arrangement with territorial protection agreements in the dyestuffs industry;
- e) A restrictive agreement concerning aggregated rebates in the rubber industry;
- f) An agreement concerning terms and conditions of sale for insecticides.

60. *Decisions.* In the period under review, the first three decisions exempting agreements from the ban of Article 85 (1) by virtue of Article 85 (3) were taken.

(1) See official gazette No. 73, 13 May 1964.

(2) *Ibid.* No. 165, 22 October 1964.

61. *Exclusive dealing agreement Diepenbrock en Reigers - Blondel* ⁽¹⁾. This decision concerns an agreement under which the Dutch firm Diepenbrock en Reigers, manufacturers of enamelled household utensils, granted Etablissements Blondel of Paris sole selling rights for these products in France. There is no ban on exports and no ban on rival imports into France.

The Commission found the agreement designed to restrain competition within the meaning of Article 85 (1), and liable to affect trade between the Member States because of the terms and conditions fixed for the importation into France of the products covered by the contract. Nevertheless the exclusive dealing arrangement improves the distribution of goods; consumers also have a fair share in the benefits resulting from such improvement, for French consumers can obtain the products manufactured in the Netherlands more quickly and easily through the firm that has sole selling rights, and the fact that it is still possible to obtain imports ("rival" imports) without going through Blondel means that there cannot be any significant differences between prices in the Netherlands and in France.

62. *Hummel-Isbecque exclusive dealing agreement* ⁽²⁾. This decision concerns an agreement by which the German enterprise Hummel grants the Belgian firm of Isbecque sole selling rights for its tractors and other farm machinery. Hummel undertakes not to sell to other persons or firms in Belgium, but gives no undertaking to prevent indirect deliveries ("rival" imports) into the area covered by the contract. Isbecque, on the other hand, is not restrained from re-exporting the goods. Isbecque purchases and sells on its own account and fixes its own selling prices. It arranges to demonstrate the technically complex and relatively expensive products which it imports from Hummel and to stock spare parts. As the accessories manufactured by Hummel are not all suitable for the soil and working conditions in Belgium, Isbecque has suitable accessories made, notably ploughs, cultivators and harrows.

In this case, the Commission exempted the agreement retroactively from the Treaty ban and thus applied for the first time Article 7 of Regulation

⁽¹⁾ See official gazette No. 131, 17 July 1965.

⁽²⁾ *Ibid.* No. 156, 23 September 1965.

No. 17. This clause provides that the Treaty ban may be declared inapplicable to "old" agreements not originally qualifying for the exemption but since adjusted to Treaty requirements.

In its decision, the Commission again stated that such exclusive dealing agreements fall under the Treaty ban on restrictive agreements but that the ban can be declared inapplicable where they do not contain, apart from the agreement on exclusive dealing, other clauses restraining competition and, in particular, clauses containing export bans designed to isolate the Member States' markets.

63. *Jallatte-Voss and Jallatte-Vandeputte agreements* ⁽¹⁾. This decision concerns two agreements by which the French firm Maison Jallatte entrusts the exclusive distribution of its protective footwear to Hans Voss in Germany and to Vandeputte in Belgium. Jallatte undertakes not to sell to other enterprises or persons in the above countries but does not undertake to prevent indirect deliveries to the areas covered ("rival" imports). The exclusive dealers must keep stocks of the products in question in their respective countries. They are not forbidden to re-export to other countries. They buy and sell Jallatte's protective footwear for their own account, and fix selling prices themselves. The agreement between Jallatte and Vandeputte also has an exclusive buying clause (in restraint of competition) whereby the exclusive dealer undertakes for the duration of the agreement not to buy or sell articles similar to those manufactured by Jallatte. The Commission ruled that an exclusive dealing agreement working both ways (on sales for the manufacturer and on purchases for the dealer) may also be exempted from the Treaty prohibition. The undertaking by Vandeputte to buy protective footwear only from Jallatte (in restraint of competition) is considered essential to the aim of the parties, which is to improve as far as possible the distribution of the products in question, having due regard to market conditions.

64. *Grundig-Consten exclusive dealing contract* ⁽²⁾. In the appeal referred to the Court of Justice of the European Communities by Grundig and Consten against the Commission's decision (Case 58/64), the Italian and German Governments have intervened to support the submissions of

(¹) See official gazette No. 3, 6 January 1966.

(²) See Eighth General Report, sec. 62.

Grundig, while the firms Leissner of Strasbourg, and UNEF of Paris have intervened to support the decision by the Commission. The oral proceedings took place on 7 and 8 March 1966.

65. *Interpretation of Article 85.* The following principles concerning the interpretation of Article 85 may be deduced from the three decisions briefly summarized above:

a) *Improvement of production or of distribution.* Distribution by a sole concessionary importing the merchandise leads to an improvement of distribution since the concessionary will be in a position to offer these products more regularly and more easily, and distribution in this way makes it easier to eliminate difficulties of distance, language, legal requirements, etc. between the country of production and the territory of sale (Blondel, Isbecque, Jallatte). This is even more true where the handling of the products covered by the contract requires special know-how (Isbecque).

The existence of a sole importing concessionary enables the marketing of the product to be simplified and thus leads to improved distribution because the producer can concentrate work relating to the sale of his products and is not required to maintain complex business relationships with a large number of dealers. He thus has an improved overall view of the market and can adapt himself more promptly to changing conditions (Blondel, Isbecque, Jallatte). In addition, the supply of information and technical assistance by the manufacturer, or even to the manufacturer, is thus facilitated (Jallatte).

If the sole distributor possesses a demonstration service, ensures an after-sales service, maintains a stock of spare parts (Isbecque) or adapts the products to the special requirements of the territory for which it is responsible, this may also mean an improvement in distribution.

b) *An equitable share of resultant benefits.* Improvements benefit the users of merchandise manufactured abroad and adapted to their needs where they can obtain them more quickly and more easily and where the selling prices, minus tariffs, taxes and transport charges, do not exceed the prices in the country of origin (Blondel).

The users of merchandise manufactured abroad benefit from improvements where they can obtain such merchandise more easily and quickly, and also

more cheaply, because the increased demand generated by improved distribution should lead to lower costs partly reflected in lower consumer prices (Jallatte).

Where various important services are supplied to users, this is also deemed to be an advantage (Isbecque).

“Rival” imports also constitute a preventive element contributing to the maintenance of balanced prices (Blondel, Jallatte, Isbecque).

c) *Indispensability of restraints on competition.* The obligation on the manufacturer to supply only the sole dealer in the area covered by the contract is indispensable where the improvement of distribution can at the time be attained through no other form of sale and where no restraints of competition are provided for (Blondel, Isbecque, Jallatte).

The additional stipulation restraining competition is essential so as to make possible more intensive marketing operations, i.e. so as to induce the concessionary—given the market situation and the position of the contracting parties on the market—to concentrate on selling the products of this brand (Jallatte).

d) *Exclusion of competition.* There is no opportunity to exclude competition for a substantial part of the products as long as the products covered by the contract are subject to direct competition from like products and as long as there is no absolute territorial protection (Blondel, Isbecque).

66. In a written statement relating to Case 56/65 (*Société Technique Minière v. Maschinenbau Ulm GmbH*) the Commission on 27 January 1966 rendered an opinion on the interpretation of Article 85 (1 and 2). The case—now pending before the Court of Justice—arose out of an application for a preliminary ruling by the Paris Cour d’Appel to the Court under Article 177. The Commission statement is based on Article 20 of the Protocol on the Statute of the Court of Justice, under which the Commission is entitled to submit memoranda or written comments when the Court is dealing with a request for a preliminary ruling.

In this statement, the Commission gave its opinion on the question whether an agreement is null and void under Article 85 (2) in its entirety or only in respect of that part of the agreement containing a clause infringing Article 85 (1). The oral proceedings before the Court of Justice took place on 3 March 1966.

67. *Claims for damages on account of infringement of Articles 85 and 86.* The Commission consulted academic experts from the Member States on the conditions under which an infringement of Articles 85 and 86 of the Treaty can create a claim for damages for individuals or legal persons whose interests are harmed as a result of the agreement. The experts consulted reached the conclusion that all the remedies provided in the Member States' legal systems for the redress of injury (payment of damages, petitions for injunctions, penalties, publication of the judgment) are available to those suffering as a result of infringements although in some cases there are certain limitations on the right of redress. The opinions will be published as one of the "Studies" in the competition series.

68. *Block exemptions.* Regulation No. 19/65/CEE ⁽¹⁾ on the application of Article 85 (3) of the Treaty to specified classes of agreements and concerted practices lays down the details of the procedure for exempting certain classes of restraints of competition from the cartel ban of the Treaty. Acting under this regulation, the Commission in February 1966 referred to the Consultative Committee on Cartels and Monopolies a draft "regulation relating to the application of Article 85 (3) to certain classes of bilateral exclusive dealing contracts and concerted practices", prepared by the Commission during the period under review. The draft provides that the ban may be declared inapplicable to bilateral exclusive dealing contracts where they fulfil certain stipulated conditions and contain no restrictions other than a ban on competition, a ban on advertising outside the area covered by the contract, or the obligation to take specified measures to assist distribution or to use certain trade marks or stipulated forms of presentation.

The draft regulation will be published in the official gazette, and all concerned will be invited to submit their comments to the Commission by a certain date. After this date, the matter will be referred once again to the Consultative Committee, and the Commission will then publish the regulation.

69. *Application of cartel procedure rules to road, rail and inland waterway transport.* The Council consulted the European Parliament and the

(¹) See Eighth General Report, sec. 68.

Economic and Social Committee on the proposal submitted to it by the Commission for a Council regulation applying the rules of competition to road, rail and inland waterway transport ⁽¹⁾. Both bodies approved an extension until 31 December 1966 of the time-limit laid down in Article 3 of Regulation No. 141, which provides that Council Regulation No. 17 shall not apply to transport. They also approved the proposal to carry out a survey covering conditions of competition in inland transport.

For the rest, the European Parliament ⁽²⁾ approved the principle that Articles 85 and 86 and Regulation No. 17 should apply to road, rail and inland waterway transport. The Economic and Social Committee ⁽³⁾ deferred any detailed comments on this point until it has received the results of the survey and the Council has taken steps to introduce a common transport policy.

Since the Member States had originally reached agreement only on an extension of the time-limit, the Commission informed the Council on 22 October 1965 that it proposed, pursuant to the second paragraph of Article 149 of the Treaty, that while in other respects its proposals should be maintained, the provision extending the time-limit should be published separately. The time-limit was then extended until 31 December 1967 by Council Regulation No. 165/65/CEE of 9 December 1965, extending the period during which Council Regulation No. 17 shall not apply to transport by rail, road and inland waterway ⁽⁴⁾.

INDUSTRIAL COMBINATION AND INTERNATIONAL COMPETITION

70. After extensive research, the Commission submitted to the Member States in December 1965 a memorandum on industrial combination in the Common Market. This document deals with economic problems and problems of company law, tax law and monopoly law arising in this connection. The Commission's research had led to the following conclusions.

The dismantlement of customs duties and quotas is inducing many enterprises to adapt themselves to the larger market in the European Economic

⁽¹⁾ See Eighth General Report, sec. 69.

⁽²⁾ See official gazette No. 205, 11 December 1964.

⁽³⁾ *Ibid.*, No. 103, 12 June 1965.

⁽⁴⁾ *Ibid.*, No. 210, 11 December 1965.

Community. This process of adaptation makes it necessary for enterprises to amalgamate in one of other of a variety of ways, whether by merger, acquisition of holdings, the establishment of joint subsidiaries or other means. These arrangements often encourage productivity, technical progress and research; at the same time firms build up greater resilience and strengthen their competitiveness on the European and world markets.

It is not possible to make valid generalizations about the optimum size of an enterprise. Often, however, larger enterprises are better able to adapt themselves to Europe's expanding internal market and to keener international competition than are smaller ones, as these find themselves at a disadvantage particularly over raising capital and financing technical research.

71. To make this process of adjustment easier for enterprises, obstacles arising from tax law will have to be removed, as these discourage mergers and holdings when the firms concerned are separated by frontiers. In mergers of this type, for example, considerable tax reserves must be declared and tax paid on them. The resulting difficulties must be removed as far as possible. A special Working Party is considering the problems involved. The Commission will also prepare the ground for the harmonization of direct taxation, particularly the taxation of corporate profits, in order to prevent artificial distortions of competition and errors in siting. In this connection a comparative study of the tax burden will be made, the results of which will be important for the subsequent work on harmonization.

72. Company law presents considerable obstacles to international mergers and international holdings and to the creation of joint subsidiaries. There is as yet no international regulation governing the way in which enterprises on different sides of a frontier may combine. The Commission will therefore given steady support to attempts to create a new legal form of European incorporated company.

73. At the same time the Commission considers it important to ensure that small and medium-sized enterprises are able to continue to fulfil their specific tasks. In competition with large enterprises they may find themselves placed at a particular disadvantage where sales organization and

market research are concerned; purchasing conditions may be less favourable; difficulties may arise in adapting machines and equipment to the smaller size of their undertaking; they may find they are less able to influence demand; capital may be difficult to procure, and so may information, particularly with regard to technical progress and foreign markets; and there may be complications over access to particular markets (e.g. orders from public authorities).

The Commission therefore advocates the following measures: earlier introduction of its proposed system of taxation on value added, which will not affect competition; relaxation of the rules governing agreements on joint research, specialization and rationalization; approval of joint purchasing arrangements; a review of national regulations which work to the disadvantage of small and medium-sized enterprises; and measures that will make it easier for them to gain access to the capital market. The Commission intends to discuss in detail with the Member States and the parties concerned what can be done in this respect within the framework of the Treaty of Rome.

74. While the Commission will, on the one hand, work for the elimination of artificial barriers that prevent European enterprises coming together in a way that would increase productivity, it will use its powers under the Treaty and Council Regulation No. 17 to oppose any form of combination that would lead to the monopoly of a market. The ban on cartels (Article 85) is, in the Commission's opinion, neither intended nor suitable to prevent the domination of a given market by mergers or other forms of combination.

75. The provision dealing with monopolies (Article 86) prohibits the abuse of dominant positions within the Common Market. In any particular case the first thing to be done is to find out whether the enterprise in question does in fact enjoy a dominant position. This cannot be determined simply by considering an enterprise's share of the market or other quantitative features. A dominant position consists primarily in the ability to exert a substantial and, for the enterprise in question, a predictable influence over what happens on the market.

A dominant position may have its roots in production, distribution or financial strength. The trend of the market should therefore always be

taken into account, and the firm concerned should be seen in the context of all its economic relations. Within an oligopoly the enterprise that is found to be the "price leader" may well dominate the market. The firm's position as a supplier within the Common Market is decisive. It is therefore possible even for an enterprise registered in a non-member country to enjoy a dominant position within the Common Market; consequently, what matters in the case of a firm situated within the Common Market is its competitive position viewed in the light of imports.

76. The next point to be clarified in any particular case is what constitutes abuse of a dominant position. The monopoly provision of the Treaty (Article 86) itself includes examples of such improper practices:

- a)* The direct or indirect imposition of any inequitable purchase or selling prices or of any other inequitable trading conditions;
- b)* The limitation of production, markets or technical development to the prejudice of consumers;
- c)* The application to parties to transactions of unequal terms in respect of equivalent supplies;
- d)* The subjecting of the conclusion of a contract to the acceptance by a party of additional supplies which, either by their nature or according to commercial usage, have no connection with the subject of such contract.

A further example of importance is the cutting of prices in order to oust from the market a competitor who lacks the resources needed to sell for a considerable period at less than his cost price. When an enterprise exploits its dominant position by such cut-throat competition or other malpractices in order to force another enterprise to merge against its will or on unfavourable terms, this constitutes an abuse.

It is clear from the examples given in Article 86 that the ban on abuse of dominant positions is not directed solely against particular improper practices on the market. On the contrary, Article 86 cites practices (limitation of production, markets or technical development) which, by changing the structure of supply, work to the disadvantage of the consumer, although they do not concern what an enterprise does on the market but what happens within the enterprise. Where a merger between

one enterprise in a dominant position and another enterprise puts an end to competition which would otherwise have continued to exist on the market in question and so establishes a monopoly, it can have just the same detrimental effects for purchasers and consumers as the examples mentioned in Article 86. A monopoly position does in fact remove the incentive to further technical development and greater productivity, to mention only two of its harmful consequences. It can have the result of limiting the level of production so much that maximization of profits is achieved by means of prices that are higher than they would be in a market where there is effective competition and therefore a higher level of production.

77. The Commission came to the conclusion that a concentration which establishes a monopoly in a market, and therefore prejudices the freedom of action of suppliers, purchasers and consumers, may in a particular case constitute abuse of a dominant position in the sense of Article 86 of the Treaty, and would therefore not be permissible. This is the only interpretation that accords with the objectives of the Treaty in general and with the rules of competition in particular. It is on this basis that a system of undistorted competition must be founded; the aim of the rules of competition involved in such a system is to ensure that competition continues to be effective and to preserve both the freedom of action and freedom of choice of entrepreneurs and consumers equally. If this aim is to be achieved, no cartel and no enterprise in a dominant position must be permitted to destroy competition and the economic freedom of others by establishing a monopoly on any market.

STATE AIDS

78. During the period under review, the Commission gained wider and deeper knowledge and experience in the field of state aids by examining general aid systems and specific aids in favour of particular sectors. The bulk of its work concerned the establishment of a method of examining general aid schemes in favour of economic development and the examination of aids in certain particularly important fields; on the basis of this scrutiny the Commission issued findings concerning 45 cases of general or specific aids.

General aid schemes

79. It has already been pointed out on a number of occasions that a mere analysis of the outline rules forming the basis of the general aid schemes which Article 93 (1) requires the Commission to verify does not suffice to enable the Commission to rule definitively on their compatibility with the Common Market. The competent departments of the Commission had accordingly drafted a memorandum setting out suggested procedures for the verification of the arrangements in question at this point of application. At a multilateral meeting with senior government officials the general lines of a procedure for the systematic scrutiny of outline laws and a number of practical cases of application were discussed. Following this meeting, questionnaires were sent out to the Member States and on the basis of the replies received the Commission's staff should be able to work out an efficient examination procedure. The replies are shortly to be sifted and evaluated with the help of the experts from the Member States.

In addition, special studies—on which the national experts have co-operated—were devoted to aid arrangements for craft, commerce and tourist activities. The first impression gained is that the aids in question do not justify any serious misgivings as to their compatibility with Articles 92 et seq. Certain specific points are, however, being examined more closely.

The Commission has also stated its views on general aid schemes notified to it in accordance with Article 93 (3). One of the more important of these is a plan by the Italian Government for official measures to assist southern Italy. This plan forms the basis for special measures by the Government to promote the development of southern Italy. The main clause in the draft law is the extension until 1980 of arrangements that lapsed on 30 June 1965. This means that the *Cassa per il mezzogiorno* will continue its operations and that the complex of measures implemented by the *Cassa* to stimulate economic activity in this area will remain in force.

Aids for exports to other Member States

80. During 1964, the Commission had, in accordance with Article 93(1), referred to the Member States proposals for the progressive elimination of

various aid devices in so far as they applied to exports to other Member States.

Reactions to the Commissions's suggestions varied:

- a) Some were immediately acted upon by the Governments concerned;
- b) Others were accepted by the Governments, but with the request for a supplementary period of grace during which the necessary steps for withdrawal of the arrangements challenged by the Commission could be made;
- c) Yet others met with no objection in principle, since the withdrawal of the aids in question was accepted as a necessary consequence of the establishment of the Common Market, but the Governments concerned did not feel obliged to eliminate forthwith the direct effects of these aids on intra-Community merchandise trade.

Without prejudice to the possible application of Article 112, this last category of measures was the subject during the period under review of new Commission proposals on which the Member States were invited to submit the comments referred to in the first sentence of Article 93 (2). The replies received were carefully examined. They may well make it possible for the procedure initiated on the basis of Article 93 to be terminated by formal decisions.

Aids to specific industries

81. During the period under review, the Commission took a number of individual decisions confirming the attitude on aids to specific industries foreshadowed in the last General Report: continuing dismantlement of aids likely to disturb intra-Community competition coupled with a constructive policy in certain industries.

Accordingly, it continued its efforts to harmonize assistance to the shipbuilding and film industries.

82. With regard to shipbuilding, the Commission laid before the Council on 13 April 1965 a proposal for a directive, based on Article 235, the purpose of which is the introduction of an aid of 10% of the contract price of vessels built in the member countries. Countries already granting shipbuilding aids are to adjust their arrangements accordingly. The proposal limits the Community to the period between 1 January 1967 and

31 December 1969. Although reserving the right to reconsider the question in the light of developments on the market, the Commission none the less regards it as a temporary subsidy necessitated by the practices of certain non-member countries, practices which distort competition. The new aid does not affect the Commission's desire for a more general solution to shipbuilding problems; it will therefore continue to support the work being carried out in OECD in this connection.

The proposed directive was later examined by the European Parliament, which endorsed it, subject to a few minor amendments, on 25 November 1965.

The Commission is, however, aware that its proposals may prove inadequate to solve all the problems besetting shipbuilding. It is therefore now studying new measures to help improve the competitiveness of Community shipyards or the conversion to other activities of certain of these shipyards. An account of the initial results of these studies was given in two supplementary working papers submitted to the Member States on 5 January 1966. The Commission proposes that these problems should be dealt with at governmental level or at the level of senior officials of the Member States. Contacts will be made shortly, and during the first phase discussions will be on a bilateral basis.

In view of the steps mentioned above, the Commission informed the Italian Government on 10 November 1965 that it had no objection to the entry into force in Italy of a law—No. 1372, 29 November 1965— which extends shipbuilding aids until the end of 1966. By that date the Italian Government is to work out a practical and comprehensive reorganization scheme for shipbuilding in Italy, and for this purpose has established a special committee within the Interministerial Economic Planning Committee (CIPE) to consider a plan. On 31 March 1966, the Commission and the Italian Government discussed the tentative conclusions reached by the Committee.

For the same reasons, the Commission on 23 December 1965 submitted to the French Government new proposals for the adaptation of its shipbuilding aid scheme to the requirements of the Common Market. These proposals were to supersede those made in July 1962.

The Commission also decided, on 6 December 1965, to raise no objections to the implementation of new measures contemplated by the German

Government to encourage exports of ships to non-member countries. The Commission held that these measures could be deemed compatible with the Treaty.

83. In the film industry, too, the Commission is endeavouring to promote the harmonization of existing national aid schemes. Here, it starts from the principle that the granting of national aids to films from other Community countries constitutes a major step along the road to a Community arrangement. In this connection, the new aid arrangements published by the Italian Government in its Law No. 1213 of 4 November 1965 provides that a number of feature films and shorts can be imported from other Community countries and shall be entitled to tax reliefs and quality bonuses. The law also provides for the granting of an aid to Italian feature film production of about 13% of box office receipts. The aid has been scaled down from the previous level and is now comparable with that granted to the film industry in France.

In France, the regulations governing automatic aid for feature films have recently been extended until 31 December 1966.

None the less, the Commission feels that in the longer term a more thorough harmonization of national film aid schemes will be required, so as to eliminate distortions of competition within the Common Market and to ensure a genuinely constructive development of the Community's film industry. Without prejudice to its eventual proposals, it has invited experts to draft a report on appropriate measures to facilitate the financing of the film industry.

84. Current aids to the textile industry in the member countries were the subject of a wide-ranging multilateral meeting held on 20 September 1965. The immediate cause of the meeting was the aid to textiles Baden-Württemberg and Bavaria were proposing to give to certain branches of the textile industry, notably the cotton and wool branches. These Länder intend to grant interest rebates for certain rationalization schemes.

The discussion revealed that in other Member States there were also plans for giving aid to the textile industry. The Commission was later notified of a draft for an Italian law designed to promote the reorganization and structural improvement of the Italian textile industry. This led to a

further meeting on 14 December 1965 at which the general situation of the textile industry was discussed. The Commission decided its attitude to the German and Italian schemes: it approves the proposed measures to aid the development of the textile industries in so far as these schemes do not lead to an expansion of overall production capacity and in so far as they contribute to rationalization. In view of the tendency towards rationalization in the textile industry, the Commission also feels it appropriate to establish in co-operation with the Member States general guidelines at Community level for the structural improvement of this industry and the strengthening of its competitiveness. Preliminary studies on the subject were put in hand, and tentative results have recently been submitted to the Member States.

85. In the period under review, the German Government introduced new measures of aid in the fuel and power industry. Early in 1965 it communicated the draft of a law designed to promote the utilization of coal in power stations. This draft provides for the granting of tax privileges to facilitate the establishment or the expansion of coal-fired power stations. The Commission decided to raise no objection to this law provided that the tax benefits are granted only to power stations for which the authorizations required under public law have been sought before 1 January 1970 and which are operational by 1 July 1971.

The Commission also decided its attitude to adjustments made by the German Government to other arrangements in the fuel and power field which had already been examined. The first case concerned the amendment of directives on the granting of aids for the establishment or the expansion of coal-fired district heating centres. The maximum aid was raised from DM 50 000 to DM 75 000 per unit installed, the total sum earmarked in the budget being unaffected by this change. In addition, the rule instituting a limit for aid on the disparity between investment costs for coal-fired heating installations and those for oil-fired heating installations was deleted.

The German Government also gave notice of another law to amend the law adjusting taxes on mineral oils. Under this second law the aid scheme for the regeneration of used oils is extended by one year, i.e. until 31 December 1966. In view of the present fuel and power situation in Germany, the Commission raised no objections to these changes.

A draft decree fixing the amount of the bounties paid to the French paper-pulp industry for 1965 was examined pursuant to a decision under which the Council had on 19 December 1960 authorized this aid scheme as an exceptional measure. The Commission took the view that the bounty rates were not liable to affect conditions of trade to an extent that conflicted with the common interest, but drew the Council's attention to the fact that the French Government was no longer complying with the principle of degressivity embodied in the decision of 1960.

86. *Aids to industries processing agricultural products.* As foreshadowed in the Eighth General Report, the Commission adopted the technical criteria for a uniform permanent aid system in each Member State for processed products manufactured from agricultural raw materials but not listed in Annex II to the Treaty. Now that these criteria are available, the Member States are in a position to submit concrete proposals.

The Commission requested the Member States to take the necessary steps to ensure that Article 23 (4) of Council Regulation No. 19 (common organization of the cereals market) would not have the effect of distorting competition with items not listed in Annex II to the Treaty.

The fact that these general adjustments are impending should not have the effect of suspending the examination of certain specific cases of state intervention. In certain of these cases their nature is such that an examination is indispensable.

APPROXIMATION OF NATIONAL LEGISLATION AND THE CREATION OF EUROPEAN LAW

General

87. The approximation of national legislation is one of the Community's most important activities, and—as announced by M. von der Groeben, Member of the Commission, in a statement to the European Parliament on 17 June 1965—the Commission has accordingly instructed its staff to draft a medium-term programme for this work.

On a suggestion from the Parliament, a tabular summary of approximation work undertaken from 1 January 1958 to 31 March 1965 was published in the Eighth General Report ⁽¹⁾. A table given below shows the situation

⁽¹⁾ See Eighth General Report, Table 7, p. 86.

of work commenced or continued during the period under review ⁽¹⁾. For convenience, the same headings are used as in the last report, and the table shows:

- i) The progress made in the approximation work already referred to in the Eighth General Report ⁽²⁾;
- ii) The state of approximation work begun in the period under review;
- iii) Objects and legal basis of approximation measures concluded or in preparation during the period under review;
- iv) Means of approximation chosen.

The table shows that during the period under review (1 April 1965-31 March 1966) one regulation, 6 directives ⁽³⁾, one decision and 3 recommendations were enacted in the approximation field. During the same period 6 draft regulations and 21 proposed directives were tabled in the Council and 2 draft conventions were submitted to the Governments for examination or for signature. Thirty-eight additional questions were tackled.

This means—as the two tables show—that from 1 January 1958 (date of entry into force of the Treaty of Rome) to 31 March 1966, 4 regulations, 18 directives, 2 decisions, 19 recommendations and one opinion were adopted. On 31 March 1966 one draft convention, 9 draft regulations and 37 proposed directives were before the Council awaiting approval. On the same date, the Commission was dealing with 9 conventions, one regulation, 105 directives, 12 recommendations and 22 approximation measures for which a legal form was not yet decided, as they had only reached the preliminary draft stage or that of discussion by the experts.

The aim of the table is solely to give a bird's-eye view of approximation work. A detailed account of the specific measures is given in the relevant chapters of this report and past reports ⁽⁴⁾.

⁽¹⁾ The table below includes corrections and additions to last year's table.

⁽²⁾ The table below does not repeat the measures already enacted and listed in Table 7 of the Eighth General Report. Nor does it give details of those approximation measures in respect of which there was no change in the procedural situation during the period under review. This accounts for gaps in the numerical sequence of headings, which is the same as that used in the Eighth General Report.

⁽³⁾ Four Council directives and two Commission directives.

⁽⁴⁾ A detailed table showing where measures enacted can be found in the official gazette and where proposals submitted to the Council have been published in supplements to the EEC Bulletin will be available in the supplement to Bulletin 8-66.

TABLE 8

Approximation of legislation

(This table brings Table 7 of the Eighth General Report up to date and covers work begun between 1 April 1965 and 31 March 1966). (1)

Object and legal basis	Legal nature of the approximation measure and state of progress
I. CUSTOMS LEGISLATION— EXTERNAL TRADE	
Progressive establishment of a common procedure for administering quantitative EEC import quotas	(Arts. 28, 111, 113, 114) pro. reg. sub. 18 May 1965
Progressive establishment of a common procedure for administering EEC import tariff quotas	(Arts. 28, 111, 113, 114) form und. 1963
Establishment of a common list for the liberalization of imports from non-member countries	(Art. 111) pro. reg. sub. 14 April 1965
Protection against dumping practices, bounties and subsidies used in non-EEC countries	(Art. 111) pro. reg. sub. 6 May 1965; amdt. pro. reg. sub. 17 Feb. 1966
Duty-free transit for persons changing residence (implementing procedures)	(Art. 155) form und. 1965
II. FREE MOVEMENT OF WORKERS	
Right to remain in another Member State after termination of employment there	(Arts. 48, 49) reg. prep. 1965
III. FREEDOM OF ESTABLISHMENT AND SERVICES	
<i>2. Access to and pursuit of economic activities, industry, crafts and commerce</i>	
a) Food and beverages (transitional measures)	(Arts. 57, 66) pro. Cl. dir. sub. 14 April 1965
b) Toxic products (transitional measures,	(Arts. 57, 66) Cl. dir. prep. 1965
c) Personal services (hotels and catering) (transitional measures)	(Arts. 57, 66) pro. Cl. dir. sub. 8 April 1965

(1) For the abbreviations see page 98.

TABLE 8 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
<i>d)</i> Retail trade (transitional measures) (Arts. 57, 66)	pro. Cl. dir. sub. 30 March 1965
<i>e)</i> Transport auxiliaries (transitional measures) (Arts. 57, 66)	pro. Cl. dir. sub. 21 December 1965
Working-up and processing activities (transitional measures)	
<i>a)</i> Certificate on pursuit of activity in country of origin (Cl. Dir. No. 64/427)	Com. rec. 12 Jan. 1965
Wholesale and intermediary activities	
<i>a)</i> Certificate on pursuit of activity in country of origin (Cl. Dir. No. 64/222)	Com. rec. 12 Jan. 1965
3. <i>Public works contracts</i> (see also Competition, V, No. 2)	
Participation of firms in public works contracts (Arts. 54, 63, 66)	amdt. pro. Cl. dir. sub. 28 June 1965
6. <i>Cinema</i>	
Freedom to supply services in the film industry (2nd Cl. dir.) (Art. 63 (2))	Cl. dir. No. 65/264 ad. 13 May 1965
V. COMPETITION	
1. <i>Technical obstacles to trade</i>	
Prior submission to the Commission of certain laws and regulations in draft form (Arts. 5, 155)	Com rec. 20 Sept. 1965
Traffic indicators of motor vehicles and their trailers (Art. 100)	pro. Cl. dir. sub. 26 July 1965
Rear registration plates for motor vehicles and their trailers (Art. 100)	pro. Cl. dir. sub. 22 Dec. 1965
Braking of certain categories of motor vehicles and their trailers (ECE categories M 1, N 1 and N 2) (Art. 100)	pro. Cl. dir. sub. 3 March 1966
Suppression of radio interference (Art. 100)	pro. Cl. dir. sub. 22 Dec. 1965
Maximum speeds (by type) of farm tractors and their equipment with additional seats and with loading surfaces (Art. 100)	pro. Cl. dir. sub. 31 March 1966

TABLE 8 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
5 to 50 kg block weights in the medium limit of error category (Art. 100)	Cl. dir. prep. 1965
1 to 10 kg cylindrical weights in the medium limit of error category (Art. 100)	Cl. dir. prep. 1965
Weldless gas cylinders (Art. 100)	Cl. dir. prep. 1966
Welded gas cylinders (Art. 100)	Cl. dir. prep. 1965
Licensing of combine harvesters (Art. 100)	Cl. dir. prep. 1965.
Crystal glass (Art. 100)	Cl. dir. prep. 1965
2. <i>Public works contracts</i> (see also Establishment, III, No. 3)	
Procedures governing the letting of public works contracts (Arts. 54, 63, 100)	amdt. pro. Cl. dir. sub. 4 March 1966
7. <i>PTT</i>	
Charges for postcards and for letters weighing not more than 20 grammes (Art. 100)	pro. Cl. dir. sub. 28 June 1965
Standardization of sizes (Art. 100)	Cl. dir. prep. 1966
Weight categories and rates for letters weighing more than 20 grammes (Art. 100)	Cl. dir. prep. 1966
8. <i>Elimination or prevention of distortions of competition in specific cases</i>	
Italian Law No. 639 on standard-rate refunds on exports of certain mechanical engineering products (Art. 101)	procedure under Art. 101 opened 1964, see ECJ decision of 1 Dec. 1965 (case 45/64)
Italian Law No. 190 relating to the taxation of motor cars (Art. 101)	prior ex. under Art. 101 cptd. 1964. Law repealed by Italy
German draft law relating to minimum stocks of petroleum products (Art. 102)	prior ex. under Art. 102 begun 1965

TABLE 8 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Belgian draft law relating to the supervision of natural gas prices (Art. 102)	prior ex. under Art. 102 begun 1965
Italian draft law No. 792 relating to the marketing of edible oils (Art. 102)	prior ex. under Art. 102 begun 1965
Luxembourg draft decree relating to bank and credit transactions (Art. 102)	prior ex. under Art. 102 cptd. 1965. No danger of distortion.
Italian draft law No. 1215 relating to extraordinary intervention in support of less-developed areas of southern and central Italy—draft law No. 26 of the Trentino/Alto Adige region (Art. 102)	prior ex. under Art. 102 begun 1965. No danger of distortion.
Italian draft law on restrictive agreements (Art. 102)	prior ex. under Art. 102 begun 1965
Arrangements for taxing industrial salt in member countries (Art. 101)	ex. under Art. 101 cptd. 1965. No danger of distortion.
Legislation concerning hire-purchase sales in the member countries (Arts. 101, 102)	prior ex. under Arts. 101 and 102 begun 1965
<i>12. Company law</i>	
Recognition of companies and legal persons (Art. 220, third subpara.)	dr. conv. sub. Govts. 14 Dec. 1965 for signature
<i>13. Law governing legal procedures</i>	
Legal jurisdiction, recognition and enforcement of judgments in civil and commercial cases, service of writs (Art. 220, fourth subpara.)	p. dr. conv. sub. Govts. 20 April 1965 for op.
<i>14. Taxation law</i>	
TVA structure and implementing procedures (Arts. 99, 100)	pro. Cl. dir. sub. 14 April 1965
TVA implementing procedures for producers (Arts. 99, 100)	Cl. dir. prep. 1965
Indirect taxes on manufactured tobacco (Art. 100)	Cl. dir. prep. 1965

TABLE 8 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
VI. SOCIAL LAW	
1. <i>Conditions of work and pay</i>	
Protection of young people at work (Arts. 118, 155)	pro. Com. rec. sub. European Parliament and ESC 12 April 1965
Protection of working mothers (Arts. 118, 155)	pro. Com. rec. sub. European Parliament and ESC 18 Jan. 1966
2. <i>Social security</i>	
Migrant workers	
a) Payment of family allowances (Art. 51)	amended reg. ad. 30 June 1965
Rules for compensation for occupational diseases (Arts. 117, 118, 155)	pro. Com. rec. sub. European Parliament and ESC 29 July 1965
Definition of invalidity (Arts. 117, 118, 155)	pro. Com. rec. sub. European Parliament and ESC 13 Jan. 1966
Definition of "persons entitled" (Arts. 117, 118, 155)	Com. rec. prep. 1964
Definition of "children eligible for family allowances" (Arts. 117, 118, 155)	Com. rec. prep. 1965
Medical treatment for pensioners (Arts. 117, 118, 155)	Com. rec. prep. 1965
3. <i>Industrial safety</i> (protection against accidents)	
Dangerous substances and preparations (Art. 100)	pro. Cl. dir. sub. 10 May 1965
a) Classification, labelling and packaging (substances) (Art. 100)	pro. Cl. dir. sub. 10 May 1965
b) Classification, labelling and packaging (preparations) (Art. 100)	Cl. dir. prep. 1965
c) Substances used in chemicals for use on farms (Art. 100)	Cl. dir. prep. 1965

TABLE 8 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Metal scaffolding	
a) Manufacture, inspection and official approval (Art. 100)	Cl. dir. prep. 1965
b) Assembling, dismantling and maintenance (Art. 100)	Cl. dir. prep. 1966
<i>4. Industrial medicine</i>	
Health surveillance of workers exposed to special hazards (Arts. 118, 155)	Com. rec. prep. 1965
Institutions and centres for industrial medicine (Arts. 118, 155)	rec. or op. prep. 1965
Status of factory doctors (Arts. 118, 155)	rec. or op. prep. 1965
Organization of medical services for small and medium-sized enterprises (Arts. 118, 155)	rec. or op. prep. 1965
<i>5. Vocational guidance</i>	
Development of vocational guidance (Arts. 118, 155)	pro. Com. rec. sub. European Parliament and ESC 30 July 1965
VII. AGRICULTURE	
<i>1. Food legislation</i>	
Colouring matters (Art. 100)	amdt. Cl. dir. ad. 25 Oct. 1965, No. 65/469
Preserving agents (Art. 100)	amdt. Cl. dir. ad. 23 Dec. 1965, No. 65/569
Antioxidants (Arts. 100, 149)	pro. amdt. Cl. dir. sub. 20 Sept. 1965
Emulsifiers, stabilizers, thickeners and jellifiers (Art. 100)	Cl. dir. prep. 1966
Cocoa and chocolate (Art. 100)	pro. amdt. Cl. dir. sub. 20 Sept. 1965
Jams, marmalades, fruit jellies and chestnut paste (Art. 43)	pro. Cl. dir. sub. 25 June 1964
Butter (Art. 43)	Cl. dir. prep. 1965

TABLE 8 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Preserved milk (Art. 43)	Cl. dir. prep. 1965
Fats and oils (Art. 43)	Cl. dir. prep. 1965
Esterization of olive oil (Art. 43)	pro. Cl. dir. sub. 23 Sept. 1965
Methods of analyzing additives (Art. 100)	Cl. dir. prep. 1966
Materials coming into contact with food (Art. 100)	Cl. dir. prep. 1966
Synthetic sweeteners (Art. 100)	Cl. dir. prep. 1966
<i>2. Veterinary legislation</i>	
Expert opinions in connection with intra-Community trade in fresh meat and in pigs and cattle (Dirs. No. 64/432 and No. 64/433 ad. 26 June 1964)	Com. dir. ad. 13 May 1965 No. 65/277
Expert opinion in connection with the official approval of slaughterhouses and cutting premises for intra-Community trade in fresh meat (Dir. No. 64/433 ad. 26 June 1964)	Com. dir. ad. 13 May 1965 No. 65/276
Health problems in trade in fresh poultry meat (Arts. 43, 149)	pro. amdt. Cl. dir. sub. 18 May 1965
Salmonellosis (Art. 43)	Cl. dir. prep. 1965
Biological residues in meats (Art. 43)	Cl. dir. prep. 1965
Guts of animals (Art. 43)	Cl. dir. prep. 1965
Veterinary arrangements concerning milk and dairy produce (Art. 43)	Cl. dir. prep. 1965
Refrigeration plant (Art. 43)	Cl. dir. prep. 1965
<i>2. a) Legislation relating to stockraising</i>	
Thoroughbred breeding-stock (Art. 43)	Cl. dir. prep. 1965
Artificial insemination (Art. 43)	Cl. dir. prep. 1965

TABLE 8 (cont.)

Object and legal basis		Legal nature of the approximation measure and state of progress
3. Forestry legislation		
Classification of wood in the rough	(Art. 100)	pro. Cl. dir. sub. 2 Feb. 1966
5. Plant-protection legislation		
Control of San Jose scale	(Art. 43)	Cl. dir. prep. 1965
Control of potato root eelworm	(Art. 43)	Cl. dir. prep. 1965
VIII. TRANSPORT		
Prior examination and consultation procedure in respect of certain transport regulations contemplated by the Member States	(Art. 75)	Cl. dec. ad. 21 March 1962
International passenger transport by road	(Art. 75)	pro. amdt. reg. sub. 19 May 1965
International freight transport by road	(Art. 75)	Cl. dir. ad. 23 July 1962
Issuance of licences for freight transport by road between the Member States	(Art. 75)	Cl. Dir. No. 65/269 ad. 13 May 1965
Certain provisions affecting competition in the field of transport by road, rail and inland waterway	(Arts. 75, 99)	Cl. Dec. No. 65/271 ad. 13 May 1965
Bracket-rate system for freight transport by road, rail and inland waterway	(Art. 75)	pro. amdt. reg. sub. 27 Oct. 1965

Abbreviations :

ad.	= adopted on	ESC	= Economic and Social Committee
amdt.	= amendment (to)	ex.	= examination
Art(s).	= article(s) of the Treaty of Rome serving as legal basis	form und.	= work in hand since... but legal form still undecided
Cl. dir.	= Council directive	object	= object of approximation measure or of creation of European law
Cl. rec.	= Council recommendation	op.	= opinion
Com. dir.	= Commission directive	p. dr.	= preliminary draft
Com. rec.	= Commission recommendation	prep.	= in preparation (since)
conv.	= convention	pro.	= proposed
cptd.	= completed	pub.	= published
dec.	= decision	reg.	= regulation
dr.	= draft	sub.	= submitted (to the Council by the Commission) on...
ECJ	= Court of Justice of the European Communities		

APPROXIMATION OF LEGISLATION AND CREATION
OF EUROPEAN COMPETITION LAW

Public law

88. *Technical obstacles to trade.* On 20 September 1965 the Commission addressed to the Member States a recommendation, based on Articles 5 and 155, that they should take care to avoid creating new obstacles to trade when they adopt laws and regulations of a technical nature⁽¹⁾. Where such new laws or regulations concern fields in which the Commission has decided to prepare a draft directive or regulation so as to harmonize the arrangements at present in force, the Commission also recommends that the Member States should notify it of these drafts in good time so that it can submit to the Member States concerned any comments it may wish to make before the new legislation is adopted.

The recommendation refers in particular to laws or regulations concerning the quality, composition, packaging, preservation and inspection of certain industrial or agricultural products. Its aim is to prevent intra-Community trade being hampered by new divergent technical arrangements.

On the basis of its Action Programme⁽²⁾, the Commission pursued the relevant harmonization work in the fields where measures are most needed. Four proposed directives concerning approximation of legislation on motor vehicles have already been submitted to the Council by the Commission: the first of these, submitted on 26 July 1965, concerns traffic indicators; two others, submitted on 23 December 1965, concern rear registration plates and the suppression of radio interference; the fourth, submitted on 3 March 1966, concerns the braking of certain categories of motor vehicles.

The Commission was guided in its work by the consideration that although the Member States all possess road safety legislation, there are substantial disparities from country to country. Motor manufacturers are obliged to adapt the vehicles to these differing requirements, compliance with which is ensured by the Governments through inspection procedures for the marketing and utilization of components, spares and the vehicles themselves. Consequently, the manufacturers are required to submit their

⁽¹⁾ See official gazette No. 160, 29 September 1965.

⁽²⁾ See Eighth General Report, sec. 83.

vehicles to inspection in foreign countries as well as in their own; this constitutes an obstacle to trade and competition between the Member States.

The aim of the work on hand is to establish at Community level a set of technical rules concerning the manufacture and assembling of motor vehicles and components. Compliance with these rules will give manufactures a guarantee that their products can be marketed and used throughout the Community unimpeded by administrative obstacles. Similarly the approval or the licensing in one Member State of components for vehicles built in compliance with the rules set out in the directive will also be recognized in all the other Member States. Other directives are now being drafted.

The institution of this system at production level and for distributors should improve appreciably freedom of trade and competition, while at the same time benefiting the consumer. In addition, the progressive adoption by the Member States of common rules worked out with due regard to the latest technical advances will contribute to a real improvement in road safety.

89. *Public contracts.* On 30 July 1964 the Commission laid before the Council the proposal for a directive on the co-ordination of procedure for the award of public works contracts ⁽¹⁾. The European Parliament ⁽²⁾ and the Economic and Social Committee ⁽³⁾ rendered opinions on the proposal. In view of comments made, the Commission submitted an amended proposal to the Council on 8 March 1966. The new proposal, based on the second paragraph of Article 149, contained the following main amendments: the operative threshold of the directive (minimum amount of the contract) was increased from 60 000 u.a. to 300 000 u.a.; up to the end of the transition period public works contracts awarded by water, gas or electricity supply undertakings directly operated by the State or by local authorities are excluded from the scope of the directive. Contracts awarded by public rail, road or inland waterway transport boards are not covered by the directive.

⁽¹⁾ See Eighth General Report, sec. 84.

⁽²⁾ See official gazette No. 62, 12 April 1965.

⁽³⁾ *Ibid.* No. 63, 13 April 1965.

90. *Pharmaceutical products.* During the period under review, the European Parliament⁽¹⁾ and the Economic and Social Committee⁽²⁾ rendered opinions on the proposed second directive on the harmonization of laws and regulations governing branded pharmaceuticals. Apart from minor amendments, the two institutions gave the draft full approval.

91. *Postal and telecommunications services.* On 15 April 1965 the Commission laid before the Council a proposed directive relating to the approximation of Member States' regulations concerning postal charges on postcards and on letters weighing up to 20 grammes. The aim of the directive is the application of a genuinely uniform tariff in the Community from 1 January 1968 onwards. The charges, expressed in gold francs, are to be fixed at 18 centimes for letters weighing up to 20 grammes and at 13 centimes for postcards; they will be converted into the national currencies and rounded up or down in accordance with the normal practice of the postal administration in each country.

Calculations by the experts indicate that this measure will affect 80% of correspondence (letters and postcards) in the Community. The Commission's proposal, which is based on Article 100, therefore constitutes an important step on the road to uniform postal rates. The postal services play a considerable role in economic life. By leading to abnormal practices, disparities between the levels of postal charges could form an obstacle to the working of the Common Market. This danger can be overcome if all the Member States introduce a uniform charge for the consignment, the transport and the delivery of letters and postcards within the Community.

Since the postal rates in all the Member States are calculated mainly on the basis of the operating costs of the postal services, a method has had to be found which takes into account changes in operating costs and in particular changes in personnel costs. Accordingly, a provision was written into the directive under which charges can be changed as soon as a variation in costs exceeds 15% of previous operating costs. The Council will approve adjustments of this kind by a qualified majority on a proposal from the Commission.

(1) See official gazette No. 96, 2 June 1965.

(2) See Eighth General Report, sec. 85, and official gazette No. 107, 19 June 1965.

The proposed directive has been referred to the European Parliament for an opinion. In an opinion rendered on 8 December 1965, the Economic and Social Committee has already endorsed the proposal ⁽¹⁾. Work on other points is also in hand.

Private law and law governing legal procedures

92. *Protection of industrial property.* A Council decision is necessary to enable the work on the creation of a European industrial property law to be pursued. This work includes the finalizing of the draft convention on patents, completion of the General Convention settling institutional question common to the three branches of industrial property rights, and publication of the preliminary draft of a convention relating to the creation of a European trade-mark law ⁽²⁾.

93. *Unfair competition.* The first two volumes of the study of the regulations governing unfair competition in the Member States of the Community, which is being carried out at the request of the Commission by the Institut für ausländisches und internationales Patent-, Urheber- und Markenrecht of the University of Munich ⁽³⁾, were published in German. A French version will be published shortly.

This study is the first complete account describing and comparing the law of the individual countries in this field. With the help of a very large number of background documents and court decisions, it deals with the special forms which unfair competition may assume, such as passing-off, the abuse of distinctive signs, industrial espionage, the denigration of competitors, and comparative, misleading or other objectionable methods of advertising and relates them to the law of unfair competition pure and simple. The study also describes the arrangements for protecting designations of origin and provenance and the law concerning rebates, gifts to promote sales and special forms of sale.

Of particular interest are the passages devoted to the impact on the Common Market of disparities of substantive and of procedural law between the Member States. A number of measures are proposed for elimination

⁽¹⁾ See official gazette No. 11, 20 January 1966.

⁽²⁾ See Eighth General Report, secs. 88 and 89.

⁽³⁾ Vol. I, which gives a comparative picture of the situation in the various countries, and Vol. V, "The law in individual countries: Italy". See also Eighth General Report, sec. 90.

of the obstacles to the working of the Common Market which may be occasioned by these disparities in laws relating to competition. The first proposal is for a convention between the Member States in the field of unfair competition as such, with a general clause and a number of specific provisions covering typical acts of unfair competition; the convention would also empower competitors and federations to institute proceedings against offenders; it provides for injunctions on unfair competition and sets out an accelerated procedure to enforce them. The study then proposes the conclusion of a second convention for the protection of geographical denominations of origin; lastly it proposes the adoption of directives on gifts to induce purchases and on the marking or labelling of imported products.

During the period under review, the examination of the proposals contained in the study was continued. The choice of the harmonization measures which will be proposed to the Member States will depend on the result of this examination.

94. *Company law.* At the end of 1965, a draft convention governing mutual recognition of companies and corporate persons, based on the third subsection of Article 220, was completed and submitted to the Governments with an explanatory report.

Recognition is to be granted as of right to all companies under civil and commercial law, including co-operative societies, and to all corporate persons under private or public conducting business if they have been incorporated in one of the contracting states. The convention will also apply to one-man companies if legally recognized by the country of origin. The recognition of companies and corporate persons will supplement the provisions of the Treaty regarding the removal of obstacles to the free movement of goods, capital, services and persons, particularly as regards freedom of establishment. The scope of the convention will extend to all the European territories of contracting parties and to the countries and territories associated with the Community under the Council decision of 25 February 1964. A joint declaration appended to the convention sets out the conditions under which the convention will apply to the Associated States.

In another joint declaration the hope is expressed that certain powers will be conferred upon the Court of the European Communities to ensure uniform interpretation of the convention.

In pursuance of the third subsection of Article 220, work on facilitating the international amalgamation of companies coming under this convention was pressed forward as a matter of priority. The question of the transfer of headquarters from one country to another was also examined.

Mergers of companies from different Member States at present meet with legal, psychological and practical obstacles. In the period under review, the Commission examined in detail ways and means of overcoming this problem by the creation of a new type of European-incorporated company. The solution sought for should make possible amalgamations of a desirable kind within the EEC and would contribute in this way to strengthening the international competitiveness of Common Market firms.

95. *Recognition and enforcement of judgments. Bankruptcy law.* The draft convention on the international competence of courts and on the recognition and enforcement of judgments in civil and commercial cases and the service of writs, drawn up pursuant to the fourth subsection of Article 220, is now being examined by the Governments.

The panel of experts drafting a multilateral convention on the recognition and enforcement of decisions concerning bankruptcy and other similar procedures pursued its work. Particular attention must be given to the problem of the ranking of creditors. This is a problem for which a realistic and up-to-date solution must be found.

*Economic law. Specific cases of provisions distorting competition
(Arts. 101 and 102)*

96. In order to verify their compatibility with Articles 101 and 102, the Commission again examined a growing number of specific cases in which disparities in Member States' laws and regulations affected the terms of competition. The number of specific cases examined increased from 2 in 1963 to 10 in 1964, increased again in 1965 and was 19 at 31 March 1966. As is made clear below, Table 7 in the Eighth General Report and the table published above (see under V, Table 8, p. 92 et seq.) give only those

specific cases formally examined. The work covers a wide range of provisions on taxes, prices, social matters and energy and a number of other legal fields.

As regards taxation, the examination of the Belgian regulations raising certain rates for countervailing charges on imports and granting drawback on exports was continued. Dutch measures raising excise duties on mineral oils ⁽¹⁾ were also examined.

In the field of price legislation, various drafts or provisions of the Member States (e.g. a Belgian Bill on the control of natural gas prices) were examined.

With regard to social legislation, work on an inventory of disparities in social legislation such as may engender distortions of competition within the meaning of Article 101 was provisionally completed. The inventory was submitted for information to the Member States.

The Commission also gave a ruling on a series of specific questions relating to social legislation. In particular, an inquiry was put in hand to establish whether Article 101 was applicable to disparities in regulations relating to the health protection of workers exposed to special hazard ⁽²⁾.

A complaint that certain exemptions from social charges granted to a specific industry (combed wool) were leading to distortions of competition was also examined, and it was found that no intervention by the Commission was called for.

Working relating to legislation in the field of fuel and power was pressed forward. For example, the German Bill on minimum stocks of oil products was examined with a view to the application of Article 102. The examination showed that no application of this provision was required.

The Commission's departments were also concerned with many other fields of economic law when making prior or subsequent examinations provided for in Articles 101 and 102. Italian Bill No. 739 concerning the marketing of edible oil may be mentioned here. Other studies were devoted to legislation on hire purchase literary copyright and banking.

⁽¹⁾ See Written Question No. 53 by M. Vredeling, official gazette No. 208, 10 December 1965.

⁽²⁾ See Written Question No. 35 by M. Bergmann, official gazette No. 208, 10 December 1965.

APPROXIMATION OF TAX PROVISIONS

Taxation policy

97. It was pointed out in the Eighth General Report ⁽¹⁾ that the differing taxation structures are exerting an increasingly strong impact on the progressive establishment of an integrated Community economy. It is therefore a matter of urgency that enterprises should be able to adapt themselves to the scale of the Common Market. ⁽²⁾ Studies carried out during the period under review showed that a noteworthy obstacle to industrial combination is the existence of difficulties with regard to taxation.

Another problem arises from the fact that there is a growing and persistent strain between supply and demand in most of the Member States, notably on the market for long-term capital. The progressive integration of capital movements could help towards optimum distribution of available capital in the Community. In this field too, taxation laws play an important role. In the first place, taxes set certain bounds to the free movement of capital, and in the second place, disparities between tax systems in the different countries may divert capital flows from their normal courses.

The Commission paid special attention to these problems during the period under review. In co-operation with the Member States, it made last year a considerable number of studies or preliminary studies in the field of direct taxes. These are necessary for the elaboration of concrete proposals. The habit of regular co-operation at Community level is also helping to promote the alignment of taxation systems.

As disparities between the tax systems gradually diminish, it will become a matter of greater urgency to align methods of tax collection and control as well. The replies from the national revenue departments to a questionnaire on this point are now being studied, and a report will be drafted.

With a view to a Community taxation policy, the Commission made comparative studies of the taxation of industrial and commercial firms.

⁽¹⁾ See Eighth General Report, sec. 94.

⁽²⁾ See above, sec. 70.

Indirect taxes

98. *Turnover taxes.* — In the first directive now before the Council, which is expected to take a decision shortly, the Commission proposed a common system of tax on value added (TVA) to supersede, not later than 1 January 1970, the differing taxes at present in force in the Member States (1).

As a supplement to these proposals, the Commission submitted to the Council on 14 April 1965 a draft directive concerning the form and procedures for application of the common system of taxation on value added. Consulted by the Council, the Economic and Social Committee and the European Parliament rendered favourable opinions on 27 January and 8 March 1966 on this second directive. The directive will establish the machinery for the taxation system to be instituted in the six Member States. Its scope is to be very wide, since manufacturing and processing operations, retail and wholesale trade, services, imports and even agriculture will all in principle be liable to tax, though in the case of agriculture certain special procedures will be established in a third directive. Work on this third directive, in which national taxation and agricultural officials are co-operating, is now in hand.

The TVA will apply to all transactions according to the method of fractional payments with deduction of tax paid at the preceding stage. Exemptions will be left to the Member States, subject to a compulsory consultation procedure designed to approximate the national systems as much as possible with a view to eventual harmonization. The draft leaves the Member States discretion to fix rates independently according to budget considerations.

The object of the second directive is to establish, with the introduction of the common TVA system, competitive neutrality both within the countries and in intra-Community trade, while leaving a wide margin of fiscal autonomy to the Member States. In addition, this directive should enable the necessary conditions to be fulfilled for the eventual abolition of tax frontiers, a measure which is regarded as essential for the full economic interpenetration of the six countries. The implementing

(1) See Eighth General Report, sec. 96.

procedures set out in the draft have been so designed that when tax frontiers are removed, all that will remain to be done, apart from certain minor adjustments, will be to harmonize exemptions and introduce Community rates.

With a view to this definitive stage, special studies have been begun to establish what would be the budgetary, social, and economic consequences of the introduction of Community rates.

99. *Specific cases.* — During the period under review, the Commission continued its examination of 35 cases in the field of turnover taxes and other indirect taxes, including cases possibly involving infringements of the Treaty, the investigation of which had not been completed during the period covered by the preceding report. It also dealt with a large number of requests for information. Some of the cases concerned specific products and others the maintenance of certain regulations by national government departments. The Commission also learned of 17 new cases of this kind. Where it established infringements of Articles 95 to 97, the Commission made representations to the Member States, requesting them to take the necessary steps to eliminate them.

As a result of Commission representations, the Member States put an end to a number of infringements⁽¹⁾ during the period under review. For example, the turnover tax exemption in respect of goods delivered directly within Belgium to the Belgian Government or to Belgian public bodies, but not applying to imported goods, was withdrawn. Belgian and foreign products are now treated alike. The turnover taxes applied to imports into Germany of certain agricultural products (e.g. malt and certain dairy products), which were judged too high in comparison with the national rate of tax, were cut on 1 April 1965 to a reasonable level. With retrospective effect to 1 January 1965, Germany grants the benefits enjoyed by wholesalers (exemption or tax rate of 1%) to articles imported by a foreign seller (producer or dealer), using his own means of transport, and subsequently sold on the home market. The same rules apply to deliveries by a national wholly owned subsidiary of articles

(¹) See Eighth General Report, sec. 98.

manufactured abroad by the foreign parent company. The new rules virtually eliminate the additional taxation on imports liable to result from the combined effect of the countervailing charge and the turnover tax of 4 %.

100. On 1 December 1965 the Court of Justice handed down its judgment in the suit filed by the Commission against Italy in respect of Law No. 639, superseding Law No. 103, relating to tax drawback paid on Italian exports of mechanical engineering products. Dismissing procedural objections submitted by Italy, the Court found that Italy had infringed Article 96 by including company registration charges, stamp duty, mortgage charges, charges on licences and concessions, and taxes on motor vehicles and advertising in its arrangements for the refunding of internal taxes on mechanical engineering products exported to other Member States. These charges were not charges on the goods in question. In addition, the Court required Italy to show proof within three months that the standard drawback on exported products did not exceed in any instance or for any product the real—direct or indirect—taxes paid on the products at issue. Italy's evidence on this point was produced within the time-limit set by the Court.

101. On 22 February 1966, the Commission presented its comments on an application to the Court of Justice ⁽¹⁾ for a preliminary ruling on the interpretation of the first two paragraphs of Article 95. The comments were submitted by virtue of Article 20 of the Protocol on the Statute of the Court of Justice ⁽²⁾.

Under the prior consultation procedure instituted by a decision of the Member Governments taken in the Council on 21 June 1960, the Commission pursued its examination of adjustments made by Belgium to certain countervailing charges on imports and the institution by this State of export rebates for a number of products. The Commission's scrutiny did not reveal any incompatibility with Articles 95 to 97 of the Treaty.

⁽¹⁾ Case 57/65, *Alfons Lütticke GmbH v. main Saarlouis Customs Office* (prior decision of the Saar *Finanzgericht*).

⁽²⁾ See also sec. 66.

The examination is not yet concluded in respect of other provisions of the Treaty.

102. *Excise duties.* — In co-operation with governmental fiscal experts, the Commission made a study of excise duties with a view to determining what duties should be harmonized, for what duties harmonization was not indispensable (their influence on intra-Community merchandise trade being negligible), what excise duties should be eliminated and what excise duties should be built into a common added-value tax system. It was found that harmonization measures were urgently required in respect of duties on tobacco, beer and mineral oils.

In this context, the Commission also made a special examination of the various tax arrangements covering wine and spirits in the Member States. Further to this examination, it addressed a letter to the Member States requesting them to notify any measures they intended to take in order to eliminate disparities in the taxation of imported products as compared with national products.

103. *Indirect taxes on capital movements.* — The proposed directive relating to indirect taxes on capital movements⁽¹⁾, submitted by the Commission to the Council on 16 December 1964, provides for the harmonization of the capital duty and for the abolition of stamp duty on securities and similar charges. During the period under review it was examined by the Economic and Social Committee and by the European Parliament. The Committee broadly approved the Commission's proposal, while regretting that it did not envisage the abolition of capital duty as well; a number of amendments to the text were suggested.

In its opinion the European Parliament⁽²⁾ expressed the view that the total abolition of capital duties would in principle have been the best solution, since it would exempt all capital contributions from tax and would put a company's own capital and outside capital on an equal footing. Nevertheless, it welcomed the Commission's proposal and endorsed it without amendment.

⁽¹⁾ See Eighth General Report, sec. 100.

⁽²⁾ See official gazette No. 119, 3 July 1965.

Belgium has already drawn extensively on the draft directive in amending its national legislation.

The abolition of stamp duty on securities in Germany and the cut in the ordinary rate of capital duty in France to 1 % are also in line with the proposals in the draft.

Direct taxes

104. *Company tax.* — During the period under review, several aspects of the harmonization of taxes on company profits were examined in collaboration with the Member States. The series of studies and surveys requested of the Commission by the committee of heads of revenue departments in preparation for the harmonization process was provisionally completed. The drafting of concrete proposals was therefore begun.

The following points were dealt with:

- a) The treatment of distributed and undistributed profits. Self-financing and the working of capital markets suffer from country-to-country disparities in the taxation of distributed and undistributed profits;
- b) Taxation at source on dividends and interest. Disparities between national systems of taxation at source on dividends and interest change the course of capital flows or hamper international movements of capital;
- c) Taxation arrangements concerning participations. Adjustments of taxation arrangements for parent companies and subsidiaries are becoming a matter of increasing urgency; they will make possible the optimum choice of site for new investment and ensure fair competition and the smooth operation of enterprises grouped within the Community.

In connection with these questions, the tax problems raised by mergers between companies of different nationalities were also studied. These problems concern in particular the tax treatment of capital appreciation. A solution for this problem is also necessary if a European-incorporated type of company is to be created. Proposals are now being worked out.

105. *Double taxation.* — An initial study by the Commission to see whether the double taxation problem could be solved by concluding between Member States a multilateral convention based on the OECD Standard Convention ⁽¹⁾ was completed during the period under review.

The study showed that the revenue departments must first decide certain questions of principle. These include the definition of the concept of fixed establishment; the treatment of dividends and interest; the recognition in intra-Community relations of the *Schachtelprivilegs* ⁽²⁾; the development of a procedure for settling out of court specific double taxation cases, and an arrangement governing the exchange of information between EEC States.

Interpenetration of markets

DEVELOPMENT OF INTRA-COMMUNITY TRADE IN 1965

106. Although economic growth in the Community slowed down perceptibly in 1965, trade between the member countries continued to expand rapidly. The growth rate for the full year, according to customs returns for imports, was 13 % in value 12 % by volume, compared with 14.5 % in value and 13 % by volume from 1963 to 1964. Momentum was gained in the course of the year—particularly towards the end—as expansion picked up again in certain of the member countries. The estimated growth rate for the fourth quarter is nearly 7 % (calculated from seasonally adjusted customs returns), as against 0.5 % in the first quarter, 4.5 % in the second and 3.5 % in the third.

While the overall trend in intra-Community trade was expansionary, there was considerable variation in the course of the year. Until the autumn, for instance, heavy demand from Germany—a consequence of the rapid pace of economic expansion and the limits to the increase in domestic

⁽¹⁾ See Eighth General Report, sec. 103.

⁽²⁾ The concession by which, where one company holds a participation of not less than 25 % in another, any dividends, etc., on the shares representing its participation are exempt from corporation tax and capital yield tax.

supply—was the chief element contributing to the rising trend of trade between the member countries. During the first nine months of the year purchases by France and the Benelux countries rose only very slowly, and in Italy they remained at the same level as in the fourth quarter of 1964. During the last quarter of the year, however, this gave way to a more or less vigorous acceleration of demand in these countries. In France, for instance, the recovery of economic growth was reflected at the end of the year in a very rapid increase in imports from the other member countries. The same is true of Italy, and the greater stimulus of domestic demand triggered off a distinct recovery in imports from other Community countries. Community imports into the Netherlands and Belgium also spurred towards the end of 1965, partly owing to speculative factors linked with the increase in Dutch and Belgian indirect taxation scheduled for the beginning of 1966. The speed-up was particularly marked in the Netherlands because private consumers' expenditure rose sharply in the second quarter. In Germany, by contrast, a tendency for the expansion of imports to slow down somewhat set in during the summer, though the underlying growth rate remained quite rapid.

Corresponding changes in the trend also became evident in intra-Community exports in the course of the year. Until the autumn the steep rise in German imports acted as a sharp stimulus for French and Italian exports in particular. But as France and Italy began to step up imports again in the fourth quarter, there was a further gain in the expansion of German exports and of their trade with each other.

These tendencies noted towards the end of the year are hardly reflected yet in annual growth rates. Over the whole year, German imports, which had already speeded up in 1964, increased by 30.5 % in value on the preceding year. On the other hand, the hesitancy of business activity in France until the spring resulted in a moderate growth of imports from the other Community countries: the year-to-year growth rate was only about 7 % in value, as against 20 % the previous year. In Italy too, purchases from the member countries, the value of which had already dropped 5.5 % from 1963 to 1964, were again below the previous year's level. Lastly, the Benelux countries' imports from the rest of the Community also slowed down distinctly over the full year, partly because of the perceptible weakening of demand for capital goods in comparison with 1964.

Very heavy demand from Germany, together with spare capacity in France and Italy, made for a very marked expansion of intra-Community sales by the latter two countries. Italian exports, for instance, which had gone up 26 % in value from 1963 to 1964, continued their rapid progress. Over the whole year the growth will be about 28 % over the previous year. Italian exports to Germany and the Netherlands increased particularly sharply. Lively demand in these two countries also stimulated French exports to the rest of the Community, which showed a growth rate of about 18 % in value as against 13 % in 1964. Conversely, relatively weak demand in France and Italy until the autumn helped to slow down the growth of German and, to a lesser extent, Benelux exports, which moreover reflected the loss of momentum in intra-Benelux trade.

In general, trade between the member countries in 1965 continued to play its full part as the balancing factor in the interrelationship of supply and demand in the various countries, particularly between those where there was excess demand (Germany) and those which had reserves of productive capacity (Italy and France). Moreover, the size of compensatory trade flows in the course of the year was clearly reflected in very considerable changes in each member country's balance of trade with its partners. Germany's long-standing surplus gave way to a sizeable deficit in 1965—the first time since the Common Market was set up—owing to the very swift rise of imports and the slowdown of exports. The year-to-year deterioration in the German trade balance was about 1 200 million u.a. On the other hand, the net improvement in Italy's trade balance from 1963 to 1964 was repeated in 1965. The result was a large surplus—the first since 1958—of the order of 600 million u.a., which replaced the former structural deficit on Italy's intra-Community trade. In France, the balance of trade with the other member countries showed a net year-to-year improvement (some 370 million u.a.). The same trend, though slightly less marked, was observed in B.L.E.U., where the trade balance, which had been constantly improving since 1962, showed a 1965 surplus of almost 500 million u.a. In the Netherlands the trade deficit underwent no perceptible change on the previous year, the impact of the slowdown in the growth of imports during the first half of 1965 having been counteracted by the rise at the end of the year. The Dutch deficit on trade with other Community countries settled down at about 450 million u.a., figure obtaining since 1961.

TABLE 9

Growth rate of trade between member countries from 1964 to 1965 ⁽¹⁾

Exporting country	Importing country					
	Germany	France	Italy	Netherlands	B.L.E.U.	EEC
Germany	—	+ 4	- 6	+ 6	+ 11	+ 3
France	+ 25	—	+ 2	+ 27	+ 12	+ 17
Italy	+ 41	+ 13	—	+ 35	+ 17	+ 30
Netherlands	+ 20	+ 5	+ 8	—	+ 8	+ 13
B.L.E.U.	+ 23	+ 10	0	+ 9	—	+ 13
EEC	+ 27	+ 6	- 2	+ 11	+ 10	+ 13

⁽¹⁾ Percentage change computed on the basis of average import and export figures in the member countries.

As in previous years, the expansion of intra-Community trade was more rapid than that of trade with non-member countries. In 1965 the value of Community imports from non-member countries was only 6.5 % up on the previous year, mainly owing to the relative weakness of domestic demand for part of the year in some of the member countries. On the other hand, exports to non-member countries went up almost as much as intra-Community trade (12 % in value from 1964 to 1965). This is all the more remarkable as the growth rate of international trade excluding intra-Community trade was lower than in 1964 (7.5 % in value and 6 % by volume, as against 11.5 % and 8.5 % the year before).

107. The main point that emerges from an examination of the trend of intra-Community trade by major commodity groups ⁽¹⁾ is that the

⁽¹⁾ This is unfortunately based on incomplete information; at the time of writing, statistics were available for only the first nine months of 1965.

slowdown in the growth of domestic demand in 1965 had a very marked effect on trade in capital goods and quite a perceptible impact on trade in consumer goods and raw materials. The expansion of intra-Community trade in capital goods was checked by the slackening of investment activity throughout the Community; in certain countries (Italy and Luxembourg) investment in capital goods actually declined. Trade in foodstuffs, on the other hand, went up more vigorously than in 1964—chiefly because of bad weather in some of the member countries, which delayed certain crops during the spring and summer and necessitated extra imports from Community countries where output had been more normal. Trade in chemicals expanded hardly less rapidly than the year before, growth in the chemicals industry having again been very vigorous. Lastly, the unfavourable structural situation in the fuel and power industries was again reflected in a sharp reduction of trade in fuels.

Intra-Community trade in foodstuffs increased at a rapid pace; for the first nine months of 1965 the year-to-year growth rate was 21 % in value, as against 15 % for January-September 1964. Trade in cereals in particular continued to rise steadily; the good harvests in France and especially Italy made it possible for these two countries substantially to increase their exports to those countries in which production did not suffice to meet home demand. Similarly, temporary shortages of certain fruit and vegetables during the first quarter and measures taken by Governments to remedy this situation brought about a net increase in trade in these products. The trend on the meat market—particularly in Germany—resulting from imbalance in the composition of livestock and the rapid growth of domestic consumption in relation to production, also boosted trade in this commodity group. Furthermore, the gradual introduction of the common agricultural policy doubtless stimulated the expansion of trade—especially trade in milk products, which in 1965 showed a distinct increase on the previous year not only in value (owing to the increase in prices in exporting countries following the adoption of the implementing regulation at the end of 1964) but also by volume.

Trade in raw materials expanded a little more slowly than in 1964; for the first nine months of 1965 the year-to-year growth rate was 11 % in value as against 15 % the year before. There is no doubt that this is bound up with the fall in demand for basic materials in certain member

TABLE 10

Trade between member countries by major commodity group (1)

	1959	1960	1961	1962	1963	1964	Change 1965 on 1964 (2)
	millions of units of account						
Food, beverages and tobacco	1 126	1 297	1 444	1 640	1 867	2 138	+ 21
Fuels	747	835	819	868	970	989	- 7
Raw materials	792	993	1 045	1 130	1 204	1 381	+ 11
Chemicals	585	746	840	947	1 131	1 374	+ 18
Machinery and transport equipment	1 771	2 237	2 963	3 687	4 369	4 867	+ 5
Miscellaneous manufactures	2 997	3 977	4 431	4 975	5 772	6 954	+ 11

Source: SOEC monthly foreign trade statistics.

(1) On the basis of import statistics; commodity groups are based on SITC sections.

(2) First nine months of the year only.

countries due to the relative slackness of economic activity for the greater part of the year. Trade in wood, which did not reach the previous year's level, may have been affected by the slightly less dynamic trend of building and construction. The relative stagnation of growth in the textile industry during the first half of 1965 also set off a substantial decline in trade in textile fibres, which dropped about 10 % from the previous year. Trade in iron ore, which had been falling off sharply for several years, again showed a slight reduction on the preceding year, iron and steel output having also diminished a little in the Community's ore-processing countries. On the other hand, trade in animal and vegetable oils and fats, consumption of which is tending to increase rapidly, showed a vigorous increase.

The relative weakness of demand for iron and steel products had a distinct effect on trade in semi manufactures. In 1965 the value of trade in iron and steel products, which had gone up sharply in 1964, was scarcely higher than the 1964 figure. Similarly, for the reasons given above, trade in intermediate textiles increased only slightly from 1964 to 1965. The rapid increase in the price of copper in 1965 was reflected in a further sharp rise by value of trade in this product.

Despite the steady increase in fuel requirements, intra-Community trade in fuels, which had been growing more slowly than the other commodity groups since 1958, was 7 % in value down on 1964. This was due chiefly to the very marked decline in trade in coal, which in turn was a result of the reduction—mainly structural—in actual consumption and of increased purchases by some member countries from outside the Community. Especially in France, demand fell sharply from 1964 to 1965. Moreover, trade in petroleum products, which had gone up vigorously in 1964, did not reach the same level in 1965.

Trade in the dynamic chemicals sector continued to show a high year-to-year growth rate, though not as high as in 1964. Growth was 18 % in value during the first nine months of the year, as against 22 % the year before. Trade in plastics, which again expanded vigorously, was particularly stimulated by very heavy demand from Germany. Trade in organic chemicals and, to a lesser extent, artificial fertilizers also grew substantially.

There was a perceptible decline in the growth of trade in capital goods. For instance, trade in non-electrical machinery, the value of which had again increased by 14 % between January and September 1964, barely passed this figure during the first nine months of 1965, since the rapid increase in German purchases was not enough to offset the stagnation, not to say the decline, of demand in the other member countries. Although there were appreciable production gains in mechanical and electrical engineering, trade in non-electrical generators and to a lesser extent metal-working machinery contracted severely. Furthermore, intra-Community trade in electrical machinery and apparatus, which had risen 21 % in the first nine months of 1964, increased by only 6 % in 1965. The growth of trade in electrical generators and especially telecommunications equipment lost pace distinctly from one year to the next—partly owing to the marked reduction in demand from Italy.

The slowdown in the rise of private consumers' expenditure in most member countries was reflected in the slower expansion of trade in finished consumer goods. It was chiefly the sharp decline in demand from France and Italy, for instance, that kept back the growth rate of trade in clothing and footwear, which had expanded very rapidly in previous years. Trade in precision instruments and apparatus was appreciably lower than in 1964. On the other hand, trade in electrical household appliances continued to expand vigorously—22 % in value, compared with 20 % the year before; imports by Germany in particular and by France to a lesser extent went up appreciably, while exports by Italy showed an exceptionally heavy increase. The improvement in business in the motor industry during the year set in train a considerable expansion of trade in motor vehicles between member countries, which went up 15 % in the first nine months of 1965 as against 10 % in the corresponding period of 1964. The start-up of a new factory in Belgium sent B.L.E.U. exports up more than 60 %.

THE COMMON MARKET AND THE CONSUMER

108. The Commission's investigations in this field related chiefly, as in previous years, to trade in some 300 consumer products (1). As a result

(1) See Eighth General Report, secs. 107 and 113.

of technical difficulties in the preparation of statistical series, however, it proved impossible to consult government experts and representatives of the trades and of consumers in order to gather supplementary information. The Commission used for the first time a survey made by the Statistical Office of the European Communities on the trend of prices for a number of consumer goods in department stores. This survey will probably be expanded in the years to come. In conjunction with Member States' statistical offices, the SOEC intends to broaden the scope of the survey to include other large distribution units.

Implementation of the proposals of the panel of experts concerning the study of certain consumer goods has continued⁽¹⁾. The information gained from previous work in this field (study of personalized products such as motor-cars, electric razors and ladies' stockings) led the Commission to entrust an institute for economic studies with an inquiry into a group of relatively homogeneous products—articles of clothing—the principal results of which are given in this chapter.

Trade in private consumer goods between 1963 and 1964

109. Since 1964 statistics only became available in the second half of February 1966, it was impossible to obtain the interpretative commentaries of government experts and representatives of trade and consumers' associations on the analysis of these figures.

In the course of 1964 the total value of products for household consumption imported by the six Community countries was \$8 500 million (compared with \$7 600 million in 1963).

Imports of Community origin made up 54 % of this total, as against 52 % in 1963; imports from the associated African countries accounted for some 5 % (no change) and those from non-member countries rather more than 40 %.

The share of intra-Community imports in all imports varied considerably from country to country. In 1964 the figure was 71 % for B.L.E.U., 67 %

(¹) See Eighth General Report, secs 107 and 113.

for the Netherlands, 54 % for Germany, 44 % for France and only 40 % in Italy. These figures were 1 % up on 1963 figures in all Community countries but the Netherlands, where intra-Community imports had dropped 1 %.

TABLE 11

Imports of products for household consumption

<i>Millions of dollars</i>						
Origin	France	B.L.E.U.	Netherlands	Germany	Italy	EEC
EEC	902	693	917	1 613	449	4 574
Overseas associates	343 ⁽²⁾	3	4	15	20	385
Other ⁽¹⁾	806	283	445	1 354	641	3 529
Total	2 051	979	1 366	2 982	1 110	8 488

Source : SOEC, Foreign Trade Statistics, Analytical Tables, Imports 1964.

(1) Excluding imports of unspecified origin totalling \$10 million in 1964.

(2) Mainly food products.

In 1964 total imports by member countries of products intended for households increased 12 % on 1963, a rate slightly below that of the previous year (16 %). Intra-Community imports continued to rise quite sharply (16 % compared with 19 % the year before), but the growth rate of imports from outside the Community slowed down (9 % as against 21 %); imports from the associated African countries remained static.

The sharpest increase in imports was in the Netherlands (25 %), while in Italy, where imports had gone up 60 % in 1963, a 10 % decline was recorded in 1964. In Germany, on the other hand, where imports had practically stagnated in 1963, they went up 11 % in 1964. The French growth rate was 16 %. These variations in the growth of imports may be explained by the different trend of the economy in these countries.

Rising costs and prices in the Netherlands and Germany stimulated imports, while a distinctly downward business trend in Italy may have put a sharp brake on purchases abroad.

TABLE 12

Trend of imports of products for household consumption

Year	Origin							
	EEC		Overseas associates		Other ⁽¹⁾		Total ⁽¹⁾	
	\$m.	% change on previous year	\$m.	% change on previous year	\$m.	% change on previous year	\$m.	% change on previous year
1960	2 239	—	491	—	2 091	—	4 821	—
1961	2 625	+ 17	473	- 4	2 222	+ 6	5 320	+ 10
1962	3 312	+ 26	531	+ 12	2 660	+ 20	6 503	+ 22
1963	3 942	+ 19	389	- 27	3 226	+ 21	7 557	+ 16
1964	4 574	+ 16	386	- 1	3 528	+ 9	8 488	+ 12

Source : SOEC, Foreign Trade Statistics, Analytical Tables, Imports 1964.

⁽¹⁾ Excluding imports of unspecified origin totalling \$10 million in 1964 and \$5 million in 1963.

In 1964 the percentage of imports in private consumption continued to grow: it was 6.2 % in 1963, 6.5 % in 1964. This increase is observed in all member countries but Italy. In Italy the decline in the value of imports entailed a considerable reduction in the share of imports in private

TABLE 13

Imports of products for households in relation to private consumption (1)

	France	B.L.E.U.	Netherlands	Germany	Italy	EEC
1963						
Private consumption (2) (3) (\$m.)	41 365	7 406	6 899	41 015	24 306	120 991
Total imports from all sources (\$m.) (4)	1 768	789	1 089	2 682	1 229	7 557
Intra-EEC imports as % of private consumption (5)	1.8	7.5	10.8	3.4	2.0	3.3
Imports from overseas associates as % of private consumption	0.8	0	0	0	0.1	0.3
Imports from non-member countries as % of private consumption	1.7	3.1	5.0	3.1	2.9	2.7
Total imports as % of private consumption	4.3	10.6	15.8	6.5	5.1	6.2
1964						
Private consumption (3) (\$m.)	44 397	7 956	7 693	43 928	26 306	130 280
Total imports from all sources (\$m.) (4)	2 051	979	1 366	2 982	1 110	8 488
Intra-EEC imports as % of private consumption (5)	2.0	8.7	11.9	3.7	1.7	3.5
Imports from overseas associates as % of private consumption	0.8	0	0	0	0.1	0.3
Imports from non-member countries as % of private consumption	1.8	3.6	5.8	3.1	2.4	2.7
Total imports as % of private consumption	4.6	12.3	17.7	6.8	4.2	6.5

(1) Owing to different methods of obtaining private consumption figures, these are not strictly comparable from country to country.

(2) Allowance has been made for subsequent adjustments to private consumption figures in the data for 1963.

(3) Source: SOEC General Statistical Bulletin No. 11/65.

(4) Products intended mainly for household consumption: 300 items selected by the SOEC from foreign trade statistics.

(5) Private consumption is reckoned at retail prices, imports at prices before customs clearance. The ratios would be higher if both quantities could be measured at retail prices. Moreover, the comparison concerns goods only as a rule, services being excluded.

consumption (5.1 % in 1963, 4.2 % in 1964). On the other hand the slight decline in Germany in 1963 was reversed in 1964: the 1964 rate of 6.8 % again equalled the 1962 figure. Distinct increases were recorded in B.L.E.U. (10.6 % in 1963, 12.3 % in 1964) and in the Netherlands (15.8 % in 1963, 17.7 % in 1964); in France the proportion rose from 4.3 % to 4.6 %.

The share of intra-Community trade in private consumption increased from 3.3 % in 1963 to 3.5 % in 1964, that of imports from non-member countries remaining the same at 2.7 %. It can be seen that supply to consumers of products of Community origin is still improving without reducing the opportunities open to suppliers outside the Community.

The number of products for which an increase in intra-Community trade of \$500 000 or more occurred between 1963 and 1964 is rather limited. Out of about 300 products studied, it was about 50 in every country except Italy, where it was lower. These products accounted for most of the increase in intra-Community imports.

Degree of unification of markets by country and by product

110. The trend towards single markets for certain products already observed (¹), particularly motor-cars and to a lesser extent women's garments (other than underwear), knitted and crocheted outer garments, footwear and non-electric cookers, continued in 1964.

There was also a very big rise in intra-Community imports of other products from 1963 to 1964.

In Germany these included foodstuffs: poultry, apples, potatoes; textiles: carpets and Kelem fabrics; miscellaneous: flowers and buds.

In France they included foodstuffs: beef, veal and pigmeat; household goods: television sets, furniture.

In Italy they included foodstuffs: beef, veal and sugar; miscellaneous: razors and blades, toiletries.

(¹) See Eighth General Report, sec. 113.

In B.L.E.U. (1) products included foodstuffs: pigmeat, cheese and vegetables; textiles: men's and boys' garments; household goods: refrigerators and furniture.

In the Netherlands (1) they included textiles: carpets and Kelem fabrics, men's and boys' garments, underwear; household equipment: washing machines, radio sets and furniture; miscellaneous: plastics and cigars.

The course of intra-Community trade in agricultural products and foodstuffs and in manufactured goods shows that the various trends evident since 1961 persisted in 1964.

TABLE 14

Trend of intra-Community imports of farm products and industrial goods

Year	Farm products %	Manufactures %
1961/60	+ 8	+ 24
1962/61	+ 20	+ 28
1963/62	+ 19	+ 26
1964/63	+ 11	+ 21

This table shows that the slowdown in the expansion of intra-Community trade was much more marked for farm products than for industrial goods. At national level this difference can be ascertained, but it is not always in favour of manufactures; the general trend is confirmed in three member countries—B.L.E.U. (13 % for farm products and 30 % for industrial goods), the Netherlands (14 % and 31 %) and Germany (8 % and 24 %), but the trend was reversed in the other two, with the expansion of farm products totalling 22 % and that of industrial goods 18 % in France, and with a 3 % expansion in farm products and an 11 % decline in manufactures in Italy.

(1) Intra-Benelux trade accounts for a considerable proportion of the increase in trade between B.L.E.U. and the Netherlands; it cannot therefore be attributed directly to the Common Market.

In the case of Italy, a slowdown in business activity first produces a reduction of imports of manufactured products while purchases of staple foods (meat, potatoes, and sugar) continue at the same rate.

In France a deficit in meat stimulated purchases abroad (1964 imports of meat from other Community countries were \$33 million higher than in 1963).

Price trend of certain industrial goods

111. Since 1963 the Statistical Office has made two surveys each year on the prices of a number of standard consumer goods sold by department stores. The results of these surveys were analysed and interpreted with the assistance of experts from these stores in some of the member countries. The information thus gathered indicates that the effects of one or more of such factors as the reduction of customs duties, the intensification of competition and the concentration of production units leading to economies of scale have brought down prices of electrical household appliances in particular. In Belgium, France and Italy heavy pressure has been exerted for a number of years on the prices of many of these articles—particularly automatic washing machines and refrigerators. In Belgium, for instance, the price of certain kinds of refrigerator has dropped nearly 30 % since 1960. Price reductions were also noted in radio and television sets in France and in small tools imported into Italy from Germany.

In the clothing industry in particular, it was noted that fashionable men's shirts imported into Belgium are now sold at much lower prices than in 1960. These articles, then considered luxury goods, are now sold at very competitive prices, particularly as a result of reductions in customs duties, which have fallen from 24 % in 1958 to 48 % today.

Repercussions of the Common Market in the clothing sector

112. The special study mentioned in section 107 is not yet concluded. Nevertheless, it is already possible to discern some of the basic tendencies.

One of the consequences of the establishment of the Common Market is a big increase in trade in articles of clothing. While from 1953 to 1957 imports had only risen 17 % a year, the annual growth rate from 1958 to

1963 was 29 %. It seems hardly disputable that the higher rate of growth since 1958 is due in part to the Common Market, particularly as intra-Community imports increased more rapidly than imports from non-member countries during this period.

The study shows that the most important result of the creation of the Common Market in the clothing sector is specialization by producers. This trend, resulting from the confrontation of manufacturers on a broader market, seems to have been set in motion by the very marked differences in the prices of certain articles before 1960—differences that were revealed in several price surveys.

If we compare the development of trade with that of the unit value of the items concerned, we discover indirectly the effects of this specialization. The trend in men's outer garments provides a typical example that can be extended to other products.

In Germany, for instance, exports grew substantially between 1958 and 1963; their unit value also increased. Over the same period imports went up distinctly, and the unit values of imported goods declined slightly. This difference in the trend of exports and imports is apparently explained by the specialization of German firms in higher-quality articles while items of standard quality are being increasingly purchased abroad.

The trend in France shows the same characteristics but on a smaller scale. Between 1958 and 1963 the unit value of exports, especially those sold on the other markets of the EEC, went up appreciably, while exports tended to decline. Imports increased over the same period—from Italy in particular—while unit values went down. It was doubtless foreign, and particularly Italian, competition that obliged French manufacturers to concentrate on higher-class articles.

While France and Germany are keeping or increasing their share of intra-Community trade by raising the quality of their products, Italy attained the same results by specializing in standard-quality articles. The unit value of Italian products exported to the other member countries fell perceptibly while quantities exported rose vigorously.

The case of the Benelux countries is different. In Belgium, manufacturers had specialized in standard-quality items before the Common Market was set up and had increased their exports considerably, especially to the Netherlands. But since 1958 Belgium has seen its share of EEC markets

fall substantially because of intensified competition from Italian manufacturers in particular. The Dutch share of the EEC markets has also declined noticeably over the years. It seems according to the study that in this country specialization did not take place.

Statistical analysis showed the following specialization for the various products of the clothing industry:

Ready-made clothing. — Germany: outer garments (women's but particularly men's) of higher quality; Italy: outer garments (particularly men's) of standard quality, men's underwear of standard quality; Belgium: men's garments (outer and under) very much of standard quality; France: high-quality outer garments.

Knitted and crocheted goods. — Italy: standard-quality fabrics, high-quality underwear, standard-quality outer garments; Belgium: standard-quality underwear and outer garments; Netherlands: standard-quality fabrics.

Specialization generally results in longer runs and consequently lower unit costs, which should normally be reflected in lower retail prices. In the clothing industry the transfer of price cuts from manufacturer to consumer should be promoted by the low elasticity of demand in relation to price. Since demand for clothing corresponds to basic needs, variations in prices generally cause lesser changes in the quantities bought. This being so, increased supply resulting from the opening of markets exerts heavy pressure on prices, since manufacturers tend to cut their prices to attract consumers who already have a fairly large wardrobe.

Nevertheless, it should be noted that, by virtue of the gradual establishment of the common market, the advantages of this process appear after a certain lapse of time. The tendency towards lower prices may also be countered by certain obstacles. One of those mentioned in the study is indirect taxation. As the survey reveals, there are still differences between Member States' statutory provisions, for instance in respect of taxation or minimum technical standards, which obstruct the free play of effective competition in the Community. The pressure on firms to pass on reductions in costs by lowering their prices is as a consequence not felt so soon.

CHAPTER III

TOWARDS A COMMON POLICY

Economic and financial policy

SHORT-TERM ECONOMIC POLICY

The economic situation in the Community in 1965 and the outlook for 1966

113. As in previous General Reports, the Commission refers the reader to its regular studies of the situation and outlook with regard to short-term economic developments, which are to be found in the Quaterly Surveys entitled "The Economic Situation in the Community", in the "Graphs and Notes on the Economic Situation in the Community" and in "The Community Business Survey", which appears every four months. Quaterly Survey No. 4/1965 contains the usual account of economic trends in the past year as a whole, together with forecasts for the current year. On 18 January 1966, M. Marjolin, Vice-President of the Commission, addressed the European Parliament as he has done each year since 1961, expressing the Commission's views on economic developments in 1965; the prospects and problems for 1966, and the conclusions to be drawn for short-term economic policy.

At its next session, on 10 March, the European Parliament adopted a resolution on this report ⁽¹⁾. It noted that insufficient progress had been made in common economic policy and that tendencies towards national concepts in economic matters had remained strong. The Parliament also emphasized that it was essential to harmonize business trends in the Member States, and urged the Commission to make available to investors the fullest information to encourage them to abandon national economic criteria and adopt those of the Community.

A critical study of the results of the year 1965 in relation to the economic policy objectives of the Treaty is given below.

⁽¹⁾ See official gazette of the European Communities, No. 53, 24 March 1966.

114. As far as the maintenance of price stability is concerned, economic developments in 1965 cannot be regarded as satisfactory. Stabilization of prices and unit costs has still not been achieved, although the Council had put it at the top of the priority list for 1964 which it gave in its recommendation of 15 April 1964. (In November 1964 and at the end of March 1965, the recommendation was extended for 1965, with a few amendments of detail.) Certainly, most Member States managed to reduce the rate of price increase in 1965 or, as in France, to keep it relatively low. In Belgium, however, the increase remained practically unchanged, and in Germany it even became somewhat steeper. With an increase of 2.5-4.5 % (index of private consumer prices), the rise in prices was still much too pronounced in all Community countries.

Economic growth, as shown by the results for the years 1965 and 1964, was not particularly vigorous. The growth rate, by volume, of the gross national product was relatively weak in France and Italy (3.5 %) and in Belgium (3 %), while in Luxembourg it can only be described as very low (1.2 %). In the Netherlands (5 %) and Germany (4.5 %), growth did indeed remain appreciable but was accompanied by strong inflationary tendencies. Altogether the gross Community product increased by about 4 % in volume in 1965 (as against 5 % in 1964) (1).

The short-term economic trend in 1965 was marked by revival of the growth of demand in Italy and also, from the spring onwards, in France, while in Belgium it was not until the end of the year that a slight upward tendency reappeared, following a period of virtual stagnation. In Germany, there were signs that economic expansion was slowing down; this was partly due to a shortage of the factors of production but also to a more modest rise in demand, particularly in industrial investment.

These trends may persist during 1966 and have more influence on the annual figures than in 1965, when the results were still affected by the economic fluctuations of 1964.

The general standard of living improved again in 1965, but less than in 1964. Private per capital consumption appears to have risen by an average of about 3 %, if price fluctuations are eliminated; the increase

(1) Some of the figures given in this Report differ slightly from those in Quarterly Survey No. 4/1965 or in M. Marjolin's address, having been corrected subsequently.

was 5.5 % in the Netherlands, 5 % in Germany, 2 % in France, Belgium and Luxembourg, and 1 % in Italy.

In most of the Member States, the general labour market situation eased slightly, but there was no real cyclical unemployment. There was still overemployment in the Netherlands, on the whole, and full employment in the Belgo-Luxembourg Economic Union. In Italy unemployment showed a fairly appreciable increase due to cyclical and structural factors; elimination of the surplus demand caused by inflation led to a recurrence of the structural unemployment which had been temporarily absorbed by inflation. In Germany, unlike the other Member States, the labour market became increasingly tight until the autumn.

Towards the end of the year there were clear signs that the labour market situation was improving in Italy; even before then, there had been an increase in activity owing to the extension of working hours, following the reduction in hours that had taken place during the period of slackening economic activity. The same is true of France, where the number of hours worked per week went up again in the second half of the year. In Germany the labour market eased—albeit very slightly—towards the end of the year; but as firms in the sectors affected by falling demand and production laid off very few workers in spite of reduced requirements (hoarding of labour), this development was not reflected in the labour market statistics, or at least not for the time being.

The total population of the Community would seem to have risen in 1965 by 1 %, reaching about 182 million, but the working population probably went up by no more than 0.3 %; this is chiefly because children stayed on at school longer, and also because of changes in the age pyramid of the total population. (In 1964 the number of persons employed in the Community rose by 300 000 or 0.4 %).

115. Where external equilibrium is concerned, the Community's current account for 1965 closed with a surplus over 1 000 million u.a. higher than the rather poor figure for 1964. This improvement is mainly due to the stabilization policies pursued in Italy and France, of which it is a secondary effect, but also to the very vigorous expansion of demand from non-member countries. The increase in the external balances of Italy and France was more than enough to offset the deterioration in Germany's balance of current payments.

A current payments surplus as large as that of 1965 is fully justified in an industrialized area such as the Community. The surplus ought, however, to be roughly counterbalanced by a net outflow of capital of much the same size, but this was not the case in 1965. The balance of capital transactions again shows a net inflow, but the surplus was nevertheless a little smaller than in 1964. This net inflow is partly due to structural defects in the Community's financial markets and also to the effects of the stabilization policy; in the main, however, the situation must be attributed to structural and economic policy factors extraneous to the Community.

The tendency for Germany's current account to be in deficit had heavy repercussions, which were mainly felt within the Community. The German trade balance with the other Community countries alone deteriorated by 1 200 million u.a. in 1965 compared with 1964. The high level of imports did much to prevent inflation in Germany from being more strongly reflected in prices. At the same time, Germany's imports sustained the tempo of business in Italy, France and Belgium. Altogether—with the impetus provided by the various measures for the establishment of the common market—intra-Community visible trade increased by about 13 % in value. Thus, the advance of economic integration favours the transmission of cyclical fluctuations, an effect which in 1965 helped to bring about a better balance ⁽¹⁾.

Short-term economic policy of the Community in 1965

116. In the Eighth General Report ⁽²⁾, the Commission described in detail the short-term economic policy pursued in 1964—particularly the stabilization programme proposed to the Council (recommendation of 15 April 1964) and its execution—as well as what it then considered to be the anti-cyclical policy required for 1965. It explained the reasons for, and content of, the new recommendation which the Council, acting on a proposal of the Commission, addressed to the Member States on 8 April 1965.

While still considering a return to stable prices and costs as the prime objective of short-term economic policy in the Community, the Council advocated slight adjustments to this policy in order to ensure that, in

⁽¹⁾ See also sec. 106 *supra*.

⁽²⁾ Secs. 118 sqq.

countries where the growth of demand had slackened perceptibly, the revival of activity should not provoke new economic imbalances. Thus, in the case of Italy, it approved the policy already adopted to stimulate internal demand, while for France, Belgium and Luxembourg it envisaged a policy designed to encourage investment. In the case of Germany and the Netherlands, however, where the strains were still acute, the Council maintained its recommendation of 15 April 1964.

117. Although most of the Member States had in 1964 generally complied with the Council's recommendation on budget policy, it became more difficult for them to continue doing so in 1965 owing to certain factors which militate against the imposition of severe restrictions over a long period. On the whole, therefore, the Council's recommendation of 8 April 1965 was only followed to a very limited extent in this field.

In Germany, the Federal Government's expenditure increased by about 10 % and that of the Länder and municipalities by 9 %; moreover, direct taxation was reduced from 1 January 1965, which from the standpoint of the recommendation must be regarded as equivalent to an increase in expenditure. Similarly, government expenditure went up by over 16 % in the Netherlands, and—as in the case of Germany—the reduction in direct taxation which took effect there on 1 July 1965 must also be taken into account. Local authorities' expenditure also showed a sharp increase. The norm recommended by the Council was also exceeded in Belgium. Although the disadvantages of such a development were rather less in that country, so far as internal balance was concerned, in view of the slowdown which concurrently affected the growth of investment demand, the result was an excessive increase in the budget deficit. In Luxembourg, actual public expenditure, which had risen sharply in 1964, continued to rise, although less rapidly than before.

In Italy, where an expansionary policy was desirable, the increase in government expenditure was, in fact, very considerable. In accordance with the recommendation, public investment expenditure in that country rose more than total public expenditure; but the advice that caution should be exercised with regard to the growth of expenditure on consumption and of transfer income went unheeded. Of all the member countries France was the only one where public budgets in 1965 were broadly in line with the recommendation.

In most of the Member States, deficits that resulted primarily from an inordinate increase in expenditure were at least partly financed by monetary means, contrary to what had been advocated by the Council.

118. On the whole, the monetary policy pursued in the Member States was broadly consonant with what the Council had recommended. In Germany the curbs were even more severe than had originally been envisaged. In that country, the monetary authorities had to try to correct the excessively expansionary effects caused by the trend of public finances. However, as bank liquidity was still high at the beginning of 1965, it was not until the early autumn that the effects of the restrictive policy really became apparent, owing *inter alia* to balance-of-payments deficits. In the Netherlands the limitations on the expansion of credit were maintained and were much more respected than in 1964.

In the other Member States, in accordance with the Council's recommendation, the curbs imposed by credit policy were either lifted completely or else relaxed considerably. In Italy, where they had already been eased in 1964, they were further relaxed. In France, where bank rate was cut from 4 to 3.5 % in April 1965, the direct quantitative restriction on the expansion of bank advances was removed on 1 July, and the minimum reserve was reduced, as was the minimum for the banks' holdings of Treasury bills. Similarly, in Belgium, quantitative restrictions on the expansion of credit were gradually relaxed and then lifted completely in July; the minimum reserve ratio was also discontinued from the same date. However, the central bank urged caution in the increase of bank advances and repeated this advice in December 1965.

119. With regard to the recommendations on policy in building and construction, there was some slight easing of the market in this sector in Germany, particularly because of the slackening in the rate of increase of certain items of the public authorities' expenditure on construction but also because of the effect that the restrictive credit policy had on conditions on the capital markets. In France, on the other hand, the demand for new housing rose very sharply—mainly owing to changes in the use of household incomes—and could not be satisfied without fresh price increase; but it is true that there were some signs of slower growth in this sector towards the end of the year. In the Netherlands, the strain eased little if at all; the authorities responsible for short-term economic policy

did nothing to implement the main points of the Council's recommendation, except in so far as they endeavoured to increase supply. In Belgium and Luxembourg the Council's recommendation was generally complied with satisfactorily; if the pressure of costs persisted in spite of the slackening in demand for construction, it was none the less appreciably weaker in these countries.

120. With regard to action taken on the recommendations concerning incomes policy, the aim of which was to prevent fresh increases in costs per unit of production by direct action, there is no significant development to report. In the countries with demand-pull inflation it was in any case hardly possible to achieve this aim, or at least not to the desired extent, since the strains on the labour market were too acute. Even in the countries where the pressure of demand is not excessive, the weakening of the upward movement of incomes and unit costs was due to the business situation and not to action taken in the field of incomes policy. For precise estimates, the reader should refer to the Annex on trends of wages, productivity and labour costs industry contained in Quarterly Survey No. 1/1966—"The Economic Situation in the Community".

121. On 8 July 1965 the Short-term Economic Policy Committee expressed its views as to the short-term economic policy that should be pursued in 1966. Its opinion, published in Quarterly Survey No. 3/1965, was the outcome of its discussion (28-29 June 1965) of the Member States' preliminary economic budgets for 1966 and of the Commission's forecasts.

Furthermore, in Quarterly Surveys Nos. 3/1965 and 4/1965 and M. Marjolin's speech in the European Parliament on 18 January 1966, the Commission described the short-term economic policy problems that it expects will confront the Member States and the Community 1966, and indicated the broad outlines of a co-ordinated short-term economic policy to deal with them.

On 8 February 1966 the Short-term Economic Policy Committee again considered the problems involved and the policy to be adopted in 1966—this time with the complete economic budgets available. The opinion rendered by the Committee on 7 March 1966 is annexed to Quarterly Survey No. 1/1966.

By agreement with the Short-term Economic Policy Committee, the Commission considered the possibility of again presenting to the Council, early in the second quarter of the year, a survey of the prospects for the economy and for short-term economic policy, once the first forecasts are available for 1967. It will then also be able to put forward certain suggestions for the procedure that might be adopted to ensure that prompt, co-ordinated action in the field of short-term economic policy might be taken by the Community, where necessary, should there again be a danger of the economic situation getting out of hand.

Stabilization of prices and costs is again one of the main short-term economic policy objectives for 1966. This objective is to some extent incompatible with the targets for growth and employment. If growth has again come to the fore as an object of economic policy, this is the result of the slackening of business which occurred in Italy and France in 1964/65 and in Germany in 1966. Either economic expansion in real terms is already picking up again and the aim is to encourage it or at least avoid placing obstacles in its way, or else it is hoped to limit as much as possible the slowdown in growth which is partly connected with the stabilization policy adopted after a period of inflation. There is therefore a danger not only that the current tendency towards stabilization of prices and costs may be prematurely nullified but also that prices may begin to rise again unless this is inhibited by an appropriate short-term economic policy.

Improving instruments of policy

122. The Commission would repeat what it has already said on several occasions: that the instruments available to the Member States are generally satisfactory. Certainly, they could be improved technically here and there and applied more rapidly, but these considerations are of minor importance in comparison with the difficulties that will have to be overcome at the constitutional level or in the field of internal policy if more efficient use is to be made of the existing instruments.

Incomes policy is rather a special case; in the private sector at least, the Member States are generally not in a position to exert the necessary influence, since the two sides of industry are independent. The freedom of the parties in collective bargaining should, however, be accompanied by

voluntary acceptance of responsibility for the economy as a whole and therefore adjustment to short-term economic policy requirements. The Governments should tell employers and workers more clearly what they consider to be necessary, acceptable or permissible in the current business situation.

In Italy and Germany fresh progress was made towards this sort of mutual understanding. In Germany, proposals were made by a panel of independent experts set up to forecast the general economic trend; the creation of this panel was a first step towards the initiation of impartial discussions of this type. However, for various reasons (e.g. acute and persistent strains on the labour market and circumstances inherited from past years), the results are not entirely satisfactory.

In endeavouring to co-ordinate instruments of short-term economic policy and other economic and financial measures that affect the business situation, serious administrative, constitutional and political problems arise, especially in Germany. Following the necessary co-ordination of short-term economic policies in the Community and the recommendations issued by the Commission some time ago, serious attempts are, however, being made in that country to improve internal co-ordination. These might result in an outline law on short-term economic policy or even certain amendments to the Constitution, and the Commission can but hope they prove successful.

On the other hand, the Commission is concerned over certain developments which diminish the effectiveness of some instruments of short-term economic policy or indeed frustrate them; there is, for example, the danger that the built-in stabilizers which form (or should form) part of current national legislation (e.g. the tax system) become paralysed. More particularly, the dangers are: the more or less automatic reduction of scaled income tax owing to the increase in consumer prices; close cost-of-living relation of a part of current public expenditure (wages and salaries); non-freezing of unemployment insurance surpluses when there is full or over-full employment; maintenance of the charges for certain public services at an artificially low level.

These features, which in some countries are coupled with a *de jure* or *de facto* system of sliding wage scales, have—like the latter system—effects which are definitely cyclical, whether inflationary or deflationary. They

make it more difficult to pursue a flexible short-term economic policy. The Commission has already drawn the attention of Member States to these dangers on several occasions, both in its reports and through its representatives in the various committees.

123. The work of improving Community machinery for making analyses and forecasts has continued. Since the beginning of 1966, new questions have been included in the EEC's monthly business survey. They concern production capacities, obstacles to production, and the development of the firm's competitive position on the Community markets and outside.

A draft programme was drawn up for a monthly business survey in the construction sector in all the member countries. It was put into final shape in February 1966. The first survey will be made in June 1966. In the Netherlands heads of firms in this sector have agreed to co-operate, whereas the position of other branches of industry in that country remains unchanged. Full agreement has been reached between five countries. In the case of France, the question is still open and discussions are being held to get French firms to participate.

The common investment survey already carried out in Germany, France and Italy was extended to Belgium and Luxembourg. It was decided not to publish the results at present in order to allow time for further comparison of the forecasts and the results, because this type of survey is difficult to interpret and fairly complex studies have to be made beforehand.

The preparatory work for a survey among consumers has continued. The main outlines of the surveys to be made and of the methods to be adopted have been worked out. Contacts have been established with the various bodies that conduct such surveys in the Community countries or devote some of their funds to market research. As was pointed out in the Eighth General Report⁽¹⁾, everything depends on the availability of the necessary funds and staff.

In spite of certain technical difficulties, the procedure instituted in 1962 with regard to economic budgets has been maintained. Towards the

(1) See sec. 135.

middle of 1965 the Short-term Economic Policy Committee was presented with the preliminary economic budgets for 1966, and then, at the beginning of 1966, it received the completed economic budgets.

On 3 May 1965 the Commission submitted to the Council a proposal for a recommendation to the Member States; under Article 103 of the Treaty, concerning certain provisions to be adopted with a view to improving short-term statistics. In particular, the proposal deals with improvement of the indices of industrial production and consumer prices, and of statistics on unemployment, employment, wages and salaries, and the balance of payments. The recommendation will probably be put into final form by June 1966.

CO-ORDINATION OF MONETARY AND FINANCIAL POLICIES

124. The difficulties experienced in the Community in 1962-63 were symptomatic of the problems that arise in a customs union at an advanced stage owing to disparities in the trade-cycle situations of the countries concerned. Numerous studies were made on this subject propounding the need for closer co-ordination of stabilization policies and the ways in which such co-ordination could be achieved. In particular, the Monetary Committee considered these questions at length in its reports of April 1964, February 1965 and May 1966. Moreover, the present report shows how the circumstances and facts that have a bearing on the co-ordination of the policies concerned developed during the period under review. We may thus confine ourselves here to a few general considerations that will help to place what the Community is doing in perspective.

125. Close co-ordination of stabilization policies has become necessary owing to factors which may be placed under three heads:

i) The changes that have taken place in the fundamental features of the Member States' economies (shortage of manpower, increases in wages, costs and prices, tendency for the savings ratio to fall, etc.) have made it more difficult to pursue economic policies designed to achieve a satisfactory level of expansion coupled with stability.

ii) The expansion of trade within the Common Market has made the economies of the member countries much more vulnerable to the

disturbance of strains that arise within any one of the others, for such strains now spread from one country to another very rapidly.

iii) The measures that can be taken independently by any Member State, in case of disturbance, are dwindling steadily either because certain measures are no longer appropriate since they are incompatible with the existence of an emergent customs and economic union, or because other measures that were formerly very effective (e.g. changes in credit policy) are now much less so.

It is therefore no longer enough simply to co-ordinate the aims of economic policy; the instruments themselves must be harmonized if the difficult position in which the Community was placed towards the end of 1963 is not to recur.

This change of emphasis, it must be admitted, is taking place extremely slowly, and there are still considerable differences in the role that Member States assign to the two main instruments of stabilization policy: financial and monetary measures. During the period under review, France was the only Community country that made use of these two instruments in a way which, on the whole, met the requirements of stabilization. In most of the other countries, too much use was made of monetary measures to curb inflation; monetary policy, while harder to manipulate than financial policy, is undoubtedly effective once a certain degree of stringency has been achieved, but its effects may even be harmful both for the country that has recourse to it and for its partners.

An attempt must now be made to improve the balance between these two instruments in the Member States' stabilization policies, and to ensure that they are used to about the same degree in each member country.

In this respect the recommendations that the Council addressed to the Member States in April 1964 constitute an encouraging precedent. The action that was taken in response to the recommendations succeeded in stopping the chain reactions which, to quote the Seventh Report of the Monetary Committee ⁽¹⁾, "might have endangered the internal cohesion of the Community". But once the more immediate dangers had been eliminated, considerable difference reappeared in the handling of the

(1) See Ch. I, sec. 7.

Member States' economic and financial policies. In some Member States the situation was reversed, but for the Community as a whole the fundamental problem remains. The factors which make it possible for serious difficulties to recur, such as those experienced by the Community two years ago, have in fact not disappeared. The traditional method of co-ordinating monetary and financial policies by simply confronting the various policies that have been decided upon in isolation is no longer adequate. The need is now for concerted action to prevent such difficulties, rather than to remedy them once they have occurred. The Commission, for its part, will make unremitting efforts to achieve this.

The Community already has the necessary advisory bodies to prepare its work in this field efficiently. In addition to the Monetary Committee established by the Treaty itself and the Short-term Economic Policy Committee which was set up in 1960 by a decision of the Council and which has played a considerable part in this field, two other bodies were set up in 1964: the Committee of Governors of Central Banks and the Budget Policy Committee. A third committee, the Medium-term Economic Policy Committee, also deals with these problems inasmuch as the policy-mix—monetary and budgetary—depends on choices of a structural nature. After going through a difficult period because of the exceptional circumstances in which the Community was placed in 1965, these bodies are now functioning normally. They will have a valuable contribution to make towards the elaboration of a financial and monetary policy that will meet the needs of the Community as it develops.

The Community's balance of payments

126. According to the statistics for 1964, the balance of current transactions, for the Community as a whole, showed a surplus of some 650 million units of account. From the provisional figures at present available, it would appear that the surplus should be about 1 500 million u.a. in 1965. These figures, although much lower than the surpluses in the first few years after the Treaty of Rome entered into force, indicate that there has been a marked tendency for surpluses to increase since 1963. This is the result of various factors, one of the more important of which is the stabilization policy pursued in the Member States where inflationary pressures had been most marked.

As in previous years, the external accounts of the Community countries as a whole show net inflows of private capital, but these were smaller than in 1964.

Both in 1964 and in 1965, the combination of these two items leaves an appreciable credit balance, which was partly offset by net outflows of public capital in the form of loans, repayments—particularly advance repayment of loans—and unrequited payments.

The result of all this is that the overall balance, corresponding to official monetary reserves and increases to them (including movements in the accounts of the IMF) showed considerable surpluses amounting to some 1 800 million u.a. in 1964 and about 1 500 million u.a. in 1965.

International relations with regard to payments during 1965 were marked by the measures that two important countries—the United States and the United Kingdom—were obliged to take in order to remedy a long-standing deficit situation.

For the United States, whose balance of current payments continues to show an appreciable surplus, the main thing was to reduce the outflows of private capital, which bore particularly heavily on the external accounts of that country in 1964 and at the beginning of 1965.

A first set of measures that took effect in July 1963 (particularly an “interest equalization tax”) had to be supplemented in February 1965 by fresh restrictions on a wide range of transactions. These measures do not seem to have been quite as effective as had been expected, for in the third quarter of 1965 the American authorities decided to reinforce them.

Inasmuch as American capital movements have occasioned difficulties both for the working of the international monetary system in general and with regard to the monetary policy of the Member States, it is to be hoped that the measures adopted will have the desired effect. But the objects in view could only be fully achieved if the EEC Member States did not themselves adopt measures that would have the effect of reducing undesirable inflows of capital.

The possibility of action being taken to improve the structure of European capital markets, which alone could provide an effective solution to the

problem in question, is still remote. It is to be hoped that this task will be given the attention it deserves, as a matter of priority, by the authorities concerned, and that reforms will be carried out both at the national level and with regard to liberalization within the Community and the gradual opening of European capital markets to borrowers from non-member countries.

Where the United Kingdom is concerned, the steps taken have helped to bring about a general improvement in the balance of payments, and have already had some effect, although so far less than was originally expected.

Free movement of capital within the Community

127. During the period under review no new measures were introduced to liberalize capital movements. No exchange restrictions in force in certain Member States with regards to foreign issues and the granting of medium—and long-term advances to non-residents were maintained. In the Netherlands and France, however, certain European issues were authorized, viz., three issues in the Netherlands by the European Investment Bank, the ECSC, and the Italian electricity generating board (Ente Nazionale per l'Energia Elettrica—ENEL) amounting to Fl. 105 million, and one issue in France by ENEL of FF 125 million. With a view to the progressive liberalization of the above-mentioned operations, to which a system of conditional liberalization already applies by virtue of the first directive of 11 May 1960, the Commission drafted proposals, which will be referred to the Monetary Committee, providing for the gradual admission of issuing bodies in other member countries to the capital markets of the countries that still maintain restrictions and for the issue in those countries of general authorizations regarding medium—and long-term loans and credits up to a certain figure.

On 4 November 1965 the Commission submitted to the Council a proposal for a directive providing for statistics on movements of capital to and from non-member countries to be supplied to the Commission, and a Commission recommendation for a Council decision laying down a procedure for consultations within the Community on national policies relating to capital movements from non-member countries.

Under the proposed directive, pursuant to Article 213 of the Treaty, the Commission will be able to obtain annual statistical information on capital movements to and from non-member countries, drawn up on a uniform plan, so that the results in the six Member States can be compared. The need for the measures envisaged in the proposal has become apparent because the statistics on this subject at present supplied, under Article 72 of the Treaty, by some Member States are still incomplete and do not give an overall picture of the situation in the Community.

The second proposal, which is pursuant to Articles 105 and 145 of the Treaty, provides for consultations to take place within the Community at least once a year on the policies followed by the Member States with regard to movements of capital from non-member countries, the aim being to study the consequences of such investments in the six member countries and, if necessary, agree upon a common attitude.

On 8 March 1966 the Council referred these two proposals to the European Parliament and the Economic and Social Committee.

Panel of experts on capital markets

128. The panel of experts on capital markets was set up by the EEC Commission in 1964 ⁽¹⁾ to study the economic and technical problems involved in the development of a truly European capital market, taking into account the differences of organization that exist at present between the markets of the member countries. It is composed of independent experts from university and financial circles and representatives of the European Investment Bank and the ECSC High Authority. The chair is taken by a representative of the Commission.

Between October 1964 and December 1965 the panel held nine meetings, at which it examined problems connected with certain particular sectors of the capital markets and with the different instruments of economic policy.

The panel hopes to present its final report to the Commission during the third quarter of 1966.

⁽¹⁾ See Eighth General Report, sec. 138.

THE EUROPEAN INVESTMENT BANK

129. The activities of the European Investment Bank in the period under review are described in detail in its annual report. The information given below refers to the whole of the 1965 financial year.

The Bank continued its operations, both within the Community in accordance with the Treaty of Rome and also—within the framework of the various association agreements and conventions—in Greece, Turkey, the eighteen associated African States, and the dependent territories of certain Member States.

As part of its normal operations in the period from 1 January to 31 December 1965, the Bank approved 25 loans totalling 102 million units of account. Seventeen of these loans were granted for schemes in Italy (80.9 million u.a.), two for France (8.9 million u.a.), three for Germany (8.8 million u.a.) two for Cameroon (2.4 million u.a.) and one for the Ivory Coast (1 million u.a.).

Seven schemes in Turkey were approved for loans totalling 48.8 million u.a. from the Bank's Special Section. This Section was created to enable the Bank to grant loans on favourable terms on the instructions either of the Community or of the Member States, at their exclusive risk and with funds supplied directly by them.

Altogether, between 1 January and 31 December 1965, the Bank approved 32 loans to a total of 150.8 million u.a. Twenty-nine loans (87.8 million u.a.) were for industrial investments, and three (63 million u.a.) for economic infrastructure (building the Val d'Aosta motorway, irrigating the Metaponto plain in Italy, and irrigating the Cediz valley in Turkey. The total cost of the schemes which these loans will help to finance is estimated at 800 million u.a.

Between its creation and the end of 1965, the Bank has approved 117 loans totalling 613.8 million u.a. Investments it has aided amount in all to some 2 800 million u.a.

To obtain funds, the Bank borrowed a further 65 million u.a. by four new issues of bonds, three in member countries (Belgium, Italy and the Netherlands) and one expressed in dollars.

By 31 December 1965 the Bank had borrowed a total of 217 million u.a.

MEDIUM-TERM ECONOMIC POLICY

130. The Medium-term Economic Policy Committee has been active in three fields:

- i) Working out medium-term economic forecasts for the period 1965-70;
- ii) Preparing the preliminary draft of the first medium-term economic policy programme;
- iii) Initiating the preparatory work for subsequent medium-term economic policy programmes.

Development prospects 1965-70

131. The main task involved in drawing up the first medium-term economic policy programme was to make quantitative projections for the period 1965-70. This was done by the Group of Experts on Medium-term Economic Forecasts ⁽¹⁾.

The Group's final report, which was handed to the Commission at the beginning of 1966, deals mainly with the presentation of the overall prospects for employment, the domestic product and its utilization for each Community country. As the question of prices is important in any policy of balanced growth, the Group began to consider comparative price trends, but this part of its work is still in a very early stage.

The main features of the projections made by the Group will be incorporated in the medium-term economic policy programme. On the whole, the growth rates envisaged will be much the same as those recorded since 1958, while nevertheless reflecting the slower rate of increase in the working population that can be expected in certain countries.

In addition to the problems of employment and public investment which were mentioned in the Eighth General Report ⁽²⁾, the outlook for 1970 points to the importance of a satisfactory trend in prices as a necessary precondition of balanced growth. As yet it has not been possible to deal adequately with this problem, but it should be one of the main subjects of future study by the Group.

⁽¹⁾ See Eighth General Report, sec. 142.

⁽²⁾ *Ibid.*, sec. 143.

The Group's work has also shown how much has still to be done where basic statistical information is concerned. An initial investigation, carried out in connection with the analysis of price trends and with the activities of the Working Party on Incomes Policy, has revealed considerable gaps in the statistics on incomes and savings—to give only one example. Progress in this field depends on closer co-operation between the Member States in conjunction with the Statistical Office of the European Communities.

PREPARATION OF THE FIRST PROGRAMME

132. Preparatory work on the first programme advanced rapidly during the period under review. Nevertheless, the Committee was not able to get the preliminary draft completed and approved by the end of 1965, as it had hoped. The drafting of the first programme turned out to be more difficult than had originally been expected, because of the novelty and complexity of the subject. The Committee adopted the preliminary draft of the first programme on 25 March 1966, at its 14th session, and will submit it to the Commission in April. The Commission will work out the final draft and submit it to the Council, which will then refer it to the European Parliament and the Economic and Social Committee.

The preliminary draft adopted by the Committee indicates the main elements of the first programme. It will begin by describing the general conception of medium-term economic policy, with particular reference to the programme's aim; this is to encourage the Member States and Community institutions to shape their medium-term economic policy in a way that will create the best possible conditions for continuous, rapid and balanced economic growth while maintaining a high level of employment, monetary stability, balance-of-payments equilibrium, and adequate competitiveness in the Community's economy. After analysing the conditions of growth in the light, particularly, of studies made by the Group of Experts on Medium-term Economic Forecasts, the programme will describe the great problems that the economic policies of the Member States and Community institutions will have to solve in the coming years.

In order to provide the best possible solution to these problems, the programme will deal in detail with the question of co-ordinating economic policies. Experience has clearly shown that the shaping of these policies must be preceded by studies in depth, if the chances of medium-term

economic policy succeeding are not to be jeopardized in the long run. The first programme will therefore concentrate on the three questions that the Committee has so far been able to study in detail: employment policy, budget policy and regional policy.

With regard to employment policy ⁽¹⁾, the programme will begin by describing the measures that will have to be adopted by the Member States and Community institutions in order to ensure that the total manpower potential comes closer to meeting the economy's requirements. In addition, the programme will suggest the courses of action that the Member States and Community institutions may take to encourage the structural adaptation of manpower and, in particular, to develop vocational training and guidance, promote the retraining of workers, and improve the distribution of manpower potential between sectors and regions.

In budget policy, it will above all be important to allow for a substantial increase in public expenditure during the years 1966-70—to judge by the first forecasts, which are still very uncertain. This increase will have important consequence which will affect the adjustment of public demand to the capacities of the economy, the origin of the funds required to finance public spending, and the establishment of an order of priorities for certain types of expenditure, particularly investment; it will also make it necessary to think in terms of a period of several years where budgetary matters are concerned, and to co-ordinate the budget policies of the various authorities. Where regional policy is concerned ⁽²⁾, the first programme will mainly deal with the principal steps that should be taken in the near future, and as a matter of priority, by the Member States and Community institutions. The Committee was able to base its suggestions on the immense amount of work already done by the Commission and by the panel of senior officials responsible for regional policy in the Member States.

The first programme will also concern the other sectors of economic policy, such as research policy ⁽³⁾, investment policy, competition policy, measures to encourage the creation of enterprises of a reasonable size, structural policy by sectors, policy on incomes and inheritance, capital market policy, etc. On these subjects, however, its suggestions will be of a

⁽¹⁾ See sec. 232.

⁽²⁾ See secs. 135 sqq.

⁽³⁾ See secs. 263 sqq.

general nature, because the exhaustive studies required before detailed proposals can be made have not yet been completed.

PREPARATORY WORK ON FUTURE PROGRAMMES

133. In order that subsequent programmes shall be ready in good time, the Committee has already embarked on certain tasks which cannot be completed until extensive and complicated studies have been carried out. The Committee has therefore set up specialized working parties on three subjects: structural policy by sectors, incomes policy, and scientific and technical research policy ⁽¹⁾. The Committee has already received interim reports from each of these working parties, which it took into account when drafting the first programme.

The Working Party on Structural Policy by Industries is to study the aims and methods of intervention by public bodies with regard to structure in certain industries, the connections between such action and general policies on growth, short-term economic developments and competition, and its influence on economic development within the Community.

The Working Party of Incomes Policy was instructed to prepare a report on the courses of policy so far taken in the member countries with regard to incomes (wages, salaries, incomes of self-employed and other); the report will deal *inter alia* with any procedures and criteria adopted, experience, achievements, and the pattern to be followed in future in so far as it can be discerned at present.

The Working Party on Scientific and Technical Research is to study the question of elaborating a co-ordinated or common policy on scientific and technical research and proposes measures to initiate such a policy.

The report of this working party, which is expected to be published in 1966, will include a survey of the policies of the Member States and the Communities on scientific and technical research, a comparison of national research programmes, and a study of the problems directly connected with the process of integration; it will also list the industries in which it would appear that too little is being done in the way of applied research and, among the developed industries, those whose dynamism is closely and directly dependent on the development of scientific and technical research ⁽¹⁾.

(¹) See secs. 263 sqq.

*Co-operation with the European Parliament and the Economic
and Social Committee*

134. Apart from consulting the European Parliament and the Economic and Social Committee as required by the Council Decision of 15 April 1964, the Commission, by agreement with the Medium-term Economic Policy Committee, decided that the Parliament and Economic and Social Committee should be kept informed of the progress of work on medium-term economic policy from the time the drafting of the programme began. In so doing, the Commission was meeting a desire expressed by the European Parliament and the Economic and Social Committee.

The European Parliament is kept informed of progress through its competent Committee.

The Economic and Social Committee set up a Subcommittee on Medium-term Economic Policy specially for this purpose. During the period under review the subcommittee held eight meetings attended by representatives of the Commission. Detailed reports on the work in progress were given by the Chairman of the Medium-term Economic Policy Committee at the second and eighth meeting of the subcommittee.

REGIONAL POLICY

A GENERAL CONCEPTION OF REGIONAL POLICY

135. The reports of the three working parties set up by the Commission, which were briefly summarized in the Eighth General Report ⁽¹⁾, were published under the title "Reports of Working Parties on Regional Policy in the European Economic Community". The reports' conclusions are also annexed to the Commission's first communication on regional policy, discussed below.

136. On 11 May 1965, the Commission submitted to the Council, the European Parliament and the Economic and Social Committee its "First Memorandum on Regional Policy in the European Economic Community". This presents, for the first time, a general conception of regional policy.

(¹) See Eighth General Report, sec. 145.

The aim of this policy is a better geographical distribution of economic activity and a narrowing of the differences in development between various regions of the Community. It should therefore lead to the establishment in the less-favoured regions of competitive industries compatible with their natural propensities, so as to check the excessive growth of urban areas.

The Commission suggests that regional programmes be prepared, based on a detailed study of economic and demographic trends; they should be designed to co-ordinate public and private efforts, concentrating on a few well-chosen areas. Public investment programmes extending over several years should also be worked out, making a more rational use of the resources available for development, which are of necessity limited.

These "orientation programmes" should preferably be on the same lines for the greatest possible number of regions. Where more difficult problems arise, they would truly have to be action programmes. In this connection, particular attention will have to be given in the Community to the large peripheral areas which are predominantly agricultural, certain agricultural areas affected by structural weaknesses, declining industrial areas, areas lying along the frontiers between Member States, and areas adjacent to the Soviet Zone.

In the large peripheral areas of the Community, the first step should be to promote the growth of "industrial development poles", where industrial activities and complementary services are grouped together to form a coherent whole, capable, after initial aid, of self-sustained development. In smaller less-favoured regions, which can benefit from proximity to great industrial concentrations, an effective method would be to create secondary industrial centres having the communal amenities necessary to inhibit an exodus of the rural population.

The programmes will serve as a guide to the European institutions both in assessing the regional effects of Community policies and in their financial operations (European Investment Bank, European Agricultural Guidance and Guarantee Fund, Social Fund, etc.).

The Commission proposes to address recommendations to the Member States in pursuance of the principles contained in its communication of 11 May 1965; it will put in hand regional programmes making concerted

use of the financial resources available to the European institutions, and it will promote co-operation between the national authorities responsible for regional policy.

With regard to embodying regional policy in the medium-term economic policy programme, the Commission took much of what it said in the chapter devoted to regional policy in that programme (with which the national experts on regional policy were associated) from the memorandum referred to above. Priorities should be fixed for the various measures envisaged, and a timetable established with due regard to the financial possibilities. It is to be hoped that these programmes will encourage the regional, national and Community institutions to co-ordinate the financial resources they devote to this purpose, so that they can be concentrated on the most important objectives of regional development.

CO-ORDINATED APPLICATION OF THE INSTRUMENTS OF REGIONAL POLICY AVAILABLE TO THE EUROPEAN INSTITUTIONS

137. *Study of the promotion of an industrial development pole in southern Italy.* The survey on the promotion of an industrial development pole in southern Italy ⁽¹⁾, for which the Commission and the ECSC High Authority retained the services of a consultant firm, was officially handed to the Italian Government on 19 November 1965 by M. Marjolin and M. Levi Sandri, Vice-Presidents of the Commission.

The aim of the scheme is not only to develop one of the least-favoured regions of the Community but also to try out a new method of industrialization suitable for large underdeveloped areas.

The centre of the development pole is Bari in Apulia, and the branch of industry to be promoted there is heavy and medium mechanical engineering; there will be established simultaneously the whole complex of ancillary industries required in that sector, together with a sufficient number of other industries (industries that produce finished goods and use intermediate goods and services) to justify economically the existence of the complex of related industries. A study was made of the Mediterranean market in order to decide which industries it would be desirable to establish

(¹) See Eighth General Report, sec. 146.

in Bari and the optimum size of production unit for each of them, taking into account the present state of technology and the competitive position within the Community. For each unit of production thus defined, the needs of each of the industries were then worked out; finally, the total needs per industry were calculated in such a way as to define the markets for the various units of production corresponding to them, and to make sure that these markets guarantee a minimum return on each unit of production.

The initial nucleus envisaged comprises about thirty factories; nine of these will produce finished goods, and about twenty will provide them with intermediate products and services. The whole complex should offer employment for about 10 000 workers and require industrial investment amounting to about 100 000 million lire.

The consultant firm is going to study by agreement with the Cassa per il Mezzogiorno, which will have to effect them, what public investments are necessary for the functioning and development of the new industrial centre. The construction and opening of the factories concerned will be spread over four years, so that they should be in full production by about the end of 1970, by which time the common market will have been fully established.

138. *Co-operation in the frontier areas of France, Belgium and Luxembourg.* The implementation of the Recommendation of 14 June 1963 ⁽¹⁾ concerning a project for economic co-operation between northern Lorraine and the south of the Belgian province of Luxembourg has been delayed for various reasons, but the scheme may be relaunched on a new basis. On 29 May 1965 the Luxembourg Government asked to be associated with the studies being made on how far the frontier areas of Belgium and France are economically complementary. The Commission acceded to this request, and hopes that this widening of geographical scope will make possible a better approach to the problem.

Without even waiting for the scheme to be extended in this way, or for a solution to be found to the water problem ⁽²⁾, various steps have been

⁽¹⁾ See Seventh General Report, sec. 147.

⁽²⁾ See Eighth General Report, sec. 146.

taken towards the desirable regional co-operation. The Commission is very interested in these measures and will do what it can to ensure their success.

139. *Study of the Eifel-Hunsrück area.* This study was conducted, as planned, in the first half of 1965; it provides a first example of the method of secondary industrial centres recommended by the Commission in its first memorandum on regional policy in the Community.

The study proposes that six specified areas of medium size should be developed into secondary industrial centres and lists the infrastructures that would be required—particularly as regards communications—for the establishment of a sufficient number of manufacturing firms to employ the area's surplus agricultural workers.

140. *Regional development since the creation of the Common Market.* The Commission's study on this subject will soon be concluded. It will deal with the economic growth of the various regions and the effects of the policies that have been put in hand.

INDUSTRIAL STRUCTURE POLICY

141. As in previous years, the progressive abolition of obstacles to trade and the free play of competition have encouraged industries in the Community to expand investment and improve productivity, thus contributing to general economic growth.

Nevertheless, it is becoming increasingly necessary to co-ordinate at Community level the measures which, in the Member States, concern certain of the Community's industries more particularly.

This applies in the first place to the industries facing special problems of adaptation which may well become more acute as a result of the lowering of external tariff barriers at present being negotiated in GATT. Moreover, the success of these negotiations will depend on the adoption of concerted measures of industrial policy in certain sectors.

In order to avoid the Member States taking unco-ordinated measures to assist certain industries, which might have an adverse effect on the conditions of competition between firms, and with a view to working out a

common structure policy, the Commission addressed notes to the Member States on the overall situation and the problems of certain industries.

One of these concerned shipbuilding, an industry in which profound changes are taking place throughout the world. There was formerly a danger that some surplus tonnage capacity might be produced, but now demand has revived because of the rapid transformation of merchant fleets, which had to be adapted to specific requirements (large tankers, ore ships, bulk carriers, etc.) and could profit from more advantageous operating conditions. The Commission has tried to work out the broad outlines of a concerted structure policy which would, in particular, make it possible to combat more effectively the growing competition from Japan.

The Commission also transmitted to the Member States a memorandum on the situation and problems of the textile industry in the Community. While the consumption of textiles is showing a moderate increase, the industry is becoming one with a high rate of capitalization owing to the effects of technical innovations as regards equipment, the raw materials employed, and manufacturing methods; at the same time, industrialization in the developing countries and the re-establishment of a powerful Japanese textile industry have caused external demand to decline and have increased those countries' sales on Community markets. The Commission called a meeting of senior officials of the Member States to study this memorandum and outline the objectives and instruments of harmonized commercial and industrial policies in this field.

Studies of the same kind are at present being carried out for the paper and paperboard industries, which pose special problems in the Kennedy round negotiations. During the coming years, Community firms in this branch are likely to find it increasingly difficult to obtain supplies of raw materials, and they will have to face keener competition, where finished goods are concerned, from industries in the countries that are traditional suppliers of wood and paper pulp; the Council therefore considers it necessary for marketing conditions to be improved and internal measures of industrial policy adopted, so that the industries concerned may be able to hold their own despite future tariff reductions.

Moreover, when authorizing recourse to safeguard clauses in such industries as silk, lead, zinc and sulphur, the Commission takes into consideration the structure policy to be pursued in these industries.

The Community's action in the industrial field is not, however, confined to sectors that are in difficulties. It has also taken steps to harmonize industrial standards, to eliminate artificial obstacles to industrial combination, to obtain more information about the investments made in the Community by companies in non-member countries, and to survey the industries in which it appears that too little is being done in the way of applied research.

Energy policy

THE DEVELOPMENT OF THE FUEL AND POWER MARKET

142. In 1965 the fuel and power market continued a trend which had already begun several years ago: the position of Community coal further worsened (at 224 million tons, consumption was down 13 million tons on 1964); pithead stocks rose from 17 million tons at the end of December 1964 to 25 million at the end of December 1965, production having declined by 10.5 million tons over the same period.

Consumption of petroleum products grew a little more slowly—from 185 million tons in 1964 to 207 million in 1965. It was particularly the growth in petrol consumption which was lower than in the previous year, especially in France. The increase in the consumption of heavy fuel oil was slightly smaller; diesel fuels and light fuel oil maintained their rate of progress.

Although 1965 saw no change in the amount of natural gas consumed, considerable investments were made; these are likely to be reflected in a big jump in supplies in 1966.

A part of the transport network for the development and export of Groningen gas has been completed, while France completed its installations for using Sahara gas.

The Nederlandse Aardolie Maatschappij (NAM) has signed contracts with Belgian transport and distribution companies for 3 000 to 5 000 million cu. m. per annum and with German companies for about 10 000 to 15 000 million cu. m. per annum.

Talks have been going on with France for several months for the supply of 5 000 million cu. m. annually. By the Franco-Algerian petroleum agreements signed on 29 July 1965, France also undertook to import in liquefied form an annual 500 million cu. m., rising gradually to 1 500 million cu. m. from 1968 onwards.

In November 1965 the Italian ENI concluded a contract to buy liquefied natural gas from Libya up to an amount of 3 000 million cu. m. per year.

Coal prices have remained relatively stable, while those of petroleum products fell appreciably in France because of the system of quotation linked with Western hemisphere prices. Towards the end of the year in Germany, Belgium and the Netherlands prices, which had been 1 to 2 dollars lower in the course of the year in relation to the previous period, regained their 1964 level.

MEASURES BY THE MEMBER STATES

143. The German Government took further measures to palliate the decline in coal consumption. Four workless days for which miners were paid reduced production by about 2.5 million tons, while the Notgemeinschaft Deutscher Kohlenbergbau GmbH obtained financial aid from the Government to buy and stock 4 million tons in regions distant from production centres.

A law making it compulsory to keep minimum reserves of petroleum products came into force on 1 January 1966 ⁽¹⁾.

On 29 July 1965 the French and Algerian Governments signed an agreement for the development of Algerian oil and natural gas resources.

On 12 July 1965 the French Parliament adopted tax measures to encourage exploration for oil. These provide for the deduction from income tax of charges and taxes paid by enterprises abroad.

In the Netherlands a law on exploration for and extraction of mineral substances in the Dutch area of the North Sea continental shelf was adopted on 23 September 1965.

(¹) See Eighth General Report, secs. 155 and 159.

In Belgium the law of 12 April 1965 on the transport of gaseous and other products by pipeline made the transport of gas to supply a distribution service subject to the concession system. Other gas transport, particularly to heavy industrial consumers and for firms' own use, and also in transit, come under a licence system.

The law of 22 April 1965 authorized the Belgian Government to acquire shares in the Distrigaz company, the chief gas transporter in Belgium, which has concluded an important contract for the import of natural gas from the Netherlands. In pursuance of this law the Belgian State took up some of the new shares issued by Distrigaz by decision of 22 November 1965.

ACTION BY THE COMMISSION

144. Pending the amalgamation of the three Communities, the Commission has continued to apply the Rome Treaty to the fuel sectors for which it is responsible—oil and natural gas—and prepared the application to these two forms of energy of the April 1964 Protocol of Agreement relating to energy problems.

Implementation of the Rome Treaty

145. The introduction in November 1964 of the common customs tariff for petroleum products raised several practical problems which are at present under study, in particular how to devise a uniform method for computing the customs value of products imported from non-member countries.

The Council has adopted a decision concerning the calculation of the compensatory levy charged by the member countries on petroleum products in processing traffic. The Member State which is second importer can apply to the processed products the full customs duties not charged when the petroleum was first imported into Community customs territory.

In pursuance of the petroleum agreement annexed to the Association Convention with the Netherlands Antilles, a Commission recommendation for a record to be made of the quantities of petroleum products imported into the Community from the Antilles is under study.

In the Council's preparatory study of the constituents and size of stocks the draft directive of 5 November 1964 laying down compulsory minimum levels gave rise to discussions which are not yet concluded.

Three draft directives on freedom of establishment and freedom to supply services in the oil and natural gas sector are being prepared ⁽¹⁾.

The Commission has continued to study the application of the Treaty, particularly its provisions concerning free movement and competition, to the following three cases:

- a) The French petroleum importing system;
- b) Sales policy for Netherlands gas;
- c) The arrangements made by the German Government at the end of 1964 to balance future consumption of oil and natural gas and of coal ⁽²⁾.

In the second half of 1965 the Commission published three reports; the first concerned imports of crude oil and refined products from non-member countries, the second investments in the Community's oil industry, and the third the influence of energy prices on the economy.

*Application of the Protocol of Agreement relating to energy problems
of 21 April 1964*

146. On 16 February 1966 the Commission, which is responsible for giving effect to the principles laid down by the Protocol of Agreement as regards oil and natural gas ⁽³⁾, sent an initial memorandum, by agreement with the ECSC High Authority and the Euratom Commission, to the Council containing proposals for a Community policy on oil and natural gas.

The proposals cover security of supplies, a single market for petroleum and natural gas and the co-ordination of government action.

The question of security of supplies has two main aspects.

⁽¹⁾ See also sec. 41.

⁽²⁾ See Eighth General Report, sec. 152.

⁽³⁾ *Ibid.*, sec. 158.

First, the Community must guard against any temporary interruption of its oil imports resulting from economic or political disturbances in the countries from which it draws them. The Commission has therefore proposed the keeping of a permanent inventory of world oil resources at present unused and which might be available in an emergency. It has also contacted the major international oil companies with a view to regular consultations on supply to the Community market. There have also been talks with the leading non-member countries concerned, and in OECD's Special Committee for Oil the Commission has been instrumental in establishing a permanent system for co-operation in examining various hypothetical emergencies and the means of meeting them.

The Community must also ensure security of its supplies in the light of future requirements. Such security will in the long run have to be sought in the widest possible diversification of sources. The Commission proposes that the Member States should take suitable measures—tax concessions or aid—to expand and co-ordinate exploration by Community companies. Pending the introduction of a common commercial policy, the Commission proposes a consultation procedure on medium- and long-term commercial policies in the petroleum sector, not limited, as at present, to the East bloc countries.

The single market, which is to be achieved in principle at the end of the transition period, presupposes that obstacles to trade between Member States are removed and a common commercial policy introduced.

The Commission's proposals concern the elimination of government intervention, which is prevalent in the oil and natural gas sector.

As regards the adjustment of the French petroleum import system (Article 37 of the Treaty), the Commission is asking the French Government how it proposes to reconcile its priority objectives with its Community undertakings.

Problems could moreover arise in connection with action in the petroleum market recently contemplated by the German Government.

Unity of the market also presupposes freedom of establishment. But as regards exploration and production, Governments may exercise discrimination in the issue of licences or concessions. This is why the Commission has proposed a procedure to examine complaints. The same problem exists in the distribution field in connection with licences to set up service

stations. Finally, as regards the transport of oil and natural gas by pipeline, the Commission has proposed a consultation procedure for the most important projects of common interest and the application of a rule, similar to the "common carrier" rule in the USA, obliging owners of pipelines to transport petroleum products belonging to outsiders at non-discriminatory rates.

The co-ordination of national measures also proposed by the Commission chiefly concerns municipal laws and investments. The Commission has urged upon the Council that there should be a full exchange of information every year on the laws and regulations governing petroleum and that the detailed investment programmes of the oil industry should be communicated.

The Commission has also made certain proposals concerning natural gas. As with petroleum, it has requested the Member States gradually to work out common principles for sales, to establish joint rules for transport by pipeline and to exchange information periodically on laws and regulations and on investment projects of common interest.

With special reference to sales of Dutch gas, the Commission has recommended that, in view of the dominant market position existing, all price discrimination within the meaning of Article 86(c) of the Treaty should be avoided and Articles 7, 37 and 85 respected.

These Commission proposals for the gradual establishment of a common policy for oil and natural gas are in the form of an action programme. It is proposed to organize consultations among the senior officials dealing with these matters in the Member States. The Council will be informed annually of the progress of these studies, and concrete proposals will be submitted to it where necessary on the different points brought up.

Common agricultural policy

FOREWORD

147. The central feature of the Community's work during the period under review was the financing of the common agricultural policy. The crisis which began on 30 June 1965 seriously retarded the implementation

of the programme which had been adopted on 15 December 1964 and at the beginning of 1965. Proper application of the regulations already in force was nevertheless ensured.

Work on the financing of the common agricultural policy was resumed on the day following the extraordinary meeting of the Council in Luxembourg. Substantial progress was made, particularly at the Council meeting of 4-5 April 1966.

On 4 March 1966 the Commission laid before the Council proposals to fix a common price level for milk and milk products, beef and veal, sugar, rice, oilseeds and olive oil from 1967/68. On 25 March it submitted proposals on the criteria to be adopted for the establishment of a common policy for aids to agriculture. The main task of the Council during the spring of 1966 will be to examine these new proposals, together with those concerning the establishment of common market organizations for sugar and for oils and fats, and supplementary arrangements in the fruit and vegetables sector. The decisions to be taken in these fields will also have an important effect on the progress of the trade negotiations in GATT.

On 28 and 29 March the Council arranged a heavy programme of meetings with a view to reaching agreement before July on this large group of proposals, the adoption of which would constitute a decisive step towards the establishment of the common agricultural policy.

COMMON ORGANIZATION OF AGRICULTURAL MARKETS

Market trends

148. *Production.* In spite of poor harvests in Germany and the Benelux countries in 1965, total cereal production in the EEC reached the same level as in 1964 - 59.9m. (1) metric tons (excluding rice), but the quality was superior. Owing to bad weather, the optimistic forecasts for the maize harvest in France were not borne out by the results. In the two rice-growing member countries, France and Italy, the 1965 harvest was

(1) According to the figures at present available, production of the principal cereals was as follows:

Wheat: 30.1m. metric tons (29.3m. metric tons in 1964).

Rye: 4.7m. metric tons (4.6m. metric tons in 1964).

Barley: 11.9m. metric tons (11.9m. metric tons in 1964).

unusually late because of unfavourable weather, and showed a drop of about 20% below the 740 000 metric tons harvested in 1964.

In the pigmeat sector, supply and demand went up substantially. The increase in output was especially great in the Netherlands.

Beef and veal production followed much the same pattern as the year before. Cattle stocks were still too small, but there were signs that production was beginning to rise. As the tendency to increase cattle stocks, first apparent at the end of 1964, has been maintained, production can be expected to improve considerably in 1966.

On the EEC markets adequate supplies of eggs were not forthcoming, because stocks of laying hens had been reduced in several European countries as a result of the drop in fresh egg prices in 1964. It is, however, likely that the supply of eggs on Community markets will increase perceptibly during the spring of 1966.

Production of poultrymeat, particularly of broilers, went up in all member countries, but especially in the Netherlands, Germany and Belgium. There was a corresponding increase in consumption, but per capita consumption in all the Member States has now reached a level which suggests that this trend may slacken, or even that it may be difficult to find outlets for all the poultrymeat produced.

Production of milk and of most milk products rose in all countries except Italy. An increasing proportion of this milk had to be used for butter making. As the market could not absorb all the butter, larger stocks were accumulated than in previous years and swelled those already in existence at the beginning of the marketing year as a result of various imports.

Fruit and vegetable production suffered particularly from the bad weather, and there was an appreciable decline in the output of some important items (apples and pears) in 1965. This was, however, offset by an increase in production of certain others, so that the total output did not show any significant change in 1965 compared with the previous year.

In 1965 141m. hectolitres of wine were produced in the Community, an increase of about 7m. hectolitres over 1964. This was due to the greater quantity of grapes harvested in France, which more than outweighed the decline in production in the other member countries.

TABLE
Imports by EEC countries of some agricultural

Product	Period	Germany
	I. From non-member	
Wheat	1964	1 428 532
	First 9 mths 64	1 067 302
	First 9 mths 65	984 904
Barley	1964	666 295
	First 9 mths 64	422 777
	First 9 mths 65	507 490
Pigs for slaughter (units)	1964	159 024
	First 9 mths 64	97 068
	First 9 mths 65	156 099
Poultrymeat	1964	92 319
	First 9 mths 64	55 834
	First 9 mths 65	37 575
Shell eggs	1964	21 865
	First 9 mths 64	17 475
	First 9 mths 65	22 454
Live cattle and calves (units)	1964	306 244
	First 9 mths 64	245 516
	First 9 mths 65	355 563
Beef and veal, fresh, chilled or frozen	1964	62 230
	First 9 mths 64	48 035
	First 9 mths 65	67 137
Milk and cream, fresh, not concentrated or sweetened	1964	588
	First 9 mths 64	462
	First 9 mths 65	380
Milk and cream, preserved, concentrated or sweetened	1964	8 223
	First 9 mths 64	5 892
	First 9 mths 65	6 358
Butter	1964	9 093
	First 9 mths 64	8 954
	First 9 mths 65	1 626
Cheese and curd	1964	57 786
	First 9 mths 64	42 615
	First 9 mths 65	33 744

Source : National statistical bulletins of foreign trade.

(*) Provisional figures for Italy, those for September 1965 being calculated from information published weekly.

*products subject to common regulations**(metric tons)*

	France	Italy (1)	Netherlands	B.L.E.U.	EEC
countries					
	666 716	338 536	554 896	363 114	3 351 794
	484 452	248 152	403 511	261 561	2 464 978
	511 022	379 660 (1)	399 881	295 397	2 570 864
	490	416 922	156 896	45 808	1 286 411
	490	287 090	131 238	34 398	875 993
	440	588 931 (1)	128 645	64 672	1 290 178
	46 152	17 053	3	69	222 301
	46 058	5 252	2	37	148 417
	11 385	14 579 (1)	27	44	182 134
	154	3 982	1 479	171	98 105
	34	2 124	903	57	58 952
	118	4 443 (1)	857	56	43 049
	75	14 989	7	56	36 992
	57	7 717	5	40	25 294
	—	23 114 (1)	38	35	45 641
	732	355 484	109 159	75 645	847 264
	683	259 728	55 448	63 514	624 889
	458	231 946 (1)	62 026	46 641	696 634
	45 595	247 648	26 650	21 072	403 195
	34 018	178 228	20 782	17 003	298 066
	39 955	168 459 (1)	17 708	11 116	304 375
	6	4 582	85	117	5 378
	4	3 124	85	94	3 769
	4	3 536 (1)	—	—	3 920
	14 138	28 845	119 093	7 940	178 239
	3 306	20 612	89 216	6 750	125 776
	1 886	12 245 (1)	66 329	3 423	90 241
	4 587	17 299	3 648	11 633	46 260
	468	11 418	3 583	6 087	30 510
	11 680	10 083 (1)	56	1 904	25 349
	8 375	38 153	1 229	8 453	113 996
	6 107	29 072	1 141	6 030	84 965
	7 413	28 638 (1)	1 000	5 024	75 819

TABLE
Imports by EEC countries of some agricultural

Product	Period	Germany
II. Intra-Community		
Wheat	1964	214 437
	First 9 mths 64	183 039
	First 9 mths 65	83 126
Barley	1964	537 576
	First 9 mths 64	394 937
	First 9 mths 65	415 798
Pigs for slaughter (units)	1964	13 975
	First 9 mths 64	13 018
	First 9 mths 65	30 216
Poultrymeat	1964	92 468
	First 9 mths 64	67 291
	First 9 mths 65	94 668
Shell eggs	1964	117 580
	First 9 mths 64	87 573
	First 9 mths 65	59 018
Live cattle and calves (units)	1964	3 923
	First 9 mths 64	3 107
	First 9 mths 65	3 781
Beef and veal, fresh, chilled or frozen	1964	55 381
	First 9 mths 64	41 613
	First 9 mths 65	47 875
Milk and cream, fresh, not concentrated or sweetened	1964	44 485
	First 9 mths 64	34 256
	First 9 mths 65	35 201
Milk and cream, preserved, concentrated or sweetened	1964	18 310
	First 9 mths 64	12 304
	First 9 mths 65	41 946
Butter	1964	9 698
	First 9 mths 64	7 005
	First 9 mths 65	6 098
Cheese and curd	1964	73 563
	First 9 mths 64	55 510
	First 9 mths 65	57 054

Source : National statistical bulletins of foreign trade.

(¹) Provisional figures for Italy, those for September 1965 being calculated from information published weekly.

15 (cont.)

products subject to common regulations

(metric tons)

	France	Italy (1)	Netherlands	B.L.E.U.	EEC
trade (imports)					
251	202 286		46 419	134 880	598 273
241	113 329		43 632	122 864	463 105
55	280 683 (1)		149 449	35 506	548 819
58	169 988		66 312	178 555	952 489
2	158 766		52 014	133 094	738 813
38	7 804 (1)		96 350	185 547	705 537
433 905	—		166	10 069	458 115
323 920	—		165	50	337 153
240 035	— (1)		82	45 700	316 033
277	—		137	150	93 032
215	—		114	82	67 702
152	— (1)		2	83	94 905
1 461	10 021		35	82	129 179
1 250	4 361		12	72	93 268
1 912	5 607 (1)		98	78	66 713
14 184	169 925		8 855	7 841	204 728
13 512	107 530		5 218	6 135	135 502
1 966	211 133 (1)		10 109	6 756	233 745
27 299	35 958		3 891	1 688	124 217
23 029	27 913		3 579	1 361	97 495
10 703	33 907 (1)		1 576	2 109	96 170
4 358	3 025		16 266	11 911	80 045
1 940	2 495		11 376	11 717	61 784
774	6 385 (1)		13 310	911	56 581
20 166	9 197		16 539	13 170	77 382
2 372	7 479		11 890	8 149	42 194
2 259	9 469 (1)		18 710	39 999	112 383
1 443	9 920		147	4 364	25 572
379	7 502		139	1 196	16 221
4 146	12 622 (1)		154	678	23 698
10 627	19 467		4 759	24 983	133 399
5 677	15 448		3 139	18 059	97 833
14 369	18 130 (1)		4 410	21 509	115 472

149. *Trade.* The trend of imports into each Community country from non-member countries, and from the other Community countries, of a number of farm products subject to common market organizations is shown in the table below, covering 1964 and the first nine months of 1964 and 1965.

The common organization of the market in cereals has so far caused hardly any noticeable change in the flow of trade between Member States and non-member countries. Since the beginning of the 1965/66 marketing year, there have been fairly good prospects for exporting to non-member countries the surplus wheat harvested in the Community in 1965. This is largely because of the high level of demand from the East bloc countries and Far Eastern countries. Thus, in spite of the fears expressed last year, outlets can probably be found on the world market on more favourable terms than seemed likely at the end of the previous marketing year. In general, the refunds granted in respect of exports to non-member countries were lower than the levy.

In the case of rice, the main features of the marketing year beginning on 1 September 1964—the first since the levy system came into operation—were a rundown of the large stocks accumulated during the first eight months of 1964 and a resumption of trade between Italy and Germany. Nevertheless there were still substantial imports from non-member countries.

In the pigmeat sector, intra-Community trade increased. Live and slaughtered pigs were exported from Benelux to France, which has been the EEC's main importer of pigs and pigmeat since the 1963/64 marketing year, and there was a brisk revival of imports into Germany from the Benelux countries during the summer of 1965.

The greatest increase was in imports of pigmeat products (smoked meat, sausages, preparations and preserves) into the Community from non-member countries, which practically doubled between 1960 and 1964.

In view of the shortage of beef and veal, intra-Community trade was well down on 1964 in spite of the reduction of customs duties that took place in April 1965. Italian imports of calves for slaughter from Germany and France were, however, almost three times as high as in the previous year.

At the beginning of the year there was a drop in imports of several products from non-member countries, but the decline in deliveries to Germany of bullocks and cows for slaughter at the beginning of 1965 turned out to be short-lived. Less frozen meat was imported for precessing than in 1964 in spite of the steps taken to encourage such imports. This was probably because of the persistent shortage of supplies on the world market.

Intra-Community trade in eggs declined, in both absolute and relative terms. Germany's imports from other Community countries slackened considerably compared with those from the East bloc countries. At the same time an increasing share of the needs of the German market is being met from domestic production, and the volume of imports into that country is therefore tending to fall.

In Italy, as the decline in domestic production has been very marked and the food industries need to be assured of regular supplies of eggs, the total volume of imports is rising appreciably. The proportion from other Community countries is negligible in comparison with the quantities imported from the East bloc countries.

The increase in production of poultrymeat within the Community has been accompanied by an increase in trade between the member countries. The Netherlands and Belgium have improved their position on the German market in relation to non-member countries. Italy has only made very limited purchases of poultrymeat from the East bloc countries. There have been no important changes in the volume of Community exports to non-member countries such as Switzerland and Austria.

In the milk products sector, intra-Community trade and trade with non-member countries remained at a high level. Bulk imports of skim milk powder from non-member countries, for example, were as high as in 1964.

With regard to fruit and vegetables, intra-Community trade in 1965 (the first nine months) and imports from non-member countries were appreciably up on the same period of the previous year. The total volume of imports of the products listed in the annexes to Regulation No. 23 during the period under review amounts to almost 4 200 000 metric tons for 1965—an increase of about 6% compared with 1964; in both cases imports from non-member countries accounted for some 57% of all imports into the Member States.

Comparison of the trade figures for wine for the period April-October 1964 and 1965 shows that intra-Community trade fell by about 65 000 hl in 1965, largely owing to the reduction in imports into Germany. Imports from non-member countries reached 8 100 000 hl—a decrease of some 2 million hl since the previous year. Two different tendencies were apparent: three countries reduced their imports appreciably (Germany by 173 000 hl; Italy by 10 000 hl; France by 1 850 000 hl, particularly from North Africa), whereas the other three increased their imports slightly (imports from Greece rose by 123 000 hl to a total of 186 000 hl).

Price trends

150. Market prices for wheat in the Community as a whole remained firm both at the end of the 1964/65 marketing year and at the beginning of the current marketing year; they were generally closer to the target prices than to the intervention prices. The reason for this price situation lies in the late harvest in the northern part of the Community and uncertainty as to its quality. In France, it was also due to the low level of stocks and good prospects for exports. Where the 1965 harvest is concerned, prices are at present above the target price in France and Italy. Prices remained steady during the last few weeks of 1965. For barley the trend was similar.

In France, prices for the maize harvested in 1964 remained either just below or just above the target price, in spite of the bad weather that damaged harvests in that country. In Italy the market price has constantly been lower than the target price.

In the rice-growing regions of the Community, the prices for paddy harvested in 1964 were slightly above the intervention prices that had been fixed. In these areas, the prices for husked rice were the same as the target price in France and about 2 u.a. per 100 kg higher than the target price in Italy. Since September 1965, the prices for paddy harvested in 1965 have, on the same markets, been a little higher than they were a year before, and the prices of husked rice have exceeded the derived target prices by about 1 u.a. per 100 kg in France and 4 u.a. per 100 kg in Italy.

Although supplies were plentiful, pig prices remained relatively firm from April to September 1965. At the end of the summer a seasonal increase occurred which was larger than usual because it coincided with the cyclical increase in these prices caused by the decline of production. Relatively

high prices for pigs are to be expected in the Community in 1966; only towards the end of the year will prices fall appreciably. But the outbreak of foot-and-mouth disease in the Netherlands and Belgium has caused prices to fall sharply in those countries because exports to the other member countries have been suspended. This situation will continue until trade is resumed.

During the period under review cattle prices in the Member States were appreciably higher than the guide price, except in the Netherlands in the second half of the year and in Belgium and France in the third quarter. Since July 1965 cattle prices have been lowest in the Netherlands; they are between 100 and 105% of the guide price. Consequently a 50% levy has been imposed on imports into the Netherlands from non-member countries. Prices for calves were high in Germany and Italy. In the other Member States the trend in calf prices led to the imposition of levies from June onwards. In Belgium calf prices were sometimes 5 u.a. per 100 kg lower than the guide price.

In the second half of 1965 there was a very considerable increase in egg prices throughout the Community, due to inadequate supplies. By the beginning of December prices had reached an exceptionally high level. In order to obviate the long-term consequences of this abnormal development, the Council decided temporarily to suspend the levies on imports from non-member countries. Coming at a time when consumption was slackening somewhat because of the rise in retail prices, this decision helped to reduce the strain of the egg market. In January and throughout the first quarter of 1966, there was a very marked fall in prices, as the pressure usual at the beginning of the year was increased by the growth of supply both within the Community and outside.

Poultry prices in the Community went up slightly from July 1965 onwards, and the same development occurred in non-member countries. This was due to an increase in demand and a decline in the supply of hens for slaughter, because the improvement in fresh egg prices had encouraged farmers to keep their hens laying longer. From September onwards, however, a serious drop in prices was noted in Italy and France, where supply increased just at a time when consumption was static.

During the first quarter of 1966 prices weakened slightly in the other member countries; the decline was due to a steady advance in output but was partly offset by increased demand.

The average prices of milk products as a whole settled down at a level that made it possible for producers in all member countries to obtain the target price for milk and sometimes even more.

The principal varieties of fruit and vegetables fetched prices slightly higher than in the previous year. There was considerable demand for some products such as peaches, grapes, apples, pears and oranges; furthermore, the average selling price of vegetables such as cauliflowers and tomatoes was higher than a year before. Nevertheless, for certain periods prices remained lower than last year (cauliflowers in April, tomatoes in August).

The prices of table wines did not show the same trend in all the producer member countries. In France there was a tendency for prices to fall, mainly owing to the release of large stocks, but in the three other wine-growing countries prices as a whole tended to rise; this increase was particularly marked in Italy during and after August, and in Luxembourg and Germany from June onwards.

Functioning of the common organization of markets

151. *Common organization of the markets in cereals and rice.* By Regulation No. 63/65/CEE ⁽¹⁾ waiving Article 17 of Regulation No. 19, the Council maintained the possibility of fixing the intra-Community levy in advance by making the previous arrangements less rigid, particularly by authorizing imports during the first three months of the marketing year, which were formerly prohibited.

In view of the difficulties encountered in Italy in fixing the intervention price for durum wheat, the Council authorized that country to waive the provisions of Article 7 of Regulation No. 19 for the 1964/65 and 1965/66 marketing years ⁽²⁾. It also renewed ⁽³⁾ its decision authorizing Italy to charge an additional amount on imports of certain types of wheat other than durum, the aim being to facilitate sales of Italy's home-grown durum, which might otherwise have been undercut by high-quality imports of other types of wheat that could replace durum in certain manufacturing processes.

⁽¹⁾ Official gazette No. 86, 20 May 1965.

⁽²⁾ *Ibid.* No. 125, 9 July 1965 (Decision No. 65/341/CEE).

⁽³⁾ *Ibid.* (Decision No. 65/340/CEE).

In view of the current situation in the cereals sector, there was no need to modify the standard amounts applied during the previous marketing year.

The system of refunds to starch producers was extended first until 31 January 1966 and then until 30 September 1966 ⁽¹⁾ on the same lines as before, pending the opinion of the Council's Working Party on the permanent system envisaged by Article 17 of Regulation No. 141/64/CEE and put forward by the Commission in October 1964.

With regard to imports of processed products from the Associated African States, the Council, which had previously extended the transitional system several times, adopted Regulation No. 78/65/CEE ⁽²⁾ laying down new provisions applicable until the end of the transition period.

As trade had developed fairly satisfactorily on the whole, the Commission maintained the same standard amounts for intra-Community trade in rice and broken rice as had been applied in the 1964/65 marketing year ⁽³⁾.

In addition, the Council adopted a measure waiving Regulation No. 16/64/CEE for the 1965/66 marketing year, by instituting a system of abatements on the levy applicable to imports of husked rice from non-member countries ⁽⁴⁾. The Commission had adopted a similar system, as a temporary measure, for the 1964/65 marketing year ⁽⁵⁾.

With regard to the milling industry, the Commission is at present studying the problems that the existence of surplus capacity in the Community may pose for the establishment of the single market in cereals from 1 July 1967.

152. *Common organization of the market in pigmeat.* The system of sluice-gate prices laid down in Regulation No. 20 ⁽⁶⁾ was put into operation for the first time in 1965. The Italian Government, having received offers from non-member countries at prices appreciably below the sluice-gate price, became the first to fix supplementary amounts, in

⁽¹⁾ Council Regulation No. 129/65/CEE, official gazette No. 159, 25 September 1965, and Regulation No. 4/66/CEE, *ibid.* No. 13, 22 January 1966.

⁽²⁾ See official gazette No. 109, 23 June 1965.

⁽³⁾ Regulation No. 114/65/CEE, official gazette No. 127, 13 July 1965.

⁽⁴⁾ Regulation No. 127/65/CEE, *ibid.* No. 159, 25 September 1965.

⁽⁵⁾ Regulation No. 105/64/CEE, *ibid.* No. 126, 5 August 1964, Regulation No. 172/64/CEE, *ibid.* No. 176, 5 November 1964, and Regulation No. 22/65/CEE, *ibid.* No. 39, 11 March 1965.

⁽⁶⁾ See official gazette No. 30, 20 April 1962.

accordance with Article 6 of Regulation No. 96/63/CEE and with effect from 28 April 1965, on imports of live pigs, slaughtered pigs and ham from certain non-member countries. Offers and imports from non-member countries were also made in other Community countries at prices lower than the sluice-gate price. Consequently, the Commission, acting through the Management Committees, fixed supplementary amounts during the summer months for imports of pig carcasses, certain fresh cuts (leg, shoulder, breast) and bacon ⁽¹⁾. It exempted Austria from the supplementary amounts thus laid down ⁽²⁾ because of that country's undertaking to respect the sluice-gate price for exports of live and slaughtered pigs. In view of the cyclical increase in pig prices during the winter of 1965/66, Germany and France requested that the levies be reduced, in order to ensure more regular supplies to the market ⁽³⁾. This measure was extended to Italy on 10 February 1966 ⁽⁴⁾.

153. *Common organization of the market in beef and veal.* In accordance with Regulation No. 14/64/CEE ⁽⁵⁾, the Council revised the upper and lower limits of the guide prices for cattle and calves for the period 1 April 1965—31 March 1966. The upper limits were raised, and the difference between the upper and lower limits was reduced, in view of the need to encourage an increase of cattle stocks in the Community countries. For the same reason, the Council, on 22 June 1965, again authorized Italy to suspend its customs duties on imports from non-member countries of calves not exceeding 340 kg in weight, and authorized Germany to reduce its duties on imports of cows from non-member countries, in both cases until 12 September 1965 ⁽⁶⁾.

The working of the common organization of markets in the beef and veal sector has not presented any economic or administrative problems, as the relatively high level of market prices has done much to facilitate its application.

⁽¹⁾ Regulation No. 111/65/CEE, official gazette No. 126, 12 July 1965.

⁽²⁾ Regulation No. 121/65/CEE, *ibid.* No. 155, 19 September 1965.

⁽³⁾ Council Decision No. 65/551/CEE, official gazette No. 215, 20 December 1965 (Germany), and Council Decision No. 66/59/CEE, *ibid.* No. 13, 22 January 1966 (France).

⁽⁴⁾ Council Decision No. 66/122/CEE, *ibid.* No. 29, 18 February 1966.

⁽⁵⁾ See official gazette No. 34, 27 February 1964.

⁽⁶⁾ Council Decisions Nos. 65/319/CEE and 65/320/CEE, official gazette No. 114, 28 June 1965.

154. *Common organization of the market in eggs and poultry.* As egg prices has improved, it was possible to abolish, from 14 July 1965, all supplementary amounts added to the levies on eggs under the sluice-gate price system ⁽¹⁾. Acting under Article 10 of Regulation No. 21 ⁽²⁾, the Council subsequently decided to abolish the levies on imports of eggs from non-member countries for the period 18 December 1965—8 January 1966 ⁽¹⁾.

From February 1966 onwards, egg imports from certain non-member countries caused prices to fall and justified the application of a supplementary amount. In view of the situation on the markets for products derived from eggs, there was reason to charge supplementary amounts all the time, except in October and November 1965, when prices showed a temporary increase ⁽³⁾.

The trend in poultry prices was such as to justify some easing of the supplementary amounts ⁽⁴⁾.

Two Member States invoked the provisions of Article 5 of Regulations Nos. 21 and 22 to request permission to reduce the levies. Thus the Commission authorized Germany to reduce the levies on geese between 7 September and 31 December 1965 ⁽⁵⁾, and France reduced the levies on shell eggs during the period October-December 1965 ⁽⁶⁾.

The refund system ⁽⁷⁾, which under Regulations Nos. 21 and 22 should have been adjusted from 1 July 1965, was examined in detail by the Commission with the help of the Management Committees. No final solution has yet been reached, and the Council has extended the existing system several times.

⁽¹⁾ Commission Regulation No. 115/65/CEE, official gazette No. 128, 13 July 1965.

⁽²⁾ See official gazette No. 30, 20 April 1962.

⁽³⁾ Commission Regulation No. 139/65/CEE, official gazette No. 168, 12 October 1965.

Commission Regulation No. 164/65/CEE, *ibid.* No. 208, 10 December 1965.

Commission Regulation No. 161/65/CEE, *ibid.* No. 197, 18 November 1965.

⁽⁴⁾ Commission Regulation No. 124/65/CEE, *ibid.* No. 157, 23 September 1965.

Commission Regulation No. 140/65/CEE, *ibid.* No. 168, 12 October 1965.

Commission Regulation No. 153/65/CEE, *ibid.* No. 186, 6 November 1965.

⁽⁵⁾ Commission Decision No. 65/423/CEE, official gazette No. 155, 18 September 1965.

⁽⁶⁾ Commission Decision No. 65/437/CEE, *ibid.* No. 162, 2 October 1965.

⁽⁷⁾ Council Regulation No. 88/65/CEE, *ibid.* No. 115, 29 June 1965; Council Regulation No. 148/65/CEE, *ibid.* No. 180, 26 October 1965.

In this connection it is worth pointing out that the United States has been granting subsidies for exports of broilers to Switzerland and Austria since the autumn of 1965.

155. *Common organization of the market in milk and milk products.* The common organization, which came into operation on 1 November 1964⁽¹⁾, has functioned satisfactorily on the whole, although some difficulties were experienced in changing over to the new system. The Commission managed to overcome part of the difficulty with regard to the balance of the butter market, first by authorizing the Member States in which stocks are held by public bodies to sell those stocks on special terms⁽²⁾, and secondly by submitting proposals, which the Council subsequently adopted, to facilitate the sale of this butter to the Member States in which stocks are mainly held by individuals⁽³⁾.

Various measures were adopted with regard to prices. In pursuance of provisions adopted by the Council⁽⁴⁾, the Member States modified the threshold prices that had been in force for certain products the previous year. The intervention price for first-quality butter was fixed by each Member State; in Belgium it was lower, and in the Netherlands higher, than the year before.

156. *Common organization of the market in fruit and vegetables.* Common quality standards have also been established for garlic (added to the annex to Council Regulation No. 23)⁽⁵⁾. On 28 March 1966 the Council adopted a proposal submitted by the Commission, fixing quality standards for cabbage, Brussels sprouts and celery. As a result of the latter decision, there will henceforth be common quality standards for 27 kinds of fruit and vegetables, applicable both to intra-Community trade and to imports from non-member countries.

The provisions laid down by Regulation No. 23, with regard to the elimination of quantitative restrictions and measures with equivalent effect

(¹) Council Regulation No. 13/64/CEE, *ibid.* No. 34, 27 February 1964.

(²) Commission Regulation No. 69/65/CEE, *ibid.* No. 93, 29 May 1965; Commission Regulation No. 118/65/CEE, *ibid.* No. 140, 31 July 1965; Commission Regulation No. 152/65/CEE, *ibid.* No. 181, 29 October 1965.

(³) Council Regulation No. 13/66/CEE, official gazette No. 29, 18 February 1966.

(⁴) Council Regulation No. 46/65/CEE, *ibid.* No. 51, 30 March 1965, and Council Regulation No. 64/65/CEE, *ibid.* No. 86, 20 May 1965.

(⁵) See official gazette No. 30, 20 April 1962.

in trade between Member States, have been brought fully into operation without any special difficulties. During the period under review, no Member State imposed any restriction on imports of Extra and Class I products. Since 1 January 1966 the liberalization of trade between Member States has been extended to products in Class II that conform to the common quality standards.

157. The arrangements for trade with non-member countries ensure Community preference by means of the progressive application of the common customs tariff and by the adoption, where appropriate, of special measures such as countervailing charges. On 13 May 1965 the Council, acting on a proposal of the Commission which had been endorsed by the European Parliament on 10 May 1965, adopted Regulation No. 65/65/CEE ⁽¹⁾ amending Article 11 (2) of Regulation No. 23. Under the new provisions, the detailed application of which was fixed by Commission Regulation No. 99/65/CEE ⁽²⁾, a countervailing charge is imposed on products from non-member countries when the entry price of those products is lower than a reference price equal to the arithmetic average of the producer prices of each Member State plus certain marketing costs.

In accordance with these new regulations, the Commission fixed the reference prices for the 1965/66 marketing year for plums, peaches, tomatoes grown in the open, cherries, dessert grapes grown in the open, pears, apples, lemons, sweet oranges, mandarins and clementines.

During the period under review, countervailing charges were only imposed for dessert grapes from certain state-trading countries.

158. On 10 November 1965 the Commission adopted Regulation No. 156/65/CEE ⁽³⁾ fixing reference prices for sweet oranges. Several members of the Council objected to this regulation on economic grounds, and at its session of 29 and 30 November 1965 the Council instructed the Commission to seek a special solution for the product in question.

⁽¹⁾ See official gazette No. 86, 20 May 1965.

⁽²⁾ *Ibid.* No. 124, 8 July 1965.

⁽³⁾ See official gazette No. 191, 12 November 1965.

On 12 January 1966 the Commission accordingly submitted to the Council a proposal for a regulation amending Article 11 of Regulation No. 23 with regard to oranges, and a draft resolution on the financing of subsidies to orange growers ⁽¹⁾. The proposal, which would relax the measures applicable to non-member countries, includes financial provisions to aid Community production and offset the effects of such relaxation. With regard to finance, the proposed regulation would provide for:

- i) A transitional system under which subsidies would be granted to Italian growers for sweet oranges exported to other member countries;
- ii) A permanent system—which would in principle be applied from the 1966/67 marketing year onwards—under which subsidies would be granted to Community producers in certain circumstances, depending on the state of the market. The cost of these measures would be borne by the European Agricultural Guidance and Guarantee Fund.

At its session of 18-21 January 1966, the European Parliament negated this proposal, considering that it would be preferable to try to improve production and marketing structures—if necessary, by increasing Community aid.

159. The various measures so far adopted under the common organization of the market have helped to increase trade in fruit and vegetables within the Community and have also ensured the Community market of fair protection against low-priced imports from non-member countries. However, the experience of the last few marketing years tends to confirm the view that these measures are not sufficient to prevent market prices falling too far during certain periods, with the result that producers' incomes are inevitably reduced. Any improvement of the situation in this sector will largely depend on whether the Council adopts the Commission's proposals concerning the application of common quality standards to fruit and vegetables marketed within each Member State and laying down supplementary provisions for the organization of the market in fruit and vegetables.

⁽¹⁾ Commission proposal for a regulation (66/64/CEE), official gazette No. 9, 17 January 1966.

160. *Common organization of the market in vine products.* Implementation of the measures based on Regulation No. 24 on vine products ⁽¹⁾ continued. The situation with regard to the establishment of the viticultural land register was examined by the Management Committee. It was found that substantial progress had been made in certain Member States, and instructions were given to press forward the work in others. The Commission made a provisional assessment of wine resources in the Community for the 1965/66 marketing year.

161. The Commission's proposal to the Council for a regulation concerning quality wines produced in specified areas ⁽²⁾ is being studied by the Special Committee for Agriculture; progress has been made on many points, but not all the differences of opinion have yet been ironed out.

At its session of 19 and 20 October 1965 the European Parliament rendered its opinion on this proposal, which had been transmitted to it by the Council on 29 April 1964. The Parliament largely endorsed the Commission's proposal.

162. In pursuance of the Council decision of 4 April 1962 ⁽³⁾ fixing quotas to be opened by Germany, France and Italy for imports of wine, the Commission proposed to the Council that these quotas be increased, as in previous years. The proposal envisages a moderate percentage increase in the quotas to be opened by Germany, and larger increases for France and Italy, so that the demand on each of the three States would be the same in absolute figures. The Commission will make fresh proposals for the year 1966.

In addition, the Commission worked out a proposal for a regulation concerning sparkling quality wines produced in the Community, laying down the quality standards with which they must comply and the conditions governing their marketing.

163. The work of harmonizing existing national regulations and elaborating Community regulations continued in respect of vine stocks and seedlings, grape juice (and other fruit juices), and definitions of wine.

⁽¹⁾ See official gazette No. 30, 20 April 1962.

⁽²⁾ See Eighth General Report, sec. 183.

⁽³⁾ See official gazette No. 30, 20 April 1962.

Supplementary provisions for the common organization of the market in vine products were drawn up.

164. *Ethyl alcohol and spirits.* The Commission arranged for detailed studies to be made of the situation in each Member State. A summary of the various reports is at present in preparation. In addition, approaches were made to the Governments of Member States with a view to their eliminating discrimination in the taxation of alcohol, spirits and wine.

AGRICULTURAL PRICE POLICY: THE COMMISSION'S PROPOSALS CONCERNING A COMMON PRICE LEVEL FOR MILK, MILK PRODUCTS, BEEF AND VEAL, SUGAR, RICE, OILSEEDS AND OLIVE OIL FROM 1967/68

165. On 4 March 1966 the Commission submitted proposals to the Council to establish a common price level for milk, milk products, beef and veal, sugar, rice, oilseeds and olive oil. At the same time it laid before the Council a report on the probable development of production and of the possible outlets for some important agricultural products. This report, which was requested by the Council on 25/26 October 1965, concerns the products for which the Commission has proposed that a common price level be established.

The Commission's proposals comprise two main points:

- a) The Council, acting on a proposal of the Commission, will as from 1 July 1967 and for the ensuing marketing year fix a common target price for milk and common threshold prices for milk products, a common guide price for cattle and calves, a common basic target price for rice, a common target price for sugar and a minimum price for sugarbeet, a common norm price for oilseeds and a norm price for olive oil.
- b) Special provisions will be made for sugar and milk products.

In the explanatory memorandum to its proposals, the Commission notes that agricultural prices are not formed solely in accordance with market laws, but are fixed by the Member States and stabilized or guaranteed on internal markets, and recalls that the common agricultural market organizations provide *inter alia* for the fixing and application of common prices by Council decisions. The Council decision of 15 December 1964 fixing

a common target price for the principal cereals for the 1967/68 marketing year beginning on 1 July 1967 (106.25 u.a. per metric ton for wheat other than durum), makes similar decisions necessary for the other leading products.

Level and pattern of the common prices

166. In its proposals for the fixing of common prices in the Community for the 1967/68 marketing year, the Commission has borne in mind the following factors :

- i) The price trend imposed on agriculture by the common prices already laid down for cereals;
- ii) Farm incomes, consumer prices, and the need for Community farm produce to enter into world trade;
- iii) The supplies of each item available in the Community and the adjustment of output that must be made in the light of the ratios between the prices of the various products and of the market situation for them.

167. Since, in an expanding economy like that of the Community, agriculture faces difficulties of adaptation and the increase in the demand for foodstuffs is small in relation to the growth of consumer incomes, price policy for agricultural products is an essential factor in determining farmer's incomes. In order to ensure a fair return for farmers, producer prices should therefore be fixed at the highest level possible compatible with other economic requirements, particularly supplies to consumers at fair prices and the contribution of the Community to world trade.

The limits within which these prices can be fixed by the Council are determined by two general considerations:

- i) The view of agricultural policy which is reflected in all agricultural prices in the Community must be consonant with the Community's commercial policy aims;
- ii) Price ratios of agricultural products must allow for differences of cost according to products and contribute to the profitability of those branches of agricultural production which it is desired to encourage in the Community.

168. The Community's supply situation for the products in question may be summed up as follows: for milk and milk products self-sufficiency has been attained and even slightly exceeded; for beef and veal, import requirements are considerable, since internal production cannot meet demand; for sugar, production usually meets requirements and there is sometimes a small surplus depending on the size of the beet crop; for rice, imports are generally required, particularly for the long-grain varieties.

Import requirements are particularly high for vegetable oils; this concerns both oils from oil-bearing plants on arable land (colza, rape, sunflower) and, to a lesser extent, olive oil.

In view of this situation and of the level of cereal prices, it would seem advisable to stimulate beef production (in relation to milk), while price policy for milk itself and sugar should be handled with some caution. In view of the large import requirements and the rapidly growing consumption of vegetable oils, a relative improvement in the producer price for oilseeds is also desirable. For rice, the present production level should be maintained.

With the foregoing considerations in mind, the Commission proposed that prices be fixed according to the table below.

Special measures concerning sugar, milk and milk products

169. As regards sugar, in order to obviate the danger of the common price causing a great expansion of production, the Commission proposed special transitional measures to limit price and sales guarantees. Thus, for every sugar producer, a basic quota is fixed which takes account of his output to date. The ceiling to be fixed on the basis of this quota is to be so calculated that production may still be expanded substantially in the areas of the Community most suitable for the growing of sugarbeet.

In this way, regional specialization of production can be ensured while avoiding high surpluses by imposing an overproduction levy on quantities produced between the basic quota and the ceiling.

This levy will play its part in regulating production as it will be fixed in the light of each year's sugar surplus in the Community. It should, however, not exceed certain limits.

TABLE 16

Common prices for milk, milk products, cattle, calves, rice, sugarbeet, oilseeds and olive oil

(in u.a. and national currencies per 100 kg)

	u.a.	DM	FF	Bfrs. Lfrs.	Lit.	Fl.
<i>Milk</i> (3.7 % fat content)						
Target price	9.5	38.00	46.90	475.00	5 937	34.39
<i>Butter</i>						
Intervention price	176.25	705.00	870.16	8 812.50	110 156	638.03
Threshold price	191.25	765.00	944.21	9 562.50	119 531	692.33
<i>Cattle</i> (on the hoof) ⁽¹⁾						
Guide price	66.25	265.00	327.08	3 312.50	41 406	239.83
<i>Calves</i> (on the hoof) ⁽¹⁾						
Guide price	89.50	358.00	441.87	4 475.00	55 937	323.99
<i>Rice</i>						
Basic target price	18.12	72.48	89.46	906.00	11 325	65.59
Intervention price:						
— Italy	12.00	48.00	59.24	600.00	7 500	43.44
— France	12.30	49.20	60.73	615.00	7 688	44.53
Threshold price	17.78	71.12	87.78	889.00	11 113	64.36
<i>Sugar</i>						
Common target price for white sugar	21.94	87.76	108.38	1 097.00	13 712	79.42
Intervention price for white sugar	20.84	83.36	102.89	1 042.00	13 025	75.44
Minimum producer price for sugarbeet	1.65	6.60	8.14	82.50	1 031	5.97
<i>Oilseeds</i>						
Common norm price	18.60	74.40	91.83	930.00	11 625	67.33
Intervention price	17.40	69.60	85.91	870.00	10 875	62.99
<i>Olive oil</i>						
Common norm price	111.00	444.00	548.01	5 550.00	69 375	401.82

⁽¹⁾ Medium quality.

In order to avoid heavy surpluses it is necessary, in addition to the above measures, to exclude from sale on the domestic market and from the benefit of export refunds any quantities produced by a manufacturer in excess of the ceiling.

170. As regards milk and milk products, the whole system is to be adjusted so as to arrive at a single market: this is to be done gradually because any too sharp rise in consumer prices may cause a fall-off in consumption. To avert this danger the prices of milk and milk products in the countries concerned are to be increased by stages. For this purpose, the Member States in which such price increases occur may grant degressive consumer subsidies for certain dairy products up to 31 December 1969. This concerns the Netherlands for butter and Germany for medium-hard cheese.

Effects on agriculture

171. The table below (see p. 186) gives the changes in producer prices in the various Member States after the introduction of common prices.

Effects on consumers

172. In view of the weighting of the prices of agricultural products in the cost-of-living index, the increase in consumer prices that will follow from the adoption of the Commission's proposals should not involve any considerable extra burden on consumers. In the theoretical calculation of the effect on consumer price of changes in producer prices for cereals, milk, beef and veal, rice, sugar, oilseeds and olive oil, no account was taken of other factors such as selling and processing margins special situation on the markets, etc. The method used was to take as a base the 1965 prices (in wholesale or retail trade); the prices assumed for 1967/68 were then indexed and weighted according to their importance in the various national cost-of-living indices. The theoretical results are as follows:

	<i>Total</i>	<i>of which for cereals</i>
Belgium	+ 0.40	(+ 0.10)
Germany	— 0.02	(— 0.16)
France	+ 0.67	(+ 0.19)
Italy	— 0.40	(— 0.11)
Netherlands	+ 1.00	(+ 0.36)

Effects on external trade

173. The effects of this alignment of farm prices on external trade will be felt fully only from the time when production and consumption have adapted themselves to the new situation thus created. This will occur after two or three years from the application of the common prices, i.e. in about 1970.

In 1970 the need for imports of a number of products (beef and veal, rice, vegetable oils and olive oil) will probably be greater than it is today, while there will be milk surpluses—indeed they have already existed for some years—which it will be possible to remedy by specific action. For sugar, it will be necessary to limit the sales and price guarantee for sugar-beet in order to avoid production exceeding consumption.

Financial effects

174. As to the financial effects of the establishment of a common price level, the first point to be examined is the expenditure that will have to be borne by the European Agricultural Guidance and Guarantee Fund.

To obtain an estimate of the resources needed, the year to be considered is the one in which producers and consumers will feel the full economic effects of the common prices, i.e. 1970. In this perspective, gross exports and the full amount of refund necessary for each must be taken into account.

In this assessment, no allowance has been made for the effect and cost of special provisions such as consumer subsidies or measures to limit price and sales guarantees.

175. There are thus three ways in which the Commission's proposals to the Council are intended to bring the common market appreciably nearer to completion:

- i) It is intended to establish throughout the Community a free market in agricultural produce which will no longer be restricted by measures taken by the national market organization;
- ii) The fixing of all important common prices and their application within the framework of the overall agricultural price level are intended to bring about an adjustment of agricultural output in the medium term;

Price changes

	Period	Belgium		Germany	
		Bfrs.	%	DM	%
<i>Milk</i>	1965/66-				
Producer prices	1968/69	- 17.5	- 3.5	± 0	± 0
Market prices for butter		- 1 000	- 10.1	+ 33	+ 4.1
all cheeses		+ 700	--	+ 51	--
<i>Rice</i>	1964/65-				
Producer prices	1967/68	+ 179	+ 25.2	+ 14.32	+ 2
Threshold prices					
<i>Cattle</i>	1964/65-				
Market prices (weighted average of all classes)	1968/69	+ 62.5	+ 1.9	- 5.0	-
<i>Sugar</i>	1964/65-				
Basic sugarbeet prices (in metric tons)	1967/68	- 18	- 2.1	- 6.52	-
Ex-factory prices (net of imposts)		+ 19	+ 1.9	- 5.32	-
Consumer prices		+ 19	+ 1.4	- 5.32	-
<i>Oilseeds</i>	1964/65-				
Producer prices	1967/68			+ 1.27	+

-- Negligible.
 - No significant change expected.
 . Figures not available.

entry and by product

(in national currencies per 100 kg and %)

France		Italy		Luxembourg		Netherlands	
FF	%	Lit.	%	Lfrs.	%	Fl.	%
- 3.45	+ 8.2	- 46.87	- 0.7	- 22.5	- 4.5	+ 2.99	+ 9.3
- 24.68	+ 2.9	—	—	+ 312.5	+ 3.6	+ 162.90	+ 34.2
- 24.68	-.-	—	—	+ 700	-.-	+ 147.51	+ 34
- 1.93	- 3.4	+ 825	+ 12.3	.	.	.	.
- 17.67	- 6.0	+2 237	+ 8.9	+ 179	+ 25.2	+ 12.96	+ 25.2
- 19.75	+ 6.0	-1 562	- 3.8	- 137.5	- 4.1	+ 22.62	+ 9.4
- 16.84	+ 26.1	-1 594	- 13.4	.	.	+ 0.87	+ 1.5
- 10.27	+ 11.1	-2 194	- 14.4	.	.	+ 1.16	+ 1.6
- 10.27	+ 8.9	-2 194	- 10.2	.	.	+ 1.12	+ 1.0
- 4.13	+ 5.2	.	.	.	.	.	.

iii) Knowledge of the common prices and of their consequences is essential for further negotiations by the Community in the Kennedy round.

The Council referred these proposals to the European Parliament on 8 March 1966.

TABLE 18

*Estimated expenditure of the European Agricultural
Guidance and Guarantee Fund in 1970*

(Gross exports, full refund)

(in million u.a.)

Types of expenditure	Milk products	Beef/veal	Rice	Sugar	Oil-seeds	Olive oil
Refunds on exports to non-member countries	150	2	10	45	1	—
Intervention on domestic markets	30	possible	possible	—	32	140
Special intervention:						
a) Subsidy for skimmed milk used in animal feed	190	—	—	—	—	—
b) Effect of binding Emental and Cheddar cheese and casein	80	—	—	—	—	—

Progressive alignment of agricultural prices for the 1965/66 marketing year

176. *Products subject to the common organization of markets.* — In the cereals sectors, where, notwithstanding the decision of 15 December 1964, Regulation No. 19 remains the legal basis for the alignment of prices, the measures adopted for the 1964/65 marketing year, i.e. the

upper and lower limits of the target prices, have been maintained for the 1965/66 marketing year. In units of account per metric ton, these limits are as follows: wheat other than durum 118.922—89.425; barley 103.065—72.170; rye 108.172—67.710; maize (lower limit) 65.60.

For rice, the limits for the target prices applicable in the producer Member States and the threshold prices for rice and broken rice applicable in the non-producer Member States have been maintained for the 1965/66 marketing year at the level fixed for 1964/65. Thus for France and Italy the upper limit for the target prices remains at 18.320 u.a. and the lower limit at 15.288 u.a. per 100 kg. The single threshold price for the four non-producer Member States is 14.20 u.a. per 100 kg of husked rice and 9.66 u.a. per 100 kg of broken rice.

In the beef and veal sector, the difference between the upper and lower price limits has been reduced and the upper limits have been raised for the 1965/66 marketing year ⁽¹⁾, in order to encourage an increase of cattle stocks in the Community. For calves, the limits are 78 u.a. and 85 u.a. per 100 kg live weight, the difference between them being thus reduced from 10 u.a. in 1964/65 to 7 u.a. in 1965/66. For cattle, the limits are 57.5 u.a. and 61.25 u.a. per 100 kg live weight, the difference between them being now only 3.75 u.a. as against 7.50 u.a. in 1964/65. From 1 April 1966 the guide prices for cattle and calves for the 1966/67 marketing year were to be fixed by the Council on a proposal of the Commission; however, in view of the connection between beef production and milk production and the fact that a target price bracket for milk has been maintained for the year 1966/67, it seems reasonable to maintain a guide price bracket for cattle and calves beyond 1 April 1966.

In fixing the price brackets for the 1966/67 marketing year, the Commission has been guided by the same criteria as when fixing the upper and lower limits of the guide prices for 1965/66. Thus the Council, acting on a proposal of the Commission, has fixed the lower limit for cattle at 60.50 u.a. and the upper limit at 64.25 u.a. per 100 kg live weight. For calves, it has fixed the lower limit at 80 u.a. and the upper limit at 86.75 u.a. per 100 kg live weight ⁽²⁾.

⁽¹⁾ Regulation No. 20/65/CEE, official gazette No. 36, 6 March 1965.

⁽²⁾ Regulation No. 27/66/CEE, official gazette No. 52, 23 March 1966.

In the case of milk, the bracket within which the Member States fix their target prices has been narrowed. For the 1965/66 marketing year, the lower limit is 8.25 u.a. and the upper limit 10.30 u.a. per 100 kg of milk with a fat content of 3.7%; the difference between the two limits has thus been reduced to 2.05 u.a., compared with 2.55 u.a. in 1964/65.

For the 1966/67 marketing year, this bracket has again been narrowed. The lower limit has been fixed at 8.625 u.a. and the upper limit at 10.3 u.a. per 100 kg of milk with a fat content of 3.7% ⁽¹⁾. Germany, Belgium, Italy and Luxembourg may not increase their target prices, while France and the Netherlands may only increase theirs up to a limit of 9.465 u.a. per 100 kg.

In view of the gradual reduction of aids in some Member States, changes in the target prices, and the need to align the market prices of milk products (butter, cheese, concentrated milk), the Council again adopted provisions amending the threshold prices for the coming marketing year, in addition to those concerning target prices.

PROPOSALS FOR THE ESTABLISHMENT OF NEW MARKET ORGANIZATIONS

Establishment of a common organization of the market in sugar ⁽²⁾

177. The Council has solved a number of technical problems arising from the Commission's proposal. Lengthy discussions produced no agreement on the main question whether sugar production should be guided by the price level or by production targets. The Commission's proposal for the establishment of a common price level for sugar, submitted to the Council on 4 March 1966, therefore contains special measures to deal with this problem ⁽³⁾.

⁽¹⁾ Regulation No. 37/66/CEE, official gazette No. 61, 31 March 1966.

⁽²⁾ The market arrangements proposed by the Commission for the sugar sector were summarized in the Seventh General Report, sec. 180.

⁽³⁾ See sec. 169 above.

Establishment of a common organization of the market in oils and fats

178. Discussion of the three proposed regulations on oils and fats has continued in the Working Party on Oils and Fats, the Special Committee for Agriculture and the Council itself ⁽¹⁾, but no agreement has yet been reached.

This proposal was endorsed by the European Parliament at its session of 14-18 June 1965. In its resolution, the Parliament recalled the view it had previously expressed on the interdependence of the markets in animal and vegetable oils and fats, and approved the principle of an independent organization of these two markets.

179. The Commission's proposal concerning imports of oils and fats from Greece provides for a special free-at-frontier price to be fixed for olive oil from Greece, based on the Greek market price. The amount of the levy is equal to the difference between the threshold price of the Member States and the Greek free-at-frontier price, less a standard amount. The European Parliament endorsed this proposal at its session of 23-26 November 1965. The same levy is imposed on the oil contained in olives for processing and in olive-oil cakes imported into the Community from Greece.

180. The proposal introducing a charge on oils and fats in pursuance of Article 201 of the Treaty was debated by the European Parliament at its session of 14-18 June 1965. Without challenging the principle of this charge, the Parliament urged the Commission to re-examine its proposal, stressing that, if such a charge were introduced, the rate of the charge and the expenditure it would be used to finance must be subject to parliamentary control at Community level.

*Establishment of a common organization of the market
in non-edible horticultural products*

181. On 14 January 1966 the Commission submitted to the Council a proposal for a regulation on the progressive establishment of a common

(1) The market arrangements proposed by the Commission for the oils and fats sector were summarized in the Eighth General Report, secs. 185-188.

organization of the market in non-edible horticultural products (living plants, flower bulbs, cut flowers, seedlings, etc.).

In the Community as a whole this flourishing sector has a yearly output worth over 600 million units of account.

The proposal provides for certain general measures for the sector as a whole, such as the application of rules governing competition, the abolition of intra-Community customs duties more rapidly than was originally envisaged, and the introduction of the common customs tariff. In the first stage common quality standards, the application of which will be compulsory in retail trading and for exports to non-member countries, will only be laid down for the main types of bulbs. Similar standards may be established and applied to other products at a later date.

Certain measures taken within the framework of a national organization of markets, such as minimum export prices in trade with Member States, will still be permitted for a short time, subject to Community control. In view of the importance to all parties of achieving a balance between supply and demand, and as there are important interests concerned with exports to non-member countries which must also be taken into account, decisions will have to be taken subsequently on the advisability of measures of market intervention and on the elaboration of commercial policy.

*Regulations authorizing emergency measures to safeguard the stability of markets, security of supplies and deliveries at reasonable prices
(Article 39 (1 c, d and e) of the Treaty)*

182. On 25 November 1965, the European Parliament debated the proposed regulation submitted to the Council on 29 October 1964 ⁽¹⁾. The Parliament felt that it would be preferable to lay down permanent arrangements extending beyond the end of the transition period in the event of common prices for all agricultural products being fixed from 1 July 1967, and that separate arrangements could well be adopted for each sector instead of a single arrangement applicable to all sectors.

⁽¹⁾ See Eighth General Report, sec. 189.

The report of the Agricultural Committee (also embodying the opinion of the External Trade Committee) concluded by asking the Commission to submit fresh proposals. The Commission's representative said that the Commission would study this problem attentively along the lines suggested by the Parliament.

FINANCING OF THE COMMON AGRICULTURAL POLICY

Financial arrangements: the Commission's memorandum of 22 July 1965

183. After hearing the various opinions expressed at the Council meeting of 29-30 June 1965⁽¹⁾, the Commission sought to work out new proposals that would be likely to meet with the approval of all Member States. It submitted to the Council on 22 July 1965 a memorandum on the financing of the common agricultural policy and independent revenues for the Community. This contained the Commission's suggestions with a view to a resumption of negotiations. In particular, the Commission suggested measures for a transition period extending from 1965 to 1970, postponing the introduction of the single market proper until 1 January 1970.

a) Expenditure. — Half of the expenditure eligible according to the criteria and conditions decided upon for the transition period was taken over by the European Agricultural Guidance and Guarantee Fund during the period 1964/65. The share of the costs that would have to be borne by the Fund each year from 1 July 1965 depended on the date on which completely free movement of agricultural products was achieved. If the proposed deadline of 1967 was met, the costs involved would be taken over completely by the Fund from that year on. In that case, there remained three more stages before the Fund took over all expenditure in 1967. As the Fund was already meeting half the expenditure on farm policy during the period 1964/65, this means that one sixth more of the total costs must be taken over each year. If, however, the free movement of agricultural products did not come into effect in 1967, the Fund would have to take these costs over in five stages, i.e. by one tenth more each year.

⁽¹⁾ See Ch. I: The General Situation of the Community, sec. 5.

b) Revenue. — The memorandum proposed that the burden falling upon the Agricultural Fund should be apportioned among the Member States in accordance with a scale fixed by the Commission in the light of suggestions made during the Council negotiations of 30 June 1965; this scale took into account particularly the fact that Italy's contribution to the expenditure of the Fund should not be greater than its economic development allowed. The Commission also applied the principle established earlier that Member States importing substantial quantities of farm produce from outside the Community should bear a rather heavier burden than other Member States. Lastly, the Commission selected the factors by which payments would be calculated in such a way that Member States' contributions for 1965-70 could already be worked out exactly—leaving no room for uncertainty as to what must be paid in the future. The Commission suggested the following apportionment:

Belgium: 8.51 % in 1965/66 (8.13 % in the second half of 1969);
Germany: 32.45 % in 1965/66 (32.37 % in the second half of 1969);
France: 30.59 % in 1965/66 (26 % in the second half of 1969);
Italy: 18 % in 1965/66 (22.93 % in the second half of 1969);
Luxembourg: 0.21 % in 1965/66 (0.21 % in the second half of 1969);
Netherlands: 10.24 % in 1965/66 (10.36 % in the second half of 1969).

c) Independent revenues. — With regard to the creation of independent revenues for the Community, the Commission suggested that the Community's expenditure should normally be financed in this way from 1970 onwards.

The proceeds of the common customs tariff should no longer be automatically assigned to the individual Member States. Once the common tariff was introduced in 1967, there must at least be a reapportionment of customs revenue among the Member States. The Commission proposed that an equalization fund be set up for the period from 1967 to 1970 ⁽¹⁾.

In the absence of the French delegation, the Council held an exchange of views at its sessions of 26-27 July 1965 and 25-26 October 1965. After accepting the Commission's memorandum as a sound basis for

⁽¹⁾ For the other points of the Commission's memorandum of 22 July 1965, see Ch. I, sec. 7.

discussion, the Council defined the broad outlines for the financing of the common agricultural policy, subject to general agreement at a later date.

184. After the Luxembourg agreement of 30 January 1966, the Council resumed work on this question at the sessions of 28 February—1 March 1966 and 21-22 March 1966.

Good progress was made on a number of points at the Council session of 4-5 April 1966. The Council accepted as a working hypothesis the principle that the calculation of expenditure to be borne by the Fund should be based on the total gross exports of the Member States to non-member countries (i.e. without offsetting the corresponding gross imports), applying the lowest rate of refund in the Community. The Council considered how this would affect the Member States' contributions.

The Council devoted this session mainly to problems connected with the introduction of Community financing in the olive-oil and fruit and vegetables sectors, the possible application of the aforementioned "gross" principle to the Community financing of refunds on exports to non-member countries within the framework of the EAGGF once the free movement of agricultural products had been achieved, and arrangements concerning the Fund's expenditure between 1 July 1965 and the end of the transition period.

With regard to Community financing in the olive-oil and fruit and vegetables sectors, the Council agreed that a sum of 45 million u.a. should be allocated to Italy from the Fund (Guidance Section), for the year 1965/66, for the purpose of improving production and marketing structures in those sectors.

Discussion of the financing of the common agricultural policy will be continued in the Council on 4-5 May, and if agreement is not reached on most of the problems concerned, the Council will meet again on 9-10 May 1966.

The European Agricultural Guidance and Guarantee Fund (EAGGF)

185. On 14 October 1965, the Commission approved fifty-seven of the 226 projects for which aid totalling 37.8 million u.a. had been requested,

for the first instalment of aid from the Guidance Section of the Fund ⁽¹⁾ (i.e. the 1964 instalment, the funds for which were included in the 1965 budget). After certain requests had been withdrawn for various reasons, the number of projects remaining was still too great for the funds available, and the Commission therefore made its selection in the light of what had been said by the Council on 5 February and 15 December 1964 to the effect that Italy should be the chief beneficiary. The projects finally approved included 27 for Italy, 10 for France, 9 for Germany, 7 for Belgium and 4 for the Netherlands.

These projects represent an outlay of over 9 million u.a. in the form of grants amounting to 25 % of the total investment envisaged, 44 % of the total contribution from the Fund being earmarked for the improvement of production structures (e.g. water engineering, consolidation of holdings) and 56 % for the improvement of marketing structures (e.g. in the milk and milk products and the fruit and vegetables sectors).

The total amount of aid granted by the Guidance Section of the Fund is apportioned as follows:

Belgium	703 751 u.a.
Germany	2 157 635 u.a.
France	1 951 487 u.a.
Italy	3 069 464 u.a.
Luxembourg	—
Netherlands	754 585 u.a.
	<hr/>
	9 056 922 u.a.

186. On 15 December 1965 the Commission decided to allocate the first instalment of aid from the Guarantee Section of the Fund in order to close the accounts for the period 1962/63. It had previously consulted the Fund Committee on the rates of refund to be applied to each basic product and on the draft decisions allocating aid for the period in question ⁽²⁾. Over 28.7 million u.a. will be paid out according to the criteria and conditions governing eligibility laid down by the Council; this will cover one sixth of the expenditure incurred by Member States in 1962/63 in

⁽¹⁾ For the full list of projects approved, see official gazette No. 170, 16 October 1965.

⁽²⁾ See official gazette No. 224, 30 December 1965.

the cereals, eggs, poultry and pigmeat sectors. Over three quarters of this aid is for expenditure on refunds for exports to non-member countries, and the remainder is for measures taken to support the domestic markets. Over 97 % of the expenditure of the Guarantee Section of the EAGGF has been allocated to the cereals sector.

The total amount of aid granted by the Guarantee Section of the Fund is apportioned as follows :

Belgium	305 288.41 u.a.
Germany	1 790 190.60 u.a.
France	24 479 196.22 u.a.
Italy	1 280 606.02 u.a.
Luxembourg	3 445 96 u.a.
Netherlands	864 258.92 u.a.
	<hr/>
	28 723 086.13 u.a.

The decisions for 1962/63 take into account trade between the Soviet Zone of Germany and the Member States other than the Federal Republic of Germany. The Government of the latter country had let it be known that this basis of calculation gave rise to political objections on its part, and has asked for the matter to be re-examined. In a declaration of 15 December 1965, the Commission stated that such an examination could not be carried out unless the decision fixing the amount of aid granted by the EAGGF for expenditure under the Guarantee Section in respect of the 1962/63 financial year were postponed, contrary to the wishes expressed by all the Member States and to the provisions in force. On taking the annexed decisions, it had therefore left in abeyance for the time being the question raised by the German Government. It would study the matter without delay and, should the need be found, would amend the decisions accordingly.

Work is now in progress on the allocations for the second year of the Agricultural Fund, with a view to closing the accounts of the Guarantee Section for the 1963/64 period, and choosing between about 150 projects for which aid from the Guidance Section of the Fund has been requested for 1965 and which represent a total of some 41 million u.a. This work should be completed during 1966.

187. With regard to the third year of the EAGGF, the funds proposed by the Commission for the 1966 budget amount to over 234 million u.a., the increase being due to the greater share of expenditure now borne by the Fund (three sixths instead of two sixths) and to the extension of Community financing to new products. Since it has not been possible to allocate aid from the Fund for the second year, the Council has decided to carry over these sums, which amount to 66.5 million u.a., to the 1966 budget.

By 1 October 1965 about 470 projects had been submitted for the Guidance Section for 1966, representing aid totalling some 109 million u.a. For the Guarantee Section, Community provisions will have to be adopted by the Council and Commission, laying down detailed arrangements governing the eligibility of expenditure, before the Member States can submit their requests for reimbursement.

ESTABLISHMENT OF COMPETITIVE CONDITIONS

Rules of competition in agriculture

188. *Aids granted by States in the agricultural sector.* In pursuance of Article 93 (1) of the Treaty, the Commission continued its examination of the aids existing in Member States, and has completed an inventory of all those notified by the Member States in accordance with Article 93 (1 and 3) of the Treaty. These were aids to production, marketing and investment for fourteen groups of agricultural products.

On 25 March 1966 the Commission submitted to the Council a report on an inventory of aids to agriculture and a document proposing criteria for the establishment of a common policy on aids to agriculture together with a proposal for a regulation to amend Council Regulation No. 26. The document suggests, in particular, that Articles 92 and 94 of the Treaty be made applicable from 1 July 1967 to all the products listed in Annex II.

189. During the period under review the Commission submitted its comments on the following proposed measures to institute or modify aids, which had been notified by the Member States in accordance with Article 93 (3) of the Treaty.

In Germany: aid for exports to breeding stock. The Commission requested the German Government to withdraw its aid for exports of breeding stock to other Member States. The Commission also submitted its comments on German aids for exports of seed potatoes to non-member countries.

In the Netherlands: Regulation No. 9 of the Agricultural Reorganization and Development Fund, amending certain provisions of the regulation on the reorganization of agriculture; aids for herring fisheries, inland fisheries and the processing industry; market intervention in the egg and poultry sector; with regard to the plan to create a Fund to stabilize the price of eggs for processing, the Commission adopted the procedure laid down in Article 93 (2) of the Treaty.

In Belgium: creation of an Agricultural Reorganization Fund; measures to aid maritime fisheries; measures to place vine-growing on a sounder footing.

In Italy: aids to silk cultivation; provisions for the reorganization of financial structures and for the development of peasant holdings; provisions for the collection and marketing of home-produced eggs; measures to assist certain areas stricken by natural disasters; opening of an Agricultural Development Office in Sicily; measures to increase beef and veal production in Sardinia; water engineering in the Trentino-Alto Adige region.

Competition in agriculture

190. The Commission is pursuing and extending its work arising out of the Council Resolution of 15 December 1964 on freight rates for farm products (1). Assisted by the Member States, it is preparing a report on freight rates for farm produce, the object being to detect cases of artificial differentiation in such rates. The work is running into considerable technical difficulties.

Measures taken by the Member States which affect the incomes of persons engaged in agriculture. The inventory of these measures is now nearly complete.

(1) See Eighth General Report, sec. 167.

Measures to protect farm production of eggs, poultrymeat and pigmeat.
The Commission has studied the development of the structure of production with regard to eggs, poultrymeat, pigmeat and baby beef in the Community. Such a study has become necessary in view of the production structure for these products in certain Member States where there is already a marked tendency for production to be carried out increasingly by large-scale enterprises.

Cost of industrially produced instruments of agricultural production.
With the help of a panel of independent experts, the Commission has begun a study of the prices of animal feedingstuffs in the Community and of the factors which determine those prices. At its meeting of 3-4 November 1965, the panel of government experts on the mechanization of agriculture examined the possibility of improving the conditions of competition with regard to tractors and agricultural machinery by intensifying technical controls.

HARMONIZATION AND APPROXIMATION OF LEGISLATION ON AGRICULTURE; FOODSTUFFS AND FORESTRY

Legislation concerning foodstuffs

191. Several proposals have been submitted by the Commission to the Council on the approximation of the legislation of Member States concerning the use of certain substances in food for human consumption.

Colouring matters

i) A proposal of the Commission of 29 July 1964, submitted to the Council on 3 August 1964, amending the Council Directive which was submitted on 23 October 1962 ⁽¹⁾ and adopted by the Council on 25 October 1965 ⁽²⁾;

ii) An amended proposal for a directive, submitted to the Council on 20 September 1965, amending the Council Directive of 23 October 1962.

⁽¹⁾ See Eighth General Report, sec. 196.

⁽²⁾ Directive No. 65/469/CEE, official gazette No. 178, 26 October 1965.

Preserving agents

i) A proposal for a directive, submitted to the Council on 20 September 1965, amending the Council Directive of 5 November 1963. (Opinion of the European Parliament of 26 November 1965);

ii) A new proposal, submitted to the Council on 23 September 1965, amending the Council Directive of 5 November 1963 (use of diphenyl to preserve citrus fruits). The European Parliament and the Economic and Social Committee rendered their opinions on this proposal on 26 November 1965 and 7 December 1965 respectively, recommending that the Member States' legislation be maintained until 31 December 1966 in order to allow time for further studies on the harmful effects of this product. The proposal was amended to this effect by the Commission on 10 December 1965 and adopted by the Council on 23 December 1965 ⁽¹⁾.

Anti-oxidants

An amended proposal for a directive, submitted to the Council on 20 September 1965.

Emulsifiers, stabilizers and similar products

A proposal for a decision setting up a Committee on Foodstuffs was submitted on 20 September 1965. The aim is to establish close co-operation between the Commission and the Member States with regard to legislation on foodstuffs, by means of a Committee modelled on the Management Committees for products subject to the common organization of agricultural markets.

In addition, proposals are being worked out for regulations on methods of analysing foodstuffs and food additives; artificial sweetening agents; labelling and packaging of foodstuffs; materials that come into contact with foodstuffs, and general questions relating to preserves.

The Commission has requested the International Union of Pure and Applied Chemistry (IUPAC) in Basle to make a study of methods of analysing colouring matters, preserving agents, anti-oxidants, emulsifiers, stabilizers and similar products.

(¹) Directive No. 65/569/CEE, official gazette No. 222, 28 December 1965.

Provisions concerning various types of food

192. Several further proposals for directives have been submitted to the Council. These concern:

- i) Jams, marmalades, fruit jellies and chestnut purée (25 June 1965);
- ii) Cocoa and chocolate (20 September 1965);
- iii) Esterification of olive oil for culinary uses (23 September 1965).

Other proposals are in preparation concerning, for example, fruit juices; wines; macaroni, spaghetti etc; soups and sauces; butter; preserved milk; oils and fats, and flour.

Veterinary legislation

193. The time-limit by which Member States were to adopt measures implementing the four directives on veterinary legislation expired on 30 June 1965. These directives are:

- i) Two directives adopted by the Council on 26 June 1964 concerning health requirements for intra-Community trade in (a) fresh meat and (b) cattle and pigs ⁽¹⁾;
- ii) Two Commission directives of 13 May 1965 concerning the procedure to be followed in rendering opinions regarding (a) official licensing of slaughterhouses and carcass-cutting rooms in intra-Community trade in fresh meat and (b) intra-Community trade in cattle, pigs and fresh meat ⁽²⁾.

Since the time-limit for the implementation of these directives expired, the Commission has been examining the national provisions in this field and seeing that the directives are applied correctly. In addition, the Commission is seeking to clarify the interpretation of certain points with the help of government experts.

194. On 15 September 1965 the Commission submitted to the Council a proposal for a directive on health regulations for cattle, pigs and fresh meat imported from non-member countries ⁽³⁾, together with a draft

⁽¹⁾ See official gazette, No. 121, 29 July 1964.

⁽²⁾ See official gazette No. 93, 29 May 1965.

⁽³⁾ See Eighth General Report, sec. 197.

decision to set up a Veterinary Committee on the lines of the Management Committees. The Commission also submitted to the Council a communication concerning the campaign against African swine fever in the Iberian peninsula and proposed that the EEC should provide 4 650 000 u.a. to finance a programme for this purpose. A similar communication was laid before the Council suggesting that 350 000 u.a. be made available to the FAO to combat the fresh outbreak of foot-and-mouth disease in Turkey.

The two proposals for Council directives on health requirements for trade in (a) fresh poultrymeat and (b) meat products ⁽¹⁾ have been discussed at several meetings of the Council's panel of agricultural and veterinary experts. In May 1965 the Commission submitted to the Council a proposal amending the former draft directive with regard to the appointment of auxiliary staff for the inspection of poultry and fresh poultrymeat.

Various other proposals are in preparation concerning general measures of health control (methods of diagnosis; prevention of tuberculosis and brucellosis), and regulations governing salmonellosis, biological residues in meat, boned and repacked meats, fats and casings and in cold stores.

In the field of legislation on stockbreeding, work is in progress concerning pedigree animals and artificial insemination.

Legislation on animal feedingstuffs

195. The Council is still studying the proposal for a directive on the introduction of Community methods of analysis in the official control of animal feedingstuffs, which was submitted on 12 October 1964 ⁽²⁾. The Commission will shortly submit to the Council a proposal for a directive on additives in animal feed. Work is proceeding on definitions, quality standards, and provisions relating to packaging and controls.

Plant health legislation

196. The proposal for a directive concerning measures to prevent the introduction of plant pests into Member States ⁽³⁾ was endorsed by the

⁽¹⁾ See Eighth General Report, sec. 197.

⁽²⁾ *Ibid.*, sec. 198.

⁽³⁾ *Ibid.*, sec. 199.

European Parliament on 20 Octobre 1965 and by the Economic and Social Committee on 29 September 1965. Several other proposals are in preparation, concerning the marketing of farm chemicals, pesticide residues, and the control of wart diseases in potatoes, San Jose scale, and potato root eelworm.

Regulations concerning agricultural and horticultural seeds and seedlings

197. The Council has almost completed its study of the Commission's proposals (1) on the marketing of agricultural and forestry seeds and seedlings and the establishment of a Standing Committee on Agricultural, Horticultural and Forestry Seeds and Seedlings. In accordance with the wishes of the European Parliament and the Economic and Social Committee, the Commission is preparing a proposal for a directive on an EEC list of varieties. A proposal on the marketing of vine stocks and seedlings will be submitted to the Council in the first half of 1966.

Forestry legislation

198. A proposal for a directive on the classification of wood in the rough was laid before the Council on 2 February 1966.

At the request of the Council, a panel of experts has been set up to assist the Special Committee for Agriculture by preparing a study of the problems posed by the co-ordination of national forestry policies. This study is to be based on the Commission's communication of April 1964 (2) to the Council and must take into account the opinion expressed by the Economic and Social Committee on 9 December 1964. The panel has examined the legal basis for the co-ordination of forestry policies and has yet to consider the technical aspects and practical possibilities in various fields such as production and marketing, legislation, taxation, structures, research and vocational training.

The first forestry statistics for the Community were published in December 1965 (3).

(1) See Eighth General Report, sec. 200.

(2) *Ibid.*, sec. 203.

(3) Statistical Office of the European Communities, Agricultural Statistics, No. 8-1965.

Fisheries

199. The Commission is examining the draft report on the fisheries situation in the various Member States and is working out the broad outline of a common policy in this sector. These will be submitted to the Council in the near future. The outline envisages a common action programme for the improvement of structures, the organization of the market and social measures, and it will be accompanied by a proposal for a general basic regulation.

Application of minimum prices

200. Certain countries have introduced or maintained minimum prices for the following commodities.

Fruit and vegetables. — The arrangements concerning minimum prices for imports of certain types of fruit and vegetables, including potatoes, were renewed by France, Belgium and Germany. Moreover, with regard to the products listed in Annex I to Regulation No. 23 (fruit and vegetables) ⁽¹⁾, all the remaining restrictive measures taken under the system of minimum price were abolished in the course of 1965, in pursuance of article 9 of that regulation, in respect of Extra and Class I products. On 1 January 1966 these measures were also abolished in intra-Community trade in Class II products. In view of the postponement of the beginning of the marketing year for new potatoes, the Commission authorized France to extend by 18 days the period originally allowed for the application of minimum prices.

Non-edible horticultural products. — France notified its intention to adopt the minimum price system for cut tulips between 17 December 1965 and 30 April 1966.

Fish. — France adopted the system of minimum prices for mackerel from 17 March to 31 October 1965 and for codfish and pollack from 17 March 1965 to 1 February 1966. On 18 January 1966 France notified its intention to maintain this system for the same periods of 1966. The minimum price system was maintained for fresh herrings until 1 February 1966.

(¹) See official gazette No. 30, 20 April 1962.

Livestock products. — France maintained the system of minimum prices for horsemeat until 31 August 1965.

Application of Article 46 of the Treaty

201. On 15 December 1965 ⁽¹⁾ the Commission, acting under Article 46 of the Treaty, authorized France and Germany to impose a countervailing charge on imports of tulips, narcissi and hyacinths from the Netherlands during the 1965/66 marketing year. The purpose of the charge is to eliminate the imbalance on the markets of Germany and France caused by market organization measures existing in the Netherlands in respect of bulbs.

IMPROVEMENT OF AGRICULTURAL STRUCTURES ⁽²⁾

202. Continuing its examination of the basic principles of the Member States' structure policies in the light of the objectives of the common agricultural policy, the Standing Committee on Agricultural Structure discussed some thirty draft laws and regulations that had been notified, involving measures to improve agricultural structures.

The discussions showed the importance of trying to improve the man/land ratio; this may be achieved if mobility of labour is combined with measures to promote the creation of economically viable farms, whether family farms or not, and by direct or indirect development.

The Committee considered the criteria for the application of Article 5 of the Council Decision of 4 December 1962 ⁽³⁾, with regard to the Member States' obligation to inform the Commission in good time of draft plans extending over several years and regional programmes that include measures to improve agricultural structures; a list of plans and programmes at present in operation has been drawn up.

⁽¹⁾ Official gazette No. 5, 12 January 1966.

⁽²⁾ See also sec. 205, proceedings of the Advisory Committee on Agricultural Structure Policy.

⁽³⁾ Official gazette No. 136, 17 December 1962.

On 29 July 1965 the Commission, acting under Article 155 of the Treaty, addressed a recommendation to Belgium concerning the law of 8 April 1965 creating an Agricultural Reorganization Fund ⁽¹⁾.

From 18 March 1966 onwards, schemes to improve agricultural structures must, to be eligible for aid from the Guidance Section of the EAGGF, fit into a Community programme. Preliminary drafts have therefore been worked out for Community programmes concerning the redistribution of land holdings; afforestation for purposes of land improvement; the beef and veal sector; marketing arrangements for fruit and vegetables; structural improvement in the dairying industries; olive growing; irrigation; agricultural drainage; vine growing and wine production, and the development of poor or backward agricultural areas. After discussions in the Standing Committee on Agricultural Structure the fund Committee and the Advisory Committee on Agricultural Structure Policy, these preliminary drafts for Community programmes were put into the forms of draft regulations with explanatory memoranda.

SOCIAL ASPECTS OF THE COMMON AGRICULTURAL POLICY

203. Implementation of the Action Programme ⁽²⁾, the main aim of which is to achieve social parity between farm workers and those employed in other sectors of the economy, entered an active phase in the course of 1965.

Thanks to the European Social Fund, people who leave the land have facilities for retraining for work in other sectors, but there is still no Community aid for those who wish to remain in agriculture but sometimes in quite different jobs. On 3 February 1965 the Commission therefore put before the Council a draft regulation concerning Community grants towards the retraining of farmers and farmworkers wishing to change their occupation within agriculture. This proposal was discussed and endorsed first by the Advisory Committee on Vocational Training, and then by the European Parliament on 16 June 1965 and by the Economic and Social Committee on 30 June 1965. These bodies made certain suggestions which the Commission incorporated in a new proposal submitted on 30 March 1966.

⁽¹⁾ Official gazette No. 144, 12 August 1965.

⁽²⁾ See Seventh General Report, sec. 195.

It also seemed desirable to help those at present working on the land by enabling them, when they decide to take up a new job in agriculture or in another sector, to know precisely what opportunities are offered and what the consequences of the change will be. Drawing on the experience already gained in this field in certain Community countries, the Commission also submitted to the Council on 3 February 1965 a proposal for a regulation concerning Community grants towards the training of advisers to staff information services for farmers and farmworkers wishing to change their occupation. The proposal was referred to the European Parliament and to the Economic and Social Committee, and endorsed by them on 16 June and 30 June 1965 respectively.

These two proposals must not however, be considered in isolation but within the framework of the policy on agricultural structure (man/land ratio) and of the action programme to introduce a common system of vocational training in agriculture. The latter has been endorsed by the Advisory Committee on Vocational Training and transmitted to the Council, Economic and Social Committee and European Parliament for their information.

The directives on freedom of establishment are being put into effect in accordance with the special timetable laid down for agriculture.

Work continued on wages, working hours, safety at work, and social security. In particular, the Commission has tried to encourage co-operation between employers and workers. On 12 February 1966 a letter on the subject was addressed to both parties by the Commission following the unanimous opinion expressed by the Joint Advisory Committee on the Social Problems of Farmworkers with regard to working hours in agriculture. If action is taken by both the farmers' and farmworkers organizations, it should be possible for certain problems to be solved by collective bargaining.

These various steps were taken after consultation and in collaboration with the Advisory Committee on the Social Problems of Farmers and the Joint Advisory Committee on the Social Problems of Farmworkers.

In co-operation with the Community bodies concerned, the Commission continued its study, by occupation and region, of the problems of continuity of employment in agriculture and considered possible measures

to promote optimum manpower utilization in this sector. In addition, the Commission is preparing about ten monographs on occupation in agriculture to facilitate vocational guidance and placement.

CO-ORDINATION OF AGRICULTURAL RESEARCH

204. Assisted by a working party of government experts, the Commission is continuing its study of the possibilities of co-ordinating agricultural research and is drafting a regulation on the subject.

In addition, in view of the urgency of the problem, the Commission prepared a joint research programme on African swine fever, which it submitted to the Council on 28 June 1965. The object is to find a differential diagnosis for this disease and study methods of vaccination.

CO-OPERATION WITH FARMERS' AND FARMWORKER'S ORGANIZATIONS

205. During the period under review, the Advisory Committees held 18 meetings and rendered 30 opinions.

The Advisory Committee on Cereals rendered 17 opinions concerning:

- i) Application of Commission Regulation No. 89 fixing the criteria to be used in determining free-at-frontier prices for cereals, groats and meal;
- ii) Application of Regulation No. 90, Article 4, and Regulation No. 91, Article 3, with regard to goods imported free of levy;
- iii) Inquiry into the most appropriate stage at which to grant aid to the production of durum wheat, as envisaged by the Council resolution of 15 December 1964;
- iv) Problems arising at the various stages of production, processing, marketing and consumption from arrangements in force in certain Member States to limit the prices at which rice is sold to consumers;
- v) Community measures that may be adopted at the turn of the marketing year when the single cereals price is in effect.

The Advisory Committee on Pigmeat rendered three opinions concerning:

- i) Regional disparities in the prices of pigs for slaughter (reference quality) in the various member countries;

ii). The present state of the market in pigs and pigmeat.

The Advisory Committee on Milk and Milk Products rendered three opinions concerning:

- i) The possibility of instituting a system of control to allow of different prices for skim milk powder for human consumption and for animal feed;
- ii) Milk processing factories: their position, development and adaptation to the requirements of the single market.

The Advisory Committee on Poultrymeat and Eggs rendered an opinion concerning the current development of production, processing and marketing structures and their adaptation to the requirements of the single market.

The Advisory Committee on Beef and Veal rendered two opinions concerning:

- i) Experience gained in the application of Regulation No. 14/64/CEE;
- ii) Possible amendments to the Annexes to Regulation No. 14/64/CEE.

The Advisory Committee on the Social Problems of Farmers rendered two opinions concerning:

- i) Two draft Commission regulations on vocational retraining in agriculture;
- ii) The draft recommendation for the development of vocational guidance.

The Advisory Committee on Agricultural Structure Policy rendered two opinions concerning:

- i) Community regulations governing producers' associations and a system of long-term contracts;
- ii) Measures to be financed by the EAGGF as Community programmes (Article 16 of Council Regulation No. 17/64/CEE), and certain technical factors that should be taken into account when schemes are considered.

The Commission also consulted the relevant professional and consumers' organizations on the four draft directives for the harmonization of legislation on agriculture and foodstuffs. It arranged numerous meetings for the exchange of information and held discussions with leaders of farmers' and farmworkers' organizations.

*SOURCES OF INFORMATION REQUIRED FOR THE COMMON
AGRICULTURAL POLICY*

206. On 15 June 1965 the Council adopted a regulation establishing an information service on farm accounts and conduct of business ⁽¹⁾ in the EEC ⁽²⁾.

The necessary information about technical, economic and social conditions in farming will be obtained from the accounts of certain farms, specially selected according to common standards.

Special services will be set up at three different levels to select the farms to be surveyed and collect information about their accounts:

a) At regional level: a regional committee composed of representatives from government departments, farms and accounting offices will be responsible for selecting the account-keeping farms, in accordance with uniform Community provisions; accounting offices will collect the information on farm accounts and card-index it in the same way for each farm.

The consent of the farms that co-operate with the information service must be obtained before information concerning their accounts is passed on to the Commission.

b) At national level: a liaison office will be set up in each Member State to maintain contact between the regional committees and the Commission and to ensure that the information service functions efficiently in the country concerned.

c) At Community level: the Commission will be assisted by the Community Committee on the Information Service on Farm Accounts, which will be modelled on the Management Committees.

In view of the complex material problems involved in setting up an information service of this kind, and the need to "run it in" for the first few years, the service will initially collect data from 10 000 farms only.

The Community Committee set up under Article 17 of Regulation No. 79/65/CEE has met three times since the regulation came into force.

⁽¹⁾ See Eighth General Report, sec. 212.

⁽²⁾ Regulation No. 79/65/CEE, official gazette No. 109, 23 June 1965.

The main questions with which the Committee has had to deal have been the selection of the farms and collection of the data (farm card-index, contract with the accounting offices). Regulation No. 79/65/CEE requires implementing regulations to be adopted on these two points before the information service can begin to function.

Common transport policy

207. On 22 June 1965 the Council reached agreement on the organization of the transport market, thus breaking the deadlock which had persisted since the failure to attain unanimous approval of the regulation submitted by the Commission introducing a bracket-rate system. No progress could be made, failing such an agreement, towards a common transport policy. Though the Council had adopted the proposed decision on the harmonization of certain competitive conditions, it had made the adoption of the draft regulation introducing a Community quota for road haulage subject to the organization of the transport market, i.e. essentially to an agreement on freight rates. Thus a start could be made on giving effect to only one of the three main proposals, the one relating to harmonization of competitive conditions.

At the meeting of the Council on 9 March 1965 the Commission representatives had suggested certain ways out of this difficulty ⁽¹⁾.

After studying these suggestions in conjunction with the Commission, the Council agreed to a rate system forming part of a general organization of the transport market ⁽²⁾.

208. The most important element of the agreement of 22 June 1965 has to do with the tariff arrangements to be introduced under the common transport system. It also provides for the establishment of a Market Committee and certain steps to align the operating conditions of the markets, in particular:

- (1) Regulations on access to the haulage trade, including control of transport capacity;
- (2) Regulations governing vertical and horizontal agreements between transport concerns;

⁽¹⁾ See Eighth General Report, sec. 221.

⁽²⁾ See below, sec. 210.

(3) A common solution to problems arising from non-governmental intervention in competitive situations;

(4) A common solution as regards the apportionment of infrastructure costs.

Financial stability of the railways, with normalization of their accounts and the solution of problems arising from government intervention, must be attained by 31 December 1972 ⁽¹⁾.

The Commission has put in hand the necessary work to implement the programme attached to the agreement within the stipulated time-limits.

ACCESS TO THE MARKET

209. On 21 May 1965 the Commission, acting in conformity with Article 149, second paragraph, of the Treaty, submitted to the Council an amendment to its initial draft regulation on common rules for international passenger transport by road. This amendment provides for specific rules applicable to transport on own account and pays due regard to the suggestions of the European Parliament and the Economic and Social Committee ⁽²⁾.

TRANSPORT RATES AND CONDITIONS

210. Further to the Council agreement of 22 June 1965, and taking account of the opinions rendered by the European Parliament and the Economic and Social Committee ⁽³⁾ on its original proposal, the Commission submitted to the Council on 29 October 1965, in accordance with Article 149, second paragraph, of the Treaty, certain amendments to the proposed regulation introducing a bracket-rate system for goods transport by road, rail and inland waterway ⁽⁴⁾.

⁽¹⁾ See also Articles 5 to 8 of Council Decision No. 65/271/CEE, 13 May 1965, official gazette No. 88, 24 May 1965.

⁽²⁾ See Eighth General Report, sec. 220.

⁽³⁾ Opinion of the European Parliament of 18 June 1964, official gazette No. 109, 9 July 1964; Opinion of the Economic and Social Committee of 29 and 30 January 1964, official gazette No. 168, 27 October 1964.

⁽⁴⁾ See Seventh General Report, secs. 198 and 199.

In conformity with the agreement reached in the Council, the amendments provide for:

- a)* The introduction alongside the compulsory rate brackets of reference tariffs, i.e. a system of approved rate brackets published as a guide but not mandatory;
- b)* Implementation of the new tariff system in two stages ending on 31 December 1972;
- c)* Publication of rates and conditions applied outside the mandatory rate brackets and the reference brackets;
- d)* Termination of prior authorization for specific contracts involving rates outside the mandatory tariffs, such contracts to be subject as a general rule only to subsequent justification and publication;
- e)* Establishment under the aegis of the Commission of a committee to supervise the transport market;
- f)* Introduction of a safeguard clause enabling the Member States to remedy by a Community procedure any grave disturbances which the new tariff system may cause.

During the first three-year stage the new tariff system will be applied only to traffic between Member States. Rail and road transport will be subject to mandatory tariffs and inland waterway transport to reference tariffs.

Beginning with the second stage this system will be extended to inland traffic and the system of reference tariffs will also be applied to certain forms of bulk transport of goods by rail and road.

However, in the amendments to its initial proposal the Commission did not confine itself to determining the measures necessary to implement the system defined in the Council agreement. Being concerned that the tariff system should have maximum economic consistency, it introduced certain points not expressly taken up by the Council. Thus the Commission has provided for:

- a)* A uniform 20% range of rate brackets, but with the Council retaining the possibility of reducing this for certain types of transport;
- b)* The facility for Member States temporarily to fix maximum or minimum rates for transport coming under the reference tariff system in order to prevent any abuse of dominant positions or cut-throat competition;

c) Communication to the national authorities and the Commission of the rates applied within the brackets for representative transport determined in advance; however, these rates would not have to be published.

On 19 January 1966, the European Parliament passed a resolution embodying its opinion on the system governing the transport market approved by the Council on 22 June 1965 and on the Commission's proposal for a bracket-rate system.

In this resolution the Parliament, though considering that the proposed system could constitute a starting point for a European policy on transport tariffs, expressed the hope that the Commission would incorporate certain amendments and stressed the importance to be attached to technical, social and tax harmonization and the question of infrastructure costs.

211. As regards the establishment of international tariffs and publication, and control and sanctions in the matter of transport rates and conditions, the Commission is working out a number of regulations in conformity with the amended proposal. These concern the constitution and rules of the Transport Market Committee, procedure for permanent co-operation between Member States, and the respective powers of Member States and the Commission.

The study of harmonization of transport conditions on inland waterways ⁽¹⁾ is continuing in the Consultative Committee on Transport.

DISCRIMINATION AND SUPPORT TARIFFS

212. On 29 October 1965 the Commission submitted to the Council a draft regulation concerning the abolition of discrimination in transport rates and conditions (Articles 7, 75 and 79 (2) of the Treaty).

The proposed regulation forbids the application or fixing, in any form whatsoever, by a carrier, a transport agent or intermediary or an enterprise directly supplying accessory services, of different transport rates and conditions in respect of the same goods on the ground of the country of origin or destination of the goods carried or the nationality of the transport user.

(¹) See Eighth General Report, sec. 221.

This regulation will in particular provide the legal basis for "joint action" for the abolition of certain differentiations in transport rates and conditions between a Member State's inland traffic and intra-Community goods traffic not justified by the competitive situation as between carriers or by technical or economic aspects of transport operation ⁽¹⁾. The Council referred this proposal to the European Parliament and to the Economic and Social Committee, which have begun to study it.

213. At the request of the Commission, and in conformity with Article 79 of the Treaty, the French National Railways (SNCF) on 1 July 1965 amended tariff No. 103 applied to transport by whole-train loads to make it applicable, within the framework of the international tariffs, to consignments from other Member States.

The Commission has also examined 140 specific rates established by the SNCF. Forty of these were abolished or modified to conform with the Treaty, and adequate reasons were put forward for the existence of the others. Similarly, ten headings in the German inland waterway tariff were amended on 1 July 1965 and seventeen abolished.

Finally, a study is being made of freight rates applicable to Belgian inland waterway traffic (rates of the ORNI-Office régulateur de la navigation intérieure).

214. Apart from the problem of Rhine navigation ⁽²⁾, the Commission has had no knowledge of any difficulties encountered in applying Council Regulation No. 11/60 ⁽³⁾ on the abolition of discrimination in transport rates and conditions, issued in pursuance of Article 79 (3) of the Treaty. The publication of rates and conditions required by Article 10 of this Regulation will be achieved in the setting of the general tariff system ⁽⁴⁾.

215. As regards rates and conditions comprising an element of support or protection for one or more specific concerns or industries, the Commission, acting under Article 80 of the Treaty, has begun the study of 1 269 unpublished rates and conditions.

⁽¹⁾ See Seventh General Report, sec. 213, and Eighth General Report, sec. 222.

⁽²⁾ See Eighth General Report, sec. 225.

⁽³⁾ See official gazette No. 52, 16 August 1960.

⁽⁴⁾ See sec. 210 above, "Transport and conditions".

Among the inland tariffs published after examination by the Commission, 32 have been amended to bring them into line with the Treaty, 144 abolished and 41 justified.

Acting under Article 80 (2) of the Treaty, the Commission has also authorized the following tariff measures:

- a) Extension until 31 December 1965, and then until the end of 1966, of its decision of 19 March 1964 authorizing the reduction of 15% applicable to the transport of cauliflowers and early potatoes from Brittany by road or rail over distances of not less than 650 km ⁽¹⁾;
- b) Reduction of 15% applicable to the transport of artichokes under the same conditions ⁽²⁾;
- c) Extension until 31 December 1966 of the authorization for tariff No. 251 A of the Italian State Railways (FS) ⁽³⁾;
- d) Extension until 31 December 1966 of the authorization for exceptional tariffs Nos. 202, 210 and 218 of the Italian State Railways (FS) ⁽³⁾;
- e) Extension until 31 December 1966 of the decisions of 31 March and 29 June 1965 authorizing a 15% tariff reduction for the transport of artichokes, cauliflowers and early potatoes from Brittany by rail or road over a distance of at least 650 km ⁽⁴⁾.

The Commission is studying the tariffs applied by the Deutsche Bundesbahn (DB) in respect of which the German Government has invoked the potential competition of the contemplated Saar-Palatinate canal. The Commission will shortly take a decision on these tariffs.

HARMONIZATION OF TERMS OF COMPETITION

216. The Commission has taken steps to give effect to the Council decision of 13 May 1965 concerning the harmonization of certain arrangements affecting competition in rail, road and inland waterway transport (65/271/CEE), ⁽⁵⁾ a process which will extend over several years.

⁽¹⁾ Official gazette No. 74, 1 May 1965.

⁽²⁾ *Ibid.* No. 132, 20 July 1965.

⁽³⁾ *Ibid.* No. 6, 14 January 1966.

⁽⁴⁾ *Ibid.* No. 28, 17 February 1966.

⁽⁵⁾ Official gazette No. 88, 24 May 1965, and Eighth General Report, sec. 226.

Consultations between experts and the drafting of proposals have continued, and the following will shortly be submitted to the Council:

a) In the tax field: a draft directive to harmonize the arrangements for duty-free entry of fuel in the tanks of commercial vehicles;

b) As regards State intervention: proposals for regulation concerning the alleviation of public service obligations and for common methods of compensation for burdens on passenger transport arising from the application of rates and conditions imposed by a Member State in the interests of one or more particular social categories.

The Commission has also prepared a proposal for a regulation on social matters (see section 218 below).

217. The Council further decided at its session of 9 March 1965 that symposia would be held on railway problems. The programme for these has been drawn up and the various national rapporteurs appointed. The reports will deal with the following five subjects: the legal and financial situation of the railways; government intervention and its influence on competition; price formation; optimum structure of railway undertakings from the angle of the economy at large and of profitable operation; co-operation between railways.

SOCIAL POLICY IN TRANSPORT

218. On 5 July 1965 the Commission decided to establish a joint advisory committee on social problems in road transport ⁽¹⁾. The creation of this committee will be followed in the coming months by the establishment of similar ones for inland waterways and railways.

The Commission has also prepared an initial draft regulation on the harmonization of certain working conditions in road transport.

APPLICATION OF THE RULES OF COMPETITION TO TRANSPORT

219. It will be recalled that on 27 November 1964 the European Parliament gave its support to the proposal for a Council regulation on the

⁽¹⁾ Official gazette No. 130, 6 July 1965.

application of the rules of competition to transport by rail, road and inland waterway, referred to it by the Council on 8 June 1964 ⁽¹⁾.

The Economic and Social Committee for its parts issued its opinion on 27 April 1965 ⁽²⁾. It considered that the first step should be to prolong the period for which Article 3 of Council Regulation No. 141 lays down that Regulation No. 17 shall not apply to transport by rail, road and inland waterway.

The Committee considered that regulations on competition in transport could only be laid down when the broad lines of the common transport policy had been decided and the inquiry proposed by the Commission carried out.

Furthermore, the Council's agreement of 22 June 1965 on the transport market system provides *inter alia* that, within three years from the entry into force of the planned arrangements, vertical and horizontal agreements will have to be defined. This system must leave transport concerns free to form units of rational size from the technical and economic angles.

As a decision had to be taken before the end of 1965 to avoid the legal uncertainty which might result on expiry of the period during which Regulation No. 17 was not applicable to transport, the Commission amended its original proposal, disjoining all provisions other than those relating to the extension of this period of non-application ⁽³⁾. The Council adopted on 9 December 1965 Regulation No. 165/65 extending this period for 2 years until 31 December 1967 ⁽⁴⁾.

AIDS TO TRANSPORT ENTERPRISES

220. The Commission has pursued its studies on the application of Article 9 (1) of Decision 65/271/CEE ⁽⁵⁾. It has been particularly concerned to define aids which meet the needs of transport co-ordination or constitute reimbursement for certain obligations inherent in the concept of a public utility (Article 77 of the Treaty).

⁽¹⁾ See Eighth General Report, sec. 228.

⁽²⁾ See official gazette No. 103, 12 June 1965.

⁽³⁾ See Article 3 of Regulation No. 141, 26 November 1962, published in official gazette No. 124, 28 November 1962.

⁽⁴⁾ See official gazette No. 210, 11 December 1965; see also sec. 69 above.

⁽⁵⁾ See sec. 216 above, "Harmonization of terms of competition".

Article 9 of this decision stipulates that Articles 92 to 94 of the Treaty shall be applied to transport by rail, road and inland waterway and that the Commission shall, before 1 July 1966, submit proposals for the application of Article 77.

The Commission has begun the preparatory work for these proposals.

The Commission is further endeavouring to work out common methods of compensation for the burdens laid upon transport concerns by public service obligations. Finally, it has continued its work on an inventory of aids to transport undertakings.

APPLICATION OF THE STANDSTILL CLAUSE

221. The Commission has continued to study the compatibility of Member States' arrangements in the transport field with Article 76 of the Treaty. It has not noted any new case of infringement ⁽¹⁾.

PRIOR EXAMINATION OF MEMBER STATES' PROPOSED LAWS AND REGULATIONS

222. The procedure of prior examination and consultation for laws and regulations contemplated by Member States in the transport field ⁽²⁾, introduced by a decision of 21 March 1962, has functioned satisfactorily during the period under review.

The Commission has issued opinions or recommendations in the following cases:

- i) Draft German law amending the law on passenger transport (Personenbeförderungsgesetz) ⁽³⁾;
- ii) Draft Grand Ducal regulation on road haulage ⁽⁴⁾;
- iii) Draft Belgian Royal decree on special agreements which the Belgian National Railways may conclude for the transport of coal and steel ⁽⁵⁾;

⁽¹⁾ See sec. 216 above, "Harmonization of terms of competition".

⁽²⁾ See official gazette No. 23, 3 April 1962.

⁽³⁾ Commission opinion of 20 July 1965, official gazette No. 139, 29 July 1965.

⁽⁴⁾ Commission opinion of 28 September 1965, official gazette No. 165, 6 October 1965.

⁽⁵⁾ Commission opinion of 18 November 1965, official gazette No. 204, 4 December 1965.

iv) Draft Netherlands Royal decree for the partial refund of the supplementary tax on vehicles using fuels other than petrol in international transport ⁽¹⁾;

v) Draft reform of the structure of tariffs for whole-train consignments on the Netherlands Railways.

INFRASTRUCTURE INVESTMENT IN TRANSPORT

223. On 22 June 1965 the Council agreed, after consulting the European Parliament and the Economic and Social Committee ⁽²⁾ and subject to the finalization of the texts in the Community languages, to take a decision establishing consultation procedure concerning transport infrastructure investments.

The decision was formally taken on 28 February 1966 ⁽³⁾. It provides that:

a) Member States shall communicate to the Commission details of investment projects (rail, road or inland waterways) considered of Community interest;

b) The Commission shall inform the Member States of any projects communicated to it;

c) There shall be consultation on projects thus communicated whenever the Community thinks this advisable or at the request of a Member State.

This decision does not go as far as the proposal submitted to the Council, which, in addition to the consultation procedure, provided that there would be a committee of government experts to advise the Commission on questions relating to transport infrastructure.

The Commission considers, however, that the decision constitutes a first step towards Community action in the field of transport infrastructure investments.

224. The study of forecasts of road traffic on the Liège-Luxembourg-Strasbourg road, which the Commission, in December 1964, decided to

⁽¹⁾ Commission recommendation of 9 February 1966, official gazette No. 28, 17 February 1966.

⁽²⁾ See official gazette No. 62 and No. 63, 12 and 13 April 1965, and Eighth General Report, sec. 232.

⁽³⁾ See official gazette No. 42, 8 March 1966.

entrust to a firm of consultants, continued under the supervision of a working party of representatives of the Commission and experts from the Governments concerned. The first stages of the study were completed at the end of 1965 ⁽¹⁾.

225. In October 1965 the Commission began a study of the application of economic theory to the choice of transport infrastructure investments. One part of this study will include the method to be applied to communication networks through the Alps.

WEIGHTS AND DIMENSIONS OF COMMERCIAL VEHICLES

226. The problem of harmonizing provisions on the maximum axle load is still unsolved. At its session of 22 June 1965 the Commission impressed on the Council the need to speed up the bilateral negotiations on solutions which would make it possible temporarily to maintain the two systems in force for maximum axle load in international transport between Member States ⁽²⁾.

The Council decided that it would take up this question again at its next meeting.

TECHNICAL HARMONIZATION IN INLAND WATERWAYS

227. The documents concerning the standardization of the European "I" type barge were finalized in 1965. Work on standardizing spare parts and equipment for inland waterway vessels continued in the working party of representatives of the national standards institutes presided over by the Commission.

FRONTIER CROSSING

228. The Working Party on the improvement of frontier-crossing conditions in intra-Community road traffic met on 5 July 1965 to study conditions at the chief customs control points between the Community

⁽¹⁾ See Eighth General Report, sec. 233.

⁽²⁾ *Ibid.*, sec. 234.

States and between these States and certain non-member countries. Progress has been made thanks to the action of the Commission and the implementation of certain solutions advocated by the Working Party, which has now suggested further measures to facilitate frontier crossing.

The Commission has continued its endeavours to improve the situation at frontier crossing-points in intra-Community goods traffic by rail, road and inland waterway. Numerous local arrangements have been introduced to facilitate crossing. The Commission has studied the problem of the abolition, simplification or transfer of certain controls on intra-Community traffic. It has also continued to study how the costs entailed by frontier crossing can be progressively reduced.

SURVEY ON INFRASTRUCTURE COSTS

229. On 22 June 1964 the Council decided to organize a survey on infrastructure costs of rail, road and inland waterway transport ⁽¹⁾. On 13 May 1965 the Council, acting on a proposal of the Commission, made a further decision ⁽²⁾ laying down the implementing details of this survey whose object is to collate relevant factors of appraisal for a definition of the financial system applicable to infrastructure. For this purpose an exhaustive inventory of infrastructure expenditure incurred in 1966 will be made and a series of studies of particular cases undertaken. The aim of these studies is to throw light on the problems involved in the various possible ways of imputing costs and in the financial system applicable to the utilization of infrastructure. So that the organization and execution of the inquiry by the Member States may be as homogeneous as possible, a pilot study will first be made by the Commission.

All these studies presuppose complete and precise information about the utilization of infrastructure. To assemble this information the Commission, on 27 April 1965 ⁽³⁾, after consulting the Member States, fixed the 1966 programme of inventories and spot checks of the volume and composition of traffic on communication networks.

⁽¹⁾ Eighth General Report, sec. 238.

⁽²⁾ See official gazette No. 88, 24 May 1965.

⁽³⁾ *Ibid.* No. 82, 12 May 1965, and Eighth General Report, sec. 238.

TRANSPORT BY PIPELINE

230. Under the terms of reference assigned to it by the Council on 22 June 1965, the Commission continued its studies on the "energy" and "transport" aspects of oil pipelines. The problems examined particularly concerned information on the development of the pipeline network, the application of the "common carrier" principle to this type of transport, and a procedure regarding regulations to govern transport by pipeline.

THE CONSULTATIVE COMMITTEE ON TRANSPORT

231. At the beginning of 1965 the Member States' Governments nominated their representatives to the Consultative Committee on Transport (Article 83 of the Treaty). The Committee held its first meeting for 1965/66 on 5 July 1965.

At this meeting the Commission communicated to the Committee the list of questions on which it desired its opinion during the year:

- a) Terms of reference of a Community body to supervise the transport market;
- b) Capacity control in goods transport by inland waterway;
- c) The development of road haulage terminals and regulations governing them;
- d) Problems arising for transport from the abolition of controls at frontiers of Member States;
- e) Harmonization of transport conditions on inland waterways (continuation of the 1963/64 studies);
- f) Procedures for the publication of transport rates and conditions;
- g) Means of harmonizing supply and demand in goods transport by road and inland waterway;
- b) Delimitation of the concept of competition in transport; (for the purposes of Articles 79 and 80);
- i) Definition of transport on own account—control problems (goods transport by road and inland waterway).

The Committee drew up a timetable of its work for 1965; this includes the study of the first four points mentioned above.

It also elected its officers for 1965/66. M. Giuseppe Santoni-Rugiu, Deputy Director-General of the Italian State Railways, became Chairman, and M. Vonk, General Counsellor with the Netherlands Ministry of Transport and Public Works, Vice Chairman.

Working parties have since met several times, and the Committee has held three plenary meetings, on 6-7 October 1965, 11-12 January 1966 and 8-10 March 1966. It rendered opinions on the following questions:

- a) Terms of reference of a Community body to supervise the transport market;
- b) The development of road haulage terminals and regulations governing them;
- c) Capacity control in goods transport by inland waterway.

Social policy

EMPLOYMENT AND VOCATIONAL TRAINING

Employment policy

232. The problems posed by the shortage of manpower in the Member States, as regards both numbers and skills, continued to engage the Commission's attention. In accordance with the suggestions made in its report on labour problems in the Community in 1964 and with the Council's request of 15 October 1964⁽¹⁾, the Commission proposed various measures to the Council to encourage the use of Community manpower and overcome the current shortage of labour in certain parts of the Community⁽²⁾.

In another report to the Council on the same subject in 1965, the Commission suggested a number of measures to strengthen Community co-operation with regard to employment and enable fuller use to be made of potential manpower resources. On the Commission's suggestion, the competent authorities in the six Member States decided to do everything

⁽¹⁾ See Eighth General Report, sec. 240.

⁽²⁾ See sec. 233 below.

possible to ensure that workers who are nationals of the Community countries enjoy equality of treatment where employment is concerned, as laid down in Article 8 of Regulation No. 38/64; in addition, they unanimously affirmed their intention, in pursuance of the latter regulation, to encourage the recruitment of surplus workers from the Member States in preference to those from other countries.

The Commission worked out a draft recommendation for the expansion of vocational guidance. The Economic and Social Committee endorsed the proposed recommendation on 23 February 1966 and the European Parliament on 11 March 1966.

A report on the organization and activities of employment services in the Member States is being prepared and will form a useful basis for drawing up a Community programme for co-operation in matters of employment.

Common vocational training policy

233. At its meeting of 19 March 1965 the Advisory Committee on Vocational Training ⁽¹⁾ endorsed the two programmes for vocational training in general and vocational training in agriculture. These were adopted by the Commission on 5 May 1965 and then transmitted to the Council, the European Parliament and the Economic and Social Committee for their information. The Parliament had approved them by a resolution dated 11 March 1966.

The Commission, assisted by the Advisory Committee, took the first steps to give effect to these programmes. It also arranged a seminar in Belgium for heads of official vocational guidance services in the six States.

In addition, it embarked on studies of employment in various branches (agriculture, building and construction) and the employment of women.

234. On 30 June 1965 the Commission laid before the Council proposals for a first joint programme of accelerated training for adults. It provides for the training of 3 000 unskilled Italians who wish to work in the building and metalworking industries and in hotels in the other member countries.

(¹) See Eighth General Report, sec. 241.

As this programme is of a general nature and of equal interest to all Member States, the Commission proposes that it be financed jointly, in accordance with the tenth of the "general principles" for a common vocational training policy.

In order to remedy deficiencies in the numbers and qualifications of teachers and instructors in most Member States, the Commission, assisted by the Advisory Committee, is at present preparing plans for joint action to promote effective teacher training and facilitate the recruitment of instructors from among skilled workers. For this purpose, a study of the most up-to-date teaching methods is being carried out in the Member States.

235. In pursuance of the eighth of the general principles, which provides for the progressive alignment of levels of training, the Commission has established a Community list of knowledge and skills required of a medium-grade turner. This is the first European "career brief" and will serve as a model for others of the same type. After completing this list and referring it to the Advisory Committee, the Commission began work on European career briefs for six other metalworking trades.

236. Under the sixth of the general principles, the Commission is required to promote direct exchanges of experience in the field of vocational training; it therefore helped to organize and finance a study conference held by the German chambers of commerce and industry and Dutch vocational training institutions in Bonn in November 1965.

237. After consulting the Italian Government, the Commission adopted two proposals for decisions and one proposal for a regulation on social measures to assist Italian sulphur-mine workers made redundant by the reorganization of the industry. The proposals were based on the conclusions of a report by the Liaison and Action Committee for the Sulphur Industry in Italy. Aid will be given from the European Social Fund to provide vocational training and various kinds of compensation for the redundant workers, and Community funds will also be used to provide training scholarships for their children.

The Commission's proposals were submitted to the Council on 15 April 1965. The European Parliament and the Economic and Social Committee endorsed the proposals but suggested certain amendments to widen their

scope. Acting under Article 149 of the Treaty, the Commission amended the proposals accordingly.

238. In pursuance of the common programme to provide information and initiate action with regard to the exchange of young workers ⁽¹⁾, the Commission held a meeting of employers' representatives and asked them to take steps to make in-service training available to as many young Community workers as possible.

The Commission made known the first common programme to trade and professional organizations, bodies that deal with exchanges, and youth movements.

EUROPEAN SOCIAL FUND

239. In 1965 the sums repaid by the European Social Fund, with the approval of the Fund Committee, reached a total of 7 200 554 units of account, of which 5 845 159 u.a. were for retraining and 1 355 395 u.a. for resettlement.

No conversion projects were submitted to the Commission for approval.

TABLE 19

Repayments by the European Social Fund in 1965

(in u.a.)

Country	For retraining	For resettlement	Total
Belgium	468 701	1 477	470 178
France	2 098 219	38 392	2 136 611
Germany	1 361 811	258 403	1 620 214
Italy	1 713 817	1 042 220	2 756 037
Luxembourg	—	—	—
Netherlands	202 611	14 903	217 514
Total	5 845 159	1 355 395	7 200 554

(¹) See Eighth General Report, sec. 243.

A large part (21%) of the repayments made for retraining were for handicapped workers.

The schemes carried out with the help of the Fund enabled 121 875 unemployed or underemployed workers to find new jobs after retraining or resettlement.

TABLE 20

Number of workers aided by the European Social Fund in 1965

Country	Workers retrained	Workers resettled	Total
Belgium	922	9	931
France	3 819	—	3 819
Germany	2 450	17 517	19 967
Italy	7 240	87 835	95 075
Luxembourg	—	—	—
Netherlands	1 878	205	2 083
Total	16 309	105 566	121 875

The distribution of the retrained workers among the branches in which they are now working varies from country to country. Most of them are engaged in metalworking, mechanical engineering and building, and an increasing number in electrical engineering and services. However, since the operations aided by the Fund in 1965 were carried out several years before, it is impossible to draw conclusions from them as to present trends on the labour market.

A large part of the resettlement operations for which aid was granted by the Fund in 1965 concerns Italian workers recruited in 1960 by Germany (72 317), France (12 511), Luxembourg (1 520), the Netherlands (1 003) and Belgium (27).

A smaller part (17%) concerns 17 500 refugees from the Soviet Zone of Germany and eastern Europe who were resettled in Germany between 1 June 1961 and 31 May 1962.

In 1965 repayments made by the European Social Fund (credits) and Member States' contributions (debits) entailed a transfer of 1 316 000 units of account to Italy from Germany (684 000 u.a.), Belgium (163 500 u.a.), France (167 500 u.a.), Luxembourg (14 500 u.a.) and the Netherlands (286 500 u.a.).

The total for applications submitted in 1965 by all the Member States—about 8.3 million u.a.—is only slightly lower than in 1964 because the increase in applications in respect of retraining was partly offset by a substantial falling-off in applications for resettlement grants. The latter totalled less than 500 000 u.a., less than a third of the annual amounts in previous years. This decrease clearly reflects the decline in the flow of migrant workers within the Community which was masked in earlier years by special operations such as those concerning European repatriated from Algeria.

The table below records the operations of the Fund over a period of five years.

The Commission did not ask the Council to carry over to the 1966 financial year the whole of the 19 674 900 units of account not spent in 1965.

The budget of the European Social Fund for the 1966 financial year amounts to 21 482 400 u.a. The Commission based this figure on the Member States' estimates of the applications for reimbursement that they expect to make during the year. Bearing in mind the previous year's experience, the Commission asked only for 4 517 619 u.a. to be carried over; if its forecasts prove correct, this should bring the Fund's resources up to a satisfactory level for 1966.

Of the applications submitted, about 68% were made by States and local authorities, while the statutory bodies on the list mentioned in Article 18 of Regulation No. 9 account for some 32%. The list was brought up to date in March 1966. The total number of statutory bodies entitled to apply for aid from the Social Fund is now 69, of which 5 are in Belgium, 15 in Germany, 2 in France, 46 in Italy and one in the Netherlands.

The two proposed regulations to increase the effectiveness of aid from the Fund, which the Commission submitted to the Council in Jan-

TABLE 21

Balance sheet of the activities of the Fund
(from 20 September 1960 to 31 December 1965)

Country	Type of operation	Total represented by				No. of persons benefiting
		Applications submitted (u.a.)	Applications examined (u.a.)	Aid granted (u.a.)		
Germany	Retraining Resettlement	13 916 114	6 922 849	6 321 970	36 940	
	Total	5 294 345	3 854 594	562 673	59 320	
Belgium	Retraining Resettlement	19 210 459	10 777 443	6 884 643	96 260	
	Total	2 581 010	1 983 701	1 893 815	4 847	
France	Retraining Resettlement	2 114	1 479	1 477	9	
	Total	2 583 124	1 985 180	1 895 292	4 856	
Italy	Retraining Resettlement	13 215 624	9 454 928	9 314 705	18 592	
	Total	1 730 278	455 606	364 692	52 179	
Luxembourg	Retraining Resettlement	15 005 902	9 910 534	9 679 397	30 771	
	Total	15 386 876	9 903 239	8 886 686	108 114	
Netherlands	Retraining Resettlement	3 822 624	2 003 893	1 907 500	167 354	
	Total	19 209 500	11 907 132	10 794 186	275 488	
EEC	Retraining Resettlement	17 609	8 831	8 831	92	
	Total	17 609	8 831	8 831	92	
EEC	Retraining Resettlement	5 596 958	2 898 442	2 416 096	6 421	
	Total	15 571	14 903	14 903	205	
EEC	Retraining Resettlement	5 612 529	2 913 345	2 430 999	6 626	
	Total	50 714 191	31 171 990	28 842 103	175 006	
EEC	Retraining Resettlement	10 924 932	6 330 475	2 851 245	279 067	
	Total	61 639 123	37 502 465	31 693 348	454 073	

uary 1965 ⁽¹⁾, were endorsed by the Economic and Social Committee on 26 May 1965 and by the European Parliament on 16 June 1965. These institutions declared that they consider it very important to widen the provisions governing the Fund and feel strongly that extension of the Fund's scope and competence will make it a more effective instrument of the common social and regional policies.

The Council has not yet taken its decision on these proposals.

FREE MOVEMENT OF WORKERS

240. In pursuance of Regulation No. 38/64 ⁽²⁾, particularly its provisions relating to frontier workers, the Commission adopted on 16 July 1965 Regulation No. 117/65 ⁽³⁾ establishing the list of communes in areas lying across the frontiers between France and other Member States; as regards employment in these areas the States concerned may not in any way discriminate against frontier workers in favour of their own nationals. The list of the communes concerned is the same as that adopted in connection with social security for frontier workers ⁽⁴⁾.

241. In the last three quarters of 1965 Germany, Italy and Luxembourg did not invoke the safeguard clause contained in Article 2 of Regulation No. 38/64, so that there has been no restriction on the free movement of workers in those three countries since that regulation entered into force. On the other hand, Belgium, France and the Netherlands protected certain occupations at the beginning of each quarter, either throughout their territory or in certain specified regions. The protection given to national workers has, however, tended to diminish in amount and scope.

242. During the fourth quarter the Commission, acting in pursuance of Articles 29 and 36 of Regulation No. 38/64, drew up a second report on labour market trends and the movement of foreign workers within the Community. The report contains a list of vacancy clearing operations carried out during the year and traces the development of manpower

(¹) See Eighth General Report, sec. 253.

(²) See official gazette No. 62, 17 April 1964.

(³) *Ibid.* No. 139, 29 July 1965.

(⁴) *Ibid.* No. 18, 1 February 1964.

resources and requirements in the Member States. The report shows that the steps taken to give priority in employment to workers available within the Community have helped to reverse the tendency observed in the last few years towards a decline in the number of vacancies filled by Community workers.

A provisional glossary has been published giving the technical terms that occur in the Community provisions on freedom of movement. A supplement is in preparation which will contain harmonized translations of about 600 occupations not included in the Comparative Dictionary ⁽¹⁾. The second edition of the Comparative Dictionary, which is now out, covers 119 occupations.

243. With a view to implementing the Treaty's provision concerning the right of workers to live in the territory of a Member State after having been employed there, the Commission embarked on a number of studies in order to determine the conditions that should govern the exercise of this right.

244. The Advisory Committee drew up its programme of work. It decided to follow Community developments in the field of medium-term economic policy, in so far as they concern employment problems, and to study measures for achieving and maintaining optimum employment within the Community.

In addition, the Committee began the study of certain special problems: effective application of Community regulations on freedom of movement, and the difficulties this involves; the problem of integrating the worker in the enterprise; the role that employers and trade unions should play; the reception given to migrant workers in the countries where they are employed, and the ways in which workers are informed as to their rights and duties; the origin of migration and its motivation.

The Committee gave its opinion on the draft Commission recommendation to the Member States for the expansion of vocational guidance ⁽²⁾. It also studied and approved the Commission's sixth annual report on manpower

⁽¹⁾ See Eighth General Report, sec. 244.

⁽²⁾ See sec. 232 above.

problems in the Community (in 1965) ⁽¹⁾, and the European Co-ordination Office's third annual report on vacancy clearing operations in the Community.

245. The Technical Committee continued its work in connection with the application of Article 29 of Regulation No. 38/64, which concerns priority for the Community labour market.

It also adopted an opinion on a uniform definition of the principal concepts relating to movements of workers which are the subject of international vacancy clearance. After the Commission has consulted the Advisory Committee and adopted these criteria, the Member States will use them to assess the situation on their own labour markets.

As part of its programme to provide further training for staff of employment services specializing in vacancy clearance (Article 37 of Regulation No. 38/64), the Commission arranged for thirteen periods of in-service training during the last quarter of 1965. These enabled officials at present dealing with vacancy clearance to extend their knowledge of other Member States' employment services.

SOCIAL SECURITY FOR MIGRANT WORKERS

246. The Community regulations concerning social security for migrant workers have been amplified. On 15 June 1965 the Council adopted a regulation defining the social security position of unestablished officials of the European Communities ⁽²⁾ ⁽³⁾, and on 30 June 1965 a regulation concerning the payment of family allowances in respect of children not resident in the worker's country of employment ⁽⁴⁾. The latter regulation also simplifies the procedure for notifying amendments to the Annexes to Regulations Nos. 3 and 4.

On 3 December 1965 the Commission submitted to the Council a new proposal for a regulation extending the application of Regulations Nos. 3 and 4 to seamen; when these regulations were adopted in 1958, it was

⁽¹⁾ See sec. 232 above.

⁽²⁾ See Eighth General Report, sec. 248.

⁽³⁾ Regulation No. 80/65/CEE, official gazette No. 111, 25 June 1965.

⁽⁴⁾ Regulation No. 109/65/CEE, *ibid.* No. 125, 9 July 1965.

understood that they should in principle be extended to seamen, but this had not yet been done.

The EEC Commission and the Administrative Committee for the Social Security of Migrant Workers continued their revision of the Community regulations ⁽¹⁾.

As a result, the Commission submitted to the Council on 11 January 1966 a proposal for a regulation co-ordinating the social security systems applicable to wage-earners and their families who move from one Community country to another.

The proposal completely recasts Regulation No. 3 (concerning social security for migrant workers), which has been in force since 1 January 1959, and consolidates the amending regulations adopted subsequently, including those concerning particular categories of workers, such as frontier workers. The proposed regulation thus covers the various categories of workers who move from one Community country to another, workers who go and take up paid employment in another Community country and transfer their residence to that country, frontier workers, seasonal workers, workers temporarily resident in another Member State, and people who work in several countries.

The Annexes referred to in the proposed regulation, as also the implementing provisions, will be the object of separate regulations which are in preparation.

The aim of this revision is to assure the various categories of migrant workers and their families of the maximum protection against insured risks and of equality of treatment with other workers, and as far as possible to eliminate the discrepancies that exist between Member States because of the retention of a number of bilateral arrangements.

The Commission is considering how it may be possible to co-ordinate at Community level the social security arrangements for self-employed persons not covered by the social security systems with which the new regulation is concerned. It is also considering the possibility of co-ordinating the numerous supplementary arrangements that exist in the different Member States for certain classes of workers in addition to those required by law.

(1) See Eighth General Report, sec. 248.

WORKING CONDITIONS AND WAGES

247. The Commission continued its survey of working hours in six branches of industry (motor manufacturing, electrical engineering, textiles, synthetic fibres, rubber and chemicals). Most of the Member States have given the Commission fresh information as to the number of hours worked per week and the breaks allowed in certain firms. This completes the first version of the study of working hours in the above branches of industry in the Member States, which is now ready for publication.

In October 1965 the Commission produced the first normalized statistics on the number of hours worked per week by industrial workers; these are designed subsequently to enable more precise comparisons to be made between trends in the different countries. In addition, the information supplied by the Member States as to the amount of Sunday working in certain branches of industry will enable the Commission to supplement and finalize its previous comparison of laws and regulations.

A second study of the arrangements governing holidays with pay in the Member States will be published in the "Social Policy" series.

The fifth survey of wages and salaries gives figures for 1963 for the same branches of industry as were considered in 1960 ⁽¹⁾. The data for 1964 are at present being analysed; this survey will complete the second stage of the inquiry into labour costs and workers' incomes in thirty-five industries.

Taking these surveys as a basis, the Commission examined the reasons for some considerable disparities in the level and structure of wages in certain sectors. The results of this inquiry were published in a second series of monographs dealing with wage rates in three branches of industry: ready-made clothing, printing and steel erection.

As collective wage agreements have a considerable influence on wages, working hours and conditions, the Commission, in close collaboration with the relevant bodies in the Member States, worked out a common declaration form from which it will be possible to obtain an overall picture of the trend in wage agreements in the Community countries. It will obviously be useful not only to the parties to such agreements but also to national government departments and to the Commission's services to have a

(1) See Third General Report, sec. 297.

constant stream of detailed information in this field, for such purposes as short-term economic policy and even medium-term economic forecasts.

PROTECTION OF CERTAIN CATEGORIES OF WORKERS

248. The draft Commission recommendation concerning the protection of young people at work was endorsed by the European Parliament on 20 January and by the Economic and Social Committee on 23 February 1966. The Commission will study their comments and then transmit the recommendation to the Member States.

A draft recommendation on maternal welfare was adopted by the Commission and referred to the European Parliament and to the Economic and Social Committee. The recommendation concerns legislation on employment, social insurance and health protection.

EQUAL PAY FOR MEN AND WOMEN

249. In the report which it submitted in July 1965 ⁽¹⁾ on progress made at 31 December 1964 in the implementation of the equal pay principle laid down in Article 119 and the resolution of 30 December 1961, the Commission pointed out various shortcomings in the legal guarantees and the practical application of the equality principle, although progress had been made in all countries. At a future Council meeting, the Commission will urge the Member States to see that full effect is given to this provision of the Treaty.

SOCIAL SECURITY

250. Several recommendations will shortly be addressed to the Member States by the Commission. A recommendation concerning compensation for victims of occupational diseases supplements the one of 23 July 1962, which established a European list of such diseases ⁽²⁾. The new recommendation deals with the conditions governing payment of benefit to victims of occupational diseases, particularly the restrictive conditions governing diseases, type of work and various kinds of time-limit. The

⁽¹⁾ See Eighth General Report, sec. 257.

⁽²⁾ Recommendation of 23 July 1962, official gazette No. 80, 31 August 1962.

draft was approved by the Economic and Social Committee on 23 February 1966.

The national government departments concerned continue to make considerable use of the European list of occupational diseases, as in Belgium and Luxembourg, for example, where new lists have recently been published.

The work on definitions used in connection with social security has revealed that a number of concepts are interpreted differently in the different legal systems. The Commission is therefore preparing several draft recommendations in this field. One of these, concerning the definition of disablement, has been referred to the European Parliament and the Economic and Social Committee.

Other drafts are in preparation dealing, for example, with medical care for pensioners and criteria for assessing disablement.

251. Studies are in progress on various questions connected with social security:

- i) A study on the supplementary social security systems in force in the six countries will be completed in 1966;
- ii) A study on the economic effects of social security (redistribution of income, consumption, prices and production) is being prepared by a panel of independent experts;
- iii) Another study will examine the factors that influence consumption of pharmaceutical products within the framework of social security.

In order to improve their effectiveness and perhaps ultimately bring about their harmonization, a study has been published on the relationship between social security and social work in the EEC countries.

The second programme of exchanges between social security institutions, comprising ten periods of in-service training, was concluded by the end of December 1965.

INDUSTRIAL HEALTH AND SAFETY

252. Three meetings of heads of government departments responsible for industrial health and safety were held during the period under review.

A programme of study periods is in progress for senior officials responsible for factory inspection in the Member States (engineers, doctors, lawyers). So far sixteen industrial inspectors have completed a period of study lasting several weeks in one or two Community countries chosen by themselves. The programme will enable industrial inspectors to improve their knowledge of the structure and practice of industrial health and safety services in the other Member States. The reports that they will write at the end of the period will pinpoint the most important problems involved in the unification of security standards and their application by administrative bodies in the light of Community policy; the concrete proposals that will be made as a result of these reports will help to speed up and improve the Community's programme in this field.

At the request of the European Parliament, a meeting of government experts was held on 30 September 1965 to discuss ways of improving co-operation between the Member States in the event of mining or other disasters. The experts decided to make an initial study of the way in which emergency services are organized and operated in member countries, and to draw up a list of the bilateral and multilateral agreements already concluded. These will provide the data for a preliminary report, which will serve as a basis for future discussions.

A seminar on the prevention of industrial accidents will take place in June 1966. The aim is to establish Community co-operation with regard to action taken in the Member States to make workers more safety-conscious and prevent accidents.

The European Parliament and the Economic and Social Committee will send representatives to the seminar as observers, and the seminar will also be attended by representatives of national government departments, employers' organizations, trade unions, national bodies and institutes dealing with industrial safety, and the interested international organizations. The Commission's subsequent work in this field will be based on the conclusions reached in these discussions.

253. Still in the field of industrial safety, the Commission sent the Council, on 10 May 1965, proposals for two directives, in pursuance of

Article 100 of the Rome Treaty, on the approximation of laws, regulations and administrative instructions concerning:

- i) dangerous substances and preparations (outline directive), and
- ii) the classification, labelling and packaging of dangerous substances (first supplementary directive).

The outline directive is the first step towards the elimination of discrepancies between the various national rules concerning dangerous chemicals. It gives a list of these substances and preparations, indicates how existing laws and regulations are to be aligned by supplementary directives, and contains provisions on co-operation between the Member States in this field. In particular, it provides for a procedure by which the Commission will intervene to resolve any differences of opinion between Member States. It also establishes a procedure for reviewing and amending the directive's provisions at least once a year in the light of scientific and technical advances.

The second directive, the first of those that are to supplement the outline directive, deals with dangerous substances and their classification. It also contains provisions governing packaging and labelling.

The Council referred these two proposals to the European Parliament and the Economic and Social Committee, which endorsed them in December 1965.

Two other supplementary directives are in preparation. They concern dangerous substances commonly used as the active principle in farm sprays and dressings, and the classification, packaging and labelling of such substances.

In addition, the Commission will shortly submit to the Council a proposal for a directive, in pursuance of Article 100 of the Treaty, on the approximation of laws and regulations relating to the manufacture, inspection and approval of components of tubular steel scaffolding. The object is that these components should be approved for use if they conform to a standard type. Standard types duly approved in one Member State will be recognized in all the other Member States. The approximation of national provisions governing the erection, dismantling, maintenance and use of such scaffolding will be dealt with in another supplementary directive.

Although it has not undertaken any study of a general nature, the Commission has also considered the question of fire risks. In almost all the current draft directives on the approximation of national legislation at Community level, particular attention was given to fire prevention. This was, for example, the case with the draft directives on cartridge-operated stud-drivers; dangerous substances and preparations—which include explosive and inflammable substances and preparations; electrical installations in premises where there is a danger of fire and explosion; cranes, hoists, etc.

254. With regard to industrial health, the Commission prepared a recommendation on the medical supervision of workers exposed to special hazards. This was endorsed by the European Parliament at its session of 14-18 June 1965, and by the Economic and Social Committee on 30 June 1965.

A special report, transmitted to the European Parliament on 29 October 1965, dealt with the action taken by Member States in response to the Commission's recommendation on industrial medicine ⁽¹⁾.

From the conclusions of the symposium on industrial medicine held on 3-5 June 1964 ⁽²⁾, three studies were prepared concerning:

- i) Regional centres and institutes of industrial medicine and their structure;
- ii) The status and role of the factory doctor;
- iii) The organization of industrial medical services for small and medium-sized firms (services shared by a number of firms).

These studies will be sent to the government experts, who will consider the possibility of using them as a basis for later measures in this field.

Another study by the Commission deals with protection against dangers to which certain categories of workers are exposed in operations involving the compression and decompression of air. This study served as the basis for a draft recommendation which will shortly be adopted by the Commission.

⁽¹⁾ See official gazette, No. 80, 31 August 1962.

⁽²⁾ See Eighth General Report, sec. 261.

In addition, as mentioned above in connection with industrial safety, a number of Community instruments, some of which have already been adopted while others are in preparation, concern working premises, dangerous substances and preparations, industrial medicine and medical inspections, health precautions on building sites, etc.

SOCIAL SERVICES

255. Further inquiries were made into the action taken on the Commission's recommendation to the Governments of Member States concerning the activity of social services with regard to workers who move from one Community country to another ⁽¹⁾. As a result, a document containing the Government's official replies regarding the action taken on the recommendation was published and distributed to interested parties in the six countries; this shows that the results have been broadly satisfactory. At its session of March 1966 the European Parliament adopted a resolution on the action taken by Member States in response to the recommendation. It expressed the wish that the Commission's new proposals regarding the European Social Fund be speedily adopted, so as to give a new impetus to the establishment and activities of social services.

The second Community programme of scholarships for in-service training in social services dealing with migrant workers has been completed, and a third programme is now being carried out.

Housing policy and family questions

256. On 7 July 1965 the Commission finally adopted a recommendation to the Member States on the housing of workers and their families who move from one Community country to another ⁽²⁾. The recommendation lists a number of measures that would improve the situation:

- i) Migration of workers should be taken into account in assessing present and future housing needs and making financial provision for housing schemes;
- ii) Direct or indirect discrimination should be abolished in accordance with the principle of equal eligibility for accommodation (Regulation

⁽¹⁾ See Eighth General Report, sec. 262.

⁽²⁾ See official gazette No. 137, 27 July 1965.

No. 38), and the housing conditions of migrant workers should be improved (with due regard to current national and international standards in this sphere);

iii) Financial co-operation should be established between the Member States in order to promote housing construction;

iv) Precise information as to actual housing conditions and possibilities in the host country should be made available to workers who have to move.

The recommendation has been widely distributed among government departments, trade and professional organizations and private bodies concerned.

In the field of family policy, a meeting with the Commission of representatives of the relevant ministries and professional and family organizations showed the similarity between certain family policy measures taken in the different Member States, particularly with regard to family allowances and collective services to help families in which the mother goes out to work.

In addition, a meeting for purposes of study and information, which was attended by the leaders of organizations that run hostels for young workers in the six countries, revealed existing needs, especially where young migrant workers are concerned.

Towards a Community policy on education and research

257. The Community's activities continued along the lines mentioned in the Eighth General Report⁽¹⁾. Although those activities whose development was dependent on joint political commitments have not yet advanced as expected, preparatory studies have been continued by the Commission so that decisions can be taken without any further delay. This applies to vocational training, the equivalence of diplomas, and technical and scientific research. In every field where the Commission is a free agent it has taken certain new initiatives. These chiefly concern collaboration with the universities, the programme of information for young people and adult education.

(¹) Secs. 264 to 270.

TRAINING

258. The adoption by the Commission on 5 May 1965 of two programmes to introduce a common vocational training system confirmed the long-term orientations which combine to form the foundations of a true common policy such as was foreshadowed in the previous report⁽¹⁾. Some of the objectives defined in these two programmes are rich in promise in this respect. They are in particular the alignment of training levels, the mutual recognition of diplomas, certificates and other qualifications, the adjustment of training programmes, the spread of appropriate training methods and aids and, finally, more and better training of instructors and organizers.

Although the crisis in the Community made it impossible to take the initial decisions to implement these programmes—the first rapid training programme for adults was sent to the Council on 30 June 1965—the Commission has continued to study them, particularly measures to further long-term aims. Plans have been drawn up to improve teacher training and facilitate recruiting of instructors; preliminary studies have been made for the gradual alignment of training levels, and the way is now clear for the Community to take certain definite steps.

259. As regards freedom of establishment, the Commission has continued its work on the mutual recognition of diplomas. This necessitates the confrontation of educational systems and levels⁽²⁾.

In two professions mutual recognition now appears to be feasible with study courses as they are, as these are sufficiently in line to permit freedom of establishment. The professions in question are: general medical practitioner (the training of specialists calls for a different solution, which is discussed below) and architect.

Experience has shown that where standards are not at present equivalent several solutions were possible, depending on the profession, at any rate in the immediate future. The most satisfactory solution is to achieve the maximum degree of co-ordination of study courses possible under Article 57. Where this does not involve any great changes in national

(¹) See sec. 238 above.

(²) See sec. 37(c) above.

legislation, a model course should be introduced which the Member States agree to impose as a minimum while remaining free to organize any further studies as they think fit. This is the method which, after much deliberation, is about to be adopted for agricultural engineers, pharmaceutical chemists, veterinary surgeons, opticians and dentists.

A second solution is to leave study courses as they are and, wherever divergences are too great, to arrange supplementary courses with a further examination of training period. This is the solution envisaged in the case of medical specialists. The relevant directives will be drawn up in the near future.

Finally, one other solution is possible: where the mutual recognition of diplomas appears scarcely feasible within the time limits proposed, a transitional arrangement is made in conformity with Title V of the general programme on establishment, and Title VI of the general programme on services. This generally consists in demanding both the diploma of the country of origin and an attestation that the person in question has practised the profession for a certain minimum number of years. This is the system likely to be adopted for the professions of engineer, chartered accountant and tax consultant.

260. The part played by the universities in training senior personnel and in cultivating and propagating ideas has naturally led them to concern themselves more and more with problems of European unification. Being aware of the importance of these developments, the Commission has endeavoured to encourage and in many cases to instigate them. Its co-operation with the universities has therefore gone on broadening. Several European documentation centres have been set up in faculties or institutes of law, economics or political science, and chairs have been founded. Many seminars have been organized, and more than 200 professors, assistant lecturers, and students preparing theses have been invited for individual one-week visits to the headquarters of the Communities. Sixty-five theses were submitted to the jury of the European Communities Prize, which was awarded in December for three works of great merit.

This action in university circles is accompanied by close co-operation with certain private bodies. The European Community Institute for University Studies keeps an up-to-date card index of studies and research work in

progress ⁽¹⁾. Two specialist organizations have also been established: the "Arbeitskreis für Europakunde" in Germany and the "Europe-Université" association in France. In Italy similar co-operation is going on with the "Società italiana per le Organizzazione Internazionale". In the other countries co-operation is developing directly with the universities and the European study institutes.

261. In 1965 The Commission granted from its own funds subsidies to a total of Bfrs. 915 000 to assist the inauguration of institutions and higher education courses with special emphasis on European questions.

Scholarships awarded annually by the Commission to students attending institutes of European studies amounted in 1965 to Bfrs. 789 000. It should be noted that although the constant increase in the number of candidates and institutes has obliged the Commission to allot ever greater annual amounts to scholarships (Bfrs. 496 500 in 1962, 587 000 in 1963 and 687 652 in 1964), these sums fall far short of what would be necessary to develop these activities on the scale desirable.

In 1965, 197 young university graduates spent training periods in the Commission's departments, as against 189 in 1964. In 1965 there were 663 applications for these three- or six-month training periods compared with 450 in 1964. They have been organized in such a way that the average number of trainees in Commission departments over the last two years has never been less than 74. The number of candidates has steadily increased but the possibility of new training posts is limited by the funds available.

262. Apart from the specific training and teaching activities listed above, the programme of youth information and adult education has also been pursued. Information activities with interested organizations have been stepped up in conjunction with the competent government departments in the Member States—"Europe Day" in the schools, European association of teachers, European civic education campaign, etc. In Belgium, for instance, the Ministry of Education has co-operated with the Communities

(¹) Bulletin No. 1 was published in 1964, No. 2 at the beginning of 1965 and No. 3 is in preparation.

in organizing three European Informations Days, each of which concerned more than 300 teachers of ethics and civics.

Among the most important events arranged in co-operation with the organizations themselves, we will mention the European congress of 25 000 members of young farmers' movements in Stuttgart. This example gives an idea of the growing interest of the younger generation in the future of the European Community, on which their own future depends.

The European Parliament has drafted a resolution for the establishment of a European Youth Office. The Commission is following with interest the Parliament's efforts to set up such an office, which would make an effective contribution to the training of young people in a European spirit.

SCIENTIFIC AND TECHNICAL RESEARCH

263. The demands of economic growth and international competition have led the Community institutions to take a growing interest in problems of scientific and technical research. This was all the more necessary since no decision could be taken in such matters without prolonged study.

Further to the Commission recommendation to the Council (25 July 1963), the Medium-term Economic Policy Committee on 5 March 1965 set up a working party on scientific policy, with whose studies the three Executives are closely associated.

As the Commission had been asked to consider what action should be taken on the French Government's memorandum⁽¹⁾, the Committee instructed the working party to study the problems involved in the elaboration of a co-ordinated or common policy for scientific and technical research and to propose measures for the inauguration of such a policy, with due regard to the possibilities of co-operation with other countries.

Initially the working party will endeavour:

- a) To draw up a balance sheet of scientific and technical research in the Member States and in the Community;
- b) To confront the programmes which exist in most of the Member countries;

(¹) See Eighth General Report, sec. 270.

- c) To study the problems directly linked with the integration process and which would be important from the scientific research angle;
- d) To make an inventory of the sectors in which applied research seems definitely inadequate.

The working party has sent to the Member States a detailed questionnaire on the scientific and technical research in progress, replies to which cannot all be expected until some time in the course of 1966. Without waiting for all this material to be assembled and in order that the first medium-term economic policy programmes should take account of scientific and technical research, the working party has submitted an initial interim report to the Committee. The time-limit within which the working party had to submit its report did not allow it to make complete studies both because of the difficulty generally experienced in assembling exact data in this field and because of the crisis in the Community.

However, at the stage reached there already exists sufficient material for well-founded assumptions as to the factual situation and that pointers to a research policy can therefore be found.

On the basis of the notes and information supplied by the working party, the Committee has included in the preliminary draft of the Community's first medium-term policy programme certain guide lines for scientific and technical research, which are incorporated in the chapter dealing with general courses of policy for the coming year.

On the other hand, although it has not yet been possible, for the reasons set out above, to take action on the proposal submitted by the French Government to the Council on 4 March 1965, the terms of reference of the scientific policy working party nevertheless cover many of the points put forward in the document. What the Commission can do in this matter depends very much on how far work in the Medium-term Economic Policy Committee has progressed.

264. An inter-Executive working party on scientific and technical research was set up in October 1965 with the following objects:

- a) To draw all useful lessons from the experience of the three Communities in the research field;

- b)* To help to define the principles and the guide lines of a common or co-ordinated research policy;
- c)* To co-ordinate the action of the three Executives within the Medium-term Economic Policy Committee and also vis-à-vis the competent international organizations.

This inter-Executive working party was mainly concerned with:

- a)* Matters brought up by the scientific policy working party of the Medium-term Economic Policy Committee;
- b)* Preparations for the three Executives to take part in the second OECD ministerial meeting on science held in Paris on 12 and 13 January 1966;
- c)* Use of the three Executives' funds for the studies made by the Medium-term Economic Policy Committee.

Outside the three fields described above, further steps have been taken in pursuance of Article 41 of the Treaty in regard to agricultural research. An account of them is given elsewhere (¹).

(¹) See sec. 204.

CHAPTER IV

THE ASSOCIATED AFRICAN STATES AND THE ASSOCIATED OVERSEAS COUNTRIES AND TERRITORIES

Institutions of the Association — Implementation of the Yaoundé Convention

265. The institutions of the Association, which were set up when the Yaoundé Convention came into force ⁽¹⁾ have continued their work. The Association Council held its second meeting on 7 April 1965. The Association Committee met on 2 April to prepare business for this meeting; it met again on 12 June to give effect to the decisions taken at the meeting.

Besides the decisions listed below, the Association Council finalized its rules of procedure and also agreed that meetings should be held in the usual place for EEC Council meetings (or possibly at some city in the Associated States). It approved the *modus operandi* of the secretariat, which had been submitted by the Association Committee. It took formal note of the resolution adopted by the Parliamentary Conference of the Association on 11 December 1964 ⁽²⁾ and referred it to the Association Committee.

In pursuance of Article 58 (2) of the Convention, the Association Council held a first consultation of the Associated States on Nigeria's request for association with the Community.

On 18 June 1965 the Committee expressed the hope that contacts and exchange of information between the Community and the Associated States within the framework of the Kennedy Round would be systematically continued.

266. The Parliamentary Conference of the Association held its annual meeting in Rome from 6 to 9 December 1963 ⁽³⁾. It examined the first annual report on the activities of the Association Council and adopted a resolution on the subject. The Conference also adopted two reports

⁽¹⁾ See Eighth General Report, sec. 317.

⁽²⁾ See Eighth General Report, sec. 317, and official gazette No. 218, 30 December 1964.

⁽³⁾ See official gazette No. 220, 24 December 1965.

on questions of finance—one on the financial arrangements of the Conference and the other on the operational accounts for 1964 and the estimates for 1966.

The Joint Committee, which was set up by the Parliamentary Conference with a view to ensuring the continuity of the Association's parliamentary activities, met three times: at Gisenyl (Rwanda) in March, in Berlin in July and in Luxembourg in September.

267. M. Hammes, the new President of the Court of Justice of the European Communities, was appointed President of the Association's Court of Arbitration, while M. Donner was appointed deputy judge.

FREEDOM OF ESTABLISHMENT AND FREEDOM TO SUPPLY SERVICES

268. The Committee considered that the best thing would be to adopt an overall solution, according to which each Associated State would remove all discrimination at a single stroke, by 31 May 1967 at the latest, with a view to putting nationals and companies of the six Member States on an equal footing without any need to list each kind of discrimination separately. By request of the Community, this point will be placed in the agenda of the next meeting of the Association Council.

DEVELOPMENT OF TRADE BETWEEN THE COMMUNITY AND THE ASSOCIATED STATES

Definition of the concept "goods originating in ..."

269. At its meeting of 7 April 1965, the Association Council noted that Council members were in agreement over the major part of the draft decision on the concept of "goods originating in...", submitted to it on 30 October 1964 (1). The Council therefore asked the Association Committee to take a decision for the implementation of this agreement.

The Committee took a decision to this effect on 22 April 1966; it will come into force on 1 July 1966 and leaves aside certain products on which no agreement was reached. The Committee also took a decision concerning methods of administrative co-operation.

(1) See Eighth General Report, sec. 324.

Removal of quotas and customs barriers

270. The institutions of the Association have on several occasions discussed what steps should be taken by Associated States and Member States for the removal of quotas and customs barriers in accordance with the provisions of the Convention.

In the case of tariffs, discussions were confined to certain increases of customs duties which have been introduced by the Associated States for revenue purposes, the general situation being unchanged since the Eighth General Report.

As regards the removal of quotas, there is nothing new to report as far as Member States are concerned. As for the Associated States, they have in general increased their quotas satisfactorily, although one or two of the measures they have taken are still being examined by the Association institutions.

Several Associated States have, moreover, made use of the opportunities offered by Article 6 (3) of the Yaoundé Convention, in order to protect their infant industries and certain agricultural products. Lastly, some of the Associated States—Congo (Léopoldville), Somalia, Rwanda, Burundi, Togo—which impose restrictions on imports for balance-of-payments reasons, have not yet made overall quotas available to the EEC. The problem is being examined by the Association institutions.

Volume of trade

271. The figures for the first nine months of 1965 give some interesting although fragmentary indications of the development of trade between the EEC and the Associated States. As can be seen from the table given below, the value of EEC imports from six of the Associated States is on the increase. There has been a certain stagnation in the case of imports from some of the other States. Exports from the EEC have on the whole remained steady. Before complete figures for 1965 are available, it is difficult to come to any conclusions or make any final judgment on these trends.

Probably, however, the fall in the value of certain imports can be attributed to a drop in the prices of products which make up a large proportion of them. Thus the price of cocoa on the world market fell from \$500 per

ton to \$300 per ton during the first half of 1965, whereas during the first six months of 1964 it had fluctuated between \$520 and \$500 per ton; the average price of coffee during the same period in 1965 was \$600 per ton, a drop of 30% on the first half of 1964.

Aids to production

272. The Community took formal note of the Associated States' five-year aid to production programmes. Of the eleven States mentioned in Article 26 of Protocol No. 5 to the Yaoundé Convention, Ivory Coast and Congo (Brazzaville) have decided to use the whole of their allocation—46.7 million and 6.4 million u.a. respectively—for diversification of their economy.

The other nine States (Cameroon, Central African Republic, Chad, Dahomey, Madagascar, Mali, Niger, Senegal, Togo), with a total of some 130m. units of account, are proposing to use about two thirds of this sum for aid to production, the amount spent on aid varying between 50 % and 75 % from State to State ⁽¹⁾. Out of the total of 183m. units of account provided for by the Convention, then some 88 million u.a., or 48%, will be spent on aid to production. Subject to future modifications depending on the movement of world prices, the production aid programmes are expected to spend 42m. units of account on price support and 46m. on structural improvement. The products which will benefit particularly are groundnuts, coffee, cotton and rice.

The Community decided upon nine instalments for the first year and drew up financing agreements representing a total of some 29m. units of account. Afterwards it decided upon six instalments for the second year and one for the third year. The appropriations for aid to production up to the end of March 1966 may be put at some 45m. units of account.

Efforts to improve agricultural structures will have to be continued over a number of years before it is possible to say whether or not they have been successful. The greatest difficulty is to reconcile the procedure laid down in the regulations of the European Development Fund with the exigencies of the farming calendar. The Commission is trying to solve the problem by working out more flexible procedures.

(¹) See Eighth General Report, sec. 326.

TABLE 22

Comparison of EEC trade with the Associated States for the first nine months of 1964 and 1965

('000 u.a.)

Associated States	EEC imports from the Associated States			EEC exports to the Associated States		
	9 mths. 1964	9 mths. 1965	As % of 1964	9 mths. 1964	9 mths. 1965	As % of 1964
Senegal	101 641	105 707	104	91 790	87 456	95
Mali	2 211	753	34	10 969	9 675	88
Mauritania	27 027	39 339	146	8 428	10 617	126
Ivory Coast	171 914	160 583	93	115 960	115 517	100
Dahomey	10 866	10 652	100	15 912	16 386	103
Upper Volta	3 254	11 607	49	13 028	13 575	104
Niger	19 759	16 866	86	11 389	12 379	108
Congo (Brazza.)	25 144	22 581	90	33 522	33 736	101
Gabon	62 207	64 085	103	23 524	26 167	111
Central African Republic	10 494	7 245	69	13 438	11 557	86
Chad	13 350	8 934	67	11 182	8 513	76
Cameroon	103 656	100 487	97	56 628	60 604	107
Madagascar	49 476	38 299	78	69 988	59 688	85
Togo	18 968	21 425	113	12 192	16 695	137
Congo (Léopoldville)	237 833	235 435	99	82 584	87 220	105
Rwanda } Burundi }	4 302	5 572	130	6 384	9 063	141
Somalia	13 909	21 832	157	13 081	12 134	93
Total	876 011	861 332	98	589 999	591 002	100
EEC world trade	33 092 958	35 588 879	108	30 945 328	34 764 934	112
Share of Associated States in EEC world trade (%)	2.6	2.4		1.9	1.7	

Stabilization of prices

273. Because of the difficult situation on the world cocoa market, the Community made a repayable advance of 6m. units of account to the Cameroon Cocoa Price Stabilization Fund. The advance is intended to support the price of cocoa in Cameroon in 1965/66. Up to 31 March 1966 it had not been used owing to an improvement in the market price of cocoa.

Accommodating the interests of the Associated States as regards agricultural products similar to and competing with European products

274. Some agricultural products have been the object of various measures listed below. These products make up a large proportion of the exports of some Associated States (Senegal, Mali, Niger, Dahomey, Togo, Congo (Brazzaville), Madagascar).

Manioc flour and starch. The "permanent system" to be applied to certain processed products, which was adopted by the EEC Council of Ministers on 15 March 1965 ⁽¹⁾, was referred to the European Parliament and approved by it on 12 May 1965. The Association Council was also consulted, and on 15 June 1965 ⁽²⁾ it approved Regulation No. 78/65, which came into force on 1 July 1965. The system confers upon the Associated States, countries and territories the same preference with regard to manioc products as the Member States accord to each other; in addition exemption from the fixed component of the levy up to certain quantities is allowed until 31 December 1966.

Oils and fats. The Commission's proposals ⁽¹⁾ are at present being studied by the Council. At its session of 14-18 June 1965, the European Parliament expressed itself in favour of the proposals, and was especially pleased with the measures envisaged to boost trade with the Associated States and with the financial aid which could be added to the aid already set aside for these products by the Association Convention.

Sugar. Accommodating the interests of the Associated States which export sugar is proving to be particularly difficult since any commercial preference granted by the Community countries can only be effective if there is a

⁽¹⁾ See Eighth General Report, sec. 327.

⁽²⁾ See official gazette No. 109, 23 June 1965.

demand for imports within the Community. The Community is studying ways and means of a partial solution to the problem.

*THE COMMUNITY AND THE ASSOCIATED OVERSEAS COUNTRIES
AND TERRITORIES*

275. As regards the definition of "goods originating in...", the agreement reached by Member States on 29 December 1964 enables the same definition to be applied to the Associated Overseas Countries and Territories (AOCT) as the one which is to be laid down for the purposes of the Yaoundé Convention.

The Commission has examined the tariffs in force in the Associated Countries and Territories submitted to it by the Member States responsible, as well as the list of other measures taken in pursuance of the Decision of 25 February 1964 ⁽¹⁾, and it has concluded that on the whole the measures taken have complied with the terms of the Decision. In the Netherlands Antilles, Surinam and the Comoro Islands, however, implementation of the Decision is still under consideration. As regards quotas, the Commission found that, with the exception of Surinam, where certain difficulties have still to be ironed out, the obligations contained in Annex II to the Decision had been fulfilled.

As for the volume of trade, the situation is the same as for the Associated States: figures are only available for the first nine months of 1965 and no valid conclusions can yet be drawn.

TABLE 23

EEC trade with the AOCT for the first nine months of 1964 and 1965

(in million dollars)

Origin and destination	1965		1964		% increase 1964 to 1965	
	Imports	Exports	Imports	Exports	Imports	Exports
AOCT	72	107	68	79	105	135

⁽¹⁾ See official gazette No. 93, 11 June 1964.

The Association and GATT

276. As regards the Kennedy round, the Commission assured the Associated States, which had for the most part been kept informed of the progress of the negotiations, that in accordance with the Yaoundé Convention they would be consulted as to the position the Community would adopt on products of interest to them.

A GATT working party met in Geneva in March and May 1965 to study the Association Convention between the EEC and the Associated African States, together with the arrangements for association between the EEC and certain non-European countries and territories having a special relationship with France and the Netherlands.

Representatives of the Associated States and the EEC said that the establishment of free-trade areas between the EEC and each of the States was already well advanced. Certain members of the Working Party thought that the two association agreements did not comply with Article XXIV of the General Agreement and were in fact only an extension of tariff preferences, contrary to the most-favoured-nation clause. They were doubtful whether the authors of Article XXIV had ever foreseen the possibility of creating free-trade areas between countries at such differing stages of economic development as the EEC and the Associated States.

Several members of the Working Party, however, expressed satisfaction at certain aspects of the Convention and some of the measures adopted by its signatories, mentioning in particular the fact that the Associated States retain complete freedom in their trade policy with regard to non-member countries.

These various opinions were set out in the Working Party's report, which was discussed at the twenty-third session of the Contracting Parties in March 1966. This closed the subject of the Association for GATT.

CO-OPERATION WITH THE ASSOCIATED STATES, COUNTRIES AND TERRITORIES IN VOCATIONAL TRAINING

Scholarships

277. During the 1964/65 academic year, 1 350 scholarships were taken up, as against 713 during the preceding year. This considerable increase

in training facilities was made possible by the fact that the amount available from the Commission's budget (a million units of account) was supplemented by a grant from the European Development Fund (2 700 000 units of account), according to the provisions of the Association Convention (Articles 17 and 24 of Title II: Financial and Technical Co-operation, and Article 9 of Protocol No. 5 concerning the administration of financial aids).

After examination of results at the end of the academic year, 904 scholarships were renewed for the completion of training schemes already in progress.

More than 1 900 new applications for scholarships for the year 1965/66 were made to the Commission by the governments of the Associated States. After selection among the applications 898 new scholarships were awarded.

The programme for the 1965/66 academic year thus amounts to 1 800 scholarships (including renewals), financed out of the million units of account from the Commission's budget and 3 810 000 units of account from the EDF.

The proposed distribution of scholarship-holders among the training establishments which has been arranged by specialized bodies in the different Member States is as follows:

- i) in the Member States: Belgium 18.1%, France 20%, Germany 17.2%, Italy 13.8%, Luxembourg 0.1%, Netherlands 8.6%—a total of 77.8%;
- ii) in the Associated African States: Cameroon 5.6%, Congo (Brazzaville) 3.6%, Congo (Léopoldville) 0.1%, Dahomey 0.7%, Ivory Coast 4.9%, Madagascar 0.8%, Mali 0.5%, Niger 0.1%, Senegal 0.7%, Upper Volta 2.3%—a total of 19.3%;
- iii) in non-member countries 2.9%.

Scholarships are thus distributed fairly evenly among the Member States, and there has been an increase in the number of scholarship-holders undergoing training in establishments in the Associated African States (19.3% compared with 16% the year before). This last point is in accordance with the desire of both the Commission and the Associated States to make the best use of the facilities available for training on the spot. In this context it will be recalled that last year, besides those attending African educational establishments, some of the scholarship-holders followed special

courses organized at the request of the Associated States' governments for the purpose of training which will make it easier to select candidates for fulltime scholarships later on. By 1 December 1965, 173 scholarships had been awarded for such subjects as accountancy, elementary economics and the problems of development and co-operation. This scheme, though not expensive to run, requires very careful preparation and supervision, and is being carried out with the help of specialized organizations.

In order to strengthen co-operation with the Associated States in the field of training, the Commission is at present studying ways and means of helping in the training of the staff and personnel necessary to run some of the EDF's economic and social infrastructure schemes.

It is in the process of organizing studies on the kind of employment available in some of the big public enterprises in the Associated States and the sort of skills and training programmes which it involves.

Traineeships

278. Two courses of five months were held for trainees during 1965, as part of the traineeship programme for nationals of the Associated African States. Sixteen trainees attended these two courses. A new course for seven trainees began on 15 February 1966.

Short training courses

279. Between 1 April 1965 and 31 March 1966, 32 seminars were organized in Member States, and they even included a number of English-speaking Africans. At the request of several organizations, conferences were held at study-weeks and seminars such as those arranged by the Council of Europe. Four seminars were held in Africa. Five numbers of the "Courrier de l'Association" have appeared since 1965.

EUROPEAN DEVELOPMENT FUND

The first Fund

280. During 1965 the Commission and the Council approved the financing of seventeen projects from the First European Development Fund at a total cost of 26.4m. units of account. The last seven financing decisions were taken at the end of July; thus by that date the total resources of the first Fund had been committed—581 250 000 units of account in all.

Table 24 shows the figures for commitments broken down according to beneficiary country. These sums are in fact ceilings, since in order to allow the first Fund to be wound up, it was necessary to give each country an overall ceiling as well as ceilings per project. The result is that within the limits of these ceilings, excess expenditure on a particular project can only be authorized in cases where it is offset by an equivalent saving, either on the same project, or on a different project in the same country.

A breakdown of the first EDF by sectors of activity shows that 44.4% of the Fund's resources were spent on transport and communications, 18% on agriculture, 17% on education, 9.9% on water engineering and housing, 8.9% on public health, 0.6% on industrial production and energy and 1.2% on technical assistance and general surveys.

The second Fund

281. The year 1965 was marked by the activity of the second EDF, a creation of the Yaoundé Convention, which endowed it with 730 million u.a. to which are to be added 70 million u.a. to be provided by the European Investment Bank from its own resources.

A year after the entry into force of the Yaoundé Convention on 1 June 1964, the Commission had approved 61 projects to be financed by the second Fund to a total of slightly more than 137m. units of account. Thus by the end of the first year the Commission had achieved its aim of getting the second Fund into its stride, its commitments running at one fifth of total resources.

At the end of March 1966 there is every reason to expect that the second year will proceed at the same tempo. The total commitments of the second EDF which have been approved by the Commission since its inception amount to 240 million u.a. for 111 projects. To these should be added a decision in respect of more than 6 million u.a., which is the first step taken to implement the Yaoundé Convention's provisions for price stabilization.

Furthermore the Commission is following a schedule which should result in the second EDF's commitments, taking into account two meetings of the European Development Fund Committee in March and May, being

TABLE 24

First EDF

Commitments shown according to beneficiary country

('000 u.a.)

Beneficiaries	No. of projects	Ceiling of commitments at 31.12.65.	Expenditure up to 31.12.65.
<i>A. Associated States</i>			
Burundi	11	4 921	2 763
Cameroon	27	52 796	24 786
Central African Republic	27	18 217	6 569
Congo (Brazzaville)	18	24 622	16 430
Congo (Léopoldville)	16	19 617	7 506
Ivory Coast	19	39 662	24 600
Dahomey	18	20 777	9 203
Gabon	15	17 780	10 985
Upper Volta	13	28 233	15 853
Madagascar	40	56 265	37 146
Mali	25	41 953	26 253
Mauritania	11	15 379	10 280
Niger	8	31 291	13 497
Rwanda	10	4 946	3 107
Senegal	24	43 834	25 546
Somalia	6	9 912	6 872
Chad	19	27 924	20 256
Togo	18	15 935	8 345
Total A	325	474 064	269 997
<i>B. Associated countries and territories, French overseas departments</i>			
Algeria	9	25 319	6 058
Netherlands Antilles	9	11 258	—
Comoro Islands	7	3 077	2 367
French Somaliland	2	1 199	846
Guadeloupe	5	4 491	1 912
French Guiana	1	1 863	1 657
Martinique	4	6 720	3 384
New Caledonia	5	2 167	467
Netherlands New Guinea	4	5 185	4 045
French Polynesia	1	4 261	—
Reunion	5	8 861	2 030
St. Pierre and Miquelon	1	3 545	2 200
Surinam	9	15 691	2 783
Total B	62	93 637	27 749
<i>Total A + B</i>	387	567 701	297 746
<i>Technical Control, etc.</i>	—	13 549	8 231
First EDF Total	387	581 250	305 977

Beneficiaries	Economic and social investments	Aid to diversification	Aid to production
<i>A. Associated States</i>			
Burundi	320	2 200	—
Cameroon	11 019	749	4 372
Central African Republic	5 262	—	3 668
Congo (Brazzaville)	3 403	4 420	—
Congo (Léopoldville)	6 445	—	—
Ivory Coast	211	34 814	—
Dahomey	2 479	—	1 027
Gabon	—	—	—
Upper Volta	1 467	—	—
Madagascar	31 913	284	8 552
Mali	4 435	41	1 195
Mauritania	10 092	1 357	—
Niger	6 272	—	2 030
Rwanda	900	4 448	—
Senegal	514	1 025	19 528
Somalia	6 419	—	—
Chad	18 228	—	2 985
Togo	1 013	—	991
<i>B. Associated countries and territories, French overseas' departments</i>			
Netherlands Antilles	3 065	—	—
Comoro Islands	223	—	—
French Somaliland	606	—	—
Guadeloupe	375	—	—
Surinam	—	—	—
Aid not distributed	—	—	—
Grand Total	114 661	49 338	44 348

(¹) This refers to the part of the two overall amounts (5m. and 4m. units of account) which have not yet been used by the EDF's principal Certifying Officer to finance surveys or supervision of works.

February 1966

(*'000 u.a.*)

Technical assistance linked with investment	General technical co-operation	Emergency aid	Total	Advances to Price Stabilization Funds
1 473	—	—	3 993	—
165	—	—	16 305	6 076
794	150	—	9 874	—
290	—	—	8 113	—
418	1 506	—	8 369	—
28	—	—	35 053	—
473	2	—	3 981	—
2 378	—	—	2 378	—
1 108	30	—	2 605	—
785	66	—	41 600	—
957	—	—	6 628	—
35	—	—	11 484	—
345	—	—	8 647	—
1 246	15	—	6 609	—
81	—	—	21 148	—
458	1 068	1 850	9 795	—
969	—	—	22 182	—
633	—	—	2 637	—
—	—	—	3 065	—
154	—	—	377	—
16	—	—	622	—
—	—	—	375	—
188	—	—	188	—
5 424 ⁽¹⁾	8 557 ⁽²⁾	—	13 981	—
18 418	11 394	1 850	240 009	6 076

This consists mainly of the overall totals allocated under the heading of scholarship, traineeship, seminar and information programmes which it is not possible to break down as between the beneficiary States and countries.

raised to a total of some 270 million u.a. for 130 projects and programmes by the beginning of June 1966, i.e. by the end of the second year's operation of the Yaoundé Convention.

The European Development Fund Committee is the hub of all this activity. It advises the Commission on all the second EDF's financing proposals. The European Investment Bank takes part in its work, and also an observer from the Councils' General Secretariat.

By 31 March 1966 the Committee had held fifteen meetings since it was set up, and another meeting was scheduled before June 1966.

In general it can be said that the EDF Committee has been successful in its aim of enlisting experts from the Member States in the work of the Commission. Out of 121 financing decisions taken by the Commission by the end of March 1966, the Committee's support was unanimous in 116 cases, and in the remaining five cases it voted with a weighted two-thirds majority.

Table 25 gives a breakdown of the second EDF's commitments among the different beneficiary States, countries, territories and departments, at the end of February 1966.

The geographical distribution of operations for such a short period (22 months) is of course no indication of the final distribution as it will appear at the end of the five years covered by the second Fund. For the first year, the Commission merely made sure that each of the eighteen Associated States should benefit from at least one new EDF financing decision.

Naturally, all thirty beneficiaries cannot be on the same level at any given moment. But the Commission is trying in the course of the Association's five-year programme, where necessary by providing the appropriate technical assistance, to make up for any delays or inequalities which may temporarily hamper countries that have been unable to present their projects in proper form and in good time.

The breakdown into sectors of activity, though it does not necessarily foreshadow the complete final picture, is, however, more revealing, since it shows from the outset that the second EDF is unlikely to resemble the first.

In the first place it is no longer confined to economic and social investments, but included agricultural and industrial diversification schemes, production aid programmes, projects for technical assistance linked with investment and finally programmes for general technical co-operation comprising scholarships traineeships, seminars and even emergency aid in the event of natural disaster in any of the Associated States. There are few aid organizations which cover such a wide field.

Furthermore, the whole orientation of the second EDF seems to be rather different. The first EDF was more an engineers' and architects' fund than an agronomists' one, since its chief aim was modernization of the infrastructure, with development of production a long way behind. The new trend emerges from statistics available for the second EDF, although it is impossible to draw any definite conclusions over such a short period. Even without counting agricultural price support, which is not in itself an investment operation, it can be seen that measures to boost agricultural and industrial production make up the major part of the Fund's activities (50% as compared with 19% in the first Fund), whereas modernization of the social and economic infrastructure, without being in any way neglected, only represents 49% (as opposed to 77% in the first EDF).

Since only the States and countries who are beneficiaries of Community aid are entitled to submit projects and programmes for financing by the EDF, the Commission can only work at the rate at which new applications are submitted. The rapidity with which the Commission can make financing decisions thus depends on the number of applications it receives and on the care and accuracy with which they are prepared.

The Commission now has a large enough number of projects before it to enable it to make a reasonable choice among them after careful examination. By 1964 the rate at which new files were being submitted had already speeded up, and the Commission had received 67 applications totalling an estimated 180m. units of account. The pace increased in 1965, and the Commission has received 224 new applications representing more than 315m. units of account.

Unfortunately, the quality of the files submitted is still very uneven. Few of them are sufficiently carefully prepared to permit an immediate decision. The Commission is obliged to spend a long time examining them to check

their basic economic and technical data and in some cases actually to make them into presentable projects which can be opened to tender and put into execution.

Thanks to the possibility of pre-investment aid, the Commission is able to assist Associated States' governments in putting their applications to the EDF into proper form. In 1965 it drew up and obtained the signature of these governments for 100 contracts with consulting-engineering firms for surveys totalling 7.9m. units of account. The effect of this technical aid will be felt during the next few years, since the surveys will make it possible for financing decisions to be taken with all the facts available, and for projects to pass rapidly to the stage of invitation to tender. It will also mean that the Commission and the beneficiary countries themselves will be spared the unpleasant surprises and unsatisfactory results inevitable when a project is carried out in a improvised fashion.

The execution of work financed by the EDF has also got well into its stride; between the date when the Fund was set up and 31 December 1965, the Commission had called for 462 tenders for 303 projects totalling 427m. units of account. By the same date it had signed 1 476 contracts and accepted 118 estimates to a total of 450m. units of account.

The payments situation reflects the rate at which projects are carried out. Whereas for the whole of 1964 the total payments made by the EDF came to 84 million u.a., payments made during 1965 total 105 million u.a.—84 millions from the first Fund and 21 millions from the second. Thus the forecast made in the Community's Eighth General Report that the level of effective payments in 1965 would be in the region of 100 million u.a. has proved correct.

Allowing for the usual time-lag between commitment and payment, it can now be estimated that for the next eight years at least, the contribution of the European Community to the economic and social development of the 31 associated overseas states, countries, territories and departments will remain at an annual level of over 100m. units of account.

As in 1964, the improvement in the situation as regards the execution of work—meaning that a point can be reached where payments keep pace with new commitments—was largely due to the technical assistance

provided by the Commission. Though the rule remains that governments of the beneficiary countries must assume responsibility for carrying out the projects—the Commission being against turnkey projects—this does not mean that the governments in question cannot be provided, if they so request, with the necessary teams of engineers, architects and agronomists to supplement local technical staff in order to ensure adequate supervision of work financed by the EDF. Expenses under this heading since the EDF set up total 10m. units of account.

The foregoing considerations on the management of the Fund were set out more fully in a report sent by the Commission to the Association Council at the beginning of October 1965. Article 27 of the Yaoundé Convention stipulates that the Association Council “shall lay down the general pattern for financial and technical co-operation within the framework of association, more particularly in the light of an annual report to be submitted to it by the organ responsible for administering the Community’s financial and technical aid”.

The Commission’s first report discusses the situation of the two Funds, the difficulties encountered and the problems to be overcome. In conclusion it mentions the possibility of considering new patterns or suggestions for the future, a subject which might be taken up in a debate in the Association Council, which is due to meet in Tananarive in May 1966.

RESEARCH ON THE ASSOCIATED STATES

282. *General documentation.* In order to assemble in standard form the statistical data collected for the Associated African States (¹), a collective report has been drawn up, prefaced by a general commentary. It will be brought up to date at regular intervals.

A study has been made on public and private investment in the countries concerned, with special attention to its effect in increasing incomes.

Besides this, a general survey has just been completed on the development of trade between 1957 and 1964.

(¹) See Eighth General Report, sec. 336.

SPECIAL PROBLEMS OF INVESTMENT AND MOVEMENT OF CAPITAL

283. a) The Commission has made a comparative digest of investment regulations and legislation in force in the Associated States at 31 December 1965, including amendments and modifications up to that date. It will be brought up to date each year and will give a clearer picture of recent measures taken in the Associated African States to encourage the inflow of private capital. In the same context the study on practical problems which may arise in certain circumstances in establishing guarantees for private investments against non-commercial risks has been concluded ⁽¹⁾.

b) Several studies have been made on ways and means of implementing Article 37 on the treatment of investment in the Associated States and the resulting movement of capital.

c) Finally, the Commission has still under consideration two other matters connected with investments: the developing countries' foreign debts, and their budget problems in relation to the European Development Fund.

284. *Progress of industrialization in the Associated African States.* The programme of studies launched on 1 October 1965 deals with possibilities of industrialization in the sectors of durable and non-durable consumer goods. The method of approach adopted has been "import substitution", which allows an estimate of the actual and potential size of the market for many local products in relation to existing import patterns and probable future trends.

The studies will highlight projects which can only be realized on a multinational basis in the near future because of insufficient national demand and the minimum scale of manufacture imposed by modern technology.

As a preparatory step a survey has been made of consumer goods imports into the Associated States, together with an inventory of the industries already established there.

285. *Stepping up trade by sales promotion for products originating in the Associated African States.* At the request of the European Parliament and the Governments of the Associated States, the Commission has under-

(¹) See Eighth General Report, sec. 336.

taken certain studies by way of experiment, with a view to supplementing traditional measures of tariff policy by a wider programme of trade promotion. In particular the aims of the studies are:

a) To find out and list in order of importance the obstacles (whether technical, qualitative or psychological) to an increase in exports of certain products of the Associated States, from the standpoint of both traders and consumers.

b) To define measures to be taken by the Associated States and by the Member States and the Commission to ensure that the Associated States gain a wider share of Community markets.

In the case of tropical fruit, studies on the banana are designed to meet the present-day concern to promote trade in this important product. A study on promotion of the pineapple was also begun in February 1966.

At the same time subjects were chosen for special studies on some widely used tropical products (coffee and cocoa in particular) with a view to improving the exploitation of their nutritional and technical characteristics.

In addition, the study on tropical oils in the EEC, parts of which have already been published, has now been completed, except for the economic section on prospects for consumption in the EEC.

CHAPTER V

ASSOCIATION OF EUROPEAN COUNTRIES WITH THE COMMUNITY

Greece

286. The EEC-Greece Council of Association has held five sessions since April 1965, two of them at ministerial level.

Discussions continued on the harmonization of EEC and Greek agricultural policies. The Council of Association instructed the Association Committee to report back to it after further study of the files on this question.

Meanwhile the system governing Greek agricultural products, which was to have lapsed on 12 November 1965, was extended until 30 June 1966.

The Council of Association also reviewed progress towards a common policy for tobacco, which, by the terms of Protocol No. 16, was not to be established or modified without its approval during the first two stages of the Rome Treaty.

The Council of Association adopted its second annual report to the Joint Parliamentary Association Committee. It also approved:

- a)* A decision fixing at 65% the proportion of the common customs tariff to be taken into consideration in determining the levy on goods produced in Greece (Article 8 (1) of the Association Agreement);
- b)* A decision raising the number of members of the Parliamentary Association Committee from twenty-eight to thirty;
- c)* A decision fixing at 30% the proportion of the common customs tariff to be taken into consideration in determining the levy on goods produced in Community countries and not subject to the extended tariff dismantling system (Article 8 (1) of the Association Agreement); and at 100% the common customs tariff to be taken into consideration in determining the levy on Greek petroleum products (Article 8);

d) A recommendation to Greece under Articles 10 and 65 of the Association Agreement concerning methods of avoiding any deflection of trade which might be caused by certain quotas. In pursuance of Article 26 (6) of the Agreement, the Community and Greece have agreed to the following import quotas for four non-liberalized products or classes of products, none of which were imported into Greece from the Community during the first year of the Association Agreement:

TABLE 26

Greek tariff No.	Product	Quota
12 01 D	sesame	200 tons
ex 13 01 C	vallonia	100 tons
13 02 D 1	olibanum or incense and incense blends	10 kg
25 16 A	Malta stone	400 tons

e) A recommendation to Community Member States and Greece under Article 65 of the Association Agreement, concerning export regulations to be applied to non-member countries in the case of certain kinds of ash and waste of non-ferrous metals and arrangements for administrative co-operation between Community Member States and Greece in order to permit trade in these products in pursuance of Protocol No. 6. So that removal of restrictions on the export of these products from the Community to Greece should not involve any deflection of trade or other economic difficulties, the Council of Association recommended that Greece should to some extent cut down its exports of them to non-member countries, and that the Community and Greece should give each other every possible administrative assistance in this matter.

Finally, at a Council meeting, the representatives of Member States' Governments decided to fix at intra-Community level the duties on Greek

wines imported into Germany for processing until 31 December 1965 and for a quota of 30 000 hl.

The Community agreed to collaborate in surveys for an industrial development pole in Greece and undertook to defray part of the costs.

Greece said it was willing to consider the possibility of raising the 1965 bauxite quota for Member States from 450 000 tons to 475 000 tons. Licences already granted have even exceeded this amount.

Greece also completed the list of liberalized and bound products as required by Article 23 of the Athens Agreement.

287. The Customs Co-operation Committee held its third and fourth meetings in Brussels on 14 June and 19 October 1965. On its agenda were questions concerning the customs treatment of goods re-imported after being temporarily exported for processing, finishing or repair, the issue of new movements certificates for packaged goods, arrangements for administrative co-operation, goods produced in the circumstances mentioned in Article 8 of the Agreement, as well as the first alignment of the Greek tariff towards the common customs tariff, which took place on 1 November 1965.

288. The Joint Parliamentary Association Committee held its fourth and fifth meetings from 15 to 17 July in Berlin and on 14 and 15 October 1965 in Naples.

Following the Berlin meeting and after examining the Council of Association's second annual report, the Committee unanimously adopted a recommendation expressing its satisfaction with the progress of trade between the Community and Greece and urging the Council to harmonize Greek agricultural policy with that of the Community. The European Parliament endorsed this recommendation in a resolution of 23 November 1965 ⁽¹⁾.

At the Naples meeting many aspects of the Association's progress were discussed.

⁽¹⁾ See official gazette No. 209, 11 December 1965.

The European Investment Bank, in pursuance of the financial Protocol to the Athens Agreement, made arrangements for co-operation with the Greek Bank for Industrial Development.

Since 1 November 1965, industrial goods from the Community, with the exception of those listed in Annex I (for which tariff dismantling is to take 22 years), and also the agricultural products included in Annex III, have been imported into Greece at duties 30% less than those operating when the Association Agreement came into force. For ham, cheese and butter (Protocol No. 13) the reduction has been 10% or 20% since 1 May 1965.

On its side, since 1 January 1966 the Community has accorded imports from Greece a reduction of 80% of the original duties for industrial goods and 60% or 65% (depending on whether they have been liberalized or not) for the agricultural products listed in Annex III to the Agreement.

In the case of two other products which make up the bulk of Greek agricultural exports, tobacco and dried grapes, the tariff reductions on imports to the Community are respectively 70% and 90%. Following a Council decision of 22 March 1966, reduction of the original duty on tobacco will be 75% by 1 July 1966 and 80% by 1 January 1967.

On 1 November 1965 Greece made a first alignment of its customs tariff towards the common customs tariff for goods whose duties are to be dismantled over 12 years (Article 20 (1) for industrial goods and Article 38 (1) for the agricultural products listed in Annex III).

Turkey

289. The EEC-Turkey Council of Association held its second and third sessions at ministerial level on 27 July 1965 and 23 March 1966.

At its second session the Council of Association examined the working of the association system and took note of the extent to which Turkey had made use of the quotas opened to it in 1964 and the first half of 1965.

On 20 December 1965, the Council of Association decided to raise the Community's annual quotas for imports of Turkish tobacco, dried grapes

and dried figs ⁽¹⁾ from 1 January 1966 in accordance with Article 4 of the Protocol. The quotas have been fixed as follows:

a) 24.01 — unmanufactured tobacco; tobacco refuse ⁽²⁾	
Belgo-Luxembourg	1 375 tons
Economic Union	
Germany	7 500 tons
France	2 550 tons
Italy	1 500 tons
Netherlands	690 tons
b) ex 08.04 — Dried grapes (in packages of up to 15 kg)	
Belgo-Luxembourg	3 575 tons
Economic Union	
Germany	10 725 tons
France	3 080 tons
Italy	8 470 tons
Netherlands	7 150 tons
c) ex 08.03 — Dried figs (in packages of up to 15 kg)	
Belgo-Luxembourg	924 tons
Economic Union	
Germany	5 500 tons
France	7 700 tons
Netherlands	176 tons

Under the financial Protocol to the Ankara Agreement, the European Investment Bank signed on 25 May 1965 the first financing agreement for an infrastructure scheme. The sum involved is 5 000 000 units of account and is intended for the hydroelectric power-station near Lake Kovada. Other schemes are being considered, including the Keban dam.

Two other agreements have been signed for industrial projects involving 1 690 000 units of account.

The Council of Association has been studying the manpower problem in Turkey and has instructed the Association Committee to continue this study in the light of the Turkish Delegation's report of 27 July 1965 and the arguments which were put forward at the time.

⁽¹⁾ Hazelnut quotas were not affected by this decision.

⁽²⁾ In respect of these quotas, Turkey will be granted two new tariff reductions of 5% on 1 July 1966 and 1 January 1967 respectively.

Lastly, the EEC-Turkey Council of Association decided to set up a Parliamentary Association Committee consisting of fifteen members of the Turkish Grand National Assembly and fifteen members of the European Parliament, in accordance with Article 27 of the Association Agreement and following the European Parliament's resolution of 14 May 1965 and the Turkish National Assembly and Senate's decisions of 22 June and 14 July 1965 respectively.

At its third session the EEC-Turkey Council of Association approved its first annual report to the Parliamentary Association Committee.

CHAPTER VI

EXTERNAL RELATIONS

The Kennedy round of trade negotiations in GATT

290. The negotiations have been energetically pursued; activity was particularly intense from March to August 1965 and was resumed at the beginning of March 1966. The results cannot yet be expressed in precise terms of undertakings, decisions and agreements—which in any event can only emerge at the final stage; nevertheless, considerable progress has been made.

The partners in the talks have studied closely the terms of each problem, displaying great efforts of mutual information and understanding. Although on many points the basic positions are still firmly entrenched, in many cases it is already possible to see the way clear towards a compromise.

A report published at the end of 1965 by Mr Wyndham White, Director-General of GATT, analyses various problems in their present shape, and also suggests steps towards their solution.

On 21 January 1966, in accordance with the desire expressed by the Council at its session of 25-26 October 1965, the Commission forwarded to the Council a detailed analysis of the state of the negotiations, by product and economic sector.

The situation regarding disparities has remained as described in the Eighth General Report, ⁽¹⁾ but technical work has continued with a view to finally settling the disparities issue and negotiating on particular sectors. For instance, a draft comparative table of the customs tariffs of the European Communities, the United Kingdom and the United States has been drawn up by the Commission in collaboration with experts of the Member States. Although it has not yet been approved by the experts of the non-member countries concerned, this table will enable the

(¹) See Eighth General Report, sec. 274.

negotiators to obtain a synoptic view of the numerous questions of tariff concordance which have arisen in the past and will no doubt arise in the future.

In the period under review, the developing countries participated more actively, notably through an examination similar to the justification procedure ⁽¹⁾ which took place between industrialized countries. This examination enabled the developing countries to put forward their case with regard to products of concern to them on the exceptions lists. The conclusion of the examination procedure also initiated a phase of bilateral talks.

291. In the industrial sector, bilateral talks continued. The Community delegation, in conjunction with each of its partners in the negotiations on linear reductions, studied the interest affected on either side by the lists of exceptions, which were examined product by product. Together with the European countries likely to benefit from application of the "European" clause provided for by the Council with regard to invocation of disparities, the delegation sought the data necessary for assessment of the nature and extent of the interest affected. This bilateral exploration phase can be considered closed, except for settlement of a few technical details. The information thus acquired was examined for possibilities of reconciling the interests of the Community with those of its European partners. The Community indicated that it might refrain from invoking disparity in respect of some products already; in other cases, it was impelled to declare that its interests required recourse to the disparity rules, and the parties concerned were notified accordingly. Between these two extremes lies a large range of products regarding which the Community reserved its final attitude pending, in particular, the multilateral solution of problems in certain major sectors.

On the multilateral plane, activity was all but suspended. Nevertheless, talks were held in which the sectors where a multilateral effort was essential for progress were precisely and unanimously determined. The Contracting Parties designated chemicals, cotton textiles, steel, non-ferrous metals and paper as branches for examination, within the specialized

(¹) See Eighth General Report, sec. 275.

groups, by all the countries interested. A programme was drawn up for drafting the necessary proposals and obtaining the necessary data for conducting serious talks in the near future on these key points of industrial bargaining.

292. At its meeting of 4-5 April 1966, the Council examined all the main questions of the present negotiations. It worked out directives to enable the Commission to continue or resume the talks at Geneva on some of these questions, including chemical products and aluminium. On this occasion the Council stressed the importance it attaches to a satisfactory settlement of the problems raised by the American selling price.

The Council held a lengthy exploratory discussion of two important matters—paper and paper pulp, and the negotiations for a world agreement on cereals. This will help to establish the standpoints which the Community may take on these matters at Geneva.

293. In the agricultural sector, however, it was on the multilateral plane that activity was most brisk. The decisions taken by the Trade Negotiations Committee on 18 March 1965⁽¹⁾ have proved effective; they enabled negotiations to get under way in a practical manner. Each advance made leads to another and the situation takes clearer shape.

Thus the eight parties mainly concerned in trade in cereals tabled their proposals on 17 May 1965 for a general arrangement in this sector. The parties in question are the EEC, the USA, the UK, Canada, Australia, Argentina, Japan and Switzerland. These proposals were given initial consideration in the Cereals Group from 10 to 19 June 1965. The positions put forward were discussed under four main heads:

i) Internal policy and access to the market. Exporters certainly felt that internal policies called for review. As regards the Community, they asked that binding of support levels, though considered to be constructive, should be supplemented by further pledges to enable this binding to have the desired effects for maintenance of trade flows;

ii) Internal prices. In general the participants expressed a preference for a system of price brackets, i.e. minimum and maximum prices to be observed in trade;

(¹) See Eighth General Report, sec. 274.

iii) Security of supply. The exporting countries would agree to give supply guarantees in exchange for undertakings by the importing countries on a minimum price;

iv) Treatment of surpluses and non-commercial disposal in the form of food aids. The participants saw in this a secondary aspect of the general arrangement which would promote a balanced market, under conditions which must be duly defined and calculated.

After this first session, the Cereals Group held meetings for five weeks, during which it studied a number of technical points and factual data. A great deal of essential information was gathered together.

On 28 March 1966, the Commission forwarded to the Council a memorandum containing its proposals for the general arrangements for cereals.

On 3 May 1965, the Committee on Agriculture laid down procedures for implementing the decisions of 18 March regarding "other agricultural products". Thus, from 10 May to 15 June this Committee, working through various Groups, made an extensive confrontation of agricultural policies by classes of product, in order to single out the elements of support and protection for discussion which might arise in the negotiations and to ascertain the nature and content of the participants' offers.

This exercise revealed the magnitude of the support system in all countries, including the major exporters. Generally speaking, the participants were very evasive regarding the nature of their offers. Only the EEC indicated each time, referring to the general lines of its agricultural policy, the nature and scope of the commitments they implied with regard to protection and support.

The practical object was to provide the participating countries with the data they required for making concrete offers on agricultural products on 16 September 1965. The Community was not able to attend the meeting at which this took place. Owing to the absence of an offer by the Community, an essential partner to the negotiations, the other delegations at the meeting were reserved regarding the continuation of talks in the agricultural sector. Nevertheless, the Groups on Meat and Dairy Products met in November to draw up the list of operations and information required before negotiations could be opened on these products.

294. Non-tariff barriers retain all their potential value as an element in striking a final balance of concessions and advantages between the partners. The bilateral talks have demonstrated that some of these barriers can best be tackled by treating them along with the product or sector concerned. In other cases, a solution should first be sought in bilateral discussions between the country affected and the country responsible. Finally, when the obstacle in question derives from a more general policy and concerns neither a particular country nor a particular product, a multilateral effort will be made to find a solution. In this context discussions took place in a Working Party set up to define effective rules for anti-dumping policy.

Common commercial policy

GENERAL PRINCIPLES AND MANNER OF IMPLEMENTATION

295. In accordance with the wishes of the European Parliament, the Commission put before the Council various proposals to stimulate implementation of the Action Programme regarding the common commercial policy of 25 September 1962. Three proposed regulations were submitted concerning:

- i) Establishment of a common liberalization list for imports from non-member countries;
- ii) Gradual establishment of common procedure for administering quotas for imports into the Community;
- iii) Protection against non-EEC dumping practices, bounties or subsidies.

296. *Liberalization.* The liberalization measures taken by the Member States in the last few years constitute progress towards the aim laid down by GATT, i.e. complete liberalization of imports, and also towards the standardization of liberalization systems provided for in the Treaty of Rome.

Up to now, the Member States have been solely responsible for this development. However, the Commission has also taken important measures. For instance, in February 1963 it addressed to all the Member States except Germany a recommendation that liberalization systems vis-à-vis the member countries of the former OEEC should be standardized.

The Member States did not feel prepared to give immediate effect to all the proposals, but they did act on some of them. Hence the Commission deemed the moment had come to propose to the Council a regulation on the establishment of a common liberalization list for imports from non-member countries. This proposal was based on Article 111 of the Treaty, and on the Action Programme, which provides for establishment of such a list as soon as it is decided that an adequate degree of standardization has been reached in the liberalization systems of the Member States.

The proposal stipulates that the common list shall include all the tariff headings liberalized in the Member States vis-à-vis the GATT countries except Czechoslovakia. Decisions may be reached at a later date on application of the list to countries which are not members of GATT but whose external trade regulations are based on the principles of the General Agreement. As from the date on which the list comes into force, the Member States will cease to introduce quantitative restrictions on products in the list vis-à-vis the GATT countries, except in a few rare cases where exceptions are justified under the Treaty or under an international quota agreement. Only the Council can amend the list, on a proposal by the Commission according to the procedure laid down in Article 111 of the Treaty. Should a product be withdrawn from the list, the Council will at the same time fix for the product concerned the quota to be opened by the Community to non-member countries.

The Commission is convinced that it would be an easy matter for the Member States to draw up a joint list thus defined, especially since it is as yet of limited scope and will not appreciably change the existing situation. However, it does constitute a stage towards achievement of the objectives laid down in the Action Programme.

297. *Quotas.* Despite the substantial progress made in liberalizing trade, none of the Member States has so far abandoned restrictions on imports entirely. There are wide differences in the measures they have taken in this sphere, and consequent risks of diversion of trade and economic difficulties. For this reason, a Community quota procedure must be introduced.

Hence, on 18 May 1965 the Commission put before the Council a proposed regulation on the gradual establishment of common procedure for the

administration of import quotas for goods entering the Community. The regulation applies to quotas fixed either independently or by agreement.

The Council, or otherwise the Commission, will apportion the quotas among the Member States, and the national authorities will issue the import licences. A Community reserve will be created, which will represent at least 25% of each quota. Depending on the demand for imports in the country concerned, the Commission may make further import facilities available to the Member States by drawing on this reserve, in order to ensure that the Community's internal obligations are fulfilled. Provision has been made for the re-allocation of quotas already allocated but not taken up, so as to ensure that all applications for import licences within the limits of a quota fixed by agreement are met even if the Community reserve is exhausted. The Commission has also made provision for exceptions, in special cases, to the general rules laid down for the allocation of quotas and for the issue of licences, or for these general rules to be supplemented. It therefore established special procedure to be followed in the case of such exceptions or additions.

On 15 June 1965 the proposal was referred to the European Parliament and to the Economic and Social Committee. The Committee gave a favourable opinion on it at its session of 26-27 January 1966.

Measures in defence of trade

298. The Council has not yet decided on the proposed regulation submitted in November 1963 regarding measures by the EEC to defend itself against abnormal commercial practices by non-member countries⁽¹⁾. However, the Commission holds that Community measures are very urgently required to combat the commonest of these practices, such as dumping and export bounties or subsidies. Laws and regulations on the subject vary appreciably from one Member State to another, and the Community as such does not yet dispose of the necessary legal bases for the application of effective protective measures. But the world-wide tariff cuts desired by the Community are liable to increase the vulnerability of the European economy, and hence make the adoption of anti-dumping legislation even more necessary. This would also prompt the EEC's

(¹) See Seventh General Report, sec. 297.

trading partners to review their own legal provisions, which are to some extent out of date.

Accordingly, on 6 May 1965 the Commission submitted to the Council a proposal for a regulation providing protection against dumping practices and the payment of export bounties or subsidies by non-member countries (1).

The substantive provisions of this regulation, which is based on Article 111 and 113 of the Treaty, reflect Article VI of the General Agreement. The procedure will be set in motion on request by the individual or legal person affected (who may be a business organization or association), and it provides for an immediate exchange of information between the Member States and the Commission. If it appears that defence against dumping practices may be necessary, the Commission will publish a notice in the official gazette of the European Communities informing importers that an anti-dumping or countervailing duty may be imposed and inviting all concerned to transmit relevant information to the Commission. When examination of the facts shows protective measures to be necessary, a proposal to that effect will be made by the Commission to the Council, which must then take a decision.

In urgent cases, when the Commission finds that the practices concerned are liable to cause material injury to an industry of the Community and that the interest of the Community require immediate action, it may adopt emergency procedure and impose a provisional anti-dumping or countervailing duty. If this measure is requested by a Member State, the emergency procedure must be completed within not more than four business days following the date of receipt of the request.

Pending the entry into force of the arrangements outlined above, the Commission has proposed a transitional system which to a great extent leaves the rules now operative in the Member States unaffected but makes provision for consultation procedure and the institution of effective Community protective measures.

The Economic and Social Committee gave its opinion on this Commission proposal at its session of 29-30 September 1965, and the European Parliament adopted a resolution on the proposal at its session of 19 October 1965.

(1) See the work of the OECD in this field, sec. 327.

These generally favourable opinions contained requests for certain amendments, most of which were accepted by the Commission. The amended text, submitted to the Council on 17 February 1966, includes a provision making it compulsory for the Commission to publish a notice when proceedings have been instituted which may lead to imposition of an anti-dumping or countervailing duty. Under the initial proposal such a notice would have been discretionary. The new text also prescribes that the parties to the proceedings must be given a date by which they can apply to the Commission for a hearing. If they can show that the result of the investigation could directly affect them, the Commission is obliged to hear them. This provision follows those of Community law on competition. Finally, the amended proposal provides for the European Parliament to be kept informed.

Aids for exports to non-member countries

299. The Commission is continuing its examination of various aids or incentives to exports to non-member countries. It intends to submit proposals to the Council on this subject as soon as possible.

Co-ordination of policy on credit insurance

300. The Group for the Co-ordination of Policy on Credit Insurance, Guarantees and Financial Credits sought chiefly to improve co-operation between firms in the Member States in the export field. On 14 and 15 June 1965 the Council approved the new rules governing subcontracts which had been submitted to it by the Group. Henceforward, any country in the Community will have to guarantee and finance automatically the sale of items from another Community country which are incorporated in products or services exported by one of its nationals, to an amount representing 30-40% of the value of the contract. This decision is an important step towards multilateralization of export credits.

As regards co-ordination of credit and guarantee policies, the Member States are applying the new consultation procedure approved by the Council on 25 and 26 January 1965. In particular, many exchanges of information have taken place between the members of the Group previous to decisions to grant public credits or credits combining public and private funds.

As regards harmonization of credit-insurance schemes, the Group reached agreement on general principles regarding short-, medium- and long-term

suppliers' credits. It then instructed the Technical Committee on Credit Insurance to draft a standard insurance policy. This should be submitted to the Group at the end of 1966.

In the field of financing suppliers' credits and of financial credits, the Group has begun to study the disparities found at present between the EEC countries in the matter of cost, liquid cash, and foreign exchange for the exporter.

Bilateral trade agreements

301. Under the terms of the Council decision of 9 October 1961 the Commission, in conjunction with the Member States, was to examine before 1 January 1966 all trade agreements and commercial and navigation treaties in force between the Member States and non-member countries, in order to satisfy itself that they do not impede the implementation of the common commercial policy. A list was made of these agreements, totalling about 800, but it was not possible to examine them all within the time allowed. Accordingly, on 29 December 1965 the Council extended the time-limit until 31 December 1967. Meanwhile, the Commission has begun to examine the trade agreements proper (some 250).

COMMON COMMERCIAL POLICY VIS-A-VIS CERTAIN COUNTRIES OR GROUPS OF COUNTRIES

Trade agreement with Israel

302. The Joint Committee of Community and Israeli representatives set up under the Trade Agreement of 4 June 1964 ⁽¹⁾ met for the first time in Brussels from 12 to 14 April 1965. It discussed trade trends between the Community and Israel since the conclusion of the Agreement, with particular reference to problems connected with Israel's chief exports to the Community, notably citrus fruits and eggs. Possibilities for processing traffic between the Community and Israel were also studied.

Following this meeting the Commission put before the Council suggestions for improving trade with Israel.

⁽¹⁾ See Eighth General Report, sec. 284.

Relations with state-trading countries

303. No change has taken place in this sector since the last General Report, and the Council has not yet adopted the Commission's proposal of 3 March 1964 ⁽¹⁾.

In June 1965 the Commission proposed to the Council that Regulation No. 3/63/CEE on trade with state-trading countries in certain agricultural products should be extended. On 29 December 1965 the Council adopted this proposal.

Relations with Yugoslavia

304. In January 1965 a Yugoslav delegation and a delegation representing the EEC Commission began technical talks on trade between the two parties ⁽²⁾. The talks were continued from 17 to 25 May, when all the main problems were examined and appropriate solutions sought. The delegations undertook to submit the results of their work to their principals.

The Commission has reported to the Council on these talks.

Exploratory talks with Spain

305. The Spanish Government's replies to the questionnaire submitted to the Spanish mission on 10 February 1965 ⁽³⁾ reached the Commission at intervals during the spring of 1965; the last arrived at the end of August.

These replies, and the complex problems raised by some of them, are still being studied. A second series of exploratory talks may be held in the second quarter of 1966.

NEGOTIATIONS WITH AUSTRIA

306. In conformity with the terms of reference given the Commission by the Council on 2 March 1965, a first phase of negotiations for an

⁽¹⁾ See Eighth General Report, sec. 288.

⁽²⁾ *Ibid.*, sec. 289.

⁽³⁾ *Ibid.*, sec. 290.

agreement between the Community and Austria took place and continued up to February 1966. At their various stages the negotiations covered trade questions, harmonization of Community and Austrian economic policies and the institutions to operate the agreement.

The Community and Austria have reached an agreement on the principle of the gradual abolition of all restrictions to trade in the industrial sector. Subject to a few unimportant exceptions, Austria will also progressively align its tariff in this sector on the common customs tariff. The timetable for the abolition of duties between the two parties is one of the questions still pending; Austria would like the Community to remove duties more rapidly than it does itself.

Up to the present stage of the negotiations Austria has been unable to take a firm decision concerning the abolition of the preferences it grants its EFTA partners and possible withdrawal from that organization. It has stated its preference for simultaneous membership of the two preference areas, but without ruling out the possibility of a different solution.

As regards agriculture, the two delegations have studied the establishment of a system of reciprocal preferences limited to exports having a certain importance for the Community or Austria. Preferences offered by both sides were confirmed. Austria considers that this could only be a temporary solution and should lead rapidly to maximum possible alignment of Austrian agricultural policy on that of the Community.

The problems of trade relations between Austria and the countries of eastern Europe were also discussed. In view of its special political situation Austria is concerned to maintain the present level of trade with these countries. Special measures and in particular recourse to tariff quotas by which this trade could be maintained were examined.

307. As regards the general problem of the harmonization of economic policies between the Community and Austria, the two delegations chiefly discussed the nature and extent of the commitments Austria would be disposed to accept in this field to avoid distortion of competition within the future preference area while at the same time making allowance for the exigencies of neutrality. There was an initial exchange of views on the compensatory measures which the Community would have to take if harmonization were not achieved. Discussions on the institutions to be established under the agreement were centered on the solutions advocated

by Austria. The system envisaged by Austria takes account of the requirements both of the country's neutrality and of its internal legal order. Initial consideration was given to the problem of an arbitration authority.

A report on the results of the first negotiating sessions (April and May-June 1965) concerning tariff questions, agricultural problems and trade with eastern Europe was submitted to the Council on 22 October 1965. A supplementary report on the following three sessions (September and December 1965, February 1966) dealing with harmonization and institutions in general was sent to the Council in April 1966. The Commission is now awaiting further directives in order to pursue the negotiations.

The Community and the world

EUROPEAN COUNTRIES

UNITED KINGDOM

308. On 26 January 1965, Sir Con O'Neill, Head of the United Kingdom Mission to the Communities, handed the Commission an aide-mémoire from the British Government concerning a number of export aid measures it had adopted and a circular giving the list of the products affected and the percentages of refunds which British exports will enjoy by virtue of the British Government's decision of 26 October 1964. These measures came into force on 19 January 1965, with retrospective effect to 26 October 1964.

Subsequently, on 5 May 1965, a meeting was held in London between British and Commission experts to examine the criteria used in devising the United Kingdom system of export refunds and the implementing procedures decided on by the British Government on 26 October 1964. It had been agreed with the United Kingdom mission prior to the meeting that no political or legal question, in particular the compatibility of these measures with the United Kingdom's commitments in GATT, would be raised, but only the various technical aspects of these measures reviewed. At this discussion, the British experts replied in detail to questions put by the Commission representatives concerning the methods used by the United Kingdom for export refunds and its measures to stimulate exports.

309. At the ministerial meeting of Western European Union in Luxembourg on 30 June 1965, the British Secretary of State for Foreign Affairs proposed the prolongation of the arrangement suspending customs duties on tea, maté and tropical hardwoods concluded on 10 September 1963 between the United Kingdom and the Community, which was due to expire on 31 December 1965 (1).

On the basis of a communication from the Commission dated 5 November 1965, the Council adopted two decisions in this field.

The first, dated 23 December, prolongs, by virtue of Article 28 of the Treaty, the suspension of duties under the common customs tariff on the above-mentioned articles until 31 December 1966. On the same day the representatives of the Member States of the Community meeting in the Council referred to this decision and agreed, on the basis of Article 28 of the Treaty, to the full application for the same period of the suspension of customs duties on these products.

The second decision of the Council on 27 December 1965 concludes the arrangement between the Community and the United Kingdom concerning the extension of the simultaneous suspension of the customs duties applicable to tea, maté and tropical hardwoods until 31 December 1966. This arrangement was made on 30 December 1965 in the form of an exchange of letters between the Community and the United Kingdom mission.

DENMARK

310. At its session of 13 and 14 May 1965 the Council, following a request from the German delegation, invited the Commission to submit a report on the trend of agricultural and industrial trade between Denmark and EEC. The Commission handed this report to the Council on 21 October 1965.

Continuing the contacts between the Commission and the Government of Denmark after the interruption, in 1963, of the negotiations for the accession of that country to the Community, the Danish Minister of Foreign

(1) See above, sec. 25.

Affairs, M. Haekkerup, paid his fourth visit to the Commission on 2 and 3 June 1965. Prior to this visit, Commission and Danish experts had finally reviewed the questions to be dealt with. The conversations covered the trend of trade between the Community and Denmark, multilateral negotiations in GATT, developments in the Community and EFTA, and relations between the two.

EUROPEAN ORGANIZATIONS

European Free Trade Association (EFTA)

311. The EEC Commission and the Secretariat of EFTA have jointly drawn up a list of technical questions in respect of which the two organizations may compare and confront their experience and the lessons they have learned.

In the course of 1965 exchanges of information were arranged on 14 and 20 July and on 1 and 15 December. The following subjects were discussed: the effects of economic integration on consumer prices; turnover taxes; regional development; methods for establishing the inventory of State aids; international comparability of statistics; national accounts; medium-term economic prospects; problems of standardization and harmonization of technical laws and regulations.

Council of Europe

312. The Commission was represented at meetings of the expert committees of the Council of Europe and at the sessions of the Consultative Assembly.

After discussions between the Commission and the Secretary-General of the Council of Europe, contacts were established between officials of the two institutions with a view to exchanging technical information on work undertaken on both sides in similar fields, and three meetings were held in 1965. They dealt with the following questions: industrial medicine; social security of migrant workers; exchange of young workers; a convention on the production and marketing of wines and spirits; international classification of patents; bankruptcy law; company law; uniform nomenclature for merchandise.

Western European Union (WEU)

313. The WEU Assembly, meeting in Paris on 31 May 1965, expressed its hope for a rapprochement between the Community and EFTA. The Commission representative assured those present that the Commission would give its full attention to this problem and outlined the development of trade between the Community and EFTA. The Commission was represented at the WEU Council meeting on economic questions.

THE COMMUNITY AND THE DEVELOPING COUNTRIES

THE TREND OF TRADE

314. The trend of trade between the Community and the developing countries and territories in 1965 continued to increase as in previous years, with regard both to Community imports and to the deficit on trade with these countries, which reached the unprecedented figure of 3 000m. units of account. From 9 831m. units of account in 1964, purchases from the uncommitted countries rose to 10 500m. units of account in 1965.

The Community, which is the leading importer of raw materials, has steadily increased its imports of commodities ⁽¹⁾ from all the developing countries. These imports were valued at 6 253 million u.a. in 1958 and reached 9 100 million u.a. in 1965, i.e. a growth of 46 %. Imports by the United Kingdom and the United States for the period 1958 to 1964 remained stationary around \$2 700m. and \$3 600m. respectively.

As regards manufacturers and semi-finished products, ⁽²⁾ the Community's imports from the developing countries for the period 1958 to 1964 showed an even higher growth—from 550m. units of account in 1958, they rose to 1 200m. in 1965, an increase of 118%.

Such a contribution by the Community to the development of trade with the developing countries and indirectly to the expansion of their economy has been greatly facilitated by the progress of integration and by the Com-

⁽¹⁾ Classification statistique et tarifaire (CST), Sections 0, 1, 2, 3 and 4.

⁽²⁾ CST Sections 5, 6, 7 and 8.

munity's economic expansion. However, the developing countries as a whole expect of the Community and of its Member States a more purposive approach in keeping with the role and responsibility of EEC in the world. Such an approach can only be a long-term matter and presupposes, if not a Community attitude, at least co-ordinated and harmonized policies on the part of the EEC Member States.

It may be recalled that the Council has taken certain tariff measures favourable to the import of a number of tropical products.

UN CONFERENCE ON TRADE AND DEVELOPMENT

315. By Resolution 1995 (XIX) of 30 December 1964 the United Nations General Assembly created the United Nations Conference on Trade and Development as an organ of the General Assembly. In 1965 therefore a new institutional system to deal with problems of trade and development on a permanent basis was established within the United Nations.

The work of the Trade and Development Board. The Board, the permanent organ of the Conference, has held three sessions. At the first (New York, 5-30 April 1965) it adopted its programme of work, set up its subsidiary agencies (the Committee on Commodities; the Committee on Manufactures; the Committee on Invisibles and Financing related to Trade; the Committee on Shipping; the Advisory Committee to the Board and to the Committee on Commodities) and laid down their terms of reference.

The second session of the Board (Geneva, 24 August-15 September; New York, 25-27 and 29 October 1965) was specially devoted to the problems of implementing the recommendations of the first Conference and to choosing the headquarters of the Conference. An extraordinary session in New York on 28 and 29 October 1965 also discussed the question of where the Conference should have its seat.

The Board's third session (New York, 25 January-17 February 1966) settled certain questions of procedure. The new machinery is now considered to be complete, and the Board is preparing to address itself to problems of substance.

The problem of implementing the recommendations of the Conference seems to be the most important. The developing countries are seeking to have the Board and its subsidiary agencies invested with powers to examine and supervise the policies of the States. The advanced countries on the other hand claim that the recommendations of the Conference are no more than a guide and that their application should be left to the discretion of each State. This difference of opinion on the idea of "implementing the recommendations" makes it difficult for the States to act in concert on questions of substance.

The subsidiary agencies of the Board. The Committees on Commodities, on Manufactures, on Invisible an Financing related to Trade and on Shipping have begun their work, which is being vigorously pressed forward.

The Community as such has been represented by observers at meetings of all the new bodies, some of which are concerned with matters of Community interest.

CO-ORDINATION OF DEVELOPMENT AID AND TECHNICAL ASSISTANCE

316. The Technical Assistance Group for the Developing Countries has met twice to discuss problems of the co-ordination of développement aid between the Community and the Member States. As regards the co-ordination of aids on the opening of exploratory talks with certain non-member developing countries, the Council decided that the activities of the Group, which until 1965 had mainly concerned technical co-operation with the Associated African States, should be widened to include non-associated countries.

The Commission is taking part in the work on the co-ordination of aids in OECD, GATT and the various UN bodies. It has been concerned to harmonize the development aid granted under the Yaoundé Convention with a general Community concept of development. In this connection the Commission's Development Aid Working Party ⁽¹⁾ held three meetings in 1965 and examined the results of the studies on the principal claims put forward by the developing countries at the first UN Conference on Trade and Development in 1964. These studies, which are continuing, take account of the recent discussions within UNCTAD.

(¹) See Seventh General Report, sec. 277.

GATT ACTIVITIES IN THE TRADE AND DEVELOPMENT FIELD (1)

317. The Committee on Trade and Development set up at the special session of the Contracting Parties in February 1965 to handle GATT activities in the field of economic development aid, and in particular to watch over the implementation of the new chapter to the General Agreement concerning trade and development, (2) met in July and December 1965. The Commission took part in its work.

The Committee studied the notification from certain Contracting Parties of measures taken under Article XXXVII (2) to give effect to the arrangements in question (2). Numerous developing countries regretted that the notification procedure had not been more widely observed and that there had been so little progress. The Committee asked all the Contracting Parties to make further notifications with a view to a meeting in March 1966. The Council has still not taken any decision on the signing of the Protocol (2) by the Community as such.

The Committee took note of reports from its subsidiary bodies. A list of products compiled by the Group set up to assist in identifying products of export interest to less-developed countries will serve as a guide to the Contracting Parties in the action they take under Part IV of the General Agreement.

At a suggestion of the working group on residual restrictions, the Committee has inaugurated a procedure for examining quantitative restrictions on imports of products of interest to the underdeveloped countries. Consultations took place within the working group in October. Among the countries which have agreed to this procedure are five Member States.

A Community delegation composed of the Member States and the Commission took part in a working group studying an application from Australia for authorization to waive the most-favoured-nation rule in order to apply preferential duties to imports of manufactures and semimanufactures from the underdeveloped countries. This initiative was welcomed by these countries but has nevertheless come in for some criticism, particularly with regard to quota restrictions on the imports to benefit from these preferences, the selection of the products, by which the advantages

(1) On GATT, see also sec. 328.

(2) See Eighth General Report, sec. 303.

of this preferential system would not be shared fairly between the underdeveloped countries, and a clause under which certain underdeveloped countries may be excluded. When the application for waiver was examined by the Contracting Parties on 28 March 1966, the Community approved it, stressing that it considered the Australian initiative an experiment which could throw light on the repercussions and efficacy of preferences as a solution for certain trade problems which are a source of concern to the developing countries. The Community was careful to add that the system implemented by Australia must not prejudice the solution sought for the problem of preferences in general.

THE OECD AND DEVELOPMENT WORK (1)

318. This year the Development Assistance Committee of OECD, which, since Norway, Denmark, Austria and Sweden joined, has 14 members, and to which the Commission also belongs, pursued its detailed study of the aid granted by its members to the developing countries.

Last year the DAC countries granted a total of public and private aid of the order of \$8 500m. This year again the aid contributed by the European Development Fund was welcomed by the Committee. The numerous studies made by DAC of the way in which the burden of aid is shared, the terms on which it is granted and its efficacy are of direct interest for Commission studies and policy regarding EDF aid.

Two problems particularly engaged the attention of the ministers at the DAC meeting of July 1965: (a) the accumulated debts of the developing countries and the burden these represent for their economies and (b) improvement of the terms on which aid will be granted in the future. A resolution was adopted on this matter.

Furthermore, in order to encourage the flow of private capital to the developing countries, OECD has finalized with the assistance of Commission experts and transmitted to the International Bank for Reconstruction and Development a system of multilateral investment guarantees against non-commercial risks and currency inconvertibility in the less-developed countries. OECD is at present completing a draft convention

(1) See sec. 327 "The Community and OECD".

on the protection of foreign assets, a complementary project to the IBRD Convention for the settlement of disputes concerning investments between states and nationals of other states.

TRADE RELATIONS WITH THE DEVELOPING COUNTRIES

Finally, it was in the OECD framework that the arrangements to co-ordinate all UNCTAD work by countries in the Western group were made.

COMMODITIES AND INTERNATIONAL COMMODITY AGREEMENTS

319. For those raw materials whose role in trade is crucial for the economies of the developing countries, future international agreements should be planned in such a way as to stabilize the export earnings of these countries. It is known that in the framework of the Kennedy round the Community has already proposed ⁽¹⁾ the negotiation of commodity agreements whose chief purpose would be to promote the widest possible multilateral co-operation with a view to:

a) Balance between long-term production and demand and the elimination of short-term fluctuations, in a general way by stepping up existing demand and widening the international market and, if necessary, by restricting supply or even production.

b) Stabilizing prices on the world market at a fair and remunerative level.

The Community, which is represented by an observer in the Councils administering the international coffee, wheat, sugar and olive oil agreements, has also participated as an observer in the multilateral negotiations to extend the wheat and sugar agreements and in those for the conclusion of a third international agreement on tin, as well as in the working party of the United Nations Conference on Cocoa.

The 1962 International Wheat Agreement has been extended until 31 July 1966. But in this field interest has now shifted, in the framework of the multilateral trade negotiations in GATT, to the Community's proposal for a general arrangement.

(1) Council's mandate to the Commission in December 1963.

As regards coffee, the Community countries—where one of the strongest increases in imports both in percentage and in absolute value is to be seen—have come out strongly in favour of the new policy of the International Coffee Council in concentrating on long-term problems, such as production targets or increased consumption in an effort to ensure a world balance between consumption and output of this product.

In the Working Party on Prices and Quotas of the United Nations Conference on Cocoa, the conversations have been resumed between producer and consumer countries. The Working Party is preparing the negotiation of an inter-governmental agreement and has recommended that the United Nations Conference on Cocoa be resumed in May 1966.

As regards sugar it was disclosed at the first session of the conference convened to negotiate a new international agreement that prices in the free section of this market had reached an all-time low, causing grave imbalance of an essentially structural character. The administrative clauses of the 1958 agreement were extended until the end of 1966, or until the implementation of a new agreement, whichever should be the earlier.

Finally, the Commission has participated regularly and to the fullest extent possible in FAO's studies on jute, tea, bananas and in those of the international groups on such commodities as lead and zinc, rubber, wool, etc.

AGREEMENT WITH LEBANON

320. The agreement on trade and technical co-operation between the Community and the Member States on the one hand and the Lebanese Republic on the other initialled on 9 March 1965⁽¹⁾ was signed in Brussels on 21 May 1965.

The Contracting Parties signed a joint declaration concerning the provisional implementation of certain clauses of the agreement.

The agreement will come into force on the first day of the month following the deposit of the last notification that the necessary internal procedures have been complied with the States signatories to the agreement and by the Community. The agreement is for a term of three years and is renewable.

(¹) For the content of the agreement see Eighth General Report, sec. 307.

NEGOTIATIONS WITH THE MAGHREB COUNTRIES

321. The reports on the exploratory talks with Tunisia and Morocco ⁽¹⁾ were carefully studied in the Council, with particular attention to the problems that general preferential agreements with these countries would pose, especially for matters of common agricultural policy. At its session of 14 and 15 October 1965, the Council agreed to a mandate for the Commission to open negotiations with these countries. It was understood that this first mandate would be supplemented as soon as possible by directives on the points which the Council had not yet been able to settle.

The first negotiating session with Tunisia took place from 6 to 8 July and with Morocco from 12 to 14 July, observers from the Member States being present at both. The discussions centred upon the problems of a preferential trade system, especially for manufactures and various farm products. The Tunisian and Moroccan delegations asked for certain clarifications, which the Community institutions needed time to work out.

322. The Commission's report on the exploratory talks with Algeria was transmitted to the Council on 24 February 1965 ⁽¹⁾.

On 8 April 1965 the Council instructed the Committee of Permanent Representatives to study the question of relations between the Community and Algeria so that decisions on both procedure and substance could be taken without undue delay. As the study of relations with Tunisia and Morocco is further advanced, this priority is being maintained, but the need to find solutions which can later on apply to Algeria is also being kept in mind. Studies of the Community's relations with Algeria are in fact in progress.

NEGOTIATIONS WITH NIGERIA

323. The negotiations ⁽²⁾ are for an association agreement between EEC and Nigeria embodying mutual rights and obligations and based as far as possible on Titles I, III and V of the Yaoundé Convention.

⁽¹⁾ See Eighth General Report, sec. 308.

⁽²⁾ *Ibid.*, sec. 309.

The fourth and fifth rounds of negotiations took place from 26 April to 8 May 1965 and from 29 June to 8 July 1965. Subject to approval by the Council of a few points which were not explicitly mentioned in the terms of reference for the negotiations, an understanding was reached between the Commission and the Nigerian delegation on what questions could be covered in the association agreement.

A meeting with the Nigerian delegation to draft the agreement was arranged for 26 April—6 May 1966.

*NEGOTIATIONS WITH THE EAST AFRICAN STATES:
KENYA, UGANDA AND TANZANIA*

324. At the end of the first stage of the negotiations with the joint delegation of the three States, which took place from 1 to 8 March 1965, it was understood that negotiations would be resumed in June 1965⁽¹⁾. Meanwhile, this delegation has announced that it is planning to establish "diplomatic relations" with the Community beforehand.

ASIAN COUNTRIES

325. The contacts established between the Indian and Pakistani Missions to EEC and the Commission continued throughout the year. A report on India's trade with EEC and the problems it raises will shortly be submitted to the Council.

At its session of 7-11 March 1966 the European Parliament passed a resolution urging the Commission, in conjunction with the Council, to take all possible emergency measures to help the Indian population threatened by famine.

A special envoy of the Government of Afghanistan discussed with the Commission problems of the expansion of this country's trade with the Community. Later, in May 1965, the Government of Afghanistan handed the Commission a memorandum on the country's trade with the Community, and this was communicated to the Council.

(¹) See Eighth General Report, sec. 310.

LATIN AMERICAN COUNTRIES

326. The Contact Group between the Latin American Missions and the Commission (¹) has begun a second phase of its work, in which it attacks the relevant problems at the practical level. The Group has divided up into six subgroups by products (tropical products, temperate products, minerals, manufactures and semimanufactures, oil and natural gas, fuel and products of the sea). The results of all these discussions will be incorporated in a report from the Commission to the Council. It would seem desirable—and some missions have explicitly requested this—that these meetings, which so far have been the medium for discussions between Latin America and the Community, should become a medium for mutual information.

The opening of the Information Bureau in Montevideo in September 1965 was an important step in this direction.

The Commission was represented by an observer at the session of the Economic Commission for Latin America in Mexico City in May 1965. It would be a good thing if at a time when Latin American economic integration is in search of more dynamic approaches there were more frequent contacts between the Community and the Latin American Free Trade Association. It would be as well for the Commission to consider organizing training periods or seminars to give a more systematic character to these technical relations, whose value cannot be overestimated since they have a bearing on the very factors and conditions of Latin American development.

RELATIONS WITH INTERNATIONAL ORGANIZATIONS

The Community and OECD

327. The Economic Policy Committee of OECD has examined the situation of the member countries of the organization from the angles of stability and of the GNP growth target of 50% by 1971. The Ministerial Council has also studied the results obtained by 1965, i.e. half way to the target date, and noted that they have surpassed the forecasts.

(¹) See Eighth General Report, sec. 312.

The Economic Policy Committee also examined international payments and particularly the trend of the deficits of the United Kingdom and the United States payments balances. Its Working Party No. 3 (international payments) was instructed to follow the financing of the deficits and surpluses in the payments balances of the member countries (multilateral supervision) and to continue the study of the adjustment processes between the balance of payments and the internal economic situation of the member countries. OECD's task in this field has been widened following the meeting of the Governors of the International Monetary Fund in September 1965 in Washington. The European Monetary Agreement has been prolonged in slightly amended form for three years; its role in the international monetary system is thus confirmed.

In the commercial policy field OECD has endeavoured to encourage trade between member countries by turning its attention to the removal of non-tariff obstacles and encouraging the countries to consult among themselves before making any changes in their policies or practices. During this year the members of the Organization have adopted standard procedure for the issue of import licences and questions of dumping, and Government buying procedures have been studied.

A small group in the Council, in which the Commission is represented, has begun a study of the influence on trade of tax adjustments at frontiers.

The Group on Export Credits and Credit Guarantees is endeavouring to eliminate inequalities between exporters arising from differences in the facilities granted them by their governments.

OECD also co-ordinated the commercial policy of the member countries vis-à-vis the developing countries, particularly as regards work within UNCTAD (1).

The development problems special to Greece and Turkey are dealt with by consortia for aid to these countries. Substantial aid was been supplied to Turkey, (2) especially by the European Investment Bank. An agreement was also made in the course of the year to facilitate service and redemption of this country's external debt during the coming years.

(1) See above, sec. 315.

(2) See above, sec. 220.

In the fields of industry and energy, the OECD Council decided in July 1965 to keep in existence the Committees for Industry and for Energy and the Special Committees for Iron and Steel, Textiles, Chemical Products, Machinery and Pulp and Paper. The Commission is following these sector studies in order to compare the trend in the OECD countries and in the other leading industrialized countries of the West and Japan. During this year the shipbuilding sector in particular has held the attention of the member countries of the Organization, especially the Commission's latest proposals on harmonizing the terms of aid to shipyards in the member countries of the Community ⁽¹⁾.

Finally, the Commission has continued to share in other OECD activities (agriculture and fisheries, social affairs and scientific and technical affairs).

The Commission, which is responsible for working out medium-term economic policy, also participated in January 1966 in OECD's ministerial meeting on science.

Relations with GATT (2)

328. *GATT consultations on Turkey's customs tariff.* In March 1965, when they were examining the Association Agreement between Turkey and EEC, the Contracting Parties decided at the request of the United Kingdom to hold multilateral consultations on the application by Turkey of certain provisions of Article XXIV of the GATT which lay down the conditions with which the tariff of any customs union must comply.

The United Kingdom's concern was that by ensuring increased protection to domestic production the new customs tariff introduced in 1964 might temporarily have the effect, during the running-in period of the customs union under the Association Agreement, of establishing a tariff differentiation in favour of Community exports larger than would have been the case with the old customs tariff. The Turkish representative denied that there was any link between the increase in his country's tariff and the Association Agreement. However, he gave an assurance that the Turkish Government, in applying the differential tariff treatment to EEC, would be prepared to take into consideration the fair duties of the Contracting

⁽¹⁾ See above, sec. 82.

⁽²⁾ For the GATT Working Party on the association of the African States, see sec. 276.

Parties not signatories to the Ankara Agreement with respect to headings previously bound and on which custom duties have been increased.

Renegotiations with New Zealand. Following the complete recasting of its customs tariff, which modifies the nomenclature and the bases of assessment of customs value, New Zealand has had to carry over into this new tariff the concessions granted earlier to various countries and has begun renegotiations under Article XXVIII with the Contracting Parties concerned. Acting under Article 111 of the Treaty, the Commission conducted the negotiations, which ended on 4 June 1965, on behalf of the Community. In accordance with Articles 111, 114 and 228 the Council formally concluded an agreement on 9 December 1965. On the New Zealand side the agreement includes concessions on a large part of its new tariff. The value of EEC exports benefiting is about \$17 million.

Australia. This country was recently authorized by the Contracting Parties to renegotiate concessions concerning glass articles and cars, which the Community exports to Australia.

Finland. Other renegotiations carried on by the Commission with Finland under Article XXVIII have been completed. (A draft agreement has been submitted to the Council of Ministers for conclusion).

Relations with the United Nations and its Specialized Agencies

329. Under arrangements made by the United Nations Conference on Trade and Development the Community participated in all its work as an observer. True, no formal agreement on the Community's prerogatives has yet been concluded, but this new situation, which to some extent makes relations between the Community and certain United Nations bodies more effective, may facilitate their further development.

As on previous occasions, the Community was represented by observers at the plenary session of the United Nations Economic Commission for Latin America held in Mexico City in May 1965. It has also been represented at meetings of the United Nations Food and Agriculture Organization (FAO) and the World Health Organization (WHO).

Under the arrangements established with the Secretariat of the Economic and Social Council (ECOSOC) and of the Economic Commission for Europe, the Commission has been represented at the meetings of these bodies.

Representatives of the European Investment Bank have taken part in the consultations arranged by the Economic Commission for Asia and the Far East with a view to setting up an Asian Development Bank. The President and Vice-Presidents of the African Development Bank also had talks with the President of the European Investment Bank.

THE COMMUNITY'S DIPLOMATIC RELATIONS

330. Six more countries have received the agreement for the establishment of a mission to the Community. These are: Paraguay, Panama, UAR, Tanzania, Sudan and Liberia.

The Community now maintains diplomatic relations with 74 countries.

CHAPTER VII

ACTIVITIES OF THE INSTITUTIONS

The European Parliament

331. The European Parliament met in ordinary session at various dates between 26 March 1965 and 31 March 1966. At the May 1965 session, it rendered an opinion, in the course of a political debate, on the Commission's proposals concerning the financing of the common agricultural policy, independent revenue for the Community and wider powers for the European Parliament. It approved the broad lines of the proposals and asked that the Parliament's budgetary powers be strengthened even more than was proposed in order to ensure parliamentary control at European level of the considerable sums which independent revenue would involve and which would be outside the competence of the national Parliaments.

The crisis which began on June 30 and its consequences, far from slowing down the activity of the Parliament, acted rather as a stimulant: to its routine work, including opinions to be given on various proposals, was added the search for ways and means of overcoming the crisis and the examination of related institutional and political questions. During the four sessions in which such debates loomed large, the Parliament constantly gave proof of its desire to ensure the continuity of the Community's work in strict accordance with the Treaty of Rome.

The Parliament held its twelfth joint meeting with the Consultative Assembly of the Council of Europe on 24 and 25 September 1965, under the presidency of first M. Leemans and then M. Pflimlin. The second meeting of the Parliamentary Conference of the Association with the African and Malagasy States took place in Rome from 6 to 9 December 1965, with M. Leemans presiding. The joint meeting between the institutions of the three Communities on the present situation in the Community was held in Strasbourg on 20 January 1966 and was the occasion of an important political debate.

The Parliament was consulted by the Council on numerous proposals in the different fields covered by the Treaty, including the common

agricultural policy, social policy and freedom of establishment (which accounted for more than half the number of opinions rendered).

The larger number of opinions and resolutions adopted as compared with the preceding year, and the increase in work done by the parliamentary Committees, bear witness to the Parliament's growing activity.

Finally, during the period covered by the present General Report, replies were given to 110 written questions concerned mainly with the common agricultural policy, social policy, customs problems and the developing countries.

The following pages give a chronological outline of the parliamentary work described in the preceding chapters, and a list of formal opinions and resolutions.

Session of 2-26 March 1965

332. The parliamentary year opened with the re-election, by acclamation, of the President, M. Duveusart. MM. Fohrmann, Battaglia, Furler, Vendroux, Kreyssig, Brunhes, Rubinacci and Kapteyn were re-elected Vice-Presidents.

An account of this session's debates was given in the Eighth General Report ⁽¹⁾.

Session of 10-14 May 1965 ⁽²⁾

333. After a full debate, the Parliament adopted a resolution approving the Commission's proposals concerning the financing of the common agricultural policy, independent revenue for the Community and wider powers for the European Parliament ⁽³⁾.

The Parliament also heard statements from the Commission on a proposed regulation containing additional arrangements for the organization of the

⁽¹⁾ See Eighth General Report, sec. 355.

⁽²⁾ See official gazette No. 96, 2 June 1965.

⁽³⁾ Details of the resolution adopted on this subject were given in Ch. I, sec. 4.

fruit and vegetables market, on a number of proposals made to the Council in "Initiative 1964" and on the system applicable to certain processed products originating in the Associated African and Malagasy States.

The Parliament also held a debate on the possible repercussions of the merger of the Executives as regards industrial safety and health.

The Parliament adopted the following resolutions:

"Initiative 1964": four resolutions on the abolition of intra-Community customs duties, the application of the common customs tariff, the ban on quotas, the harmonization of customs legislation, the abolition of frontier controls and accelerated arrangements for a number of agricultural products (see section 3 of the Eighth General Report);

Freedom of establishment: two resolutions on draft directives concerning self-employed activities in the electricity, gas, water and sanitation sectors and self-employed activities in real estate and business services (see section 39);

Approximation of legislation: resolution on the second Council directive concerning branded pharmaceuticals (see section 90);

Common agricultural policy: three resolutions on the organization of the fruit and vegetables market; the Commission's proposals for a regulation on glucose and lactose and its proposal concerning the potato market (see section 156 sqq);

Transport: resolution on the integration of the Community's civil aviation industry;

Social policy: resolution on a proposal for a regulation supplementing Regulations Nos. 3 and 4; and two resolutions on the social aspects of the merger of the executives and its effects as regards industrial safety and health (see section 246);

Association of African States: a resolution on proposals concerning a regulation on the system applicable to certain processed products originating in these countries;

External relations: two resolutions on common trade policy towards state-trading countries and the creation of a Joint EEC-Turkish Parliamentary Committee (see section 289).

Session of 14-18 June 1965 (1)

334. Opening the session, the President of the Parliament, M. Duvieusart, M. Dino del Bo, President of the High Authority and M. Scarlato, President of the Special Council of Ministers of the ECSC, paid tribute to the memory of M. Paul Finet, a former President of the High Authority recently deceased.

M. Duvieusart then informed the Parliament that, as he had not sought re-election as a Senator in Belgium, his term of office as President of the European Parliament would come to an end as soon as the Belgian Parliament had approved the appointment of its new representatives following the elections. Election of a new President of the Parliament was fixed for 24 September 1965.

The Parliament appointed M. Charpentier (France, Christian Democrat) rapporteur for the Eighth General Report on the activities of the Community in 1964/65.

Following the presentation of a report by M. Dehousse (Belgium, Socialist), the Parliament held a lengthy debate on the primacy of Community law over municipal law. In the course of the debate the different political groups stated their positions. There were many speakers, including M. Walter Hallstein, President of the EEC Commission, M. Dino del Bo, President of the ECSC High Authority and M. Emmanuel Sassen on behalf of the Euratom Commission. A large measure of agreement was found both within the Parliament and between the Parliament and the Executives. Discussions ranged over the whole series of problems raised by the co-existence of Community law and municipal law, touching in particular on the nature of Community law and its relationship to public international law, the constitutionality of treaties, the rules established by the Community institutions and the possibility of internal conflicts. The vote on a resolution on this subject was deferred to the October 1965 session.

M. von der Groeben, a member of the EEC Commission, made an important speech on competition policy (2).

(1) See official gazette No. 119, 3 July 1965.

(2) See sec. 44.

The Parliament also held several debates on agriculture, on social policy, on external relations and on the harmonization of European legislation, and adopted the following resolutions:

Capital movements: resolution on a directive concerning indirect taxes on capital contributions (see section 103);

Agriculture: four resolutions conveying opinions on a countervailing charge on certain processed agricultural products (new extension); on Community grants towards the training of advisers to staff information centres for farmers and farmworkers wishing to change their occupation; on a proposal for a regulation establishing a common organization of the market in oils and fats; and on the provisions for a charge on oils and fats in pursuance of Article 201 (see section 178);

Social policy: four resolutions conveying opinions on regulations to render more effective the action of the European Social Fund; on the social aspects of "Initiative 1964"; on a regulation concerning Community grants towards the retraining of farmers and farmworkers and on the medical supervision of workers exposed to special hazards; two resolutions on the provisions of Article 118 and on the state of the labour market (see sections 239, 233, 253 and 232);

The Associated African States: resolution on the proposal for a regulation making special provisions for oilseeds and oils imported into the Community from these countries (see section 274);

External relations: a resolution on the agreement between the EEC and the Member States on the one hand, and the Republic of Lebanon on the other (see section 320);

Budgets: three resolutions (accounts of the Parliament, accounts of the EEC and the EAEC for 1963, estimates of the Parliament's revenue and expenditure for 1966).

Session of 24 September 1965 (1)

335. The Parliament elected M. Victor Leemans (Belgium, Christian Democrat) President for the remainder of M. Jean Duvieusart's term of office. There were 58 votes for and 39 blank or spoiled papers.

(1) See official gazette No. 162, 2 October 1965.

M. Leemans was congratulated by the Presidents of the three Executives; the President informed the Parliament that M. Fohrmann, Vice-President of the Parliament, had been appointed a member of the High Authority in succession to M. Paul Finet. M. Wohlfart (Luxembourg, Socialist), was elected Vice-President of the Parliament in place of M. Fohrmann.

The Parliament adopted a resolution of its Political Committee on the present situation in the Community. The resolution stressed that no Member State could evade commitments made under the terms of the treaties, and approved the action of the EEC Commission.

Twelfth joint meeting of the European Parliament and the Consultative Assembly of the Council of Europe (24 and 25 September 1965)

336. The twelfth joint meeting of the two assemblies was held on 24 and 25 September 1965, with M. Leemans, President of the European Parliament, and M. Pflimlin, President of the Consultative Assembly of the Council of Europe, successively in the chair. The theme of the meeting was "Trade between Western and Eastern European countries".

The debate, which was opened by a report from M. Aschenbach (Germany, Liberal) and to which M. Colonna di Paliano, a member of the EEC Commission, made an important contribution, revealed a large measure of agreement in the views expressed by members of both Assemblies and in the solutions advocated by the various speakers.

Winding up the debate, M. Pflimlin said that the latest developments in the East bloc countries and their desire to regain a certain measure of independence, opened up new possibilities for East-West trade. The western countries should take advantage of this trend because an expansion of trade might help to relax international tension. The problem was, moreover, essentially a political one, trade with these countries being a wager on the permanence of peaceful coexistence. Above all it was necessary for Western Europe to pursue a concerted policy vis-à-vis the Eastern bloc. A common commercial policy was thus becoming more and more essential.

Session of 18-22 October 1965 (1)

337. The Parliament held its annual debate on the activities of the Community (Eighth General Report). The rapporteur, M. Charpentier (France, Christian Democrat), presenting his report and opening the debate, spoke particularly of the crisis which had begun on June 30 1965. No blame could be attached to the Commission; its proposals had derived from the letter and spirit of the Treaty and were in no sense a departure from previous decisions of the Council. The rapporteur underlined the importance of the role assigned to the Commission by the Treaty; only if it were independent could the Commission accomplish its task. He was in favour of wider powers for the European Parliament, stressing in conclusion that economic integration inevitably demands political integration as well. These themes were taken up by many other speakers, who reaffirmed their loyalty to the Treaty of Rome. The address by the spokesman of the European Democratic Union gave rise to lively discussion as to how and why the crisis started and what should be done to remedy the situation.

President Hallstein took up the cudgels in defence of the Commission and spoke of the urgent need for decisions to complete the customs union by 1 July 1967. The President of the Commission went on to describe the contents of the Commission's memorandum of 22 July 1965.

Several speeches were also made on short-term economic policy, the abolition of tax frontiers, the necessity for productive investments, the competitiveness of European firms and the problem of industrial concentration.

The resolution adopted (unanimously by the Christian Democrats, Socialists and Liberals) noted with satisfaction the new impetus given to the Community by "Initiative 1964", the progress of intra-Community customs disarmament, the initial success of the short-term economic policy, the agreement on medium-term economic policy, the adoption of the regulation on block exemptions, the fixing of common cereal prices, the activity of the second European Development Fund, the efforts made in the field of vocational training and the adoption of a broader approach to cultural problems.

(1) See official gazette No. 187, 9 November 1965.

On the other hand the Parliament regretted the lack of progress with regard to customs legislation and the lack of any general view on the harmonization of government monopolies, the maintenance of restrictions on capital movements, the lack of a commercial policy, the slowness of progress on common transport policy and the very long delay with regard to a common energy policy.

The Parliament would welcome the completion of the customs union by 1 July 1967, stronger action with regard to freedom of establishment, decisions concerning the harmonization of turnover taxes, the active pursuit of monetary and financial integration, the adoption of Community arrangements governing aids; it also desired that as regards cartels individual cases still pending be speedily settled on the basis of existing regulations.

With regard to agricultural policy the Parliament would welcome the fixing of common prices for the principal products applicable from 1 July 1967, the elaboration of a common research policy and its inclusion in a Community industrial policy, the elaboration of a general policy towards the developing countries, more rapid harmonization of industrial safety and health regulations, and the elaboration of a common employment policy. Lastly, in the legal and political field, the Parliament regretted "the lack of democratic development in the Community, particularly as regards control of the budget by the Parliament" and would welcome the progressive establishment of a new European legal order and respect for the procedure laid down for the judicial integration of Community law.

During the same session the Parliament adopted a resolution bringing to a close the debate which began in the preceding session on the primacy of Community law over municipal law. In this resolution the Parliament affirmed the need to recognize this primacy and, in order to underline its importance at national level, expressed the wish that the Governments should publish in the official gazettes of the various Member States the binding measures adopted by the Communities.

The Parliament also adopted the following resolutions:

Freedom of establishment: resolution on self-employment in retail trade (see section 40);

Agricultural policy: resolution on a countervailing charge on certain processed agricultural products (extension of the Council's decision of

4 April 1962); resolution on regulations governing quality wines (see section 161);

Social policy: resolution on measures to assist redundant Italian sulphur-mine workers (see section 237);

Commercial policy: resolution on dumping by non-member countries (see section 298).

Session of 23-26 November 1965 (1)

338. Opening the session, the President paid tribute to the memory of Queen Elisabeth of Belgium. The Parliament also paid homage to the victims of the "La Tronquie" pit disaster in the Aquitaine coal basin in France.

The Parliament held a brief political debate on the Council's declaration of 26 October 1965 (2).

During this session the following resolutions were adopted:

Competition policy: resolution on the setting up of a Community aid system in the shipbuilding sector (see section 82);

Agriculture: resolution on the approximation of legislation on preservatives in foodstuffs for human consumption (see section 191);

Social policy: two resolutions on the survey of the social situation in the Community in 1964 contained in the Eighth General Report and on the approximation of legislation concerning dangerous substances and preparations (see section 253);

Associated African and Malagasy States: resolution on the expansion of trade between the EEC and the Associated African and Malagasy States;

Association with Greece: two resolutions on trade;

External relations: resolution on trade between the EEC and India.

Finally, a resolution was adopted on the working conditions of the European Parliament.

(1) See official gazette No. 209, 11 December 1965.

(2) See sec. 17.

Session of 18-21 January 1966 (1)

339. The Parliament began this session by electing M. Ludwig Metzger (Germany, Socialist) Vice-President, in place of M. Kreyssig. M. Terrenoire (France, EDU) was appointed Chairman of the European Democratic Union group, in succession to M. Bord, who had left to take up a position in the French Government. The Parliament then verified the credentials of the new German delegation.

M. Marjolin, Vice-President of the EEC Commission, presented his annual report on the economic situation in the Community.

During this session the Parliament adopted the following resolutions:

Freedom of establishment and freedom to supply services: two resolutions on self-employed activities in the food and beverage industries (see section 39); two resolutions on self-employed activities in the "personal services" sector (restaurants, bars, and the like, residential hotels) (see section 39); two resolutions on agriculture concerning the application of Member States' legislation on farm leases and the possibility of transferring from one farm to another (see section 39);

Agriculture: resolution expressing an unfavourable opinion on the Commission's proposal to amend Article 11 of Regulation No. 23 as regards oranges and on the attached draft concerning subsidies to growers;

Transport: resolution approving, subject to certain amendments, the system for the transport market adopted by the Council on 22 June 1965 and the Commission's proposals of 27 October 1965 (introduction of a bracket-rate system (see section 207 sqq);

Social policy: resolution on the protection of young persons at work and a resolution on conditions for compensation of victims of occupational diseases (see sections 248 and 250).

Joint meeting of the Institutions (20 January 1966)

340. The annual joint meeting of the European Parliament, the Councils and the Executives of the Communities was held at Strasbourg on

(1) See official gazette No. 23, 5 February 1966.

20 January 1966. The subject discussed was the situation in the Community as it presented itself between the two sittings of the Council's extraordinary meeting ⁽¹⁾.

Session of 7-11 March 1966 ⁽²⁾

Election of the President

341. The Parliament opened its annual session by electing M. Alain Poher (France, Christian Democrat) President. MM. Kapteyn, Battaglia, Vendroux, Furler, Wohlfart, Berkhouwer, Carboni and Metzger (listed in order of precedence) were then elected Vice-Presidents.

Debates and resolutions

Besides a political debate on the results of the extraordinary session of the Council at Luxembourg, which has already been described, ⁽³⁾ the Parliament held a debate on European youth questions. A resolution on the development of the European Schools was passed unanimously. The resolution called on Member States which had not yet ratified the protocol on the setting up of European Schools to do so as soon as possible, and it requests the "Higher Council of Schools" to study all the problems connected with founding European Schools in any large towns in the Community where there was a need for them. M. H. Merten (Germany, Socialist), who was the rapporteur for this proposal, had stressed that an increase in the number of such schools would help to foster the European idea and would make for the mobility of qualified scientific, technical and commercial personnel. The Parliament also passed a resolution calling on Member States to conclude an intergovernmental agreement with a view to instituting a popular European sports certificate for which Member States nationals aged from 12 to 16 would be eligible.

In another context the Parliament unanimously adopted a resolution presented by the Presidents of the four parliamentary groups, M. Illerhaus (Germany, Christian Democrat), Mme. Strobel (Germany, Socialist),

⁽¹⁾ See sec. 19.

⁽²⁾ See official gazette No. 53, 24 March 1966.

⁽³⁾ See sec. 20.

M. Pleven (France, Liberal) and M. Terrenoire (France, EDU). The resolution called on the Commission to submit a report on the results of Community activity during the second stage, together with an action programme for the third stage. M. Marjolin, Vice-President of the Commission, speaking in his personal capacity, wondered whether there was any need for such a report as regards the action programme for the third stage and considered it preferable to wait until the Council had taken decisions on certain vital questions. By the terms of the resolution the choice of a date was left to the Commission.

During this session the Parliament also adopted the following resolutions: Resolution on the general situation in the Community (see section 20); Resolution concerning the Commission's annual report on the economic situation in the Community in 1965 and the prospects for 1966 (see section 113).

Harmonization of legislation: resolutions concerning two directives on the harmonization of legislation with regard to turnover taxes (see section 98);

Social policy: resolution concerning a draft recommendation of the Commission to Member States on the development of vocational guidance; resolution on the Commission's action programmes for a common policy on vocational training both in general and in the field of agriculture in particular (see section 233 sqq) and resolution on the action taken by Member States in response to the Commission's recommendation to the EEC about the activity of social services with regard to migrant workers;

The Associated African States: resolution on the results of the second meeting of the Parliamentary Conference of the Association (see section 266);

External relations: resolution on the participation of the European Committees in famine relief for India;

Cultural matters: resolution on the setting up of European Schools and a resolution on the institution of a popular European sports certificate;

Budget matters: two resolutions concerning the draft budgets of the Community in 1966 and a resolution in the settlement of the European Parliament's accounts for 1965;

The Parliament: resolution on procedure for examination of General Reports on the activities of the European Communities.

The Council

342. The Council held eighteen sessions presided over successively by the French member (up to 30 June 1965), the Italian member (1 July-31 December 1965) and the Luxembourg member (from 1 January 1966). Five sessions were devoted to agricultural matters and one to transport.

Most of the Council's work was concerned with the Commission's proposals of 31 March 1965 for financing the common agricultural policy, independent revenue for the Community and wider powers for the European Parliament. The outcome of these discussions is described in Chapter III.

The administration of a common agricultural policy was also the subject of much discussion. All the necessary decisions for the implementation of regulations were taken according to schedule.

The Council followed closely the course of the GATT trade negotiations. At its meetings of 1 March and 4 and 5 April it took the necessary decisions for a resumption of the Geneva talks.

Finally, with regard to non-member countries, there were numerous discussions on the working of the various agreements, particularly those with the associated countries, the opening of negotiations with Morocco and Tunisia and progress on the negotiations with Nigeria.

What follows is a brief account, in chronological order, of the most important decisions taken by the Council, details having been given in earlier chapters. The dates quoted, of course, reveal nothing of the preparatory discussions, whether within the Council itself or within its numerous working parties, nor of a number of more routine decisions, which are referred to in connection with each question dealt with in the present General Report. Thus, quite apart from agricultural problems which recurred at almost all meetings, the Council was regularly concerned with a number of other matters, in particular: the progress of the GATT multilateral trade negotiations, short-term economic policy, the entry into force of the Treaty on the merger of the Executives signed on 8 April 1965, agreements or draft agreements with non-member countries, definition of

the origin of goods, the common transport policy, and also tariffs. No mention will be made here either, in order to avoid making this chapter too lengthy, of the decisions concerning consultation by the Council of the Parliament and the Economic and Social Committee, nor of its relations with the other Community bodies.

165th session: 7 April 1965

343. The Council prepared business for the second session of the EEC-AAMS Association Council, which was held the same day. The chief item on the agenda of the session was the definition of the concept of "goods originating in..." (see section 269).

166th session: 8 April 1965

344. The Council approved in principle a second directive concerning the abolition of restrictions on establishment and the supply of services in the film industry (see section 38).

The Council formally issued, in the four Community languages, a recommendation to the Member States on anticyclical policy to be followed till the end of 1965 (see Eighth General Report, section 151).

The Italian member made a statement concerning his Government's memorandum of 4 May 1964 on the Community's relations with non-member countries; a general discussion ensued.

As regards relations with Morocco and Tunisia, the Council instructed the Committee of Permanent Representatives to draft negotiating instructions in co-operation with the Commission's representatives (see section 321).

The Council also instructed the Committee of Permanent Representatives to examine the Commission's report on the outcome of its exploratory talks with Algeria.

On the same date the representatives of the Governments of the Member States of the European Community met in Brussels to sign the treaty and annexes establishing a single Council and a single Commission of the European Communities (see Eighth General Report, Chapter I).

167th session: 12-13 April 1965 (agriculture)

345. The Council adopted an implementing regulation concerning cereal prices for the 1965/66 marketing year, and in particular it decided on the common target-price bracket within which Governments must fix target prices for this year (prices valid at the beginning of the year in the marketing centre of the heaviest deficit area) (see section 176).

The Council issued two regulation concerning processed products derived from cereals and rice, and agreed to a regulation establishing in the Community an information service on farm incomes and conduct of business. The aim of the service is to make an annual assessment, on the basis of the Commission's report, of the consequences of Community financing, whether as regards refunds for exports, crop planning or outlets (see section 206).

The Council adopted two regulations concerning intra-Community trade in cheese and took a decision in principle on a survey of transport infrastructure costs (see section 229).

Furthermore, the representatives of the Governments of the Member States, meeting in the Council, adopted a resolution extending to the 1965/66 marketing year the ratio established for the preceding year between the threshold price of barley and the threshold prices of cereals for which no target price is fixed.

168th session: 13 and 14 May 1965

346. The Council gave initial consideration to the Commission's proposals for the financing of the common agricultural policy independent revenue for the Community and wider powers for the European Parliament.

The Council adopted in the Community languages the regulation amending Article 11 (2) of Council Regulation No. 23 (fruit and vegetables) (see Eighth General Report, section 181). These amendments, following the Council resolution of 14 December 1964, were designed to ensure respect for reference prices by means of countervailing charges on imports from non-member countries.

The Council concluded an agreement with Australia for renegotiations under GATT Article XXVIII (1 and 4), and approved the terms of the draft Agreement on trade and technical co-operation concluded between the Community and the Member States on the one hand and the Republic of the Lebanon on the other (see sections 328 and 320).

The Council agreed on the terms of a general arrangement on cereals to be submitted by the Community at Geneva on 17 May 1965 (see section 293).

169th session: 14 and 15 June 1965

347. The Council held a full debate on the Commission's proposals for financing the common agricultural policy.

It took a decision on the system to be applied, in respect of export guarantees and finance, to certain supplies originating in other Member States or non-member states (see section 300).

As regards the Associated African and Malagasy States, the Council reached agreement on the position to be adopted by the Community in connection with the matters left in abeyance following the second session of the EEC-AASM Council of Association (on 7 April 1965) concerning the definition of the concept of "goods originating in..." referred to in Protocol No. 3 to the Yaoundé Convention (see section 269).

The Council adopted additional instructions for the negotiations between the Community and Nigeria. It also reached agreement on the instructions for the Commission to open negotiations with Tunisia and Morocco.

The Council also decided in pursuance of Article 28 of the Treaty to reduce for the period 1 July to 31 December 1965 the CCT duties on a number of products (see section 27).

170th session: 14 and 15 June 1965 (agriculture)

348. The Council adopted a regulation concerning prices in the producer Member States and fixing common threshold prices for non-producer Member States for rice and broken rice in the 1965/66 marketing year. It fixed the upper and lower limits of the target prices valid for the marketing centre of the heaviest surplus area in each Member State (see section 176).

The Council adopted regulations on fruit and vegetables, (see section 156). It adopted a regulation concerning certain processed products originating in the Associated African States and associated overseas territories (see section 274).

The Council adopted a regulation in the Community languages amending regulations Nos. 3 and 4 on social security for migrant workers (see section 246).

171st session: 22 June 1965 (transport)

349. The Council agreed upon certain arrangements for the common organization of the market in goods transport by rail, road and inland waterway. It also adopted a decision in principle on a consultation procedure in the field of transport infrastructure investments (see section 223).

172nd session: 28 to 30 June 1965

350. The Council held a full debate on the Commission's proposals for financing the common agricultural policy, independent revenue for the Community and wider powers for the Parliament. In spite of a measure of agreement on several important matters, the Council was unable to reach general agreement (see section 5).

The Council issued several regulations on the fixing, as from 1 July 1965, of intra-Community levies and non-member country levies on goods subject to the common organization of pigmeat and eggs and poultry markets.

It issued two regulations in the Community languages on rice and the formation of a new class of products for butter and cream.

173rd session: 26-27 July 1965

351. The President of the Commission submitted to the Council (meeting without the French member) ⁽¹⁾ a memorandum, dated 22 July 1965, on the financing of the common agricultural policy. A debate ensued.

⁽¹⁾ From this date until the extraordinary session of the Council at Luxembourg on 17 and 18 January 1966, the French did not attend Council meetings. For an account of proceedings on matters arising from the crisis, see Chapter I.

The Commission also submitted several reports on the GATT multilateral trade negotiations, the Community's relations with Nigeria and with Morocco and Tunisia. The Council took formal note of these reports.

174th session: 25-26 October 1965

352. The Council discussed in detail the Commission's Memorandum of 22 July 1965. The delegations present agreed on "guidelines" for financing the common agricultural policy.

The Council also examined the Community's political situation, and the delegations present adopted a resolution on the matter ⁽¹⁾.

The President of the Council was instructed to inform the French Government of these discussions.

175th session: 29-30 November 1965

353. The Council once again examined the political situation ⁽²⁾.

The Council was informed of the reference prices fixed by the Commission for sweet oranges. After discussion, it asked the Permanent Representatives and the Special Committee on Agriculture, in collaboration with the Commission, to study all the problems involved and report back before 31 January 1966.

The Council heard a progress report from the Commission on the GATT multilateral trade negotiations.

There followed a discussion of the aide-mémoire transmitted to the EEC Member States by the President of the EFTA Council on 29 October 1965.

Agreement was reached in principle on the draft budgets of the EEC and Euratom for 1966.

Finally the Council discussed the tariff measures due to come into force on 1 January 1966.

⁽¹⁾ See secs, 7 and 183.

⁽²⁾ See sec. 9.

176th session: 20 December 1965

354. After hearing an account by the President, M. E. Colombo, of the talks he had had with the French Minister of Foreign Affairs on 8 December 1965, the Council discussed possible arrangements for a resumption of work with the French delegation (see section 11).

The Council also agreed to the date of 19 January 1966 for the joint meeting of the institutions.

Lastly it discussed the question of extending to Algeria the tariff-dismantling measures due to come into force on 1 January 1966.

Special Meeting of the Council: 17-18 January and 28-29 January 1966

355. During the first part of the session (17-18 January), the Council heard and discussed the French desiderata concerning application of the majority rule and the role of the Commission.

In the second part of the session (28-29 January), the Council reached agreement on these matters and decided to meet as soon as possible in ordinary session (see section 13).

177th session: 28 February-1 March 1966

356. On the basis of a report drawn up by the Committee of Permanent Representatives, the Council discussed the financing of the common agricultural policy and instructed the Committee to continue its work. It also approved a directive on freedom of establishment (self-employed activities in the electricity, gas and water sector (sanitation services)).

178th session: 7-8 March 1966 (agricultural policy)

357. The Council agreed upon two regulations concerning guide prices (beef and veal for the marketing year beginning 4 April 1966, milk and milk products for the 1966/67 marketing year).

The Council also approved regulations concerning the fixing of levies on imports of pigs and pigmeat from non-member countries, arrangements

for determining veal and beef prices and amendments to regulations Nos. 45, 46, 116, 129/63 and 59/64 (eggs for hatching);

179th and 180th sessions: 21-22 March 1966

358. In connection with the GATT multilateral negotiations for a general arrangement on cereals, the Council discussed the level of international reference prices as well as the principles and methods of common financing for the disposal of surpluses.

The Council also resumed its discussions on the financing of the common agricultural policy. As regards the timetable for agriculture, the Council fixed the dates for taking decisions and applying them in the case of a large number of products.

181st session: 28-29 March 1966 (agricultural policy)

359. The Council adopted a regulation concerning milk and milk products (price brackets for the 1966/67 marketing year—threshold prices) ⁽¹⁾.

The Council also approved regulations concerning the amount of aid to be granted for private stocking of butter; the extension of regulations 55/65 and 56/65 on outlets for certain types of cheese; the extension of regulation 3/66 on certain waivers applied to imports of frozen beef and veal from non-member countries; and the extension of regulation 88/65 on refunds for exports to non-member countries (pigmeat, eggs, poultrymeat).

Examination of problems arising in the common organization of the markets for sugar, fruit and vegetables, and oils and fats, was deferred to the session of 21 April.

The merger of the Executives

360. On 8 April 1965 the Governments of the Member States signed a treaty establishing a single Council and a single Commission of the European Communities ⁽²⁾.

⁽¹⁾ See sec. 176.

⁽²⁾ See Eighth General Report, sec. I.

Since that date Member States have initiated procedure for ratification of the Treaty. The present situation is as follows:

In Belgium the ratification Bill was passed by the Chamber of Representatives on 27 January 1966 and by the Senate on 5 April 1966.

In Germany the ratification Bill was passed by the Bundesrat on 18 May 1965 and by the Bundestag on 30 June 1965.

In France the ratification Bill was passed by the National Assembly on 16 and 17 June 1965 and by the Senate on 26 June 1965.

In Italy the ratification Bill was passed by the Chamber of Deputies on 19 October 1965 and submitted to the Senate.

In the Grand Duchy of Luxembourg the ratification Bill was approved by the Council of State on 23 July 1965 and then submitted to the Chamber of Deputies.

In the Netherlands the ratification Bill was lodged with the clerk of the Second Chamber of the States General on 17 November 1965.

None of the Member States has yet deposited its instruments of ratification. However, at the Council meeting in Luxembourg on 28 January 1966, ⁽¹⁾ the representatives of the Member States agreed to meet on the date fixed for the next Council session and to begin discussions on the composition of the new single Commission and the choice of a President and Vice-Presidents. They will also agree on the date, during the first half of 1966, when instruments of ratification of the merger Treaty will be deposited, always provided that all the necessary parliamentary ratifications have been obtained and that agreement has been reached on the composition and on the President and Vice-Presidents of the Commission.

The Court of Justice

NEW CASES

361. During the period under review, 19 new cases concerning the activities of the EEC ⁽²⁾ were brought before the Court of Justice. Of these, three were decided and the others are pending.

⁽¹⁾ See sec. 12.

⁽²⁾ Other than suits filed by staff against Community institutions.

The 19 cases are listed below:

A suit by the Commission in pursuance of Article 169, paragraph 2

Case 38/65 (Official gazette No. 129, 15 July 1965). — EEC Commission v. French Republic, attacking the imposition of customs duty, after the entry into force of the Treaty, on a product called DIOFAN imported from Germany.

Eleven suits complaining of acts committed by Community institutions, under Article 173 of the Treaty, three of which were brought by Member States and the other eight by private or semi-official organizations.

Case 32/65 (Official gazette No. 120, 5 July 1965) — Italian Republic v. EEC Council and Commission. This is a suit for annulment of certain provisions of Council Regulations Nos. 17/62 and 19/65 and of Commission Regulation No. 153/62 concerning the applicability of Article 85 of the Treaty to certain classes of agreements and concerted practices (exclusive selling agreements).

Case 48/65 (Official gazette No. 153, 16 September 1965) — Alfons Lütticke, GmbH and others v. EEC Commission. This case was decided (see below, section 362—cases decided).

Case 52/65 (Official gazette No. 153, 16 September 1965), and *Case 55/65* (Official gazette No. 179, 27 October 1965) — Federal Republic of Germany v. EEC Commission. These suits seek annulment of Commission's directive dated 16 June 1965 and 28 July 1965 setting a timetable for the scaling down and final abolition of charges made by the Federal Republic of Germany on imports from other Member States of sheep for slaughter and mutton, and agricultural and food products subject to import licences.

Case 2/66 — INAPLI (Istituto Nazionale per l'Addestramento ed il Perfezionamento dei Lavoratori dell'Industria) v. EEC Commission. This is a suit for annulment of the Commission's decision of 29 September 1965 that Italy was not entitled to a grant from the Social Fund towards expenditures incurred by the Institute for vocational retraining schemes (Official gazette No. 46, 17 March 1966).

Cases 5/66 and 7/66 — Firma E. Kampffmeyer, Hamburg v. EEC Commission and Firma P. Kruse, Hamburg v. EEC Commission. These suits are for damage under Article 215 paragraph 2 of the Treaty, following the Court's ruling of 1 July 1965 (consolidated cases 106, 107/63),⁽¹⁾ case 5/66—see official gazette No. 46, 17 March 1966).

Case 8/66 — SA Cimenteries CBR, Cementbedrijven NV and others v. EEC Commission.

Case 9/66 — CEMIJ NV (Cementfabriek IJmuiden) v. EEC Commission.

Case 10/66 — ENCI NV (Eerste Nederlandse Cementindustrie) v. EEC Commission.

Case 11/66 — Alsen'sche Portland-Cement-Fabrieken KG and others v. EEC Commission.

These are four suits complaining of communications from the Commission pursuant to Article 15 (6) of Council Regulation No. 17, which the plaintiffs take to be "decisions".

Six applications under Article 177 for interlocutory rulings on interpretation of the Treaty:

Case 56/65 (Official gazette No. 208, 10 December 1965) — Société Technique Minière v. Maschinenbau Ulm GmbH. The Paris Court of Appeal asked the Court of Justice for an interlocutory ruling on the interpretation of Article 85 of the EEC Treaty concerning certain aspects of exclusive selling rights agreements, as well as the scope of the expression "null and void" used in paragraph 2 of the Article.

Case 57/65 (Official gazette No. 7, 14 January 1966) — Alfons Lütticke GmbH v. Main Customs Office, Saarlouis.

The Court of Justice, having received a request for an interlocutory ruling from the tax tribunal (Finanzgericht) of the Saar, is asked to decide

(¹) See below, section 362 — cases decided.

whether Article 95 of the EEC Treaty can produce direct effects and create personal rights which must be upheld by national courts.

Case 61/65 (Official gazette No. 17, 27 January 1966) — Mme Vassen-Göbbels v. the central committee of the BFM, Heerlen.

The Arbitration Commission (Scheidsgerecht) of the “Beambtenfonds voor het Mijnbedrijf” (Mining Employers’ Fund), Heerlen, submitted to the Court of Justice a request for an interlocutory ruling on the interpretation of EEC Council Regulation No. 3 concerning the social security of migrant workers, and in particular the interpretation of Articles 1, 4 and 22.

Case 4/66 (Official gazette No. 46, 17 March 1966) — J.E. Hagenbeek v. Raad van Arbeid, Arnhem. The “Raad van Beroep”, Utrecht, asked the Court of Justice for an interlocutory ruling on the interpretation of Council Regulation No. 3 concerning the social security of migrant workers, and in particular the effect of the provisions of Annex G III b on Articles 27 and 28.

Case 33/65 (Official gazette No. 120, 5 July 1965) — Dekker v. Bundesversicherungsanstalt.

Case 44/65 (Official gazette No. 140, 31 July 1965) — Hessische Knappschaft v. Maison Singer.

Cases decided (see below, section 362).

Suit filed by an official of the Commission

Case 6/66 — This suit seeks annulment of an administrative decision that the applicant refund a sum of money which he was overpaid.

CASES DECIDED DURING THE PERIOD UNDER REVIEW

Suits filed by the Commission in pursuance of Article 169

362. *Case 45/64* (Official gazette No. 25, 8 February 1966) — EEC Commission v. Italian Republic.

The Commission had asked the Court to rule that it was contrary to Article 96 of the Treaty ⁽¹⁾ for Italy to grant drawback in respect of internal charge on certain engineering products exported to other Member States; (under Italian Law No. 639 superseding Law No. 103); it alleged that Italy was allowing drawback on taxes which did not apply to the products themselves and of fixing the amount of drawback at a flat rate which was equivalent to the average rates stipulated in Article 97.

The Court ruled in favour of the Commission on 1 December 1965. First, the Commission was within its rights in bringing the matter before the Court even though the point at issue had been settled, at the appeal stage, by other legal arrangements (Law 103) and at the stage of the motivated opinion (Law 639). The only taxes or charges eligible for drawback under Article 96 were those imposed on the product as such, either directly, on the finished product, or indirectly, at stages of the manufacturing process. Taxes and charges imposed on the manufacturers in the course of their various commercial and financial operations were not eligible. As for the method of calculating drawback payments, the Court ruled that any State which resorted to the flat-rate method must be able to show that it was not infringing Article 96, i.e. that payments did not exceed the amount of tax actually borne by the product in question.

Suits concerning acts of Community institutions

Case 32/64 (Official gazette No. 140, 31 July 1965) — Italian Republic v. EEC Commission.

This case concerned the decision of 22 May 1964 in which the Commission authorized Italy to take safeguard measures under Article 226 of the Treaty in respect of raw silk. Italy sued for annulment of certain provisions of this decision which allegedly had unduly limited the desired protection.

On 17 June 1965, the Court dismissed the case. In particular it held that, though Article 2 of Protocol VIII to the agreement of 2 March 1960 favoured an application of Article 226 which would isolate the Italian

(¹) Article 96 of the Treaty "Products exported to any Member State shall not qualify for drawback of internal charges in excess of such charges imposed directly or indirectly on them".

market, it did not imply any waiver of Article 226. This was not a hard and fast rule but left the Commission with the full discretionary powers it held under the terms of that Article.

Case 38/64 (Official gazette No. 71, 28 April 1965) — *Getreide Import Gesellschaft v. EEC Commission*.

The applicant sued for annulment of certain decisions of the Commission fixing the cif prices of sorghum in accordance with Article 10 of Regulation No. 19.

On 1 April 1965 the Court dismissed the case, since the decisions were not of "individual concern" to the applicant.

Case 40/64 (Official gazette No. 71, 28 April 1965) — *Marcello Sgarlata and others v. EEC Commission*.

This was a suit filed by citrus fruit growers and exporters for annulment of Commission Regulations Nos. 65/64/EEC, 66/64/EEC and 74/64/EEC fixing reference prices for lemons, mandarines, clementines and sweet oranges.

On 1 April 1965 the Court dismissed the case, holding that the decisions complained of were not of "individual concern" to the applicants ⁽¹⁾.

Consolidated cases 106 and 107/63 (Official gazette No. 153, 16 September 1965 — *Alfred Töpfer and Getreide Import GmbH v. EEC Commission*).

The applicants sued for annulment of the Commission's decision of 3 October 1963 retrospectively authorizing Germany to maintain its safeguard measures regarding imports of maize, millet and sorghum under Article 22 of Regulation No. 19.

The applicants had obtained import licences for these products and considered that they were directly and individually concerned by the Community decision, even if it was only addressed to the Member State.

⁽¹⁾ Cases 41 and 42/64 filed by the Italian Government on the same subject were struck off on 2 February 1966, the applicant having withdrawn.

On 1 July 1965 the Court quashed the decision. Rejecting the submissions of the Commission, the Court allowed the suit; it recognized that the applicants were individually concerned, since in the case in point the Commission could have known the number and indemnity of the persons concerned at the time when it made the decision; the applicants were also directly concerned since, in the Court's view, the decision was immediately enforceable because it was merely upholding a national measure already in force. On the merits the Court found that there was not enough evidence to show any serious disturbance of the market, the only thing which would justify recourse to safeguard measures.

Case 48/65 — A. Lütticke GmbH and others v. EEC Commission.

This suit was filed in the first instance under Article 173 against a letter—which the applicant termed a “decision” informing him that the Commission saw no reason to take action against the Federal Republic of Germany for imposing a countervailing duty on imports of powdered milk. As a secondary plea the applicant alleged that the Commission was in default (Article 175).

On 1 March 1966 the Court dismissed both applications.

*Requests for interlocutory ruling on questions of interpretation or validity
(Article 177)*

Case 10/65 (Official gazette No. 155, 18 September 1965) — Waldemar Deutschmann v. Federal Republic of Germany.

This was a request by the Frankfurt-on-Main administrative tribunal for an interlocutory ruling on the interpretation of Article 95 of the Treaty.

On 8 July 1965 the Court, accepting the Commission's view, ruled that charge made for an import licence did not fall under Article 95 of the EEC Treaty, but under Articles 13 (2) and 17.

Case 16/65 (Official gazette No. 25, 8 February 1966) — Firma G. Schwarze v. Einfuhr- und Vorratsstelle für Getreide und Futtermittel.

The Hesse Finanzgericht had submitted a request for an interlocutory ruling on the validity of the Commission's decision of 24 January 1964 (fixing free-at-frontier prices for cereals).

On 1 December 1965 the Court ruled that none of the points raised in any way invalidated the decision in question. Taking into account the requirements of the present system of common market organizations and the operation of the levy machinery, the Court accepted the Commission's arguments. It ruled that the Commission could confine itself to a general indication of the essential factors and the procedure by which it had formed its assessment. The detail into which it had to go in stating the grounds for a decision of this kind must be proportionate to the material possibilities and the technical conditions or timing by which it was to take effect.

Case 33/65 (Official gazette No. 25, 8 February 1966) — *Adrianus Dekker v. Bundesversicherungsanstalt für Angestellte, Berlin*.

This was a request by the Landessozialgericht of Berlin for an interlocutory ruling on the interpretation of Article 22 of Council Regulation No. 3 concerning the social security of migrant workers.

On 1 December 1965 the Court ruled:

“By the term “benefits in kind”, Article 22 of EEC Council Regulation No. 3 concerning the social security of migrant workers does not infer sums paid in addition to pensions intended to cover part of the pensioner's health-insurance contributions”.

Case 44/65 (Official gazette No. 34, 26 February 1966) — *Hessische Knappschaft, Weilburg-on-Lahn v. Singer et Fils, Erstein*.

This was a request by the Colmar Court of Appeal for an interlocutory ruling on the interpretation of Article 52 of Council Regulation No. 3.

On 9 December 1965 the Court referred to the reply it had already given concerning the provisions of Article 52 of Regulation No. 3 in its ruling 33/64 of 11 March 1965, namely that Article 52 applied to all persons receiving benefits under the legislation of a Member State, whether or not the injury in respect of which compensation was paid had anything to do with their work.

The Court also ruled that Article 52 of Regulation No. 3 “empowered the social security institutions of a Member State to take steps in accordance with the legislation of that State to obtain refund of benefits paid in respect of an *accident which had occurred before 1 January 1959*”.

Cases brought by Commission staff

Eight cases were brought by members of the staff. The following six, all of which concerned the grading of the applicants, were dismissed:

Consolidated cases 48/64 and 1/65 (Official gazette No. 140, 31 July 1965): ruling given on 16 June 1965.

Case 46/64 (Official gazette No. 155, 18 September 1965): ruling given on 14 July 1965.

Case 52/64 (Official gazette No. 34, 26 February 1966): ruling given on 14 December 1965.

Case 5/65 (Official gazette No. 34, 26 February 1966): ruling given on 14 December 1965.

Case 12/65 (Official gazette No. 34, 26 February 1966): ruling given on 14 December 1965.

In the two other cases, decisions taken by the Commission following an internal competitive examination were quashed by the Court:

Consolidated cases 18 and 19/64 (Official gazette No. 155, 18 September 1965): ruling given on 14 July 1965.

Economic and Social Committee

363. The Economic and Social Committee held eight plenary sessions and rendered 34 formal opinions, five of these after discretionary consultation by the Commission. For the first time the Committee rendered an opinion, at the Commission's request on the economic situation in the Community. Consultation on this subject will be repeated automatically each year following the Commission's annual report to the European Parliament. The Committee will therefore be in a position from now on to advise on the measures of economic policy to be taken in the various countries and is thus more closely associated with the build-up of the Community. Further, the Committee has been associated, through the Commission, with the establishment of the first programme of medium-term economic policy. A special sub-committee has been set up within the Committee for this purpose.

During the period under review the Commission referred six recommendations to the Committee on its own initiative, all of which were connected with social affairs. As they were recommendations to the Member States the Commission considered it very important to obtain in advance the support of the employers' organizations and the trade unions in order to ensure that the recommendations would be implemented effectively.

45th session (27, 28 and 29 April 1965)

364. During this session the Committee rendered opinions on the following matters:

- i) Proposal for a Council regulation containing supplementary provisions on the organization of the fruit and vegetables market.
- ii) Proposal for a Council regulation applying the rules of competition to transport by rail, road and inland waterway (unanimously).
- iii) Proposal for a Council directive on freedom of establishment and freedom to supply services in a self-employed capacity in the electricity, gas, water and sanitation sectors (ISIC Division 5) (unanimously).
- iv) Proposal for a second directive on the harmonization of laws and regulations governing branded pharmaceuticals.
- v) Proposal for a Council regulation supplementing Regulations Nos. 3 and 4 providing social security for migrant workers (situation of auxiliary employees of the European Communities).
- v.) The economic situation in the Community. This opinion was rendered following the Commission's request of 27 January 1965.

46th session (25 and 26 May 1965)

365. During this session the Committee rendered opinions on the following matters:

- i) Proposals to the Council regarding the financing of the common agricultural policy, independent revenue for the Community and wider powers for the European Parliament.
- ii) Proposal for a Council directive concerning indirect taxes on capital contributions (unanimously).

iii) Proposal for a Council regulation concerning a common definition of the notion "goods originating in..." (unanimously).

iv) Proposals for Council regulations to increase the effectiveness of the European Social Fund (unanimously).

47th session (30 June and 1 July 1965)

366. During this session the Committee rendered opinions on the following matters:

i) The Commission's draft recommendation to the Member States on the medical supervision of workers exposed to special hazards.

ii) Certain problems arising from the removal of customs barriers and quota restrictions between the Member States and the Associated States and the effects of this removal of restrictions on trade with non-member countries (unanimously). This opinion was rendered at the Commission's request following the statement by M. Rochereau, member of the Commission with special responsibility for overseas development, at the Committee's session of 27 October 1964.

iii) Proposal for a Council directive on the application of legislation governing farm leases in the Member States to farmers who are nationals of other Member States and a proposal for a Council directive on freedom for farmers who are nationals of one Member State, but established in another Member State, to move from one farm to another (unanimously).

iv) Proposal for a Council regulation on Community grants for the retraining of farm workers wishing to change their occupation within agriculture and on the proposal for a Council regulation on Community grants for promoting and facilitating the training of specialists to staff information and advisory services for farmers and farmworkers wishing to change their occupation (unanimously).

48th session (29 and 30 September 1965)

367. During this session the Committee rendered opinions on the following matters:

i) Proposal for a Council regulation on protection against dumping or the payment of export bounties or subsidies by countries not members of the EEC (unanimously).

- ii) Proposal for a Council directive concerning measures to prevent the entry of plant pests into the Member States.
- iii) Proposals to the Council for measures to assist redundant Italian sulphur mineworkers (unanimously).
- iv) Two Council directives, one on freedom of establishment and freedom to supply services in a self-employed capacity in retail trade (ISIC Group ex 612) and the other on transitional measures affecting self-employment in retail trade (unanimously).

During this session M. Hallstein, President of the Commission, delivered an address on the general situation in the Community following the crisis which began on 30 June 1965. Before describing the events leading up to the crisis and discussing the Commission's new proposals, M. Hallstein referred to the part to be played by the Economic and Social Committee, which represented the economic and social interest of the Community, in the efforts that had to be made by the European institutions and by the Governments to resolve the grave crisis which was affecting the very foundations of the Treaty. M. Giustiniani thanked M. Hallstein on behalf of the Committee; M. Giunti, M. Major and M. Meyvaert, in their capacity as spokesmen of the three groups composing the Committee, expressed their warm appreciation of the merits of the Commission and pledged the confidence and support of their groups for it at national and Community level.

The Committee also heard an address by M. von der Groeben on competition policy.

49th session (28 October 1965)

368. M. Giustiniani, Chairman of the Committee, opened the session by saying that the Committee felt strongly that a rapid solution should be found to the Common Market crisis and pointed to the numerous gestures of solidarity with the Community idea made by the business community and representatives of social organizations.

The Committee then rendered opinions on the following matters:

- i) Proposed Council directive on freedom of establishment and freedom to supply services in a self-employed capacity in forestry and proposal for an amendment of the General Programme for the removal of restrictions on freedom of establishment (unanimously).

ii) Two proposed Council directives on freedom of establishment and freedom to supply services in a self-employed capacity in the "personal services" sector, i.e.:

1) Restaurants, cafés, taverns and other drinking and eating places (ISIC Group 852);

2) Hotels, boarding-houses, camps and other lodging places. (ISIC Group 853);

and on procedures for transitional measures in this field (unanimously).

iii) Accommodating the interests of the AAMS and the overseas states, countries and territories in respect of products similar to and competing with European agricultural products.

50th session (7 and 8 December 1965)

369. During this session the Committee rendered opinions on the following matters:

i) Proposal for a Council directive on freedom of establishment and freedom to supply services in a self-employed capacity in the food and beverage industry (ISIC Major Groups 20 and 21) and on detailed transitional measures in this field (unanimously).

ii) Proposal for a Council directive on the approximation of laws, regulations and administrative instructions concerning dangerous substances and preparations and on that relating to classification, labelling and packaging of dangerous substances (unanimously).

iii) Proposal for a directive amending the Council directive of 5 November 1963 on the approximation of legislation of the Member States on permitted preserving agents in foodstuffs for human consumption (unanimously).

iv) Proposal for a Council directive on the alignment of postal rates for letters up to 20 grammes and postcards (unanimously).

51st session (26 and 27 January 1966)

370. During the session the Committee rendered opinions on the following matters:

i) Proposed Council regulation on the gradual introduction of a common procedure for the administration of import quotas (unanimously).

ii) Proposed Council directive for the harmonization among Member States of turnover-tax legislation concerning the form and methods of application of a common system of taxation on value added.

The Committee was addressed by M. Marjolin, Vice-President of the Commission, on the economic situation in the Community.

52nd session (23 and 24 February 1966)

371. During the session the Committee rendered opinions on the following matters:

- i) Draft Commission recommendation to the Member States on the protection of young workers.
- ii) Draft Commission regulation to the Member States on vocational training.
- iii) Draft Commission recommendation to the Member States concerning compensation for victims of occupational diseases.
- iv) Certain problems connected with the implementation of the Association Convention.

Other Community Institutions

MONETARY COMMITTEE

372. The Monetary Committee held twelve sessions during the period under review. It examined regularly the monetary and financial situation in the Member States and reported to the Council and Commission. The Committee also followed closely developments in the international monetary situation and pursued its studies with a view to improvement of the international monetary system ⁽¹⁾.

SHORT-TERM ECONOMIC POLICY COMMITTEE

373. The Short-term Economic Policy Committee met on three occasions during the period under review. At its June meeting the Committee

⁽¹⁾ A full account of the Monetary Committee's activities will be given in its eighth report.

examined the preliminary economic budgets of the Member States and transmitted its conclusions to the Commission in a memorandum. At its autumn meeting the Committee reviewed the economic situation in the Community. At the February 1966 meeting it examined the Member States' final economic budgets and set out its conclusions in a memorandum to the Commission, which transmitted it to the Council.

BUDGET POLICY COMMITTEE

374. At its July meeting the Budget Policy Committee examined the broad lines of the member countries' budgetary policy for 1966 on the basis of early and still very provisional estimates. Its conclusions were given in memoranda to the Council and Commission. At the request of the Medium-term Economic Policy Committee, the Committee examined the trend of the receipts and expenditure of public authorities and of social security funds from 1960 to 1970. The results were transmitted to the Medium-term Economic Policy Committee, which will use them in establishing a preliminary draft of its five-year programme. The Committee instructed its alternates to study a number of matters, such as inelasticity of expenditure on staff, methods of budgeting for a number of years, public savings, etc.

At its meeting of 6 December 1965, the Committee examined again the broad lines of budgetary policy in the Member States for 1966 in the light of draft budgets already laid before certain parliaments or of information supplied by the delegations of some Member States.

MEDIUM-TERM ECONOMIC POLICY COMMITTEE

375. The Medium-term Economic Policy Committee ⁽¹⁾ met eleven times during the period under review and on 25 March 1966 adopted the preliminary draft of its medium-term economic programme. It set up special working parties to study certain points which will probably be dealt with in greater detail in future programmes; the working parties will be concerned with policy on the structure of industry, incomes policy and policy on scientific and technical research ⁽²⁾.

⁽¹⁾ See Eighth General Report, sec. 375.

⁽²⁾ See sec. 133.

AUDIT BOARD

376. In accordance with Article 206 of the Treaty and the financial regulation relating to the rendering and auditing of accounts, the Audit Board drew up by the deadline fixed its report on the accounts for 1964; it proposed to the budgetary authority that the Institutions be given a discharge in respect of the execution of the budget.

This report, together with the administration accounts and balance-sheets for the financial year concerned, were laid before the Council and the European Parliament.

CONSULTATIVE COMMITTEE ON TRANSPORT

377. The members of the Consultative Committee on Transport for the current year were appointed at the beginning of 1965. The first plenary session was held on 5 July 1965, when the Committee took note of the items referred to it by the Commission during the year to come and drew up its programme of work. The Committee set up nine working parties, which held thirteen meetings. Since then it has had three plenary sessions ⁽¹⁾.

Co-operation between the Executives and the Joint Services

CO-OPERATION IN MATTERS OF COMMON INTEREST

378. Co-operation between the Executives was continued and extended at various levels. A new field was scientific and technical research.

The Inter-Executive Working Party on Energy held two meetings, on 20 January and 3 June 1965. It continued its work in connection with the Protocol on energy policy of 21 April 1964. On the basis of this work the High Authority took a decision on 17 February 1965, in pursuance of Article 11 of the Protocol, to set up a Community system of aid to collieries. The Working Party also co-operated in the preparation

(¹) See sec. 231.

of the annual report on the energy situation and instructed three *ad hoc* groups to bring up to date and extend until 1980 the study on the Community's long-term energy prospects. An opinion was also rendered on a draft memorandum subsequently submitted by the Commission to the Council concerning Community policy on oil and natural gas ⁽¹⁾.

The Commission continued to co-operate in the preparation of the High Authority quarterly economic forecasts.

Representatives of the High Authority and Euratom Commission regularly attended meetings of the Medium-term Economic Policy Committee and of its working parties.

The members of the Inter-Executive Working Party on Scientific and Technical Research, set up in April 1965, are: M. de Groote, member of the Euratom Commission, M. Marjolin, Vice-President of the EEC Commission, and M. Hettlage, member of the High Authority.

The Working Party met twice, on 14 October 1965 and 29 March 1966 ⁽²⁾. It discussed the bases for co-operation between the three Executives in scientific research.

In the sphere of customs policy the Commission sought the co-operation of the High Authority in the preparation of a Community system for customs-free imports from non-member countries of supplies for the construction, maintenance, repair and equipment of aircraft.

In the sphere of social policy the High Authority continued to co-operate regularly in the EEC's work on law relating to labour, wages, working hours, social security and training. The High Authority and the Euratom Commission continued to attend meetings, arranged by the Commission, of the national heads of departments responsible for industrial safety and health. Both Executives were also invited to attend a meeting of government experts to discuss closer co-operation between the Member States in the case of industrial disasters. The High Authority, furthermore, gave its support to a proposed recommendation on the medical supervision of workers exposed to special hazards. Co-operation between the EEC and the ECSC in the matter of movement of workers is the concern of

⁽¹⁾ See sec. 146.

⁽²⁾ See sec. 264.

special committees set up by the two Executives. Points regarding the European Social Fund are discussed regularly by the Working Party on Industrial Conversion (ECSC - EEC - EIB).

Inter-executive co-operation in external relations was pursued, in particular with the ECSC High Authority, whose representatives attend meetings of the Special Article 111 Committee.

In the administrative sphere co-operation continued between departmental heads of Community Institutions with a view to unifying the application of the service regulations.

The Inter-Executive Working Party on Transport dealt mainly with the implementation on the High Authority's recommendation No. 1/61 concerning the publication of transport rates and conditions and with railway rates in Germany proposed by the Federal Government in view of potential competition from a Saar-Palatinate canal. Consultations also took place in the Working Party on special agreements which the Belgian Railways may conclude for the transport of coal and steel and on a Belgian royal decree relating to road haulage. Finally, the Working Party discussed the negotiations between the French and German Governments on the establishment of a Franco-German through tariff for road transport and between the German and Netherlands Governments on the proposed German-Dutch tariffs for road transport.

STATISTICAL OFFICE OF THE COMMUNITIES

379. The Statistical Office of the European Communities supplied the Community Institutions regularly with basic statistical data. The information took the form of a large number of internal documents and of publications issued for sale. The Statistical Office at present produces fourteen periodical publications and some non-periodical publications.

The heads of national statistical offices met twice during the period under review. Among the points discussed were the programme of work for 1966; the Community framework for national accounts; the establishment of external trade statistics after the elimination of customs barriers between the Member States; the programme of transport statistics, and the execution of the 1965 programme of work.

Work continued on a Community system of national accounting. Progress was made in certain fields, for example the data obtained from the survey of social expenditure and financing for 1962 and 1963 have been largely collated.

Further method studies were made of the balance of payments and national accounts in the six Member States. A report was published in Statistical Information No. 4 on the inclusion of the external account in the Community system of national accounts.

A single nomenclature has been published for statistics on retail trade; it also contains a comparative digest of the nomenclatures used in the Member States.

In the matter of statistics concerning the non-member countries, a certain amount of work has been completed on trade between the eastern European countries, and between them and the EEC and other countries. Priority was given to data relating to foreign trade in farm products.

In respect of statistics on the associated overseas countries and territories, the calculation of export indices deserves special mention.

In the sphere of energy statistics attention must be drawn to the basic data relating to the development and production of liquid and gaseous hydrocarbons; these data appeared in Statistical Information Nos. 1 bis and 3. Further, certain aspects of electricity generation were dealt with in internal communications. Data summing up the energy situation, including balance-sheets for energy, have been published regularly in the bulletin on energy statistics which was expanded during the year.

Work connected with external trade statistics was concentrated mainly on material for the Kennedy round negotiations. The harmonization of foreign trade nomenclatures was completed in time for the new nomenclature to be used in principle from this year on. Certain points which have not yet been cleared up will be discussed further. A study has been made of the problems which will arise in the sphere of foreign trade statistics when the customs frontiers have been eliminated. The data supplied by the various countries on their methods in foreign trade statistics have been summarized in a table, which will provide the basis for future talks on harmonization.

With regard to transport statistics, the execution of the programme already announced has continued.

In the sphere of industrial statistics the preparation of a consolidated nomenclature of industrial products was also one of the main tasks during the year. Work on extending production indices to a larger number of industries is now approaching completion. The survey of industrial investments in the EEC countries has also been completed, except in Germany where the survey will be made at the end of the current year. Processing of the results of the 1963 industrial census has not, unfortunately, gone as far as had been originally intended because of delays in some Member States.

Steel statistics included for the first time a yearbook giving a general view of the iron and steel industry.

In social statistics further results have been published concerning wage cost surveys. A survey of wage structures has been planned for 1966. Progress has been made in harmonizing various aspects of social statistics. Normalized statistics, for example, have been published for average gross hourly earnings; normalized statistics are also being prepared on wage-earners, real working hours and certain basic information on social security. Employment figures, which were already available for 1958 to 1962, have now been published for 1963 and 1964. For 1966 a sample survey has been prepared on industrial accidents in the EEC.

Processing of the family budgets survey has been completed for a number of countries. The results are being published in a special series on social statistics.

In the field of agricultural statistics various preparatory studies have been made to achieve better comparability of statistics on prices. The first regulation has been drawn up to improve livestock production statistics. In order to obtain more rapid information in supply balance-sheets, the data are now being processed partly by machine. Regional agricultural statistics on land utilization and crop production have been completed. Much of the final work was concentrated on the preparation of the survey of agricultural structures.

COMMUNITY LAW

JOINT LEGAL SERVICE

380. The Supervisory Board of the Legal Service, the members of which remained unchanged, carried out its regular budgetary and administrative duties.

Collaboration between the three branches was intensified in view of the future merger of the Executives. Consultation mainly concerned institutional matters, interpretation and implementation of the Statute of Service, matters relating to law on competition and transport, and points concerning law suits; furthermore, the three branches kept each other informed on all matters of legal principle.

This close co-operation helped to alleviate the disadvantages arising from the division of the Legal Service and gave a largely common character to its aims and methods. The EEC branch therefore benefited from exchanges with the other branches and from measures regarding organization and material installation common to the Service as a whole or to the two branches situated in Brussels.

EEC BRANCH

381. In the EEC, the only branch to be considered here, the Legal Service helped to prepare and uphold the legal positions of the Commission and to promulgate Community law.

The Commission's activity is subject to rules regarding competence and procedure. It almost invariably has an impact on national law. Most decisions must therefore be prepared carefully from the legal angle.

Such preparation, which is all the more difficult because more often than not it necessitates a confrontation of laws of the different countries, involves constant co-operation between the Legal Service and the departments concerned, sometimes with the help of experts from the Member States and, for important matters, by written consultation of the Legal Service—in 1965 on 1 146 occasions.

The Legal Service is involved in both the interpretation and implementation of existing Community law and in the drawing up of legal instruments and new proposals. The Service therefore needs to be able to refer systematically to a wide range of documents. Furthermore, in order to draw up new regulations and directives the Service has had to devise new methods to align the versions in the various languages and to build up a uniform Community legal language compatible with the legal systems in the Member States. With the additional staff recruited in 1965 it will be possible to make the necessary progress.

In its complex task the Legal Service has two aims:

- i) To set up a Community legal system and the necessary links with the national legal systems. Here attention has been focussed in 1965 mainly on the consequences resulting from the principles confirmed by the Court of Justice in case 6/64 (ENEL),⁽¹⁾ and on recourse to the procedure for interlocutory questions provided for in Article 177 of the Treaty;
- ii) To solve specific problems, each calling for a different technique, arising out of the Commission's activity. In 1965 numerous detailed studies were made, for example on charges having equivalent effect to customs duties and measures having equivalent effect to quantitative restrictions; on the application or otherwise of Article 85 to exclusive dealing agreements; on harmonization of company law in the Community and the creation of a European company statute.

The Commission takes its decisions on the basis of the preparatory work done by its departments, in particular the Legal Service.

382. The position adopted by the Commission may lead to litigation. Furthermore, under Article 177 of the Treaty, national courts submit to the Court of Justice requests for preliminary rulings, on which the Commission, as it is empowered to do by Article 20 of the Protocol on the Statute of the Court of Justice, submits its comments. Following the Commission's instructions and with appropriate assistance, the Legal Service represents the Commission before the Court of Justice and acts on behalf of or defends the Commission before the national courts.

(¹) See Eighth General Report, sec. 412.

During the period under review the number of cases, of varying importance, before the Court of Justice totalled 39, of which 21 were settled and 18 are pending ⁽¹⁾.

Of the 19 suits filed during the period:

- i) One was brought against the Commission by a member of the staff;
- ii) One was brought by the Commission against a Member State;
- iii) Eleven were filed against the Community, three by Member States and eight by individuals;
- iv) Six cases were requests for interlocutory rulings from domestic courts under Article 177; three of these related to social security for migrant workers.

It should be noted that in two rulings, which concerned four of the twenty-one cases settled during the period, the Court found against the Commission:

a) *Consolidated cases 106 and 107/63* (A. Toepfer KG and Getreide Import GmbH) ⁽²⁾. Following this ruling two actions for damages were brought against the Commission ⁽³⁾.

b) *Consolidated cases 18 and 19/64* ⁽¹⁾. An internal competitive examination to recruit reserve staff, cancelled on the application of certain members of the staff, was held again in conformity with the instructions given in the Court's ruling.

383. The new and complex character of the system of Community law flowing from the Treaty, from regulations made by the Institutions, and from the judgments of Community and national courts, has aroused a thirst for information among legal circles. Arrangements for the systematic supply of explanations and information are therefore necessary. The Legal Service has assisted in various ways, in co-operation with other departments where necessary, in the steps taken by the Commission to satisfy this need, which has been growing steadily for some years and has assumed considerable proportions in the period under review.

⁽¹⁾ For details, see secs. 361 and 362.

⁽²⁾ See sec. 362.

⁽³⁾ Cases 5 and 7/66, see sec. 361.

The Commission played a prominent part in the Parliament's debate on the primacy of Community law following the report by M. Dehousse ⁽¹⁾.

Further, arrangements for informing interested circles directly have been organized and developed. Institutes specializing in the study of European law have intensified and diversified their efforts, combining systematic teaching in the universities with courses of lectures and meetings specially designed to meet the demand from various quarters. At the same time, Community law is becoming a subject for permanent study by special groups, such as the International Federation of European Law, and by law associations with wider-ranging interests. Symposia and congresses abound, some wholly concentrated on European law, such as the Bruges Week on law arranged by the College of Europe, the symposium on the merger of the Communities held by the Liège Institut d'études juridiques européennes, the Congress of the International Association of Lawyers which took place in Arnhem and the Symposium of the International Federation of European Law in Paris, and some dealing with aspects of Community law in a specific framework, such as the Symposium held by the Energy Institute at Cologne.

The Community Institutions and their departments have welcomed members of the judiciary to Brussels and Luxembourg and have held fruitful exchanges of views, in particular with senior magistrates and members of the bar in the Member States and with eminent professors of Italian law, who embarked on an examination of relations between Community law and national law which they continued subsequently in Rome.

International legal circles themselves now devote considerable attention to Community law. It is of considerable interest to the large international law organizations, such as the International Law Association, and to international law conferences, where the problems encountered by Community law are discussed, such as the Vienna Symposium on the application of the European Convention on Human Rights and the Conferences on World Peace through Law.

Mention must be made of the founding of new reviews specializing in European law which now provide French-speaking members of the legal profession with extensive and regular information.

(¹) See secs. 334 and 337.

This general picture, though no more than an outline, shows that the demand for information on the subject expanded remarkably in 1965. This situation bears witness to the development of the Community legal system. The system has today reached a sufficient degree of reality and precision to count among the everyday business concerns of the legal profession. In this way a legal framework is taking shape which will ensure that the Community functions justly and efficiently in accordance with the objectives and conditions laid down by the Treaty.

THE COMMUNITY LEGAL SYSTEM

384. The progressive building-up of the Community legal system is a long-term task which the Commission keeps constantly in mind. The effectiveness of Community law does not depend only on the rules that are established, but also largely on how it is interpreted when applied to practical situations. The Community legal system derives from a complex pattern of rules and practices, interpretations and rulings, in which both the national authorities and Community institutions play a part. Only by a coherent process will the difficulties encountered be resolved and a satisfactory degree of certainty as to the law be attained. It is essential that developments should be constantly observed and co-ordinated.

It is now possible, after eight years, to survey the course that has been followed. Many legal problems have become clearer and many interpretations of ambiguous points can be considered final. In this difficult task the rulings of the courts play an irreplaceable role, which deserves mention if only briefly.

First and foremost, of course, comes the case law of the Court of Justice, which has already had to hear and determine a large number of disputes relating to the implementation of the Rome Treaty and to the functioning of the institutions of the Treaty (see Tables 28 and 29).

The part played by domestic courts of law must also be recognized. Community law is integrated into the legal systems of the Member States and, subject to the Court of Justice's competence under Article 177 in the matter of interpretation and rulings on validity, domestic courts are

consequently required to co-operate at their level in giving effect to Community law in the event of disputes. A list, which is not exhaustive and does not include cases referred to the Court of Justice for an interlocutory ruling, can be given of over one hundred published judgments given by national judges in matters governed by the Treaty or its implementing regulations. These can be classed as follows:

TABLE 27

EEC	Customs & similar provisions	Competition		Agricultural policy	Transport	Social policy	Free movement of workers	Art. 220	Total
		Agreements, monopolies dumping	Aids						
Belgium		11						1	12
Germany	15	24	1	3			4		47
France	4	10			1	2			17
Italy	1	2	1			2			6
Luxembourg		1							1
Netherlands		20							20
Total	20	68	2	3	1	4	4	1	103

These decisions as a whole already constitute an impressive body of case law. The Commission considers that the time has come to take stock briefly in its General Report of interpretations accepted as final, stressing those results which appear to be the most important in relation to the characteristic machinery of the Community legal system and to the interpretation and implementation of the substantive rules of Community law.

I. THE MACHINERY OF THE COMMUNITY LEGAL SYSTEM

Nature and scope of Community law

385. In each Member State law of Community origin now coexists with municipal law. The Commission has constantly taken pains to promote the study and the harmonious interplay of the two systems of law, so that the complete effectiveness of Community law is ensured without encroaching, however, on the area of competence reserved by the Treaty for municipal systems. With this in mind it has unhesitatingly put forward its views in its submissions to the Court on cases, all brought under Article 177, which have enabled the Court to define the nature of law arising from the Treaty and the consequences thereof.

In this sphere the Commission has taken a firm position on two main points:

a) First, it had to be decided if and how far individuals could apply to their national courts for execution of certain provisions of the Treaty which apparently lay obligations only on the Member States. Taking into account the original structure and aims of the Treaty, the Commission held that a limited number of such provisions spelled out, in a binding and autonomous manner, the obligations of the Member States, respect of which constituted rights for the individual which the domestic courts uphold. In general the Court took a similar view in a number of judgments.

It was recognized, ⁽¹⁾ first of all, that Community law, whether arising from the Treaty or from acts of the Institutions, embraces two classes of provisions:

- i) Those merely binding the states as such, without constituting rights for the ordinary citizen;
- ii) Those forming an integral part of the legal system of the Member States, constituting the law of those States and directly concerning their nationals, on whose behalf they create obligations and rights which the

⁽¹⁾ Judgment 26/62 — Reports of the Court, Vol. IX, p. 5.
Judgment 28, 29 and 30/62 — *Ibid.*, Vol. IX, p. 63.

national systems must safeguard, such jurisdiction being additional to that exercised by the Commission and the Member States under Articles 169 and 170.

This scope must be recognized not only for the provisions to which it has been explicitly attributed by the Treaty, but also for all those which by their nature may be endowed with such an effect ⁽¹⁾. For example the Court considered that direct effects in the relations of Member States with those under their jurisdiction were produced by rules arising out of various provisions of the Treaty imposing on the States clear and unconditional prohibitions (Article 12: ban on new customs duties between Member States ⁽²⁾; Article 53: ban on new restrictions on the establishment of nationals of Member States in the territory of other Member States ⁽³⁾; Article 37 (2): ban on new measures contrary to the principles laid down in Article 37 (1) relating to government monopolies) ⁽³⁾. On the other hand, the Court decided that the provisions of Articles 93 and 102 did not have this character ⁽³⁾.

b) Secondly, the point has risen whether Community law can be set aside by a contrary provision of municipal law. The Italian Constitutional Court considered that Community law has, in the Italian legal system, the status of ordinary law and can therefore be overruled by a later municipal law ⁽⁴⁾. When the point was referred subsequently to the Court of Justice, the Commission argued that the objectives and provisions of the Treaty required that where there is conflict Community law should have primacy over municipal law. The Court advanced the same view in the following justly famous ruling: ⁽⁵⁾

“This integration into the law of each member country of provisions which are of Community origin and, more generally, the letter and spirit of the Treaty imply that it is impossible for the States to allow a legal system accepted by them on a reciprocal basis to be prevailed over by a subsequent unilateral measure, which therefore cannot be invoked against it. Flowing as it does from an autonomous source, law born of the Treaty cannot

⁽¹⁾ Judgment 26/62 — Reports of the Court, Vol. IX, p. 5.

Judgments 28/29 and 30/62 — *Ibid.*, Vol. IX, p. 63.

⁽²⁾ Judgment 26/62 — *Ibid.*, Vol. IX, p. 5.

⁽³⁾ Judgment 6/64 — *Ibid.*, Vol. X, p. 1149.

⁽⁴⁾ Decision of 8 March 1964 — *Foro Padano*, 1962, p. IV — col. 9-16.

⁽⁵⁾ Judgment 6/64 — Reports of the Court, Vol. X, p. 1149.

therefore, because of its original specific nature, be opposed in the courts by a municipal law, whatever it may be, without losing its Community character and without the legal basis of the Community being brought into question (...). The transfer by the States from their domestic to the Community legal system of rights and obligations corresponding to the provisions of the Treaty therefore entails a definitive limitation of their sovereign rights, over which a subsequent unilateral act incompatible with the concept of Community cannot prevail”.

Uniform application of Community law: Article 177 of the Treaty

386. The Community nature of law thus integrated into the legal systems of the Member States implies that uniform interpretation of such law must be ensured whichever judge is responsible for applying it. For this purpose Article 177 sets up reference machinery which may be defined as a procedure of judicial co-operation by which the municipal courts and the Court of Justice in their respective spheres are required to contribute directly and reciprocally to the preparation of a decision in order to ensure that Community law is applied uniformly (1).

The effectiveness of this assurance of uniform practice depends mainly on how far national judges have recourse to this legal channel. The Commission is pleased to note that the judges are now more and more willing to recognize the competence of the Court in interpreting Community law. Following the example of the Netherlands and, shortly after, the German Courts, those in Luxembourg, Italy and, since 1965, in France have had recourse to the procedure of Article 177.

The number of requests for interlocutory rulings received points to the importance of this procedure, and the Court is making it easier to apply in practice.

First of all the Court has established its judicial nature. It is for a national judge alone, and not the parties to the main dispute, to refer a point to the Court (2). He alone decides what questions are to be raised; the parties cannot amend them or have them declared without object (3).

(1) Judgment 16/65 — Report of the Court, Vol. XI, p. 1082.

(2) Judgment 31 and 33/62 — *Ibid.*, Vol. VIII, p. 965.

(3) Judgment 44/65 of 9 December 1965.

Likewise, third parties to the main dispute cannot intervene in the deliberations of the Court ⁽¹⁾.

387. A second class of rules derives from the principle of the division established by the Treaty between the areas of competence of the two systems:

i) The Court has jurisdiction by the mere fact that a request for a ruling has been made ⁽²⁾. The Court does not have to ascertain whether the decision of the judge who has made the request has acquired the force of *res judicata* under municipal law ⁽²⁾. It need not look at the considerations which have prompted the trial judge in raising questions or how far he thinks them pertinent ⁽³⁾.

ii) Basically the Court can only give a ruling on the interpretation of Community law or the validity of acts which are submitted to it; it does not concern itself with the facts of the main dispute, ⁽⁴⁾ it does not interpret municipal law, ⁽⁵⁾ and it does not apply the Treaty to a specific case or determine the validity of a measure taken under municipal law ⁽⁶⁾.

Its case law demonstrates the Court's willingness to co-operate extensively with the national judges. This is evident in its rejection of any formalistic application of the letter of the law ⁽⁷⁾.

It also lies at the origin of the liberal spirit with which the Court agrees to reply to questions put to it, seeking the precise implication of such

⁽¹⁾ Judgment 6/64 — Reports of the Court, Vol. X, p. 1149.

⁽²⁾ Judgment 13/61 — Reports of the Court, Vol. VIII, p. 89. The Court rules on a point although an appeal may have been made to the Supreme Court of Appeal.

Judgment 26/62 — *Ibid.*, Vol. IX, p. 5.

⁽³⁾ Judgment 26/62 — *Ibid.*, Vol. IX, p. 5.

Judgment 6/64 — *Ibid.*, Vol. X, p. 1149.

Judgment 20/64 — *Ibid.*, Vol. XI, Section 3.

⁽⁴⁾ Judgment 6/64 — *Ibid.*, Vol. X, p. 1149.

⁽⁵⁾ Judgment 13/61 — *Ibid.*, Vol. VIII, p. 89.

Judgment 24/64 — *Ibid.*, Vol. X, p. 1259.

Judgment 10/65 — *Ibid.*, Vol. XI, p. 1001.

Judgment 33/65 — *Ibid.*, Vol. XI, p. 1112.

⁽⁶⁾ Judgment 100/63 — *Ibid.*, Vol. X, p. 1105.

Judgment 6/64 — *Ibid.*, Vol. X, p. 1149.

Judgment 20/64 — *Ibid.*, Vol. XI, Section 3.

Judgment 24/64 — *Ibid.*, Vol. X, p. 1259.

⁽⁷⁾ Judgment 16/65 — *Ibid.*, Vol. XI, p. 1082.

For an important example see also judgment 101/63.

questions, ⁽¹⁾ selecting those which are its responsibility from the terms of the request, ⁽²⁾ even when they are contained only implicitly in the latter, ⁽¹⁾ and agreeing to examine a point of validity raised in the guise of a request for interpretation ⁽³⁾.

On the other hand the Court recognizes that its earlier decisions may deprive of all object any requests for interpretation on identical points, ⁽⁴⁾ and make it unnecessary for the national judge to submit such requests ⁽⁵⁾.

Founts of Community law: acts of the Institutions

388. First the Commission has to decide the nature and form of acts which it has to adopt in exercising its powers. For this purpose it must take into consideration their subject-matter. Regulations and decisions are drafted with an eye to the persons to whom they are addressed. While decisions are characterized by the limited number of those whom they affect, regulations, which are of a normative character, apply not to limited categories—designated or identifiable—but to categories considered in the abstract and as a whole. These views have been confirmed by the Court in its judgments ⁽⁶⁾.

Then in respect of the grounds to be stated for these acts, the Commission has encountered on several occasions the difficult problem of the balance that must be achieved in each case between the requirements of judicial control and the protection of those under its jurisdiction, on the one hand, and the discretion and promptness which the Commission is expected to show, on the other hand. Thus, in decisions addressed to the Member States concerning the grant of tariff quotas, the Commission did not feel it should state expressly in the explanatory memoranda all the points on which its decisions were based. The Court has, nevertheless, upheld the decisions arising in another context, from the grounds given for the High

⁽¹⁾ Judgment 101/63 — Reports of the Court, Vol. X, p. 381.

⁽²⁾ Judgment 20/64 — *Ibid.*, Vol. XI, Section 3.

⁽³⁾ Judgment 16/65 — *Ibid.*, Vol. XI, p. 1082.

For an important example see also Judgment 101/63.

⁽⁴⁾ Judgments 28-30/62 — *Ibid.*, Vol. IX, p. 59.

⁽⁵⁾ Judgments 73 and 74/63 — *Ibid.*, Vol. X, p. 1.

Judgment 24/64 — *Ibid.*, Vol. X, p. 1259.

Judgment 44/65, 9 December 1965.

⁽⁶⁾ Judgments 16 and 17/62 — *Ibid.*, Vol. VIII, p. 901.

Judgments 19-22/62 — *Ibid.*, Vol. VIII, p. 943.

Authority's acts ⁽¹⁾. The Court has recognized, however, in a recent judgment concerning decisions fixing agricultural prices, that "the degree of precision of the explanation of the grounds for a decision of this nature must be proportionate to the material possibilities and to the technical conditions and the time in which it must be made ⁽²⁾".

Machinery for settling disputes

389. In respect of the conduct of Member States: In discharging its duty as custodian of the Treaty, the Commission may, in the event of disagreement over the Community obligations of a Member State, have recourse to the procedure of Article 169. The number of suits filed by the Commission under this Article may appear small, especially if compared with the number of times preparations have been made for instituting proceedings ⁽³⁾. This is a fact to greet with satisfaction. It shows that the dialogue established by the Treaty between the Commission and Member States, is bearing fruit, making it possible in the majority of cases to terminate practices considered by the Commission to be contrary to the Treaty or to settle differences of opinion without it being necessary to bring the case before the Court of Justice.

The main difficulty that the Commission has encountered in applying the Article 169 procedure concerns action against successive infringements arising from repeated acts by a State,, which prolong indefinitely, though each one does so only temporarily, a situation contrary to the Treaty.

In order to overcome this difficulty the Commission has had two remedies approved by the Court. On the one hand, a Member State cannot, by terminating during the proceedings a measure which is contrary to the Treaty and has been extended on several occasions, prevent the Commission from carrying the proceedings through in order to establish that there has been non-compliance and thereby to prevent repetition ⁽⁴⁾. On the

⁽¹⁾ Judgment 24/62, Reports of the Court, Vol. IX, p. 129.

⁽²⁾ Judgment 16/65 — *Ibid.*, Vol. XI, p. 1096.

⁽³⁾ At 31 December 1965 some 60 cases were being prepared by the Commission's staff. In 1965 the Commission had recourse to the procedure of Article 169 in about 15 cases, rendered a considered opinion on seven cases and referred one case to the Court of Justice.

⁽⁴⁾ Judgment 7/61 — Reports of the Court, Vol. VII, p. 635.

other hand, the Commission is justified in defining non-compliance not by the application of a specific, temporary municipal act, but by conduct which is continued although it is the subject of successive regulations, of identical substance, which perpetuate the infringement in question ⁽¹⁾.

390. Legal protection of individuals: Besides the protection that can be given by domestic courts competent to apply Community law, the nationals of the Member States can institute proceedings in various ways against the Institutions or their acts (appeal for annulment under Article 173, appeal against non-compliance with Article 175, claim for damages under Article 215). Such an appeal however, must be contained within the rather strict limits which the provisions of the Treaty and the general principles of law impose in the interest of the Community. The Commission has therefore opposed the admissibility of suits by individuals who seem to disregard the conditions laid down by the Treaty.

It has been instrumental in having the Court lay down in which cases individuals to whom a Commission decision is not addressed can nevertheless attack it, contending that they are concerned directly and individually.

The Court has ruled that, "Individuals other than those to whom a decision is addressed can claim to be concerned individually only if the decisions affects them because of certain qualities which are particular to them or because of a situation which distinguishes them from any other person and thereby singles them out in a similar manner to the person addressed" ⁽²⁾. This was not the case in certain decisions refusing or granting authorization to a Member State, ⁽³⁾ or fixing cif prices or reference prices for agricultural products ⁽⁴⁾. On the other hand a decision amending, abolishing or retraining a safeguard measure taken by a State in pursuance of Article 22 of Regulation No. 19 may concern individually persons affected by the safeguard measure, since it was possible for the Commission to know the number and identity of such persons ⁽⁵⁾.

⁽¹⁾ Judgment 45/64 — Reports of the Court, Vol. XI, p. 1058.

⁽²⁾ Judgment 25/62 — *Ibid.*, Vol. IX, p. 197.

⁽³⁾ Judgment 25/62 — *Ibid.*, Vol. IX, p. 197.

Judgment 1/64 — *Ibid.*, Vol. X, p. 811.

⁽⁴⁾ Judgment 38/64 — *Ibid.*, Vol. XI, p. 263.

Judgment 40/64 — *Ibid.*, Vol. XI, p. 279.

⁽⁵⁾ Judgments 106 and 107/63 — *Ibid.*, Vol. XI, p. 525.

In the same case the Court ruled, in view of the particular situation of the case, that the decision in question directly affected those concerned under the second paragraph of Article 173, since it considered that the decision was immediately enforceable and therefore directly applicable.

The scope of the plea of illegality referred to in Article 184 has also been defined by the Court. It ruled that this Article does not offer grounds for an appeal parallel to those under Article 173. A Court judgment ⁽¹⁾ affirms that the article “does not envisage the declaration of inapplicability of a regulation incidentally and with limited effect except in proceedings before the Court itself on the basis of another provision of the Treaty” ⁽²⁾. It does not allow the period for instituting proceedings for annulment to be exceeded, nor does it provide a way of circumventing the rule that only domestic courts may bring a matter before the Court under Article 177.

Finally, a very recent judgment lays down that, in view of the system for determining non-compliance on the part of Member States set up by the Treaty of Rome, individuals cannot seek annulment of a decision by the Commission declining to institute proceedings against a Member State by virtue of Article 169 ⁽³⁾.

II. INTERPRETATION AND APPLICATION OF SUBSTANTIVE RULES OF COMMUNITY LAW

391. While difficulties normal in a “running-in” period necessitated rather abundant interpretation by the Court to establish the machinery of Community law, with the relatively slow preparation of common rules and implementing measures it has not been possible as yet to clear up more than a limited number of fundamental problems. The substantive rules can be divided into those concerning the obligations of the Member States, the obligations of enterprises and the Statute of Service of the staff of the Communities.

392. *Obligations of the Member States.* As controversies have arisen on the extent of these obligations, the Commission has brought a small

⁽¹⁾ Judgments 31 and 33/62 — Reports of the Court, Vol. VIII, p. 965.

⁽²⁾ Judgments 16/65 — *Ibid.*, Vol. XI, p. 1096.

⁽³⁾ Judgment 48/65, 1 March 1966.

number of test cases to enable the Court to clarify its position on decisive points. The main points concern:

a) *Standstill obligations imposed to allow the customs union to be set up.* The absolute nature of these obligations has been affirmed since Article 31 of the Treaty (ban on new quantitative restrictions) does not admit of any exception, even partial or temporary ⁽¹⁾. The same must also be recognized for the ban on new customs duties imposed by Article 12 ⁽²⁾.

The substance of these obligations has been defined. The Court has ruled that the customs duties referred to in Article 12 are customs duties being effectively applied on the coming into force of the Treaty ⁽³⁾. A charge having equivalent effect must be understood "as a duty imposed unilaterally, either at the moment of importation or subsequently, on a product imported from a member country but not on a similar home product, which has the result of influencing its price and thus affecting the free movement of goods in the same way as a customs duty" ⁽⁴⁾.

b) *Limits placed on the autonomy of States by the fiscal provisions of the Treaty.*

It has been recognized:

i) That while Article 95 implicitly permits charges on an imported product, this applies only where the same charges are imposed on similar home products ⁽⁵⁾.

ii) That drawback of internal charges, from which a product exported to the other States may benefit under Article 96, applies only to charges imposed on the product as such, to the exclusion of those imposed on the manufacturing firm in the course of its various commercial or financial activities. Furthermore, the value of any drawback may not exceed that of the tax burdens actually borne ⁽⁶⁾.

⁽¹⁾ Judgment 7/61, Reports of the Court, Vol. VII, p. 633.

⁽²⁾ Judgments 2 and 3/62 — *Ibid.*, Vol. VII, p. 813.

Judgments 90 and 91/63 — *Ibid.*, Vol. X, p. 1217.

⁽³⁾ Judgment 10/61 — *Ibid.*, Vol. VIII, p. 5.

Judgment 26/62 — *Ibid.*, Vol. IX, p. 5.

⁽⁴⁾ Judgments 2 and 3/62 — *Ibid.*, Vol. VIII, p. 813.

⁽⁵⁾ Judgments 2 and 3/62 — *Ibid.*, Vol. VIII, p. 813.

Judgment 10/65 — *Ibid.*, Vol. X, p. 60.

⁽⁶⁾ Judgment 45/64 — *Ibid.*, Vol. XI, p. 1058.

c) *Conditions for applying safeguard measures or waivers which may prove necessary in the event of difficulties* (Article 226).

By agreement with the Commission, the Court clearly confirmed the principle that the safeguard measures in question constitute exceptional measures under the Treaty and that they may be authorized only in the framework of the special procedures provided for by the Articles which concern them. The very existence of these Community emergency procedures and waivers excludes in particular any unilateral action by the Member States ⁽¹⁾. The States may not avoid the said procedures and the guarantees embodied in them by invoking the urgency or gravity of the situation or any other reason of public policy; for example the Court ruled that Article 36 did not provide for any safeguard clause in addition to that contained in Article 226 ⁽¹⁾.

Furthermore, the Court defined in several judgments the scope of the Articles in question (Articles 226 and 25 of the Treaty) and the conditions for implementing them. Since these are measures that require prior authorization by the Commission, the Court recognizes that the latter must have a wide power of discretion and must avoid any automatic application of these procedures, ⁽²⁾ particularly in forming an opinion on the existence and gravity of the difficulties ⁽³⁾ to be averted and the choice of the measures to be permitted ⁽⁴⁾.

393. *The obligations of enterprises in the field of competition.* An attempt has been made to provide the necessary definitions and safeguards mainly in the drafting; which has often been difficult, of regulations implementing Articles 85 and 86. In the last year or two the Commission has been settling individual cases in the framework of these regulations. The reactions of the enterprises concerned give grounds for thinking that the Court will have every occasion to elucidate the many problems arising from this new and complex body of laws.

At the same time individuals have brought numerous cases against other individuals in the domestic courts whose judges have on several occasions

⁽¹⁾ Judgment 7/61, Reports of the Court, Vol. VII, p. 635.
Judgments 2 and 3/62 — *Ibid.*, Vol. VIII, p. 813.

⁽²⁾ Judgment 24/62 — *Ibid.*, Vol. IX, p. 129.

⁽³⁾ Judgments 73 and 74/63 — *Ibid.*, Vol. X, p. 1.

⁽⁴⁾ Judgment 34/62 — *Ibid.*, Vol. IX, p. 269.

Judgments 73 and 74/63 — *Ibid.*, Vol. X, p. 1.

requested interlocutory rulings from the Court. Until now, however, the Court has given only one ruling on Article 85 of the Treaty and solely, moreover, regarding certain effects of the coming into force of the first implementing regulation provided for in Article 87 ⁽¹⁾. Other judgments are expected soon.

The domestic courts themselves have frequently given rulings on the interpretation of Community rules on competition. These judgments help to circumscribe controversies and pave the way for solutions which the Commission and the Court will have to adopt one day, with authority extending in due course to the whole Community.

The difficulties encountered have to a large extent been the same from one State to another. The positions adopted by the domestic courts have sometimes converged: for example domestic judges have refused to recognize the validity of agreements which, though notified to the Commission, were not the subject of this measure ⁽²⁾. In other cases the solutions adopted have differed widely: for example on the point whether domestic courts must, either by legal obligation or to ensure correct administration of justice, suspend judgment when agreements of which the validity is disputed before them have been notified by the enterprises concerned or are being examined by the Commission. The Paris Court of Appeal ⁽³⁾, recognizing the exclusive competence of the Commission by virtue of Article 9 (3) of Regulation No. 17, suspended judgment. The Brussels Court of Appeal, ⁽⁴⁾ hearing a similar case, suspended judgment pending the Commission's decision, but on the grounds of the general principles of the law and not on Article 9 (3). The Bundesgerichtshof ⁽⁵⁾ pronounced judgment immediately and admitted the validity of an agreement notified but not yet examined by the Commission, while in similar cases the Seine Court ⁽⁶⁾ has suspended judgment at least in part. Only Community-wide solutions can eliminate the risks of confusion created by such divergences.

⁽¹⁾ Judgment 13/61 — Reports of the Court, Vol. VIII, p. 89.

⁽²⁾ Mannheim Landgericht, decision of 22 January 1965 (70 Kart. 88/64) Paris Court of Appeal, judgment of 7 July 1965 (implicitly) Gaz. Pal. of 18 and 20 August 1965, pp. 4-6. Arbitration by the Rotterdam Arbitrale Rechtspraak of 22 July 1964, No. 524 (1964), pp. 240-243.

⁽³⁾ Judgment of 26 January 1963, Dalloz 1963, p. 189.

⁽⁴⁾ Judgment of 25 June 1964, Journal des Tribunaux 1964, p. 576.

⁽⁵⁾ Judgment of 14 June 1963, Wirtschaft und Wettbewerb 1964, p. 175.

⁽⁶⁾ Judgment of 5 March 1963, Dalloz 1963, p. 367.

394. *Statute of Service of Community staff.* In the first year or two of implementing the Statute of Service certain points needed clarification. They were largely connected with the difficulties inherent in setting up an administration. Furthermore, application of the procedures instituted by the Statute has often been all the more delicate because some members of the staff were unfamiliar with the concepts underlying the Statute, several of which, especially in connection with recruiting and promotion, are completely different from those obtaining in their countries of origin. This explains the relatively high number of suits brought by Community officials against the institutions employing them. The Commission sees that the rulings of the Court are applied, for example as regards the grading of officials, ⁽¹⁾ examination prior to a decision on promotion, ⁽²⁾ and detailed procedure for competitive examinations ⁽³⁾. Consequently, since the flood of suits following the entry into force of the Statute of Service on 1 January 1962, the number has fallen off appreciably.

395. Particular reference must be made in this General Report to an important clarification concerning the functioning of the European Parliament. Consulted by a Luxembourg court under Article 177, the Court, by agreement with the Commission ruled that "Subject to the opening and closing dates of the annual session, which are determined by Article 22 of the ECSC Treaty, the European Parliament must be considered in session, even if it is not actually sitting; until the close of its annual or extraordinary sessions" ⁽⁴⁾.

INFORMATION

JOINT INFORMATION SERVICE

396. At the beginning of 1965, with the opening of the new financial year, for which funds had been increased, a start was made on tasks which had been given priority by the EEC and Euratom Councils of Ministers at their examination in July 1964 of a memorandum by the Joint Service on this subject ⁽⁵⁾.

⁽¹⁾ Judgments 20 and 21/63 — Reports of the Court, Vol. X, p. 213.

⁽²⁾ Judgment 27/63 — *Ibid.*, Vol. X, p. 247.

⁽³⁾ Judgment 16/64 — *Ibid.*, Vol. XI, p. 179.

Judgments 18 and 19/64 — *Ibid.*, Vol. XI, p. 971.

⁽⁴⁾ Judgment 101/63 — *Ibid.*, Vol. X, p. 381.

⁽⁵⁾ See Eighth General Report, secs. 381 and 382.

TABLE 28

Suits broken down by subject
(Situation at 31 December 1965)

	Customs union	Competition	Social affairs	Agricultural policy	Privileges and immunities	Application of the Statute of Service and similar cases	Total
Suits filed	30	10	9	14	1	39	103
Cases settled out of court	5	1	—	—	—	9	15
Cases decided	22	3	8	12	1	30	76
Cases pending	3	6	1	2	—	—	12

TABLE
Suits broken
(Situation at

	Art. 169 193	Art. 170	Art. 173 Filed				Art. 175
			By Govts.	By indi- viduals	By Insti- tutions	Total	
Suits filed	10	—	10	16	—	26	2
Cases settled out of court	2	—	1	1	—	2	—
Cases decided ⁽¹⁾	7	—	4	12	—	16	1 ⁽⁴⁾
In favour of plaintiff (wholly or in part)	7	—	1	2	—	3	—
Dismissed	—	—	3	—	—	3	—
Rejected as inadmissible	—	—	—	10	—	10	—
Cases pending	1	—	5	3	—	8	1

⁽¹⁾ The number of judgments is smaller than that of cases judged because some cases were consolidated.

⁽²⁾ Only suits against the Commission, that is excluding those against the joint institutions.

⁽³⁾ The total is smaller than the sum of cases listed since two suits come under both Article 173 and Article 175 or Article 215.

The proposals were discussed further with a committee of experts from the Member States on 25 June 1965. At the same time a study was made of the initial reactions in diplomatic quarters to the instructions given

dow by type

31 December 1965)

	Art. 177			Art. 184	Art. 215	Suits filed by staff ^(*) (Art. 179)	Grand total
	Question of validity	Question of interpretation	Total				
	3	22	25	2	1	39	103 ^(*)
	—	2	2	—	—	9	15
	3	17	20	2	1	30	76 ^(*)
				—	—	15	
				—	1	8 ^(*)	
				2	—	7	
	—	3	3	—	—	—	12

(*) Judgment to the effect that no ruling was necessary except on award of costs.

(*) One of these suits was rejected as being in part inadmissible and in part groundless.

them by the Governments of the Member States with a view to obtaining collective reports on the trend of public opinion with regard to the Community in non-member and associated countries.

397. Experience gained now makes it possible to gauge fairly accurately the relative effectiveness of the various information media used inside and outside the Community.

Pride of place still goes to the written word, in particular the reviews published monthly in German, French, Italian, Dutch, English (two editions: London and Washington) and, since May, in Spanish for Latin America. Publication of a review in Portuguese has had to be postponed.

The circulation of these publications has been increased. Furthermore the French and English versions (Communauté européenne and European Community) now each come out in a special edition, with a monthly supplement, for readers in Africa and Madagascar. The Italian version (Comunità Europee) is also distributed in Somalia, and the Dutch version (Europese Gemeenschap) in Surinam and the Antilles.

Besides these reviews, the Joint Services published in 1965, in the four Community languages and also in English, Greek, Spanish, Portuguese and Norwegian, sixty or so booklets (over 1 million copies), two pamphlets (360 000 copies), and 74 000 copies of other publications: wall-maps, maps in folders, European Community guide, etc.

The first revised version of a bibliographical card index covering 3 200 works on European integration was distributed (470 copies) and also a card index of articles in reviews (100 copies).

In Brussels a reference library and a photographic library are open to the public on the premises of the Joint Service. These libraries are used mainly by teachers, students and journalists. There are also libraries at the offices in Bonn, Paris, Rome, London and Washington, and in the information centres in Athens and Dublin. One of the targets for the next year or two is the setting up, on the initiative of the universities, specialized institutes and centres, of similar libraries both inside and outside the Community. A monthly bibliography keeps this vast network informed of publications on European integration.

398. The provisional audio-visual installations which have been used for the last three years have been modernized.

Co-operation with the television systems in the six countries has continued, not without difficulty. Programmes have been produced on "European

ports", "European Theatre 1965" and "Steel in the Modern World". Daily co-operation with African stations is maintained through a special office.

A film on the establishment of the joint nuclear research centre at Ispra has been produced on behalf of Euratom. The Joint Service has also taken a share in several schemes for producing films, such as the "Eurofilm junior" Association, which has made the first of a series for young people, and a film magazine called the "Voice of Europe" for television services in the developing countries.

A second European photographic and film competition has been organized for young people in the six Community countries, Greece and Turkey, on the subject "We Europeans".

399. Exhibiting at fairs and exhibitions, especially those connected with regions and schools, has been continued, in order to reach a wider and younger public.

Two exhibitions, for example, toured primary and lower secondary schools in the Netherlands. The Italian travelling exhibition, originally fitted out in 1963, has been completely renovated. In 1965 it was to be seen at fairs in Ancona, Gubbio, Forli, Palermo, and Catania.

The French travelling exhibition, also renovated, was sent to fairs in Angers and Saint-Brieuc.

The EEC Commission was represented at the Berlin "Deutsche Industrieausstellung" the Ferrara "Biennale frutticola", the Salonika Exhibition of European Handicrafts and, in Africa, at exhibitions at Cotonou and Abidjan.

400. *Action in particular circles.* Apart from the supply of information for the public at large, special attention has been paid to certain circles and areas.

In labour and trade union circles some 50 visits, of two or more days, were arranged in Brussels and Luxembourg, mainly for international groups of federation leaders. Over 100 study weekends and meetings devoted to European matters were held in the six Community countries at the request and with the help of the unions (ICFTU and IFCTU), while a

large number of courses or lectures were given as part of the programmes of permanent union training centres. About 250 lectures were given by a group of union lecturers and by officials from the Joint Service.

In Germany three study weekends were held for migrant workers. It is intended to hold them also in other Community countries where there is a large number of such workers.

Three specialized periodicals are published in Brussels in five languages for union leaders: a monthly bulletin entitled "Trade Union News", a "calendar of meetings" and a digest of articles from trade and trade union journals. A special bulletin called "Labor" is published by the Washington Office for the United States.

401. In farming and rural circles information activities were intensified in 1965. They were directed mainly towards persons who can play a role in spreading information in their own sphere: agricultural journalists, heads of organizations, teachers, etc. The campaign was decentralized further, especially in France and Italy.

Among the main operations at European level there have been the fourth meeting of heads of information services attached to the six Ministries of Agriculture, which led to a study visit to Germany by press correspondents in Brussels; a first information session for headmasters of lower secondary schools; the second seminar at Wageningen for university students of agriculture, at the end of which it was decided to set up a European Committee of students of agriculture; three sessions of the "Comité d'entente" of young farmers, etc.

The decentralized operations included: in France, 11 regional sessions of the National Centre of young farmers; in Italy, 10 regional seminars, arranged with the help of the Agricultural Press Association and the Italian Ministry of Agriculture, 8 regional sessions arranged by the "Giovani Rurali", a round-table in Rome and meetings in Bologna.

The Joint Service was also concerned in some 30 other operations in the six countries at the invitation of agricultural organizations.

Numerous specialized publications have been brought out: 25 issues, published in five languages, of the "Common Agricultural Policy News" with a special edition for the United States called the "Common Market Farm Report"; a folder with 10 tables on European agriculture for the farming press; booklets on beef and pigmeat, etc. A series of colour slides illustrating development in intra-Community trade was supplied to training organizations and centres.

402. An account of the campaign in universities and other educational establishments is given elsewhere ⁽¹⁾. Mention must be made here of the close collaboration which has grown up between the Joint Service and the various specialized organizations in response to the growing interest of the university world in European affairs.

403. Elsewhere information has been spread mainly by personal contacts with leaders and key figures in many walks of life: journalist and newspaper publishers, chambers of commerce, political circles, members of local governments, technical supervisory staff in industry and commerce, family organizations, consumers' groups, etc.

In 1965, 324 group visits were arranged, 182 to Brussels and 142 to Luxembourg, comprising a total of some 11 000 persons.

404. In the Associated African and Malagasy States and in other countries interested in the development of the Association, numerous information campaigns have been conducted at the request of the authorities in those countries.

Radio and, where available, television are of primary importance in those countries; consequently it is here that the main effort has been made. In close collaboration with specialized bodies, such as the French Radio Co-operation Office and Belgian Radio and Television, etc., 380 reports, features and interviews, 364 weekly and 22 monthly broadcasts were given on sound radio and 33 programmes on television. The final stage

⁽¹⁾ See sec. 260.

of a radio game "Europe-Africa" was organized in Cotonou (Dahomey) with the help of the Joint Service.

Co-operation with the press consists mainly of editing special features, preparing reports and supplying photographs. A library has been built up of photographs of construction work in progress under the European Development Fund (EDF) and a thousand or so photographs supplied on request.

Lastly, 80 000 copies have been published, in five languages, of a booklet on the EDF and 2 000 copies of a wall-chart on technical and financial co-operation.

SPOKESMAN'S GROUP

405. In 1965 the Spokesman's Group, in its capacity as the voice of the Commission vis-à-vis the press and public opinion, had to work in two fields: first, the progress of economic integration called for greater efforts in the matter of daily information, which is necessarily becoming more technical from day to day and must satisfy the growing requirements of specialized circles; secondly, the situation created by the crisis aroused special interest in the press and a demand for more general information.

In 1965 there were 125 newspaper correspondents accredited to the Commission; these journalists are now grouped in an Organization of European Journalists which makes for closer liaison between the Spokesman's Group and the press.

There has been no important change in the arrangements for supplying daily information, in writing and by word of mouth, nor in the system of press releases and information memos summarizing the Commission's activity in specific spheres. A slightly larger number were issued during the year under review.

The members of the Spokesman's Group continued to give talks to parties of visitors to the Commission and to collaborate with the Joint Services in the preparation of publications and films.

THE INTERNAL ADMINISTRATION OF THE COMMUNITY

ESTABLISHMENT AND TOTAL STRENGTH

Establishment

406. The Commission's establishment in 1965 numbered 2 732, distributed as follows:

Grade A	745 (plus 6 temporary posts)
Grade B	534
Grades C and D	1 168
Linguistic staff	285

To discharge the numerous tasks arising from the 1966 programme of work, the Commission should have requested a large increase in staff in the preliminary budget for 1966. With the merger of the Executives in prospect, however, it displayed extreme moderation and requested no new posts for 1966. But a further close examination confirmed that its request for staff under the 1965 budget remained fully justified. Consequently it resubmitted its requests of the previous year after adjusting the internal distribution of the posts requested to the changes in its programme of work. The proposed new posts under the preliminary budget for 1966 are therefore as follows:

- 138 posts (46 A, 36 B, 52 C and 4 D) already requested for the 1965 budget but not granted;
- 28 posts (14 L/A and 14 C) for the linguistic service.

Total strength

407. The total employed by the Commission was 3 319 on 31 March 1966, distributed as follow: 2 559 regular staff (735 A, 509 B, 995 C, 136 D, 184 L/A), 9 temporary staff (A), 565 auxiliary staff (A, B, C and D) and 186 local staff.

BUDGETARY MATTERS

408. On 29 September 1965 the Commission submitted to the Council the preliminary budget of the European Economic Community for the

1966 financial year. The budget, established by the Council on 15 February 1966, amounts to 369 559 410 u.a., which is broken down as follows:

European Parliament	(EEC share)	2 382 557 u.a.
Council	(EEC share)	2 646 547 u.a.
Court of Justice	(EEC share)	509 526 u.a.
EEC Commission		364 020 780 u.a.
		<hr/>
		369 559 410 u.a.

The section of the budget relating to the EEC Commission is in its turn broken down to:

- 41 665 280 u.a. for administrative expenditure
- 21 642 400 u.a. for European Social Fund expenditure
- 300 713 100 u.a. for European Agricultural Guidance and Guarantee Fund expenditure.

By comparison with the preliminary draft:

a) Administrative expenditure shows a total reduction of 9 627 040 u.a. although it is considerably higher than in 1965. This is the result, where staff expenditure is concerned, of the implementation of decisions on salaries taken by the Council in 1965; it is also due to the plan for regrouping the Commission's staff in new quarters, which is now coming into operation, and to the charges to the Statistical Office for services supplied in 1963, 1964 and 1965 by the European Centre of Scientific Information and for the survey to be carried out on the structure and distribution of wages in the Community;

b) The European Social Fund's expenditure has been reduced by 2 920 000 u.a. because the decision concerning aid to redundant workers in the Italian sulphur mines had not been taken when the budget was drafted;

c) The expenditure of the European Agricultural Guidance and Guarantee Fund was increased by 66 469 000 u.a. on the reinclusion in the 1966 budget of items which had already appeared in the 1965 budget in order to finance the common agricultural policy in respect of the second accounting period from 1963 to 1964, decisions to this effect not having been taken by 31 December 1965.

In its resolution of 9 March 1966 the Parliament merely took note of the draft budget, commenting on its conservatory and "wait-and-see" nature; for the time being, however, it decided not to propose amendments in order to allow the institutions to have a final budget as soon as possible and to put an end to the system of provisional twelfths.

In view of the particular circumstances in which the budget had been prepared, the European Parliament invited the EEC Commission to draw up, and the Council to establish, with the least possible delay, a draft supplementary budget for 1966 which would include funds for the following purposes:

- i) Adaptation of the Commission's establishment to the growing volume of work in the various sectors;
- ii) A common programme of compressed vocational training courses to remedy the shortages of skilled labour in certain areas of the Community;
- iii) Special measures to help redundant workers in the Italian sulphur mines.

OTHER MATTERS

Accommodation of the Commission's staff in new premises •

409. In 1965 the Commission drew up its programme for housing its staff in premises near its present headquarters in the Avenue de la Joyeuse Entrée and the Avenue de Cortenberg. The programme, in operation since the beginning of 1966, involves moving staff into part of two large blocks, Berlaymont et Charlemagne, and progressively moving out of offices furthest removed from the Commission's headquarters. This reorganization will help to eliminate the inconvenience experienced by some Directorates-General which until now have had their staff scattered in several buildings.

Documentation

410. By a more rational utilization of important sources of information it has been possible to widen considerably the distribution of bibliographical and documentary information, in particular by the regular production in improved form of catalogues of recent additions and selected articles. A study is being made of how to render the system even more efficient by making use of business machines.

Linguistic matters

411. The number of documents translated (158 179 pages) and of meetings at which simultaneous interpretation was provided (3 620) show that, despite the appreciable reduction in the number of meetings and documents from 1 July 1965 to February 1966, demand in this sphere continued to increase with consequent recruiting problems, especially where conference interpreters are concerned.

In respect of translation, these results have been achieved thanks to specialization among the staff in the utilization of terminology card-indexes.