

EUROPEAN ECONOMIC COMMUNITY
COMMISSION

Tenth

GENERAL REPORT

on the

Activities of the Community

(1 April 1966 — 31 March 1967)

JUNE 1967

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 Tenth 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, 8 June 1967.

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INTRODUCTION

I. Now about to hand over to a new body, ten years after the signature of the Treaty of Rome, the Commission feels it should preface its Tenth General Report to the European Parliament with a summary of the major considerations which it believes should guide the Community institutions in their work over the coming years.

One year from now, a customs union for industrial products and a single market for agricultural products will have been established. In the years to follow, the main objective should be to achieve economic union—a *sine qua non* if the common market is to function properly. And this is a matter of urgency, because the intermediate phase in which the Community is situated—a complete customs union but only a partial economic union—involves a definite risk of imbalance, perhaps even of disintegration.

Once an economic union has gradually been built up, the Community will have at his disposal a suitable framework within which its own activities, those of the Member States and those of economic transactors can proceed. But it is only a framework. How it should be filled in, how Community life should be guided, these questions will remain. The success of the Community will ultimately depend on what use the Community's institutions make of the instruments at their disposal—on the nature of the policy they are able to plan and implement.

Completion of the economic union and determination of the broad lines of Community policy will therefore be the two themes of this summary.

COMPLETION OF THE ECONOMIC UNION

II. Economic union means all the measures required to create on the territory of the Community conditions similar to those obtaining on a domestic market. These are:

- a) Free movement of goods;
- b) Free movement of persons, services, and capital;
- c) Implementation of the common transport policy;
- d) Arrangements to protect competition from distortion;
- e) Provisions to guarantee that the economic policies of the Community and the Member States share the elements needed to secure conditions similar to those obtaining on a domestic market.

Free movement of manufactures and farm produce

III. Over the last nine years considerable progress has been made towards completely open markets. On 1 July 1968 internal customs duties will disappear altogether, market organizations will be set up and a common level of prices will be fixed for the major farm commodities.

Between 1958 and 1966 the value of merchandise trade between the member countries more than trebled—rising from 6 800 million to 22 900 million units of account.

Nevertheless, there is as yet no real common market: Intra-Community trade is still subject to a number of restrictions that obstruct the movement of goods, result in hold-ups and checks at frontiers and involve firms in useless expense. Trade between the member countries has not yet become genuinely "domestic". Apart from customs and quota frontiers, which will disappear on 1 July 1968 for all manufactures and nearly all farm produce, there are other "frontiers" impeding the free movement of goods—tax frontiers, patent frontiers, monopoly frontiers, the frontiers raised by customs legislation. The opening or elimination of such frontiers is one of the main tasks for the coming years. The Commission has done a substantial amount of preliminary work. In a number of cases proposals have already been submitted to the Council. Others will follow in the course of the year.

The chief objectives are as follows:

Establishment of the remaining common organizations for agricultural markets

IV. The Commission considers that by 1 July 1968 free movement of all agricultural products should be introduced, or at least a deadline should be fixed. Common organizations need to be set up for liquid milk and fishery products, quality wines and ordinary table wines, tobacco, hops, cut flowers and the like, linen and flax, ethyl alcohol, mutton and lamb, and potatoes.

Removal of the last remaining charges equivalent in effect to customs duties and of measures equivalent in effect to quantitative restrictions. End of the isolation of certain markets

V. Of 365 cases of charges equivalent in effect to customs duties known to the Commission at the beginning of June, 261 have been settled and 26 others are being settled.

As regards the 78 cases still to be dealt with—46 of which are charges for health, plant-health, veterinary and quality controls—the Commission will have to establish whether they really are charges with equivalent effect, and, if they are, an attempt must be made to eliminate them by 1 July 1968.

Difficulties persist in respect of measures equivalent in effect to quantitative restrictions. The Treaty does not define the concept and hence cannot list these measures. A Community standpoint can only be worked out gradually. Work in this field will also have to be speeded up if the 1 July 1968 deadline is to be met.

The Commission has also been particularly concerned with the problem of the gradual adaptation of certain industries to the common market economy. It should be possible, for instance, to introduce freedom of movement for sulphur, lead and zinc by 1 July 1968. The problem of Italian raw silk will have to be solved at the end of the transition period too.

Harmonization of customs legislation

VI. Once Community goods can cross frontiers within the Community duty free, it must be expected that any substantial disparity between the laws of the various member countries will constitute an incitement to import into the member country with the most favourable legislation. Similarly, such disparities may obstruct the movement of goods because a member country deeming its interests harmed by the diversion of trade might try to put a stop to it by invoking the safeguard clauses in the Treaty.

The customs union is scheduled to come into effect on 1 July 1968, and prompt and vigorous action will be required if the customs legislation of the member countries is to be aligned as quickly as possible; the bulk of the work must be completed in advance of the above date.

The first matter to be tackled is to draw up the joint rules needed for application of the common customs tariff. A great deal of work has already been done on this; specific items being dealt with are:

- a) Joint provision for the admission of goods to free circulation;
- b) Explanatory notes for the customs tariff;
- c) Uniform application of the concept of customs valuation;
- d) A Community procedure for the settlement of disputes, particularly in respect of the classification of goods and the determination of value;
- e) A procedure administering Community tariff quotas;
- f) Joint customs regulations governing the construction and repair of ships and aircraft;
- g) Harmonized rules for outward processing traffic.

Customs legislation also includes a variety of arrangements for the temporary importation into the Community of goods from non-member countries without the duties in the common customs tariff (or the agricultural levies) being applied to them. These arrangements must be reviewed in the light of the customs union, for disparities might cause business to be transferred from one member country to another or lead to a distortion of the conditions in which Community firms compete on external markets.

The Commission has begun to study the various temporary import arrangements. Proposals are being drafted for joint provisions on inward processing traffic, bonded warehouses and temporary admission.

Work on the removal of obstacles to merchandise trade should include arrangements enabling goods to be despatched from one point to another within the Community without any formality or control at frontiers.

Lastly, on a more general plane, the gradual establishment of a single customs territory in the Community raises the acute problem of co-operation between the customs authorities of the six Member States.

First of all, the principle will have to be accepted that measures adopted by any authority are recognized by its counterparts. Next, action to prevent or punish fraud and to recover debts will have to be co-ordinated.

Community rules for external trade

VII. Until there is a common commercial policy for all products, there can be no common market with the characteristics of a domestic market.

It is already illogical, of course, for the Community to fix — sometimes with considerable difficulty — a common customs duty for a given product when the member countries are still free to liberalize or restrict imports. But the main factor that is prejudicial to the Common Market itself is the effect on internal trade. As long as import regulations still differ, it is not only products (photographic equipment or sewing machines, say) from outside the Community which are checked and perhaps refused freedom of movement: all products of a particular kind, even those originating in the Community, have to be checked at the frontiers between member countries so that it can be established that they do not come from non-member countries or contain parts manufactured in those countries. Now the differences between the various member countries' regulations often do not have sufficient economic justification to offset the harmful consequences they have on free movement of goods within the Common Market.

The Community is completely free to pursue whatever commercial policy it considers best. The important thing is that there should be *a common* policy. National regulations that result in controls and restrictions on the free movement of goods between the member countries are not compatible with a common market.

Before common regulations can be applied to external trade, two conditions must be fulfilled: basic agreement must be reached on the measures to be taken for the various products, and legal provisions defining and guaranteeing these measures must be adopted.

The basic agreement depends as much on industrial policy as on commercial policy. Over 90 % of the Community's external trade is now liberalized.

The 10 % or less still subject to special regulations are mainly products considered "sensitive" by the member countries. The Community will have to examine these products individually before determining what policy should be followed for each of them and how the national regulations should gradually be aligned on that policy.

The creation of the legal bases for the gradual introduction of common external trade regulations requires, apart from the measures to align customs legislation:

- a) A decision to consolidate the present degree of liberalization;
- b) A procedure whereby other products can be put on the liberalization list or, if need be, products already liberalized can be deliberalized;
- c) The opening of Community quotas and an agreement on the administration of these quotas;
- d) Procedures governing the application of the safeguard clauses provided for in international agreements;
- e) The adoption of Community anti-dumping and anti-subsidy regulations.

Obviously, these measures will only be really effective if they are not in conflict with contractual obligations under bilateral or multilateral agreements between the Member States and other countries or international organizations.

The necessary provisions have been adopted (the EEC clause, limitation of duration) for the adaptation of bilateral agreements, so that a future commercial policy will not conflict with such treaties. As regards multilateral agreements, the measures needed should also be taken as quickly as possible so that the obligations incumbent on Member States under such agreements do not stand in the way of the adoption and implementation of the common policy at the end of the transition period. However, it should be realized that these measures will only have a practical effect if—in due course—they are actually implemented (i.e. negotiations are begun to adapt the agreements in question).

The Commission believes that thought should be given at this stage to instituting a Community procedure to facilitate the task of transferring to the Community the numerous bilateral and multilateral agreements to which the Member States are party.

Harmonization of legislation on food and animal feed, seeds and stock breeding, and on veterinary, plant-health and forestry matters

VIII. Harmonization of legislation in these fields, i.e. the elimination of "frontiers" resulting from differences in the law relating to agriculture from one country to another, is indispensable if the creation of market organizations and the related elimination of customs duties, quotas,

monopolies, minimum price systems, levies and other obstacles to intra-Community trade are to have their full effect on the free movement of farm produce.

The volume of work to be done in these fields is appreciable. Sixteen directives have already been adopted by the Council on Commission proposals, and twenty-three others have been drafted and are now before the Council. Even when these proposals are adopted, however, the programme will still be far from complete. Before farm produce can really cross frontiers freely, the Community institutions will have to make special efforts in the coming years to eliminate those frontiers constituted by differences in legal provisions.

Removal of technical obstacles to trade

IX. The expression "technical obstacles to trade" embraces all the obstacles to merchandise trade that result from the differences between member countries' laws and regulations on quality and composition, packaging and inspection.

These provisions are designed to protect the public interest and in particular human life and health. They are indispensable in the Common Market. The problem is not that such provisions are on the statute books but that they vary from country to country; certain products which comply with the regulations of the exporting country do not satisfy those of the importing country and cannot therefore be admitted for sale or utilization. Consequently, there are often as many markets for these products as there are national legislations. They cannot be mass produced on a European scale, and their adaptation to the requirements of the importing country often forces up the price.

As these laws and regulations cannot be abolished, adequate harmonization is the only means of eliminating the obstacles resulting from the discrepancies between them. The Commission has already submitted to the Council a number of proposals for directives in this field. However, this task is a highly technical one which will take years to complete: most of it has not yet been tackled. A practical programme establishing priorities and deadlines and determining the best method of harmonization for each sector will shortly be submitted to the Council, account being taken of past experience.

Elimination of tax frontiers

X. "Tax frontiers" are the obstacles to free movement of goods resulting from differences in indirect taxation and especially the practice of granting refunds and levying countervailing charges in international trade. Their elimination presupposes not only the harmonization of tax structures but also a good deal of alignment of tax rates.

The Commission is aware of the great difficulties in the way of rapid harmonization of tax structures and in particular tax rates. About 52 % of the total tax revenue of the member countries come from indirect taxes, and rates sometimes differ considerably. The process of harmonization, therefore, will necessarily involve substantial changes in the tax revenue of the member countries. Now these will only be tolerable if the member countries still have enough room for manoeuvre in tax policy to offset the effects of harmonization on their budgets without producing undesirable economic social consequences.

Of the indirect taxes, turnover tax occupies a special position in that it is charged on nearly all goods and therefore obstructs the whole range of merchandise trade between the member countries. The elimination of turnover tax frontiers must therefore be considered a priority aim.

As regards excise duties, the most serious obstacles to merchandise trade are the tobacco taxes, either because a very high minimum rate makes it difficult to sell the cheaper brands of cigars and cigarettes or because the tax is not degressive enough—given the rate of tax—and this prices the dearer brands out of the market. The Commission will shortly submit to the Council its proposals for harmonizing the pattern of taxation on tobacco as part of an overall scheme to establish a real common market in tobacco.

Duties on beer, sugar, spirits, wine, and fuel oil and other oil products also have an appreciable influence on merchandise trade. For these taxes, as for tobacco tax, structural harmonization cannot be deferred. Alignment of rates could be left until later.

Adjustment of government monopolies

XI. There are currently in the Member States about fifteen government monopolies affecting some ten groups of goods. Economically the most important are the French monopoly in petroleum and oil products, the French and Italian tobacco monopolies and the German and French spirits monopolies. The other monopolies with less of an impact on the economy as a whole nevertheless involve restraint and distortions of competition in the industries where they operate. Their adjustment is therefore as much a problem of competition as a problem of free movement of goods.

As regards a number of Italian monopolies of limited economic importance (salt, cigarette paper, lighters), the measures shortly to be adopted should make substantial progress towards freedom of movement possible.

For others, such as the French and Italian match monopolies and the French powder and explosives monopoly, the recommendations sent to Member States concerned should facilitate appreciable progress.

Specific proposals for the reorganization of the French and Italian tobacco monopolies are to be laid before the Council in the next few weeks.

The situation as regards the monopolies in oil products, natural gas and spirits is more complex. The adjustment of these monopolies is lagging behind the elimination of quotas within the Common Market because the solution of the economic problems raised by adjustment is closely tied up with the common policy to be pursued in these industries. This applies chiefly to energy policy and the joint regulation of the market in spirits. One of the immediate tasks facing the new Commission will be to draft proposals on these matters.

Free movement of persons, freedom of establishment and freedom to supply services

XII. Free movement of workers has in fact already been widely introduced throughout the Community. Definitive regulations to enter into force on 1 July 1968 will remove the few remaining obstacles. The Commission will supplement existing provisions, or provisions still to be adopted, by measures which will make it possible for workers to stay on in the country where they have been in paid employment.

The movement of workers within the Community can, however, still be made easier. The machinery for clearing vacancies and job applications should be improved. The social and human problems raised by freedom of movement for workers have not all been solved satisfactorily: more still needs to be done to facilitate the adaptation of migrant workers and their families to their new circumstances of life and work. Finally, procedures for granting social security benefits to migrant workers should be further simplified and improved.

These measures should give full effect to freedom of movement by ensuring optimum employment prospects for all while guaranteeing the fullest use of manpower within the Community.

XIII. Freedom to supply services and freedom of establishment have not yet been introduced in the Community to the same extent as freedom of movement for workers. The timetable in the General Programme for freedom of establishment and freedom to supply services, adopted by the Council in December 1961, has proved somewhat ambitious. Technical difficulties have made it impossible to maintain the pace originally envisaged. However, after getting off to a relatively slow start, the Commission is submitting proposals and Community decisions are being reached more speedily, and there is now some hope that the aims of the Treaty in this field will also be attained by the end of the transition period. Moreover, the need for fair conditions of competition in the six countries and for harmonious development of the Community make the

early introduction of freedom of establishment and freedom to supply services a necessary counterpart to the introduction of a customs union.

Seventeen directives on the right of establishment were in force at the beginning of June 1967. Twenty-two other proposals for directives are now before the Council, having already been considered by the European Parliament and the Economic and Social Committee.

Much the same degree of progress has been achieved on freedom to supply services, since the Council's General Programme of 1961 covers both fields together. Most of the directives cover both establishment and services, but three of those already adopted are concerned with services only (payments for services, the film industry and agriculture).

Results to date should not, however, disguise the fact that considerable efforts still have to be made. The extensive research needed to prepare the earlier directives will doubtless facilitate the preparation and adoption of those to come.

Various questions of principle have already been settled but sustained effort is needed in the fields of company law and the professions particularly. The elimination of differential treatment is only part of what has to be done. The co-ordination of regulations affecting the professions, particularly conditions for entry to and practice of the professions, together with the recognition of degrees, certificates and the like, is still to be accomplished, and this will be a substantial task for the Community institutions and the member countries. The various professions in each country will have to be defined, equivalences worked out, the regulations applying to them listed, and appropriate measures of co-ordination selected. And efforts will also have to be made to inform and win the support of the professional people involved.

As well as implementing the Council's programme, the Commission and the Member States must also ensure the application of the directives already in force. The Commission, as guardian of the Treaty, has responsibilities in this field. For unlike other fields, where regulations directly enforceable in the member countries are the instruments normally employed by the Community, freedom of establishment and freedom to supply services are governed by directives, which bind the Member States to achieve the specified results but leave them free to decide what form and legal means of implementation should be employed. The range of measures used by the member countries to give effect to directives can extend from the general delegation of powers by a national parliament to the government through special laws, government decrees, departmental or other orders, and government circulars to local authorities, to mere instructions issued by public boards. Over a hundred such measures have already been adopted. The number will increase considerably in the years to come. It is for the Community institutions to verify the compatibility of these measures with the letter of the Treaty and the directives adopted in each case.

Free movement of capital

XIV. The progress made in introducing an economic union call for equivalent advances in freedom of movement for capital. Numerous obstacles to the mobility of capital still persist within the Community. The first liberalization measures approved by the Council in 1960 and 1962 enabled certain exchange restrictions to be removed, particularly those concerning direct investments, transactions in listed securities, and medium- and long-term loans and credits connected with business transactions.

A proposal for another directive currently being discussed in the Council is designed to establish a better balance in respect of liberalization of exchange controls between the member countries and at the same time to eliminate a number of legislative and administrative obstacles, particularly concerning access of issuers from other member countries to the various capital markets and the listing of securities from other member countries.

The elimination of exchange controls cannot be the sole basis for a capital market on a Community scale. The remaining obstacles in the legislative, administrative and tax fields must also be removed and certain changes made in the institutional framework and in the economic policies affecting capital markets. To remove these obstacles the Community will have to eliminate their causes, either by the co-ordination of policies or by the harmonization of institutional provisions.

XV. The Commission considers, on the basis of the work it has done, that the following measures should be taken:

- a) The remaining exchange restrictions should gradually be abolished;
- b) Institutional investors, such as life-assurance companies or savings banks, should be given wider scope, particularly for investment in other member countries;
- c) If free movement of capital is to be as effective as possible, constructive measures will have to be adopted—both in respect of market organization and in co-ordination of the policies pursued by the member countries;
- d) Some alignment of the institutional and legislative framework of the various markets is needed to facilitate the free movement of capital, particularly as regards information for the public, guarantees and security, rules governing the issue of securities and arrangements governing the operation and control of financial institutions.

In order to prevent movements of capital that are abnormal or cannot be justified by economic considerations,

- a) A harmonized system of withholding taxes will have to be arranged for the interest on negotiable bonds and for dividends, with tax paid being set off against the beneficiary's total liability and rebates where too much tax has been paid;

b) Certain procedures for the application of tax credits in Belgium and France will have to be adjusted, since these are discriminatory in nature, and a single method will have to be found to relieve the overall tax burden on the distribution of dividends (relief either for the company or for the shareholder);

c) The tax consequences of the operations of investment companies will have to be adjusted and harmonized so that investments made through these companies are not taxed more severely than direct investments.

The customs union should be supported by the integration of capital markets and the freedom of capital movements—both medium- and short-term. If the Community process is not brought to this logical conclusion, there is a risk that progress already made may be prejudiced, for a European capital market will be a basic element in a competition policy designed to ensure for firms equivalent conditions as regards the cost of and access to funds; it will also be a determining factor for the establishment of monetary union within the Community.

The establishment of a common transport policy

XVI. Serious difficulties have so far hampered the establishment of a common transport policy. It is a pity that the Community has lost ground in a sector so closely linked with the achievement of the customs union. The implementation of the common policy can now no longer be deferred.

On several occasions the Commission has stated what principles it believes should lie behind the Community's policy in this field:

- i) The economic frontiers between the Member States must be abolished in respect of transport, and the transport market must be organized at Community level;
- ii) Transport must be in a position to respond satisfactorily to the needs of those engaged in business and of consumers in all parts of the Community;
- iii) Measures must be taken to enable transport to work at the lowest overall cost for the community as a whole.

In view of these objectives, the transport market must be based on competition, the purpose of which is to ensure optimum distribution of traffic between types of transport and transport firms. This means that arbitrary allocation of traffic between the various types of transport and firms cannot be allowed. On the other hand, it does not rule out certain official intervention measures justified by the "special aspects" of the market.

The aims of official intervention should be:

- i) Competition on equal terms for the different types of transport and transport firms as a result of harmonization of competition conditions;

- ii) The prevention of abuse of competition, whether through the improper exploitation of dominant positions or through cut-throat competition;
- iii) Assistance towards the aims of regional and social policy.

On the basis of this general approach, the Commission has drafted proposals, some of which—mainly on the harmonization of conditions of competition—have already been adopted by the Council. Others are still being discussed. The main difficulty concerns the choice of measures to be implemented to counter the risks of abuse of dominant positions and cut-throat competition. The measures originally proposed by the Commission constituted a balanced and internally consistent whole, the gradual application of which should lead to the progressive elimination of these dangers. The Council's agreement of 22 June 1965 had given some measure of priority to rules concerning rates and fares. But the Commission's proposal for the implementation of this agreement aroused lively opposition on the part of some Member States. A package-deal solution to the problem is now being sought through the simultaneous adoption of measures affecting a number of different fields.

With a view to the introduction of a common transport policy in phase with the introduction of the common market as a whole, the Commission proposed a plan of action in its last memorandum to the Council. The common transport policy would be introduced in two stages: the first would last until the end of the transition period—31 December 1969—and would deal mainly with transport between the Member States; the second, beginning on 1 January 1970, would also affect domestic transport arrangements.

XVII. In the first phase the following measures would be adopted:

Harmonization of conditions of competition

Proposals have already been submitted to the Council concerning the abolition of double taxation in connection with motor-vehicles, the standardization of regulations on the duty-free entry of fuel contained in the tanks of road vehicles, aids granted to road, rail and inland water transport firms, and the harmonization of working conditions in road transport. These four proposals will probably be adopted in the near future. A fifth proposal concerning the measures adopted by the Member States with regard to obligations inherent in the notion of public service has just been submitted.

Other proposals will be presented by the Commission in the very near future: they concern normalization of the accounts of railway undertakings and uniformization of the bases of calculation for motor-vehicle taxes and for the tax on vessels using inland waterways.

Apportionment of infrastructure costs

The fair apportionment of infrastructure costs between users is one of the conditions on which balanced competition between the various types of transport depends. However, this raises complex problems which cannot be solved quickly. In the meantime, the Commission is proposing, as a provisional solution, harmonization of the structures of taxes on utility vehicles, revision of arrangements to cover the infrastructure costs of inland waterways and uniformization of methods of accounting for infrastructure expenditure.

Rules of competition

The provisional situation under which the application of Community regulations on restrictive agreements and dominant positions has been suspended in respect of road, rail and inland water transport must be brought to an end. A Commission proposal is now being examined by the Council and a decision is expected shortly. While bringing transport under the cartel regulations, it provides for the exemption of certain types of restrictive agreement.

Access to the market

Control in this field has increased in importance because of the difficulties which have arisen with regard to the control of transport rates and fares; capacity control will be the main weapon against anti-economic competition, and the use of tariff measures is to be confined to the residual cases. The Commission will shortly submit its proposals on access to the market, capacity control and the admission of non-resident carriers to domestic transport services for both road and inland-waterway freight transport. There is already an agreement on the constitution of a Community quota and the adaptation of bilateral quotas for road freight transport.

A similar proposal is to be presented for freight transport by inland waterway.

The aim of capacity control is to ensure a proper balance between transport supply and demand by preventing the development of capacity surpluses and deficits. This objective can be achieved through the introduction of a licensing system.

Measures are also to be taken to ensure freedom of establishment in respect of transport.

Tariff control

The Commission is maintaining its proposal for the introduction of a bracket-rate system for freight transport. However, in view of the regulations planned concerning access to the market, certain clauses in this proposal may be deleted or relaxed.

Market supervision

The impact of all these measures on the transport market is not fully foreseeable. This is a further argument for the creation of an organ to supervise the market. The Commission intends to propose that, when these regulations enter into force, a transport market supervisory committee should be set up, with the task of assisting the Commission and with responsibilities covering the implementation of all arrangements under the common transport policy.

In the second stage, which will begin on 1 January 1970, the rules and regulations already in force will be extended to domestic transport services and the regulations applying to transport between the Member States developed. Measures to harmonize conditions of competition and work on the apportionment of infrastructure charges will be completed, arrangements concerning both access to the market and tariff control extended to domestic transport services, and the scope of the reference tariff system widened.

Taken together the measures described above constitute a balanced programme. None the less, the new rules and regulations must be implemented cautiously and gradually. There is no way of predicting with certainty the impact of liberalization on an industry which has for many years been restricted and controlled almost everywhere. Doubtless adjustments will prove necessary as experience is gained.

The establishment of a system ensuring that competition is not distorted in the Common Market

XVIII. Competition policy in the Common Market has two objectives: it is designed to contribute to the effective establishment of the Market, i.e. to eliminate restrictions on intra-Community trade and, secondly, to ensure the smooth working of the Market through the elimination of measures restricting or distorting competition, since these are liable to prevent the optimum combination of the factors of production and, consequently, optimum growth of the economy as a whole.

The first objective of competition policy is of special importance in the period prior to the full establishment of economic union, particularly while freedom of movement for goods and services is being introduced. The abolition of tax frontiers and the elimination of distortions and restrictions hampering the free movement of capital have already been mentioned above. Restrictive agreements also need regulation, for it would be hardly worth the considerable labour involved in eliminating obstacles to trade created by governmental measures if private restraints of competition were to be allowed to prevent the opening and interpenetration of the markets. The Commission has therefore given priority to

work on practices whose object or effect is to share out or wall off domestic markets within the EEC. It will continue this work in the coming years.

With regard to vertical exclusive dealing agreements, the decisions rendered by the Commission are based on the principle that absolute territorial protection is illegal. They have been endorsed by rulings of the Court of Justice. For certain types of exclusive dealing contract, block exemption arrangements will establish what agreements qualify for exemption under Article 85(3) of the Treaty. The first decisions have already been taken by the Commission.

Before 1 January 1970, corresponding arrangements are to be made with regard to the main horizontal restrictive agreements, which are admittedly few in number but of an economic importance it would be a mistake to underestimate.

XIX. As customs duties, quotas and the other obstacles to trade are gradually disposed of, the second objective of competition policy—the creation and the maintenance of conditions allowing of optimum economic development—is acquiring greater importance.

Aids are the most important of the governmental measures which distort competition. Those granted to certain industries (e.g. shipbuilding, textiles, paper) have particularly serious effects on the working of the Common Market. If the Community decides against an aid policy for these industries, national arrangements are to be progressively abrogated in coming years, except where regional considerations are paramount. The development of general aid systems also remains a source of concern for the Commission; their legal basis is often so comprehensive that there is no way of establishing their economic significance solely by reference to the actual wording of the regulations. Hence the Commission will in future have to carry out a practical examination of the most important actual cases.

Monetary, financial and short-term economic policy

XX. As the completion of the customs union draws nearer and as Community policies are introduced in various fields, the need has arisen for ever closer co-ordination of the economic, monetary and financial policies pursued by the Member States. Co-ordination is vital for the maintenance of the degree of cohesion already reached within the Common Market and is also indispensable if the Community economy is to go on developing harmoniously. As economic trends within the Community in the last four years have shown, co-ordination not only serves to preserve the degree of market integration already achieved; by protecting the Community from any changes in exchange rates as between the Six, but also

provides the basis for further progress, notably with regard to the harmonization of legislation and the liberalization of capital movements.

The Community has achieved a number of new objectives in the field of short-term economic policy. These include the preparation of economic budgets by the Member States and their "confrontation" in the Short-term Economic Policy Committee. The main lines of the budget policies of the Member States are now discussed and compared within the Budget Policy Committee. Improvements have also been made to the EEC Business Survey.

Thanks to this forecasting and co-ordination work, the Commission has been able to lay specific proposals before the Council and the appropriate Community institutions whenever the economic situation of the Community called for vigorous combined action by the Member States. On Commission proposals, the Council made three short-term economic policy recommendations to the Member States—in April 1964, April 1965 and December 1966.

The integration of short-term economic policies has special importance for the cohesion, stability and expansion of the Community economy, and the Commission is therefore very anxious that further progress should be made in this field.

It hopes that the Member Governments will adopt more precise—if possible, quantitative—criteria for the appraisal of their short-term economic policies, both when the economy is overheating and when there is a danger of a recession. The Short-term Economic Policy Committee and the Monetary Committee have been asked to study this matter jointly.

The Commission feels that in particularly serious circumstances—which still have to be defined—the Council should be in a position to take decisions applying to all or part of the Community. This is in fact provided for by Article 103. It would also be particularly valuable if, in accordance with what has now become a tradition, the Council continued to hold regular discussions twice a year on short-term economic policy questions.

In brief, the Community institutions should be in a position, at the end of the transition period:

- i) To identify clearly, at any moment, the economic policy objectives of each of the Member States and of the Community;
- ii) To iron out quickly any incompatibilities between the policies pursued by the several member countries;
- iii) To take prompt action, with policy instruments at a proper state of readiness;
- iv) To elicit active co-operation from local and regional authorities in policies agreed jointly in the Community interests;
- v) To use legal instruments enabling Community decisions to be implemented without delay in serious or unexpected situations.

XXI. The Commission has always stressed the importance for the harmonious development of the Community of maintaining fixed relationships between the parities of Member States currencies. In fact, the parities of the Community countries have not been changed since early in 1961. This is partly because economic policies have been more closely co-ordinated. The integration of the markets is making the economies of the member countries increasingly dependent on one another and it is important that the Community should reach a situation in which the hazards of shifting exchange rates will have disappeared, i.e. in which the devaluation of the currencies of one or more Member States would be both useless and impossible. The entry into force of the common agricultural prices expressed in units of account is not only an important step towards monetary solidarity among the Member States, but yet another reason for maintaining fixed exchange rates between them.

This objective can be achieved with certainty only if further substantial progress is made in co-ordinating the monetary and financial policies of Member States. Appreciable progress along this road has already been achieved. The Community has acquired a whole range of instruments. A Committee of Governors of Central Banks has been set up to keep the Community's specific monetary problems under constant review. The Budget Policy Committee and the Medium-term Economic Policy Committee are also helping in this task. In addition, the Monetary Committee's terms of reference have been extended, notably in the field of international monetary relations. Consultations have been provided for in the event of one or more of the Member States wishing to alter exchange rates.

If the Community's work is to be effective, it is essential that consultations, both in the short-term economic policy field and in the monetary and financial field, should be held *before* the Member States take their decisions. A discussion, at Community level, of measures already adopted at national level is of little value and makes reciprocal adjustment of the various policies impossible. The Commission believes that Community discussions should precede, more systematically than in the past, all changes the Member States are contemplating in their economic policies.

Increased co-ordination of the budget policies of Member States will need to be achieved in the Budget Policy Committee. This Committee's work and the experience acquired by the Member States show that it is impossible to make public spending really flexible when estimates are adopted annually. Expenditure policy should therefore be increasingly established on the basis of programmes covering several years and adequately co-ordinated between the various Member States. Public revenues are also an important anti-cyclical element in budget policy. Revenues are already subject to automatic variations, which have a built-in-stabilizer effect in tempering cyclical fluctuations. Any stronger stabilization policy envisaged should also include measures affecting taxation and the other revenues of the central government, and as far as necessary, of the local authorities as well.

In the monetary field, it will doubtless prove necessary to establish quantitative standards governing the admissible growth rate of liquidity in any specific period.

Lastly, a Community policy on capital markets, and freedom of capital movements within the Community, will make a major contribution to the Community's progress in the field of monetary and financial policy. This question has already been referred to above.

COMMUNITY POLICY: THE GUIDELINES

Medium-term economic policy

XXII. As soon as the Treaties entered into force, the institutions attempted to fix certain objectives which should guide Community action. During the period of the establishment of the customs union, when ways and means of applying the common policies were being worked out, it was none the less difficult to obtain any overall view of the development of the Community or of the action to be taken. After the progress now made, it has become reasonable to attempt to define the general guidelines of Community policy. This was what the Commission had in mind when, in 1963, it proposed that a medium-term economic policy for the Community be established.

The objective of the medium-term economic policy must be the steady improvement of living and working conditions in the Member States. This is in fact the main objective of the Treaty of Rome. For this purpose, it must, over a long period, reconcile growth requirements with the need for stability and must provide the authorities with a general chart to which they can refer as a guide for the co-ordinated implementation of the various national and Community policies. However, with international competition growing keener, the achievement of rapid and balanced growth is likely to be more difficult than could be foreseen some years ago, when the Community might well have seemed to be trading from a position of strength with the rest of the world: the Community has to cope with competition from countries with more developed technologies and the advantages of a definitely superior capacity for industrial change, and with competition from a few countries with lower wage levels, producing certain articles of comparable quality at lower prices. If the Community is to face up to competition of this kind, it must lose no time in carrying out a number of operations of a structural nature. The purpose of the medium-term economic policy is to determine the general direction of such operations and to see that they do not overlap or conflict. As for the

progressive transformation of the customs union into an economic union, provided for by the Treaty, this also affects the Community's structures, and, for this reason, it is becoming more and more obvious that objectives must be defined and a work schedule fixed within the framework of the medium-term economic policy.

This policy is thus the privileged setting within which the general guidelines of Community action are to be worked out, whether in the social, industrial, agricultural or commercial fields. Those responsible for the conduct of the Community's economic policy must show sufficient imagination to cope with the novelty of the problems raised in each of the six countries by the construction of the Community. They must take as many liberties as prove necessary with old habits of thought and must not hesitate, should the need arise, to reject them outright: one of the aims of the medium-term policy is to prepare men's minds for the major changes—both inescapable and salutary—which sooner or later will have to be made.

Medium-term economic policy is also being discussed among the various non-governmental circles professionally involved. Their participation in the preparation of this general policy should be maintained and strengthened.

When they adopted the first medium-term economic policy programme on 8 February 1967, the Council and the Member Governments embarked on a process of co-ordination and guidance which had been made possible by the Council decision of 15 April 1964. The Commission and the Medium-term Economic Policy Committee are to ensure further progress in this field, not only by elaborating new programmes, but also by monitoring actual economic trends, so as to compare them with the developments previously forecast, verifying the compatibility of the economic policies pursued with the guidelines laid down in the programmes, and, as necessary, rendering opinions designed to advise the competent Community institutions and the Member States on the pursuit of the policies contemplated.

Social policy

XXIII. The various tasks entrusted to the Community by the Treaty of Rome have a social significance, as is made clear in the Preamble and in Article 117, where the need to improve the living and working conditions of labour "so as to permit the equalization of such conditions in an upward direction" is affirmed.

Since the entry into force of the Treaty of Rome, considerable progress has been made along this road: an undeniable improvement in the social situation of the member countries can be discerned and living and working conditions have at the same time been brought more into line. Thus,

until the recent economic slowdown, unemployment had for several years virtually disappeared in five member countries and there had been an improvement in the sixth. Real wages have increased more vigorously than in most of the other industrial countries; an appreciable reduction in the number of hours worked may also be noted: the working week is shorter and paid holidays longer. Considerable progress has also been made in social security by widening its scope or raising the level of protection.

This achievement undeniably owes something to the creation of the Common Market and to the specific action of the Community in the social field—action which must be extended and improved in two important fields: employment and living and working conditions.

In coming years the Community will have to treat employment as a matter of major importance. An active and modern employment policy must cope with two problems: first, in the medium term, a heavy demand for manpower, particularly skilled manpower, which is liable to engender strain on the labour market; and, secondly, the emergence or the extension of difficulties in certain areas and certain industries due to major structural changes, be they in industry, agriculture, or services.

It is therefore very important for the Community to pursue and to improve the arrangements under which full and up-to-date information on the current underlying trend of employment is obtained. Longer-term forecasts in the framework of the medium-term economic policy constitute an extension of this work: this is indispensable if the disappearance of old jobs and the creation of new ones are to be pin-pointed without delay. These analyses will have to be diversified and developed in greater depth to keep track of the trend of employment by industry, trade, level of skill and area.

This work should make it possible to establish guidelines and to take appropriate action in good time to meet actual or expected situations.

The need has already emerged for an improvement of the efficiency of manpower services in the Community, especially with regard to placing, information and advice for workers. Vocational guidance must be provided on as broad a basis as possible.

This analysis and forecasting work should also render more effective the Community's endeavours in the field of vocational guidance within the framework of the General Principles and of the action programmes already adopted. It will provide valuable information in connection with the training of adults and the re-adaptation and further training measures which are a response to the requirements of occupational and geographical mobility and to the need to ensure jobs for all prospects of social betterment. The problem of the training of young people also calls for the Community's attention: training facilities and methods must be studied and

compared, the current and foreseeable demand for skilled personnel kept under review, and work done on teaching methods, on the alignment of training levels, and on the problem of multi-skills training.

Wider powers of intervention should be conferred on the European Social Fund, so that it can play an increased role in an active employment policy. Similarly, one of the vital elements in the policy will be completely free movement of workers, facilitated by the simplification and improvement of social security procedures for migrant workers and further improvements to social services.

The amelioration of living and working conditions must be the second main objective of Community social policy.

In this field too, fuller information is needed. The Community must be able to monitor as accurately as possible the trends of wages in the six countries, with details on costs, social charges and workers' actual "take-home". These matters must be reconsidered as to how they fit into the wider framework of an incomes policy; and this will entail joint study of problems such as wage drift, sliding scales and policy on workers' ownership of assets.

The analysis and comparison of the laws and regulations governing paid employment and actual working conditions in the member countries must also be continued: the length of the working week, Sunday work and night work, protection against dismissal, co-management, collective bargaining, etc., are all important aspects of the problem. The Commission will continue to promote close co-operation between the Member States in this field with a view to the "harmonization of the social systems" referred to in the Treaty, in the light of Community requirements, the attitudes of Governments and the views of employers' and workers' organizations.

The same applies for health protection arrangements, medical services and safety at work.

In the general setting of the harmonization of the social systems, social security represents a particularly important factor for the improvement of living standards. Work undertaken on the harmonization of the concepts and definitions used at national level will provide criteria for bringing the different systems more into line. Here, the studies put in hand on the economic and financial aspects of social security will be specially useful.

These general social policy guidelines must also be taken into account in the Community policies: in the common policies—on agriculture and transport, for example—and in the other policies such as the short-term economic policy, regional policy, etc. In the definition and implementation of the medium-term economic policy, the Community possesses an instrument for information and for action which will make optimum social progress possible in all areas.

Industrial policy

XXIV. The objective of the Community's industrial policy must be to enable industry to make a maximum contribution to the improvement of overall productivity, the maintenance of a high degree of employment and the strengthening of the international competitiveness of firms. This clearly means that industry itself must take advantage of the opportunities and facilities provided. The task of the authorities is confined to establishing a general framework and in certain cases facilitating the adaptation of firms to the development of economic and technical conditions by specific measures.

As the national markets gradually merge in the Common Market, this task cannot be carried out in the national setting alone. The new framework for industrial activity is that of the Community; it is therefore for the Community to review its industrial structures and to co-ordinate the operations of Member States or even to adopt the measures required itself.

Here, the authorities must bear three main facts in mind:

First of all, while the generally favourable business trend has, up to the present, facilitated necessary adaptations of structure, the general expansion has not completely concealed the increasing difficulties experienced by certain industries, which are in relative decline as a result mainly of structural changes arising from the development of new techniques and modifications of demand.

The difficulties in the coal-mines, which have been hit by the radical change in Europe's pattern of energy supply, extend to most of the Community's iron, sulphur, lead, zinc and other mines.

Industries which were born of the industrial revolution in the nineteenth century, and which only a few decades ago constituted the basis of the Community's economy (iron and steel, shipbuilding, textiles, paper), have now entered a stage of slower growth and are finding it very hard to adapt themselves. This applies particularly to the medium-sized firms.

Though the causes of this trend (technological progress and automation, utilization of new materials, industrialization of new countries, etc.) cannot be analysed here, it appears that the problems are comparable in all the Community countries. This clearly shows that they are not the effects of the business cycle, nor are they accidents due to errors of economic policy, but arise from profound changes of structure affecting all long-industrialized countries.

A second point calls for examination of the competitive capacity of Community industry. It concerns the wave of investment from non-member countries, mainly the United States, which has ploughed into all the

Community countries despite the diversity of policies towards such investment.

The benefit derived by European economies is substantial. It takes the form not so much of contributions in capital—very limited since the measures taken to protect the American balance of payments—as of new industrial techniques and production methods which American investors provide, often in growth industries. The gains to productivity are considerable, not only in factories newly set up, but also in existing European firms, which are obliged to modernize their management methods in order to meet competition from the newcomers.

Nevertheless, the extent of such investment arouses some concern in business circles and, in certain countries at least, among the public authorities.

The problem of maintaining certain European firms arises in industries such as the oil industry, in which firms from non-member countries have held an important position for a long time now.

In other industries, such as the motor industry, it is less a question of technology—the excellence of European techniques here is beyond question—than of finance and the size of firms. The considerable funds the non-European parent companies can place at the disposal of their European subsidiaries, either for further investment or even to win a market, is a cause of concern for European firms which often have only relatively modest funds and which are frequently less profitable than their American competitors.

Industries based on advanced technology, such as electronics and aircraft construction, in which competitive capacity depends above all on the money available for research, pose even more difficult problems. The scattered European firms are too often outclassed by the subsidiaries of powerful American firms which have been able to recoup very considerable research expenditure in a large domestic market and which, in addition, benefit indirectly from technological progress due to research financed by the US Government.

It would certainly be a good thing if stricter discipline were observed by the Member States regarding advantages granted to firms from non-member countries, particularly in the shape of direct or indirect regional aid (infrastructure, industrial estates). It would seem, nevertheless, that one of the most effective methods of preventing such investment from becoming excessive, without harming the general progress of the economy, would be to develop in Europe firms with sufficient technological and financial means to compete on equal terms with firms from non-member countries.

There is yet a third factor which will greatly affect Community industry: the tariff negotiations just concluded in Geneva and the problems arising from the establishment of a common commercial policy. Owing to the size of the agreed tariff reductions, the Geneva agreement will have wide

repercussions on European industry. It is therefore urgently necessary to draw the conclusions from the commitments undertaken.

The tariff reductions obtained from certain countries may be expected to result in an appreciable development of industrial activity. But it is no less true that the tariff reductions granted will impose on firms in sensitive industries, particularly in certain member countries, a distinctly faster pace of adjustment in a less favourable general business situation.

Subsequently, the establishment of the common commercial policy will entail similar problems, for the main difficulties to be resolved, particularly in relations with Japan and the low-wage countries, concern sensitive branches of Community industry.

When we examine the means at the disposal of the Community to improve its industrial structures and generally to strengthen its competitive capacity, we have to note first and foremost that the creation of a large, dynamic market, offering the conditions of a domestic market, is in itself a factor of great importance. If industry is to align itself spontaneously on this market and seize the chances open to it, it must be certain that the goal of creating conditions similar to those of a domestic market will be achieved effectively. Interruption of free movement and barriers preventing it, monetary expedients and other sudden changes in the conditions of competition, affect the climate of investment and hold up adjustment to the conditions of the enlarged market. And so implementation of the programme set out in Section I above is in itself an essential element of industrial policy.

XXV. Furthermore, a number of specific measures will be necessary; they are outlined briefly below:

Creation of a legal and fiscal framework suited to the requirements of a large market

Company law and a European-type company: freedom to set up companies in the unified market will involve, on the one hand, uncertainty as to the legal situation due to the heavy increase in economic relations between natural and legal persons subject to six different systems of law, and, on the other hand, a risk of abnormal transfers of activity encouraged by the differing degrees of certainty as to the law offered by the six systems of legislation.

The right of establishment therefore calls for a counterweight, which according to the Treaty (Article 54), must take the form of co-ordination of the guarantees given to members of companies and third parties, this being the essence of company law. The importance of this task, which consists in smoothing out the most perceptible divergences between the six systems of company law, is obvious. By its nature the work is slow and difficult, as experience of reforming such law in individual countries has

shown. Despite great efforts, therefore, some delay has been inevitable. The Community must see that no more time is lost. In particular, the Council will have to reach a quick decision on the first directive on companies and partnerships, submitted by the Commission, concerning the system of publication of particulars, nullity of association, and the powers of boards.

Other specific measures will have to be taken in the form of conventions between the Member States (Article 220 of the Treaty) on reciprocal recognition of companies, the possibility for companies to transfer their registered offices while maintaining their legal personalities, and the merger of companies coming under the legislation of more than one Member State.

The draft convention on the reciprocal recognition of companies has been submitted to the Governments of the Member States. The draft convention on international mergers of companies coming under different systems of domestic legislation is being discussed extensively by a working party of government experts. The Commission will urge that the work be completed as soon as possible. This convention must also contain provisions on the transfer of registered offices.

During the last few years it has, however, become apparent that harmonization of company law within the Community is not sufficient to satisfy the needs of firms expanding outside the Common Market and extending their activity to other Member States.

The Commission has therefore accepted the French Government's suggestion that European industry should be given the opportunity of forming "European joint-stock companies". It sent a memorandum on the subject to the Council and, at the beginning of this year, submitted the preliminary draft of a Statute for a European-type joint-stock company which had been drawn up by Professor Sanders of the Netherlands School of Economics in Rotterdam in co-operation with a panel of experts. The Commission hopes that substantial progress will be made in this direction in the next year.

Fiscal obstacles to structural adaptation of firms: adjustment to the larger market and the need to meet, inside and outside Europe, competition from the big international concerns, in particular US firms, has set in motion in all the Member States a marked tendency to form larger firms. It must be noted, however, that this tendency hardly goes beyond the national framework as yet. The reasons for this are many. One of the most important is certainly the fact that the fiscal provisions of the Member States still present serious obstacles to international industrial combination.

This applies, in particular, to the merger of companies situated in different Member States and, to a lesser degree, also to the acquisition of holdings.

As regards mergers, the fiscal costs of the operation itself prevent international mergers at present. These costs result from the manner of taxing the appreciation of capital assets (declaration of hidden reserves), and from double taxation under the head of company tax.

In the case of acquisition of holdings, it is not the procedure of combination itself which puts a brake on combinations, but taxation on the activity of newly set up groups of firms. Often the burden on two interdependent companies is heavier than that on a single company making the same profits. Here the Community should aim at:

- i) Preventing double taxation at European or national level of transfers of profits between parent and subsidiary companies, where large holdings are concerned;
- ii) Removing the difficulties arising for interdependent firms from the practice of tax deductions at source, by limiting such deductions to subsidiary companies.

Obstacles of a legal nature: an industrial policy aimed at establishment of a common market would be incomplete without alignment of all legislation which may have a decisive influence on the business activity of companies. The draft convention on European patent law has been ready for a long time. A draft convention on the international competence of courts and the enforcement of judgments given abroad will be submitted to the Governments shortly. The Commission also aims at completing this year a draft convention creating a European system of bankruptcy law.

Policy on restrictive agreements and industrial combination

XXVI. Stated simply, the objective of the common industrial policy is to strengthen the competitive power of European industry. The maintenance and strengthening of competition within the Common Market undoubtedly play a substantial part in achieving this objective. The point has been confirmed by the experience of the past nine years, which have seen the opening of frontiers within the Community while tariff and quota protection against non-member countries has also been reduced. Consequently, the competition policy pursued by the Community will have to be taken further during the next few years.

It has, however, been found that in a number of industries many firms are not big enough to make full use of the possibilities offered them by the Common Market and to compete effectively. The Commission has drawn two conclusions: obstacles to the external growth of firms caused by company and fiscal law must be removed as soon as possible; and co-operation agreements concluded between two or more firms for purposes of specialization, joint research or rationalization should be approved on condition that they still permit effective competition on the markets in question. Over the next few years the Commission will have to specify the conditions on which these classes of agreement may be considered permissible.

Regarding external growth and combination, work on company and fiscal law is advancing satisfactorily, as has been shown above. However, in this sphere too, care should be taken to ensure that the combination process does not impair effective competition or lead to monopoly situations.

Increasing firms' funds

XXVII. If European firms are to be structurally adjusted, and rendered more competitive, their financial base must be broadened and, in numerous cases, their financial structure must be reorganized. The "European" character and scale of a firm depend not only on the possibility of buying, manufacturing or selling at will on one market or another, but also on the firm's right to establish itself financially on a multinational basis. Firms must be free to choose the most favourable terms and the most convenient procedures for obtaining funds, on a European-scale capital market, if their movement towards structural adaptation is to be maintained.

On the demand side, an examination of the structure of capital markets in the Community shows that, narrower profit margins have led to a rapid growth of firms' needs for external finance (the public authorities' demands on the market are likewise growing). On the supply side, the liquidity preference of savers is too strong and there is some reluctance to invest in shares or bonds. These two factors have led inevitably to a reduction in the ratio of own capital to total funds mobilized by firms.

A European capital market would facilitate solution of problems common to the capital markets of the Member States. Saving for financing purposes would certainly be encouraged if savers were offered new opportunities for investment and the machinery of the markets were improved. The present resources of the six markets would then no longer merely exist side by side but be developed to a large degree, and the very fact of integration should mean that the Community's total financing capacity would exceed the sum of the resources of the individual domestic markets. As a result of the widening of the markets and the consequent reduction of risks, the institutions "transforming" short- and medium-term deposits into long-term investments would be able to increase their investments. And the narrowness of the domestic stock markets, which is the source of their main operating defects, would be remedied to a certain extent.

During the next few years, certain improvements will therefore have to be made in the structure of domestic capital markets so as to promote indirectly the reorganization of the financial structure of firms and to allow better use of available capital.

The main policy aims of the public authorities in the Member States should be to:

- i) Enable European firms to place themselves financially on a multinational basis by progressively putting firms from the partner countries on the same footing as domestic firms with regard to access to the capital market and the purchase of their securities by institutional investors;
- ii) Remove fiscal obstacles to capital movements and to the movement of securities among member countries (differentiation between treatment of distributed profits and profits put to reserve; wide divergences in

rules on the basis of taxation, particularly regarding amortization and investment incentives; differing provisions governing fiscal relations between parent and subsidiary companies; international double taxation, etc.);

iii) Encourage the continuous adjustment of security issues to the pattern of savers' demand (improvement of placing and dealing techniques);

iv) Increase substantially the fund collection and employment facilities of institutions that build up and centralize savings funds and distribute them for the benefit of the economy.

Industrial structure policy

XXVIII. Specific measures favouring certain industries must be undertaken only if circumstances urgently call for them, and must be limited to what is strictly necessary. Such measures must aim not at maintaining structures outstripped by economic progress but at facilitating essential adaptation in declining industries and above all at strengthening industries based on advanced technology.

In industries with adaptation problems, action at Community level consists firstly in guiding the decisions of the Governments and Community institutions by viewing the problems of each of these industries as a whole. For this purpose studies must be made of the business outlook in industries threatened by technical developments.

The current programme of studies on industrial structure must therefore be continued and stepped up.

Above all, measures taken by the Member States and the Community's institutions in the various branches of industry must be co-ordinated. The preparation of the next medium-term programme will provide an occasion for dealing with problems in textiles and shipbuilding. Next it will perhaps be useful to study the paper industry, which will be particularly affected by the consequences of the Kennedy negotiations, and the lead zinc industries. Lastly, there is the problem of the industries where scientific and technical research play a decisive part. The Commission has undertaken various studies on the electronics industry and has suggested to the Medium-term Economic Policy Committee ways of developing scientific and applied research in it, in particular by developing research centres.

Similar studies will have to be undertaken in other branches of industry.

Implementation of a common energy policy

XXIX. In this field, the construction of "economic Europe" is undeniably lagging behind. The Community has not yet succeeded in working out the guidelines and ways and means of implementing a common energy policy. Numerous obstacles still impede the movement of energy products.

Despite the co-ordination work of the Inter-Executive Working Party on Energy, the division of responsibilities between the three Communities undoubtedly remains one of the causes of this situation. Another reason is the disproportion between the legal machinery provided by the Treaties and the objectives to be attained.

The adverse consequences for Community industry of this division of the energy markets are self-evident. Price disparities place user industries on unequal competitive terms. Investments are influenced by these situations of inequality in such a way that they do not always meet the requirement of maximum economic profitability.

The single Commission will take over the work undertaken in the field of fuel and power by the High Authority, the Euratom Commission and the EEC Commission, and must lose no time in trying to formulate an overall policy for energy. General discussions on the common energy policy have not been held in the Community since the ECSC Special Council adopted the resolution of April 1964 on energy policy. Two tasks can no longer be delayed:

The first is to establish the objectives of the common energy policy and to work out procedures for attaining them. The problems here are not unlike those the Community has already encountered in agriculture and transport. But the present Treaties do not contain provisions for energy similar to those for agriculture and transport.

The merger of the Treaties will enable this defect to be remedied. It is not, however, desirable to wait until then before adopting a number of provisions indispensable to the functioning of a common energy market.

On the basis of the work already done in the three Communities, in particular the Commission's first memorandum, of 1966, on a Community policy for oil and natural gas, the immediate objectives of the energy policy are already clear:

i) To make the Community's oil and natural gas supplies more secure. In 1970 nearly 60 % of the Community's total fuel and power needs will be covered by these products, and the fact that they will mostly have to be imported obliges the Community to take all measures necessary to guarantee its supplies;

ii) To strengthen the position of the small and medium-sized firms in the Community so that they can compete with the big international oil groups. In particular, their access to crude-oil resources of their own must be facilitated by granting certain fiscal advantages or aids, and they must be encouraged to form groupings so as to benefit from economies of scale;

iii) To see to it that a certain output of energy raw materials, in particular coal, is maintained in the Community territory. Efforts must be made to organize the necessary adjustments of production so that the closure of production sources does not have detrimental economic and social

consequences. An important step in this direction is a system of aid to the coal-mines organized by the ECSC High Authority;

iv) To keep prices to the consumer low.

The second task is to ensure that energy products can circulate freely in the Community. The High Authority and the two Commissions have already taken a considerable number of measures to facilitate free movement in the fields for which each is responsible. Numerous obstacles still exist, however, in the shape of regulations, quotas and fiscal provisions. The Community's energy policy must include completely free movement of energy products.

The adoption of a number of measures for coal, and the strengthening of the competitive position of Community firms producing or distributing oil and natural gas, should permit the establishment of a common energy market sufficiently open to the outside world.

But the ways and means of implementing the future common energy policy still have to be specified, particularly as regards coal and reinforcement of the competitive position of Community oil companies. The new Commission will have to submit proposals as soon as possible, so that Community decisions can be taken quickly and a true common energy market established by 1 January 1970.

Co-ordination of regional policies

XXX. Regional policy is an integral part of the overall economic policy of each Community country. Lack of co-ordination at Community level can have serious consequences. Co-ordination of regional policies is the best means of maintaining solidarity in the Community in the face of the very difficult problems raised by technical progress, industrial conversion and location of investment. There is the danger that towns, regions and States in difficulties will endeavour simply to shift their burdens to others. There could be an unbridled run on regional aid and the conditions of competition could be radically distorted. Such an exaggerated boom in the supply of aid—the true beneficiary from which, whether a region or a branch of industry, could hardly be known—would mean that some aspects of the customs union would inevitably be jeopardized.

The past nine years have shown that the Common Market is a powerful factor for progress in the economy of the member countries as a whole; but they have also shown that the existence of the Community restates the problem, in different and sometimes more difficult terms, of regions whose economies are already weak or unstable. Although the inadequate statistical data on the subject hardly allow a true evaluation to be made, it would appear that the gap between the various regions has not been reduced appreciably since 1958. This is very likely because the better placed or better equipped regions have benefited fully from the boom of recent years, while those that are backward or more particularly hit by technical developments have benefited less.

Regional problems have therefore lost none of their gravity in the Community. The Member States are well aware of this. In the last few years each of them has increased, diversified and intensified its measures to aid areas where development is lagging behind because of insufficient industrialization or is hindered by conversion difficulties. Nor have the Community institutions remained idle. Experience has shown that these problems should be analysed not only in the national context but also at European level and that remedies would be all the more effective if they were agreed upon in common. The Community can no longer put off the work to be done in this field.

The Treaty has given the Community institutions certain powers in the matter of regional policy: powers of assessment vested in the EEC Commission concerning the compatibility of regional aids and preferential transport rates with the rules of competition; ECSC and European Social Fund subsidies for retraining workers; substantial subsidies from the Guidance Section of the EAGGF for reorganizing agricultural structures; ECSC and European Investment Bank loans. In addition, the elaboration and implementation of the common policies by the Community institutions have considerable regional implications, direct and indirect; it is sufficient to quote agricultural and transport policies here.

These powers have already been used widely, but rather to tackle immediate difficulties empirically than to try to solve the problem of regional imbalances in the Community as a whole. As in past years, the Community institutions must continue to give all the support they can to action by the individual countries. However, decisions must be taken in the light of an overall concept. How can the vast annual programme of subsidies for agricultural structures be administered one hundred percent efficiently without a comprehensive view of developments in the Community's agricultural regions? How can the legitimacy of the different systems of regional aids be assessed without a common definition of the objectives to be attained? Unless such a global view has been worked out, the common policies, which it is the job of the Communities to implement, cannot help to correct regional imbalances, and national or Community action to do so is likely to be ineffective. It is from co-ordination of the Member States' policies, here as in other economic fields, that we hope for greater efficiency of the Governments' efforts and for the most balanced growth of the Community's economy.

The details of such co-ordination have still to be decided. Joint examination of regional programmes, which should be drawn up for the greatest possible number of regions, would certainly give the best opportunity for developing co-ordination. Other means, however, must be used, as was stressed by the Commission's first memorandum to the Council on the EEC's regional policy. These means are:

Preparation of regional statistics: it is indispensable to have comparable regional statistics in order to know the problems and decide on the action required. The present data are still far from uniform. The Commission

would like to receive from the Member States, at regular intervals, regional statistics on a sufficient number of indices in the same way that it is supplied with data on economic trends.

Examination of regional aids: in order to achieve maximum efficiency at Community level, it is necessary to reconsider regional aids from the points of view of their nature, necessity, geographical area of application, and effect on industries.

Regional studies: the Commission has already had a hand in studies of particular interest to the Community: the Taranto-Bari development pole; the northern Lorraine-southern Luxembourg frontier region; the Eifel-Hunsrück region. Other studies could be carried out in the years to come.

Regional orientation of economic policies: the Community must take into consideration the needs of regional development in shaping common policies at Community level. Here the following two aspects must be stressed:

- i) EAGGF: in conformity with the medium-term economic policy programme, financing by the Guidance Section of the EAGGF must take regional policy into account and give priority to regions for which there is an overall development programme;
- ii) Transport infrastructure: a priority list must be drawn up of transport routes which can make a decisive contribution to the development of regions hitherto without a modern transport network.

Scientific and technological research

XXXI. Last February, the High Authority of the ECSC, and the Euratom and EEC Commissions submitted to the Council a joint memorandum containing guidelines for action within the Community to cope with the problems posed by technological progress.

This question is decisive for European enterprises. In the modern world, industrial research and innovation play the same role as the possession of raw materials in the last century. Without them, Community industry would be condemned to seeing its competitive position steadily and irrevocably decline.

The main cause of the Community countries' technological lag is the structural weakness of European enterprises, and in particular their inadequate financial resources. The completion of the European Economic Community is calculated to change the terms of this problem. It may be hoped that more powerful industrial corporations will emerge in the Community, with large funds at their disposal and research and technology infrastructure far in advance of that at present available to companies in the Six. This is why it is essential that the Community rapidly produce its effects on the organization of economic life; the technological progress of the Community—and consequently its economic and social development too—depends very largely on the re-organization of enterprises.

However, European firms cannot carry the research burden unaided—any more than can their American counterparts—and Governments must continue to participate actively in this field. The problem of co-operation between the Member States within the Community then arises and—on a more ambitious level—the problem of a common research policy.

Co-operation between Member States in this field has so far been more or less confined to the atomic sector. Complete economic union must lead to a fresh organization of Community action with regard to scientific research, taking in new economic and technological fields and creating Community solidarity for action in other settings. Existing co-operation with non-member countries should be pursued and intensified.

At the present stage of the Community's development, it is still difficult to forecast what form this scientific co-operation within the Community will take. It is certain, however, that it must create flexible and varied procedures to deal with the complex situations posed by technological progress, the special situation of Community enterprises, and international competition. Side by side with joint projects financed and directed by the Governments, other research incentives could be provided, for example research contracts to which the Member States and the Community would both contribute, and for which Community enterprises would compete. Such contracts would have the special advantage of encouraging these enterprises to undertake the spontaneous research necessary to tender for them. The advantages flowing from such contracts would encourage co-operation and the interpenetration of Community firms.

It would therefore seem desirable to make certain funds available to the Community institutions. In most cases aid should only be supplementary and act as a catalyst for action by the States and the firms.

Finally, a scientific research policy implies the existence at Community level of procedures for laying down general policy, choosing the industries to benefit from Community aid and deciding on the schemes or contracts to be financed.

Common agricultural policy

XXXII. The common agricultural policy has been at the hub of Community activity for many years. As the first common policy to be implemented, it served as a test bench for Community methods and machinery. Its success is the guarantee of future progress in other sectors of Community activity.

Now that single markets for agricultural products have been established, the tasks facing the Community are of two kinds: the management of these agricultural markets and the modernization of the pattern of European farming.

The Community must see to it that the markets are effectively managed, using all the means at its disposal. Within the Community, fair conditions of competition between producers must be guaranteed, while farmers are assured of satisfactory remuneration thanks to increased productivity and the arrangements for market intervention and support.

Management of the markets should also take into account the Community's responsibilities in international trade. Neighbouring countries in Europe and in the Mediterranean area, and African countries too, are already trying to secure improved trading arrangements with the Community for their agricultural produce. In the longer run, however, a better organization of international markets will not be possible unless discipline is achieved in domestic agricultural policies and in the commercial policies of the world's principal producing and importing countries. This necessity, combined with the need for food aid on a large scale, will call for the gradual formulation of an international agricultural policy.

Agricultural production will be guided in the first place by the fixing of single prices each year. Before 1 August 1967, the Council will take this decision for the first time, on a proposal of the Commission and in the light of the report on the state of agriculture and agricultural markets in the Community. In future, the content of this annual report will be amplified, in particular by data obtained through the information service on farm accounts, so as to arrive at the most rational price decisions in the Community context. Other factors which will determine the fixing of these prices are the agricultural situation and the trend of production and consumption within the Community, the financial cost of market support, and the situation on international markets.

Farm incomes will not, however, be entirely dependent on the Community's market and price policy. Its structural and aid policies will also play a decisive role in determining the living standard of Community farmers. The Community's second task will therefore be to define those aids still necessary to overcome certain structural or social deficiencies remaining or likely to emerge within the Community, and to implement a policy on structures. Co-ordination of national policies in this matter has already been put in hand. Over and above this, however, the Community, which has the necessary funds at its disposal, should direct its attention to Community measures for the improvement of structures. Through its structural policy, it should help to modernize the economic and social pattern of farming by increasing productivity, developing rational forms of co-operation in production and marketing, and by constantly adapting production to demand from consumers inside and outside its borders. Structural policy should also aid—and even give priority treatment—to backward areas, whose mainstay is indisputably farming, so that with the Community's help they can overcome the handicaps which have so far condemned them to lag behind economically. The adoption of Community programmes extending over several years is the main way to achieve this, and the Commission will submit a first set of such programmes to the Council in the very near future.

Commercial policy

XXXIII. In 1966 the Community's imports from non-member countries represented almost 10 % of its gross product and its exports to these countries 9 %. The Community is therefore far more dependent on foreign trade than is the United States. The high level of its foreign trade, which passed the \$ 60 000 million mark for the first time in 1966, is a key factor in its economic expansion.

The highly sophisticated economy of the Community is, in particular, far more dependent on outside sources for its supplies of raw materials and energy than are other large economic blocs. The Community today accounts for one third of all the West's imports of raw materials and energy. This burden is all the heavier since, with economic growth, dependence on certain external supplies necessarily becomes more and more marked.

In order to obtain the funds necessary to pay for these imports, the Community must have free access to the markets of non-member countries for its industrial products. This will only be possible if it is prepared in turn to follow a liberal import policy.

In these circumstances the Community cannot withdraw into its shell. Under the Treaty, it must:

- a) Contribute to the harmonious development of world trade by liberalizing imports and exports as far as possible;
- b) Aim at the lowering of tariff barriers by means of negotiations with the principal non-member countries;
- c) Act for the abolition of restrictions on international trade and the creation of normal conditions of competition.

As regards liberalization, the Council decision of 10 May 1959 already held out the prospect of an early end to all quantitative restrictions vis-à-vis the Community's GATT partners. The Commission proposed binding the level of liberalization reached at that time and establishing a common liberalization list. These proposals should be implemented between now and 1 July 1968 and extended in some appropriate form to trading partners who are not members of GATT.

In the field of customs duties, the Kennedy Round made decisive progress which seems to represent the maximum attainable for some years to come—at least as far as trade with the industrialized countries is concerned.

With the new international anti-dumping code, effective from 1 July 1968, the Kennedy Round also made progress as regards non-tariff barriers which distort competition and hinder trade. By that date at the latest, the Community must have its own anti-dumping rules. The Commission's proposal on this subject has been before the Council since 1965.

It would be of great importance for the "transparency" of world trade if the United States signed the Brussels conventions on nomenclature for

the classification of goods in customs tariffs and in the valuation of goods for customs purposes. Certain assurances have been given in this regard.

Finally, the Community will continue to do all in its power, through the international organization of markets in agricultural products and raw materials, to have all measures eliminated which hinder trade in this sector.

However, the Community must keep in mind that—apart from imports of goods and services—its payments balance will be burdened during the years ahead by additional charges resulting from development aid and increased investment abroad. Continuous expansion of exports to non-member countries is therefore essential. One of the principal tasks of Community policy should be to ensure this expansion. It should therefore bring its full weight to bear in negotiating trade agreements with non-member countries to obtain this result. But it should also create optimum conditions for export financing and agree a common policy on export credit guarantees.

XXXIV. These general principles which dictate the Community's approach to commercial policy should naturally be adapted to meet special situations in certain sectors of the economy and in some non-member countries.

*International competition and the situation in certain sectors
of the economy*

The sector mainly concerned is agriculture. Despite a relatively high rate of self-sufficiency, the Community's purchases make it the world's largest importer of farm products. This is of particular importance with regard to trade with certain non-member countries which, for their part, are large importers of the Community's industrial goods. Experience in the past, and the common agricultural policy as framed and applied, indicate that Community imports of agricultural products will continue at the same high level they have already reached, and might even increase further. This does not rule out the possibility that their composition may change. Such changes have been noted in the past and may occur again in the future, particularly as a result of technological developments affecting production and a shift in the composition of demand for farm products from Community consumers. However, since demand is continually increasing, it will be possible to parry any commercial policy difficulties which might result in certain instances from changes in the composition of imports.

In the industrial sector, protective measures under commercial policy must remain an exception. These will concern, on the one hand, growth industries which are not sufficiently developed but are essential for the Community's economic expansion and, on the other, particularly weak industries which are experiencing difficulties in adaptation. As a

temporary measure, these industries must be given adequate tariff protection combined, where necessary, with quota protection until such time as industrial policy measures have brought them to the level of development considered necessary, or the essential structural reform has been completed. The sensitive industries have already been enumerated in the list of exceptions presented by the Community for the Kennedy Round. In the cotton textiles sector, Member States' commercial policy has been fully co-ordinated during recent months. Furthermore, during the spring of 1967, the Commission submitted detailed proposals to limit or control imports of sensitive products into the Community at abnormal prices.

In this connection, particular importance should be attached to the elimination of measures distorting competition in world trade and—if this cannot be achieved—to protection against abnormal trading practices, like dumping and subsidies, and against the risks of market disturbances resulting from low-priced imports; this protection will be assured in part by measures taken independently by the Community and by others negotiated with non-member countries and guaranteeing, by mutual agreement, the regular expansion of trade in certain goods.

Trade relations with developing countries and state-trading countries

XXXV. *Developing countries:* In its commercial policy vis-à-vis developing countries, the Community has attempted to establish a satisfactory balance between the responsibilities conferred on it by obligations under the association arrangements and the interests of non-associated developing countries.

Community trade has developed in a way which has benefited the Yaoundé countries—in 1966 their exports to the Community represented approximately 4.3 % of all imports from non-member countries—and other developing countries too whose share of Community imports was 32.5 %.

Because of its rapid economic growth, Community imports from developing countries have grown much more rapidly than those of other advanced countries, or its own exports to developing countries. As a result, the Community has since 1961 been the main customer of developing countries, which find outlets for approximately a quarter of their exports on its market. There has been a heavy deficit on its trade balance with developing countries since 1962; the deficit in 1965 was \$1 420 million (fob).

The Community is conscious of the responsibilities towards developing countries conferred on it by its position in world trade. It shares the anxiety of these countries to step up the growth rate of their exports, and consequently, to increase their import capacity, particularly as regards capital goods.

In view of this, the Community is bound to attach special importance to the harmonization of rules governing trade; it sees this as an appropriate

means of improving its relations with these countries, particularly in commercial matters.

Attention should be focused in the first instance on basic products, which still constitute the hard core of the developing countries' exports.

In this regard, the gradual dismantling of trade barriers is a first factor which could stimulate the consumption and import of such commodities by the advanced countries. It should be remembered, however, that the bulk of these products already enter the Community duty free.

Again, since the stabilization of world commodity prices should improve and give a firm foundation to the capacity of the developing countries to import, the Community should do all in its power to promote the organization of international markets for individual commodities. Since, however, economic and technical factors also limit action in this sphere, efforts to arrive at international commodity agreements should be accompanied by measures aimed at diversifying production and export structures in the developing countries and thus making them less vulnerable to fluctuations in world prices.

The Community should therefore attempt gradually to ensure that developing countries participate increasingly in world trade in manufactures and semi-manufactures, which constitute the most dynamic element in international trade. To this end, the implementation by the Community and other industrialized countries of a world system of tariff preferences for manufactures and semi-manufactures from developing countries in general would be an important step on the way to an organization of world trade better adapted to the special conditions of developing countries. The granting of tariff preferences to all these countries could partly offset their initial competitive handicap with regard to manufactures and semi-manufactures and thus contribute to a better international specialization of production.

All these questions will be discussed at the next World Conference on Trade and Development (UNCTAD) in New Delhi in the spring of 1968.

The Community's place in world trade and the political importance of the UNCTAD conference should encourage Member States and the Community institutions to lose no time in elaborating and adopting a common approach to the main items on the New Delhi agenda.

XXXVI. State-trading countries: In recent years, Community trade with East bloc countries has grown, proportionately, more rapidly than its trade with the West. However, it does not exceed 6 % of the Community's overall external trade, and this is not a fair reflection either of the close economic links which existed in the past nor of the present level of development of national economies both West and East. Subject to satisfactory concessions in return, the Community should therefore pursue a policy of all-round import liberalization, although this could, of course, operate only with certain guarantees.

The Commission is well aware of the difficult nature of this task. Trade between countries with free market economies and state-controlled economies cannot be influenced on both sides by the same methods. Under the state-trading system, customs duties, quotas and liberalization measures have a different meaning than in the West. If Western countries accord most-favoured-nation treatment, or liberalize their imports from state-trading countries, they are necessarily making an advance concession. In view of the limited influence of the laws of the market on the imports of East European countries, only subsequent analysis can show whether the state-trading partner has in fact kept his part of the bargain and reserved an adequate place on its market for exports from the West.

Given the Community's stature as a trading partner—provided it decides to make the best use of its position by presenting a united front—there is no cause for excessive alarm in this connection. Then again, trade with East bloc countries is not at present suffering from a lack of import demand in those countries but rather from a lack of means of payment. It is true that export credit guarantees given by western countries partially bridge this gap. The difficulties have not, however, disappeared; they have merely been postponed. The Commission trusts that closer co-operation between West European exporters of plant and equipment and appropriate financial co-ordination will put an end to the difficulties caused by competition between the Member States of the Community in this area.

*Outlook for the Association between the Community
and the African States and Madagascar*

XXXVII. The Yaoundé Convention governing the present association arrangements is due to expire on 31 May 1969. But it is stipulated that one year before this, i.e. from 1 June 1968, the contracting parties must consider future arrangements.

The preparatory work for negotiating a new Association Convention is therefore among the important tasks to be tackled by the Community in the near future.

Aid for the development of certain overseas countries is embodied in the principles of the Treaty of Rome and even in the body of the Treaty itself.

After 1958, aid had been organized and built up under a form of association governed initially by the Implementing Convention annexed to the Treaty and later, from 1 June 1964, by the Yaoundé Convention.

The association has been a success both for the Associated States and for the Community.

It has made possible an overall increase in trade, a gradual elimination of discrimination—in the AASM—between the Member States, their nationals and companies as regards establishment and the supply of services,

and has above all greatly helped the economic and social development of the AASM through growing technical and financial co-operation.

From the political angle, the association has created or strengthened a climate of friendly relations both at the institutional level and between the participating States. It has contributed to a coherent Community policy in an important area of external relations. It has also facilitated efforts by the AASM to set up between themselves common organizations at various inter-African levels. It has kept a reasonable balance between the interests of the various parties vis-à-vis other areas of the world.

Applications from other African countries wishing to establish closer links with the Community are further evidence of its success. An agreement (also due to expire on 31 May 1969) has been signed with Nigeria and negotiations are in train with the group comprising Kenya, Uganda and Tanzania.

The Community's policy in this field should be maintained.

All the guidelines of this policy cannot yet be outlined but from experience some points can be emphasized.

With regard to trade, a number of surveys have thrown light on problems requiring solution. The contracting parties should now draw practical conclusions conforming with the spirit and aims of the association, and make a fair appraisal of possible conflicts between the interests of the different parties. In the Associated States, efforts should be made to ensure that all signatories participate without discrimination in economic development.

Financial and technical co-operation should:

- a) Be increasingly focused on productive schemes covering organized inter-African groupings;
- b) Benefit from ever stronger practical co-ordination with bilateral aid from the Member States to the Associated States, and also with other multilateral aid;
- c) Ensure a close, programmed relationship between the various types of training for supervisors and personnel on the one hand and investment and economic development measures on the other.

As regards the association institutions, although practical considerations counsel against any over-extensive and over-complex machinery, it is nevertheless important entirely to retain the equal and democratic characteristics which have lent to EEC-AASM association policy an image and prestige exceptional in relations between unequal economic partners.

XXXVIII. The Commission has been chiefly concerned with developments within the Community, but this does not mean that it has neglected other problems referred to the institutions.

The widening of the Community, which has been under discussion since 1961, has been a matter of prime concern to them and to the Member States since the Governments of the United Kingdom, Ireland and Denmark re-applied for membership of the Communities on 10 May 1967.

The Commission has always favoured the accession to the Community of other democratic States of western Europe, in particular Great Britain. It has expressed its opinion on this matter on many occasions in the past, more particularly before the European Parliament. Its basic position was recalled in the introduction to the last General Report¹ and it has not altered in the meantime.

The Council decided on 5 June 1967 to initiate the procedure laid down in Article 237 of the Treaty, a procedure in the course of which the Commission will give its opinion, and the Commission feels that no useful purpose would be served by publishing further statements here.

XXXIX. Apart from the membership applications which have been submitted, the Community is pursuing an active association policy, particularly in Africa and the Mediterranean area. Quite apart from its economic implications, the establishment of association links inside and outside Europe is of great general significance.

The association with the African States and Madagascar has already been discussed in this Introduction. The success of the association with Turkey was highlighted by the recent visit to the Community of the Turkish Prime Minister, M. Suleyman Demirel. The association with Greece functioned normally until the spring of 1967. The Commission cannot however conceal its concern about developments in Greece and their possible impact on association arrangements. The Commission recently informed the Council that it favoured the signing of an association agreement with Israel. Special agreements are also planned with other countries. The negotiations and studies so far undertaken augur well for the conclusion of an agreement with Austria; preliminary discussions have begun with Algeria, Morocco and Tunisia, and negotiations with Spain may be expected to start in the near future.

XL. At the end of its period of office, the Commission reiterates its conviction that the constitutional order of the Community remains, in spite of difficulties and crises, the essential foundation for the European edifice; has been the key to progress already achieved; and is the best guarantee of future success.

The members of the Commission who took office on 10 January 1958 following the entry into force of the Treaty were already convinced of the soundness of the Community constitution. Nine years later their faith

¹ Ninth General Report, Introduction, paragraph XII.

remains intact, indeed strengthened by the test of experience—and the Commission believes that this experience has helped to spread confidence in the Community far and wide among the peoples both inside and outside the six countries.

XLII. The rules chosen by the Commission to guide its work can be summarized in a few words: to assume all the responsibilities laid upon it by the Treaty, without compromising on any of them; to ensure that the Treaty is executed completely, to its fullest extent and with all its consequences; to guarantee respect for the constitutional order established by the Treaty and to see that the institutions function properly. The Treaty itself makes all these demands. It may have been difficult from time to time to comply with them, but how much an institution gains in authority, security and confidence when it is founded on the Treaty, that is on a Charter ratified in the name of the peoples of six countries!

In its work the Commission has followed the example of the European Parliament, and the Parliament's vigilance has supported and sustained it throughout its whole period of office. It therefore believes that these same rules can be recommended as a guide for action in future.

XLIII. It is not, however, sufficient to maintain the present constitutional order—that “ever closer union among the European peoples” the foundations for which were laid by the Treaty, remains to be achieved. The Member States themselves pointed the way to this by expressly providing in the Treaty for elections to the European Parliament by direct universal suffrage, with all that this implies in terms of increasing the authority and extending the powers of the Parliament.

The Commission has consistently supported a policy of conferring increased powers and influence on the Parliament. The Treaty clauses on this subject have never been abrogated and the institutions will ensure that this objective is maintained.

XLIV. In the Commission's eyes, the Community has always been a political union in the economic and social fields. Its institutions—the Parliament, the Council, the Commission—are political institutions. If further proof of the Community's political character were needed, it would be found in the clearly expressed will of the peoples of the six countries and their Governments to maintain and advance the Community despite the most severe strains and difficulties. The extension beyond the economic and social spheres of those areas where “ever closer union” of the peoples of Europe is being achieved is, if not the corollary, at any rate a natural extension of the existing Communities.

The Commission has always taken an interest in efforts to extend the Community. It must repeat its view that initiatives of this kind can

succeed only if they lead to the establishment of a European constitutional order in the other spheres, an order which, whatever its structure, would include "*institutions capables d'orienter un destin désormais partagé*".

XLIV. Ten years after the signature of the Rome Treaty, 17 years after Robert Schuman's historic declaration, the merger of the institutions is a useful and necessary change. We may be permitted to look back to the work and the ideals of those who were the Community's sponsors and pioneers, Jean Monnet, Paul-Henri Spaak, Alcide de Gasperi, Robert Schuman, Konrad Adenauer... What has been done, despite imperfections, despite set-backs, is not unworthy of the original design. A new team is taking over. A clearly marked, straight road lies before it as it looks to the future.

**THE COUNCIL'S DECISIONS OF 11 MAY 1966,
26 JULY 1966 AND 9 FEBRUARY 1967**

1. The decisions taken by the Council on 11 May and 26 July 1966 make this year an important one for the Common Market as a whole and not only for the common market in agricultural produce. They provide for all customs duties on industrial goods to be abolished between the Member States by 1 July 1968, and for the common customs tariff to be introduced on the same date. They supplement the previous decisions establishing market organizations for most farm products, and fix the common level of agricultural prices, thus making it possible to ensure that from some time in 1967/68 the main farm products will be able to move freely, the precise date for each product depending on the date when its marketing year begins. On the same dates, the Council fixed the details of joint financing for the periods from 1 July 1965 to 30 June 1967 and from 1 July 1967 to the end of the transitional period, and arrangements were made to ensure that, as far as possible, the other agricultural products listed in Annex II of the Treaty can circulate freely within the Community at latest by 1 July 1968.

Conscious of the need for balanced development in the Community, the Council at the same time accepted firm commitments guaranteeing that progress would soon be made in several other important sectors which fall within the competence of the Community, the first of these sectors being the harmonization of turnover taxes in order to abolish distortions of competition and as a step towards eliminating fiscal frontiers. These commitments led on 9 February 1967 to decisions on turnover taxes which constitute a substantial advance in translating the objective of a Common Market into reality. The Council also accepted commitments on the creation of a European patent and of a European type of company, and on commercial policy, social policy and regional policy.

This internal progress has been matched by progress in the Community's external relations, which in the last few years have frequently demanded a great deal of attention: a number of decisions have been taken supplementing the instructions given to the Commission, in connection with the Kennedy Round negotiations. There has also been closer intra-Community co-operation over credit insurance for exports to state-trading countries and the Soviet zone of Germany.

Not only do these decisions settle several important economic problems; their scope goes far beyond these problems and makes it possible to take a fresh and extremely important step forward. Details will be given in

the relevant chapters of this Report, but it seems advisable to give a synoptic picture of the decisions at this point, in order to bring out their full significance.

2. The abolition of intra-Community customs duties and the introduction of the common customs tariff are, as has often been pointed out, events of great political and psychological importance. Since transactors everywhere, in industry, agriculture and trade, now know precisely what to expect, they can adapt themselves to the new market conditions and have been given the necessary incentive to do so.

These decisions were backed up by a Council resolution in which the Member States signified their will to take in due course the action needed to harmonize their customs regulations; harmonization here is an essential pendant to the abolition of customs duties if the customs union is to be complete (problems concerning the classification of goods, valuation for customs purposes, processing traffic, etc.). The Commission is to report to the Council, at latest by the time intra-Community customs duties are abolished, on any deflections of customs revenue caused by the abolition of intra-Community customs duties, to suggest any measures that should be taken and, in particular, to say whether there should be a distribution of customs receipts among the Member States.

3. The decisions in the agricultural sector come under four headings:

i) New common organizations of markets, by which the common agricultural policy is rounded off; the Council has adopted the regulation relating to the organization of markets in vegetable oils (olive oil and oleaginous seeds). It has adopted supplementary provisions that appreciably strengthen the market organization for fruit and vegetables. Lastly, it has fixed the principles on which the organization of the sugar market will be based.

ii) Community financing has been established. Although Regulation No. 25/62 had laid down the principles of Community responsibility and the main rules on Community financing, a large number of the arrangements for implementing these principles were left for subsequent decision; arrangements valid until the end of the transitional period have now been settled by the Council; one stipulation is that the Community fund shall accept full liability for the expenditure required to operate, from 1 July 1967, on the market for any product for which there is already an organized market on that date, and for other products as soon as the market organizations for them are established. Agreement has also been reached on the means of feeding the Community fund. The money will continue to come from national contributions, but from 1 July 1967 these will consist of two elements, one being equal to 90 % of the levies charged on imports from non-member countries, the other being calculated according to a fixed scale.

iii) The Council has fixed the common price level for the more important products, and the dates on which the common prices will become

applicable; these vary from November 1966 (olive oil) to July 1968 (sugar). Thus not only has the Council laid down an exacting time-table for establishing freedom of movement for the main agricultural products, but it has also given effective guarantees that it will be observed.

iv) As an essential supplement to these decisions on free movement and common prices, the Council has adopted a resolution on the arrangements applicable to aid for agriculture; by doing so it has extended the foundations on which a comprehensive competition policy can be built in the agricultural sector.

This ties in with what has been agreed concerning the sums to be allocated to the Guidance Section of the Agricultural Guidance and Guarantee Fund, and with the special measures to improve the structure of agriculture in the least-favoured regions, especially in Italy.

4. In its resolution on the balanced development of the Community, the Council stresses that completion of the Common Market implies the removal of all barriers to trade, and that the Community and the Member States will take the successive measures necessary to achieve this aim. In order to eliminate tax frontiers, the Council gave an undertaking that by 31 January 1967 it would take a decision on the proposals that had been submitted to it on turnover taxes.

This undertaking led on 9 February 1967 to the adoption of the first two directives in this field. The introduction of a common system of taxation on value added is a decisive step towards the attainment of an internal market. It creates the necessary conditions for a common market within which there will be no tax frontiers, i.e. where there will be no levying of taxes on imports, no refunding of taxes on exports and where the attendant frontier formalities will be abolished; this is an objective that cannot be attained until a later directive brings value-added tax rates into line throughout the Member States. On 1 January 1970, then, a common TVA system will take the place of the various taxes at present in force in the Member States.

This new system will mean that in international trade it will be possible to offset the fiscal charges resulting from turnover taxes.

These measures create conditions essential for the achievement of completely free movement of industrial products within the Community.

In the resolution of 11 May the Council also declares that it wishes to examine, as a matter of priority and at the level of commercial policy, the present practice of the Member States on credits granted in connection with exports to state-trading countries and to the Soviet zone of Germany.

Lastly, the Council declares that it wishes to speed up work in the social field and, in particular, to take an early decision on the proposals at present before it concerning the European Social Fund. The Commission is invited to submit proposals under which free movement of workers

can be achieved by 1 July 1968.¹ Moreover, the Council will, as soon as possible, examine material on regional policy submitted by the Commission and, together with the Governments of the Member States, will study the problems involved in establishing a European patent law and a "European" form of company.

5. The decisions relating to the Commission's terms of reference for the Kennedy Round negotiations are the remaining element in this broad picture of what has been done by the Council. On 26 July 1966 it agreed on detailed instructions to the Commission for almost all agricultural products other than cereals. Between March and July 1966, the Council has also adopted a number of provisions supplementing or clarifying the instructions previously given to the Commission for the industrial part of the negotiations. The Community's offer was thus completed; it was then possible to make an overall comparison between this offer and those made by the other parties to the negotiations, and to speed up the negotiations generally.

These decisions gave the Kennedy Round fresh impetus in September 1966, and with the talks now in their final phase the Council has been increasingly occupied by this subject.

In addition to these decisions, the importance of which is evident, the increased co-operation as regards the common commercial policy, the principle of which was accepted in July 1966, is a fitting pendant to the provisions on free movement of goods.

This brief review shows the number, variety and scope of the decisions taken by the Council during this short period. In addition to consolidating the results achieved in previous years and, in certain cases, making up for past delays, they have laid the foundations for further progress towards the establishment of a complete union. These decisions call for similar progress in a large number of sectors not explicitly affected by the measures of May and July 1966, in order that the balance of the Treaty may be respected and economic efficiency assured within the framework of the commitments undertaken. To give practical effect to all the commitments accepted in 1966 will be one of the major tasks for the Community institutions in the coming months.

¹ The proposed regulation was submitted to the Council at the beginning of April.

CHAPTER II

ESTABLISHMENT OF THE COMMON MARKET

Free movement of goods

TARIFF DISARMAMENT

Abolition of remaining customs duties between Member States

6. Under the terms of the agreements reached in the Council on 11 May 1966 and of the decision taken on 26 July 1966,¹ the free movement of industrial goods will be achieved by the 5 % reduction of intra-Community duties on 1 July 1967 (bringing them down to 15 % of the basic duties) and by their complete abolition on 1 July 1968. This decision also confirms the prohibition on quantitative restrictions between Member States and the implementation of the common customs tariff by 1 July 1968² for all products other than those listed in Annex II of the Treaty.

As regards agriculture, tariff disarmament will take place at the pace laid down by the regulations already enacted to establish common market organizations or soon to be enacted (sugar). For the other Annex II products the Commission proposed to the Council on 21 February 1967 that the latter should issue a directive for the implementation on 1 July 1967 of a reduction which will bring the duty on each product down to 25 % of the basic duty.³ There still remains a certain number of Annex II products for which no specific common market organization is envisaged and on which the Commission considers that the duties should be abolished by 1 July 1968.

The changes which have occurred since 1 April 1966 therefore concern only certain sectors of agriculture. The state of customs disarmament as described in the Ninth General Report has not changed. The Member States reduced customs duties on unmanufactured tobaccos to 25 % of the basic duty on 1 July 1966 and to 20 % of the basic duty on 1 January 1967.⁴ On 1 April 1966 they reduced by 10 % the duties which they continue to levy between themselves on the products covered by the regulation for a common organization of the market in beef and veal.

¹ Official gazette No. 165, 21 September 1966.

² Sec. 10.

³ Sec. 170.

⁴ Official gazette No. 69, 19 April 1966.

Under the regulation making further arrangements for a common organization of the market in fruit and vegetables, on 1 January 1967 the Member States abolished intra-Community duties on the products covered by this regulation.¹ Simultaneously, the common customs tariff became applicable to these products.

Finally, implementation of the regulation on a common organization of the market in oils and fats² resulted in the abolition of customs duties on olives, olive oil, olive-oil cakes and derived products, on 10 November 1966.

Elimination of charges with effect equivalent to customs duties

7. The Commission continued its examination of existing charges liable to be considered as equivalent to customs duties, and also continued its investigations to discover charges of this nature.

By 31 March 1967 the Commission had noted 362 charges which are neither customs duties nor "internal" charges.

Of these:

258 have been definitely settled (charges abolished, charges in process of being abolished, charges transformed in such a way that they no longer have an effect equivalent to customs duties, and a few which examination has shown not to be charges with such equivalent effect);

23 other charges are also being regularized (the Commission has already taken the necessary measures to abolish them but the Member States still have to incorporate these measures into their legislation);

There still remain:

81 charges which are being examined individually in detail in the light of Articles 12, 13 and 16 of the Treaty. Most of these cases have no important economic implications but present difficult legal problems.

Efforts to find new cases of charges with effect equivalent to customs duties have never ceased, but it should be clearly realized that here the Commission's departments mainly depend on complaints made to them.

*THE COMMON CUSTOMS TARIFF*³

Implementation

8. On 1 July 1966 an end was put to the special situation⁴ which the

¹ Sec. 175.

² Official gazette No. 172, 30 September 1966.

³ The "Customs Tariff of the European Communities" (July 1963 edition) has been regularly kept up to date by amendment sheets containing the modifications and suspensions of duties decided on by the Council. The thirteenth series of these sheets consisted mainly of a new list of suspensions of duties with effect from 1 January 1967.

⁴ See Ninth General Report, sec. 26.

Commission had reported to the Council concerning the second approximation of national tariffs to bring them nearer the common customs tariff (CCT) for industrial products on which duties had not been reduced by at least 20 % at the 1960/61 GATT Conference. In accordance with the Commission's proposal to apply Articles 26 and 28 of the Treaty, the Council suspended 20 % of the CCT duties on about 500 tariff headings under Article 28.¹ As a result, those national duties which had been approximated to the common customs tariff less 20 % were regularized when they were below those of the common customs tariff for the headings concerned. When they were above the CCT duties, many of these national duties underwent a reduction which in some cases brought them down to the CCT level less 20 %.² On the other hand, an upward adjustment—generally very small—was made in conformity with Article 23 of the Treaty for the CCT headings (about 800) in respect of which special treatment (total or partial exceptions, disparities) was envisaged in the framework of the multilateral GATT negotiations. But some national duties were not affected by these upward and downward movements, for the Commission, acting under Article 26, authorized certain Member States to postpone raising or lowering duties under their tariff.³ In addition, certain special arrangements were made in favour of Germany (aluminium, etc.) and Benelux (manufactured tobaccos).

On 26 July 1966 the Council also decided⁴ that the common customs tariff for industrial products would be implemented on 1 July 1968, i.e. at the same time as the intra-Community duties on these products are abolished. For agricultural products, the CCT will become applicable at various dates up till 1 July 1968, in accordance with the calendar adopted by the Council on 11 May 1966 for the achievement of free movement in this field.⁵

The table below compares the national duties at present in force vis-à-vis non-member countries with the corresponding duties in the common customs tariff, and gives an idea of the effort the Member States will still have to make in the industrial sector in order to align themselves on the common customs tariff.

¹ Official gazette No. 114, 27 June 1966.

² This reduction in certain national duties which were higher than the CCT duties results from a new calculation of the approximation which no longer takes account of the "buffer" or level of the CCT below which these national duties could not fall, nor of the "neutral zone" between the CCT duties and the same duties less 20 % within which the *status quo* had been observed for the national duties.

³ Official gazette No. 115, 25 August 1966; No. 9, 17 January 1967; and No. 133, 22 July 1966.

⁴ Official gazette No. 165, 21 September 1966.

⁵ Sec. 169.

TABLE 1

National duties and corresponding duties in CCT

Member States	Duties			
	Equal to those of the CCT	Lower than those of the CCT	Higher than those of the CCT	Total
Germany	1 371 (41.4 %)	1 935 (58.4 %)	9 (0.2 %)	3 315 (100 %)
Benelux	845 (23.5 %)	1 948 (58.3 %)	545 (18.2 %)	3 338 (100 %)
France	766 (19.8 %)	335 (8.7 %)	2 766 (71.5 %)	3 867 (100 %)
Italy	1 431 (32.2 %)	579 (13 %)	2 439 (54.8 %)	4 449 (100 %)

Table 2 brings up to date the one in the previous General Reports showing the calendar for implementation of the customs union and the pace 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 (Art. 28 of the Treaty)

9. On 22 December 1966 the Council decided to make certain modifications in the common customs tariff.¹ These affect four headings—among them heading No. 31.05, concerning “other fertilizers”—the duties on which have not undergone any change but where it was essential to use a nomenclature better adapted to present international trade usage. The same decision also made minor corrections in the wording of some other headings, to eliminate certain defects or drafting errors in one or more of the official versions of the common customs tariff.

As regards the suspension or temporary reduction of duties, in addition to the decision of 14 June 1966 concerning the 500 headings mentioned above² two decisions were taken on 22 December 1966. The first of these suspended until 31 December 1967 duties on basic materials which are imported from non-member countries and the production of which is insufficient or nil in the Community,¹ and the second prolonged for one year the suspension of duties on natural uranium fuel elements.²

¹ Official gazette No. 246, 31 December 1966.

² Sec. 8.

One suspension whose importance must be emphasized concerns products used for maintaining or repairing aircraft of a tare weight of more than 15 000 kg (22 December 1966).¹ This decision, which is valid for three years and is renewable by tacit agreement, is meant to regularize a situation and make uniform throughout the Community the different tariff systems governing import of this category of aeronautical equipment into the Member States.

Three other suspension decisions in the aeronautical sphere were taken on 22 December 1966.² CCT duties on aircraft of a tare weight of more than 15 000 kg are suspended for three years; those on flight simulators for the said aircraft for two years; and those on certain equipment used with such aircraft (wooden panels, escape ramps, floating rescue apparatus) for one year.

Finally, Article 28 has been applied to suspend or temporarily reduce the CCT duties on products important to the economy of the developing countries. These are sliced grapefruit³ and dihydro-oxo-trimethyl-quinoline (a product derived from quinine),⁴ for which Israel requested easier access to the Community, and typical Indian products, on which duties were suspended for a further year.⁵ The Council likewise prolonged for a year the suspension of duties on tea, maté and tropical hardwoods,⁵ and at the same time renewed the tariff arrangement on these products between the Community and the United Kingdom.

Application of the common customs tariff

10. The introduction on 1 July 1968 of the common customs tariff in the place of the four national tariffs inevitably raises certain problems which the Commission is endeavouring to resolve. First of all, in order to avoid distortions of competition and diversions of trade, it is necessary to see that the tariff nomenclature is interpreted uniformly. Remarkable progress has been made in drawing up explanatory notes on the subheadings of the tariff.⁶ More than 50 chapters out of 99 have been examined by the competent working party. However, this work is fraught with serious difficulties because of the complexity of the subject and the economic, fiscal and administrative repercussions which the jointly-agreed texts may have at national level. These explanatory notes also cover the customs nomenclature for farm products, which is developing as the new agricultural regulations come into force. The regulations refer to the customs subheadings, but break them down further to meet the needs of the

¹ Official gazette No. 241, 28 December 1966.

² *Ibid.* No. 246, 31 December 1966.

³ *Ibid.* No. 204, 9 November 1966.

⁴ *Ibid.* No. 218, 28 November 1966.

⁵ *Ibid.* No. 10, 19 January 1967.

⁶ Ninth General Report, sec. 28.

common agricultural policy, and it goes without saying that the customs services cannot apply them uniformly unless they are accompanied by an explanatory text.

The application of certain agricultural regulations in trade with non-member countries also brought up urgent tariff problems. Committees of national experts, with the Commission in the chair, endeavoured to resolve these expeditiously by giving opinions on classification similar to those they have continued to formulate in numerous specific interpretations of the sub-headings of the common customs tariff. These opinions were promptly implemented by the national customs administrations.

Tariff quotas

11. As the table on the following page shows, the number of requests for tariff quotas went on declining in 1966/67. Thanks to the Commission's efforts, and in conformity with the wishes of the European Parliament, the number of quotas granted is also decreasing. This is due especially to Community solutions such as suspension or temporary reduction of duties. The proportion of trade coming under the tariff quota system remained less than 3 %, as last year.

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 generally amounts to 60 % of the adjustment towards the common customs tariff already made by the applicant Member State.

These regular examinations by the Commission of the tariff quotas granted have not revealed that the quota volumes have been exceeded or that there has been any other infringement.

On 6 June 1966 the Commission sent the Council a general memorandum on how the Community tariff quotas should be administered. The system proposed for the remainder of the transition period provides for allocation of part of the requested volume to Member States for a period shorter than the quota period, and the building up of a Community reserve, to be shared out later between Member States, in order to cover their requirements during the rest of the quota period.

CUSTOMS VALUE

12. The Council resolution of 11 May 1966 provides for harmonization of the rules on determination of customs value. Work on Community rules in this field has advanced sufficiently to enable the Commission to submit a proposal to the Council in the first half of 1967.

All the Member States are contracting parties to the Brussels Convention of 15 December 1950 on the Valuation of Goods for Customs Purposes, which includes a Definition of Customs Value and Interpretative Notes.

But not all the States have applied this definition and these notes in their law in the same way, because of the possibility of adaptation open to them under Article IV of the Convention. On the other hand, the establishment of a complete customs union between the Six necessitates the adaptation of certain provisions of the Definition of Value.

This situation, and the amendments agreed in the Customs Co-operation Council, will be taken into account in the Commission's proposal in order to eliminate certain divergences between the French and English texts, which are equally authoritative.

Customs legislation

13. The Council resolution of 11 May 1966 on the harmonization of national laws whose divergences could give rise to diversion of customs receipts, and the prospect of the customs union for 1 July 1968, oblige the Commission to make greater efforts to draw up Community customs

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

	1961					1962				
	Para. 1	Para. 2	Para. 3	List G	Tot.	Para. 1	Para. 2	Para. 3	List G	Tot.
<i>Number of applications</i>	55	58	—	46	159	58	92	85	43	278
<i>Withdrawn</i>										
<i>a) by the Member State applying</i>	13	21	—	2	36	17	41	22	1	81
<i>b) after a Community solution had been found</i>	12	19	—	9	40	13	32	5	5	55
Total	25	40	—	11	76	30	73	27	6	136
<i>Applications left to be dealt with</i>	30	18	—	35	83	28	19	58	37	142
- Refused	4	7	—	1	12	—	9	28	1	38
- Granted	26	11	—	34	71	28	10	30	36	104
<i>Applications which have ceased to be effective</i>										
<i>Applications submitted for 1967</i>	11	5	33	27	76					

legislation and attain the objectives laid down in the action programme it established in 1963.¹

Free entry on economic grounds

14. As regards duty-free entry, part of the work on unification has been completed and certain related studies will shortly be terminated. The adoption by the Council of the decisions to suspend duties on certain aeronautical equipment² is the concrete result of long harmonization work in this field.

The Commission also took measures as regards duty-free entry of products for building, repairing, converting and equipping ships. The initial discussions have shown that an early solution is possible here.

¹ Sixth General Report, Ch. I and Ch. II, sec. 15.

² Sec. 9, third and fourth paragraphs.

quotas (1961 to 1966)
(2), (3), or List G)

1963					1964					1965					1966				
Para. 1	Para. 2	Para. 3	List G	Tot.	Para. 1	Para. 2	Para. 3	List G	Tot.	Para. 1	Para. 2	Para. 3	List G	Tot.	Para. 1	Para. 2	Para. 3	List G	Tot.
29	29	47	36	141	21	7	34	37	99	23	8	32	37	100	11	4	39	35	89
5	20	8	—	33	3	2	3	—	8	2	2	4	3	11	—	2	4	6	12
2	6	6	—	14	8	—	—	—	8	11	1	1	—	13	—	—	3	—	3
7	26	14	—	47	11	2	3	—	16	13	3	5	3	24	—	2	7	6	15
22	3	33	36	94	10	5	31	37	83	10	5	27	34	76	11	2	32	29	74
—	—	4	—	4	—	—	4	—	4	—	—	4	—	4	—	—	—	—	—
22	3	29	36	90	10	5	27	37	79	10	5	23	34	72	11	2	28	27	68
																	4	2	6

The preparatory studies and consultations with Member States to work out common rules on bonded warehouses are almost completed, and a proposal will be submitted to the Council in the second half of 1967. At the same time, action is being taken to draw up common rules on the terms under which goods from non-member countries may be stored in customs warehouses other than bonded warehouses or in free ports or free areas.

The problem of credit with regard to customs duties, which is closely linked with that of warehouses and affects the free circulation of goods, is also being discussed with the national administrations.

Although the studies on inwards processing traffic with non-member countries have not yet produced a solution, work is already well advanced on a draft for a Community system, which the Commission is preparing in co-operation with the Member States.

Miscellaneous provisions

15. Studies on a Community system for goods in transit are being actively pursued. Under this system, national customs territories would be merged at administrative level, and formalities and controls at intra-Community frontiers could be simplified.

As regards a Community definition of the concept of the origin of goods, the Commission's proposal has been amended in the light of certain comments made on it by the European Parliament and the Economic and Social Committee¹ and it should be submitted to the Council in the course of 1967.

MEASURES WITH AN EFFECT EQUIVALENT TO QUANTITATIVE RESTRICTIONS

16. As it does every year, the Commission scrutinized measures taken to increase certain remaining agricultural quotas in order to make sure they were in conformity with Article 33 of the Treaty.²

But the chief emphasis has been on tracing measures with effect equivalent to quantitative restrictions. Here the Commission is faced with two difficulties: on the one hand, it has to trace measures of all kinds likely to be measures with equivalent effect, and on the other it has to establish under what conditions they actually have this character. Only after establishing this can the Commission apply the Treaty (adoption of directives under Article 33(7) for measures existing when the Treaty came into force, and procedure under Article 169 for measures introduced after that date).

¹ Official gazette No. 96, 28 May 1966.

² Ninth General Report, sec. 33.

The Commission has already noted that the following should be considered as measures with equivalent effect:

a) Measures which make import of a product of Community origin conditional on the export, purchase or sale of an identical or another domestic product;

b) Measures which prohibit use of all or part of a product imported from other Member States, or which impose use of all or part of a domestic product, or make eligibility for an advantage (other than an aid) conditional on such use.

These measures were therefore dealt with in two directives issued on 7 November 1966¹ for the purpose of eliminating differences in treatment between domestic products and products imported from other Member States.

With the help of the Member States' experts, the Commission continued work on another directive concerning supplies to the State, its local authorities, or other public corporations. This directive stipulates that all laws, regulations and administrative practices which totally or partially preclude or render more difficult or costly the supply of imported products, or grant a preference to domestic products, shall be adjusted in such a way as to eliminate all differences in treatment between domestic and imported products.

FORMALITIES AT FRONTIERS

17. On 6 December the Commission submitted to the Council a proposed decision concerning the formalities required by the Member States in trade between them. This proposal is to prohibit making import and export subject to such formalities as licences, visas, authorizations, etc. Provision is made for exceptions justified by the state of progress of the common market. The proposal is a first step towards the abolition of these formalities, which are capable of hindering intra-Community trade. The Commission will submit new proposals to the Council for the elimination of similar measures.

The Commission is also continuing its work for the lifting of controls at frontiers, with due regard to the fact that the progress being made in approximating domestic laws can nullify these controls anyway. In particular it is endeavouring to define categories of classification for all the types of control at the Community's internal frontiers and to ascertain their *raison d'être* in the light of the impending full customs union. The Commission is first trying to pinpoint those controls (apparently few) whose removal would raise serious problems for the Member States, whether in the field of fiscal disparities, technical regulations, health provisions, or rules concerning public policy and safety. After this is

¹ Official gazette No. 220, 30 November 1966.

done, it would be reasonable to expect rapid agreement on the other controls.

GOVERNMENT MONOPOLIES

18. The Commission has made a number of recommendations to the Member States concerning different monopolies.

As regards the Italian salt monopoly, since hardly any use has ever been made of the import quotas opened in 1961 and increased each year thereafter, the Commission has recommended their abolition. This suggestion has been welcomed by the Italian Government. Under the new Italian law on the matter, industrial users of salt can import it direct from Member States or non-member countries without restriction. In addition, all fiscal discrimination here has been eliminated. As to salt for use in food, the Commission requested the Italian Government to study the possibility of abolishing this monopoly whose only purpose is to prevent the tax authorities from being defrauded as a result of varying tax treatment according to the destination of the salt. The Italian authorities will examine the Commission's request in the course of their current studies on the general structure of these monopolies.

Regarding the French explosives monopoly, the Commission sent a recommendation to the French Government suggesting gradual opening of the market by the grant of unrestricted import permits to private individuals and a price formation system which would rule out any possibility of tax discrimination.¹

In support of a recommendation which it sent to the French Government on 12 April 1962 concerning the potash monopoly,² the Commission carried out a study of the European market for this product. It seemed advisable to look for parallel solutions taking account of the problems posed by the French monopoly on the one hand and by the existing agreements between French and German industries on the other.

In the case of tobacco the Commission has endeavoured to determine the possible basis for a common market. The many difficulties in this field—monopolies and tax systems which prevent free movement, the French and Italian national market organizations for tobacco in leaf to encourage producers, maintenance of cultivation at prices far above the world market level and in qualities which have little chance of being consumed in the other Member States—have led the Commission to cast around for solutions which would achieve a balance between burdens and benefits for each of the six partners. The aim continues to be a genuine common market for this branch, extending from raw material to manufactured product.

¹ Official gazette No. 154, 24 August 1966 and No. 22, 4 February 1967.

² *Ibid.* No. 48, 23 June 1962 and No. 65, 27 July 1962.

Thus the Commission is preparing for the Council a number of proposals on the establishment of a common organization of the market for unmanufactured tobacco; the adjustment of tobacco trade monopolies; and harmonization of the tax systems for manufactured tobaccos.¹

As regards the alcohol monopolies (France and Germany), the problems are not dissimilar since they also concern the agricultural aspect, the fiscal aspect and the monopoly aspect in the strict sense. A comprehensive approach therefore seems to be called for here too, and it is on these lines that the Commission is working.

MISCELLANEOUS WAIVERS

Processed agricultural products

19. In pursuance of the Council decision of 4 April 1962 based on Article 235 of the Treaty,² the Commission has taken 27 decisions concerning a specific good or a particular member country, and three general decisions concerning all the goods in question and all the Member States, granting or refusing permission to levy charges or varying their amount. Three requests submitted by Italy, Benelux and France, for application of the 4 April 1962 decision to further goods, were granted. All the Member States have thus been authorized to levy countervailing charges under this decision, which was extended, first by Council decision of 28 June 1966 and a second time by Council Regulation No. 160/66 of 27 October 1966.³

This regulation, on which the Parliament gave a favourable opinion on 22 January 1965, sets up a trading system for certain goods resulting from the processing of farm products. These outline provisions, which are due to come into effect on 1 June 1967, will govern trade between Member States, and between Member States and non-member countries, in certain goods which are not listed in Annex II of the Treaty but result from processing agricultural raw materials and particularly cereals, certain dairy products and sugar. The outline regulation will be supplemented by implementing regulations of an essentially technical nature.

This new system provides a general solution to the many problems in producing industries where the price of the agricultural raw material accounts for a considerable part of costs. It gives a new structure to traditional tariff protection. Two elements replace the customs duties and charges with equivalent effect hitherto applicable:

a) A fixed *ad valorem* element to protect the processing industries;

¹ Sec. 184.

² Ninth General Report, sec. 35.

³ Official gazette No. 195, 28 October 1966.

b) A variable element representing the difference between the costs of the raw materials used in making the goods concerned.

The regulation also contains provisions on the grant of refunds by the Member States when these goods are exported.

The new system will place Community processing industries on an equal competitive footing as regards obtaining agricultural raw materials. It will also enable them to compete with similar industries in non-member countries, thanks to protection adapted to the fluctuations of world-market prices of agricultural raw materials.

Simultaneously with this regulation, the Council approved two other Commission proposals concerning:

a) The definition, for these goods, of the amount of protection to be given the processing industry on the entry into force of the above-mentioned trading system, and the amount of the offer which can be made in the Kennedy Round negotiations with respect to protection of the processing industry;

b) A resolution on the Community's financial responsibility when agricultural raw materials are exported to non-member countries, in the form of certain goods not listed in Annex II of the Treaty and in particular of goods covered by the new trading system.¹

Finally, on 7 March 1967 the Council adopted a regulation establishing a common trading system for ovalbumin and lactalbumin.

For white of egg unconnected with Annex II of the Treaty, this regulation lays down a system similar to that existing for yolks, a product subject to a system of agricultural levies and sluice-gate prices (Regulation No. 21).

White of egg is protected by only a small customs duty if marketed separately from the yolk, and this anomaly creates difficulties.

Safeguard measures (recourse to Article 226)

20. The measures previously authorized for the reorganization of certain basic sectors (sulphur, lead and zinc, silk) have been extended or modified.²

As regards lead and zinc a Commission decision of 6 July 1966 grants degressive safeguard measures until 31 December 1967 to enable Italy to adapt its market by degrees from its present "isolation" to integration in the economy of the common market. This decision includes certain measures concerning lead waste and scrap taken at the request of other Member States.

¹ The resolution and the list of goods were published in official gazette No. 195, 28 October 1966.

² Ninth General Report, sec. 36.

The Commission decision granting Italy safeguard measures for silk and certain silk products until 30 September 1966 was extended to 31 March 1967 pending the conclusion of the Council's study of the situation under the terms of Protocol VIII to the Agreement of 2 March 1960 (List G).

In the matter of sulphur, contacts have continued between the Commission and the Italian authorities, who have expressed their readiness to enact as early as possible measures that will enable Italian users to import this material direct. Furthermore, reorganization of the industry has advanced during 1966, and it is expected that from the end of 1967 onwards all the sulphur produced in Sicily will be used in new industrial plants now building. The first unit for extracting phosphoric acid from sulphur will begin to operate in June 1967.

By two Commission decisions dated 27 June 1966 and 7 March 1967, Italy was authorized until 30 June 1967 to make imports of sulphur of any kind from Member States and non-member countries conditional upon the purchase of one ton of home-produced sulphur per ton of imported sulphur.

Moreover, as the supply price of sulphur for Italian producers of carbon disulphide is higher than that of their competitors in the other Member States the Commission, by a decision of 27 June 1966, has granted Italy the right to maintain a 10 % duty vis-à-vis these States.

The social aspects of these measures (aids to Italian workers) are dealt with in Chapter III.¹

By a decision of 1 February 1967, the Commission authorized France to adopt measures to encourage the stockpiling of poultrymeat by individuals.

In conclusion, the Benelux countries have asked the Commission that Article 226 be applied in the interest of the Dutch carded wool fabrics industry. The case is being examined.

Freedom of establishment and freedom to supply services

GENERAL

21. The gradual replacement of bilateral establishment agreements by new rules (provided for in Articles 52 to 66 of the Treaty) has continued. In most sectors of industry and trade firms may already set up subsidiaries, branches and agencies in another Member State or carry out individual commercial transactions there. These new facilities for Community firms wishing to set up in one or other of the six countries—without any sort of *de jure* or *de facto* restrictions and without any condition being imposed

¹ Sec. 237.

by the receiving State¹—are a particularly important contribution to the economic development of the Community in general and of dynamic firms in particular. Restrictions on freedom of establishment and freedom to supply services should be completely abolished in all fields by 1970.

22. *Directives adopted before 1 April 1966.* Fourteen concern industry, trade or agriculture; in conformity with Article 189, paragraph 3 of the Treaty the Member States have begun to implement them by measures of domestic law. The object of some of these directives is to remove obstacles to establishment and the supply of services; the object of others is to co-ordinate the conditions under which the relevant activities are carried on, and the rules governing immigration and residence.

As regards industry and crafts, six directives are in force in the Member States. They concern mining, the processing industries, films and the electricity, gas, water and sanitary services (here the Council has embodied amendments proposed by the Economic and Social Committee and the European Parliament).

As regards trade and services, in addition to the above-mentioned directives relating to the film and electricity industries (which also have to do with trade); five directives are being implemented in the Member States. These directives concern wholesale trade (medicaments, drugs, toxic products and coal are not affected); intermediaries in trade, industry and crafts (in the first two sectors transitional measures are in force); insurance (reinsurance and retrocession), and payment for services.

As regards agriculture, three directives are being applied in the Member States: freedom of establishment on derelict or uncultivated land, establishment of former farm workers in the host country, supply of services in agriculture and horticulture.

23. *Measures by Member States.* The general obstacles to establishment and the supply of services were abolished in Germany by the law of 13 August 1965. Legislation on crafts was amended by the implementing regulation of 4 August 1966 (VO Handwerk EWG).

In Belgium ten royal decrees have been published.

In France several decrees concerning agricultural occupations and sworn brokers have been issued pursuant to the above-mentioned directives; a number of ordinances to implement the directives are also being drafted (in application of the law of 6 July 1966).

In Italy a decree was published on 30 December 1965.

Finally, all Member States have facilitated the general application of the directives, particularly as regards entry and residence² (conditions of entry

¹ The system for capital is covered by other provisions. See sec. 132.

² Seventh General Report, sec. 47.

and residence in the territory of a Member State for a national of another Member State, regulations concerning foreigners, co-ordination of motives which may justify expulsion, etc.).

24. *Proposals submitted by the Commission to the Council.* In the industrial sector, ten proposals concern: public works contracts (one proposal, amended in accordance with the Parliament's opinion and submitted 28 June 1965); the food and beverage industries (two proposals); self-employed activities in retail trade (two proposals, submitted 30 March 1965 and 13 April 1965); personal services in restaurants, cafés and hotels (two proposals, submitted 8 and 9 April 1965); banks and financial establishments in general (one proposal, submitted 30 July 1965); transport auxiliaries—travel agents, warehousemen and customs agents (two proposals, submitted 21 December 1965).

In the agricultural sector,¹ five Commission proposals still under examination concern forestry (8 April 1965), farm leases (20 January 1965), the right of farmers already established to move from one farm to another in the host country (21 January 1965), and the access of such farmers to credit and their right to join agricultural co-operatives (21 December 1965).

25. With the expansion of trade, co-ordination of national systems of law is claiming more and more of the Commission's attention, though only a few directives have been issued so far.

For the sake of effectiveness, the directives to date have provided only for "transitional measures" pending fuller co-ordination, as authorized by the General Programmes. Two directives are already being implemented in the Member States; four proposals are before the Council; and five draft proposals should be submitted to it in 1967. These transitional measures regulate equivalence in qualifications to exercise professions and activities in another country, subject to certain conditions and where appropriate after further tests. They will apply until co-ordination has been achieved, but this is progressing more slowly than expected. Furthermore, in some cases the diplomas needed to exercise certain professions will have to be recognized before the obstacles to freedom of establishment can be removed.

LAW ON RIGHT OF ESTABLISHMENT

Directives agreed by the Council

26. On 12 January 1967 the Council adopted a directive concerning self-employed activities in the real estate sector (ISIC Group 640) and in certain services supplied to firms (ISIC Group 839). This abolishes all provisions stipulating that the persons concerned shall possess the

¹ The timetable as laid down in the General Programme for agriculture does not follow the same pattern of progress as in the other sectors.

nationality of the country in which it is desired to carry on the activity, or that they must hold a professional or foreign trader's identity card, and enables them to join professional organizations on the same terms and with the same rights and duties as nationals of the host country.

Reference to the Parliament and the Economic and Social Committee

27. During the period under review the European Parliament and/or the Economic and Social Committee rendered favourable opinions on six proposed directives. These concern transport auxiliaries (abolition of restrictions and transitional measures—Parliament on 21 October 1966, Economic and Social Committee on 29 November 1966); banks and financial establishments (Parliament on 21 October 1966, Economic and Social Committee on 27 October 1966); the guarantees required of companies (Parliament, 11 May 1966); freedom for farmers who are nationals of one Member State and established in another to join co-operatives and have access to credit (Parliament on 21 October 1966, Economic and Social Committee on 30 November 1966). On 11 May 1966 the Parliament adopted a resolution concerning self-employed activities in forestry (the Economic and Social Committee had given its opinion on 28 October 1965). The proposed directive on the press is still being examined by the Parliament (opinion of the Economic and Social Committee on 28 January 1965).

New proposals submitted by the Commission to the Council

28. These concern insurance, and exploring and drilling for oil and natural gas.

As regards insurance companies, the removal of restrictions on establishment of agencies or branches is made subject to the co-ordination of conditions of access to and pursuit of the insurance profession. On 17 June 1966 the Commission sent to the Council a proposal for a first directive on the co-ordination of laws and regulations governing activities in direct insurance other than life assurance, which will be dealt with in a later proposal. The proposed directive endeavours to define as precisely as possible the aim and methods of controls exercised over insurance activities; with a few exceptions, all insurance enterprises are to be subject to control by the competent authority of the Member States in which their head office is situated. The directive organizes this control and specifies the financial resources which insurance companies in the Community have to possess.¹ However these regulations only partially regulate the matter; other co-ordination directives will be needed to complete them.

¹ The practical consequences of the proposed rules are being surveyed under the direction of an expert engaged by the Commission. A draft directive to abolish obstacles to establishment will also be sent to the Council.

A proposal for a second directive, on casualty insurance, was submitted to the Council on 2 February 1967.¹ It lists those rules or regulations in the Member States which must be abolished in order to achieve freedom of establishment after implementation of the first directive.

The General Programme further makes the abolition of restrictions conditional upon the co-ordination of laws and regulations governing the insurance contract where the existing disparities are prejudicial to the insured and to third parties. Preparatory studies have begun, notably regarding the rules of international private law which govern the law of contracts.

29. A proposal for a directive on exploration and drilling for oil and natural gas was submitted to the Council on 17 March 1967. It lists the restrictions on self-employed activities in this sphere which must be abolished by the Member States.²

Proposals at present being prepared

30. The Commission is preparing draft proposals on the wholesale trade in toxic substances and medicaments and on intermediaries in the pharmaceuticals trade, and two draft directives on the manufacture of medicines and pharmaceuticals.

31. A comparative study of the arrangements governing exercise of the banking profession in the six Community countries will also be completed at the end of this year and will enable the Commission to determine where co-ordination should be carried out.

CO-ORDINATION OF COMPANY LAW

32. Freedom of establishment of companies entails, on the one hand, a risk of legal insecurity owing to the greater number of business relations between individuals and corporations subject to differing legal systems, and on the other a risk of abnormal transfers of activity as long as the guarantees for members of companies and third parties are not co-ordinated in municipal legislation. The right of establishment therefore requires a corrective, in the shape of co-ordination of guarantees. The aim of this is not, as is often believed, to remove this or that impediment to freedom of establishment, but to eliminate the most important divergences between the systems of company law in the Member States.

The Council is also examining a proposal for a first directive on the co-ordination of provisions concerning the publication of particulars, the

¹ Official gazette No. 62, 1 April 1967.

² See also sec. 155.

validity of commitments and causes of nullity of joint stock companies, partnerships and limited liability companies.¹ Some amendments were made to this proposal after the Parliament's opinion was given on 11 May 1966. A draft concerning only joint stock companies, in particular their capital, has been practically completed. The studies on harmonizing the presentation of company accounts have also made good progress.

THE LIBERAL PROFESSIONS AND MUTUAL RECOGNITION OF DIPLOMAS

33. Although no proposal for a directive in this field has yet been submitted to the Council, work has made considerable headway and about forty proposals are in a very advanced stage. Some are waiting for the directives on the recognition of diplomas to be adopted,² or for progress to be made in co-ordination, before being submitted to the Council. Studies in this sector are particularly complex because of the importance of the existing rules for the liberal professions, and also because of the waiver articles in the Treaty (Article 55 in particular).

For certain technical professions such as engineer (self-employed research and advisory activities, etc.), mutual recognition of diplomas is too complicated a matter to be achieved in the immediate future, and hence transitional measures are envisaged here. In the case of other professions, however, including the medical professions, the abolition of restrictions poses the problem of use of the title in the host country. The co-ordination measures for these professions will concern the level of specialists' training, reputability, and the period of adaptation in the host country. Drafts are well on the way to completion as regards the para-medical professions, particularly opticians, nurses (abolition of restrictions, recognition of diplomas, co-ordination) and dispensing chemists.

As regards the legal professions, studies concerning tax consultants are well advanced, and others concerning industrial property consultants and lawyers are progressing.

Progress of work on the press and cinema has been reported above.³ A proposal for a directive on the film industry will shortly be submitted to the Council.

Recreational services: draft directives are being drawn up in this field (activities chiefly concerning the various sports and in particular trainers and instructors).

¹ Seventh General Report, sec. 53.

² See below, sec. 268.

³ Secs. 22 and 27.

THE TRANSFORMATION OF DIRECTIVES INTO RULES
OF DOMESTIC LAW

34. The "form and means" of enforcing the Council's directives are left to the Member States (Article 189 of the Treaty). National instruments must therefore ensure companies the right, for example, to set up branches or agencies, to transfer their registered office, or to carry out trading operations in another Member State. Because of the growing number of directives, the diversity of the economic sectors they cover, and their varied objects, the Member States are sometimes obliged to amend a considerable number of texts. The Commission supervises implementation in conformity with Article 155, paragraph 2 of the Treaty.

Despite the number of measures already taken by the Member States, work is still behindhand in some fields. This is because the juridical nature of the texts to be amended (often laws) requires that certain Parliaments delegate the necessary powers to their Government, and because the time-table provided for by the General Programmes does not always accord with the pattern of the national texts needing adjustment.

35. *Supervision of implementation by the Commission.* The Commission keeps a general watch and, if necessary, uses its powers under the Treaty (Article 169), to ensure that the measures taken by the Member States really give full effect to the Community rules which are the object of the directives, and more particularly that these measures do guarantee for beneficiaries the same conditions as nationals of the host country when restrictions are abolished. This role represents an increasing part of the Commission's activities now that seventeen directives are in force. The Commission sees to it that the nature of the national laws and regulations is 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.

Common competition policy

GENERAL

36. The adoption of the two directives on the introduction of and the implementation measures for a common value-added tax system in all Member States constitutes a decisive step forward towards the creation in the Common Market of conditions similar to those on a domestic market. The Common Market has now in a large measure become a reality for the industrial field as well as for agriculture. After eight years of effort the Commission's competition policy has now achieved its most remarkable success. In the first place, unlike the cumulative turnover tax system, the new value-added tax system does not in any way affect competition in the Common Market between enterprises that are integrated and those—generally smaller or medium-sized firms—that are not.

Secondly, specialization of production will no longer be artificially impeded, which is particularly important for ancillary and service industries. Thirdly, the new system will allow of an exact equalization of the burden of turnover taxes in international trade. The cumulative turnover tax systems at present in force permit of only general and therefore inexact equalization, which frequently leads to distortions of competition and facilitates manoeuvres for the benefit of special industries. These distortions of competition have acquired increasing economic importance as the customs union advances towards completion. Fourthly, another practical advantage of the common system is that, for intra-Community trade, businessmen will in future have to cope with only one turnover tax system instead of with six different ones as in the past. Fifthly, the introduction of the common value-added tax system constitutes an essential step towards a Common Market in which tax frontiers will have ceased to exist—in which taxes will not be refunded on exports or imposed on imports, and there will therefore be no need for the relevant frontier formalities.

37. These objectives of the harmonization of the turnover tax provisions would, however, be attained only incompletely if the provisions on the major excise duties were not harmonized at the same time. In the year under review the Commission, following several years of preparatory work carried out by experts of the Commission and of the Member States, therefore drew up a corresponding programme and incorporated it into the overall programme for the harmonization of tax provisions, also prepared in the year under review.

38. But even these measures do not suffice: as long as direct taxes, which are not subject to equalization at the frontier, have not been harmonized there will be a disparity in the tax levels in favour of the Member State with the lowest direct taxes. The enterprises of this Member State enjoy a tax advantage over their competitors in the other Member States. This makes for artificial movements of capital representing an obstacle to the optimum utilization of the factors of production. Finally, a number of tax provisions prevent enterprises from adjusting themselves to new market conditions by amalgamating. In the year under review the Commission, using material prepared by its own experts and those of the Member States over several years, therefore drew up a programme for the harmonization of direct taxes and submitted it to the Council on 8 February 1967 as part of its overall programme for the harmonization of taxation.

39. The year under review was not only marked by the introduction of the value-added tax system but also by substantial progress in the development of the European law on restrictive agreements. The Court of Justice of the European Communities confirmed the Commission's interpretation of the aims, the significance and the application of law on restrictive agreements as part of the competitive system to be set up in the Common Market pursuant to the Treaty.

The Court pointed out that "Article 85 is a constituent of Part Three of the Treaty (the 'Policy of the Community'); this article lays down the rules of competition applicable to enterprises and is intended to implement the provisions of Article 3 on the 'activities of the Community', particularly with regard to 'the establishment of a system ensuring that competition shall not be distorted', these provisions in turn being designed to help 'establish a common market', one of the main objectives of Article 2. The clauses of Article 85—seen as a whole—must therefore be read in the light of the principles set out in the preamble to the Treaty and must be interpreted accordingly; this applies in particular to the 'removal of existing obstacles' and the guaranteeing of 'fair competition', both of which are necessary if a single market is to be established."

The Court of Justice thus endorsed the Commission's view that agreements between enterprises designed to re-establish national barriers to trade between Member States conflict with the fundamental objectives of the Community. The Court stated that the Treaty, of which the preamble and main text included the objective of eliminating the barriers between States, and which included many strict rules designed to combat moves to build them up again, could not allow enterprises to reintroduce such barriers. This was the aim of the ban on agreements and practices in restraint of competition.

40. The third noteworthy event in the year under review was the adoption of the Commission regulation on the block exemption of exclusive dealing agreements from the ban of Article 85(1). A large proportion of the agreements notified to the Commission fall under this regulation, which represents a completely novel approach by the Commission, departing very considerably from the procedure, generally applied so far, of dealing with each case individually. The regulation is the outcome of more than four years of difficult preparatory work. The Commission hopes that it will be able to adopt additional measures following this first general measure designed to encourage types of co-operation between enterprises which qualify for exemption. Work is in hand on a list of unobjectionable forms of co-operation and on the preparation of test decisions on unobjectionable agreements between medium-sized and small enterprises in the fields of research, specialization, purchasing, and marketing.

41. The fourth important competition measure adopted in the year under review was the Commission proposal for the creation of a legal type of European incorporated company. The intention is to remove the obstacles under company law which stand in the way of amalgamations of enterprises of different Member States. Enterprises would be enabled to combine their resources in the fields of personnel, technology, research and finance to form European companies, so as to meet the requirements of the large common market and of international competition.

RESTRICTIVE AGREEMENTS AND DOMINANT POSITIONS

Individual cases

42. Table 4 A shows the number of individual cases pending before the Commission and the stage reached. As can be seen from this table, 552 new individual cases were submitted in the year under review. 425 cases were settled, 192 of which before and 233 after the opening of the investigations.

43. *Exclusive dealing agreements.* Of a total of some 37 000 notifications, about 31 400 concern exclusive dealing agreements. Such agreements also accounted for the bulk of the new cases submitted and the cases settled. The Commission expects that the adoption of the block exemption regulation¹ will go far to solve this problem completely. However, a definition was needed of the type of exclusive dealing agreement which normally neither escapes the ban of Article 85(1) nor qualifies for exemption. Two judgments handed down by the European Court of Justice² have provided this definition. According to the Court, exclusive dealing agreements without absolute territorial protection, although not automatically falling under the ban of the Treaty, may nevertheless be caught by it if there are special circumstances or if they feature particularly severe provisions to protect the exclusive dealing right. Absolute territorial protection is as a rule not admissible. Enterprises can therefore be expected to adjust exclusive dealing agreements entailing absolute territorial protection to the requirements of the block exemption regulation.

44. *Contracts concluded with commercial agents.* The decision of the Court of Justice in Case 32/65³ endorsed the Commission's view that agreements concluded with commercial agents are not caught by Article 85(1). Where notifications or applications showed that the agreements concerned a commercial agency relationship, the parties were therefore referred to the Commission's notice on exclusive agency agreements concluded with commercial agents⁴ and were informed that their notifications or applications were considered as not requiring further action. In Table 4 A these cases (187 in number) are classified under the heading "proceedings closed for other reasons".

45. *Licensing contracts.* As in the case of exclusive dealing agreements, it is intended to use test cases to create a body of Commission case-law in the field of licensing contracts. Several individual cases are being dealt

¹ Sec. 60.

² Case 56/65, see secs. 59 and 424 and Joint Cases 56/64 and 58/64, see secs. 59 and 423.

³ Sec. 423.

⁴ Official gazette No. 139, 24 December 1962.

TABLE 4 A

Individual cases dealt with between 1 April 1966 and 31 March 1967

1. Total number of individual cases

	Notifications and clearance applications received		Proceedings based on complaints 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 B1	Complaints from enterprises	Requests from Member States	Proceedings on the Commission's own initiative	
Total number of individual cases on 1 April 1966 ¹	24 984	11 775	81	—	47	36 887
Number of new cases submitted in the year under review	+ 391	+ 132	+ 9	—	+ 20	+ 552
Number of cases settled in the year under review by						
i) Withdrawal before opening investigations ²	— 172	— 20	—	—	—	— 192
ii) Number of cases settled by decision, of which	—	—	—	—	—	—
a) Orders to desist under Article 3, Reg. 17 ³	—	—	—	—	—	—
b) Exemption and application of Article 7, Reg. 17	—	—	—	—	—	—
c) Negative clearance under Article 2, Reg. 17	—	—	—	—	—	—
d) Rejection of a complaint under Article 3, Reg. 17	—	—	—	—	—	—
iii) Number of cases closed without decision after opening of investigations	— 212	—	— 12	—	— 9	— 233
of which:						
i) Withdrawal of applications, notifications or complaints, or cases lapsing because Commission decision no longer needed ⁴	16	—	10	—	6	32
ii) Cases of parties terminating restraints of competition ⁵	8	—	2	—	—	10
iii) Investigations suspended ⁶	—	—	—	—	1	1
iv) Proceedings closed for other reasons ⁷	188	—	—	—	2	190
Total number of individual cases on 30 March 1967	24 991	11 887	78	—	58	37 014

¹ This figure is the total number of the individual cases of the Ninth General Report minus the 1410 cases settled by 31 March 1966.

² Withdrawal of notifications and negative clearance applications due to termination of contracts.

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

⁴ Including tacit withdrawal of complaints through failure of complainant to answer questions addressed to him.

⁵ 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), Reg. 17.

⁶ Insufficient evidence of infringement, no direct need for Commission decision.

⁷ Lack of competence, closure of own initiative procedure (and opening of notification procedure) after notification of the restraint challenged, commercial agency contracts.

TABLE 4 B

Individual cases dealt with between 1 April 1966 and 31 March 1967

2. Proceedings: numbers and stage reached

	Situation on 1 April 1966	New cases entered in the year under review	Cases settled in the year under review	Situation on 31 March 1967
<i>Number of individual cases for which</i>				
i) The Commission opened proceedings pursuant to Article 9 (3) of Reg. 17, of which:	225	15	5	235
a) on the basis of complaints	40	3	—	43
b) on its own initiative	1	—	—	1
ii) Investigations ¹ were undertaken, of which :	376	255	186	445
a) on the basis of complaints	81	9	—	90
b) on the Commission's own initiative	47	28	9	66

¹ Investigation measures of all kinds to establish the facts of the case, mainly requests for information and investigations under Article 14.

with which refer to clauses in restraint of competition contained in patent or trade-mark licensing contracts or in agreements covering the granting of know-how. The terms usually agreed upon when licensing contracts are concluded have been ascertained by analysing a sample of such contracts notified to the Commission. In the light of the role played by licensing contracts in a competitive system and the rules enforced by the Member States, a definition was worked out of the terms of contract liable to restrict competition. The Court of Justice held¹ that Articles 36, 222 and 234 do not exclude Community law from all influence on the exercise of industrial property rights. Consequently the Community's rules of competition must also be observed when national law is applied in this field; in particular the claims derived from the trade-mark laws of the several States must not be abused for purposes which are alien to the Community's law on restrictive agreements.

46. *Horizontal agreements.* Most of the restrictive agreements concluded between enterprises at the same stage of the economic process are now being examined. Some aspects of this work reached a very advanced stage. The number of new cases submitted was negligible.

¹ Joint Cases 56/64 and 58/64, see secs. 59 and 423.

47. *Time-limit for notification of certain "old" agreements.* The time-limit for notification laid down in Article 7(2) of Regulation No. 17 expired at the end of 1966. This time-limit was only important for certain "old" agreements, i.e. for agreements which were already in existence on 13 March 1962, the date on which Regulation 17 came into force, and which were not subject to compulsory notification. They will not be subject to compulsory notification in the future either. Only if the parties concerned wished to apply for retrospective exemption and immunity from fines was it necessary for these agreements to be notified by 31 December 1966. The Commission did not feel there was a case for again extending this time-limit, already extended once by Regulation No. 118/63/CEE.¹ In a notice in the official gazette² and in a handout to the press the Commission drew attention to the expiry of this time-limit and stressed that on this date notification of the following categories of agreements, among others, would be advisable or necessary:

1) *Collective obligations* to buy exclusively from certain manufacturers or dealers or to deliver exclusively to certain buyers within one Member State. Such obligations may lead to particularly serious cases of market-sharing depending on groups of customers.

2) *Agreements on aggregated rebates*, without the inclusion of purchases from other Member States. Failure to include such purchases constitutes an incentive to buyers to give the bulk of their business to manufacturers in their own Member State.

3) *Horizontal agreements on the resale prices of imported products.* Such agreements are made between importers in order to eliminate price competition between them, and between importers and producers in order to regulate imports.

As was to be expected, only relatively few cases (26) were notified. Most of these refer to bilateral licensing agreements (18). The others refer to agreements between enterprises of one Member State and cover purchasing conditions and terms of sale, prices, rebates, and joint commitments regarding purchases and sales between producers and wholesale dealers in one Member State.

48. *Complaints.* In the period under review nine complaints were received, bringing the total to 90. All complaints were dealt with immediately. Three of the new complaints referred to cases for which notifications had already been received and in each case the two proceedings were combined. No further action was taken on the complaints, the complainants having desisted. In two cases the parties concerned terminated the restraint of competition challenged.

In many cases the enterprises believing themselves aggrieved by restraints of competition prefer that they should not be publicly identified, for fear

¹ Official gazette No. 162, 7 November 1963.

² *Ibid.* No. 158, 1 September 1966.

of business repercussions. Many firms therefore approached the Commission and requested an investigation without filing a formal complaint. In these cases the Commission carried out investigations on its own initiative.

49. *Proceedings on the Commission's own initiative.* The markets served by the various industries are being observed with a view to securing and maintaining workable competition. This is done by a study of internal reports and other documents and by market surveys. At the beginning of the period under review 47 investigations of this type were in hand a further 20 investigations were opened during the period.

The own-initiative investigations established that international agreements in some industries were amended in 1962, after Regulation No. 17 had entered into force, to exclude markets within the Common Market or to delete clauses conflicting with Treaty competition rules (e.g. a clause forbidding the setting up of agencies in other Member States). Agreements thus altered had in many cases not been notified to the Commission. In some of these cases it was however found that the old practices had been continued in the countries of the Common Market, although without contractual obligation on the enterprises. Examples are market-sharing, the allocation of quotas, restrictions on establishment and agreements on prices.

In several of these cases the investigations reached a very advanced stage. In two cases the enterprises concerned notified the agreement after the investigations had been opened. Work on these cases was continued on the basis of the notification as far as it appeared proper under the programme of priorities. In six cases the investigations were discontinued when the presumption of infringement proved groundless. In some other cases sufficient corroborating evidence for the suspected infringement was not found.

50. *Measures taken as part of investigations of individual cases.* Table 5 outlines the measures that had to be taken in the course of investigations. In the period under review new investigations were instituted in 255 cases (see Table 4 B). Checks were carried out in 167 enterprises in all Member States in connection with 29 individual cases. No binding Commission decisions were necessary.

In 5 cases the competent authorities of Member States were requested to carry out investigations on behalf of the Commission. In the remaining cases the investigations were undertaken by the Commission's services.

Article 14(6) of Regulation No. 17 requires the Member States to adopt the measures necessary to enable them to lend assistance to servants of the

¹ See Ninth General Report, sec. 50.

² *Ibid.*, sec. 52.

Commission engaged in an investigation. The necessary legislation is already in force in Italy and Luxembourg.¹ Consultations with Germany, France and the Netherlands have been completed. The Dutch and the German bills are before the Parliaments of these countries.

51. *Enquiries by economic sectors.* The general enquiry into the margarine industry² decided upon by the Commission under Article 12(1) of Regulation No. 17 has been continued in enterprises in Belgium, Germany, France, Luxembourg and the Netherlands. The first stage of the investigations was completed in the year under review. Early results sufficed to show that one of the reasons why there is so little trade in margarine between the Member States is the differences in the Member States' regulations on the composition, packaging and taxation of margarine. The Commission took appropriate steps. The Commission is also investigating how far the rules of competition are being infringed.

52. *Individual cases closed in the course of investigations.* About 30 individual cases were closed after the opening of the investigations either because the application had been withdrawn or for other reasons of procedure or because the parties had, in compliance with the Commission's recommendation, deleted the clauses in restraint of competition contained in the agreements involved. Several exclusive dealing agreements with territorial protection (prohibition of exports by authorized dealers), about which complaints had been sent in, were for instance modified by the parties concerned so as to meet block exemption requirements; these exclusive dealing agreements concern products of the electrical engineering industry, of the optical industry and the precision tool industry, motor spares, etc.

Among the additional individual cases which were settled amicably at the Commission's suggestion, mention must be made of four trade-mark licensing and exclusive dealing agreements on the importation, packaging, marketing and sale of cosmetics concluded between a producer in one Member State and his exclusive dealers in the other Member State. The following clauses were deleted:

- i) Prohibition of sales to wholesale dealers and retailers;
- ii) Prohibition of re-exports;
- iii) Common fixing of sales prices.

53. *Publication of the intention to grant exemption or give negative clearance.* When the Commission intends to give negative clearance or to issue a declaration of inapplicability of the ban of Article 85(1), it is required to publish the essential content of the relevant application or notification, inviting all interested third parties to submit their observations.

In the period under review it adopted this procedure in six cases:

- 1) Decisions of the European Committee for Co-operation of the Machine-

tool Industries¹ on the organization of the European machine-tool exhibitions, and particularly on the terms and conditions for participation. The Committee represents the national associations of the machine-tool manufacturers of the EEC countries and of Denmark, Great Britain, Austria, Sweden, Switzerland, Spain and Portugal. Machine-tools for the working of metal are the items shown at the exhibitions. Exhibitors must be either designers and manufacturers, designers and dealers, or manufacturers and dealers. The exhibiting firm must be resident in one of the member countries of the Committee and must manufacture the products it deals with, or have them manufactured, in one of these countries. Manufacturers exhibiting machine-tools must undertake not to exhibit their products during the same year, either directly or indirectly, in any other fair, exhibition or salon in any member country of the European Committee. Failure to observe these requirements may lead to exclusion from the next exhibition and the loss of any advance payments made as a guarantee to cover costs. Applications to exhibit are submitted to an admissions sub-committee of members of the main Committee, who have discretion to accept or reject the application without appeal and who are not required to give reasons for their decision. The allocation of stand space is decided on by the organizing national association in agreement with the admissions sub-committee. This association also fixes rent for the stand space.

2) An agreement on technical co-operation and joint research concluded between the firm Ateliers de Constructions Electriques de Charleroi (ACEC) of Brussels and Automobiles M. Berliet of Lyons.² The two firms have agreed to develop further and market an ACEC invention of an electric drive system for motor vehicles, particularly buses. Berliet will plan the production of a prototype with an eye to the manufacture in series of buses using the ACEC drive. As to sales outside Belgium, ACEC has undertaken to supply this drive system in France solely to Berliet and in the Common Market possibly to a single German and a single Italian manufacturer only. Berliet will in turn procure electric drive systems only from ACEC; Berliet will be free to sell the vehicles thus equipped without territorial or other restrictions.

3) A licensing agreement by which the American Harbison-Walker Refractories Company of Pittsburgh, Pennsylvania,³ undertakes to make available to the Dutch company Basref N.V. of Geldermalsen, which is a 50 %-owned subsidiary, all its technical know-how concerning the manufacture of basic refractory products and the installation of these in blast furnaces, ovens, etc., and to programme or plan the building of plants for the profitable manufacture of these products or procure the necessary materials and equipment therefor. For the duration of the contract Harbison-Walker has undertaken not to grant any other producer in the

¹ Official gazette No. 103, 10 June 1966.

² Official gazette No. 42, 7 March 1967.

³ *Ibid.* No. 25, 15 February 1967.

TABLE 5

Measures taken as part of current investigations¹

	Notifications and clearance applications received		Proceedings based on complaints 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 B1	Complaints from enterprises	Requests from Member States	Proceedings on the Commission's own initiative	
<i>Investigations (Art. 14)</i>	2	—	1	—	11	14
i) Individual cases concerned	2	—	1	—	21	24
ii) Enterprises involved	4	—	1	—	124	129
<i>Investigations (Art. 13)</i>	—	—	—	—	2	2
i) Individual cases concerned	—	—	—	—	5	5
ii) Enterprises involved	—	—	—	—	38	38
<i>Decisions to call for information and institute investigations [Art. 11 (5) and Art. 14 (3)]</i>	—	—	—	—	—	—
i) Individual cases concerned	—	—	—	—	—	—
ii) Enterprises involved	—	—	—	—	—	—
<i>Recommendations to parties to desist [Art. 3 (3)]</i>	—	—	—	—	—	—
i) Individual cases concerned	—	—	—	—	—	—
ii) Enterprises involved	—	—	—	—	—	—
<i>Communications [Art. 15 (6)]</i>	—	—	—	—	—	—
i) Individual cases concerned	—	—	—	—	—	—
ii) Enterprises involved	—	—	—	—	—	—
<i>Fines and periodic penalty payments (Art. 15 and 16)</i>	—	—	—	—	—	—
<i>Hearing of parties concerned and of third parties</i>						
i) Notification of provisions or arrangements challenged [Art. 19 (1)]	9	—	—	—	—	9
a) Individual cases concerned	10	—	—	—	—	10
b) Enterprises involved	156	—	—	—	—	156
ii) Publication of applications or notifications [Art. 19 (3)]	6	—	—	—	—	6
a) Individual cases concerned	6	—	—	—	—	6
iii) Oral hearings	4	—	—	—	—	4
a) Individual cases concerned	10	—	1	—	—	11
<i>Consultation of Cartels and Monopolies Committee prior to decisions under Article 10</i>	1	—	—	—	—	1
i) Individual cases concerned	1	—	—	—	—	1

¹ The table gives the number of specific measures (other than those concluding the procedure) taken in the year under review. Requests for information under Article 11 of Regulation No. 17, which are made in almost every case, are not included.

Netherlands any licence for the use of this or similar know-how. Sale of the products manufactured under licence is not subject to any restriction of a territorial or other nature.

In one of these cases certain observations submitted by interested third parties led to a re-examination of specific clauses of the agreement.

54. In a memorandum on industrial combination in the Common Market issued in January 1966, the Commission discussed the specific contribution that can be made by small businesses to attaining effective, undistorted and fair competition—one of the aims of the EEC Treaty. The Commission stressed that small firms should not be put at a disadvantage in respect of purchasing, distribution and market research in competition with big ones and that the conclusion of rationalization and co-operation agreements on joint purchasing and joint research should be facilitated so that these firms can operate effectively on the market. This is the background to Commission announcements in three additional cases of its intention to issue declarations of inapplicability or grant negative clearance:

1) A purchasing association, the Société commerciale et d'études des Maisons d'alimentation et d'approvisionnement à succursales, Paris.¹ This trading and research company was established in 1959 by the majority of the French food stores; its task was to study the French and foreign markets, to do business on these markets and in some cases to purchase certain products for the association for resale by its members to their customers.

2) A specialization and distribution agreement of the Alliance de constructeurs français de machines-outils, Paris,² whose shares are at the moment owned by nine French manufacturers of machine-tools. Each of these nine shareholders entrusts the Alliance with the exclusive right to sell its products in all countries except France and undertakes to refrain from manufacturing or selling machines which might compete against those manufactured by another shareholder. The Alliance in turn undertakes not to market products manufactured by a competitor.

3) An association based on an agreement for co-operation in research and distribution, The Transocean Marine Paint Association,³ with headquarters in the Netherlands. This association comprises eighteen medium-sized marine paint manufacturers from eighteen countries, including five of the Common Market countries. The purpose of the association is to enable members to develop special paints, in addition to those manufactured and

¹ Official gazette No. 78, 29 April 1966.

² *Ibid.* No. 137, 27 July 1966.

³ *Ibid.* No. 164, 17 September 1966.

sold by them individually, by drawing on their common know-how, to manufacture them from standard formulas, to rationalize sales by using identical packaging and a single trade-mark through a world-wide network of distributors and thus to compete from a stronger position with the major international marine paint manufacturers.

55. *Notification of provisions or arrangements challenged, hearing of parties concerned.* Before adopting an unfavourable decision, particularly where this entails a finding that there is an infringement of Articles 85 or 86, the Commission is required to notify the enterprises concerned of the provisions or arrangements challenged which it intends to take into consideration in the decision. The parties concerned are thus given an opportunity of expressing their views and, at the conclusion of the investigations carried out by the Commission, of once again expounding all considerations and facts in support of their defence. In the period under review, the Commission followed this procedure in nine cases affecting 156 enterprises.

Enterprises and associations of enterprises express their views in writing on the provisions or arrangements challenged. They may also ask for an opportunity to develop their arguments orally if they can show that they have a sufficient interest to be heard. In the period under review, the Commission conducted oral hearings of the enterprises concerned in four cases.

56. *Adjustment of agreements in the course of investigations.* Further to notification by the Commission of the provisions or arrangements challenged or to discussions held with the parties concerned, a number of agreements were amended so that they are now likely to meet the requirements for a favourable decision or require only minor adjustments in order to meet them.

For example, in two agreements concerning a joint selling agency, the following provisions or arrangements adversely affecting intra-Community trade and restraining competition were discontinued.

- 1) The inclusion of the other Member States in the territory from which the agency enjoys the exclusive right to effect joint sales;
- 2) The clause binding the agency always to give priority treatment to the sale of a linked product produced by certain enterprises;
- 3) The granting of an average standard price for this linked product equal to the general average price obtained by the agency on its total turnover in all the products it sells;
- 4) The cession by an enterprise party to the agreement of the delivery right for a certain product on the home market to another party, which in return surrenders a corresponding right for another product on the export market;

- 5) The prohibition imposed by the agency on its buyers on the home market to sell the product outside this market without its prior consent;
- 6) The granting of loyalty bonuses only to those agency customers who do not purchase abroad.

In the case of the Transocean Marine Paint Association (sec. 54 above, last paragraph), the Commission was also able to envisage the adoption of a favourable decision after the enterprises concerned had discontinued or very considerably weakened the following restraints in the agreement:

- 1) The principle that each party is prohibited from exporting the products concerned to the territory reserved to the other parties;
- 2) An absolute prohibition to manufacture the products concerned for the account of third parties;
- 3) An obligation to advise the agency in detail as to transactions concluded;
- 4) The limitation of the right of the parties to withdraw from the agreement.

57. *Supervision of the termination of restraints of competition.* The problem of enforcing decisions prohibiting restrictive agreements did not arise in the period under review. The firms Grundig and Consten complied with the decision. In several cases it appeared to be expedient to carry out checks in order to establish with certainty that agreements which had been reported as terminated had in fact ceased to be operative. In general it was found that this had been the case.

Examination of the economic aspects of questions connected with restrictive agreements

58. In connection with the work done on individual cases, several questions connected with restrictive agreements were examined from a general economic point of view. The problem of joint selling agencies and, closely related to it, that of the fertilizer market headed the list. An examination was made for instance of the restraining effects on competition exercised by the uniform distribution of proceeds among the members of such an agency. In addition a study was made of how the central control of orders by the agency has to be judged with regard to the saving of freight costs. Criteria were moreover worked out on how to assess, from the angle of competition policy, delivered prices, delivery points and freight compensation between enterprises. The problem of graduated prices applied by the agencies was also examined.

The economic effects of aggregated rebate agreements were also considered. The aim was to throw light on the problems posed by these types of agreements in order to ensure that individual decisions fit into the overall framework of an economically well-founded competition policy.

Interpretation of the Community's law of restrictive agreements

59. *Judgments of the Court of Justice of the European Communities.* By three decisions dealing with exclusive dealing agreements the Court of Justice clarified not only questions of exclusive dealing arrangements but also important questions of principle—in particular concerning the interpretation of Article 85 of the Treaty—and commented on the relationship between industrial property rights under national law and the rules of competition of the Treaty.¹ In its decisions the Court of Justice endorsed the Commission's views in all essential points; special mention must be made of the following principles, which are important for competition policy and European law on restrictive agreements:²

1) Article 85 is applicable to agreements between parties operating at different stages in the economic process as well as to parties operating at the same stage. Nevertheless these agreements are not caught by the ban of Article 85 merely because of their legal nature. The only criterion is whether, in the particular circumstances of the individual case, they objectively fulfil the conditions listed in Article 85(1).

2) It is sufficient for an agreement to have as its object the prevention, restriction or distortion of competition. In this connection, the economic circumstances accompanying the implementation of the agreement must also be considered. The restraint of competition must be a consequence of the sum or of one or more of the provisions of the agreement. Only if an examination of these provisions does not show competition to be affected sufficiently, has an examination of the effects of the agreement to be carried out. There must then be circumstances which as a whole result in actual fact in appreciable prevention, restriction or distortion of competition. These effects must be measured by the yardstick of competition as it would exist if there were no agreement of the type challenged. Article 85(1) protects not only competition between the parties to the agreement but also competition between these and third parties. The principle of freedom of competition applies to all stages in the economic process and to all types of competition.

3) An agreement is liable to impair trade between Member States if it is such as to jeopardize, directly or indirectly, actually or potentially, freedom of trade between Member States in such a way as might hamper attainment of a single market between States. This must be predictable with sufficient certainty on the basis of a set of objective legal and factual circumstances considered as a whole.

¹ *Société Technique Minière v. Maschinenbau Ulm GmbH* (Case 56/65), *Italian Government v. EEC Council and Commission* (Case 32/65), *Grundig-Consten v. Commission* (Joint Cases 56 and 58/64), official gazette No. 170, 29 September 1965.

² See also secs. 39, 43, 44 and 57 above and sec. 60 below.

4) It is inconsistent with the basic principles and the implications of the system of competition of the Common Market that the rights flowing from the trade-mark laws of the several States should be abused for purposes which run counter to the Community's law on restrictive agreements. Article 36 does not limit the scope of Article 85. Nor does Article 222 conflict with Article 85, since the latter does not entail a limitation of industrial property rights but only of their exercise.

5) Only those parts of the agreement are automatically null and void which are caught by the ban; the agreement as a whole is invalid only if these parts cannot be separated from the other parts of the agreement.

6) Not every advantage accruing from the agreement for the production and distribution activities of the parties to the agreement can, in the light of the objectives of Article 85, be interpreted as an improvement of the production or distribution of goods such as is required for exemption under Article 85(3): the improvement must involve appreciable objective advantages such as may offset the disadvantages it entails for competition.

On 15 March the Court of Justice handed down its judgment in the Joint Cases *Cimenteries CBR and others v. Commission*. It annulled the Commission communication¹ of 14 December 1965, regarding the application of Article 85(1) and (3) to the Noordwijk Cement Accord (NCA).² In this communication the Commission had declared that after a preliminary examination it had arrived at the conclusion that the conditions governing the application of Article 85(1) of the Treaty obtained and that the application of Article 85(3) to the agreement in question was not warranted.

The Court ruled that the act challenged was not a mere notice but a decision: the Commission had unequivocally taken a step having legal effect, affecting the interests of the enterprises concerned and compulsorily applicable to them. As a result of the action the enterprises were no longer exempt from fines but henceforward lay under that threat.

Co-operation, industrial combination and international competition

60. *Co-operation.* In its judgment in the suit filed by the Italian Government,³ the Court of Justice found as follows on the admissibility of block exemption:

"Authorizing the Council to grant block exemption, Article 85(3) binds the Council to use this power only for such classes of agreement as may

¹ The communication was made under Regulation No. 17, Article 15 (6).

² Official gazette No. 65, 6 April 1967, see sec. 423 below.

³ *Ibid.* No. 170, 29 September 1966, see sec. 423 below.

be caught by paragraph 1: the Council regulation would be pointless if the agreements coming within the classes specified therein could not be prohibited under paragraph 1 anyway.

“The definition of a class, however, is intended to provide a framework only and does not in any way signify that agreements coming within this framework are all caught by the ban. Nor is an agreement coming within the exempted class but not fulfilling all the requirements of the definition necessarily prohibited under Article 85(1). The fact that block exemption has been granted consequently cannot imply—directly or indirectly—that any given individual agreement is caught by the ban.”

This cleared the road for block exemptions.

After consulting the Cartels and Monopolies Committee, the Commission published a draft regulation on block exemption for exclusive dealing agreements¹ inviting all interested parties to express their views by 31 October 1966. Fifty-one comments were received, 12 from European associations, 12 from Belgium, 11 from Germany, 8 from France, 7 from Italy, 8 from the Netherlands and 3 from non-member countries. The Internal Market Committee of the European Parliament considered the draft at its meetings on 3 October and 25 November 1966. After again consulting the Cartels and Monopolies Committee on the draft, amended in the light of the comments received, the Commission adopted, on 22 March 1967, Regulation No. 67/67/CEE on the application of Article 85(3) of the Treaty to certain classes of exclusive dealing agreements.²

The regulation applies to a very large number of notified agreements between a seller and a dealer and granting the dealer the exclusive right to resell goods in a certain area of the Common Market. Exclusive dealing agreements to which only enterprises from one Member State are parties are not covered by the new regulation because they impair intra-Community trade only in exceptional cases.

Exclusive dealing agreements which fulfil the conditions of the regulation need now no longer be notified.

In accordance with the requirements of the Treaty (Article 85(3)), block exemption from the Treaty ban on restrictive agreements was granted for the following reasons:

In the present situation exclusive dealing agreements in international trade improve distribution, because the entrepreneur can concentrate his sales operations, is not obliged to maintain business connections with

¹ Official gazette No. 156, 26 August 1966.

² *Ibid.* No. 57, 25 March 1967.

numerous dealers and, by dealing with only one dealer, can more easily overcome difficulties which stem from linguistic, legal or other differences. Exclusive dealing agreements make it easier to promote an article and lead to intensive cultivation of the market and regularity of supply, backed up by more rational distribution. In addition, the appointment of a single dealer who, on behalf of the manufacturer, takes over the costs of sales promotion, the introduction of new products, after-sales service and warehousing, offers an opportunity to many small and medium-sized enterprises to compete on the market. It must be left to the contracting parties to decide whether and to what extent they wish to write into the agreement obligations designed to promote sales. There will, however, be an improvement of the distribution of goods only if no competitor is charged with the marketing of the goods.

As a rule such exclusive dealing agreements also reserve to consumers an equitable share in the benefits resulting therefrom, because the more efficient distribution is a direct advantage to them, and their economic or supply situation is improved by it, as they can obtain products manufactured abroad more swiftly and conveniently.

In addition to the exclusive dealing clause the following provisions in restraint of competition may be agreed on:

- 1) An undertaking neither to produce nor to sell goods competing with the goods covered by the agreement during the period of validity of the agreement or up to one year after the termination of the agreement (ban on competition);
- 2) An undertaking not to prospect for customers, nor to set up branches or maintain depots outside the exclusive sales territory in respect of products covered by the agreement (ban on prospecting).

If the agreement contains additional undertakings in restraint of competition, it does not qualify for block exemption. For example, manufacturers of competing goods are not allowed to transfer sales operations between themselves, nor must it be made difficult to obtain the goods elsewhere in the Common Market. This provision is designed to make sure that parallel imports are feasible in actual practice and that there is no contractual obstacle to them. Industrial property rights or other rights must not be abused in order to prevent parallel imports. Enterprises which have agreed upon such clauses in restraint of competition may modify these agreements to bring them into line with the requirements of the regulation.

A set of general rules like a block exemption regulation inevitably also extends to some agreements which have effects that are inconsistent with the Treaty requirements for exemption.

The regulation therefore provides that the Commission shall in future institute normal proceedings with a view to withdrawing the benefits of block exemption in cases, for example, where it must be assumed that:

- 1) The products covered by the agreement are not in competition with like products in the area concerned;
- 2) Other dealers are prevented by exclusive dealing arrangements from operating at the trading level of the exclusive dealer;
- 3) The exclusive dealer abuses the block exemption by excluding groups of customers from supply without legitimate reasons or by selling goods covered by the agreement at disproportionately high prices.

61. In the period under review the Commission also dealt with other problems of co-operation, particularly from the angle of small and medium-sized enterprises and from the angle of joint research. Three specific cases are dealt with in sec. 54 above.

The problem of small and medium-sized enterprises was discussed in the light of the Commission memorandum on industrial combination and of Professor Woitrin's report,¹ at first bilaterally with the several Member States and subsequently at a conference of experts on 14 September 1966. On that occasion it was agreed that the Member States will inform the Commission of the measures taken in their States for the benefit of small and medium-sized enterprises.

62. *Industrial combination.* On the basis of the memorandum on industrial combination in the Common Market, which has since been published by the Commission,² detailed discussions were held in the Medium-term Economic Policy Committee. These were followed by an examination of individual problems with the competent government experts. In general, the memorandum met with approval.

The applicability of Articles 85 and 86 to amalgamations of enterprises was discussed with government experts on restrictive agreements. The cases of mergers which have so far come to the Commission's knowledge have not entailed the application of Article 86. Preliminary investigations were carried out, however, in a number of cases. In addition, work on clarifying legal questions was continued.

In order to elicit further information on the trend towards industrial combination, the Commission had carried out an anonymous survey, which was evaluated in the year under review. The results proved unsatisfactory, particularly with regard to the effects of industrial combination on the economy and on competition. The Commission therefore instructed a

¹ Studies—Competition series, No. 4/67.

² Studies—Competition series, No. 3/66.

group of independent experts to devise practical ways and means of carrying out a survey on the effects of industrial combination within the Common Market. This methodological work includes the establishment of practical methods for ascertaining the behaviour of enterprises on the market and for evaluating the effects of amalgamations on business management. The Group started its work in January 1967. The tax aspects of industrial reorganization and combination, which are the subject of the Commission notice to the Council of 8 February 1967, are dealt with in section 86 below. Company-law aspects of amalgamation are discussed in sections 97 and 98 below.

DUMPING

63. In the period under review the Commission received a request for the application of Article 91(1) of the Treaty to a case which referred to alleged dumping by a firm manufacturing beverages in a Member State. On investigation the Commission found that the firm concerned had for some time been engaged in harmful dumping on the market of another Member State but had apparently discontinued this practice when the Commission intervened for the first time. In the circumstances there were no longer any grounds for making a recommendation under Article 91(1) of the Treaty to the firms calling upon it to desist. The case was therefore closed subject to further observation of the development of the situation on the market concerned. This is the 25th case of dumping in intra-Community trade which the Commission has had to deal with since the EEC Treaty entered into force.¹

STATE AIDS

64. During the period under review the Commission issued findings on 15 general-aid cases and 24 cases of specific aids. The most important cases are described below.

In order to facilitate the examination of aid schemes, which, under Article 93(3) of the Treaty, have to be notified to the Commission before their introduction, a proposal was submitted to the Council on 4 April 1966 for a Council regulation under Article 94 of the Treaty.

The proposal fixes certain conditions and procedures for the prior examination of these aid schemes. It starts by specifying those categories of aid which, in view of their characteristics, may be exempted from examination pursuant to Article 93(3). For all aids—including those exempt under the regulation from the notification procedure of Article 93(3)—the Member States concerned are required to inform the Commission immediately of the implementation of each individual scheme and to submit the final versions of relevant laws and regulations.

¹ For the earlier cases, see Eighth General Report, sec. 72.

The proposal provides for a basic time-limit for the examination of schemes to institute or modify aids; the time-limit may be suspended should a more detailed examination be required. Failing suspension, expiry of the time-limit would mean that the Commission does not raise any objections to the implementation of the schemes involved. This simplification of the procedure would apply to all aid schemes whose probable effects call for a summary examination only. The possibility of suspension—for instance, in order to obtain relevant information from the Member States concerned—could consequently be used in a way which would take into account the real importance of the concrete cases to be examined in accordance with Article 93(3).

The Council submitted the proposal to the European Parliament and to the Economic and Social Committee for information when consulting these institutions on the Commission proposal for a regulation amending Regulation No. 26 (application of certain rules of competition to the production of, and trade in, agricultural produce).

General aid schemes

65. By adopting aid schemes in the shape of outline laws, the Member States take measures in support of national and particularly of regional economic expansion. Examination of the outline laws by themselves does not always suffice for an assessment of their effects from the angle of compatibility with the Treaty, so that in some cases the examination must be extended to cover details of actual implementation. A round of meetings with government experts provided an opportunity to compare all these arrangements and to examine their application both statistically and in the light of some concrete cases. The main features of a system for assessing general aid arrangements based on the body of decisions already taken by the Commission in this field and a procedure for the scrutiny of their application are to be established shortly.

66. The Commission also stated its views on several general aid schemes notified to it in accordance with Article 93(3) of the Treaty. In view of the benefits provided and the areas helped, four of these schemes deserve special attention:

1) A Netherlands scheme to assist in the industrial reorganization of southern Limburg. The benefits granted, which take the form of premiums or price reductions for the acquisition of industrial sites, are mainly designed to ensure employment for the miners thrown out of work by pit closures in Limburg.

2) A French decree extending and modifying the arrangement which had expired on 31 December 1965 (premiums for industrial development and for industrial reorganization). The measures concerned are mainly those designed to promote the economic development of the west and south-

west of France and to combat the reorganization difficulties in old industrial areas (particularly in the north and north-east of the country).

3) Special measures taken by the Italian Government to assist the less developed regions in northern and central Italy. In order to achieve a balanced economic development of these regions, the Italian authorities have preferred to concentrate support on certain regions with inadequate infrastructure and redundant farmworkers and to abandon the earlier system whereby aid was spread more widely but in quantities too small to be really effective.

4) A Belgian law temporarily introducing special aids to speed up the reorganization and economic development of the coalmining areas and of other areas facing acute and urgent problems. Although they were originally designed only to combat the difficulties arising out of the coalmining crisis, these new aids finally came to supersede in part the laws on economic revival of 1959, particularly the laws of a specifically regional nature.

Aids for exports to other Member States

67. Some of these aids (which also affect relations with non-member countries) were examined by the Group for the co-ordination of policy on credit insurance, guarantees and financial credits.¹

As to the measures which have been examined pursuant to Article 93(1) in respect of their effects within the Community, the Commission submitted to the Member States in 1966 proposals for their abolition or modification. In general these proposals have been complied with. The arrangements for state-guaranteed medium-term credits and for the exchange-rate guarantee, for instance, will no longer be applied to transactions within the EEC as from 1 July 1968 at the latest.

No solution has yet been found to the question of the preferential rediscount rate for trade bills from export transactions and to that of the guarantee arrangements for extraordinary economic risks in export transactions. Under the procedure with regard to these arrangements, which was instituted in 1965 by the Commission² pursuant to Article 93(2), the Governments concerned advised the Commission of alterations, and these are now being studied in detail. The system of price guarantee, which is practically no longer applied in intra-Community trade, may be abolished on 1 July 1968; the solution of the question of the preferential rediscount rate depends in part on whether a solution can be

¹ See also, sec. 133.

² See Ninth General Report, sec. 80.

found to the more general problem of the organization of the capital and money markets of the Community.

Aids to specific industries

68. *Shipbuilding.* The Commission and the member Governments continued their work in this field. On the lines of the Geddes report in the United Kingdom, two inquiries were made in the Community—the Keyzer report in the Netherlands and the Caron report in Italy. These reports reveal that because of structural weakness the industry is at a dangerous disadvantage in competing with non-EEC yards.

The proposal for a directive which the Commission had submitted to the Council on 13 April 1965¹ therefore lost nothing in importance. This proposal was dealt with at several meetings of the Council's Working Party on economic questions. The discussions showed that the measures as such are in principle likely to meet with approval of the Member States, although certain reservations are made regarding the way they are to be applied. The Commission had proposed a compulsory system, but there seems to be a tendency to prefer a discretionary system of aid.

In collaboration with the Member States, the Commission continued its examination of new measures to promote the competitiveness of shipyards in the EEC or to convert certain yards to other activities.

On 30 December 1966 the Italian Government notified the Commission of a new draft law on shipbuilding aids which is intended to supersede the transitional arrangement expiring on 31 December 1966. This draft law was prepared in connection with a programme for the definitive reorganization of this Italian industry, a reorganization scheme worked out by the Italian Government on the basis of conclusions reached by a special committee within the Interministerial Economic Planning Committee. At the moment the bill is being studied by the Commission under a procedure it has arranged.

On 1 August 1966 the Commission instituted the formal procedure pursuant to the first paragraph of Article 93(2) in respect of French shipbuilding aids. The French Government declared its readiness to scale down the maximum rate of its aids to 10 % of the contract price of the vessels built, by 1 July 1968. The examination of the various technical provisions of this aid scheme (adjustment coefficient, scope) was adjourned pending the completion of an official inquiry into the competitive position of this industry. In the meantime the procedure initiated remains open.

On 9 December 1966 the Commission informed the German Government of its decision to raise no objections to the proposed alteration of the aid arrangement for exports of ships to non-member countries.

¹ See Ninth General Report, sec. 82.

The ship-repairing industry, which is closely connected with shipbuilding proper and which in France and in Italy also qualifies for aid under the same aid arrangements, formed the subject of an inquiry in which the Commission, together with the Member States, investigated its competitive position. The results suggest that for this type of activity competition between yards in the Mediterranean basin and other Community yards is almost negligible. Consequently aids to this industry in the North Sea part of the Community would not at present be justified; by contrast, Community ship repairing in the Mediterranean is apparently under particularly heavy competitive pressure from non-member countries. There therefore seems to be a case for maintaining these aids for the time being, subject to their harmonization as between Italy and the French Mediterranean yards.

69. *Textile industry.* In the past year measures already taken in this field were supplemented by a new initiative by France, which provides that the revenue from a "parafiscal" charge introduced on 31 December 1965 and imposed on all textile products will be used for reorganizing manufacturing and marketing arrangements and for carrying out joint research in the textile industry. The French scheme was dealt with at a multilateral meeting held on 20 June 1966 and is being examined by the Commission at the moment. The Italian law mentioned in the Ninth General Report¹ has not yet entered into force.

70. *Film industry.* The Commission continued its work on harmonizing the existing systems of aid.² In this respect the similarity of the aid arrangements which have been in existence in France and Italy for one year (in Italy a new law entered into force on 4 November 1965) foreshadows a general understanding among the Member States in the field of aids to the film industries: the intention behind the French and Italian provisions is to allow that certain national aids also be granted for films—particularly shorts—produced in the other Member States.

The Commission examined the French legal provisions prolonging aid arrangements for feature film production and for cinemas (modernization, replacement and construction of new cinemas).

In addition, the French Government notified the Commission of new regulations reorganizing aid arrangements for the short film to make them more selective and to facilitate production.

71. *Gliders.* The French system of granting premiums on the purchase of gliders built in France was the subject of a Commission decision of 23 September 1966 taken in conformity with the first paragraph of Article 93(2).³ This decision calls upon the French Government to

¹ Ninth General Report, sec. 84.

² *Ibid.* sec. 83.

³ Official gazette No. 182, 12 October 1966.

discontinue the practice challenged, either by abolishing the existing aid arrangement or by extending its scope of application to gliders manufactured in the other Member States. In case of non-compliance, the Commission would have to institute the proceedings provided for in the Treaty.

72. *Italian exports of marble and decorative laminated board.* Belgian, German and French trade associations and—in respect of decorative laminated board—the French Government complained to the Commission of heavy imports into their countries from Italy at unusually low prices endangering the domestic industries concerned.

The Italian Government was asked to submit details on the structure and the activity of this Italian sector and on any aids that are granted so that it can be established whether they are compatible with the Treaty.

73. *Reduction of Italian transport rates to users of special railway trucks manufactured in Italy.* The Commission asked the Italian Government to discontinue its practice of discriminating against the manufacturers of railway trucks from other Member States and to state reasons for any continuation of the reduced rates at present in force.

74. *French paper-pulp industry.* The Commission again carried out the annual examination of the premiums granted in this branch of industry as authorized—up to 31 December 1966—by the Council decision of 19 December 1960¹ taken in view of the existence of exceptional circumstances. The Commission found once more that the premium rates for 1966 do not appear to be liable to affect trade to an extent conflicting with the common interest; nevertheless it drew the Council's attention to the fact that the principle of degressivity it laid down in 1960 had not so far been complied with. At the same time the Commission advised the French Government that any prolongation of the validity of the aids would have to be examined in the framework of the provisions of Article 93(3).

On the basis of the Council decisions in connection with the GATT tariff negotiations (it is probably on account of these decisions that the premium rates were not lowered), the French Government applied to the Council directly for further authorization under the third paragraph of Article 93(2) to maintain its aid to the paper-pulp industry throughout 1967. At its meeting of 20 February 1967 the Council agreed to a one-year extension.

75. *Aids to industries processing agricultural products other than those listed in Annex II to the Treaty.* The Commission proposals for reorganizing the aids in this field² were adopted and were translated into concrete measures by the Member States concerned.

¹ Official gazette No. 84, 31 December 1960; see Ninth General Report, sec. 85.

² See Ninth General Report, sec. 86.

As to the measures requested by the Commission in application of Article 23(4) of Council Regulation No. 19/62 (organization of the cereals markets), two of the four Member States concerned have already taken the measures required. Against the two other Member States the Commission opened the procedure provided for in the first paragraph of Article 93(2).

76. *Fuel and power.* In the period under review the German Government adopted additional aid measures. In May 1966 it submitted the draft of a law designed to ensure the sale of coal to the electric power industry (second *Verstromungsgesetz*). This law, which has since entered into force, provides—through Government aids—for a price reduction for the additional consumption of coal by power stations. The law is also designed to forestall a reduction of the proportion of coal used at the moment in the electric power industry and an increase in the use of fuel oil. The Commission reached the conclusion that the subsidies to coal-fired power stations provided for in the law cannot be considered as aids incompatible with the Common Market; it therefore raised no objections to the draft law.

The German Government also notified the Commission of the draft of a fourth law to amend the law adjusting taxes on mineral oils. The draft provides that the aid scheme for the regeneration of used oils is to be extended by two years until 31 December 1968 and that the rate of aid is to be reduced by 15 % tot DM 19.50/100 kg. The regeneration of used oils is also encouraged in three other Member States, and in view of the need to eliminate water pollution and in the hope that it will be possible in the foreseeable future to arrive at a Community solution to the problem of the harmless disposal of used oils, the Commission raised no objections to these changes either.

Aids in the fields of agriculture and transport. The Commission's proposals for regulating aids in the fields of agriculture and transport are described in secs. 190 and 224 of Chapter III.

TAXATION

Handling of individual cases

77. *Turnover taxes.* On 16 June 1966 the Court of Justice of the European Communities¹ ruled that Article 95(1) of the Treaty produces immediate effects and engenders rights for individuals which must be upheld by the courts of the Member States. The Court ruled in addition that pursuant to the third paragraph of Article 95, the first paragraph of

¹ Case 57/65, official gazette No. 170, 29 September 1966.

this article is applicable to legal provisions which were in existence when the Treaty entered into force only from the beginning of the second stage of the transition period onwards.

The Court of Justice thus endorsed the opinion of the Commission. The judgment is of great importance in so far as it is now clear that Article 95 is not only addressed to the Member States but also confers rights on individuals. They may invoke these rights before the courts in the Member States and thus make an important contribution to compliance with the Treaty by the Member States.

78. In the field of turnover taxes, the Commission examined, in addition to a large number of requests for information, 13 new individual cases and continued the examination of 28 cases already pending where an infringement of the Treaty is suspected or was established. In eight cases the Commission asked the Member States concerned to modify the turnover tax arrangement involved to bring it in line with the provisions of Articles 95 to 97.

Several Member States have already complied with this request. For example, the Netherlands terminated the discriminatory taxation of imports of processed petroleum products. Germany lowered the turnover tax drawback granted on major ship repair contracts from 7 to 5 %. Italy declared that it was prepared to amend law No. 1309, which suspended the production tax on woollen yarns for two years but replaced it, in addition to the turnover tax rate, by a surcharge of 4 or 7.8 %; the Commission had ruled specific clauses of this law incompatible with Articles 95 and 96.

Under the prior consultation procedure instituted by a decision of the member Governments taken in the Council on 21 June 1960, Italy, the Netherlands and Germany submitted to the Commission draft proposals designed to adjust countervailing charges on imports and tax drawbacks on exports. These drafts were examined by the government experts. The Commission informed the States concerned of its views on these adjustments with regard to their compatibility both with the decision and with Articles 95 to 97 of the Treaty. The Commission takes the view that none of these adjustments complies fully with the principles of the decision mentioned (adjustment for technical reasons only). In respect of certain tax rates, the adjustments envisaged by Italy were also ruled by the Commission to be incompatible with Articles 95 sqq. With regard to the adjustments which entered into force in Germany on 1 January 1967, the Commission holds that for certain tax rates there is no adequate guarantee that they do not exceed the upper limits entailed in Article 97.

Italian Law No. 639 (previously No. 103). In compliance with the judgment of the Court of Justice of 1 December 1965,¹ the Italian

¹ Ninth General Report, sec. 100.

authorities submitted corroborating data to show that the tax drawbacks maintained under this law did not exceed the limits laid down in Article 26 and defined in greater detail by the Court of Justice. The Commission made checks in Italian enterprises in order to verify these calculations and to arrive at a better understanding of the methods of calculation used.

Further checks are to follow. As soon as these inquiries have been concluded, the Commission will issue a finding.

79. *Excise duties.* In the field of excise duties the Commission completed a list of all cases where duties on imported products differ from those on domestic products. The list reduces the discriminatory practices—some of which are pursued in more than one Member State—to 22 cases.

The discriminatory practices consist mainly in:

- 1) Reduced rates (or exemptions) if certain materials are used in the manufacturing process of a domestic product subject to excise duty. Example: wine from fresh home-grown grapes, etc.;
- 2) Reduced rates (or exemptions) depending on the use made of the domestic product is put which is subject to excise duty. Example: sugar for the manufacture of jams, etc.;
- 3) Reduced rates designed to grant preferential treatment to small businesses (small alcohol distilleries, small and medium-sized breweries, etc.);
- 4) Flat-rate taxation of imports (or occasionally of domestic products) ignoring the actual duty basis. Example: imported sugar products charged on the basis of overall sugar content.

The elimination of discriminatory practices in the field of excise duties very often gives rise to difficult problems, either:

- 1) Because the excise duties are closely connected with the agricultural policy of the Member States;
- 2) Because the excise duties also involve aid to small businesses;
- 3) Because the system by which the excise duties are levied at home makes it difficult to calculate the exact duty to be levied on imports, as for instance in cases where at home the excise duty on beer is levied according to a progressive scale.
- 4) Because similar discriminatory practices exist in several Member States and it therefore appears expedient to work out harmonized elimination procedures;
- 5) Or because there are fiscal monopolies in certain Member States (Article 37 of the Treaty).

In the year under review the Commission dealt with a number of requests for information and examined 17 individual cases with a view to the elimination of excise duty discrimination against imported products or to establishing that discriminatory practices existed. The following cases deserve special mention:

With regard to excise duty on beer, Belgium, Germany, Luxembourg and the Netherlands declared their readiness to adjust the duties so that a more differentiated scale is applied to the types of beer imported. On 29 July 1966 the Commission therefore addressed a recommendation to these Member States requesting them to put the reform into effect by 1 April 1967 at the latest.

With regard to excise duties on spirits and wine, the Commission opened on 2 February 1967 the relevant Treaty procedures against all Member States in order to ensure the elimination of a series of discriminatory excise duties on imported products.

With regard to excise duty on cocoa, the Commission instituted on 19 July 1966 the procedure of Article 169 against Italy alleging an infringement of Articles 95 and 96; on 17 January 1967 the Commission rendered a reasoned opinion on the matter.

With regard to excise duty on sugar, Belgium, Italy and Luxembourg agreed to adjust their arrangements applicable to imported sweets to conform with the provisions of the Treaty. In the Netherlands the regulations have already been amended. In Belgium and Luxembourg reform is still in progress. Negotiations are still being conducted with Italy.

With regard to the Italian excise duty on the production of yarns, Italy promised to review the figures which form the basis of the flat-rate duty levied on domestic products.

Approximation of the provisions on indirect taxes

80. *Turnover taxes.* On 9 February 1967 the Council adopted the first two directives on the harmonization of the legal provisions relating to turnover taxes.¹

In its resolution of 8 March 1966 on the amended proposal for a first directive, the European Parliament had endorsed the proposal, though moving amendments to paragraphs 6, 7 and 8 of the preamble. The Commission and the Council, however, did not endorse these amendments.

Of the nine amendments moved by the Parliament to the second directive, the Council accepted those referring to the 9th paragraph of the preamble,

¹ Official gazette No. 71, 14 April 1967; see sec. 36 above.

to sections 13 and 21 of Annex A and to section 8 of Annex B. A general rearrangement of the preamble accounted for the proposed amendment to the first paragraph.

The Commission regrets having been unable to submit within the time-limit prescribed the proposal for a third directive on the application of the value-added tax to agriculture. The delay is due to new developments in the field of agricultural policy and to other unforeseen complications. In the circumstances, the Council was unable to take into consideration the amendments to Articles 11 and 12. The Commission will, however, not fail to take the opinion rendered by the European Parliament into account when drafting the proposal for a directive. The European Parliament will also be consulted on this proposal.

Under the first directive, the cumulative turnover tax system at present in force in Belgium, Germany, Italy, Luxembourg and the Netherlands will be replaced by a common TVA system, and the TVA system already existing in France will be brought into line with the common system. The first directive also defines the essential principles on which the new system is to be based. Before the end of 1968, the Commission will be required to submit to the Council proposals indicating how and by what date the harmonization of turnover taxes is to achieve its ultimate aim, the abolition of all taxes levied on imports and of all tax drawbacks on exports in trade between Member States. The Council will, if possible, take its decision on these proposals before 1 January 1970.

The second directive concerns the implementation measures for the common TVA system, which each Member State is to incorporate into its tax laws. The following are the main points of the directive:

The TVA is a general tax on consumption levied, in principle, at all stages of the economic process and in such a way that it falls only on the value actually added at each stage. The method of collection is as follows: the tax for the total turnover is calculated, and from this amount the total tax on purchases of goods and services (previous tax) is subtracted, the difference being paid over to the tax authorities.

TVA is to be paid on merchandise and services supplied within the country, and on merchandise imports.

In principle, TVA will be charged on deliveries of goods up to and including the retail stage. Until the date on which fiscal frontiers are abolished, the Member States will, however, be free to limit the TVA to stages up to and including the wholesale stage.

The services which are compulsorily subject to the payment of TVA are set out in a list. This includes the assignment of patents and trade-marks, freight transport and warehousing, but not banking services. It is left

to the Member States to impose such taxes as they may deem appropriate in respect of the large group of services not included in the list (e.g. those supplied by doctors, hairdressers and others who usually supply services only to private individuals).

Previous taxes imposed on deliveries of merchandise, on services or on merchandise imports are deductible from the TVA payable on the relevant turnover. Normally, previous taxes may be deducted in full and directly. In order to alleviate difficulties connected with the changeover to the new system, Member States may, however, during a transitional period, make partial deductions for capital goods each year (deductions *pro rata temporis*) or exclude capital goods either wholly or partially from the deduction system. In addition, the Member States are free, after consultation within the Community, to bar deductions in respect of capital goods, either wholly or in part, for reasons connected with the current business situation, or to apply to these goods the method of *pro rata temporis* deduction.

Although Member States are free, until fiscal frontiers are removed, to determine tax rates and exemptions independently, the directive sets certain limits to their discretion in this field. Where exemptions are concerned, deduction of previous tax will normally not be allowed. Reduced rates may not be cut below a specified minimum. Until fiscal frontiers are removed, both these rules may, however, be waived for precisely defined social reasons for the benefit of final consumers. The total effect of these waivers may, however, not exceed the total effect of reliefs granted under the present system.

The directive provides for a special procedure in exceptional cases where a Member State considers it necessary to introduce special measures designed to simplify the collection of taxes or prevent certain types of tax evasion.

Each Member State may at its discretion and subject to prior consultations apply to small firms in respect of which application of the normal TVA system would encounter difficulties such special arrangements as it may deem most suitable in the light of national requirements and resources.

81. With regard to taxation of agriculture, the Commission is instructed to submit to the Council as soon as possible proposals for common procedures relating to the application of the value-added tax to turnover in agricultural products. Consequently, the Commission is now preparing the draft for a third directive on this subject.

82. *Excise duties.* Article 99 provides expressly for the harmonization of excise duties. These duties often show structural differences (assess-

ment basis, incidence of the tax burden, preferential arrangements, etc.) which may distort the conditions of competition. Only the harmonization of excise duties will make possible general and full elimination of the discriminatory effects and distortions due mainly to disparities between the structures, but sometimes also to disparities between the actual rates, of these taxes in the Member States.

The Commission's work on excise duties on beer, sugar and manufactured tobacco, for instance, revealed that the discriminatory effects of these duties against imported products can only be eliminated completely if the duties are harmonized. Similarly, it is only by harmonization of the excise duties on mineral oils that the distortions—due mainly to differing rates within the Common Market—can be removed which these duties create with regard to production and transport costs. The harmonization of excise duties will provide a general opportunity to solve the problem of distortions spreading from one industry to others as a result of a disparity in excise duties.

As customs duties in intra-Community trade will be abolished completely from 1 July 1968, the effects of these discriminatory practices or distortions will take on added importance. This explains why harmonization has become a matter of urgency. In addition, the objectives of the harmonization of turnover taxes would be attained only incompletely if the excise duties were not harmonized at the same time. Finally, the requirements of the common agricultural policy, the common transport policy and the energy policy are such that harmonization of some excise duties is an immediate need.

On the basis of the work carried out by the Commission in co-operation with the Member States, the existing excise duties and similar taxes were divided into four classes:

- 1) Excise duties to be harmonized (manufactured tobacco, alcohol and alcoholic beverages, petroleum products and the like, sugar);
- 2) Excise duties on which a decision can only be taken following a more detailed examination (mainly excise duties on beverages other than alcoholic beverages and on products substitutable for sugar);
- 3) Excise duties which can be maintained without harmonization (for instance certain local taxes and certain excise duties which do not affect intra-Community trade);
- 4) Excise duties to be abolished (i.e. which may be built into the added-value tax system, as for instance the excise duties on certain tropical products, on salt, matches and playing cards).

The Standing Committee of Heads of Revenue Departments attached to the Commission approved the main lines of this classification and decided

on 16 and 17 June 1966 that the work on the harmonization of the excise duties of the first class was to be given priority. The Standing Committee also agreed that the work to be given priority treatment was also to include the examination of those questions which arise with regard to the excise duties of the second category where there is a relationship between these excise duties and those of the first class.

As in the case of turnover taxes, excise duties can be harmonized in two stages: first structures and then rates (with elimination of the tax frontiers). Harmonization here should also be timed to fit in with harmonization of turnover taxes.

A draft directive is being prepared at the moment, in connection with future proposals in the fields of agricultural policy and the reorganization of state trading monopolies, which deals *inter alia* with the structural harmonization of excise duties on manufactured tobacco.¹

Work was also started in the year under review on the harmonization of the excise duties on alcohol and alcoholic beverages.

83. *Indirect taxes on insurance contracts.* Having completed a draft directive on the application of these taxes according to the territoriality rules, the Commission started work on actual harmonization. Whether this should be effected by bringing insurance operations within the scope of the future common value-added tax or by introducing a special Community tax on insurance contracts is a question now under study.

84. *Road taxes on private cars.* The Commission started studying the scope for harmonizing the criteria used in fixing the basis of assessment of road taxes on private cars, whether levied annually or at shorter intervals.

The aim of harmonization would be to place motor manufacturers in the Community on an equal competitive footing in this respect and at the same time to meet the interests of some Member States with regard to modernization of the tax.

Approximation of provisions on direct taxes

85. *General programme.* In the year under review the Commission worked out a general programme for the harmonization of taxes and transmitted it to the Council on 7 February 1967. This programme

¹ Sec. 184.

provides in particular for concrete measures to approximate certain provisions governing direct taxation. In June 1966 the proposals had been approved in principle by the Standing Committee of Heads of Revenue Departments attached to the Commission.

When drawing up this programme, the Commission started from the principle that harmonization must be limited to what is really necessary either for the establishment or for the functioning of the Common Market.

In this respect the date of 1 July 1968—on which the last customs barriers between the six States will disappear and the common agricultural market will have been fully established—marks an important stage. It therefore appears that this time-limit must be observed as the latest date by which certain fiscal measures must have been adopted by the Member States.

Consequently, the programme makes a distinction between those measures which would have to be taken before 1 July 1968 and those which would have to be carried out only later.

86. The programme provides that in the field of direct taxes the following work must be carried out before 1 July 1968:

A. *Capital movements.* The aim is the removal of international double taxation of dividends and interest and, in general, the removal of all the causes—distortions or discriminatory practices—likely to engender abnormal capital movements, to keep capital markets segregated from each other and to curb the expansion of savings.

With this in view it is important:

- a) To work out a harmonized withholding tax system on interest on negotiable bonds and on dividends which would provide for the amount withheld to be set against the beneficiary's total liability and for rebates where too much tax has been paid;
- b) To adjust in Belgium and France certain procedures for the application of tax credit which are of a discriminatory nature;
- c) To find a single method for relieving the total tax burden on distributed dividends (tax relief for the company and for the shareholder);
- d) To adjust and harmonize the tax consequences of the operations of investment companies (including unit trusts) with a view to eliminating any tax discrimination against investments through such companies or trusts as compared with direct investment;
- e) To harmonize the tax arrangements applicable to holding companies and to amend certain regulations.

B. *Structural changes in industry and industrial combination.* The aim is to ensure that structural changes and amalgamations at Community level which may appear necessary if the Common Market is to be developed further are not made too costly and as a consequence actually prevented by tax regulations.

To this end it would be necessary:

a) To improve the functioning of the tax arrangements applicable to parent companies and subsidiaries where these are companies set up in different Member States; the same applies to both corporation tax and taxation at source;

b) To introduce, with a view to facilitating *inter alia* the creation of European companies, acceptable tax arrangements for mergers and transfer of assets as between companies in different Member States.

C. *Establishment of roughly equal conditions of competition with regard to investment.* To this end it would be appropriate:

a) To define in more detail the obligation on the Member States under Articles 93 and 102 to consult the Commission on all fiscal measures concerning the basis of assessment of such taxes on corporate profits as are liable to constitute incentives and engender distortions of competition. Subject to prior consultation, any fiscal measures liable to constitute investment incentives should also be harmonized;

b) To effect a first alignment of the bases of assessment of profits tax and to lay down certain basic rules for depreciation.

87. After 1 July 1968 the efforts towards an approximation of direct taxes should concentrate on:

a) Some measure of structural alignment, particularly of schedular taxes, and of the present taxes on company assets, which would probably have to be abolished;

b) The uniform definition and calculation of taxable corporate profits. To this end the provisions now planned would have to be supplemented with regard to depreciation, and new provisions would have to be introduced regarding the tax treatment of the application in value of fixed capital gains, the valuation of stocks, the carrying over of losses to subsequent years, and tax-exempt general and special reserves. Measures adopted as incentives and departing from these provisions would then only be permissible if they were fully-co-ordinated to comply with general economic policy;

c) Sufficient alignment of the rates of corporation tax in the six countries;

d) Co-ordination of the methods of control and collection, without which harmonization would not have the desired effect.

Lastly, measures should be taken to eliminate permanently those cases of international double taxation which harmonization itself would not eliminate.

88. *Double taxation.* In this context the Standing Committee of Heads of Revenue Departments attached to the Commission arrived at the conclusion that a convention against double taxation signed by the Member States would be feasible and of definite value. In the year under review work was carried out, *inter alia*, on the concept of permanent establishment and the scope of withholding tax on dividends, interest and royalties. The internationalization of the special arrangements for parent companies and subsidiaries (the tax-exempt receipt of earnings from a major holding of a company established in one Member State in another company established in another Member State) and a system of co-operation between the revenue departments to cover pending or doubtful cases of double taxation were also discussed and clarified.

The preliminary draft of a convention between the Member States was then read for the second time.

APPROXIMATION OF NATIONAL LEGISLATION AND THE CREATION OF EUROPEAN LAW

General

89. In its work on the approximation of legislation the Commission took as its point of departure the Treaty provisions which specify approximation of legislation as one means of attaining the objectives of the Common Market. This principle has found its expression not only in the approximation measures which, under Treaty rules on the establishment or the functioning of the Common Market, have already been prepared or implemented¹ but also in a series of special approximation programmes.² The Commission is now drawing up a general programme for the approximation of municipal laws and regulations affecting the Common Market. In doing so the Commission intends, as stated in its reply to Written Question No. 53 (3 June 1966),² to develop further the information mustered so far and to give a general survey of approxima-

¹ Eighth General Report, Table 7, Ninth General Report, Table 8, and the table below.

² Official gazette No. 72, 14 April 1967.

tion aims, fields, means and methods and of the measures to be taken in the next few years.

The following table summarizes the work carried out in the period under review and brings up to date the tables published in the two previous General Reports.¹

The table shows:

- 1) The progress made in the work already referred to in the Eighth and Ninth General Reports;
- 2) The state of work begun in the period under review.²

The table shows that during the period under review (1 April 1966 to 31 March 1967) 3 regulations, 11 directives, 1 decision and 4 recommendations were adopted. During the same period 4 draft regulations, 16 proposed directives³ and 2 proposed decisions were laid before the Council. Six new questions were also tackled.

This means that from 1 January 1958 (date of entry into force of the Treaty of Rome) to 31 March 1967, 8 regulations, 29 directives (of which 2 are Commission directives), 3 decisions, 22 recommendations and 1 opinion were adopted. Of the 29 directives 16 are based on Article 100 (of which 2 are also based on Articles 99 and 155, 2 on Article 227(2) and 6 on Article 43), 5 on Article 43, 2 on Articles 57 and 66, 2 on Article 6(2), 2 on Articles 67 and 69, 1 on Article 48 and 1 on Article 56(2).

On 31 March 1967, 2 draft conventions, 11 draft regulations, 44 proposed directives, 2 proposed decisions and 2 proposed recommendations were before the Council awaiting approval. On the same date, the Commission was dealing with 1 regulation, 107 directives, 4 recommendations and 24 approximation measures for which a legal form had not yet been decided; 9 conventions were in the stage of discussion and 1 convention in the preliminary draft stage.

The Commission intends to publish shortly a complete tabular summary of all approximation work undertaken since 1 January 1958 with an indication of the references and a tabular summary of approximation measures adopted by the Member States in implementation of the Community regulations and directives.

¹ Table 7 in the Eighth General Report gives a summary of the work undertaken between 1 January 1958 and 31 March 1965. Table 8 in the Ninth General Report covers the additional work carried out up to 31 March 1966.

² The table includes some corrections to the two previous tables.

³ Proposals for the amendment of draft directives or draft regulations are not included.

TABLE 6

Approximation of legislation

This table brings Table No. 8 of the Ninth General Report up to date and covers work begun between 1 April 1966 and 31 March 1967

Object	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	amdt. pro. reg. sub. 28 Sept. 1966
Duty-free entry of aircraft	Art. 28	form und. 1965
Building, repair, conversion and equipping of ships	Art. 28	form und. 1965
III. FREEDOM OF ESTABLISHMENT AND SERVICES		
<i>2. Access to and pursuit of economic activities</i>		
Wholesale trade in pharmaceutical products	Art. 57 (3)	Cl. dir. prep. 1965
<i>4. Banking and insurance professions</i>		
Direct insurance	Art. 57(2)	pro. Cl. dir. sub. 17 June 1966
IV. CAPITAL MOVEMENTS		
Abolition of discrimination in connection with the issuing and placing of foreign securities	Arts. 67, 69	amdt. pro. Cl. dir. sub. 8 Feb. 1967
V. COMPETITION		
<i>1. Technical obstacles to trade</i>		
Measuring instruments	Art. 100	pro. Cl. dir. sub. 14 April 1966
Medical thermometers	Art. 100	pro. Cl. dir. sub. 14 April 1966
5 to 50 kg block weights in the medium limit of error category	Art. 100	pro. Cl. dir. sub. 14 April 1966

N.B. For the abbreviations, see p. 124.

TABLE 6 (cont.)

Object	Legal basis	Legal nature of the approximation measure and state of progress
1 g to 10 kg cylindrical weights in the medium limit of error category	Art. 100	pro. Cl. dir. sub. 14 April 1966
<i>3. Pharmaceutical products</i>		
Marketing of branded pharmaceuticals	Art. 100	amdt. Cl. dir. No. 66/454 - ad. 28 July 1966
Control of branded pharmaceuticals	Art. 100	pro. amdt. Cl. dir. sub. 10 June 1966
Colouring matters in pharmaceutical products	Art. 100	pro. Cl. dir. sub. 10 June 1966
<i>8. Elimination or prevention of distortions of competition in specific cases</i>		
Italian draft law No. 792 relating to the marketing of edible oils	Art. 102	Prior ex. under Art. 102 completed - danger of distortions - letter to Italian Government drawing attention to commitments under Art. 102
17th Federal German turnover-tax amendment law relating to the increase of the countervailing charge on imports of certain goods	Arts. 101, 102	Prior ex. under Art. 102 - danger of distortions - Com. rec. law entered into force ex. under Art. 101
Decree No. 16 of 12 February 1965 of the President of the Italian Republic on the use of spirit vinegar	Art. 101	ex. under Art. 101 completed 1966 - no distortions
Law of the Region of Sardinia to promote economic and social reform in Sardinia pursuant to Art. 13 of the Constitutional Law No. 3 of 26 February 1948	Art. 102	prior ex. under Art. 102 completed 1966 - no distortion

N.B. For the abbreviations, see p. 124.

TABLE 6 (cont.)

Object	Legal basis	Legal nature of the approximation measure and state of progress
French decree No. 24873 of 12 September 1963 on producer prices for manufactures (price of sulphur)	Art. 101	ex. under Art. 101 begun 1966
Italian draft law amending the rates of countervailing charges on imports and of refunds on exports	Art. 102	prior ex. under Art. 102 completed 1966 - no distortion
German law (of 9 September 1965) for the protection of copyrights	Art. 99, 100, 155	ex. under Art. 101 begun 1966
<i>8. a) Notifications pursuant to the recommendation of 20 September 1965 concerning prior communication of certain provisions in draft form</i>		
Prior communication to the Commission of certain laws, regulations and administrative provisions in draft form	Arts. 5, 155	Com. rec. 20 Sept. 1965
German draft law on industrial appliances		notified 16 May 1966 - Commission opinion 1 March 1967
German draft law on weights and measures (calibration law)		notified 16 June 1966 - ex. started
German draft law on weighing and measuring units		notified 16 June 1966 - ex. started
Belgian draft of a Royal Decree introducing a general arrangement concerning the technical standards to be met by motor vehicles and their trailers		notified 29 Nov. 1966 - ex. started
Belgian draft of a Royal Decree laying down safety standards for screwed lampholders		notified 30 Nov. 1966 - ex. started
Belgian draft of a Royal decree laying down safety standards for cables		notified 30 Nov. 1966 - ex. started
German draft law on explosives		notified 12 Feb. 1967 - ex. started
German draft of a fifth regulation amending the regulation on fruit treatment		notified 13 Feb. 1967 - ex. started

N.B. For the abbreviations, see p. 124.

TABLE 6 (cont.)

Object	Legal basis	Legal nature of the approximation measure and state of progress
German draft law on wine, dessert wine, sparkling wine, beverages containing wine, and spirits distilled from wine (wine law)		notified 28 Feb. 1967 - ex. started
14. <i>Taxation law</i>		
Turnover taxes (introduction of TVA)	Arts. 99 100, 155	dir. ad. 9 Feb. 1967
TVA structure and implementing procedures	Arts. 99, 100, 155	dir. ad. 9 Feb. 1967
VI. SOCIAL LAW (for other measures connected with social law, see Transport)		
1. <i>Conditions of work and pay</i>		
Protection of young people at work	Arts. 117, 118, 155	Com. rec. ad. 31 Jan. 1967
2. <i>Social security</i>		
Social security for migrant workers	Art. 51	amdt. pro. reg. sub. 3 Dec. 1965 pro. reg. sub. 11 Jan. 1966
Rules for compensation for occupational diseases	Arts. 117, 118, 155	Com. rec. ad. 20 July 1966
4. <i>Industrial medicine</i>		
Health surveillance of workers exposed to special hazards	Arts. 118, 155	Com. rec. ad. 27 July 1966
5. <i>Vocational guidance</i>		
Development of vocational guidance	Arts. 118, 155	Com. rec. ad. 18 July 1966
VII. AGRICULTURE		
1. <i>Food legislation</i>		
Colouring matters	Arts. 100, 227 (2)	pro. amdt. Cl. dir. sub. 22 Nov. 1966

N. B. For the abbreviations, see p. 124.

TABLE 6 (cont.)

Object	Legal basis	Legal nature of the approximation measure and state of progress
Preserving agents	Art. 100	amdt. Cl. dir. No. 66/722 ad. 14 Dec. 1966
Purity standards for preserving agents	Art. 100	pro. amdt. Cl. dir. sub. 22 Nov. 1966
Flavouring and essences	Art. 100	Cl. dir. prep. 1967
Methods of analysing macaroni, spaghetti, and similar products	Art. 100	Cl. dir. prep. 1966
Margarine	Art. 43	Cl. dir. prep. 1966
Sampling	Art. 100	Cl. dir. prep. 1966
Institution of a Standing Committee for food		pro. dec. sub. 20 Sept. 1965
<i>2. Veterinary legislation</i>		
Health requirements for intra-Community trade in cattle and pigs	Arts. 43, 100	amdt. Cl. dir. No. 66/600 ad. 25 Oct. 1966
Health requirements for intra-Community trade in fresh meat	Arts. 43, 100	amdt. Cl. dir. No. 66/601 ad. 25 Oct. 1966
Health requirements and inspection for imports of cattle, pigs and fresh meat from non-member countries	Art. 43	pro. Cl. dir. sub. 20 Sept. 1965
Institution of a Standing Committee for veterinary questions		prop. dec. sub. 15 Sept. 1967
Transit of fresh meat, pigs and cattle	Art. 43	Cl. dir. prep. 1967
<i>3. Forestry legislation</i>		
Marketing of forestry reproductive material	Art. 43	Cl. dir. No. 66/404 ad. 14 June 1966

N. B. For the abbreviations, see p. 124.

TABLE 6 (cont.)

Object	Legal basis	Legal nature of the approximation measure and state of progress
<i>4. Legislation relating to seeds and seedlings</i>		
Marketing of beet seed	Art. 43	Cl. dir. No. 66/400 ad. 14 June 1966
Marketing of herbage seed	Art. 43	Cl. dir. No. 66/401 ad. 14 June 1966
Marketing of cereal seed	Art. 43	Cl. dir. No. 66/402 ad. 14 June 1966
Marketing of seed potatoes	Art. 43	Cl. dir. No. 66/403 ad. 14 June 1966
Institution of a Standing Committee on Agricultural, Horticultural and Forestry Seeds and Seedlings		Dec. No 66/399 ad. 14 June 1966
Marketing of vine stocks and seedlings	Art. 43	pro. Cl. dir. sub. 26 Oct. 1966
Marketing of seeds of oil-bearing and vegetable fibre plants	Art. 43	Cl. dir. prep. 1966
<i>5. Plant protection legislation</i>		
Control of wart disease of potatoes	Art. 43	pro. Cl. dir. sub. 14 Oct. 1966
Control of potato root eelworm	Art. 43	pro. Cl. dir. sub. 14 Oct. 1966
Control of San Jose scale	Art. 43	pro. Cl. dir. sub. 20 Feb. 1967
Residues of pesticides on and in food and animal feedingstuffs	Art. 100	Cl. dir. prep. 1964
Methods of analysis for the control of residues of pesticides	Art. 100	Cl. dir. prep. 1964
<i>6. Legislation concerning animal feedingstuffs</i>		
Methods of determining additives	Art. 43	Cl. dir. prep. 1965

N. B. For the abbreviations, see p. 124.

TABLE 6 (cont.)

Object	Legal basis	Legal nature of the approximation measure and state of progress
VIII. TRANSPORT		
Common rules for international passenger transport by motor coaches and buses	Art. 75	Reg. No. 117/66 ad. 28 July 1966, Reg. No. 212/66 ad. 16 Dec. 1966
Duty-free entry of fuel in the tanks of road vehicles	Art. 75	pro. Cl. dir. sub. 20 July 1966
Aids to road, rail and inland waterway transport firms	Art. 75	pro. reg. sub. 14 July 1966
Social provisions in the road transport sector	Art. 75	pro. reg. sub. 27 July 1966

Abbreviations:

ad.	= adopted on	ex.	= examination
amdt.	= amendment (to)	form und.	= work in hand since ... but legal form still undecided
Art(s).	= article(s) of the Treaty of Rome serving as legal basis	prep.	= in preparation (since)
Cl. dir.	= Council directive	pro.	= proposed
Com. dir.	= Commission directive	reg.	= regulation
Com. rec.	= Commission recommendation	sub.	= submitted on ...
dec.	= decision		

**APPROXIMATION OF LEGISLATION AND THE CREATION
OF EUROPEAN COMPETITION LAW**

Public law

90. *Technical obstacles to trade.* In compliance with the recommendation of 20 September 1965 addressed by the Commission to the Member States with regard to the prior communication to the Commission of certain legal and administrative provisions in draft form,¹ Germany referred to the Commission, in the year under review, drafts of a plant protection law, of a law on industrial appliances, of a law on weights and measures, of a wine law, of the fifth regulation amending the regulation relating to the treatment of fruit, and of a law on explosives. Belgium submitted

¹ Official gazette No. 160, 29 September 1965.

drafts of a decree on the technical standards to be met by motor vehicles and their trailers, of a decree laying down the safety standards to be met by screwed lampholders, and of a decree on safety standards to be met by flexible insulated cables made of rubber or plastic materials.

The Commission endorsed the broad principles of the German draft law on industrial appliances and the Belgian draft for a Royal Decree on motor vehicles and their trailers. The other drafts are still being examined.

The examination of these drafts confirmed the value of compliance with this recommendation by the Member States: such compliance would make it possible to forestall the danger of an increase in the disparities between the existing arrangements in the fields concerned and consequently in the obstacles to freetrade, a development which would hamper the approximation work put in hand by the Commission.

In the year under review the scope of the recommendation was defined in more detail by the elaboration of two lists dealing with the sectors concerned, and these were submitted to the Member States.

91. In this period the Commission also laid four proposed directives before the Council. One proposal, dated 31 March 1966 (last day of the period covered by the last General Report), refers to wheeled farm tractors (maximum speed, passenger seats and loading surfaces); four additional proposals of 14 April 1966 refer to measuring instruments in general, clinical maximum mercury-in-glass thermometers, 5 kg to 50 kg block weights in the medium limit of error category, and 1 g to 10 kg cylindrical weights in the medium limit of error category.

At its meeting from 31 January to 3 February 1967 the European Parliament rendered an opinion on the proposed directives concerning farm tractors, traffic indicators, the suppression of radio interference, and the braking systems of certain categories of motor vehicles.¹ The opinion on the proposals concerning measuring instruments was rendered on 16 March 1967. On 27 October 1966, the Economic and Social Committee gave its comments on the proposed directives concerning traffic indicators, the suppression of radio interference, and braking systems, and on 25 January 1967 on farm tractors and on the four proposals concerning measuring instruments.

The directives concerning motor vehicles introduce at Community level a series of technical provisions on the manufacture and assembling of motor vehicles which give manufacturers a guarantee that their products can be marketed throughout the Community unimpeded by administrative obstacles.

92. The directive on farm tractors provides for the harmonization in the Member States of certain provisions governing the approval of certain

¹ Ninth General Report, sec. 88.

accessories and characteristics of wheeled farm tractors and the authorization of tractors as such. The directive deals in particular with rules on maximum speeds, seats and loading surfaces which, in their present differing form, impair the conditions of competition and hamper the free movement of goods in the Community (Art. 100 of the Treaty). Such rules determine—*inter alia*—whether the owners of farm tractors qualify for tax or other reliefs or exemptions.

The first directive is to be followed by a directive concerning a farm tractor authorization valid throughout the Community. The harmonization procedure is the same as is now in hand for motor vehicles. The proposed directives covering this field (traffic indicators, suppression of radio interference, braking systems and car registration plates) have already been submitted to the Council. Another proposed directive concerns an authorization for certain types of motor vehicle which would also be valid throughout the Community. The aim of the work in hand is therefore not only to promote the free movement of goods and undistorted competition but also to contribute to road and industrial safety. This means that the authorization for a certain type of tractor or motor vehicle granted in compliance with the directive in one Member State is to be valid in all Member States. Manufacturers from non-member countries who are represented in a Member State will have an opportunity to apply for approval there of a particular type and will thus benefit from the mutual inter-State recognition of the control regulations for all tractors and motor vehicles built in conformity with the type authorized.

93. *The measuring instruments* are used in many different fields, for instance that of weights and measures, in sea-going tankers, as liquid meters and as appliances for measuring grain. A comparison of the existing legal provisions has shown that in all Member States measuring instruments are subject to very strict control but that the control arrangements differ from one country to another in order to make allowance for the interests of consumers or users. Imported measuring instruments are sometimes inspected at the frontier.

The fact that inspection procedures differ from Member State to Member State puts manufacturers in a difficult position as they have to adapt their products to the differing regulations in force in the individual Member States. The Commission therefore worked out a general outline directive laying down certain principles and definitions, harmonizing the different inspection methods and spelling out the legal implications at Community level of inspection. Special directives will set out the technical rules applicable to the different types of measuring instruments and will specify the relevant methods of inspection. To start with, the Commission proposed special directives for clinical maximum thermometers (glass, mercury), 5 kg to 50 kg block weights in the medium limit of error category, and 1 g to 10 kg cylindrical weights in the medium limit of error category. Proposals for directives on other measuring instruments are in preparation.

94. Approximation work has also made progress in other industrial fields, notably electrical engineering, where the problem of standardization arises. In this respect, the study conference organized by the Commission from 27 to 30 June 1966 revealed in detail what progress has been made in the work on the harmonization of technical standards in the individual countries and made available a great deal of information on the relationship between these standards and the laws and regulations in the Member States.

95. *Pharmaceutical products.* On 11 May 1966 the Commission laid before the Council an amendment to the proposed second directive on the harmonization of laws and regulations governing branded pharmaceuticals. This amendment would exclude serums, vaccines, products made from human blood and radioactive pharmaceutical products from the scope of the directives on branded pharmaceuticals. The dates for the entry into force of the directive of 16 January 1965 and of the second directive would also be changed.

In view of the advanced stage the work on the proposed second directive had reached, the Council adopted on 28 July 1966 a directive extending to 31 December 1966 the time-limit laid down in Article 22 of the directive of 26 January 1965 on the harmonization of laws and regulations governing branded pharmaceuticals.

On 10 June 1966 the Commission proposed to the Council a third directive on the harmonization of the legal provisions of Member States in the field of pharmaceutical products. This directive concerns the use of colouring matters in branded pharmaceuticals.

It had become clear that trade in branded pharmaceuticals can be hampered by differences in legal requirements not covered by the first two directives. This is, for instance, the case when a drug manufactured in one member country contains colouring matters prohibited in another. The disparities between Member States' laws on permissible colouring matters used in branded pharmaceuticals constitute a substantial barrier to trade and the Commission thinks it essential they should be harmonized.

The proposed directive follows broadly the directive on food colouring matters adopted on 23 October 1962 (as amended on 25 October 1965) and a list is given of substances which are to be the only ones allowed for the colouring of branded pharmaceuticals. The directive draws on the work of other international organizations. The Commission's main concern has been the protection of public health, though economic requirements and the views of the drug industry have been given proper consideration.

In selecting the permitted colouring matters, the Commission took into account the latest toxicological findings in order to guarantee the harmlessness of the drugs. Certain other colouring matters are to be permitted for three years; these are in current use and have not been shown to be toxic in the short term, but information on long term toxicity is still not

complete. The designations of the permitted and provisionally permitted colouring matters are given in two annexes to the proposed directive. A third annex sets out the general and specific purity standards to be adhered to in all six countries in deciding whether a colouring matter is toxic.

On 13 March 1967 the European Parliament rendered an opinion on the proposal.

96. *Postal and telecommunications services.* On 11 May 1966 the European Parliament rendered an opinion endorsing the proposed directive on the approximation of Member States' regulations concerning postal charges on postcards and on letters weighing up to 20 g.

Private law

97. *Company law.* In the year under review the draft convention governing mutual recognition of companies and legal persons,¹ which had been submitted to the Governments at the end of 1965, was discussed by the Committee of Permanent Representatives. The Committee heard a verbal report by the Chairman of the Committee of Government Experts, which had worked out the draft in collaboration with Commission departments. The Permanent Representatives decided to examine the observations of the Governments as soon as possible.

98. *European company.* On 22 April 1966 the Commission laid before the Council a memorandum on the creation of a legal type of European company. The memorandum examines the question of how it can be made possible for enterprises from different Member States to combine into larger units. At the same time it constitutes an answer to the French Government's note of 15 March 1965 containing a proposal on the subject.

As early as 1959 the Commission had already considered the idea of the creation of European companies. Its reply to question No. 47 by M. Lichtenauer reflected its special interest in such a project.² In the following years the Commission followed and promoted work at conferences and seminars. At the same time it endeavoured, by studying the views expressed by the major European organizations of trade and industry in the six member countries, to form an opinion of the economic need for such a new legal concept. Here, it emerged that businessmen in general, who as recently as in 1960 had denied that such companies were needed, had lately been much more amenable to their creation, a change of thinking reflected in a letter from the Union of Industries of the

¹ Ninth General Report, sec. 94.

² Official gazette No. 65, 19 December 1959.

European Community (UNICE) of 21 March 1966 and in a pamphlet recently published by the UNICE under the title "The European Industries and Economic and Social Integration in Europe".

The view expressed by the UNICE reflects a general attitude echoed by most European industrial associations (Bundesverband der Deutschen Industrie, Conseil National du Patronat Français, Associazione Generale delle Industrie Italiane) and by the European Trade Union Secretariat of the ICFTU.

The Commission believes that Community companies should be able to meet the increasing competition from within the Community and from outside it. They must be able to adapt to the new European market, to the conditions on world markets (which have changed in many respects), to technical developments and to the requirements of modern research. This means that many companies must increase in size—by means of internal growth, intensification of research, broader capital structure and association of all kinds with other companies. There is therefore a strong case for amalgamations which increase productivity without impairing workable competition. They improve the competitive position and consequently the staying power of the amalgamated enterprises and make it possible to improve the living and working conditions of workers.

While companies within the several Member States are free to combine under the appropriate national rules, amalgamations between companies from different Member States and transfers of company headquarters from one country to another have so far been impossible for reasons of company and tax law. Other forms of association between companies, such as, for example, the establishment of joint subsidiaries, are hampered or rendered uneconomic by the same obstacles. The Commission looked into the possibilities for the removal of these obstacles. It agrees with the French Government that, in addition to the types of companies already existing in the Member States, a new legal framework for companies should be created: the European company.

The French Government's note discusses the feasibility of introducing "uniform laws" into the legislation of each of the member countries by means of a convention between them. The Geneva Conventions of 1930 and 1931 unifying law on the use of bills of exchange and notes and of cheques are an example. Such national laws would make available to industry the uniform legal type of company, the European company. This would not only mean that there would be some degree of uniformity of law, facilitating trade between the Member States, but would also offer new opportunities for establishing and controlling subsidiary companies in other Member States. By providing for the uniform and effectively developed protection of shareholders and creditors in all EEC countries, this legal form would also offer an incentive to investment from and in other EEC countries.

The introduction of uniform laws into the legislation of the Member States would, however, not solve the major problem of industry, which is the

unimpeded transfer of headquarters to another Member State and the unhampered merger of enterprises from different Member States. The validity of each of these laws would of course be confined to the respective territories of each State, so that problems such as the transfer of headquarters from one country to another and international mergers could not be solved by uniform national laws. The international questions arising would still have to be settled by negotiations at European level as provided for in Article 220.

Moreover, it would still not be possible to obviate the "alimentation", the change of the "nationality" of a company, resulting from the transition from one legal system to another, even after the legal systems had been aligned. This is the decisive obstacle preventing the formation of European enterprises by the merger of companies from different Member States, and the free movement of enterprises in the Common Market.

For these reasons the Commission in its memorandum examined the possibility of going a step further than the solution suggested by the French Government and of drawing up, by way of an agreement between the Member States, rules for a type of company which would not be subject to the individual national laws and would not be those of one particular State. The legal form of a company under European law would be the best response to the trend towards the establishment of European firms. These companies would have equal access to the factors of production in all Member States and would be particularly well placed to meet the requirements of the Common Market, of international competition and of economic, social and technical progress. Mutually compatible solutions to a series of problems in the field of company, tax, finance and social law would have to be found, however, before a Community company of this type could be instituted. In its memorandum the Commission therefore arrived at the conclusion that the final choice could only be made once the studies at present under way had been concluded.

In autumn 1966 the Council set up an *ad hoc* working party under the chairmanship of Professor Pieter Sanders, manned by government and Commission experts, to examine the case for creating a European type of company, and to study the questions posed by the creation of such a type of company. The working party was to report by May 1967.

It is easier to assess the value of the creation of a European type of company if it is known what conditions would have to be met for the establishment of such companies and what would have to be the rules governing them. In December 1965 the Commission therefore asked a panel of independent experts to examine the questions of principle raised by the creation of the new legal form and to prepare a draft Statute for a European incorporated company. Professor Sanders, Chairman also of this group, worked out the Statute, with a preamble, and submitted them to the Commission at the end of 1966. He carried out this task in close collaboration with Dr Ernest Arendt, barrister at the Court of Appeal in Luxembourg and chargé de cours in the Faculty of Law of the University

of Nancy, Professor Ernst von Caemmerer of the Faculty of Law and Political Science of the University of Freiburg (Germany), Professor Léon Dabin of the Faculty of Law of the University of Liège, Professor Gabriel Marty, Dean of the Faculty of Law and Economics at the University of Toulouse, and Professor Gustavo Minervini, Professor of Commercial Law in the Faculty of Economics and Commerce at the University of Naples.

A detailed introduction deals with the numerous and difficult questions of principle raised by the creation of European joint stock companies, such as scope, conditions of company formation, jurisdiction, subsidiary law, representation of workers on company boards, taxation, and the nature of the new law to be created. Some of these questions are discussed in detail in the explanatory memorandum dealing with the various sections of the draft Statute, which comprises about 200 articles.

The Commission submitted Professor Sanders' draft to the Council, where, with the French Government's note and the Commission memorandum, it served as a working document for the *ad hoc* Committee.

*Law governing the relations between State and industry:
individual cases of provisions distorting competition*

99. In the year under review examinations pursuant to Article 102 were completed in four cases and pursuant to Article 101 in one case. In two additional cases examinations were started under Article 101. Since 1958 a total of 25 cases have been formally examined.¹ The procedure under Article 102 is being or will be used in three of these cases and the procedure under Article 101 in three other cases. In another 25 cases summary preliminary examinations have been made; these cases, which are not believed to be causing distortions, are not mentioned in the tables.

The cases dealt with in the year under review and deserving special mention² include an Italian draft law amending the rates of countervailing charges on imports and of refunds on exports. The draft was examined in detail; no danger of distortion was discerned.

An examination was also made of the draft of the 17th German turnover tax amendment law which increases the rates of the countervailing charge on imports of certain products. As there was the danger of distortion of competition within the meaning of Article 101, the Commission, after consulting the Member States, addressed a recommendation to Germany pursuant to the second sentence of Article 102(1) on 20 December 1966.

Germany was requested to take appropriate measures to ensure that the law did not enter into force as it stood and to re-examine the draft law in order to ensure that any increase in the countervailing charge on certain

¹ Eighth General Report, Table 7, V (8); Ninth General Report, Table 8, V (8); Table 6, V (8).

² For the remaining cases, see Table 6, V (8).

products was limited in such a way that the degree of exploitation of the maximum equalization permissible under Articles 95 and 97 of the Treaty does not exceed a certain percentage. Nevertheless the draft law was adopted on 23 December 1966, and the law entered into force on 1 January 1967. On 1 March 1967 the Commission therefore found, pursuant to Article 101(1), that the German law impairs the conditions of competition in the Common Market in respect of various products and thereby causes distortions which must be eliminated. The Commission entered into the consultations with the Member States provided for in Article 101(1).

In December 1966 the general problem of the selective manipulation of the rates of certain countervailing charges on imports or of drawback on exports practised or envisaged by various Member States was discussed in the Council on the Commission's initiative.

In the field of price legislation, an examination of French sulphur price arrangements was begun.

Interpenetration of markets

DEVELOPMENT OF INTRA-COMMUNITY TRADE IN 1966

100. Like the gross Community product, the expansion of intra-Community trade in 1966 showed little change compared with 1965. Over the full year, its growth rate as shown by customs returns for imports was 12 % in value and 10 % by volume, compared with 13 % in value and 12 % by volume from 1964 to 1965. This still fairly strong rate of growth is however largely due to the very high level reached at the end of 1965 and the beginning of 1966 and in fact masks a considerable slowing-down in growth in the later part of the year. After a fairly lively expansion in the first quarter of 1966, which was perhaps partly due to the added stimulus of the new cut in intra-Community customs duties made on 1 January, the trend of trade between member countries, like the trend of the gross domestic product, was less brisk.

This slow-down does not reflect a less favourable movement of trade between all Community countries, but is essentially the result of a slacker growth of economic activity in certain member countries, particularly Germany, where the demand for consumer goods has fallen off considerably and where even the demand for capital goods has tended to flag. Thus the lively expansion of buying in this country, which in 1965 had been a major factor to the strong growth of trade between the member countries, gave way at the beginning of 1966 to a fairly marked recession which continued until the autumn. Although the downward trend stopped at the end of the year, German purchases, the value of which had increased by 31 % in 1965, rose by only 4 % in 1966. During the year, the short-term growth of B.L.E.U. imports was also slower, reflecting the level of

economic activity. Moreover in the Netherlands a certain slow-down was observed from the autumn onwards, no doubt owing to the economic situation. Although the expansion of demand from France and Italy continued at a rapid rate throughout the year, as shown by the annual growth rate of imports into these countries, which were respectively 18 % and 21.5 % up on 1965, its very rapid rise was not enough to compensate entirely for the negative influence exerted on intra-Community trade as a whole by the trend of imports in the other member countries.

The short-term changes within the Community analysed above from the aspect of demand were also reflected in the movement of exports in the member countries. The lively expansion of purchases by France and Italy made an important contribution to the development of sales from Germany, the growth rate of which was 16 % in value, compared with 6.5 % in the previous year. On the other hand, deliveries from other member countries were distinctly damped by the sharp fall-off in demand from Germany. Hence, although they still reached a high annual growth rate, sales by France and Italy showed a distinct tendency to slow down from the spring onwards, despite the lively advance of bilateral trade between the two countries. Similarly, the reduction in German imports influenced the trend of Netherlands exports, the moderate expansion of which was also affected by certain exceptional factors and by the relative slackness of trade within Benelux.

As in previous years, intra-Community trade continued to play an important part in the economic development of the member countries, as a factor both of expansion and of stability. As a factor of expansion, trade between the member countries had in particular an important effect in Germany, where it gave considerable support to the economy. As a factor of stability, trade helped to keep prices steady in France, Italy and the Netherlands for a large part of the year. The rapid rise of imports into these countries from other member countries contributed not only to increasing total supply but also to strengthening competition in domestic markets, thus enabling inflationary strains to be attenuated or even prevented.

With regard to the balance of trade of each member country with its partners, the marked deterioration in the German balance observed since the beginning of 1964, which even resulted in a high deficit in 1965, gave way in 1966 to a very appreciable improvement, of the order of 730 million u.a. On the contrary, in France and Italy the rapid expansion of imports and the more moderate development of exports resulted in a distinct deterioration of their trade balances. This trend was however moderate in Italy because of the still lively progress of its sales, notably to France. For 1966 as a whole, the Italian balance of trade still showed a comfortable surplus. In the Benelux countries also, the balance of trade showed a fairly marked deterioration. While B.L.E.U. trade continued to show an appreciable surplus, the deficit in the Netherlands was almost 600 million u.a., the largest since 1958.

All in all, intra-Community trade, with a value of some 22 700 million u.a., has expanded less than in previous years, notably because of the braking effect of the economic situation in Germany. Although its growth rate has been the lowest recorded since 1958, it has still been higher than that of trade with non-member countries. Thus Community imports from these countries have been influenced since the spring by the slackening of economic activity in certain Member States and by slower stock replenishment; their value increased by only 7.5 % over the previous year. Similarly, the progress of exports from the Community to non-member countries slowed down distinctly, notably because of the quiet trend of demand from a number of those industrialized countries with which the Community trades most. The growth-rate by value of Community exports to all non-member countries was 8.5 % in 1966, compared with 12 % in 1965.

Despite a less vigorous growth in intra-Community trade by major commodity groups, the annual growth rates for both raw materials and industrial products were in 1966 almost exactly the same as those observed for the average of the previous year because of the high levels reached at the end of 1965. On the other hand, the relatively good results of the 1965 harvests, notably in cereals, had some effect in 1966 on trade in foodstuffs, which advanced more slowly than in the previous year, at least until the autumn. Trade in energy products showed a considerable increase after the decline in the previous year.

Intra-Community trade in foodstuffs increased at a slower rate: in the first nine months of the year, their year-to-year growth rate in terms of value was 10.5 % as against 21 % in the same period of 1965. In particular the progress of trade in cereals slowed down very considerably in the first six months of 1966, mainly because of the good harvests of the previous year, which reduced the demand from France, Germany and Italy. Similarly, trade in fruit and vegetables, which had been stimulated the previous year by local shortages, made slower progress this year. The same trend was observed for meat because of greater self-sufficiency in the various countries owing mainly to the rapid increase of domestic production. On the other hand, trade in milk products continued to expand very rapidly, while heavier demand from all the member countries led to a substantial increase in trade in beverages.

Despite a less favourable business situation in the basic industries of some member countries, trade in raw materials expanded appreciably in 1966; in the first nine months of the year it increased by 14.5 %, compared with 11 % in the corresponding period in 1965. This fairly lively expansion was largely due to the more dynamic trend of production in the textile industry, which increased by some 10 %. Trade in textile fibres, which had dropped 12 % between 1964 and 1965, increased by 33 % in 1966. Similarly, trade in raw materials and animal or vegetable oils and fats progressed considerably in 1965-66. Moreover, the more rapid development of production in the leather industry and the very rapid rise in leather

prices brought about a very large increase in the value of trade in raw hides and skins. On the other hand, because of the relatively weak state of iron and steel production throughout the Community and also because of a tendency to make less use of ore mined in member countries, trade in iron ore showed a sharp decrease compared with the previous year. Trade in wood and cork showed little increase in 1966, mainly because of the slacker trend of demand in the building sector.

Trade in semi-finished products was a little more dynamic than in the previous year. The intensification of competition within the Community and the revival of demand in France and Italy were reflected in an appreciable increase of trade in steel products—10 % in value, despite the low level of purchases in Germany. Similarly, trade in intermediate textile products expanded at a fairly rapid rate. Trade in copper continued to show a lively growth in value despite a tendency towards stabilization in the price of this product; in particular, purchases by France increased very substantially.

After the fall-off observed in 1965, trade in energy products recovered in 1966. In the first nine months of the year, their growth rate by value reached almost 8 % compared with the same period the previous year. This trend results primarily from the fact that trade in petroleum products increased greatly during the year, demand having been keen in all the member countries, particularly in France. On the other hand, the unfavourable trend of coal production and the continuing tendency for consumption to fall were again reflected in a further decline of trade in coal products.

Trade in chemical products continued to show lively progress owing to the continuing rapid expansion of demand; during the first nine months its growth rate in value was 19 % more than in the same period of 1965, as against 18 % in 1964-65. As in previous years, the most rapid development was in plastics; purchases by Italy and even more by France increased at a very rapid rate. Similarly, trade in organic chemicals showed a remarkable upswing. Only trade in artificial fertilizers failed to increase during the year.

The accelerated expansion of investment in plant and equipment by France and Italy appears to a great extent to have offset the effects of the downward trend in the investment situation in Germany on trade in capital goods. Trade in non-electrical machinery showed a further increase of 23 % in value in the first nine months. In particular, despite an unfavourable situation in the mechanical engineering and metal manufacturing industries, trade in power generating and metalworking machinery, which had fallen off considerably the previous year, made good progress in 1966. On the other hand, trade in electrical machinery and apparatus increased only slightly; trends within this group of products were moreover very diversified. Although trade in electricity generators made good progress, there was a significant fall-off in trade in telecommunications equipment.

The rather better mean annual growth of consumer spending in most of the member countries was also reflected in a slightly accelerated development of trade in finished consumer products. The clothing trade, which was favourably influenced by a better situation in the textile sector, and trade in footwear made good progress; their growth rate in the first nine months was approximately 35 % more in value than in the same period in 1965. Similarly, trade in domestic electrical appliances increased considerably, in the main as a result of a significant increase in demand in Germany and Italy. However the chief contribution to the upswing of trade in consumer products was provided by the acceleration of trade in motor vehicles between the member countries, which increased 22 % in value, as against 15 % the previous year. In particular, purchases in Germany, at least in the first half of the year in France, and to a lesser extent in Italy throughout 1966, made good progress.

TABLE 7

Growth rate of trade between member countries from 1965 to 1966¹

Exporting country \ Importing country	(in %)					
	Germany	France	Italy	Netherlands	B.L.E.U.	EEC
Germany	—	+ 14	+ 14.5	+ 7.5	+ 12.5	+ 12
France	+ 14	—	+ 23.5	+ 9	+ 15	+ 15.5
Italy	+ 11.5	+ 27	—	+ 9	+ 11	+ 15.5
Netherlands	+ 4.5	+ 10.5	+ 12	—	+ 8	+ 7
B.L.E.U.	+ 9.5	+ 16.5	+ 15.5	+ 5	—	+ 10.5
EEC	+ 10	+ 16.5	+ 16.5	+ 7	+ 12	+ 12

¹ Computed on the basis of average import and export figures in the member countries.

THE COMMON MARKET AND THE CONSUMER

101. The Commission continued its study of the repercussions of the Common Market on the consumer. Research was first carried out, as in previous years, on the trend of trade for approximately 300 consumer products. Consultations were held with government experts and trade

TABLE 8

Trade between member countries by commodity group¹

	1959	1960	1961	1962	1963	1964	1965	1966	Change 1966 on 1965 ²	%
	in million u.s.									
Food, beverages and tobacco	753.6	942.4	1 030.1	1 194	1 355	1 558	1 883	2 082	+ 10.6	
Fuels	547.0	616.1	603.3	642	717	741	689	743	+ 7.8	
Raw materials	550.0	733.9	767.7	832	865	1 002	1 110	1 272	+ 14.6	
Chemicals	417.4	548.5	622.2	697	824	1 008	1 186	1 407	+ 18.6	
Machinery and transport equipment		1 640	2 181	2 682	3 185	3 643	3 835	4 503	+ 17.4 ³	
Miscellaneous manufactures	2 110.3	2 895.6	3 283.9	3 621	4 191	5 088	5 637	6 635	+ 17.7 ³	

Source: SOFC: Foreign Trade; Monthly Statistics.

¹ On the basis of import statistics, commodity groups are based on SITC sections.

² First nine months of the year only.

³ The share of SITC section 9 (miscellaneous transactions and commodities n.e.s.) in-trade between the EEC member countries fell from 2.8% in 1965 to 1.2% in 1966. This change had repercussions on the other commodity groups, in particular group 7 (machinery and transport equipment) and groups 6 and 8 (miscellaneous manufactures), the growth rates of which have as a result increased somewhat.

and consumer representatives with the object of analysing and interpreting the trends observed in trade between member countries.

The research institute which had been commissioned to make a study of the effects of the Common Market in the clothing sector in 1965, whose first results were included in the Ninth General Report,¹ completed its work. The additional data collected by the institute are given below. A similar survey relating to domestic electric appliances was entrusted to another research institute; the results will appear in the next General Report.

Finally, in collaboration with the national institutes of statistics, the SOEC has considerably extended the survey of prices in a number of large commercial enterprises. Information is already becoming available on price levels in the various member countries for a large number of articles of everyday consumption. Work continues on this subject and will make it possible to see whether price differences between member countries are widening or narrowing.

Trade in private consumer goods between 1964 and 1965

102. In 1965 the total value of products for private consumption imported by the six Community countries was 9 800 million u.a. (com-

TABLE 9
Imports of products for private consumption

(in million u.a.)

Origin	France	B.L.E.U.	Netherlands ¹	Germany	Italy	EEC
EEC	963	833	1 100	2 165	485	5 546
Overseas associates	362 ²	2	9	17	51	440
Other	822	315	420	1 650	649	3 856
Total	2 147	1 150	1 528	3 832	1 185	9 842

Source: SOEC Foreign Trade; Analytical Tables, imports 1965.

¹ Excluding imports of unspecified origin.

² Mainly food products.

¹ See Sec. 112.

pared with 8 500 million in 1964). Imports of Community origin made up 56 % of this total, as against 54 % in 1964; imports from the associated African countries and Madagascar accounted for a little more than 4 % and those from non-member countries for rather more than 40 % (in both cases a fractional decrease).

The share of intra-Community imports in all imports still varied considerably from country to country. In 1965 the figure was 72 % for B.L.E.U. and the Netherlands, 56 % for Germany, 45 % for France and only 41 % for Italy. In the Netherlands, it increased 5 % on 1964, in Germany 2 % and in the remaining countries only 1 %.

In 1965 the member countries' total imports of goods for private consumption increased 16 %; this rate of increase was slightly faster than in the previous year (12 %) and the same as from 1962 to 1963. Intra-Community imports continued to rise sharply (21 % compared with 16 % the year before), while imports from outside the Community grew at the same rate as in the previous year (9 %), well below the growth rate achieved in 1963 (21 %). Imports from the associated African countries, which amount to less than 10 % of intra-Community trade, also increased appreciably (14 % in 1965, against a fall of 1 % in 1964).

Both in total imports and in intra-Community trade, the highest increase in imports was recorded in Germany (29 and 34 % against 11 and 14 % in 1964), while in France, where the growth of imports had been 16 and 20 % in 1964, it reached only 5 and 7 % in 1965. A pronounced recovery was observed in Italy where imports increased by 7 and 8 % in 1965 (whereas in 1964 they had dropped 10 and 7 % on 1963). B.L.E.U. and Netherlands imports were on the increase with 17 and 12 % for the total and 20 % for intra-Community imports in 1965 (against 24 and 25 % for the total and 25 and 23 % for intra-Community imports in 1964).

The appreciable divergences in growth rates from country to country are attributable to the differing economic trends in the various countries.

During the year the supply of Community products to consumers improved without any reduction in purchases from the rest of the world.

For the Community as a whole, the share of goods of Community origin in the supply for private consumption increased from 2.4 % to 3.9 % between 1960 and 1965. This increase is the result of a steady development from one year to the next; an increase in the share of intra-Community imports in private consumption is occurring in each of the Member States although the rate of increase varies from one to another.

During the same period the share of imports from non-member countries in private consumption also increased, although less appreciably; in the Community as a whole, the increases occurring in Germany, the Netherlands and B.L.E.U., while in France there was a reduction and in Italy the position was static.

TABLE 10

Goods imported for private consumption by area of origin

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	385	— 1	3 529	+ 9	8 488	+ 12
1965	5 546	+ 21	440	+ 14	3 856	+ 9	9 842	+ 16

Source: SOEC Foreign Trade: Analytical Tables, imports 1965.

¹ Excluding imports of unspecified origin.

Of some 300 commodities studied, the number for which an increase in intra-Community trade of a minimum mean annual value of 500 000 u.a. has been recorded since 1960 varies between 34 for Italy and 103 for Germany, the other countries occupying an intermediate position with approximately 75 commodities; 90 % of the growth of intra-Community imports is attributable to these last.

Between 1960 and 1964 intra-Community trade showed a more rapid increase in imports of manufactured goods than in imports of farm products. In 1965, this trend was reversed. For the first time imports of farm products increased more rapidly than imports of manufactured goods, a fact which may be attributed to poor harvests and to a relative slowing-down of imports of manufactured goods in all the countries except Germany. This reversal of trend is to be observed in all the member countries except Germany, where industrial and agricultural imports progressed at a similar rate.

TABLE 11

Goods imported for private consumption as share of all goods consumed

(in %)

Year	France	B.L.E.U.	Nether-lands	Germany	Italy	EEC
	Imported from EEC					
1960	1.0	6.9	7.7	2.9	1.1	2.4
1961	1.1	7.2	8.7	3.1	1.0	2.6
1962	1.5	7.1	9.8	3.5	1.3	3.0
1963	1.8	7.5	10.5	3.4	1.9	3.2
1964	2.0	8.9	11.7	3.7	1.6	3.5
1965	2.1	9.6	12.3	4.5	1.6	3.9
	Imported from the rest of the world					
1960	2.8 (1)	3.2	3.8	2.9	2.3	2.8
1961	2.6	3.2	3.5	3.0	1.9	2.7
1962	2.8	3.0	3.9	3.2	2.1	2.9
1963	2.5	3.2	4.9	3.1	2.9	2.9
1964	2.6	3.7	5.7	3.1	2.4	3.0
1965	2.5	3.7	5.3	3.5	2.4	3.1

Source: For statistics on private consumption: SOEC General Statistical Bulletin. For foreign trade statistics: SOEC, Foreign Trade: Analytical Tables.

¹ Imports from overseas associated countries and AASM account for the following percentages of total private consumption.

1960 : 1.5; 1961 : 1.3; 1962 : 1.3; 1963 : 0.8; 1964 : 0.8; 1965 : 0.2.

Note: Private consumption is reckoned at retail prices, imports at prices before payment of customs duty. The ratios would be higher if both quantities were measured at retail prices. In principle the comparison concerns goods only, services being excluded.

TABLE 12

*Expansion of farm products and expansion of manufactures
in intra-Community imports*

Year	Farm products	Manufactures
1961/60	+ 8	+ 24
1962/61	+ 20	+ 30
1963/62	+ 9	+ 25
1964/63	+ 10	+ 19
1965/64	+ 28	+ 18

*The repercussions of the Common Market on different
commodity groups.*

103. By consulting government experts and representatives of trade and consumer groups additional information has been collected on the effects which the Common Market has had on certain common consumer products in the food, textile, domestic appliance and miscellaneous sectors and more particularly on the prices of some of these products. Information on clothing is chiefly based on the additional information supplied by the research institute which made a special study of the effects of the Common Market in this sector.

Foodstuffs. In the case of many foodstuffs the institution of common market organizations, and in particular the fixing of common prices, is of too recent date to have any real effect on prices as yet; this is the case for instance for milk products, beef and veal, rice and sugar.

For other foodstuffs, for which common market organizations have existed since 1962 or which are not subject to the common agricultural policy, the liberalization of trade has had certain effects for consumers.

The institution of a market organization has stimulated poultrymeat production in the Community. This increase in production, one factor of which is an improvement in methods, has driven prices down, so that poultrymeat appears to some extent to be replacing other more expensive meats such as beef, veal and pigmeat.

In the pigmeat sector, liberalization of intra-Community trade has helped to regularize the markets. The sharp increase in purchases from other countries, particularly the Netherlands, has done much to limit the rise in prices resulting from shortage of domestic production in recent years in France.

Fruit and vegetables: the organization of markets has facilitated intra-Community trade and improved the transparency of the market, thanks to the institution of uniform quality standards applied both to imports and to home products. It has also enabled consumers to buy products of guaranteed quality. In addition, for certain products such as grapes, the opening of frontiers has brought about the introduction in certain markets (for instance in Belgium) of products comparable in quality with and considerably cheaper than the home product.

Lower tariffs and the resulting intensification of trade have stimulated competition in the biscuit and confectionery sector in various member countries, notably Germany and France. The large-scale penetration into these markets of Benelux and Italian products, together with the streamlining of production (for instance by mergers), has stabilized the prices of these products despite a general upward price trend.

Finally, the prices of certain beverages imported into some member countries have been falling for several years. This is so in Germany and the Netherlands, where falls in prices have been observed, notably as regards ordinary table wine. Prices have also fallen in Germany, particularly in the frontier areas, for Belgian beers.

Though generally speaking consumer prices for foodstuffs have tended to increase in recent years, it should be noted that this trend is due to a variety of factors. Undoubtedly the institution of the common agricultural policy has a certain influence on consumer prices,¹ but climatic conditions (drought, cold) and epidemics often affect the trend of agricultural prices even more. Moreover, the prices paid by consumers also depend on processing, transport and marketing costs, the effects of which on consumer prices are becoming more and more significant, as was pointed out in the Parliament when agricultural prices were debated.

The relative influence on price levels of the various cost factors from production to the retail stage is very difficult to discern, and not enough reliable information is available to allow the part played by each in the trend of food prices to be determined with any accuracy.

104. *Clothing and textiles.* Additional information supplied principally by the private research institute or collected from many specialists in the sector has confirmed the influence of the opening of frontiers on competition between the producers of different member countries, who have

¹ Ninth General Report, sec. 172.

largely specialized in the products for which they are best equipped. In Germany the industry is turning more towards the production of high-quality men's ready-made clothing and also women's clothes, while French manufacturers seem to specialize mainly in the production of women's outer garments and high-quality knitwear. The Italian industry is geared more to the production of knitwear and especially standard quality products. It is notable that, apart from finished products, this specialization can also be found at earlier stages of manufacture (yarns and fabrics) where it results in longer production runs.

In an increasingly competitive climate, specialization at production level has led to lower prices at different stages of the manufacturing and marketing process. In particular the systematic exploration of supply sources has enabled the distributive trades to exert pressure on prices and to pass on to consumers a larger share of the advantages of specialization.

According to the research institute, however, it would seem that some of the benefits of specialization have been absorbed by the distribution machinery. The resulting increase in gross trading profits (the difference between turnover and costs) has on the one hand allowed the trade investments necessitated by an expansion of the scope of market prospecting and establishment to be made, and on the other hand has enabled net profits to be maintained despite the increase in operating costs.

While the effects of the Common Market are quite evident, particularly in production and trade, the fact remains that expansion is still held up by certain obstacles—administrative and fiscal regulations—and by differences in standards and labelling.

In the matter of regulations, the complexity of administrative formalities and the time they take often hinder the full development of trade in a sector where fashion plays an important part. It is in connection with matching, complaints and the sending of samples that these difficulties are most apparent. Moreover, in many cases, the present lack of harmonization of indirect taxation, which means that the taxes paid vary considerably from country to country, prevents the benefits of the opening of markets from being felt.

Finally, differences between member countries in certain standards (sizes of ready-made clothing, for instance) and labelling, particularly indication of the materials used in the finished articles, have also been an impediment to trade between the member countries.

Footwear: imports from France and even more from Italy have exerted great pressure on the Benelux and German markets. German purchases from the other Common Market countries increased between 1960 and 1965 from 29 to 83 million u.a., while Belgian and Netherlands purchases increased from 11 to 27 and from 7 to 23 million u.a. The pressure of imports have often prevented home producers from passing on higher production costs in their selling prices.

Finally, there has been heavy pressure on prices in Germany for soft furnishings such as carpets and curtains, mainly because Belgian producers have entered the market.

105. *Domestic appliances and miscellaneous products.* The intense competition of the last few years on the home markets of the member countries continues to affect the prices of these products.

In refrigerators and washing-machines there has been a strong Italian attack on the markets of the other member countries. Italy has become the main exporter of these products to the other Community countries and has considerably increased its intra-Community exports—from 9 million u.a. in 1960 to 78 million u.a. in 1965, when they amounted to 56 % of intra-Community imports (against 26 % in 1960).

Italian competition has undoubtedly contributed to the concentration, specialization and rationalization which has transformed the production machinery of some Member States. These changes and the intensification of competition have been reflected in a considerable lowering of prices, which for refrigerators is said to be in some cases of the order of 50 % since 1960.

The prices of certain other products, such as furniture, radio and television sets and household glassware, are showing a tendency to fall or are relatively stable in most member countries. In the case of furniture, however, this is true only of the frontier areas of certain countries, notably France.

Finally, for certain products as diverse as cigarettes, jewellery and plastic articles, the opening of the markets has had repercussions either on consumer choice or on prices. Cigarettes imported from other countries today represent 1.8 % of French consumption and 5 % of Italian consumption (against 0.3 % and 0.5 % respectively in 1960). Moreover, falls in prices have been observed in all the countries for plastic articles and in Germany for Italian jewellery; these reductions appear to be attributable at least partly to the opening of markets within the Community.

PRICES OF CERTAIN COMMON CONSUMER PRODUCTS

106. The survey made in October 1966 by the Statistical Office of the European Communities provides a certain amount of information on price differences between the countries for some 200 common consumer products. For a number of reasons some caution is needed in interpreting the results of this work. It is in fact a first survey which will no doubt require some adjustments in the choice and specification of products and in the methods followed. Moreover, it should be noted that the products were chosen for their comparability in the different countries. The figures given do not therefore allow a general assessment to be made of retail

prices or of the cost of living in the member countries, mainly because there is no weighting and the products selected from the range of retail goods and from the housewife's shopping basket are not representative and because only a small number of firms were covered by the survey.

Accordingly, the information collected first of all reveals very appreciable differences from country to country in the prices of products selected. In each country a number of prices are recorded, the levels of which are either the lowest or the highest in the Community.

Dutch prices are often lower than those of other member countries for foodstuffs (in 28 % of cases the Netherlands has the lowest prices), textiles and clothing (63 % of cases), cleaning products and toilet preparations (53 % of cases) and domestic goods (47 % of cases). It should be noted that food prices in France are also lower in a relatively large number of cases than those of other countries.

The same applies to Germany for domestic appliances, radio and television sets, the stationery, books and toys group and for motor cars and petrol. For these groups, German prices are in the majority of cases the lowest in the Community (80 % for radio and television sets, 67 % for motor cars and petrol, 54 % for stationery, etc., 50 % for domestic appliances). Further details are given in the table below.

Price differences from one member country to another are generally large. On average, the difference between the highest and the lowest prices is 57 %.¹

By group of articles, the largest average price differences are for cleaning articles and toilet preparations (66 %), domestic appliances (65 %), stationery and books (64 %), foodstuffs (61 %), radio and television sets (61 %), and motor cars and petrol (58 %).

On the other hand, price differences are not so large for textiles (48 %), household goods (45 %) and photographic apparatus and supplies (36 %).

Since these figures have been available only for a short time, it has not yet been possible to interpret them. The explanation of the differences observed requires a detailed study in view of the complexity of the factors involved in price formation.

The prices of the various products are in fact determined not only by industrial and commercial structures but also by taxes, wages, financial charges, etc., which may differ appreciably according to country and product.

¹ The mean price difference is obtained by calculating for each article the actual difference between the lowest and the highest prices (as a percentage of the lowest price) and by taking the simple arithmetical average of the differences.

These first pointers need therefore to be amplified and supplemented by further surveys. The latter should in particular reveal whether price trends will tend to converge in the different Member States. The Commission will have a special interest in watching the way prices develop, as the measures to be introduced in the near future (abolition of customs barriers, implementation of common policies and harmonization of fiscal legislation) can in principle be expected to have significant repercussions on prices in the different member countries.

TABLE 13

Price differences by group of products in the EEC countries

Product group	Total number of articles per group	France	Belgium	Netherlands	Germany	Italy	Luxembourg
Number of articles with highest Community prices (% of total number of products per group) by country ¹							
Food	64	8	14	9	15	45	9
Textiles	16	50	25	0	6	13	6
Household goods	17	33	28	6	6	17	11
Domestic appliances	40	50	12	10	7	17	5
Radio, T.V.	25	50	19	8	12	8	4
Toilet preparations	14	20	13	0	27	33	7
Stationery, books, toys	12	43	7	14	21	0	14
Photographic apparatus and supplies	8	10	0	20	0	10	60
Motor cars and petrol	6	43	0	43	0	14	0
Number of articles with lowest Community prices (% of total number of products per group) by country ¹							
Food	64	21	12	28	12	12	16
Textiles	16	13	0	63	6	19	0
Household goods	17	12	6	47	6	24	6
Domestic appliances	40	0	11	2	50	27	9
Radio, T.V.	25	0	4	12	80	4	0
Toilet preparations	14	7	7	53	20	7	7
Stationery, books, toys	12	23	0	15	54	8	0
Photographic apparatus and supplies	8	38	38	13	13	0	0
Motor car and petrol	6	0	0	17	67	0	17

¹ For certain products the lowest or highest prices have been recorded in more than one country.

CHAPTER III

TOWARDS A COMMON POLICY

Economic and financial policy

SHORT-TERM ECONOMIC POLICY

The economic situation in the Community in 1966 and the outlook for 1967

107. For convenience sake the Commission omits here, as in previous General Reports, any extensive analysis of the economic situation in the Community in 1966 or of prospects for 1967. These matters have been subjected to detailed review throughout the year in the Quarterly Surveys ("The Economic Situation in the Community") and in the other Commission publications ("Graphs and Notes on the Economic Situation in the Community", "Results of the business survey carried out among heads of enterprises in the Community"). Developments in 1966 as a whole were analysed in Quarterly Survey No. 4/1966, which also states the views of the Commission on the main assumptions for 1967. Moreover, it should be noted that on 2 February 1967 M. Marjolin, Vice-President of the Commission, addressed the European Parliament on economic trends in the Community countries in 1966 and on the outlook for the current year. He also discussed the main policy problems arising in the various member countries.

Hence, only a short analysis of trends in 1966, as related to the objectives of the Treaty of Rome, is given here.

108. For the Community taken as a whole, growth was undeniably satisfactory in 1966. Gross Community product rose by about 4 % in real terms, as in 1965. The picture is, however, less favourable when one considers the situation in each of the member countries and trends in the course of the year.

While growth remained fairly rapid in France and in Italy (the French GNP at constant prices having increased by 5 % and the Italian by 5.5 %, compared with 3.5 % in 1965 in both countries), it distinctly slowed down in Germany, where the volume increase in GNP slipped back from 4.8 % to 2.7 %. This affected the economy of the Benelux countries, in which domestic business had already seemed to be flagging. The growth rate of the GNP fell from 5.4 % to 4.5 % in the Netherlands and from 3.3 % to just under 3 % in Belgium. It remained low in Luxembourg, at roughly 2 %.

The disparities in domestic trends in the member countries—which became more marked in the second half of the year—show that the tendency for growth rates to draw closer together in 1965 did not continue in 1966, despite a further expansion of intra-Community trade.¹ None the less, this trade played an important role both in expansion and in the promotion of equilibrium.

109. There were definite improvements in the general standard of living. While the population of the Community increased by 0.9 %, private consumer expenditure per inhabitant rose by about 3.5 % in volume, compared with 3 % in 1965. But this expenditure did not rise to the same extent in all the member countries: its expansion was appreciable in Italy and in France (4.5 % and 4 %), but in the other countries it ranged between roughly 2 and 3 %. In Germany, progress here was appreciably slower than in 1965.

110. The slowdown of economic growth in certain member countries, notably those in which there had previously been acute labour shortages, affected the general situation on the labour market, although its impact did not become obvious until late in the year.

In the Netherlands and in the Federal Republic of Germany, the tendency for the manpower situation to ease gained strength in the second half of the year. In the last months of 1966, the number of unemployed grew appreciably in Germany; for the first time since 1959, the figure was in December higher than the number of unfilled vacancies and represented a little more than 1 % of the labour force. This last figure is not yet however proof that the business situation is giving rise to very extensive unemployment. The main result of the reduced calls for manpower being made by German firms has been a decline in the net immigration of foreign workers. The increase in unemployment remained moderate in Belgium. It was stronger in the Netherlands because of the substantial rise in the labour force in this country. Although in 1966 unemployment increased in all these countries—and at the end of the year the increase was sometimes fairly considerable—it should not be forgotten that the level of unemployment previously recorded reflected what was in fact a state of “overemployment”.

The appreciable increase in the labour force also explains why the number of unemployed did not decline appreciably in France, but even showed signs of increasing for a time, despite an appreciable expansion of production and also, more recently, of employment. In Italy, on the other hand, the tendency for the number of unemployed to shrink was confirmed in the course of the year, although in this country with its structural unemployment the unemployment rate is still the highest in the Community.

¹ See sec. 100.

111. When the situation is looked at from the angle of domestic equilibrium, notably price stability, the trend of activity recorded in several member countries could give the impression that the rate of price increases had been distinctly lower than before. In fact, despite the weaker expansion of demand in most member countries and the fairly satisfactory equilibrium between supply and demand in France and in Italy, prices continued to rise in 1966, and the increase over the previous year was as heavy as it had been in 1965: for the full Community, the consumer price index (based on the definitions used in the national accounts) shows that it was about 3.5 %, compared with 3.3 % for 1965. It is true that the upward movement slowed down from the middle of the year onwards in Germany and in the Benelux countries owing mainly to fluctuations in food prices; but the upward movement in the prices of other products and in the charges for services continued at what was still a relatively rapid tempo in these countries, spurred on by the increase in production costs. In Italy, the situation was more favourable and, despite the upsurge in economic activity, prices to the consumer increased in this country by only 3 %, compared with 4.2 % for 1965. In France, the upward movement was also very slow for part of the year, but of late prices have come under some slight pressure.

112. Looked at from the angle of external equilibrium, trends in 1966 were on the whole satisfactory. Between 1965 and 1966 the Community's current account showed an improvement of some 500 million units of account.¹ This improvement was mainly due to developments in the current account of the Federal Republic of Germany, where imports slowed down sharply while exports were expanding rapidly. On the other hand, the current account deteriorated slightly in Italy, fairly appreciably in France and in Belgium and steeply in the Netherlands, where the deficit was the heaviest recorded since 1950.

The Community's visible trade balance showed no important change on the preceding year. In a fairly favourable world situation, merchandise exports continued to expand at quite a good pace (the growth rate in terms of value was some 8.5 %), and imports for the year were also appreciably higher than for 1965. In the course of the year, however, the pace at which imports were rising lost momentum as a result of the tendency for business conditions to weaken in certain member countries.

Despite the higher surplus on current account, the influx of liquidity was much smaller than in previous years; because of the measures taken by the United States and United Kingdom Governments, and of the upward movement in interest rates outside the Community, the Community's imports of private capital fell steeply in 1966.

¹ One unit of account (u.a.) = 0.888671 g of fine gold, which is the value of \$1 US at the official exchange rate.

Lastly, at Community level, the expansion of trade between member countries (the value of which increased by 11.5 % in 1966, compared with 13 % in 1965) made an important contribution both to growth and to equilibrium within the Community. For example, the upsurge of demand from France and Italy did much to sustain business activity in the other Community countries, notably in the Federal Republic of Germany. In the same way, the slowdown of German imports enabled strain in other member countries to be eased at least for a while.

113. The Economic and Social Committee rendered an opinion on 21 April 1966 concerning the economic situation in the Community; this opinion was based on the statement which M. Marjolin made to the European Parliament in January 1966. The opinion, which consists of three parts devoted to developments in 1965, the outlook for 1966, and an analysis of economic policy problems, is in line with the conclusions reached by the Commission.

Short-term economic policy of the Community in 1966

114. In contrast to what was done in the two preceding years, the Council made no recommendation to the Member States on the guidelines on economic policy for 1966. On 13 July 1966 the Commission, aware of the serious economic problems which were arising in most member countries, laid before the Council a proposed recommendation based on an opinion from the Short-term Economic Policy Committee,¹ on the economic policy to be followed in the second half of 1966 and on the first steps to be taken for 1967.

The Council had more urgent matters to deal with and was unable to state its views on the Commission's proposal; not till 22 September did it approve a new recommendation proposed by the Commission, in which the guiding principles for economic policy in 1967 were set out.²

This meant that in 1966 the Commission and the Council failed to induce the Governments of the Member States to adopt a common approach on short-term economic policy. It would seem possible that this situation may have rendered more difficult the fight against economic imbalance in those member countries where strain was particularly evident in 1966.

115. Within the short-term economic policies pursued in 1966, it is interesting to note that in those Member States where costs and prices were rising sharply budget policy remained very distinctly expansionary,

¹ Opinion on the full economic budgets for 1966, published by the Commission in "The Economic Situation in the Community", No. 1/1966.

² Official gazette No. 241, 28 December 1966.

following the imperfect application in the previous year of the recommendations which the Council had made in this field on 8 May 1965.¹

This factor certainly contributed to the rapid increase in prices and costs in the first half of 1966, and to the subsequent decline of business activity in a number of member countries—much of it due to the fact that the authorities found that they had to adopt severe measures to re-establish the budget on a sound footing.

In the Federal Republic of Germany, the increase in the expenditure of the public authorities was again appreciable: for the Bund it was 7 % and probably a little under 7 % for the Länder and the municipalities. A supplementary budget was also voted for 1966, and since in addition the increase in tax revenue flattened out appreciably during the second half of 1966, the deficit on the Federal budget for the year reached the grand total of DM 2 200 million.

In the Netherlands, too, there was a distinct lack of balance in the development of the national budget, with the Government's expenditure about 9 % higher than in 1965. As the increase in revenue was below this rate, the cash deficit expanded from Fl. 1 800 million in 1965 to Fl. 2 200 million in 1966.

In Belgium the Government had in the autumn of 1965 proposed that within the framework of the 1966 budget a number of measures, mainly of a fiscal nature, should be taken to balance the ordinary budget. An increase in certain indirect taxes, calculated to bring in some Bfrs. 13 000 million, came into force at the beginning of 1966. Despite this measure, the cash deficit on Central Government budget transactions showed little change, and in 1966 amounted to about Bfrs. 27 300 million, compared with Bfrs. 28 800 million in 1965, effective expenditure having increased by a little more than 13 %.

Lastly, in the Grand Duchy of Luxembourg, expenditure in 1966 was heavier than in 1965, and the budget deficit tended to expand.

In France and Italy the background of budget operations was different from that in the Benelux countries and Germany; a budget policy designed to sustain expansion was the right one, provided the growth of overall demand was not allowed to outrun the growth of production.

In France, the national budget probably closed with a cash deficit of about FF. 3 000 million, whereas it has been more or less balanced in 1965. In Italy, the deficit contracted, but comparison of the figures with those for 1965 is difficult because in 1966 certain items were transferred out of the budget. The aggregate deficit of the local authorities rose from Lit. 1 190 000 million in 1965 to Lit. 1 312 000 million in 1966.

¹ Ninth General Report, sec. 117.

116. The main aspects of the monetary policies pursued by the Member States are dealt with later in this chapter.¹

117. No important new developments in incomes policy occurred in 1966. In most member countries there were regular contacts at a high level between unions, managements and the government, but it cannot be said that these contacts had any appreciable impact on the way in which the various types of incomes developed. Doubtless the situation on the labour markets—still under strain—and the persistence of disequilibria on major commodity markets during part of 1966 prevented any great advance towards the introduction of an incomes policy which could ensure at one and the same time the stability of unit costs, economic expansion and full employment.

In the Benelux countries and in Germany it has in fact been found that wage costs in particular rose distinctly faster than the improvement in productivity. Early in 1967, however, the German Government took an important step when it invited representatives of both unions and managements to take part in a concerted operation in the field of wages policy.

In France and in Italy, the trend towards stability in unit wage costs seems to have been due far more to a major improvement in productivity and to the relatively easy situation on the labour market than to any concrete efforts in the field of incomes policy, with the exception of the French public services, where wage increases have been maintained, in recent years, within the limits determined by the Fifth Plan.

118. On 22 September 1966 the Council defined its own position with regard to the short-term policy to be pursued in 1967 when it addressed a recommendation to the Member States concerning the guidelines for short-term economic policy in 1967.²

In this document the Council lays the main stress on the need to temper still further the general tendency for prices and unit costs to rise in the Community; its recommendation, however, takes into account the differences between the economic situations in the various member countries, especially the weaker business trends that in December 1966 were apparent in certain of them.

Thus in the cases of France and Italy, the main aim should be to ensure that while domestic demand continues to expand appreciably, it does not expand too fast. In the Federal Republic of Germany, policy should be governed by the twin aims of optimum growth and stability.

¹ See sec. 126.

² See official gazette No. 241, 28 December 1966.

The Council recommends that Germany, Italy, Belgium and Luxembourg should in 1967 cut back appreciably the cash deficits of the public authorities taken as a whole. For the Netherlands, the cash deficit should be limited to the amount shown in the 1967 budget as adopted after amendment by the new Government in November 1966. The French Government was advised to prevent the emergence of a cash deficit in the execution of the national budget for 1967.

In the Member States in which the public authorities as a whole are in deficit, the recommendation stresses that measures to reduce this deficit should weigh more heavily on public and private consumption than on gross fixed asset formation, and lists a number of ways in which a deficit can be reduced. It favours charges based on real costs for public services which are being run at a heavy deficit and, by analogy, extends this notion to those social security systems which are in serious and growing deficit. For the financing of their deficits the public authorities are advised to call on domestic savings only and, in the case of Italy, to scale down gradually the proportion of short-term borrowing.

If, however, economic activity should slacken appreciably, built-in stabilizers should be allowed to play their normal part; the proposals put forward in the recommendation apply only to the structural element in the public deficits. In any case the whole set of recommendations on budgetary matters might be revised if there were a rapid decline in the level of activity.

On credit policy, the recommendation suggests that the line being followed in the Benelux countries could be relaxed, provided budgetary austerity were effective. For Germany, too, it was considered that credit policy could be relaxed in the framework of an overall programme consonant with the general suggestions made by the Council. The fairly flexible policy pursued in France and in Italy could be continued, but any undue expansion of credit was to be avoided.

All the Member States were invited to step up the drive against obstacles to competition and advised to monitor carefully the formation of prices on markets where competition is inadequate. The recommendation also contains the suggestion that the French authorities should continue to relax the price freeze in France.

The need to stimulate household saving is stressed, and the Governments of all the Member States are invited to intensify their efforts in the field of incomes policy.

119. By the end of January 1967, several member countries had already made a start with implementing the Council's recommendation.

On 20 January 1967, the German Government presented a programme to put the federal budget on a sounder basis. The execution of this programme should enable the budget deficit of about DM 3 700 million to be eliminated.

This sum is the deficit to be expected if no special measures are taken, and assuming that the gross national product at current prices increases by some 5 %. The deduction is to be obtained by a cut in the growth of expenditure and the more rapid collection of certain taxes. At the same time, the Government announced officially to the Bundestag the submission of a contingency budget, to cover supplementary expenditure totalling DM 2 500 million. In the light of economic developments in the early months of 1967, the German authorities have decided to commit the whole sum during the first half of the year. In addition, the Government has increased the depreciation allowances for industrial investments made up to and including October 1967. If the deficit on the federal budget were heavier than predicted as a result of a still more pronounced weakening in economic activity bringing the increase in GNP at current prices below 5 %, this would be tolerated and would be financed by short-term borrowing. Direct or indirect calls on short-term funds should also be contemplated to finance *inter alia* the heavier deficits incurred by the Länder and the local authorities (these deficits are in part met by the transfer of a certain proportion of the receipts from direct taxes, which are steeply progressive); another method would be the mobilization of investments made by the social insurance funds.

The ordinary budget of Belgium for 1967, which in the draft budget was balanced, seems likely to close with a heavy deficit because of the foreseeable development of receipts and expenditure: expenditure will rise still further and revenue from taxation will be affected by the slowdown in economic activity. At the Government's suggestion, the Belgian Parliament on 31 March 1967 adopted a law designed to maintain the balance of the ordinary budget by economies which would be made mainly in the field of public consumption and social transfers and by increasing certain taxes.

On 10 January 1967 the new Luxembourg Government made a statement of policy in which it announced that it intended to limit the increase of "ordinary" expenditure to the increase in the gross national product (at current prices), and to cover any new current expenditure by a corresponding increase in revenue. In application of these principles, the total of budgetary expenditure, as shown in the draft budget for 1967, will be cut by at least 2 % and certain taxes will be increased.

Measures to reduce the budget had already been proposed to the Netherlands Parliament before the publication of the Council's recommendation; they have since been adopted. Nevertheless, the deficit in 1967 will be

higher than was apparent when the amendments were voted, for while tax revenue is unlikely to be as high as was forecast, certain expenditure items were underestimated and the Government has committed additional sums as a means of tempering unemployment in the areas where it has increased most. The latest estimates suggest that the financing deficit of the Government may well be Fl. 1 000 million in excess of the figure originally included in the draft budget for 1967.

120. The Short-term Economic Policy Committee, meeting on 6 and 7 February 1967, rendered an opinion on the economic budgets. The Committee found that the outlook for 1967 still raised problems in connection with the stability of prices and of unit costs, although in several countries the slackening that had occurred in economic activity was proving to be a not inconsiderable reinforcement for the factors that contribute to stabilization. The outlook for 1968 calls for a short-term policy that would support economic growth—the extent of support needed will vary from one country to another—and at the same time contribute to the stability of prices and unit costs throughout the Community. In the Committee's opinion, this difficult task can be successfully accomplished only by applying a suitable combination of instruments from the fields of budget policy, monetary policy and incomes policy.

121. At its session of 13-17 March, the European Parliament debated the economic situation in the Community. The debate followed up the annual statement made at the preceding session by M. Marjolin, Vice-President of the Commission, and was based on a report from M. Bousch. In the resolution adopted, the Parliament advocated that the procedure for reaching Community decisions on short-term economic policy should be speeded up and that the Council should meet more often to discuss the economic situation; it recalled that, as a consequence of the growing interpenetration of the Member States' economies, the utilization at national level of the instruments of short-term economic policy had lost part of its effectiveness, while the short-term economic policy of each member country was coming to have increasingly marked repercussions on economic activity in the other countries; the Parliament felt that arrangements should be made to facilitate the flexible transition from the present system to a system of close co-ordination which would take into account the interest of the Community as a whole; it suggested that this transition would be easier if the first medium-term economic policy programme were further expanded, particular attention being paid to the main lines of structural policy, regional policy, employment policy and incomes policy. It called on the Commission to study more thoroughly the causes—especially the structural causes—of inflation. It felt that too restrictive a credit policy was liable to compromise the steady development of directly productive investment, and recommended more frequent use of the instruments of budget and tax policy.

Improving the instruments of policy

122. The emergence in 1966 of a tendency for economic growth to lose momentum in several member countries and the persistence of divergences between the economic trends in the Community have brought the problem of improving the instruments of short-term economic policy once again to the fore. As the Commission has had repeated occasion to stress, in the annual reports on the activities of the Community and elsewhere, the improvement of these instruments is perhaps less important than the determination of governments to take appropriate measures when the business climate changes. Nevertheless, the economic outlook for 1967 is such that the instruments of short-term economic policy should be made as flexible as possible, so that the authorities will be in a position to deal in good time with any deterioration in the trend they consider desirable.

In this connection it will be recalled that at the end of 1962 the Commission had submitted to the Governments of the Member States a "memorandum on the establishment of short-term economic policy instruments to combat any recession or any marked weakening of economic expansion".¹ This recommendation was well received in the member countries, and several of them introduced reforms along the lines suggested by the Commission, for example, by establishing "contingency budgets" or "cyclical tranches" from which they could cover the cost of items such as supplementary public works, should the need arise. At the present time, various schemes for improving the flexibility of short-term economic policy instruments are under study; these include the draft of a German "Law on measures to promote stability and expansion", which has been laid before the Bundestag. One of the main objectives of this Bill is better co-ordination between the Federal authorities on the one hand and the Länder and local authorities on the other.

123. A great deal of work is still being done on the improvement of the common instruments needed for analysis and forecasting. The new questions introduced at the beginning of 1966 in the monthly Community business surveys were collated and the first replies, concerning matters such as the trend of competitiveness, were published in January 1967. After a necessary period of study, the results of the investment surveys are now being published regularly twice a year. There has been no change in the situation regarding the participation of Dutch managements in these two surveys.

The monthly survey in the building sector, the joint programme for which had been settled step by step, was launched in June 1966 in all member countries except France. Discussions are still under way to obtain the co-operation of French managements.

¹ Sixth General Report, sec. 93.

Work preparatory to the implementation of a consumers' survey is nearly complete, and the draft of a joint programme should soon be ready. As noted in the last two general reports, the survey cannot be carried out unless the staff needed and considerable sums of money are made available.

The procedure for elaboration and confrontation of economic budgets was continued; the preliminary economic budgets for 1967 were referred to the Short-term Economic Policy Committee in July 1966 and the same body considered the complete economic budgets in February 1967. With a view to further progress in the field of methodology, special meetings of a group of experts were organized to enable the member countries to compare their experience in this field and to press forward their work jointly.

Further to a proposal presented by the Commission in May 1965,¹ the Council adopted on 28 July 1966 a recommendation to Member States on certain steps to be taken in an endeavour to improve short-term statistics.² The recommendation includes proposals for improving the index of industrial production, the index of consumer prices and the statistics on unemployment, employment, wages and the balance of payments. A further point in the provisions of the recommendation is that governments should report at the end of the calendar year on any action taken under the recommendation; the first report is therefore expected at the end of 1967.

CO-ORDINATION OF MONETARY AND FINANCIAL POLICIES

124. As is clear from the above, business trends varied from country to country in 1966 despite the appreciable progress made in the interpenetration of the member countries' markets³. The causes of this apparently paradoxical situation are many, one of the most important undoubtedly being that co-ordination of the policies pursued by the Member States is not yet complete. The dangers entailed by this situation have repeatedly been stressed, and there is no need to reiterate here the points made in this respect both in preceding general reports⁴ and in the more specialized documents, notably the annual reports issued by the Monetary Committee.

Little occurred to reduce these dangers in 1966: the interpenetration of markets tends in fact to raise more and more problems with regard to the efficient utilization, by each member country, of economic policy

¹ See Ninth General Report, sec. 123.

² The text of this recommendation was published as an annex to the Commission's Quarterly Survey No. 3/66 on "The Economic Situation in the Community".

³ See above, secs. 108 sqq.

⁴ See Ninth General Report, secs. 124 and 125.

instruments, especially those available in the monetary field; another point is that although towards the end of 1966 the Governments of the Member States and the institutions of the Community made fresh efforts to implement concerted monetary and budget policy operations (see in particular the relevant paragraph in the Council recommendation of 22 December 1966¹), this is not sufficient to ensure harmonious development of the Community economy.

125. Suitable criteria for assessing the degree of interpenetration among the member countries' economies are not easy to select. For example, now that convertibility for payments purposes is almost complete, it is hardly possible to provide precise and accurate data on intra-Community payments, even in respect of current transactions. Such data exist, however, for the item "visible trade": in 1966, intra-Community trade rose from 100 (1958) to 337 while the Community's import index for goods from non-member countries moved from 100 to 190. Other indicators show how sensitive the economy of each Community country is to any increase or decrease of economic activity in the other countries. In 1963, for example, the business climate in Germany was relatively settled, whilst in Italy the pressure of demand was very heavy; in 1965 these situations were roughly inverted. In 1963, Italian imports from the Community as a whole had increased by 32 % over the figure for the previous year, and imports from the Belgo-Luxembourg Economic Union by as much as 45 %. In 1965, German imports from the other Community countries showed a similar trend, rising to 31 % over the 1964 figure, with imports from Italy being as much as 47 % up.

The pattern of intra-Community trade shifted in a comparable way, though to a lesser extent, in 1966,² with Franco-German, Italo-German and Franco-Italian trade sharing the main changes.

These developments do not refer to the current account only: the opportunity open to transactors to cause variations in the terms of payment prevailing in visible trade can, and does, engender capital movements which, though to some extent hidden, may in certain circumstances be on a considerable scale. Against the background of exchange regulations granting a large degree of freedom for transactions, it is becoming more and more difficult to control or verify such movements and, given the aim of ever fuller integration, it would be quite undesirable to attempt to put them in a straight jacket of restrictive measures. None the less, their impact can seriously affect the efficacy of national monetary policies. This is one of the main reasons why nowadays these policies can no longer be implemented as autonomously as in the past or with the aid of the former instruments of monetary policy.

¹ See above, secs, 114 and 118.

² See above, sec. 100.

Other factors are also relevant: although purely financial movements between member countries remain subject to various restrictions despite the recent relaxation made in the French regulations, and although the barriers between national capital markets remain considerable, capital movements between Community countries have built up. These movements are due, for example, to the increasingly close links between Common Market firms or to the network of links between the firms of non-member countries and their subsidiaries in the Community, between which capital transfers may be made simply by book entries or by other means which are often beyond the control of the monetary authorities. Two of these means are the Euro-currency market for short-term transactions, and the "Euro-bond" market for long-term transactions.

Monetary policy in the Member States

126. Early in 1966, four Community countries—Germany and the Benelux countries—were faced with the need to combat strain due to the pressure of demand. This situation was particularly serious in Germany and the Netherlands. Financial measures in the public sector having contributed little to the easing of this strain, monetary policy was the main weapon used to prevent over-heating of the economy. For the greater part of the year this policy was distinctly restrictive.

In Germany, the strain eased during the second half of the year and the Bundesbank took a first step towards relaxing its restrictive policy by refraining from action to offset through domestic measures the inflow of liquidity from outside. Towards the end of the year and early in 1967, it took positive action by reducing the level of minimum reserves in three stages and twice cutting the discount rate.

In the Netherlands, restrictions on the expansion of bank credit were maintained throughout 1966 and from the beginning of May onwards they were even tightened up for short-term credit. At the same time the discount rate was raised. A restrictive policy was backed by the effect on domestic liquidity of the deficits on the Dutch balance of payments. Towards the end of the first quarter of 1967, however, the slackening of economic growth led the monetary authorities to ease their restrictive policy slightly; the most important step taken was the reduction of the discount rate on 14 March 1967 from 5 % to 4.5 %.

In Belgium, the expansion of lending in the first quarter of 1966 induced the monetary authorities to resuscitate at the end of April the quantitative restrictions suspended in July 1965; these were however applied flexibly where loans to finance productive investment were concerned. Early in June the Central Bank, pursuing its restrictive policy, raised bank rate. Subsequently, with the business climate tending to change, the monetary authorities altered their line of action somewhat and relaxed a number of measures, notably in the field of investment credit. At the beginning

of February and again at the end of March 1967 the Banque Nationale reduced the discount rate by 0.25 % bringing it down to 4.5 %.

In France, economic expansion continued in 1966, although the rate of growth was a little slower in the second half of the year as a result of the weaker growth of external demand. The authorities pursued a policy designed to improve the mechanisms of the money market and the capital market by endeavouring in particular to improve the conditions in which the banks compete (removal of minimum rates of interest paid on deposits by banks, introduction of a system of compulsory reserves instead of the special system of minimum reserves known as the "coefficient de trésorerie"), by harmonizing further the regulations governing the various forms of credit and investment practised by the banking system (standardization of credit interest rates for the various forms of short-term saving, first alignment of regulations applicable to the clearing banks and the "Banques d'affaires"), and by continuing to stimulate the formation of real savings (organization of a mortgage market). Another important development was the liberalization early in 1967 of capital movements to and from abroad, although the Government reserved the right to check and control specified categories of financial operation, such as direct investment. Lastly, those provisions applicable to credit which were still left after the suspension of quantitative limitations in June 1965 were abolished in January 1967. The efforts of the monetary authorities to force down the cost of credit were however temporarily offset by the high interest rates ruling on foreign money and capital markets in 1966.

In Italy, too, where economic expansion continued at a rapid rate, the monetary authorities implemented a policy designed to create monetary conditions favourable for the financing of investment. With this in view, the Central Bank decided at the beginning of the year to cease selling currency to credit establishments with repurchase clause and exchange guarantee, since these establishments had completely settled their foreign debts. In view of the absence of a money market in Italy, and of the important role played in monetary matters by relations between the Italian system and the foreign markets, this decision was calculated to encourage lower short-term interest rates at home. However, the payments surplus and the wide gap between the level of domestic interest rates and the rates obtaining abroad induced the banks to increase their net foreign credit position considerably from the summer onwards. In order to offset the effects of this on domestic liquidity, the Central Bank stepped up its aid to the other banks, mainly in the form of advances.

Budget policy in the Member States

127. The main characteristics of the budget policies pursued by the Member States in 1966 have already been outlined in the section on

short-term economic policy.¹ The budget estimates for 1967, which are broadly in line with the Council recommendation of 22 December 1966 on the main lines of economic policy for 1967, have also been discussed elsewhere.²

The inadequacy of the restrictive measures adopted in most member countries in 1966 with regard to public finance, making it necessary for action in the monetary field to be correspondingly stricter, and various factors that are inherent in the economy, particularly the pressure exerted on the margins available for self-financing, led to tighter conditions—sometimes considerably tighter conditions—on the money and capital markets and to a continuation of the steady upward movement in interest rates which had begun in most Community countries as far back as 1965. This development was particularly marked in Germany and in the Netherlands, but it was also in evidence in other countries. Despite the obstacles which still impede capital movements within the Community, it has not been possible to avoid the contamination effect of certain undesirable developments. As already pointed out, these effects were appreciable in France and also, though to a lesser extent, in Italy.

The main developments tending to force up interest rates, however, occurred on markets outside the Community, notably in the United States, where in 1966 the authorities used the instruments of monetary policy as the main weapons with which to combat the inflationary pressures that were making themselves felt in an economy where there was full employment for the first time for years. The consequent strain on the money market led to a sharp increase in interest rates and to heavy inroads on the funds available to the Euro-dollar market. In addition, according to the programme of capital export restrictions implemented in order to cut back the United States' payments deficit, direct investment in Europe was financed to a greater extent than before by recourse to European sources of finance. These developments need to be stressed, as they represent a substantial change in the established pattern of capital flows between the United States and Europe and since they bring out with particular clarity the influence of changes in the United States' economic policy on the situation of the European countries.

Community co-ordination of monetary and financial policies

128. The preceding sections, which bring out the most important aspects of financial and monetary developments in the Common Market countries,

¹ See sec. 115.

² See sec. 118.

show the great importance which attaches to effective co-ordination of the policies pursued by the Member States.

Although it appears in general that the various authorities—the Monetary Committee and the Short-term Economic Policy Committee, the Committee of Governors of the Central Banks and the Budget Policy Committee¹—are sufficient to ensure whatever consultation is necessary, certain problems must be solved if their work is to meet the requirements of economic integration.

For example, the Budget Policy Committee still has to cope with certain problems of a technical nature before tackling the objectives assigned to it in the policy field. It needs to establish common concepts which will not only make it possible for the main elements of the accounts concerning the public finances of the Member States to be regrouped in comparable form, but which will also enable the Committee to issue useful assessments of the main lines of budget policy contemplated by the Governments.

It follows that the work of this Committee, particularly with regard to the policies contemplated by the Member Governments, has not yet progressed far enough to allow closer co-ordination of these policies. Nevertheless, the Committee has undertaken a series of studies designed mainly to establish forecasts covering several years; the aim is to allow more flexible management of the public finances, at least in the medium term, since in present circumstances public expenditure is proving very inelastic in the short term and a more flexible handling of direct and indirect taxation encounters considerable resistance. This situation almost certainly accounts for the fact that a great deal of reliance was placed on monetary action in 1966. The lack of harmonization in the range of instruments available to Member States and the inadequate co-ordination of national policies have meant that the monetary instrument had to be applied with particular rigour because its efficacy has suffered from the steadily growing chances for enterprises and banks to circumvent restrictive national policies by using the ample liquidity available on the Euro-currency and Euro-bond markets or by taking advantage of the various facilities open to them at a time when the very advanced degree of integration has vastly increased the number and scale of all sorts of transactions.

In the past year, therefore, the co-ordination of policies has run into the same obstacles as in previous years (see earlier General Reports). The action taken by the various committees concerned in this work has brought the imbalances to light and has made it possible to establish what remedial action should be taken. But although the confrontation of national policies at Community level seems to have led to a start being made with co-ordination, it has not ensured that it is carried through with the necessary speed and efficacy.

¹ See secs. 435 sqq.

129. Now the need for ever closer co-ordination, on which the Monetary Committee laid special stress in its ninth annual report, is growing more and more urgent because the customs union will be complete by July 1968, because of the considerable development of capital movements, and because tax harmonization is beginning to move as a result of the establishment of common agricultural prices expressed in units of account, a system which will enable the common price level to be maintained automatically should the currencies of any member country change value in relation to the others and will ensure that the common organization of markets can be maintained, especially in their relations with the outside world. Should there be changes in the relative values of the various currencies, the fact that prices are expressed in units of account could have economic repercussions which would be commensurate with the scale of the revaluation or devaluation; they would be due to the immediate and automatic nature of the readjustment which would occur in the prices of agricultural produce and to the effects this readjustment would have on farm incomes and consumer prices.

These considerations show that resort to the major monetary policy instrument of a change in currency exchange rates in order to adjust fundamental imbalances stemming from unduly wide divergences between national policies is now not at all what it was in the past. The general conditions in which equilibrium must be pursued today have altered and have probably become more difficult. The need to strengthen co-ordination in this field within the Community was already evident in 1964. It has, however, proved difficult to put into practice, in as concrete a form as could have been wished, the intentions expressed in the Council decisions of 1964.

Faced now with the prospect of integrating an economic sector of considerable importance, the Community must endeavour to establish a situation which would eliminate the danger that the currency of one Member State might be devalued or revalued in relation to the others.

Such an approach requires in the first place that national policies should be made more effective. In certain Member States domestic demand has in recent years fluctuated so much that their internal equilibrium was jeopardized and the economies of the other Community countries were affected, whereas more appropriate policies would have enabled demand to be contained within reasonable limits.

It is true that progress in the conduct of national policies would probably improve the effectiveness of efforts at co-ordination. But these efforts should more and more take the form of consultation prior to any decision in the field of economic and monetary policy which would have substantial repercussions on the economic trends of other Member States. Progress could be made in this direction by fixing, within the Community, quanti-

tative objectives in line with the policy chosen. The Commission has been working along these lines in 1966 and will do even more in this direction in the future.

The Community's balance of payments

130. Germany is the only Community country whose overall balance of payments showed an appreciable improvement in 1966. Here the improvement was mainly due to a sharp increase in the surplus on visible trade; the long-term capital account, which showed a surplus for 1965, closed with a slight deficit in 1966. In Italy and in France, lively economic expansion led to a considerable decline in the surpluses on current account, while net capital exports also helped to erode the overall surpluses of 1965. The current accounts of the Benelux countries deteriorated a little.

The overall surpluses in Germany, France and Italy account for the heavy credit balance accumulated by the Community as a whole. From the provisional data at present available it would seem, however, that the overall surplus on the balance of payments (which has its counterpart in an increase in official reserves in the broad sense, i.e. including the increase in the net position of the Member States with the IMF) was appreciably lower in 1966 (about \$1 000 million) than in 1965 (about \$1 500 million). In these two years the total of gold inflows and of changes in net positions with the IMF exceeded the overall balance to be financed, so that official assets in other forms were reduced. It should however be noted that although all Member States contributed, in these two years, to financing IMF operations, the gold inflows are accounted for mainly by certain dollar-gold conversion operations by France till the middle of 1966, when the French balance of payments began to show small overall deficits. It should also be pointed out that the 1965 and 1966 surpluses would have been a great deal higher than the figures given above but for certain operations decided upon or facilitated by the authorities in various countries, especially Germany, France and Italy. These were mainly advance repayments of public debts, investments connected with certain inter-governmental transactions, or investments made by the private banking system. The main beneficiary of these movements was the United States.

The provisional figures at present available suggest that despite these operations the payments situation of the United States did not improve in 1966. While the results produced by certain of the methods used for presenting the United States balance of payments show improvements in book-keeping terms, examination of the various items suggests none the less that there is a qualitative deterioration, the current account having suffered distinctly from the pressure on available resources. On the other hand, it is chiefly those categories of capital operations that

are most subject to short-term fluctuations or that most directly reflect the effects of co-operation with certain monetary authorities abroad which form the main area where there have been substantial changes contributing to an improvement in the accounting position.

The aggregate balance of payments of the Common Market countries has been decidedly in surplus since 1958. In addition to the credit balance achieved each year on current transactions there has been a substantial net inflow of long-term capital. To a very great extent these net inflows are accounted for by the broad stream of American capital reaching the Common Market, which has more than offset Community exports of capital to non-member countries (much of which has gone to the developing countries).¹

This situation places special responsibilities on the Community countries at institutional level. The organization of meetings through which the Member States could evolve a common approach to international payments problems rapidly became one of the main tasks of the Monetary Committee. This task was in 1964 the subject of a Council decision that the Member States should, in an endeavour to harmonize their decisions and policies to the fullest extent possible, consult each other before dealing with any of the important problems that arise in the field of international monetary relations. In fact it has proved possible to establish common standpoints among the Member States on various important questions such as the financing of IMF operations, to which the Member States have been making the largest contribution for a number of years. The quest for common policies has also continued in other fields, notably that of the reform of the international monetary system.

Free movement of capital within the Community

131. On 8 February 1967, the Commission laid before the Council an amended proposal for a third directive implementing Article 67 of the Treaty. This revised version projected further measures to liberalize exchange control, in addition to those in the original proposal.²

The new clauses—the aim of which is gradually to free movements of capital within the Community—provide that, within specified limits, the countries maintaining exchange restrictions shall authorize the issue on their capital markets of the securities of other member countries, and shall liberalize, again within the specified limits, all medium- and long-term loans and financial credits up to a certain figure.

¹ French capital exports to franc area countries, which were on a considerable scale, are not included in France's balance of payments.

² See Eighth General Report, sec. 138.

The Monetary Committee, the Economic and Social Committee and the European Parliament endorsed proposals submitted to the Council by the Commission on 4 November 1965. These concerned a Council directive requiring communication to the Commission of statistics on capital movements to and from non-member countries, and a Commission recommendation for a Council decision relating to the organization of meetings within the Community for consultation on national policies towards movements of capital from non-member countries.¹ The proposals are now being examined in the Council.

132. Further measures to liberalize capital movements were introduced in France and the Netherlands.

On 31 January 1967, financial relations with other countries were liberalized in France. Law No. 66-1008 of 28 December 1966, withdrawing the general ban and affirming the principle of freedom of capital movement, gives the exchange control system applicable in this field a new basis. Implementing decree No. 67-78, published in the official gazette of the French Republic on 29 January 1967, establishes procedures governing capital transactions with other countries. Foreign investments in France and French investments abroad will be subject to limited control. In addition, a licence will be necessary before any foreign security can be issued or introduced into France. A licence will also be needed for any borrowing abroad by a French resident, except where it is connected with a commercial transaction or where the amount borrowed does not exceed FF 2 million per borrower.

On the other hand, French residents will be completely free to engage in exchange operations, to make settlements of all kinds with other countries, to grant loans to non-residents and to purchase foreign securities, whether listed or not. Non-residents will be completely free to carry out any transaction whatever in France, other than those specifically mentioned in the decree (direct investments and issues of securities).

On 14 October 1966 a general authorization was granted to the banks in the Netherlands so that payments relating to international transactions in securities can be regulated by the official market, the only market now surviving.

Few foreign borrowers were admitted to the capital markets of the Member States in which exchange restrictions still exist. There was one issue in France by the European Investment Bank for FF 2 000 million and there were three issues in Italy, by the ECSC and the European Investment Bank, for Lit. 15 000 million each, and by the Compagnie de St. Gobain (a French industrial company) for a sum of Lit. 12 000 million.

¹ See Eighth General Report, sec. 138.

Co-ordination of policy on credit insurance

133. During 1966 the Group for the Co-ordination of Policy on Credit Insurance, Guarantees and Financial Credits mainly concerned itself with studying the subject of credits for the Eastern bloc countries. The result was as strengthening of the consultation procedure. New rules will be submitted to the Council in the near future.

After a year of application, the sub-tendering rules were reviewed by the Group, which decided to render them more flexible so that in certain cases they no longer apply automatically. It was also decided to extend for a period of two years the rules on public credits or credits combining public and private funds.

With regard to the harmonization of export insurance techniques, the EEC Technical Committee on Credit Insurance drafted a standard insurance policy for medium-term and extended medium-term government purchasers. This text was submitted to the Group on 13 March 1967. The Technical Committee also embarked on an examination of harmonization rules for the short-term and in the field of public works.

The Group continued its study of the financing of suppliers' and financial credits in the member countries and in certain non-member countries with a view to eliminating disparities between the Community countries in the cost of credit and in the facilities made available to exporters. The techniques used in non-member countries were studied in order to prevent any equalization of financing methods within the Community which would put exporters of the Six at a disadvantage compared with foreign competitors.

Lastly, in association with the Member States, the Commission studied the other export insurance arrangements existing in the United States, the United Kingdom and Japan: guarantees against rising prices, exchange guarantees, insurance of advertising and promotional expenses, and insurance for participation in overseas trade fairs.

The European capital market

134. The panel of experts set up to study problems involved in the development of a European capital market¹ held twelve meetings between October 1964 and September 1966. The three last meetings, the only ones held in 1966, were spent in examining a draft report by the Chairman and the Secretariat of the Group, which was based on the analyses and the work carried out during the preceding year. The final version having been approved by the experts at their last meeting on 14, 15 and 16 September, the report was forwarded to the Commission and published.

¹ Eighth General Report, sec. 138, and Ninth General Report, sec. 128.

EUROPEAN INVESTMENT BANK

135. The activities of the European Investment Bank during 1966 are reviewed in detail in its annual report.

The Bank continued its operations, in accordance with the provisions of the Treaty of Rome and under association agreements or conventions, both within the Community, in the associated countries—Greece, Turkey, the eighteen African and Malagasy States—and in the overseas countries and territories dependent on the Member States.

During 1966 the Bank signed 39 loan agreements for a total of 197 million units of account.

This total comprises 135 400 000 u.a. divided among 29 ordinary loans, and 61 600 000 u.a. divided among 10 "Special Section" loans. The Special Section enables 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.

From its inception until 31 December 1966 the Bank has signed 135 loan agreements for a total sum of 708 500 000 u.a. Of this total, ordinary loans accounted for 641 900 000 u.a. spread over 124 loans, and the Special Section accounted for 66 600 000 u.a. spread over 11 loans.

Loans approved during 1966 totalled 132 300 000 u.a.

Twenty-seven ordinary loans were approved, for a total of 118 800 000 u.a. Eleven loans, totalling 69 100 000 u.a., were granted in Italy, one for 4 800 000 u.a. in France, five totalling 10 000 000 u.a. in Germany, six totalling 17 400 000 u.a. in Greece, two totalling 6 100 000 u.a. in Cameroon, one for 9 000 000 in the Congo (Brazzaville), and one for 2 400 000 u.a. in Senegal.

From the Special Section, four loans in Turkey were approved, for a total of 13 500 000 u.a.

Twenty-four loans, totalling 54 million u.a. were for industrial investment. Seven loans, totalling 78 300 000 u.a., were for the financing of economic infrastructure (improvement and irrigation of the Ogliastro site, construction of the Messina-Catania motorway, and modernization of the Battipaglia-Villa San Giovanni railway in Italy; improvement and irrigation of Gascony hillsides in France; irrigation of the Karditsa plain in Greece; installation for gas production in West Berlin; hydroelectric power station in Cameroon).

The total cost of the schemes which these loans will help to finance exceeds 600 million u.a.

To obtain funds, the Bank borrowed a further 138 500 000 u.a. in six new issues of bonds. These operations were carried out on the capital markets of three member countries (Italy, France, Belgium); the Bank also made two issues expressed in dollars.

By 31 December 1966 the Bank had borrowed 359 200 000 u.a. in all.

MEDIUM-TERM ECONOMIC POLICY

136. Further to an exchange of views on 20 December 1966, the Council and the Governments of the Member States adopted the first medium-term economic policy programme on 8 February 1967.

As mentioned in the last General Report,¹ the Commission endorsed the preliminary draft of a first programme prepared by the Medium-term Economic Policy Committee, and sent it to the Council on 29 April 1966, with introductory material and proposals for amendments in respect of the Community co-ordination of national regional policies. The Council immediately referred the programme for an opinion to the European Parliament and to the Economic and Social Committee.

On 30 November 1966 the European Parliament debated the Commission's proposals relating to the draft programme. This debate showed that, except on minor points, the Parliament was in agreement with the Commission. The opinion rendered stressed the vital need for a common approach to economic policy in view of the forthcoming total abolition of market frontiers, and expressed the Parliament's satisfaction with the programme presented.

The Parliament felt that increased public investment and productive investment maintained at a high level were essential to economic growth, emphasized the need for the establishment of programmes covering several years, and endorsed the employment policy recommended. A medium-term programme must deal with structural problems, and proposals for a common scientific research policy should be written into it.

At its session of 26-27 October 1966, the Economic and Social Committee held a debate and adopted an opinion on the first medium-term economic policy programme. It welcomed this initial achievement, feeling that the objectives of the programme constituted a balanced whole. The Committee made a number of comments concerning, in particular, the methods of working out forecasts and measures likely to increase supply. It gave full support to the measures recommended, and summarized their implications in the various fields.

¹ See sec. 132.

137. *The Medium-term Economic Policy Committee* continued its work along the lines indicated in the Council decision of 15 April 1964.

To enable the Council to carry out its task of analysing the economic trend and scrutinizing economic policies in the light of the guidelines of the programme, it was decided that the Commission's staff would examine the Member States' economic budgets and prepare for the Committee each year a short working paper in which the economic trends in the past year and the forecasts for the coming year would be compared with the medium-term economic outlook. In addition, pursuant to the decision of 15 April 1964,¹ the main economic policy measures may be examined in the Committee so that the implementation of the main guidelines adopted by the Council and the Governments of the Member States can be kept under review within the framework of the medium-term economic policy. Lastly, to prevent overlapping between the Committee's work and that of the Monetary Committee, the Short-term Economic Policy Committee and the Budget Policy Committee, the Commission will arrange a joint meeting each year for the chairmen of the four Committees. The first meeting was held in October 1966.

138. The Committee also continued and extended its study of the problems with which the coming programmes will be concerned, a list of which it established at the same meeting, on 6 June 1966.

Activity to establish common guidelines for a scientific and technical research policy² was continued within the specialized working party, which is seeking out ways and means of creating a general climate favourable to research and innovation, of encouraging private research by selective measures, and of facilitating the development of Community co-operation in the research and development field. The working party is to report to the Committee on these questions in the near future.

In February 1966 the Committee sent the Directorate-General for Agriculture a list of questions which could be dealt with in a future chapter on the common agricultural policy. The replies to this questionnaire were received in November, and the Committee decided to entrust the analysis of most of them—connected with development prospects—to an *ad hoc* working party consisting of experts on general economic projections and on agricultural projections. The working party held its constituent meeting on 10 January 1967.

The examination of problems of structural policy in specific industries continued in the working party set up by the Committee at the outset. This working party is preparing for the Committee a report on the general principles it feels should be followed in the field concerned. It is also

¹ See official gazette No. 64, 22 April 1964.

² See secs. 272 sqq.

examining the way in which measures to aid individual industries affect the national budgets.

The Committee also noted the results of Commission research into ship-building and textiles.

At its meeting of 14 October 1966, the Committee considered a memorandum from the Commission's staff on the problems of adapting firms to structural changes. It instructed its secretariat to co-operate with the other departments concerned in order to obtain fuller information on this problem through direct consultation of the appropriate administrations.

The study of incomes policy matters was pursued within the special working party, which has already examined a combined report prepared by the Commissions' staff concerning incomes policies inside and outside the Community. On this basis, the working party is establishing for the Committee a report on the measures which it feels should be recommended in the general context of the principles set out in the first programme.

In order to amplify the guidelines on public finance in the first programme the Committee sent two questionnaires, one in October 1965 and another in June 1966, to the national administrative departments, in order to elicit information on past trends and on forecasts with regard to the structure of the public budgets by administrative department; categories of income and categories of expenditure, and to the functional breakdown of public expenditure by economic sector. The work is advancing slowly, as the official departments in the Member States have run into considerable difficulties in their efforts to establish forecasts as far as 1970.

A study of the economic and financial aspects of social security is being carried out by departments of the Commission. When it is finished, the Committee will agree a procedure to deal with these and other social problems in the second programme.

Lastly, the secretariat has been instructed to establish, in close co-operation with the competent departments of the Commission, the necessary material for an initial study of questions arising in connection with external trade.

The complexity of the problems picked out by the Committee, and the need for thorough study of them before precise guidelines can be formulated, mean that not all of them can be dealt with in the coming programme, the completion of which is scheduled for the end of 1967.

Medium-terms economic forecasts

139. In the spring of 1966 the Commission published the report drafted by the Group of Experts on Medium-term Economic Forecasts, the chairman of which was then Professor Kervyn de Lettenhove.

The forecasts in this report were taken as basis for the draft medium-term economic policy programme laid before the Council.

The Group of Experts on Medium-term Economic Forecasts resumed its work in November 1966. This Group is made up of academic experts and officials from the national departments concerned with quantitative studies (statistics and projections); its chairman is Professor de Wolff of Amsterdam University.

At its last meetings, the Group finalized its working programme for 1967 in the light of the requirements of the Community's medium-term economic policy programme. The following items are included:

- i) Examination of the national volume projections now available for 1970;
- ii) Establishment of value projections;
- iii) Analyses of the development of external trade;
- iv) Overall study of past trends in the main sectors of the economy;
- v) Preparation of subsequent projections.

Preparatory work on most of these has already begun.

The work will entail considerable extension of the field to be covered by the Group in coming months, and the departments of the member countries and of the Commission will now have considerably more work than before. These departments, wide though the disparities are between the resources and facilities at their disposal, are already working harmoniously together. These co-operation arrangements and the aid of academic experts should enable the work to be shared out on the most rational basis possible.

REGIONAL POLICY

Drafting of a programme

140. Chapter Six of the medium-term economic policy programme adopted by the Council and the member Governments deals with the regional policy which the Member States and the Community institutions should pursue.

The programme stresses the need for balanced regional growth within the Community through creation of the requisite conditions for development of the less-favoured regions.

Having pointed out that the main aim of regional aids should be to offset regional handicaps, the programme stresses the need for the development of the various regions to be assured by a coherent set of measures; these measures should form part of a flexible programme covering several years, within which a scale of priority would be established between the operations and a time-table for carrying them out would be fixed in accordance with the availability of finance.

Such programmes would be established in all the Community countries by a common method on which the Member States and the Community

institutions would agree. The programmes would be planned so as to facilitate co-ordination of the resources used in the regional, national and Community institutions, and so as to make possible their concentration on the essential objectives of regional development.

These programmes would also have to be fitted into general economic policy and related, as appropriate, to the general economic development programmes. Their compatibility with the other priority objectives of economic policy should be ensured. Such co-ordination should also be designed to prevent any inconsistencies between the programmes of the various regions.

Lastly, the medium-term economic policy programme stresses the need for the "confrontation" and, if possible, co-ordination, at Community level, of national regional policies. In the programme this is mentioned as an essential condition if the resources of the Member States and of the Community are to be concentrated on the regional policy objectives accorded priority under the medium-term economic policy. Confrontation and co-ordination will also provide a guarantee that the measures implementing the common policies, notably in the fields of agriculture and transport, take regional interests sufficiently into account.

141. At its session of 29 June to 2 July 1966, the European Parliament held a debate and adopted an important resolution on the first Commission memorandum on regional policy.¹ The Parliament notes that the proposals in the memorandum could well constitute the first step towards a Community regional policy; endorses the methods recommended by the Commission; calls on the Community authorities to consider the establishment of a special fund acting together with the European Bank; and stresses the link binding regional policy to policy on the main European infrastructures and to agricultural structures.

*Co-ordinated application of the instruments of regional policy
available to the European institutions*

142. *Study of the promotion of an industrial development pole in southern Italy.* The study, completed in 1965 and officially handed to the Italian Government in the same year, aroused lively interest in the Community and in several non-member countries, notably because of the effort made to single out a number of industries destined to constitute a self-contained industrial pole capable of developing on its own.

The Commission has undertaken to co-operate with the "Institute to Assist Development of the South" (IASM), which has been entrusted by the Italian Government with the task of promoting the pole.

¹ See Ninth General Report, sec. 136.

143. *Co-operation in the frontier areas of France, Belgium and Luxembourg.* The talks between the Belgian and French Governments on the concerted improvement of northern Lorraine and the south of the Belgian province of Luxembourg have recently made some progress. The parties have acknowledged the value of joint development. A first scheme for establishing food processing plant is apparently already well on the road to completion.

The Commission is pleased to see that the action taken by the Belgian and French Governments on its recommendation of 14 June 1963 is now about to yield practical results.¹

144. *Study of eastern Bavaria.* The study on the "Possibilities of improving the economic structure of the frontier area of eastern Bavaria" (Möglichkeiten zur Verbesserung der Wirtschaftsstruktur des ostbayrischen Grenzraumes) was handed to the Commission in July 1966. This study, sponsored and financed jointly by the Bavarian Ministry of Economics and Transport and the EEC Commission, examined ways and means of furthering the industrial development of this area within the framework of the European Economic Community.

Generally speaking, the prospects for industrial development in the two Regierungsbezirke concerned are seen to be relatively favourable.

In the conclusions of the study, the need is stressed for improving co-ordination of the measures contemplated in the frontier area, and a number of new measures are proposed (infrastructure, financing aids) which are likely to favour its development.

The eastern Bavaria study is bound to constitute a working document of major importance, in view of its scale and the many problems tackled in it, since some of the solutions recommended may well prove applicable to other Community areas.

145. *Regional study of Schleswig-Holstein.* In December 1966, the Commission approved a contract for a study on the feasibility of establishing economic poles in Schleswig-Holstein.

A number of economic difficulties beset this Land, because of its geographical position and because of structural weaknesses accentuated by the decline of trade with northern Europe after the founding of EFTA.

The contract providing for financing the feasibility study was signed with consultants by the Land Government, the Federal German Government and the EEC Commission, acting jointly.

¹ Seventh General Report, sec. 147.

The first section of the study will consist of an analysis of the economic structure of Schleswig-Holstein, having due regard to the economic framework of which it is a part. The second and third sections will be devoted to an account of the general and specific objectives of regional policy. In the fourth section development areas will be selected, and the proposals and measures contemplated will be set out in the fifth.

The report's usefulness will not be limited to Schleswig-Holstein, since some of the problems tackled (localization factors in an outlying area, a main communication axis serving as a growth axis) occur in other regions of the Community as well.

146. *Study of the frontier area Liège-Maastricht-Aachen.* On a number of occasions, the Commission has shown its interest in frontier areas within the Common Market. The gradual disappearance of national economic frontiers offers these areas opportunities for development, but also exposes them to risk of further difficulties.

Of the areas at which the borders of two or more Member States intersect, there are few in which the frontier problems are so typical as that where Belgium, Holland and Germany meet the area comprising Liège, Aachen and Maastricht. The three sections of this area face difficulties due mainly to the decline of coalmining, and they receive certain aids from their central governments.

Despite many similarities in the economic structures of the sections and their direct proximity, no programme exists for the area, which in many respects forms a whole.

The Liège-Maastricht-Aachen area is being considered by the Commission for a study of its scope for joint development in a Community framework.

Negotiations are now under way. The study would start by analysing the economic structure of the area as a whole. Endeavours would then be made to establish new guidelines for the various industrial sectors, notably with regard to the conversion of mining districts. The study would also contain proposals for a regional programme, providing for co-ordination of regional policies between the States concerned, with reference to the European Treaties.

Regional statistics

147. When the Commission carried out research into trends in the economies of the various Community regions since 1958, the inadequacy of the regional statistics available and their lack of comparability became very clear: the weakness of the statistics slowed down the work, and in certain cases even brought it to a halt.

In order to obtain within a reasonable time the necessary minimum of homogeneous regional statistics, the Commission's staff collaborated with the Statistical Office in preparing a programme covering the data deemed absolutely indispensable. This programme can be carried out only with the support of the national statistical departments.

Examination of aid systems

148. One of the Commission's permanent tasks is the examination of aid systems in force in the Member States.

The Commission gave special attention to the Belgian law of 14 July 1966 and to its draft implementing decrees. The new legislation aroused concern because of the large area to which it applies. Consequently, the Commission accepted the new law as compatible with the Treaty only on receiving the necessary assurances from the Belgian government departments regarding the criteria which will govern its application. The Commission stressed the need for the Belgian Government to concentrate its main effort on the regions facing the most severe difficulties.

Regional impact of the Guidance Section of the EAGGF

149. As part of its work for the regions, the Commission continued to prepare the implementation of the measures connected with the working of the Guidance Section of the EAGGF.¹

Aid under this head will increase steeply in coming years and is likely to represent an important weapon of Community regional policy.

As far as possible, the Community operations based on this part of the Treaty and its implementing regulations will aim not only to facilitate development of farming in the regions but also to provide a powerful stimulus to regional development under regional programmes complying with Chapter Six of the Medium-term Economic Programme.

INDUSTRIAL STRUCTURE POLICY

150. On submitting the draft of the medium-term economic policy programme on 29 April 1966, the Commission called the Council's attention to the problems, in certain industries, of adapting firms to the requirements of a big market largely open to international competition.

¹ See sec. 187.

In the sphere of industrial structure, on 1 March 1967 the Commission examined objectives and means of action at Community level aimed mainly at developing the competitive capacity of European firms.

Three salient facts make it necessary to give deep thought to the future of the Community's industry: the trend of techniques and modifications of demand caused by large scale-structural changes; the increase in investment by non-member countries, in particular the United States; and the consequences of the GATT tariff negotiations.

In dealing with these and coming problems, a distinction must be made between long-established industries and those of the future. For the former, inevitable development must not be opposed by protectionist measures; instead, firms must be encouraged to adapt themselves to the new market conditions. For the latter, priority must be given to developing the available means of research and stimulating technological progress.

Efforts to implement a Community industrial policy could be made at two levels:

- i) General action in order to ensure that enterprises have a legal framework and financial and technical resources suited to the requirements of a large market (removal of private and public obstacles to trade and of distortions of competition, in particular by harmonization of technical rules, fiscal law and company law, and the development of scientific and technical research);
- ii) Action concerning more specifically some sector of the economy, either industries which are already faced with problems of adjustment, or those where future expansion depends largely on the development of scientific and technical research.

Some work has already been done: in 1966 the Commission paid particular attention to the problems of shipbuilding, textiles, and pulp, paper and paperboard.

Multilateral discussions on the first two industries have been held with representatives of the Governments. Contacts have also been made with the representatives of trade organizations and both sides of industry.

Acting on Commission proposals, the Council took decisions on temporary measures to help the pulp industries to cope with the tariff reductions which will be made.

The Commission has begun to study problems in the electronics industry, where European firms must meet very lively international competition, especially from American firms. Here, in particular, research policy (at the various stages of basic and applied research and development) is of decisive importance, because on it depends not only a great deal of development in the industry itself but also, indirectly, the development of client industries, that is to say a large share of industry as a whole. Furthermore,

Community firms are falling further and further behind American firms in this respect. For this reason an institute has been asked to carry out a special survey of the matter.

This policy towards individual industries must also be weighed in the light of medium-term economic policy as a whole. That is why the Medium-term Economic Policy Committee is working at present on the three industries referred to—shipbuilding and textiles, which are experiencing difficulties, and electronics, where the special problems of an expanding industry are being felt most sharply.

A report on American investments in Community countries has been drawn up in order to estimate their total amount and distribution by industry. A special study was made of investments in the electronics industry.

Energy policy

151. While carrying out the tasks assigned to it by the Treaty in this sphere, the Commission mainly concentrated in 1966 on working out the principles of a common policy on oil and natural gas as required by the Protocol of Agreement on energy policy of April 1964.¹

DEVELOPMENT OF THE FUEL AND POWER MARKET

152. During the year, several things helped to align conditions of supply in the Community's fuel and power market.

As regards coal, the High Authority's Decision No. 3/65 resulted in the harmonization of certain forms of aid, particularly of a social nature, to coalmines in the Community as from the end of 1965. Subsequently, sales of Community coal to thermal power stations were encouraged in several countries by various measures, all of which helped to bring the price of coal nearer that of competing fuels. More recently² a system has been set up to promote coking coal; it will be financed partly on a Community basis and is intended to prevent steel firms which make use of Community coking coal from being penalized as compared with firms using imported coal.

Thus the conditions for an outward-looking energy market are being progressively achieved, as was urged in 1962 by the Inter-Executive Working Party on Energy in its memorandum to the Council.

¹ See Eighth General Report, sec. 158.

² See official gazette No. 36, 28 February 1967.

153. As regards oil, the abolition of customs duties between Member States at the end of 1964 has led to greater interpenetration of certain markets.

Petrol prices dropped considerably in 1966 in Germany, Belgium and the Netherlands. Fuel oil prices went down in France but tended rather to increase in Germany and Italy; the average level of ex-refinery prices before tax is now 14 dollars per ton in the south of Europe and 15 dollars in the north, with variations not exceeding 1 to 2 dollars per ton. Prices for medium distillates, gas oil and diesel oil still shown certain differences, but here too the tendency is towards alignment.

154. The keen competition which has developed on the markets has led to changes in the structure of firms. In certain cases Community companies have been absorbed by international groups, but groupings of small and medium-sized firms have also taken place in the Community, enabling them to strengthen their competitive position. In France the "Entreprise de Recherche et d'Activités Pétrolières" (ERAP), which is the result of a merger of several exploration and distribution companies, now has an integrated structure. In Germany the "Deminex" company has been set up; it combines the new exploration activities of various independent German companies.

A number of these firms sent a joint memorandum to the Commission in March 1967, expressing their concern about their future situation in view of the establishment of a common energy policy.

IMPLEMENTATION OF THE TREATY

155. On 1 March 1967 the Commission submitted to the Council a proposed directive on freedom of establishment and freedom to supply services (self-employed activities) in exploration (surveys and test drilling) for oil and natural gas.¹ This directive concerns exploration on the Member States' territory and on the part of the continental shelf coming under their jurisdiction.

156. The Commission authorized Germany to grant aids in two cases: to thermal power stations, by making up the difference in price between coal and the fuel oil which would have replaced it, and thus enabling coal sales to be maintained at the 50 % level until 1970; and to factories regenerating used oils so that these oils may continue to be collected.²

¹ See sec. 29.

² See sec. 76.

The Commission has continued to study the application of the Treaty, and particularly the application of the provisions on free movement and competition in the following three cases: the arrangements for importing petroleum into France; the system of self-imposed limits operated by oil companies in Germany; sales organization and policy for Dutch gas.

The Commission is continuing to examine problems arising from the transport of crude oil and refined products by pipeline.

A proposed directive on the storage of petroleum products has been submitted to the Council.¹

THE COMMISSION'S FIRST PROPOSALS FOR A COMMON POLICY ON OIL AND NATURAL GAS

157. The first memorandum concerning Community policy on oil and natural gas, submitted by the Commission to the Council on 16 February 1966, was analysed in detail in the Ninth General Report.²

The European Parliament debated the proposals on 12 October 1966 in the light of the report drawn up by M. Leemans on behalf of the Energy Committee.

The report points out, firstly, that the Community energy policy, particularly for oil and natural gas, must be based on the following principles: security of supplies at the lowest prices; easy replacement of one fuel by another; freedom of choice of the consumer, and unity of the common market.

The rapporteur considered that a Community plan should be drawn up on the basis of these principles, in order to encourage Community companies to develop reserves of oil and natural gas while guaranteeing investors markets for the products obtained at a price making capital investment worthwhile and refining and distribution profitable.

According to M. Leemans' report, the predominant role played by international companies on the Community's oil market necessitates measures, in particular of a fiscal nature, to ensure fair competition between international and Community companies.

The Community's energy policy has to be considered as a single whole, and the insufficient number of oil deposits in its territory must not lead to an energy policy based on protectionism. Protection measures, which are sometimes unavoidable for social or regional reasons, are justified only in transitional periods.

¹ See Eighth General Report, sec. 155.

² See sec. 146.

The debate on M. Leemans' report highlighted the importance of security of oil and natural gas supplies and the need to enable Community oil companies to compete effectively.

The Parliament adopted a resolution¹ in which it approved the main lines of the Commission's proposals and singled out certain points worthy of special attention. In conclusion, the Council was called upon to show its readiness to apply a European energy policy in which a Community policy on oil and natural gas would play a large part.

Common agricultural policy

FOREWORD

158. Chapter I discussed the implications of the decisions of 11 May and 26 July 1966, which fixed 1 July 1968 as the deadline for the free movement of agricultural products and dealt with financing, commercial policy (Kennedy Round) and aid policy, thus making 1966 a vital period for the common agricultural policy. The present chapter gives full details of these decisions, particularly with regard to single prices, the expenditure and income of the EAGGF, and the Commission's proposals for the single market stage. Side by side these market matters, attention will be devoted to the structural and social aspects of a European agricultural policy which is concerned for the standard of living of agricultural workers, the optimum size of farms, and the needs of consumers.

Following the pattern of previous General Reports, we shall begin by reviewing market in the Community and the functioning of the common organizations.

COMMON ORGANIZATION OF AGRICULTURAL MARKETS

Market trends

159. *Production.* According to first estimates, total cereal production in the EEC was 58.2 million tons in 1966, which is less than in 1965/66 and 1964/65 but above the average for the years 1961-65 (57.2 m. tons). Although the wheat harvest is expected to be poor (26.5 m. tons) because of the unusually early winter, it is thought that there will be a record

¹ See official gazette No. 201, 5 November 1966.

harvest of barley and maize grown for seed (12.5m. and 7.8m. tons respectively). A considerable part of the area previously devoted to wheat is now being used for barley, and the record level reached by maize production appears to be the result of increased unit yields (39.2 quintals per hectare as against 35.5 quintals last year). In the two rice-growing member countries, France and Italy, the harvest in 1966 represents a return to normal after the big drop in the preceding year caused by extremely unfavourable weather conditions.

In the pigmeat sector, farmers reacted to the low prices of 1965 by cutting down production, and in 1966 were not even able to meet the 3.4 % increase in demand connected with the rise in living standards. Because of this, Community self-sufficiency was slightly below 100 in 1966. It should be noted, however, that pigmeat production is increasing in those areas where the factors of production are most favourable.

The upward trend of beef and veal production apparent in 1965 became more marked during the period under review. There was a distinct increase in cattle stocks and, for the first time since 1962, production of beef and veal in the Community was 10 % higher than in the preceding year. All member countries contributed to this growth; but the increase in production in the traditional importing countries, such as Germany and Italy, is particularly significant. This tendency will probably continue in 1967 in view of the large number of young animals being kept for breeding. Consumption was 4.9 % up on 1965 and reached a record level of 4 350 000 tons.

Egg production in the traditional importing countries such as Germany and Italy increased sufficiently to ensure that the supply situation was better than during 1965. In fast supplies increased perceptibly during the course of the year, except in November, when eggs were rather short.

Production of poultrymeat continued to go up, particularly in Germany, Italy and the Netherlands—so much so that at the end of the year supply exceeded demand.

The trend towards increased milk production, which has been apparent for some years past, continued, and the proportion of milk used for butter-making went on rising. Butter production again outran consumption; even in Italy, the only member country where the opposite was the case, production rose appreciably and the output of Grana and Parmesan cheeses also grew. It seems that the markets of most member countries are unable to absorb all the butter and that stocks will be as large, if not slightly larger, than last year. This trend will affect France and Germany in particular.

Although weather conditions were not particularly favourable in 1966, the production of certain fruits and vegetables rose. In Germany the

output of vegetables grown in the open air was the highest since 1963. Production of apples and pears in the Community showed a considerable increase on the bad harvest of 1965. On the other hand, peach production fell perceptibly in France. There were good harvests of peaches, grapes and citrus fruit in Italy.

Almost 131m. hectolitres of wine were produced in the Community in 1966, some 10m. hectolitres less than in 1965. The grape harvest was smaller in all producing Member States except Luxembourg, where output increased.

The biggest drop in production was registered in France, by almost 6m. hectolitres.

Since the marketing year for olive oil has not yet come to an end, no exact figures can be given for this product. However, the latest estimates issued by the International Olive Oil Council show that production in 1966/67 will be lower than in 1965/66.

160. *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 1965 and the first nine months of 1965 and 1966.

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. Imports are still determined by the quantitative and qualitative needs of the Community, which are in turn determined by the harvest. In the first half of the 1966/67 marketing year, however, trade in the three main types of cereal (wheat other than durum, barley, maize) between France and the other member countries represented 36 % of that country's total cereal exports as compared with 24 % in the corresponding period of 1965/66. Since production of wheat other than durum fell, the increase in intra-Community trade is due principally to barley and maize, which represent 55 % of all French barley and maize exports. Since the beginning of the 1966/67 marketing year, there have been fairly good prospects for exporting to non-member countries the surplus wheat harvested in the Community in 1966. This is largely because of the high level of demand from the East bloc countries. It should be noted, however, that there will be less demand from the USSR for grain harvested in 1967 since cereal production in that country has increased.

In the case of rice, the 1965/66 marketing year—the second since the levy system came into operation—was marked by an appreciable increase in intra-Community trade despite the poor harvest of 1965. There was again a substantial amount of trade with non-member countries.

TABLE

Imports by EEC countries of some agricultural

Product	Period	Germany
		From
Wheat	1965	1 495 750
	9 months 1965	984 904
	9 months 1966	799 929
Barley	1965	780 468
	9 months 1965	507 490
	9 months 1966	621 175
Pigs for slaughter (units)	1965	327 459
	9 months 1965	156 060
	9 months 1966	199 880
Poultrymeat	1965	72 137
	9 months 1965	38 571
	9 months 1966	29 856
Shell eggs	1965	28 711
	9 months 1965	21 536
	9 months 1966	11 618
Live cattle and calves (units)	1965	495 106
	9 months 1965	355 548
	9 months 1966	297 145
Beef and veal, fresh, chilled or frozen	1965	83 223
	9 months 1965	67 137
	9 months 1966	47 909
Milk and cream, fresh, not concentrated or sweetened	1965	553
	9 months 1965	380
	9 months 1966	379
Milk and cream preserved, concentrated or sweetened	1965	8 429
	9 months 1965	6 358
	9 months 1966	5 061
Butter	1965	2 445
	9 months 1965	1 626
	9 months 1966	2 777
Cheese and curd	1965	46 602
	9 months 1965	33 744
	9 months 1966	40 017

Source: SOEC computer print out.

¹ For Netherlands the figures for the first nine months of 1966 are provisional — taken from the National Statistical Bulletin of Foreign Trade, shell eggs converted into weight (1 egg = 58.5 grammes).

products subject to common regulations

(metric tons)

France	Italy	Netherlands ¹	B.L.E.U.	EEC
non-member countries				
735 223	553 830	574 588	429 951	3 789 342
511 022	374 552	399 878	295 398	2 565 754
523 909	627 776	440 284	297 521	2 689 419
440	834 491	152 896	100 396	1 868 691
440	553 502	128 641	64 672	1 254 745
1 276	688 185	69 671	58 838	1 439 145
23 713	39 795	5	22 246	393 218
11 385	13 532	5	44	181 026
28 684	72 051	23	6 641	307 279
302	5 943	1 670	241	80 293
118	4 730	850	56	44 325
48	2 807	574	198	33 483
183	27 906	39	38	56 877
—	22 932	37	35	44 540
10	15 850	94	28	27 600
749	334 168	68 784	50 226	949 033
458	208 790	61 869	46 641	673 306
2 554	394 477	18 880	40 141	753 197
46 310	206 439	22 579	14 846	373 397
39 955	161 939	17 703	11 116	297 850
31 868	187 409	21 941	10 647	299 774
5	5 490	—	1	6 049
4	3 112	—	—	3 496
4	4 760	3 328	—	8 471
2 407	17 304	82 993	3 455	114 589
1 886	11 987	66 205	3 423	89 859
1 980	12 675	59 192	1 991	80 899
12 398	11 766	56	2 180	28 845
11 680	10 160	56	1 904	25 426
632	1 363	1	13 050	17 823
10 182	37 058	1 245	7 105	102 192
7 413	27 859	861	5 024	74 901
8 346	28 771	959	5 511	83 604

TABLE

Product	Period	Germany
		Intra-Community
Wheat	1965	161 348
	9 months 1965	83 125
	9 months 1965	271 491
Barley	1965	599 515
	9 months 1965	415 798
	9 months 1966	655 967
Pigs for slaughter (units)	1965	68 705
	9 months 1965	30 255
	9 months 1966	43 139
Poultrymeat	1965	131 502
	9 months 1965	93 673
	9 months 1966	100 141
Shell eggs	1965	76 226
	9 months 1965	59 936
	9 months 1966	56 052
Live cattle and calves (units)	1965	8 490
	9 months 1965	3 796
	9 months 1966	6 658
Beef and veal, fresh, chilled or frozen	1965	64 134
	9 months 1965	47 875
	9 months 1966	49 153
Milk and cream, fresh, not concentrated or sweetened	1965	45 073
	9 months 1965	35 211
	9 months 1966	41 584
Milk and cream, preserved, concentrated or sweetened	1965	61 568
	9 months 1965	41 946
	9 months 1966	66 663
Butter	1965	8 382
	9 months 1965	6 098
	9 months 1966	6 024
Cheese and curd	1965	79 225
	9 months 1965	57 054
	9 months 1966	65 155

Source: SOEC computer print out.

¹ For Netherlands the figures for the first nine months of 1966 are provisional — taken from the National Statistical Bulletin of Foreign Trade, shell eggs converted into weight (1 egg = 58.5 grammes).

France	Italy	Netherlands ¹	B.I.E.U.	EEC
trade (imports)				
90	376 852	203 806	75 986	818 082
55	282 085	149 453	35 506	550 224
1 429	191 181	11 102	70 084	545 287
38	28 151	138 328	263 766	1 029 798
38	16 078	96 355	185 547	713 816
85	7 870	103 481	208 140	975 543
321 223	309	118	61 558	451 913
240 035	306	104	45 700	316 400
82 285	2 549	307	13 939	142 219
197	142	18	120	131 979
152	58	9	83	93 975
119	103	264	123	100 750
4 840	6 157	88	109	87 429
1 912	5 759	82	78	67 767
3 923	1 380	474	104	61 933
2 066	287 161	11 706	10 988	320 411
1 949	239 670	10 266	6 756	262 437
252	176 517	11 408	698	195 533
13 084	46 006	2 202	2 833	128 259
10 703	36 851	1 581	2 109	99 119
1 198	42 613	6 888	2 448	102 300
973	23 599	18 996	1 122	89 763
774	6 788	13 515	911	57 189
596	64 279	13 865	1 007	121 331
2 657	19 899	22 918	47 755	154 797
2 259	9 255	18 835	39 999	112 294
779	40 892	42 341	36 702	187 377
4 824	23 391	154	887	37 638
4 146	13 973	154	678	25 049
2 179	14 909	20	1 452	24 584
19 288	26 291	6 694	28 940	160 438
14 369	18 987	4 549	21 509	116 468
13 941	24 089	4 810	22 503	130 498

Imports of pigmeat from non-member countries were not high enough to prevent a perceptible increase in prices, although imports were higher than in 1965, particularly in France, Germany and Italy. The principal suppliers were the countries of northern Europe (Denmark and Sweden) and the East bloc (Hungary, Bulgaria, Yugoslavia and the Soviet-occupied zone of Germany). The increase was particularly noticeable in the case of imports of pigmeat products, which have doubled since the Community rules came into force. Intra-Community trade in pigmeat developed satisfactorily, although the flow was temporarily interrupted by veterinary measures made necessary by an epidemic of foot-and-mouth disease in the Netherlands.

The overall pattern of trade in beef and veal between the Member States and non-member countries did not suffer any great change in 1966. There were, however, considerable deflections of trade from country to country, both in the Member States and, more especially, in the non-member countries concerned. Trade in these products was effected by an increase in home production in all Member States (11.6 % higher for cattle and 4.6 % higher for calves); by the application of the full levy or the 50 % levy, a measure which caused imports to contract; and by the increase in consumption, which has now reached a minimum of 1 kg per head of the population.

As regards the Member States where domestic supplies of beef and veal are inadequate, net imports fell considerably in Germany and in the countries of the Belgo-Luxembourg Economic Union, while they rose in Italy. As for the two countries with excess production, France increased its exports slightly while there was a drop in net exports from the Netherlands due, no doubt, to foot-and-mouth disease. The Community's imports of live cattle and calves and of beef and veal reached the same level as in 1965. There was, however, an increase in imports from certain non-member countries (particularly non-European and state-trading countries), and this had an adverse effect on some traditional exporting countries such as Denmark, the United Kingdom and Ireland.

Although the volume of imports of processed products into Community countries remained at the same overall level, there were deflections of trade between the exporting countries.

Trade in eggs continued to decline, the fall in imports from non-member countries being particularly great. If intra-Community imports are expressed as a percentage of overall imports, it will be seen that exporting member countries secured a much larger share of the Community market, to the detriment of imports from non-member countries.

Imports of poultrymeat from non-member countries are declining rapidly, despite the slight increase in consumption. Community exports to non-member countries were a little higher than last year, but negligible in comparison with the total amount imported.

The favourable trend of trade in the milk products sector noted in previous years was maintained, particularly between the Member States.

Intra-Community trade in fruit and vegetables developed well in the first nine months of 1966. Imports from non-member countries also increased, by some 2.6 %.

Comparison of the figures for wine for the period April-November in 1965 and 1966 shows that intra-Community trade was some 141 000 hl higher than in 1965, and totalled 2 260 000 hl.¹ All member countries increased their imports from other Community countries. Imports from non-member countries amounted to 7 891 000 hl. Two member countries increased their imports—Germany imported 548 000 hl more from various non-member countries and France increased its imports from Tunisia in particular—while imports by the other four fell slightly.

Imports of wine from Greece dropped by 191 000 hl to 59 000 hl. It should be noted, however, that German imports of fortified wines from the Netherlands were considerably up on last year (157 000 hl as against 49 000 hl) and included a considerable proportion of Greek wines.

Community exports to non-member countries reached 1 850 000 hl, more or less the same as in the corresponding period of the previous year.

The common organization of the market for olive oil was established too recently (10 November 1966) to have had any perceptible influence on trade. If production forecasts, the absence of large stocks, and Community consumption are taken into account, it can be estimated that imports of olive oil from non-member countries will be at least as high as in the past, and that intra-Community trade will remain small.

161. *Price trends.* Market prices for wheat at the end of the 1965/66 marketing year were generally close to the intervention price, except in France, where they were closer to the target price. From the beginning of the 1966/67 marketing year, market prices moved towards the level of the threshold price, except in Italy, where they tended to approach the target price. Market prices for barley were either just below or just above the target price. In France, prices for maize both at the end of the 1965/66 and the beginning of the 1966/67 marketing year were close to the threshold price. In Italy, prices were above the threshold price at the end of 1965/66 marketing year and it seems that this trend will be repeated in the present marketing year. Prices for cereals on the world market (cif Antwerp-Rotterdam) were generally quite stable, although there were some variations. In the rice-growing regions of the Community, prices for paddy harvested in France in 1965/66 were regularly the same as the target price, and in Italy they were above the

¹ Import figures for Belgium refer to April-September 1966 only.

target price. During the period under review, the world market in rice was characterized by a very definite and steady increase in the level of supplies. Since this trend applied to all qualities of rice at whatever stage, the differences in world market prices for the various types remained slight.

Pig prices were decidedly up on 1965; in fact, the price level was one of the highest ever recorded in the Community because of particularly high average prices in Germany, Italy and France. This unusual level was, it is true, partly due to cyclical fluctuations at the peak of the curve.

Until August 1966 cattle prices in the Member States remained above the guide price, except in Italy, where a 100 % levy was imposed from the beginning of April. The other Member States, however, applied a 50 % levy in many cases. To deal with the situation, the Council authorized Italy to impose an additional levy on imports from non-member countries, and this had a favourable effect on prices. From the end of August, Italian prices were once more higher than the guide price. In the second half of the year, prices in the Netherlands and in Germany fell below the guide price; the same thing happened in Belgium and France from the month of October onwards. Prices for calves were very high throughout the year, with a temporary falling-off in the Netherlands owing to the epidemic of foot-and-mouth disease. In the period May-September, Belgium, Luxembourg, France and Germany also imposed a levy on imports from non-member countries from time to time. Although Germany and France had recourse to support measures, no levy was imposed on intra-Community trade during the period under review.

There was a considerable drop in egg prices as compared with the previous year. Prices were relatively stable — if at a level which might be regarded as too low—until November, when they rose, only to fall again early in 1967.

Poultrymeat prices, which were stable and relatively low, fell considerably towards the end of the year in all Community countries because of the imbalance between supply and demand during this period.

On the whole, prices for milk products were very stable at a level generally higher than that of the preceding marketing year; this was particularly true of cheese. Producers were able to obtain the target price for milk, and sometimes even a higher price.

Although in the first half of 1966 fruit and vegetables were marketed at prices slightly above those in the first half of 1965, price levels for some of them—tomatoes, carrots, beans, lettuces, apples and pears—were too low during the autumn months and towards the end of the year. In Italy, market prices for oranges were satisfactory at the beginning of 1966, but the 1966/67 marketing year began with distinctly lower prices.

As in 1965, prices for wine did not show the same trend in all producing member countries. In Germany, prices were relatively stable in some regions (Palatinate), whereas in others (Moselle) they fell considerably. They have been relatively firm in all wine-growing regions since the new harvest. In France, market prices were low despite the measures taken to support them. In September, with the new harvest, there was a perceptible increase in prices, but this was short-lived. In Italy, prices were firm nearly all the time and the new harvest did not alter this. In Luxembourg, prices were stable and sales normal.

In Italy, the Community's principal producer and consumer of olive oil, wholesale prices fluctuated somewhat in the days immediately following the entry into force of the common organization of the market, but then steadied at a level close to the target price plus charges, which meant that they were approximately 20 % lower than those during the 1966 marketing year. For the better-quality oils, however, the drop in price was less marked because production fell short of demand. Prices in the other Member States are expected to rise slightly, since the levy is higher, on the average, than the customs duties previously charged. Nevertheless, this rise in prices should not have any significant effect on olive-oil consumption in the Community.

Functioning of the common organization of markets

162. *Common organization of the markets in cereals and rice.* As far as prices in the 1966/67 marketing year are concerned, various Member States continued the process of price adjustment begun during the previous marketing year with a view gradually harmonizing the prices in force in the Community and arriving, by the end of the transitional period for cereals, at the common target price laid down by the Council on 15 December 1964. This process meant an increase in the price of:

rye, in Belgium, France and the Netherlands,
barley, in Belgium, France, Italy and Luxembourg,
maize in Italy,
wheat in France.

As before, the measures taken by the Member States during the marketing year were in line with the provisions of Regulation No. 19, Regulation No. 16/64 and implementing regulations.

The Council's decision No. 66/386 of 28 June 1966 renewed an earlier one waiving the provisions of Article 7(1) of Regulation No. 19 and authorizing Italy to fix intervention prices for durum wheat; it is understood that each of these intervention prices plus aid should be between

90 and 105 % of the corresponding target price.¹ The same decision authorized Italy to impose an additional levy on imports of certain types of wheat other than durum which are in competition with durum grown in Italy, since the conditions which justified the Council's decision for the 1965/66 marketing year had not changed.

The system of refunds to starch producers was extended to 30 June 1967 by Council Regulation No. 131/66.¹

Prices for rice in the 1966/67 marketing year have been gradually approximated, in the light of the common prices fixed on 26 July 1966. In this way, the target price bracket of the two producing Member States has been narrowed and the French threshold price, which had been the highest in the Community, has been reduced. As against this, the threshold price of non-producing Member States was increased on 1 September 1966, and two further increases on 1 January 1967 and 1 May 1967 will bring them gradually to the level of the common price applicable from 1 September. The Council also extended to the 1966/67 marketing year the exceptional measures introduced for the previous marketing year involving abatements on the levy applicable to imports of husked rice from non-member countries. Since trade has developed favourably, the Commission maintained the standard amounts charged in intra-Community trade in cereals, rice and brokens at the same level as in the 1964/65 and 1965/66 marketing years.

After the European Parliament had given its opinion, the Council also adopted a regulation on the system of levies to be applied to mixtures of cereals and rice.

163. *Common organization of the market in pigmeat.* The organization of these markets, which is based essentially on the system of sluice-gate prices and levies, did not give rise to any great difficulties. The Commission was, however, forced to take steps to alleviate the restrictions on trade between Member States caused by veterinary measures, and during the months of October and November, the Council gave Member States the option of reducing levies in order to help Germany and Belgium obtain supplies of pigmeat to meet a very large increase in demand. This measure helped to bring market prices in these countries back to a suitable level.

164. *Common organization of the market in beef and veal.* Since beef and veal production is closely linked with dairy production, the maintenance of a target price bracket for milk during the 1966/67 marketing year justified the maintenance of a guide price bracket for cattle and calves after 1 April 1966. It was for this reason that the Council waived the provisions of Article 2 of Regulation No. 14/64/CEE and, on the

¹ See official gazette No. 117, 29 June 1966.

basis of Article 18 of the same regulation, adopted for the 1966/67 marketing year the same system of fixing the guide price which had been used in previous years. The upper and lower limits of the guide price for mature cattle were fixed at 60.50 u.a. and 64.25 u.a. respectively, For calves, these limits were fixed at 80 u.a. and 86.75 u.a. respectively. As in 1965, raising the level of these limits was justified by the need to promote animal husbandry within the Community. With the same end in view, the Council renewed its decision authorizing Italy to suspend, for the whole marketing year, customs duties chargeable on imports from non-member countries of animals weighing less than 300 kg.

A certain amount of difficulty was experienced in keeping market prices in or around the level of the guide price. To remedy this situation, the Council authorized certain Member States from time to time to impose an additional levy on mature cattle imported from non-member countries, but the Member States in question did not always take advantage of this authorization. Meanwhile, the Commission studied the problem with a view to arriving at a Community solution, and towards the end of the year it submitted to the Council a proposal for modifying the method used to calculate prices on importation.

France and Germany were both forced to take support measures in the beef and veal sector, either under Article 10 of Regulation No. 14/64 or under Regulation No. 111/66, which authorized France, Belgium and Germany to introduce support measures for certain products once prices on the home market fell below the guide price. In France 1 700 tons of meat were affected by support measures and in Germany some 9 300 tons.

165. Common organization of the market in eggs and poultrymeat. Supplementary amounts were applied to shell eggs during the period under review.¹ An improvement in offer prices for eggs made it possible, however, to abolish supplementary amounts as from 8 December 1966,² but early in 1967 their reimposition was justified by the serious situation caused by offers at prices lower than the sluice-gate price.³

Under Article 5 of Regulation No. 22, the Commission authorized Germany to reduce levies on imports of geese from non-member countries for the period towards the end of the year.

The charging of supplementary amounts on poultrymeat had the effect of gradually increasing import charges to give protection to the Community market. On 25 October 1966, the Commission adopted general rules on the supplementary amount chargeable on imports of poultry products from non-member countries; these rules allow two different supplementary

¹ See official gazette No. 36, 1 March 1966.

² *Ibid.* No. 76, 27 April 1966.

³ *Ibid.* No. 91, 20 May 1966.

amounts to be charged where certain countries offer supplies at abnormally low prices.¹ To facilitate the rundown of stocks of poultrymeat built up in Germany because of the strong concentration of supply towards the end of the year, the Commission decided to authorize Member States to increase the supplementary amounts refunded on exports to non-member countries.

166. *Common organization of the market in milk and milk products.* The common market organization has functioned satisfactorily in this sector. The system of levies and refunds has been progressively improved, as has the system applied to trade in compound feeds and powdered milk for animal nutrition. The equilibrium of the butter market is still the most delicate problem. As was the case last year, the Commission dealt with it by authorizing certain Member States to sell public stocks of butter on special terms, for direct consumption or for processing, and by submitting to the Council proposals to facilitate the sale of stocks held by individuals.

For the 1966/67 marketing year, the Council again narrowed the bracket within which the Member States fix their target prices. France and the Netherlands were the only countries which were able to increase their target prices slightly; these remained unchanged in the other Member States. The threshold prices applicable to various milk products were also changed by the Member States as part of the effort to approximate prices, in view of the fact that subsidies are being reduced at a rate which is sometimes more rapid than had been expected and that target prices and market prices have been modified. The intervention price for first-quality butter, fixed in the Member States in relation to the threshold price, remained unchanged in Belgium and Germany; the increase was largest in the Netherlands, then came Italy and Luxembourg, the smallest increase being registered in France. For the 1967/68 marketing year, the Commission has submitted to the Council proposals which will lead to a new approximation of national target prices and market prices for milk products.

167. *Common organization of the market in fruit and vegetables.* Regulation No. 23² on the common organization of the markets in fruit and vegetables was applied without major difficulties. Since the beginning of 1966 the liberalization of trade between Member States has been extended to fruit and vegetables in Class II; no Member State found it necessary to invoke the safeguard clause. The system applied to imports of fruit and vegetables from non-member countries worked satisfactorily. In particular, the level of reference prices for sweet oranges, fixed under Article 11(2) of Regulation No. 23, did not give rise to the imposition of a countervailing charge. However, it was found necessary to levy

¹ See official gazette No. 191, 26 October 1966.

² *Ibid.* No. 30, 20 April 1962.

charges of this kind for limited periods on tomatoes and dessert grapes imported from certain state-trading countries. The Commission fixed reference prices for the 1966/67 marketing year for tomatoes grown in the open, plums, peaches, cherries, dessert grapes grown in the open, lemons, pears, apples, mandarins, clementines, satsumas, wilkins and sweet oranges.¹

168. *Common organization of the market in vine products.* In pursuance of Regulation No. 24² the Member States continued work on establishment of the viticultural land register. This task is almost complete in Germany and Luxembourg. Certain difficulties were encountered in Italy because of the enormous amount of labour involved, but nevertheless some progress was also made in this country during the period under review. In France, the viticultural land register which has been in existence since 1952 has not yet been brought up to date, and the work of aligning it with the Community arrangements has not yet been completed. The first results submitted by the Member States are now being processed.

The Commission is at present making a provisional assessment of harvests and stocks on the basis of estimates and returns supplied by the six member countries in accordance with Regulation No. 134.³

The Commission's proposal to the Council for a regulation concerning quality wines produced in specified areas⁴ was studied further but no general agreement could be reached.

The Commission will very shortly submit to the Council a draft regulation on the common organization of the market in wine.

In pursuance of the Council decision of 4 April 1962² 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. However, the Council could not agree to the proposal.

The work of harmonizing existing national regulations and elaborating Community regulations continued. A proposal for a directive on the marketing of material for the vegetative propagation of grape vines was submitted to the Council on 26 October 1966.⁵

In the ethyl alcohol and spirits sector all the necessary groundwork has been done on a proposal for a common policy concerning alcohol of agricultural origin and co-ordinating provisions for spirits, and the drafting of the proposals themselves is well advanced.⁶

¹ See sec. 175, supplementary provisions.

² See official gazette No. 30, 20 April 1962.

³ *Ibid.* No. 111, 6 November 1962.

⁴ See Ninth General Report, sec. 161.

⁵ See official gazette No. 16, 27 January 1967.

⁶ For the most recent developments in the common organization of markets, see sec. 173.

FREE MOVEMENT OF AGRICULTURAL PRODUCTS AND COMMON PRICES

169. At its session on 11 May 1966, the Council drew up a time-table for achieving free movement of agricultural products by 1 July 1968 in the following stages:

*1 November 1966:*¹

Establishment of a common organization of the market for olive oil, and entry into force of the common price for this product:

1 January 1967:

Implementation of supplementary provisions for the common organization of the market in fruit and vegetables and application of quality standards to fruit and vegetables marketed within the producing Member State;

1 July 1967:

Implementation of Council decisions of 15 December 1964 concerning the products covered by Regulations 19 to 22;

Establishment of common organizations of the markets for sugar and oils and fats (oilseeds), and entry into force of common prices for oilseeds;

Application of the criteria of a common policy on aids in agriculture;

1 September 1967:

Entry into force of the common price for rice;

1 April 1968:

Entry into force of common prices for milk and milk products, beef and veal;

Not later than 1 July 1968:

Entry into force of the common price for sugar.

Under this arrangement, the process of freeing movement of the main categories of agricultural products can be completed by easy stages while work goes ahead on an overall policy for competition in agriculture.

Not later than 1 July 1967 the Commission will put before the Council proposals for achieving freedom of movement for those products in Annex 2 of the Treaty which at that date are still not covered by a common organization of the market² in conformity with Article 40, it being understood that common organizations of markets in live plants, flowers, bulbs, etc., hops and fish are to be established by 1 July 1968 at the latest.

¹ Later postponed to 10 November.

² See sec. 183.

TABLE 15

*Common prices adopted by the Council on 26 July 1966
with date of entry into force*

Products	Price in u.a. ¹	Date of entry into force
<i>Milk</i>		
Target price per 100 kg of milk of 3.7 % fat content, delivered dairy	10.30	1. 4. 1968
Intervention price per 100 kg of first-quality butter	176.25	1. 4. 1968
Threshold price for various milk products	²	1. 4. 1968
<i>Beef and veal</i>		
Guide price for mature cattle (on the hoof)	66.25	1. 4. 1968
Guide price for calves (on the hoof)	89.50	1. 4. 1968
<i>Sugar</i>		
Minimum price for beet (within the basic quota)	17.00	1. 7. 1968
Minimum price (outside the basic quota up to 135 %)	10.00	1. 7. 1968
Target price per 100 kg of refined sugar (in the area with the largest surplus)	22.35	1. 7. 1968
Intervention price per 100 kg of refined sugar	21.23	1. 7. 1968
<i>Rice</i>		
Basic target price per 100 kg	18.12	1. 9. 1967
Intervention price:		
- Italy	12.00	1. 9. 1967
- France	12.30	1. 9. 1967
Threshold price for the area with the greatest deficit	17.78	1. 9. 1967
<i>Oilseeds (colza, rape, sunflower)</i>		
Target price per 100 kg	20.25	1. 7. 1967
Basic intervention price per 100 kg	19.25	1. 7. 1967
Minimum intervention price per 100 kg	17.65	1. 7. 1967
<i>Olive oil</i>		
Producers' norm price per 100 kg	115.00	10.11. 1966

¹ Since 6 March 1961 a unit of account has been equal to DM 4, FF 4.93706, Lit. 625, Bfrs/Lfrs 50 and Fl. 3.62.

² These prices were fixed for 14 groups of products and for Cheddar — and Tilsit-type cheeses.

At its meeting on 26 July 1966, the Council drew up this definitive timetable and supplemented the decisions by fixing common prices. The regulations adopted at this meeting deal with the common organization of the markets in fruit and vegetables (additional provisions) and in oils and fats, and with the establishment of single prices not hitherto agreed upon (milk and milk products, beef and veal, rice, sugar, and vegetable oils and fats).

The prices fixed by the Council, which are set out in the table on the following page, correspond broadly with those proposed by the Commission.¹ The Council did, however, fix slightly higher prices for milk (10.30 u.a. delivered dairy, although the Commission had proposed a price of 9.5 u.a. ex-farm), for sugar (22.35 u.a. as against 21.14 u.a., the intervention price being slightly nearer), and for olive oil (115 u.a. instead of 111).

The Council also defined the Community's financial responsibility for wine and tobacco. In the case of wine the Commission was requested to submit, before 1 May 1967, a proposal for a common organization of the market in ordinary table wines which should lead to freedom of movement for such wines by 31 October 1969 at the latest.

In the case of tobacco, the Commission was requested to submit a proposal, before the end of 1966, for a common organization of the market in unmanufactured tobacco and for the modification of monopolies and the abolition of discrimination in this field. The proposal may arrange for the common market organization to come into effect on 1 July 1968, provided the work on modification of monopolies is sufficiently advanced by then.

170. With a view to implementing the Council decisions on the products in Annex II of the Treaty, the Commission submitted to the Council on 17 February 1967 a proposed directive providing for the first reduction in intra-Community customs duties on certain agricultural products during the final stage of the transition period.²

Some of the products listed in Annex II of the Treaty are already covered or will soon be covered by common organizations of the markets; others will be subject later to some specific form of common organization. The abolition of the remaining intra-Community customs duties on products other than those coming under the first two heads cannot be arranged for any single date, and in the circumstances it is not yet possible to lay down a time-table for reductions leading to their abolition. However, unless some reduction is introduced for these products by 1 July 1967 at

¹ See Ninth General Report, sec. 169, Table 16.

² See official gazette No. 51, 20 March 1966.

the latest, the difference between the treatment accorded to industrial and agricultural products will grow. The Commission therefore proposed that by 1 July 1967, intra-Community customs duties on this category of goods should be lowered to not more than 25 % of the basic duty. The European Parliament was consulted on this proposal.

In the following pages will be found full details of these questions and of the proposals already transmitted to the Council for the common organization of the markets at the single market stage.

171. The European Parliament, in its proceedings, debates and resolutions, made an important contribution to work on the common agricultural policy.

At its plenary session from 9 to 13 May 1966, the Parliament was informed of the outcome of the Council discussions on the financing of the policy. The House expressed satisfaction with the agreement reached and with the give-and-take spirit of the discussions, which echoed the political good will shown by the Governments at Luxembourg in February 1966. It reaffirmed its complete confidence in the Commission. The spokesmen for the political groups considered that 11 May 1966 marked the beginning of a new lease of life for the Community, ensuring that the common agricultural market and the common industrial market could advance in step with each other, and that the decisions would enable the Kennedy Round negotiations to be resumed.

During this same session the Parliament held a debate and rendered an opinion on the Commission's proposals concerning common prices for milk and milk products, beef and veal, rice, sugar, olive oil and oilseeds. M. Dupont, the rapporteur, affirmed that in agriculture the growth of productivity is such that prices cannot be regulated without cutting down on production; he also stressed that the share of services in prices was constantly increasing. Speaking on behalf of the Committee on Agriculture M. Boscary-Monsservin expressed the fear that the proposed prices would freeze farm incomes for a long time and that the system would not give them enough chance to catch up. The debate highlighted the fact that the various political groups were all concerned about the urgent necessity of eliminating the gap between incomes in farming and in other industries, the need to take structural policy measures at the same time as measures of price policy, and the effect on these of commitments entered into in the Kennedy Round. The Parliament again expressed regret that no democratic control, other than that provided by its own consultative opinions, could be exercised over one of the essential policies of the Community, involving the expenditure considerable sums. The Socialist group, which voted against the resolution, disagreed with the conclusions drawn by the Committee on Agriculture and felt that the Commission could maintain the prices given in its proposals. The President of the group, Mme. Strobel, said that there was no denying that food prices had an effect on the cost of living.

In its opinion, the Parliament affirmed that farm incomes are inadequate, considered that the level of farm prices is a factor determining the level of farm incomes, and pointed out that the Commission's proposals required amending to give higher average prices; it felt that this should be done by means of a review clause similar to that provided for cereals. It stated that, to avoid disturbing the general economic and social equilibrium in the Community, the fixing of a common price level makes it necessary to implement the common policy more rapidly in many fields, notably competition policy (transport rates, fiscal measures) and commercial and structural policy. It emphasized that implementation of the common agricultural policy will remove agricultural policy from the jurisdiction of the national parliaments although the present powers of the European Parliament do not enable it to take over control. It considered that this hiatus made it essential for the powers of the European Parliament to be increased.

172. The Economic and Social Committee rendered an opinion on these proposals at a session held on 20 and 21 April 1966. The opinion, which was favourable to all Commission's proposals, referred to the need to retain the comprehensive character of the agricultural policy and to maintain the balance between agriculture and the other sectors of the economy. Common prices would allow the Kennedy Round negotiations to enter a practical phase. Although the proposed prices take effect only from the first marketing year after 1 July 1967, the Committee made its approval conditional on the application of certain criteria when subsequent decisions are taken in this field.

New regulations on the common organization of markets¹

173. Two new basic regulations have come into force, concerning oils and fats and supplementary arrangements for fruit and vegetables. The Commission submitted to the Council proposals for new basic regulations for products which are already subject to common organizations of the market and which, in accordance with the Council decision of 15 December 1964, will reach the single market stage on 1 July 1967. These products are cereals, pigmeat, eggs and poultrymeat. The Commission also submitted two proposals for regulations dealing with sugar, one for the 1967/68 marketing year, the other for the single market stage. Finally, work continued on the drafting of proposed regulations for submission to the Council concerning various other products (live plants, flowers and bulbs, etc., tobacco, fishery products).

¹ These new regulations and proposals for the single market stage are dealt with here rather than in the previous section because they are in fact linked with the fundamental decisions of 26 July 1966.

174. *Oils and fats.* Olive oil entered the single market stage on 10 November 1966, when the common prices formally approved by the Council on 26 and 27 October 1966 came into effect for this product. Having adopted the regulation dealing with oils and fats, the Council, in the context of a body of decisions adopted on 26 July 1966, decided that a single market for olive oil should be established on 1 November 1966 without any transition period. For technical reasons this date was put back to 10 November. The Community system for olive oil is covered in Title 2 of Regulation No. 136/66/CEE dated 22 September 1966.¹ In Regulation No. 165/66/CEE the Council fixed the following wholesale prices per 100 kg for pure, semi-fine olive oil with an acid content of 3 %:

producers' norm price	115	u.a. per 100 kg
target price	80	u.a. per 100 kg
intervention price	73	u.a. per 100 kg
threshold price	79.80	u.a. per 100 kg

On 27 October 1966, the Council also adopted Regulation No. 162/66/CEE on trade in oils and fats between the EEC and Greece.²

In the last quarter of 1966 and early in 1967 the Council and Commission adopted twenty-two implementing regulations to enable the common organization of the market in olive oil to come into effect. Some of these regulations dealt with measures to be taken at the frontier in connection with the import and export of olive oil and products containing olive oil (notably the fixing of conditions for the issue of import and export licences, the calculation of levies, export refunds, and the suspension of levies on imports of olive oil to be used in the manufacture of certain preserved foods). Other regulations dealt with internal arrangements—support measures, the main market intervention centres, aid to olive oil producers and monthly increases of the prices listed for the 1966/67 marketing year.

175. *Fruit and vegetables.* Article 3(1) of Regulation No. 23 provides for the application of quality standards to fruit and vegetables sold on the home market of the producing Member State; Article 3(2) of the same Regulation provides for the adoption by the Council of Community rules on the operation of the market and on commercial transactions, and Article 11(1) for the co-ordination of import systems applied by the Member States to non-member countries. All these measures, with the exception of those dealing with trade policy towards non-member countries, were taken by the Council on 25 October 1966, when it adopted

¹ The market arrangements for oils and fats were summarized in the Eighth General Report, secs. 185-188.

² Arrangements for trade between the Community and Greece, adopted by the Council, were summarized in the Ninth General Report, sec. 179.

Regulation No. 158/66/CEE¹ dealing with the application of quality standards to fruit and vegetables marketed within the Community and Regulation No. 159/66/CEE² laying down supplementary provisions for the common organization of the market in fruit and vegetables. The first of these regulations provides for the gradual extension of standardization measures. On 14 December 1966 the Council adopted Regulation No. 211/66/CEE³ defining a new quality class for a first group of products. The addition of this class means that quality standards can now be applied to the total production of well-managed horticultural concerns.

The provisions of the second regulation are as follows:

Growers' associations. The Member States may grant starting-up aids to growers' associations during the first three years after their formation, 50 % of this aid being refunded by the EAGGF. With a view to stabilizing markets, growers' associations may fix a reserve price below which they will not sell members' produce; if this price is not obtainable, produce will be withdrawn from the market. During the first five years following the creation of market support funds by these associations, Member States may grant them aid in the form of loans.

Market support. In the case of a limited number of products, if market prices sink to crisis level, growers' associations may receive, assistance from the EAGGF towards the cost of market support measures, on the basis of basic prices and buying-in prices to be fixed by the Council. If prices fall below a "serious crisis" level, the Member States themselves may intervene on the market for these products, and the EAGGF may also grant aid. The total expenditure of the EAGGF under this head is provisionally limited to a total of 60 million u.a. a year, 40 million of which will go to the Italian market.

System of trade. Customs duties and all other obstacles to trade will be eliminated between the Member States by 1 January 1967 for products subject to intervention arrangements and by 1 July 1968 for other fruit and vegetables. The duties of the common customs tariff are to be applied in their entirety from the same dates. Finally, the regulation provides for the grant of export refunds in the case of a number of fresh and preserved products.

Early in 1967 the first necessary implementing regulations were adopted by the Council or by the Commission, so that all these measures, which form an indispensable addition to Regulation No. 23, could be applied from the first weeks of this year.

¹ See official gazette No. 192, 27 October 1966.

² *Ibid.* No. 192, 27 October 1966.

³ *Ibid.* No. 233, 20 December 1966.

176. *Sugar.* On 26 July 1966 the Council adopted a resolution establishing the main principles of a common organization for sugar. It also fixed the common prices for this sector, state aid in Italy, and a system limiting guaranteed prices and markets during a period of adaptation. The organization of the sugar market follows the general pattern of the common agricultural policy in force since 1962 for other sectors. The special characteristics of the sugar market, however, make it necessary to limit the guaranteeing of prices and markets to a certain quantity during the period of adaptation. This period will cover the seven years from 1968-1974. Provision is made for a system of levies on imports from and refunds on exports to non-member countries.

Financial Regulation No. 25 will apply to the sugar market. The French Overseas Departments of Guadeloupe, Martinique and Réunion will benefit under the Guarantee Section of the Agricultural Fund (EAGGF). As financial aid is granted to these territories by the European Development Fund they will not benefit under the Guidance Section of the EAGGF.

177. *Arrangements for the 1967/68 marketing year.* On 21 February 1967 the Council adopted the regulation on measures for a common market organization in the sugar sector for the 1967/68 marketing year.¹

The regulation provides for a number of measures to limit sugar production during the 1967/68 marketing year, and deals with the Community's financial responsibility for sugar production. Other measures concern the transition to the 1968/69 marketing year and regulate the carry-over of stocks.

The Member States may not enlarge the gap which exists between their prices for the 1966/67 sugar year and the single price fixed for 1968/69 (21.23 u.a. per 100 kg).

Imports will be effected on the basis of an award following calls for public tender. A system of levies will apply under which preferential treatment is given to imports from other member countries. Refunds on exports may be granted under certain conditions.

Commission proposals for the single market stage

178. On 23 December 1966 the Commission submitted to the Council number of proposals for regulations establishing single markets in the cereals, pigmeat and sugar sectors; on 18 January 1967 it submitted others dealing with eggs and poultry. Those dealing with cereals, pigmeat and eggs and poultry will replace the basic regulations at present in force, which will be rescinded on 1 July 1967 in accordance with the Council's

¹ See official gazette No. 40, 3 March 1967, and Regulation No. 44/67/CEE.

resolution of 15 December 1964 to introduce the single-market stage for these products on 1 July 1967.

These proposals concern the common agricultural market in its final stage. So far the common organizations of the market comprise, on the one hand, the system for intra-Community trade and, on the other, the system applicable to non-member countries. With effect from 1 July 1967 special measures will cease to be necessary for intra-Community trade in cereals, pigmeat, and eggs and poultry, apart from a short transitional period; the levies on imports from non-member countries will be the same in all Member States.

The importance of these proposals lies in their economic scope and in the fact that they lay the foundations for a new sharing of responsibility between the Member States and the Community, to meet the requirements of the single market. In principle the constituent elements of the existing systems will be maintained, so each of the three proposed basic regulations comprises three parts, dealing with the price system, trade arrangements, and general provisions.

The new regulations represent a considerable simplification in that all the arrangements so far in force concerning intra-Community trade can be discontinued. Furthermore, improvements to the other provisions have been made in the light of the lessons learned up to the present. Prices will be fixed on the same date for all the products, i.e. before 1 August of each year, and according to the procedure in Article 43, i.e. after reference to the European Parliament. This procedure will apply to those prices which have "political" implications, such as the basic target prices and the basic intervention prices for cereals, the target and intervention prices for refined sugar, the minimum beet price, and the basic price for pig carcasses.

At the single market stage, certain measures now taken by the Member States under the common arrangements will be decided on by the Community institutions, i.e. the Council and the Commission. This will be the case for the fixing of levies and export refunds, and for recourse to the safeguard clause. Other arrangements, common to all the regulations, concern import licences, inwards processing traffic, and special arrangements in the event of shortages. There will no longer be any provision for exceptions.

179. *Cereals.* The price system is based on the present arrangements, in force since 1962 but simplified because of the introduction of the common price, and on the Council's cereal price decisions of December 1964.

There will no longer be any derived target prices for wheat and barley. A single derived intervention price, applicable in all selling centres, will be established for maize as long as the quantities of native corn sold

during a normal harvest are below 45 per cent of the Community's internal consumption. When the intervention price for durum wheat valid for Palermo is lower than the guaranteed minimum price, aid will be granted to marketed production of this wheat.

It is proposed that the marketing year for all cereals should begin on 1 August. The intervention prices for wheat, barley and rye will only be valid for the same marketing year until 31 May, the prices valid for the first months of the new marketing year being applied from 1 June. A single threshold price for the whole Community is fixed for each cereal, the threshold prices being fixed for Rotterdam in respect of the same quality as the basic target price. Like the target and intervention prices, threshold prices are fixed monthly and ex tax.

At the single market stage, it will no longer be possible for the Member States to grant consumer subsidies for processed cereals. Furthermore, the Member States will impose no restriction on buyers and sellers as regards their choice of dealers, save as otherwise provided for by the rules governing the internal operations of co-operatives and similar groupings.

The Commission submitted to the Council at the same time a proposal for a regulation on transitional measures for the application of the common price. Special measures are laid down in order to avoid disturbances at the transition from the 1966/67 marketing year to 1967/68. These concern:

- 1) An inventory and valuation, as at 30 June 1967, of certain cereal stocks, particularly in the Benelux countries and possibly also in Italy;
- 2) Compensation for cereal stocks up to a certain limit in order to neutralize the differences due to price zoning, especially in France;
- 3) Special provisions for calculating the levies on processed products during the month of July 1967.

180. *Pigmeat.* As far as the price system is concerned, market support measures provide not only for the adjustment of production to demand but also for the possibility of intervention by the Community, i.e. purchases by intervention agencies and aids for private storage. Intervention on the market will occur at a price level which, in the case of slaughtered pigs, takes the sluice-gate price and the levy on imports from non-member countries into account and at the same time satisfies the production conditions on the most efficient farms.

Trade in pigmeat products with non-member States is determined by the fixing of sluice-gate prices, the application of a levy system, and the possibility of granting refunds on exports. The amount of the levy on imports from non-member countries is calculated from the difference between the price for feed grains on the world market and in the

Community, and from other production and processing costs. The sluice-gate price serves to protect Community producers imports at abnormally low prices. If imports are offered at prices below this price, the levy can be increased by an amount corresponding to the difference between the sluice-gate price and the offer price. The purpose on refunds on exports is to enable Community products to compete on the world market by bringing their prices down to the level of the prices ruling on the world market. The amount of the refund under any such system will be the same throughout the Community, and for this reason will be binding on all Member States.

It is proposed to carry out a pig census in the Community with a view to improving production forecasts and increasing knowledge of the market. For the same reason a Community system of pig carcass classification will be drawn up with the help of experts in the Member States. In future, the collection of data on pig carcass prices in the various Member States will be based on this system, and it will facilitate the common organization of the market in pigmeat.

181. *Eggs and poultrymeat.* The proposals for regulations on the common market organizations for eggs and poultrymeat are to replace Regulations Nos. 21 and 22, now in force and due to be rescinded on 1 July 1967 when common cereal prices come into operation. These two proposals are similar in their broad outlines to the proposed regulation on pigmeat, but they differ from it in making no arrangements for market intervention. Provision is, however, made for common arrangements to help adjust supplies to market conditions and to avoid price fluctuations as far as possible. These arrangements may include measures designed to improve the organization of production, processing and marketing, measures to improve quality or enable short- and long-term forecasts to be made, or measures to assist the observation of price trends.

The Council will adopt general rules on this subject, acting on a proposal of the Commission and after reference to the European Parliament. The proposal also provides that standards of quality, sizing and packaging may be laid down; these may, for example, cover classification by grade, by weight and by quality, packing and presentation, and stamping. When the standards have been laid down, the products to which they apply must not be offered for sale unless they conform to these standards, except in special cases.

As regards trade with non-member countries, the proposed system includes levies and sluice-gate prices for eggs in shell and eggs for hatching, and also for chicks and slaughtered poultry. Derived levies are fixed for the other products, but duties bound in GATT must be respected. A system of refunds is envisaged for exports from the Community. These refunds, which will be the same throughout the Community, will be binding on the Member States.

182. *Sugar.* In conformity with the Council resolution of 26 July 1966,¹ the Commission submitted to the Council on 23 December 1966 two proposals dealing with the common organization of the market in sugar. The first of these proposals deals solely with the 1967/68 marketing year and contains transitional provisions only;² the second is considered as the future basic sugar market regulation, which is to come into force from the beginning of the 1968/69 marketing year.

This last proposal comprises a price system, a trading system, and transitional arrangements to limit price and marketing guarantees.

The system of Community prices includes a target price for refined sugar, intervention prices for refined sugar and raw cane sugar, threshold prices for refined and raw and also for molasses. For sugar beet, minimum prices are fixed in the light of the intervention price. The threshold price—which is the price at which imports can be admitted—is fixed in the light of the target price, allowing for transport costs from the area with the highest surplus to the most distant deficit area in the Community.

During the sugar year, the market support agencies buy sugar at the intervention price. Denaturing bonuses can be granted and production refunds are accorded for sugar used in manufacturing certain chemical products.

During the seven years' adaptation period, the common price and sales guarantee will be limited. A basic quota will be allocated to each sugar factory, and for this output the price and marketing guarantees will apply in full. For quantities produced in excess of the quota and up to a ceiling, the price guarantee will be limited by charging a production levy. Production in excess of the ceiling cannot be marketed within the Community and will not qualify for export refunds.

Proposals to be submitted to the Council before 1 July 1967

183. *Plants, flowers and bulbs, etc.* On 14 January 1966 the Commissions submitted to the Council a proposal for a regulation on the progressive establishment of a common organization of the market in non-edible horticultural products.³ This proposal contained various provisional or transitional measures; it was discussed by the Council, which then asked the Commission to draft a fresh regulation providing for a definitive organization of these markets. The new draft was submitted to the Council on 23 February 1967. Like the first regulation for fruit and vegetables, this proposal envisages a system of Community standards for quality and in trade. It mentions specifically that the Council may take any supplementary measures which experience may show to be necessary.

¹ See sec. 176.

² See sec. 177.

³ See Ninth General Report, sec. 181.

184. *Tobacco.* The Commission has made great progress in drafting measures for the tobacco sector, dealing with agricultural aspects, taxation and monopolies.

The Council resolution of 11 May 1966¹ was largely influenced by economic considerations, since the achievement, as part of the common agricultural policy, of a free market in unmanufactured tobacco assuring manufacturers free access to sources of supply would lose some of its economic significance if free movement of manufactured products were not achieved at the same time.

As far as the agricultural aspects are concerned, the Commission intends to submit to the Council a draft Community regulation for a common organization of the market in unmanufactured tobacco. This should guarantee to tobacco growers employment and living standards which are at least comparable to those resulting from existing national rules, while allowing industrial users free access to Community and non-Community sources of supply at prices just above or just below world market prices.

The measures to be proposed should lead to the abolition of provisions likely to result in the maintenance within a Member State of discrimination in the distribution and sale of manufactured tobacco goods based on their country of origin, and to the elimination of fiscal measures which favour sales of home-produced goods in any Member State to the detriment of goods produced in other Member States.

185. *Fishery products.* On 25 November 1966, the Commission submitted to the Council a report on the situation in the fishing industry and the basic principles for a common policy in this sector. These principles aim at ensuring balanced expansion by simultaneous and concerted action on structure and market mechanisms and in the social field.

The aim of structure policy is to guide production in the light of market trends and adapt it to actual demand. It also aims at ensuring equal access to Community resources for all fishermen in the EEC without discrimination. It endeavours to remedy the deficiencies of the sector and to make it internationally competitive. The Commission further defines an action programme to promote economic structures playing a decisive role in the long-term guidance of production by encouraging certain types of investment.

The aims of market policy are to establish a competitive framework in which fish will be landed and bought and sold freely without discrimination between EEC producers and consumers, and to stabilize markets, thus correcting short-term fluctuations of supply. Primarily, this will mean

¹ See sec. 169.

harmonization of the different policies pursued by each Member State to support this sector, so as to eliminate measures likely to distort conditions of competition, and the definition of a Community approach to investment aids for the improvement of the most suitable production structures. Secondly, it will mean stabilization of the market by introducing common quality standards and support arrangements to regulate the prices of certain fish such as herring, cod and sardines which, by their importance and their nature, condition the overall income of fishermen and the general price level.

In external trade, application of the common tariff, with observance of the EEC's international commitments in GATT, should ensure fair market protection, wherever external prices are formed under normal conditions of competition.

Social policy is the third indispensable aspect of a common fisheries policy; its aim, in the setting of Community social policy, is to remedy unfavourable social situations and to define specific measures, particularly in the field of working conditions, vocational training, etc.

The Economic and Social Committee was consulted on 6 July 1966 under Article 43 of the Treaty, and rendered its opinion on the Commission proposal on 26 January 1967. It approved the Commission's approach and expressed satisfaction with the policies advocated in the fields of structure, commercial and social policy. It made a number of suggestions with regard to prices and was concerned at the possible repercussions of structure policy on enterprises.

Financing of the common agricultural policy

186. *New provisions adopted.* The negotiations in the Council on the rules for financing the common agricultural policy applicable from 1 July 1965 were resumed in February 1966 following the extraordinary meeting in Luxembourg¹ and were brought to a conclusion by the important agreements of 11 May 1966. These decisions were embodied in Regulation No. 130/66/CEE, adopted on 26 July 1966.²

Two distinct phases are recognized in the Community's financing arrangements for the common agricultural policy: the first extends from 1 July 1965 to 30 June 1967, the second from 1 July 1967 to the end of the transition period. Since the majority of agricultural products are to be liberalized by 1 July 1967, the Council decided to finance all expenditure eligible under the Guarantee Section of the European Agricultural Guidance and Guarantee Fund and to assume financial responsibility for refunds on gross exports to non-member countries, not net exports as has been

¹ See Ninth General Report, Ch. I, secs. 2-12.

² See official gazette No. 165, 21 September 1966.

the case hitherto. Expenditure by the Guidance Section of the Fund, which has a parallel growth pattern under the provisions of Regulation No. 25, is to be limited to 285 million u.a. a year. However, earlier rules have been relaxed to allow the grant of subsidies representing up to 45 % of the cost of a project instead of 25 %.

Contributions to the Guarantee Section will be computed in accordance with a scale comprising:

- i) A sliding component equal to 90 % of the levies charged on imports from non-member countries;
- ii) A fixed component on the following scale: Belgium 8.1 %; Germany 31.2 %; France 32 %; Italy 20.3 %; Luxembourg 0.2 % Netherlands 8.2 %.

Contributions to the Guidance Section will be calculated solely on the basis of the fixed scale.

The period 1965/67 is an intermediate stage during which liability for eligible expenditure will be accepted in the proportion of 6/10ths for 1965/66 and 7/10ths for 1966/67.

Revenue to meet the total expenditure of the Fund will be assured by contributions from Member States according to the following fixed scale:

TABLE 16

(in %)

	1965/66	1966/67
Belgium	7.95	7.95
Germany	31.67	30.83
France	32.58	29.26
Italy	18.00	22.00
Luxembourg	0.22	0.22
Netherlands	9.58	9.74

To counteract the effects of the delay in applying the common market organization in certain sectors involving Community financial responsibility, it was decided that special financial arrangements should be made in respect of olives, olive oil, fruit and vegetables and tobacco in Italy, and sugar in Belgium.

Furthermore, on 26 July 1966 decisions were taken which provided, in particular, for the assumption of financial responsibility for fruit and vegetables, sugar, oils and fats and milk products. These decisions also included one to help agriculture in Luxembourg; aid will be granted from a special section of the Fund to which Member States will contribute in accordance with the scale set out in Article 200(1) of the Treaty, as was the case with the compensatory measures decided on 15 December 1964 when common prices for cereals were fixed.

On 27 October 1966, the Council decided that as from 1 July 1967 the Community would assume financial responsibility for basic agricultural products processed into goods not included in Annex II and exported to non-member countries.

187. *The European Agricultural Guidance and Guarantee Fund (EAGGF)*. On 19 July 1966, the Commission approved 97 of the 277 projects in respect of which 154 applications had been made for aid totalling 51.4 million u.a. from the Guidance Section of the Fund. This was the second instalment of aid, i.e. the 1965 instalment, funds for which were included in the 1966 budget.¹ After certain requests had been withdrawn for various reasons, the number of projects remaining was still too great for the resources 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 on the need to distribute assistance fairly throughout the Community. The Commission finally approved 40 projects in Italy, as against 21 in Germany, 21 in France, 8 in the Netherlands, 6 in Belgium and 1 in Luxembourg.

These projects receive assistance totalling 17.1 million u.a. in the form of grants amounting to 25 % of the total investment envisaged, 52 % of the Fund's total contribution being earmarked for the improvement of production structures (e.g. consolidation of holdings and water engineering) and 48 % for the improvement of marketing structures (e.g. in the fruit and vegetables, cereals, meat, and milk and milk products sector).

The total amount of aid granted by the Guidance Section of the Fund is apportioned as follows:

Germany	4 968 976 u.a.
Belgium	754 985 u.a.
France	3 692 070 u.a.
Italy	5 865 889 u.a.
Luxembourg	275 000 u.a.
Netherlands	1 577 338 u.a.

Total: 17 134 258 u.a.

¹ For the full list of projects approved, see official gazette No. 136, 25 July 1966.

Having put back from 31 December 1965 to 31 July 1966 the date for deciding on the allocation of aid from the Fund for 1965, the Council also had to postpone by six months the date on which the Commission would decide on projects for the year 1966. At the same time, it decreed that the last date for the lodgment of applications for the year 1967 should be delayed by a few months and that they can still be financed outside the Community programmes.¹ The Commission is at present examining 480 projects for 1966, for which aid totalling 110 million u.a. has been requested; the funds available amount to approximately 40 million u.a.

At its session from 28 November to 2 December 1966 the European Parliament rendered an opinion on the Commission proposals to the Council that certain clauses of Regulation No. 16/64/CEE, regarding aid from the Guidance Section of the EAGGF for 1966 and 1967, should be waived. The Parliament deplored the fact that such unavoidable departures from Community programmes, which should receive its prior approval, would have the effect of postponing for another two years the exercise of democratic control over the operations of the Guidance Section of the Fund.

188. On a proposal of the Commission, the Council decided on 7 December 1966² to allocate 10 million u.a. from the Guidance Section of the Fund to help Italy remedy the damage caused by the catastrophic floods of autumn 1966. In view of the enormous amount of damage done, and to speed up the grant of aid, a special procedure was adopted which allowed the Commission to decide on every application not later than six weeks after receiving all necessary data. In anticipation of the provisions of Regulation No. 130/66/CEE for the period after 1 July 1967, subsidies granted may amount to 45 % of the investment made.

189. On 19 December 1966 the Commission decided to allocate aid amounting to almost 50.7 million u.a. from the Guarantee Section of the Fund in order to close the accounts for the period 1963/64.³ This aid will be paid out according to the criteria and conditions for eligibility laid down by the Council; it will cover one-third of the Member States' expenditure in 1963/64 in the cereals, eggs, poultry and pigmeat sectors (all with effect from 2 September 1963). Over four-fifths of this aid is for refunds on exports to non-member countries and the remainder is for expenses to support the domestic market.

¹ Regulation No. 224/66/CEE, official gazette No. 240, 27 December 1966.

² Regulation No. 206/66/CEE, published in official gazette No. 229, 10 December 1966.

³ Decision dated 19 December 1966, published in official gazette No. 3, 11 January 1967.

The cereals sector accounts for almost 97 % of expenditure from the Guarantee Section of the EAGGF. The total amount of aid granted from this section is apportioned as follows:

Belgium	382 591.84	u.a.
Germany	2 636 795.72	u.a.
France	45 418 100.80	u.a.
Italy	704 822.13	u.a.
Luxembourg	5 441.85	u.a.
Netherlands	1 541 732.43	u.a.
Total:	50 689 484.77	u.a.

For the first time, the entire pigmeat sector came under the financial responsibility of the Community; however, exports from a Member State to non-member countries must exceed 5 % of the total exports of this product before the Community can reimburse the Member State under the export refunds system. Consequently the EAGGF did not finance any refunds on exports in this sector. For this reason, the Commission has submitted a proposal to the Council laying down three additional basic products, to ensure a better balance between the various agricultural sectors with regard to Community financing.

The extension of Community financing to new sectors (milk and milk products, beef and veal, rice) in 1964/65, and the limitations of the implementing rules, involve the drafting or adaptation of a whole series of regulations. On 25 October 1966, therefore, the Council adopted a regulation establishing a supplementary list of basic products and conditions of eligibility for financing in the rice sector.¹ It will shortly make a pronouncement on conditions of eligibility for milk products, based on a proposal which will be submitted by the Commission as soon as possible. Amongst the many regulations enacted or pending enactment by the Commission, mention should be made of one dealing with applications for reimbursement. On 23 March 1967 the Commission adopted a new regulation, after receiving the unanimous opinion of the Fund Committee. This regulation applies to the periods 1964/65, 1965/66 and 1966/67, and takes account of experience gained during the first three periods.

On 23 March 1967, the Commission submitted to the Council a proposal for a financial regulation to implement the decisions of 15 December 1964 on the financing of compensatory measures for cereals as from 1 July 1967 for Germany, Italy and Luxembourg. The Commission feels that the agreement reached on the compensatory amounts themselves is definitive, and only the implementing financial details need to be determined. It therefore considers that a "special section" of the EAGGF should be

¹ Regulations Nos. 155/66/CEE and 157/66/CEE, published in official gazette No.192, 27 October 1966.

created, which would be financed according to the scale of contributions set out in Article 200(1) of the Treaty and would follow a clearing procedure.

Regulation No. 25 provides that in the 1963/64 marketing year¹ nine-tenths of the Fund's expenditure is to be covered by contributions calculated on the basis of the scale laid down in Article 200 of the Treaty, one-tenth being calculated on the basis of net imports. The Commission noted that during 1963/64 Italy's contribution to the Guarantee Section of the Fund was approximately 0.8 % higher than the ceiling prescribed for that country, and on 17 February 1967 it submitted to the Council a proposal for measures to distribute this surplus between the other Member States. This proposal will also apply to 1964/65, when a similar situation will arise.

ESTABLISHMENT OF COMPETITIVE CONDITIONS IN AGRICULTURE

190. *Rules of competition and aid.* The Commission, in co-operation with the Member States, has begun its examination of the inventory of aids existing in Member States which it has put before the Council.² This examination dealt with current aids to transport and to exports, aids in the egg, poultry, oils and fats, fruit and vegetables and pigmeat sectors, and aids to mechanization in agriculture.

During the period under review, the Commission submitted its comments on the following proposed measures notified by the Member States in accordance with Article 93(3) of the Treaty:

In Germany: the Commission asked that aid granted to reduce production costs, concentrate supplies and improve the quality of eggs and poultry be modified. It had no special comment to make on aid for a publicity campaign to encourage the consumption of poultrymeat;

In France: arrangements for the export of certain types of fruit to non-member countries and for the preparation and storing of potatoes were notified; the Commission recommended the abolition of aid for the preparation of potatoes, but had nothing particular to say about other aspects. Nor had it any comment to make on a decree amending certain articles of the Rural Code and granting support for rural housing. Following an inquiry held as a result of a complaint by the Italian Government, the Commission made no remarks concerning support given to cod by the Joint Committee of the Fishing Industry, though it did express reservations as regards the application of Article 34 of the Treaty.

¹ See beginning of sec. 189.

² See Ninth General Report, sec. 188.

In Italy: aid for the improvement and development of quality agricultural production in the Trentino-Alto Adige region, and measures to promote economic and social revival in Sardinia did not give rise to any special comment. Nor did the Commission have any particular observation to make about the provisions of law No. 614 for exceptional support measures in the less developed areas of northern and central Italy, although the Italian Government was expressly asked to notify the implementing decrees.

In the Netherlands: the Commission asked that aid to starch production in the form proposed by the Dutch Government be abolished. On the other hand, it had no comment to make on the subject of decisions regarding subsidies for pilot holdings, and cow-byres built according to a specific system; nor on the subject of the Dutch Regulation No. II dealing with compensation on retirement or on new measures to improve the marketing structure for poultry and eggs. The Commission asked that proposed aid to the price stabilization fund for eggs for processing be modified, and the Dutch Government agreed.

191. The proposal dealing with criteria for the establishment of a common policy on aids to agriculture¹ was debated at length in the Council, by the European Parliament and by the Economic and Social Committee. On 24 July 1966 the Council adopted a resolution dealing with the application as from 1 July 1967, and subject to certain reservations, of Articles 92 to 94 of the Treaty do not apply; aids which are compatible products. The resolution defines three categories of aid: aids to which Articles 92 to 94 of the Treaty do not apply; aids which are compatible with the Common Market; and aids that may be deemed compatible with the Common Market, these last two categories being subject to certain conditions. The resolution also deals with a time-table, and a more streamlined procedure for examining aids. This time-table is to make provision, in particular, for the adjustment or abolition by the Member States of certain types of aid.

The Council will adopt these provisions on a proposal of the Commission.

Under Article 149, second paragraph, of the Treaty, the Commission submitted to the Council on 13 October 1966 amendments to its initial proposal to the Council for a regulation amending Regulation No. 26. In its latest proposals, the Commission has taken account of conclusions reached following work carried out by the Community institutions, in particular the European Parliament's opinion of 1 July 1966. Under these proposals, amended following a Council decision, Articles 92 to 94 of the Treaty will apply as from 1 July 1967 to production of and trade in agricultural products, without prejudice to provisions to the contrary which have been or may be adopted under Articles 39 to 43 of the Treaty.

¹ See Ninth General Report, sec. 188.

However, in respect of aids to production and trade in products which will not be subject to a common organization of markets by 1 July 1967, application of the provisions of Article 93(2) and (3), second and third sentences, will be suspended until the date when a common organization of markets comes into operation for these products, in accordance with Article 40 of the Treaty.

The Commission's proposals include the following points:

- a) Articles 92 to 94 of the Treaty will not apply to a first category of aids to agriculture (for example, aid to scientific research and agricultural information work);
- b) A second category of aids which are compatible with the Common Market (e.g. aid for the construction, improvement and extension of rural housing, with certain exceptions);
- c) A third category of aids which may be deemed compatible with the Common Market e.g. aid for the purchase of selected seeds);
- d) With certain exceptions, state aid of which the amount is related to the area under cultivation, to the price, quantity or number of animal or vegetable production units of one or more of the products listed in Annex II to the Treaty, will be regarded as incompatible with the Common Market and will be prohibited as soon as the free movement of farm products comes into operation.
- e) Lastly, on the subject of the examination procedure to be followed by the Commission, it is proposed that:
 - i) existing systems of aids be examined in the framework of permanent multilateral consultation with the Member States in accordance with Article 93(1) of the Treaty;
 - ii) that any plan to institute aid notified under Article 93(3) of the Treaty be dealt with by such multilateral consultation, at the request of a Member State or automatically, before the Commission gives its views.

192. *Conditions of competition in agriculture.* In accordance with the Council resolution of 15 December 1964, the Commission submitted to the Council on 2 August 1966 a communication on the results of the survey so far carried out into transport rates for three specimen agricultural products (barley, tomatoes and butter). It was not found possible to prove the existence of "artificial differentiations" arising from transport rates, and consequently the Commission proposed to the Council that transport rates for agricultural products be harmonized as part of the common transport policy.

As regards taxation in agriculture the Commission, in the course of preparing for the single market stage, studied the problems resulting from the existence of special charges burdening agricultural products. These are national charges which alter the common character of the prices received

by farmers as a result of the market organization regulations, more particularly prices for those products which are to be liberalized by 1 July 1967.

Assisted by the Member States and certain agricultural organizations, the Commission continued its inquiry into the economic and legal position of large-scale enterprises producing pigs, fatted calves, baby beef, poultry and eggs, with special reference to the structure of production.

As regards the cost of industrially produced instruments of agricultural production, particularly animal feedingstuffs, the Commission continued its examination of prices for feedingstuffs with a view to harmonizing conditions of competition in this field. Experts supplied the Commission with reports describing the position in their own countries.

*Proposal for a regulation on agricultural producers' groups
and unions thereof*

193. On 21 February 1967 the Commission submitted to the Council a proposal for a regulation on agricultural producers' groups and unions thereof.

Council Regulation No. 159/66/CEE recognized the need for provisions to facilitate adaptation of the supply of farm products to market requirements, to improve their quality, and ensure as far as possible that growers get a fair income. With this end in view, the regulation contained provisions to encourage the formation of growers' organizations which would bind their members to comply with certain common rules as regards production and marketing.

The Commission's proposal is designed to create a Community framework within which the Member States can promote the establishment of producers' groups and the agricultural community can pursue its own efforts to improve the organization of production and the marketing of agricultural produce.

The salient features of the supply of agricultural produce are at present the large number of producers, the relatively small size of production units, and the wide variety of products. Consumers are now asking for more and more prepared or processed commodities, of consistently high quality. Distributors are endeavouring to ensure constant and regular supplies of produce of a given uniform quality in sufficient quantities and at the most stable prices possible.

The proposed regulation covers all agricultural produce leaving the farm but does not apply to products processed from butter, cheese, olive oil or wine. Fruit and vegetables are also excluded since special arrangements have already been made for producers' groups in this sector.

Recognition of producers' groups and unions of such groups by Member States is subject to certain conditions, such as the application of common rules to production and joint marketing, and the obligation binding on members of the group to have their total output marketed by the group.

On the other hand, further provisions are aimed at:

- a) preventing any group from acquiring a dominant position on the common market or in a substantial part of it, by limiting the volume of production handled by any producers' group to 5 % of total Community output;
- b) safeguarding the individual member's right to withdraw from membership after giving six months' notice;
- c) ruling out all possibility of discrimination based on nationality or domicile.

Measures to promote the formation of groups. The Member States may grant two types of temporary and degressive aid to producers' groups:

- a) starting-up aids during the first three years after their formation, not exceeding 3 %, 2 % and 1 % of the produce marketed in each of these years;
- b) subsidies during the first five years, up to a maximum of 40 % for investment in fixed assets and 20 % for investments in movable assets.

Application of rules of competition. Aids granted by the Member States under this regulation are compatible with the Common Market. Any aid not coming within the scope of the present regulation remains subject to the ordinary provisions of the Treaty. The internal operations of producers' groups and unions of such groups are exempt from the provisions of Article 85(1) of the Treaty.

Review clause. Before the end of 1969, the Commission will decide whether the provisions of this regulation should be left as they are or amended in the light of experience and results. Since it must also carry out a similar inquiry in the fruit and vegetables sector under Council Regulation No. 159/66/CEE, it may, if necessary, propose to the Council that the two regulations be consolidated.

Miscellaneous

194. *Application of minimum prices (Article 44 of the Treaty).* Since 1 January 1966, pursuant to Article 9 of Regulation No. 23, restrictive measures taken under the system of minimum prices no longer apply to intra-Community trade in the products listed in Annex II to that regulation.

For some other products, minimum prices were maintained in trade with both member and non-member countries, namely:

a) For potatoes in France and in the Belgo-Luxembourg Economic Union, the Commission authorized Belgium and Luxembourg to extend by ten days the period of application of minimum prices for new potatoes.

b) In France for cut tulips, mackerel, cod, pollack and herrings, and for horsemeat.¹

195. *Application of Article 46 of the Treaty.* On 2 December 1966² the Commission authorized France and Germany to impose a countervailing charge on imports of tulips, narcissi and hyacinths from the Netherlands, during the 1966/67 marketing year. The purpose of the charge is to eliminate the imbalance on the French and German markets caused by Dutch market organization measures for bulbs and flowers grown from bulbs.

STRUCTURAL AND OTHER ASPECTS OF THE COMMON AGRICULTURAL POLICY

196. *Improvement of agricultural structure.* The Standing Committee on Agricultural Structure discussed a dozen draft laws, rules and regulations, and some twenty in final form, involving measures to improve agricultural structures in the light of the objectives of the common agricultural policy.

With a view to co-ordinating national policies as a step on the way towards the establishment of a common policy on agricultural structures, the Committee examined vertical integration in agriculture, in particular the contract system in France and the "produktschappen" in the Netherlands, and went into the matter of a "career brief" for farmers in 1980 in the context of a possible common policy on vocational training.

After the draft version of the report on agricultural structures had been discussed and adopted by the Standing Committee on 5 July 1966, the Commission began its task of collecting the necessary documentation and editing the monographs on the Member States which are to be included in the report.

The Standing Committee on Agricultural Structure examined draft proposals for regulations on Community programmes which now include schemes for the improvement of agricultural structures eligible for aid from the Guidance Section of the Agricultural Fund. These programmes deal with the redistribution of land holdings, drainage, afforestation for purposes

¹ The minimum price system was abolished with effect from 8 November 1966.

² See official gazette No. 237, 23 December 1966.

of land improvement, marketing arrangements for fruit and vegetables, structural improvement in the dairying industry, in the meat sector, in vine growing and wine production, olive growing and the development of poor or backward agricultural areas.

In addition to its work on the co-ordination of national agricultural structure policies, the Standing Committee on Agricultural Structure is now faced with the task of directing the survey of the pattern of farming. For this reason, a new working party was created to organize the basic survey.¹

Social aspects of the common agricultural policy

197. The Commission's activities in this field are aimed at anticipating the social effects of the common agricultural policy and at achieving social parity between farmworkers and those employed in other sectors of the economy.

The first category includes efforts to facilitate the adaptation of workers to economic development in agriculture, and notably the search for a balance between the active farming population and the opportunities as regards income. Preliminary studies are designed to analyse the situation, provide guidelines for intervention, and enable proposed measures to be drafted.

In the matter of mobility of workers, employment problems were further studied. Now that the Commission's retrospective survey of employment in agriculture by region has been completed, it is preparing forecasts up to 1971, chiefly with a view to defining this essential component of overall employment in medium-term policy. It has also begun a series of special studies on seasonal employment and is working on regional forecasts of the active agricultural population (1971-76).

The survey on the pattern of farming decided on by the Council² is meant to furnish data on manpower in agriculture. National measures dealing with mobility in agriculture were examined and work has begun on an inventory of national provisions facilitating establishment. Studies were carried out on rural housing, trends in the pattern of farming, the reasons behind the drift from the land, and the redistribution of holdings.

The Council began its examination of proposals for regulations on Community grants for retraining farmers and farmworkers and for training advisers to staff information services for persons working in agriculture.

A study of aids to rural migration in the Member States was undertaken. Work on the programme for freedom of establishment in agriculture was

¹ See sec. 206.

² See official gazette No. 112, 24 June 1966.

continued with the submission to the Council of proposed directives dealing with the right of nationals belonging to one Member State but working in another to have access to various forms of aid, to membership of co-operatives,¹ and to credit,¹ on the same conditions as nationals of the host country.

Activities in the second category—i.e. achievement of social parity for agriculture with the other sectors—include a study on employment trends in the various regions over the last ten years, and a study on employment in the fishing industry;² the Commission's recommendation to the Member States on vocational guidance, dealing in particular with rural areas; studies on wages and working hours; the Commission's recommendation on the protection of young workers, the draft recommendation on maternal welfare, and a draft directive on the use of dangerous substances in agriculture; a study on the financing of social security in agriculture and the amount added to the income of self-employed workers and their dependents by social benefits.

Finally, the Commission continued its work on harmonizing working hours.

Approximation of legislation in agriculture, foodstuffs and forestry

198. *Legislation concerning foodstuffs.* The following proposals were submitted to the Council during the period under review:

a) A proposal amending the directive on permitted colouring matters³ in food for human consumption (submitted to the Council on 22 November 1966);

b) A proposed directive amending the directive on permitted preserving agents⁴ in food for human consumption (adopted by the Council on 14 December 1966);⁵

The European Parliament rendered favourable opinions on these proposals at its sessions on 17-21 October 1966 and 28 November-1 December 1966.

c) A proposed directive dealing with the use of certain preserving agents for the surface treatment of citrus fruit and control measures for detecting and identifying preserving agents in and on citrus fruit (submitted to the Council on 22 November 1966 and adopted on 14 December 1966);⁵ this proposal was endorsed by the Parliament at its session of 13 and 17 March 1967;

¹ See official gazette No. 71, 20 April 1966.

² See sec. 185.

³ See official gazette No. 115, 11 November 1962.

⁴ *Ibid.* No. 12, 27 January 1964.

⁵ *Ibid.* No. 233, 20 December 1966.

d) A proposed directive amending the directive laying down special standards of purity for permitted preserving agents¹ in food for human consumption (submitted to the Council on 22 November 1966).

At its session of 13 and 17 March 1967, the Parliament rendered its opinion on the proposed directive on jams, marmalades, etc.²

A proposal for a directive dealing with purity standards for anti-oxidants³ is on the point of completion. Work on the draft directive concerning permitted emulsifiers and stabilizers³ has almost finished. A draft directive on the use of artificial sweetening agents in food for human consumption is being examined, and preliminary work has begun on the drafting of a directive on the use of flavouring agents.

Work continued on regulations for methods of analysing foodstuffs and food additives, labelling and packaging of foodstuffs, materials that come into contact with foodstuffs, and general questions relating to preserves.

On 30 June 1966, the European Parliament adopted a resolution on the esterification of olive oil for culinary uses.⁴

Provisions concerning various types of food. Proposed directives on fruit juices, wines, macaroni, spaghetti, etc.,⁵ soups, sauces and flavourings will shortly be submitted to the Council.

Work continued or was begun in the following spheres: butter, preserved milk, margarine, flour, dietetic foods, non-alcoholic beverages and mineral waters.

199. *Veterinary legislation.* When the two directives of 26 June 1964, which came into force on 30 June 1965, concerning intra-Community trade in cattle and pigs and in fresh meat⁶ became law in the member countries and were put into effect, it became obvious that some of their provisions had to be adjusted in order to take into account new technical and scientific developments and experience gained. On the Commission's proposal, the Council therefore adopted the following two directives:

i) Council directive of 25 October 1966 amending the Council directive of 26 June 1964 on health requirements in intra-Community trade in cattle and pigs;⁷

ii) Council directive of 25 October 1966 amending Council directive of 26 June 1964 on health requirements in intra-Community trade in fresh meat.⁷ Furthermore, in its decision of 29 July 1966 the Commission

¹ *Ibid.* No. 22, 9 February 1965.

² See Ninth General Report, sec. 192.

³ *Ibid.*, sec. 191.

⁴ See Ninth General Report, sec. 192.

⁵ *Ibid.* sec. 193

⁶ See official gazette No. 121, 29 July 1966.

⁷ *Ibid.* No. 192, 27 October 1966.

designated the veterinary experts competent to report on slaughterhouses and cutting rooms.¹

The Council continued its examination of proposed directives on health requirements for trade in fresh poultrymeat and meat products, another dealing with health requirements and health inspection for cattle, pigs and fresh meat imported from non-member countries, and a draft decision setting up a Veterinary Committee.

At its June 1966 session, the European Parliament rendered its opinion on the above-mentioned amending directives on trade in cattle and pigs and in fresh meat.²

In the field of legislation on stockbreeding, work is in progress concerning pedigree animals and artificial insemination.

200. *Legislation on animal feedingstuffs.* 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 put before it on 12 October 1964. The Commission will shortly submit to the Council a proposal on this subject and a directive on additives in animal feed. Methods of analysis have been already worked out for determining additives, as has a regulation on simple and compound feedingstuffs (descriptions, definitions, control provisions, minimum and maximum content, compulsory declaration).

201. *Plant health legislation.* On 31 March 1965, the Commission submitted to the Council a proposal for a Council directive on measures to combat the introduction of plant pests into the Member States. This proposal is still being examined. Further proposals are in preparation concerning chemical plant-protection agents, pesticide residues, and methods for analysing these residues.

On 14 October 1966, the Commission transmitted to the Council two proposed directives dealing with measures to combat potato wart and potato eelworm. A further directive dealing with the campaign against San Jose scale was submitted to the Council on 20 February 1967; this proposal requires Member States to demarcate contaminated areas and institute safety zones around them, and also lays down certain minimum provisions to which the Member States must conform.

202. *Regulations concerning agricultural and horticultural seeds and seedlings.* On 14 June 1966 the Council adopted five directives on the marketing of beetroot, forage, cereal and potato seed and a decision setting up a Standing Committee on Agricultural, Horticultural and Forestry Seeds and Seedlings.³

¹ See official gazette No. 153, 23 August 1966.

² *Ibid.* No. 130, 19 July 1966.

³ *Ibid.* No 125, 11 July 1966.

Since then, on 26 October 1966, the Commission submitted to the Council a proposal for a directive on the marketing of material for the vegetative propagation of grape vines. Other proposals dealing with the marketing of vegetable seeds and the seeds of oil-bearing and vegetable fibre plants, and with the establishment of an EEC catalogue of varieties of agricultural plants, will soon be ready for submission to the Council. Of the trial stations provided for in the directives already adopted, those for the control of certain important plant varieties will be in operation from 1967.

203. *Forestry legislation.* On 14 June 1966 the Council adopted a directive on the genetic quality of forestry reproductive material placed on the market.¹

A draft directive on the external quality of forestry reproductive material is being prepared.

Co-ordination of agricultural research

204. Progress has been made in work on the co-ordination of agricultural research.²

A Community programme for research into African swine fever was approved by the Council on 22 July 1966, and provides for collaboration with institutes in the Iberian peninsula, where the disease is at present raging.

Sources of information required for the common agricultural policy

205. *Information on farm accounts.* On 29 June, 29 July and 21 November the Commission, which had been assisted by the Community Committee for the Information Service on Farm Accounts, adopted three implementing regulations necessary for the establishment of an information service on farm accounts which will supply data to be used in ascertaining farm incomes. These regulations deal with the selection of farms by the regional Committees³ the questionnaire to be used in the farm survey and instructions for its completion by the accounting offices,⁴ and the collection, checking and communication to the Commission of accounting data obtained by the accounting and liaison offices.⁵

¹ See official gazette No. 125, 11 July 1966.

² See Ninth General Report, sec. 204.

³ See official gazette No. 131, 4 July 1966.

⁴ *Ibid.* No. 148, 10 August 1966.

⁵ *Ibid.* No. 213, 23 November 1966.

A farm classification has been drawn up to cover the field to be studied by the information service so that the account-keeping farms selected will be representative of the principal types of farm in the Community. The first lists of account-keeping farms have been sent to the Commission in order that accounts can be kept from 1 January 1967. The accounts of the 8 500 farms chosen for the first year of functioning of the information network, which were not begun on 1 January 1967, will be started during the first six months of 1967, on dates to be arranged according to the various countries and the different types of farm.

In this way, the information service on farm accounts will become a reality during 1967, having passed through the various stages of preliminary studies, Commission proposals, Council decisions and the elaboration of implementing measures. This operation, which is based on the collaboration of several thousand farmers, hundreds of accounting offices and 36 regional Committees, will require a special effort from all concerned during the first year, the results of which will be largely experimental in character.

206. *Survey on the pattern of farming.* On 14 June 1966, the Council adopted a regulation on the organization of a basic survey as part of a programme of surveys on the pattern of farming.¹ The number of farms concerned in this basic survey will be within the following limits:

Germany	270 000 — 330 000
France	320 000 — 400 000
Italy	400 000 — 500 000
Netherlands	45 000 — 55 000
Belgium	40 000 — 50 000
Luxembourg	1 600 — 2 000

The survey was to have been carried out between 1 January 1966 and 31 March 1967 and the results were to have been transmitted to the Commission by 31 December 1967 for Belgium, the Netherlands and Luxembourg, and by 31 March 1968 for the remaining countries. As soon as this decision had been taken by the Council, the Commission, with the assistance of the Standing Committee on Agricultural Structure, adopted the necessary implementing measures, dealing in particular with sample surveys² and definitions and instructions concerning the questionnaire to be used.³

However, owing to the technical difficulties encountered in France in carrying out the entire survey during the period between 1 November 1966 and 31 March 1967, and difficulties in Italy as a result of the floods which took place at the time when the survey should have been carried

¹ See official gazette No. 112, 24 June 1966.

² *Ibid.* No. 188, 21 October 1966 and No. 211, 19 November 1966.

³ *Ibid.* No. 206, 12 November 1966.

out, the Council, on a proposal of the Commission, decided¹ to defer the inquiry in these two countries for one year and fixed 31 January 1968 as the deadline for its completion.

Co-operation with farmers' and farmworkers' organizations

207. During the period under review, the Advisory Committees held 12 meetings, preceded by 7 meetings of working parties, and rendered 20 opinions.

The Advisory Committee on Cereals rendered five opinions concerning:

- i) Community quality standards for malting barley to be applied in connection with intervention at the single market stage;
- ii) Monthly adjustments of cereal prices in the Member States, and more particularly monthly storage costs for the various cereals;
- iii) Additional marketing centres for which derived intervention prices are fixed;
- iv) Support measures which will have to be taken at the intervention price when the single price for cereals is in effect;
- v) Problems which will arise at the single market stage for cereals in connection with the issue of import and export licences.

The Advisory Committee on Pigmeat rendered three opinions concerning:

- i) Representativeness of the markets for piglets for which the Commission is at present collecting data, and the advisability of increasing the number of such markets, prices for piglets and possible means of eliminating price disparities;
- ii) A practical common classification for pig carcasses;
- iii) Ways and means of encouraging the regularization of pigmeat production in order to achieve a better balance between supply and demand.

The Advisory Committee on the Social Problems of Farmers rendered two opinions concerning:

- i) Social security for farmers;
- ii) A draft "career brief" for farmers.

The Joint Consultative Committee on Social Problems relating to Paid Agricultural Workers rendered some new opinions.

The Advisory Committee on Milk and Milk Products rendered three opinions concerning:

- i) Measures to facilitate the marketing of butter surpluses by encouraging increased consumption;

¹ Official gazette No. 33, 24 February 1967 (Regulation No. 35/67/CEE).

- ii) Methods of detecting the use in animal feed of skim milk or skim milk powder at reduced prices;
- iii) Problems connected with the commercial classification of butter and with the descriptive markings which should appear on the packaging.

The Advisory Committee on Beef and Veal rendered an opinion on the adjustment required in the methods of fixing prices (application of Regulation No. 14/64/CEE).

The two opinions issued by the special rice section of the Advisory Committee on Cereals dealt with:

- i) Fixing the lower limit of the threshold price for broken rice so that this will not compete with fodder grains at the single market stage;
- ii) The monthly adjustment of rice prices.

The Advisory Committee on Fruit and Vegetables held a meeting at which a Commission representative explained the implications of the Council regulation containing supplementary provisions for the common organization of the market in fruit and vegetables, and of the Council regulation on the standardization of fruit and vegetables marketed within each Member State. This exposé was followed by a discussion.

The Commission also consulted the relevant trade and consumers' organizations regarding eight draft directives on the harmonization of legislation on agriculture and foodstuffs. The Commission also arranged meetings for the exchange of information with the central organizations and, whenever specific problems made this necessary, held discussions with the organizations specializing in the matter concerned.

OUTLOOK

208. Since the Council has now broadly laid down the programme for agriculture up to the end of the transitional period, the other Community institutions, particularly the Commission, have clear guidelines to help them to complete the common agricultural policy.

First of all, the Council must adopt basic regulations for the single market stage for most of the market organizations; the Commission has already submitted proposals in this sphere.

All activities of the competent institutions of the Community should be directed towards achieving in principle, before 1 July 1968, free movement of the products listed in Annex II of the Treaty. Since the common agricultural policy is influencing farming itself more and more directly, the completion of this policy implies that other aspects of it besides marketing must be given more attention in the future.

Community action should be framed with a view to guaranteeing a harmonious development of the various regions and the various types of farm in the Community. Community programmes would allow selective measures to be taken, particularly through the grant of Community aid to projects with priority in the sphere of agriculture structure and markets.

Furthermore, after the Commission had submitted to the Council a proposal on producers' groups, it continued its examination of the salient features of vertical integration in agriculture and intends to submit a proposal on this particularly important aspect of concentration of economic activity.

The free movement of agricultural products will not, however, be complete as long as provisions on production, quality and the control of goods differ from country to country. For this reason, the approximation of the Member States' statutory rules and regulations on matters connected with food, agricultural in general and forestry is a *sine qua non* for the proper functioning of the common agricultural policy.

Agriculture is not a self-contained economic sector, and the fact that it is catered for in the second programme on medium-term economic policy bears this out. Furthermore, the repercussions on European agriculture of the outcome of the Kennedy Round must be carefully studied.

In a resolution adopted on 2 December 1966 at the close of its debate on the organization of world markets in agricultural products, the European Parliament considered that the Kennedy Round offered a favourable opportunity to remedy the critical situation on world agricultural markets and to achieve a lasting regularization by the conclusion of world agreements, a regularization which implied that importing and exporting countries would adapt their national policies to a joint international organization. Speaking on behalf of the Commission, M. Mansholt said that the charge of protectionism sometimes laid at the Community's door was unjustified, since no country of comparable size had increased its imports as much as the EEC had done while at the same time putting its own agricultural market in order.

Common transport policy

209. Further to the agreement of 22 June 1965,¹ the Council on 28 July 1966 resumed its consultations on the organization of the transport market. At this meeting it commenced the examination of the amended proposal for a regulation relating to the introduction of a rate-bracket system applicable to the transport of goods by road, rail and inland waterway.² The amendment to the initial proposal had been submitted

¹ See Ninth General Report, sec. 207.

² See sec. 214.

to the Council under the agreement of 22 June 1965 and in accordance with Article 149, second paragraph, of the Treaty.¹

The Council continued its discussions at meetings held on 19 and 20 October 1966.

These exchanges of opinion led the Council to adopt a resolution under which the system of rates was no longer to be a matter of priority, but which recommended that further steps should be taken throughout the field of transport in an endeavour to secure a balanced organization of the market. Although on other points differences of opinion came to light, all members of the Council acknowledged that special importance is attached to preventing ruinous competition and the abuse of dominant positions.²

In its resolution, the Council invited the Commission to put forward early proposals for measures on capacity in road and inland water transport and on entry to the profession. Furthermore, the Council instructed the Committee of Permanent Representatives to examine as soon as possible the proposal for a regulation which the Commission had submitted to the Council on 5 June 1964 and under which the rules of competition applicable to transport by rail, road and inland waterway would become effective,³ the Commission's communication on the UNIR (Union for the International Navigation of the Rhine) plan, the rules on the capacity of inland water transport, and the question of safeguard measures. Lastly, the Council emphasized the necessity for early implementation of its decision of 13 May 1965 on the harmonization of certain conditions affecting competition in the field of rail, road and inland waterway⁴ transport. The problem of how infrastructure costs should be imputed was to be settled, possibly, by the adoption of an interim solution.

210. On 10 February 1967 the Commission submitted to the Council a memorandum on the common transport policy, in response to the Council's resolution of 20 October 1966. The memorandum contains the results of an examination of the divergent opinions in the Council and of how the differences could be resolved. In particular, it submits to the Council a programme showing the various measures to be taken and a timetable for their execution.

The Commission considered it possible to set up a common organization for the rail, road and inland waterway transport market, entailing co-ordinated regulations for the various fields of transport policy, viz.: harmonization of the conditions of competition, suitable rules on com-

¹ See Ninth General Report, sec. 210.

² See below, sec. 210.

³ See Eighth General Report, secs. 69 and 228.

⁴ See official gazette No. 88, 24 May 1965.

petition, control of access to the market (regulation of capacity system of freight rates).

The Commission's proposals do not imply priority for agreement on freight rates. This organization of the transport market, the different parts of which are dovetailed together, would obviate the risks both of any abuse of dominant positions and of cut-throat competition. It appears that selective interventions in the matter of rates will be necessary only by way of exception when other measures cannot be applied, and that it will then be temporary in character.

The organization would be set up in two phases, the first of which would last until 31 December 1969 (end of the transitional period). In this first phase, measures to regulate rates, the conditions of admission to the haulage trade between the Member States, as well as most of the harmonization measures and a financial system governing the use of the infrastructures would have to be adopted and put into effect; during the second phase, ending on 31 December 1972, the arrangements on freight rates would be completed and their scope extended to traffic within Member States, the conditions of admission to the activity of road haulier put into force during the first phase would be applied to road haulage within Member States and to inland navigation within the Community, the conditions of competition would be harmonized, and a common financial system introduced to cover the use made of transport infrastructure.

ACCESS TO THE MARKET

211. On 28 July 1966 the Council adopted a regulation on common rules for international passenger transport by coach or bus.¹

The regulation applies to transport between Member States. In the case of occasional services it provides for exemption from any authorization by Member States other than the one in which the vehicle is registered. "Closed door" journeys and "out loaded, return empty" services have been exempt since January 1967. Provided certain conditions are fulfilled, this will also apply to "out empty, return loaded" journeys from 1 January 1969.

With effect from 1 January 1967 the regulation lays down that, subject to compliance with certain certification requirements, transport services provided by an enterprise for its own workers are also exempt from authorization formalities.

For scheduled services and shuttle services, the regulation provides that the Council shall establish common rules by 1 January 1968. The Commission is preparing the relevant proposals for submission to the Council.

¹ See official gazette No. 147, 9 August 1966.

212. After consulting the Member States, the Commission on 16 December 1966 adopted a regulation which fixed the wording of certain control documents referred to in Articles 6 and 9 of Council Regulation No. 117/66 concerning the introduction of common rules for international road passenger transport by coach or bus. This regulation came into force on 22 December 1966.¹

213. On 22 June 1966 the Commission sent to the Council a memorandum concerning the UNIR (Union for the International Navigation of the Rhine) plan prepared by the economic conference on Rhine navigation convened by the Central Commission for the Navigation of the Rhine; this memorandum also deals with the regulation of inland waterway freight capacity, a matter on which it takes into account the opinion communicated to the Commission on 10 March 1966 by the Consultative Committee on Transport.²

In this memorandum the Commission argues that there are certain legal and economic objections to the UNIR plan. In order to ensure that control shall be exercised over the way in which capacity is adapted to market requirements, the Commission puts forward the broad lines of a system applicable to the entire Community inland waterway network. Referring to the agreement of 22 June 1965 on the organization of the transport market,³ the Commission requested the Council to invite the Member States concerned to put off any decision concerning approval of the UNIR plan and stated that it intended to open conversations with the Swiss Government.

On 17 March 1967 the European Parliament adopted on its own initiative a definite position regarding the Commission's memorandum.⁴

The Council is still examining the memorandum. The Member States directly concerned have as yet taken no decision on the UNIR plan.

In accordance with Article 198 of the Treaty, the Commission advised the Economic and Social Committee on 5 October 1966 that it wished to have the Committee's views about the memorandum.

TRANSPORT RATES AND CONDITIONS

214. After being consulted by the Council, the European Parliament rendered an opinion on 27 June 1966⁵ concerning the amended proposal of 29 October 1965 for a regulation on the introduction of a rate-bracket

¹ See official gazette No 234, 21 December 1966.

² See Ninth General Report, sec. 231.

³ *Ibid.* secs. 207 and 208.

⁴ See official gazette No. 63, 3 April 1967.

⁵ *Ibid.* No. 130, 19 July 1966.

system in goods transport by rail, road and inland waterway.¹ The European Parliament repeated the opinion which it had given on its own initiative on 19 January 1966.²

On 29 September 1966 the Economic and Social Committee also rendered an opinion on this proposal. It endorsed the main body of the Commission's proposals, but stressed that the proposed system should be treated as an experiment.

At its meetings of 28 July and 19 and 20 October 1966, the Council examined the Commission's proposals. The discussions turned in particular on the rates to be applied under the reference system, the structure of the rate brackets and the width between maximum and minimum rates, compulsory upper and lower limits, special contracts, publication of rates and conditions, and certain institutional problems.

DISCRIMINATION AND SUPPORT TARIFFS

215. In connection with discrimination in transport rates and conditions (Article 79 of the Treaty), the Commission continued its study of the tolls applied in German inland waterway traffic: ten tariff headings were abolished and four amended to bring them into line with the Treaty; fifteen headings involving export or import clauses still have to be amended; the necessary action is being taken by the German Government.

The conditions applicable to Belgian inland waterway traffic (rates of the ORNI — Office régulateur de la navigation intérieure) have been studied. There are still problems to be cleared up in connection with the system of charges for imported grain and seeds, and with informing the Commission of any reduced rates applicable between certain points.

The Commission also examined 180 direct international railway rates: five had to be abolished and one amended; the remainder proved to be legitimate.

216. Furthermore, with regard to the abolition of discrimination in transport rates and conditions, the application of Council Regulation No. 11/60,³ issued in pursuance of Article 79(3) of the Treaty, has not caused any difficulties; all that is now necessary is for the Belgian Government to bring into force the royal decree and the law concerning which the Commission rendered its opinion on 11 April 1962 after it had been consulted in accordance with Articles 14 and 16 of the above regulation.

¹ Ninth General Report, sec. 210.

² See official gazette No. 23, 5 February 1966.

³ See official gazette No. 52, 16 August 1960.

The problem of how this regulation will be applied to navigation on the Rhine has however still not been settled.¹ The publication of rates and conditions referred to in Article 10 of the regulation forms part of the general system.²

217. In accordance with Article 80 of the Treaty, the Commission has studied 346 unpublished transport rates and conditions. One hundred and thirty-one have been abolished or amended because they contained an element of support or protection for one or more specific concerns or industries. Except for a limited number of unpublished transport rates and conditions which the French and Netherlands Governments still have to communicate, the study of those transport rates and conditions still in force can be considered complete. In future, the Commission will have to undertake similar studies only if and when unpublished rates are introduced.

The Commission has also studied 130 published domestic tariffs. Of these tariffs and those previously examined 36 have been modified to conform with the Treaty. Forty-four tariffs were abolished, and 127 were found to have a legitimate basis.

Moreover the Commission, by a decision taken on 22 December 1966 under Article 80(2) of the Treaty, extended until 31 March 1967³ the authorization under which the Italian State Railways apply a special tariff (No. 251 - Section A) to the transport of fruit and vegetables from the south of Italy.⁴

In accordance with Article 80(2), the Commission consulted the Member States about the Italian interdepartmental orders Nos. 2904 and 2905 and on the draft for a new section 7 in the appendix to the Italian State Railways' rates and conditions, which covers reduced rates introduced to assist the south of Italy.

218. Lastly, the Commission studied the rates applied by the German Federal Railways for traffic to and from the Saar; to justify these "als-ob Tarife", the German Government cited the potential competition from a projected Saar-Palatinate canal. The Commission considers that these rates involve elements of support and protection for one or more particular enterprises or industries located in the Saar or in certain German ports, and are prohibited under the terms of Article 80(1) of the Treaty. The Commission has therefore initiated the procedure laid down in Article 169 of the Treaty.

¹ See Eighth General Report, sec. 225.

² See sec. 214.

³ See official gazette No. 11, 20 January 1967.

⁴ *Ibid.* No. 57, 6 April 1964, and No. 6, 14 January 1966.

219. Certain rates sanctioned by the Commission under Article 80(2) have been abolished: in Italy, certain rail transport rates for internal traffic in Sardinia: tariff No. 202 (cattle), tariff No. 210 (cork), tariff No. 218 (asphalt, Sardinia and Sicily); in France, a 15 % reduction applicable to cauliflowers, early potatoes and artichokes shipped from Brittany (with a minimum distance of 650 km).

HARMONIZATION OF TERMS OF COMPETITION

220. The Commission has continued to prepare proposals on measures by which to apply Council decision No. 65/271 of 13 May 1965 concerning the harmonization of certain measures which affect competition in rail, road and inland waterway transport.¹

On 20 July 1966 the Commission, acting in accordance with Article 1 b of this decision, submitted to the Council a proposed directive for the harmonization of arrangements regarding the duty-free entry of fuel in the tanks of commercial vehicles.² On 3 February 1967, the European Parliament rendered its opinion on this proposal.³ The Economics and Social Committee decided its views on the matter on 25 January 1967.⁴

In accordance with Article 9 of decision No. 65/271, the Commission submitted to the Council on 14 July 1966 a proposed regulation on aids to road, rail and inland water transport firms.⁵

On 27 July 1966, in accordance with Articles 10 to 13 of the same decision, the Commission forwarded to the Council a proposed regulation on the harmonization of certain social provisions in the road transport sector.⁶ On 17 March the European Parliament rendered its opinion respecting this proposal.⁷

221. The Council has not yet completed its study of the Commission's proposal of 20 March 1964 relating to the abolition of double taxation on motor vehicles used in the international haulage trade.⁸

¹ See official gazette No. 88, 24 May 1965.

² *Ibid.* No. 185, 17 October 1966.

³ *Ibid.* No. 28, 17 February 1967.

⁴ *Ibid.* No. 42, 7 March 1967.

⁵ *Ibid.* No. 185, 17 October 1966; see also sec. 224.

⁶ *Ibid.* see also sec. 223.

⁷ *Ibid.* No. 63, 3 April 1967.

⁸ See Eighth General Report, sec. 226.

222. In accordance with the Council's decision of 9 March 1965,¹ a study session on railway problems was arranged by the Commission, and was held between 24 and 28 October 1966 in Brussels.

This session, which was attended by experts from the civil services and railway companies of the Member States as well as by officials of the ECSC High Authority, made it possible to draw certain general conclusions on the part to be played by the railways in the common transport policy.

SOCIAL POLICY IN TRANSPORT

223. The proposed regulation on the harmonization of certain social provisions in the road transport sector relates to the minimum age of drivers, drivers' mates and conductors, to the composition of crews and to time at the wheel and daily rest.

In addition, the Commission has started consultations to prepare a proposal for a second regulation dealing with social conditions in the road transport sector (working hours, arrangements concerning overtime, weekly rest period and Sunday rest, goods haulage on Sundays and public holidays).

AIDS TO TRANSPORT ENTERPRISES

224. The proposed regulation on aids granted to railway, road and inland water transport undertakings² is intended to lay down criteria by which to delimit the aids which may be used in co-ordinating transport or which constitute reimbursement for certain obligations inherent in the concept of a public utility (Article 77 of the Treaty). Further objects of the regulation are to enlarge the scope of Article 92 of the Treaty and adapt to the requirements of the common transport policy the procedure laid down in Article 93.

While waiting for this regulation to be adopted, the Commission is bringing the inventory of aids up to date. It has already examined some of them. This applies particularly to compensation for part of the tolls that the Soviet zone authorities collect only from German road hauliers routing their vehicles to and from West Berlin. The Commission is continuing its examination of this type of aid as part of the procedure specified in Article 93 of the Treaty.

¹ See Ninth General Report, sec. 217.

² See sec. 220.

PRIOR EXAMINATION OF MEMBER STATES' PROPOSED LAWS
AND REGULATIONS

225. The procedure of prior examination and consultation for laws and regulations contemplated by Member States in the transport field,¹ introduced by a Council decision of 21 March 1962, has functioned satisfactorily.

The Commission has issued opinions or recommendations in the following cases:

- i) Belgian Bill on ancillary occupations in the goods transport sector;²
- ii) Draft Belgian Royal Decree relating to rates and conditions for the road haulage for hire or reward of products coming under the ECSC Treaty and draft ministerial decree relating to the recognition of trade associations in this field;³
- iii) Draft Luxembourg regulation on the publication of rates and conditions for road haulage, for hire or reward, of ECSC products between the Benelux countries;⁴
- iv) Italian Bill on the organization of the Ministry of Transport and Civil Aviation and the setting up of a national Transport Council;⁵
- v) Italian Bill on the institution of a Central Advisory Committee on transport, attached to the Interministerial Economic Planning Committee;⁵
- vi) Italian Bill granting the Government powers to reorganize the "Azienda autonoma delle ferrovie dello Stato" (Italian State Railways);⁶
- vii) Italian Bill amending Articles 32 and 33 of the consolidated rules on road traffic as approved by Presidential Decree No. 393 of 15 June 1959 in respect of the maximum weights and dimensions of commercial vehicles and completing the table (Tariff F) appended to Act No. 463 of 21 May 1955 relating to the motor vehicle tax;⁷
- viii) French draft decree specifying the arrangements applicable to international road passenger transport;⁸
- ix) Draft Belgian ministerial decree specifying the standard of competence required for obtaining a general international transport permit.⁸

¹ See official gazette No. 23, 3 April 1962.

² *Ibid.* No. 90, 17 May 1966.

³ *Ibid.* No. 99, 4 June 1966.

⁴ *Ibid.* No. 237, 23 December 1966.

⁵ *Ibid.* No. 18, 28 January 1967.

⁶ *Ibid.* No. 22, 4 February 1967.

⁷ *Ibid.* No. 24, 11 February 1967.

⁸ *Ibid.* No. 47, 15 March 1967.

INVESTMENT AND INFRASTRUCTURE IN TRANSPORT

226. In accordance with Council decision No. 66/161/CEE of 28 February 1966 establishing a consultation procedure for investment in transport infrastructure,¹ the Belgian Government has communicated to the Commission a Brussels-Mons-French frontier motorway project. The French Government has communicated projects for two motorways, Comblès-Valenciennes-Belgian frontier and Lille-Belgian frontier.

The Commission has advised the other Member States of these projects and sought their views; the conclusion drawn is that execution of these projects will contribute effectively to the establishment of a network of Community trunk roads. The Commission took advantage of the consultations on these projects to settle the practical arrangements needed for implementing the decision of 28 February 1966.

The study of forecasts of road traffic on the Liège-Luxembourg road² is nearing completion.

The study of how economic theory can best be applied to the choice of investments in transport infrastructure has been completed.³

TECHNICAL HARMONIZATION

227. The Council's work in connection with the Commission's amended proposal (9 April 1963 and 21 May 1964) for a directive concerning the weights and dimensions of commercial road vehicles and certain complementary technical conditions relating to such vehicles⁴ has still not been resumed. The differences of opinion between the Member States have mainly to do with the question of maximum axle load.

228. Work on standardizing equipment and spare parts for inland waterway vessels continued in a working party of experts for which the Commission supplies a chairman.⁵ Ten standards projects were drawn up during 1966. These projects will be submitted to the national standards institutes and to the "Comité européen de normalisation électrotechnique" (CENEL) in order that the standards can be applied internationally.

¹ See official gazette No. 42, 8 March 1966, also Ninth General Report, sec. 223.

² See Ninth General Report, sec. 224.

³ *Ibid.*, sec. 225.

⁴ See Seventh General Report, sec. 209; Eighth General Report, sec. 234; Ninth General Report, sec. 226.

⁵ See Ninth General Report, sec. 227.

FRONTIER CROSSING

229. The Working Party on the improvement of frontier crossing conditions in intra-Community road traffic has continued its investigations. Discussion centred on the possibility of increasing the number of frontier crossings permanently open for transport covered by the TIR carnet.

The Commission also studied the problems involved in taking goods across frontiers by rail and waterway transport.

SURVEY ON INFRASTRUCTURE COSTS

230. The work provided for by Council decision No. 64/389 of 22 June 1964 relating to the organization of a survey on infrastructure costs in rail, road and inland water transport¹ and by decision No. 65/270 of 13 May 1965 implementing Article 4 of decision No. 64/389² has been actively pursued.

As regards the exhaustive inventory of expenditure on infrastructure in 1966, the work of the Member States has advanced in spite of difficulties caused, in particular, by the lack of sufficiently systematic accounting in the road and inland water transport sectors.

In accordance with the decision of 13 May 1965, the Commission, assisted by the French Government, has undertaken a pilot study on communications between Paris and Le Havre; on 28 July 1966 it advised the Council that, owing to the complexity of the subject matter, the study would take considerably longer than expected and that the delay would affect the investigations into other individual cases.

In a memorandum sent to the Council on 10 February 1967,³ the Commission put forward an intermediate solution for a financial system relating to the use of infrastructures.

THE CONSULTATIVE COMMITTEE ON TRANSPORT

231. The Consultative Committee on Transport set up under Article 83 of the Treaty continued working on its programme for 1965/1966.⁴ It submitted opinions to the Commission on the following points:

a) Problems arising for transport from the abolition of controls at frontiers between Member States;

¹ See official gazette No. 102, 29 June 1964.

² *Ibid.* No. 88, 24 May 1965.

³ See sec. 210.

⁴ See Ninth General Report, sec. 231.

- b) Harmonization of transport conditions on inland waterways;
- c) Procedure for publication of transport rates and conditions;
- d) Means of harmonizing supply and demand in goods transport by road and inland waterway;
- e) Delimitation of the concept of competition in transport (for the purposes of Articles 79 and 80 of the Treaty).

Under the rules according to which the Committee works,¹ the members' term of office expired on 27 January 1967. In accordance with a Council decision of 22 June 1964 by which these rules were amended,² the Committee has continued to meet pending the renewal of its membership by the Governments of the Member States. All members of the Committee having been appointed in March 1967, they appointed their officers for the year 1967/1968 at a meeting on 20 and 21 March 1967. M. Zwanenburg, transport attaché at the Permanent Delegation of the Netherlands, was elected chairman and M. Neuville, acting Director-General at the Belgian Ministry of Transport, vice-chairman.

Social policy

GENERAL

232. The Commission has not only fulfilled the task allotted to it by the Treaty as regards free movement of workers, the European Social Fund and vocational training, but has continued its researches into the multiple aspects of social conditions in the Community. Besides work on special questions, it has put in hand general studies on employment and the working and living conditions of women, young people and handicapped persons, and the social problems of the elderly. Four recommendations have been addressed to the Member States, a decision concerning sulphur-mine workers has been taken by the Council, and a Council regulation amending some points of the Social Fund regulation has been adopted, while studies for a proposed new regulation on the free movement of workers were completed and a proposal for a regulation on the social aspects of road transport was submitted to the Council.

The Commission has also laid down the main lines of its studies in the social field for the transitional period.

233. The work on social policy in agriculture is described elsewhere.³ Particular attention has been paid to the employment situation and

¹ Dated 15 September 1958. See official gazette No. 25, 27 November 1958.

² See official gazette No. 102, 29 June 1964.

³ See sec. 197.

improvement of continuity in agricultural employment and to working hours.¹ As regards social policy in the transport field, measures are envisaged for harmonizing conditions in road transport in the immediate future.² Meanwhile, studies of working conditions in the other modes of transport are being carried on. A joint committee was set up towards the end of the year to deal with social problems in road transport.

Social problems, and particularly those of employment in the wide sense, have taken up much of the attention of the Medium-term Economic Policy Committee. This was reflected in the first medium-term economic policy programme, which has a special chapter on the general lines of employment policy from both the overall quantitative aspect and the qualitative and structural aspect. The main lines of this programme are based particularly on a synoptic view of the national situations and of the trends in working hours, age at first employment and retirement, employment of women, emigration and immigration, and vocational guidance and training of young people and adults.³

EMPLOYMENT AND VOCATIONAL TRAINING

234. During previous years the employment situation in several Member States tended strongly towards disequilibrium as regards both numbers and skills, but in 1966 the economic trend brought an increasingly evident lessening of strain in certain countries, with a high level of employment nevertheless maintained.

In its report on manpower problems in the Community in 1966, the Commission acted as it had done on the occasion of previous surveys by proposing a series of measures to promote studies on employment. The Council took note of this report, and some of the arrangements suggested—particularly as regards better adaptation of available skills to needs—have been included in the objectives of the medium-term economic policy programme.

235. In response to the wish expressed at the last meeting of the Ministers of Social Affairs in the Council on 19 December 1966, the Commission submitted to the Council a memorandum on the trend of the manpower situation in the Community. This memorandum first analyses the trend observed in 1966 (a very appreciable fall in the number of unfilled vacancies; a slight decline, followed by an increase, in the number of unsatisfied applications for jobs; a continuing rise in the number of

¹ See Ninth General Report, sec. 203, sixth paragraph.

² See sec. 223.

³ See sec. 137.

unemployed), and pinpoints the divergences observed from one country to another. It then sketches the repercussions which the evolution of the economy may have on the employment trend in each Member State in 1967.

The Commission concluded that the policies to be applied would need to be differentiated: retraining of the unemployed, and their ability to change occupation and domicile, must be promoted while at the same time care must be taken to observe the principles of equality of treatment and priority for Community labour in those countries where economic activity is slowing down; mobility of labour must be encouraged to ensure that available manpower is better suited to requirements in France and Italy.

Finally, the Commission suggested that discussions in the Council should give priority to an employment policy catering for the needs of the present situation and for the training, retraining and further improvement of the Community's manpower resources.

M. Levi Sandri, Vice-President of the Commission, stressed the Commission's concern for these matters at the meeting of the Economic and Social Committee on 22 February 1967.

236. On 18 July 1966 the Commission sent the Member States a recommendation on the development of vocational guidance.¹ The Commission has also continued its programme of co-operation between the responsible departments in the States. Seminars for the exchange of information and experience have been organized in Belgium for representatives of trade organizations. A study of the structure and functioning of the national employment services has been completed and will serve as basis for a plan for co-operation between these services to be submitted to experts from the administrations concerned.

With a view to more detailed examination of the trend in certain branches where activities are undergoing considerable changes, the Commission has initiated three studies on employment in textiles, shipbuilding and electrical engineering. In addition to these studies by sector, research by category has been pursued, particularly as regards the employment of women, and a study has also been undertaken on the methods of forecasting working population and employment.

237. Following a Commission proposal, the Council adopted, on 22 December 1966, a decision granting Italy a maximum of 4 200 000 u.a. of aid for grants to redundant sulphur-mine workers and scholarships for their children.² The detailed procedures for allocating the aids and scholarships were laid down by a Commission decision in agreement with the Italian Government.

¹ See official gazette No. 154, 24 August 1966.

² *Ibid.* No. 246, 31 December 1966.

238. The Commission withdrew its proposal for a first joint programme of accelerated training for adults,¹ because the Council did not agree to it—the programme involved joint financing and, in addition, changes had occurred in the manpower situation of some countries since it was submitted. The Commission will study the advisability of making new proposals.

239. At its meeting of 21 February 1967, the Advisory Committee on Vocational Training adopted the first Community list of the minimum knowledge and skills required for a trade, in this case the trade of turner.

The Commission is continuing its work on such "career briefs" for trades in metalworking, building, transport and agriculture. As regards agriculture, it has studied the trend in the occupation of farmer, and consulted the agricultural and social committees concerned with a view to drawing up a career brief for this occupation.

Side by side with its activities in preparing an inventory of teaching methods and aids in vocational training, the Commission also organized, in co-operation with the Stuttgart Chamber of Commerce and Industry, a study trip for a working party of the Advisory Committee on Vocational Training, with a view to promoting the training of teachers and instructors. The aim was to examine experience acquired in the Land of Baden-Württemberg and to discuss the results obtained in the general and specialist training of teaching personnel for industry and trade.

240. The Commission has put in hand a study to encourage vocational training programmes with a wider application by determining the general and technical knowledge and the practical skills common to more than one trade or profession, starting out from an analysis of the basic elements of every trade or profession.

241. Implementation of the first common programme for the exchange of young workers² has continued. National advisory committees as provided for in this programme have been or are being set up, and credits for aid to trainees included in the national budgets.

The Commission brought together the representatives of the employers' and workers' organizations and of the leading bodies for international exchanges in order to obtain their active collaboration in the common programme. It also organized Community information sessions for several groups of young farmer trainees under a co-ordinated programme drawn up by the Liaison Committee of Young Farmers' Unions in the EEC countries.

¹ See Ninth General Report, sec. 234.

² See official gazette No. 78, 22 May 1964.

An informative brochure has also been widely circulated among young farmers and other interested circles.

FREE MOVEMENT OF WORKERS

Proposal for a regulation and a directive on the free movement of workers within the Community

242. Following the decisions of the Council of Ministers at their meeting of 10 and 11 May 1966 on completion of the customs union by 1 July 1968, the Commission undertook to submit proposals to the Council for the introduction of the free movement of workers by the same date.

To this end the Commission drew up a draft regulation¹ on the free movement of workers and a draft directive on the removal of restrictions on the movement and residence of workers from Member States and their families within the Community. Within effect from 1 July 1968, these instruments should replace Regulation No. 38/64/CEE and the directive pursuant to it, and their purpose is to enable Articles 48 and 49 of the Treaty to be applied in full.

In this way the Council will have progressively established free movement of workers within the Community as required under Article 49 of the Treaty. The first stage of the process of freeing intra-Community movements was completed by Regulation No. 15, adopted by the Council on 16 August 1961 and applied from 1 September 1961 to 30 April 1964. The second stage, which is still going on, began on 1 May 1964 within Regulation No. 38/64/CEE adopted by the Council on 25 March 1964.

The Commission's new proposals to the Council will round off the legal arrangements created by these regulations by abolishing the last remaining restrictions or types of discrimination and establishing machinery and procedures for the rapid and efficient clearance of vacancies and applications for employment.

The draft regulation has the same structure as Regulations No. 15 and No. 38/64/CEE. It comprises:

- a) A first part concerning the workers' employment and families and equality of treatment;
- b) A second part on vacancy clearance;
- c) A third part concerning the bodies charged to assist the Commission in all matters covered by the regulation;
- d) A fourth part on transitional and final provisions.

¹ Submitted to the Council on 5 April 1967.

The essential provisions and the most important advances on Regulation No. 38/64/CEE primarily concern the abolition—once and for all—i.e. without any possibility of appeal to a safeguard clause—of priority for a host country's own nationals in access to employment. Since work permits will also be abolished, access to employment will in future be open to nationals of the other Member States on the same terms as to those of the host State.

This equality of treatment is also found in all fields which directly or indirectly influence the exercise of an occupation.

Under Regulation No. 38/64/CEE, a worker had to have been employed with the same firm in the host country for three years in order to be eligible to vote in workers' representative bodies. Another clause stipulated that he had to have a normal lodging before his family could join him. These clauses will be rescinded.

The draft regulation also ensures the same tax treatment and the same social benefits for Community workers throughout the EEC.

In the field of legal provisions, the new proposals reaffirm the principle laid down by Regulation No. 38/64/CEE that Community nationals shall enjoy priority in access to available jobs but recognize that workers from one Member State have the same priority in another Member State as nationals of the latter.

Provision is made for some flexibility in application in order to ensure that the efficient operation of firms is not impaired, and that any worker wishing to take a job in a Member State other than his own and having recourse to the clearing machinery for this purpose may be certain that his application will be submitted to the employers exactly like that of an applicant from the Member State concerned before their offers of employment are forwarded to non-member countries. To this end, the facilities for exchange of information and co-operation between the Member States' administrations, which must necessarily precede any vacancy clearing action, have been strengthened considerably.

The rule of priority for the national labour market has been dropped, as required by the principle of non-discrimination. However, the new proposals have complied with Article 49(d) of the Treaty by providing for measures to be adopted in the event of serious threats to standards of living and employment. Thus, at the request of any Member State, the Commission will have to give an official opinion on the situation in a particular region or occupation and, if such serious threats are found to exist, the Member States' manpower services and the European Co-ordination Office will conduct an information campaign to discourage workers from moving towards the region or taking up the occupation concerned.

The proposed directive does not radically modify Directive No. 64/40, now in force. However, the Commission does suggest that the residence permit should be standardized so as to make it an "identity card" for nationals of a Member State of the Community.

243. The number and scope of the Member States' measures to protect their own workers have declined very considerably. When the Community rules in this field first came into force Germany, Italy and Luxembourg lifted the restrictions they had previously applied to the free movement of workers and abandoned priority for the employment of their own nationals in certain regions and certain occupations; the Netherlands did this on 1 April 1966 and Belgium on 1 October 1966.

244. In its report on the free movement of workers and labour markets in the EEC (1967), the Commission pointed out that the trend of increasing demand for foreign labour, which had existed since 1961, was diminishing, and examined the degree of priority given by the Member States to nationals of other Member States in clearing vacancies not filled by their own nationals.

245. To improve vacancy clearance, the Commission has collaborated with those Member States which have no recruiting offices in Italy in setting up a system for obtaining prompt information on the manpower requirements of those States and the corresponding possibilities of meeting them from Italian sources.

246. At its meeting on 16 January 1967, the Advisory Committee for the Free Movement of Workers adopted an opinion on the draft regulation which the Commission has submitted to the Council with a view to attaining the Treaty objectives in this field.

The Advisory Committee has also set up a working party to examine problems of employment and freedom of movement in the context of the first medium-term economic policy programme. This working party's first exchange of views showed that there was agreement in principle on the main lines of the Commission's work as regards employment during the years ahead.

247. The Technical Committee continued to examine the position as regards calls for foreign manpower by Member States and priority of access to employment for Community workers.

In the light of the easing of the manpower situation which has emerged in certain countries and has been reflected in greater unemployment, the Committee examined questions of equality of treatment between Community workers employed in a Community country but not nationals of that country and nationals of the country, as regards redundancy and help given by employment exchanges.

248. On 10 and 11 May 1966 the Commission organized fact-finding sessions for officials from Ministries of Home Affairs and Justice in order to study the problems of entry and residence involved when nationals of

one member country move to another member country to work. Special attention was paid to restrictions imposed on grounds of "ordre public" and public health and safety.

As regards the programme for further training of employment service officials specializing in vacancy clearance, the Commission organized in-service training for 16 individuals and a collective training period in Germany which was attended by 36 officials from Member States.

SOCIAL SECURITY OF MIGRANT WORKERS

249. On 11 January 1966 the Commission submitted to the Council 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.¹ The Economic and Social Committee issued an opinion² on this proposed regulation, and it is now before the Committee on Social Affairs and Health Protection of the European Parliament.

The Commission will shortly submit to the Council a proposal for a regulation containing annexes to this basic regulation.

Work on the revision of Community regulations continued in the Administrative Committee for the Social Security of Migrant Workers, with the technical assistance of the International Labour Office. Activities include a draft regulation fixing the implementing procedures and supplementing the provisions of the proposed regulation mentioned above. The Commission will submit this draft regulation to the Council in the course of the year.

The proposal for a regulation submitted by the Commission to the Council on 3 December 1965³ making Regulations Nos. 3 and 4 applicable to seamen was adopted by the Council on 7 March 1967,⁴ after examination by the European Parliament and the Economic and Social Committee.⁴

The Commission has also adopted Regulation No. 94/66/CEE of 5 May 1966⁵ amending the list of communes in the frontier regions on both sides of the border between France and other Member States.

¹ See Ninth General Report, sec. 246. The text of this proposal was published in official gazette No. 194 of 28 October 1966. The same gazette published the proposal submitted by the Commission to the Council, also on 11 January 1966, for a Council decision giving effect to Article 51 of the Treaty in the French Overseas Departments.

² See official gazette No. 64, 5 April 1967.

³ *Ibid.* No. 73, 23 April 1966.

⁴ *Ibid.* No. 44, 10 March 1967.

⁵ *Ibid.* No. 129, 7 July 1966.

THE EUROPEAN SOCIAL FUND

250. In 1966 sums repaid by the European Social Fund, with the approval of the Fund Committee, totalled 8 696 960 units of account, of which 8 559 619 u.a. were for retraining and 137 341 u.a. for resettlement. The smallness of this last amount is due to the technical difficulties encountered in examining the applications concerning resettlement of nationals of one State in another. Ways of overcoming these difficulties are now being worked out.

This year again no conversion project was submitted to the Commission for approval.

Because of the delay in renewing the powers of the members of the European Social Fund Committee, which expired on 14 October 1966, the Commission was unable to make any decisions granting aid from the Fund during the fourth quarter of the year.

TABLE 17

Repayments by the European Social Fund in 1966

(in u.a.)

Country	For retraining	For resettlement	Total
Germany	1 373 971	53 497	1 427 468
Belgium	596 540	—	596 540
France	1 313 418	51 161	1 364 579
Italy	3 766 434	32 683	3 799 117
Luxembourg	—	—	—
Netherlands	1 509 256	—	1 509 256
Total	8 559 619	137 341	8 696 960

The schemes carried out with the help of the Fund enabled 53 632 unemployed or underemployed workers to find new jobs after retraining or resettlement.

TABLE 18

Number of workers aided by the European Social Fund in 1966

Country	Workers retrained	Workers resettled	Total
Germany	1 840	5 057	6 897
Belgium	1 017	—	1 017
France	1 966	6 657	8 623
Italy	34 716	298	35 014
Luxembourg	—	—	—
Netherlands	2 081	—	2 081
Total	41 620	12 012	53 632

Practically all the retraining was done in collective centres, wholly or partly at the expense of the States.

The breakdown of workers according to their new trades shows that metalworking and building continue to predominate.

In Germany and Italy most of the resettlement operations concerned residents in the country, while for France they concerned the introduction of foreign workers, mainly from Italy.

In 1966 repayments made by the European Social Fund (credits) and Member States' contributions (debits) entailed a transfer of about 2 060 000 units of account to Italy and 900 000 units of account to the Netherlands, from Germany (1 356 000 u.a.), Belgium (169 000 u.a.), France (1 418 000 u.a.) and Luxembourg (17 000 u.a.).

251. The total for applications submitted in 1966 by all the Member States—about 13.9 million units of account—shows a net absolute increase in relation to 1963, 1964 and 1965, when the average annual amount was 8.5 million units of account.

The increase is accounted for mainly by retraining applications, chiefly from Germany and, to a lesser extent, France and Italy. It should be noted however that the number of retrained workers covered by these applications is not increasing *pari passu* with the expenditure, except in the case of Italy. Since the total amount depends on many factors, such as the length of the training periods and the amount of the allowances

to trainees, it would be hazardous to draw over-precise conclusions from the above very general observations. However, it seems justifiable to think that expenditure on retraining is growing regularly in all Member States—to a considerable extent in Germany and France, and less strongly in the other countries.

As regards resettlement, the total for applications submitted in 1966 has increased only slightly. This reflects the falling-off in migratory movements within the Community.

252. At the end of its sixth year of operation the Fund's activity was as shown in the table on the following page.

253. The budget of the European Social Fund for the 1967 financial year amounts to 19 817 606 units of account. The Commission based this figure on the Member States' estimates of the applications for reimbursement that they expect to make during the year.

The Commission also asked the Council to carry forward to the 1967 financial year 15 785 260 units of account in the 1966 budget, for the settlement of applications pending at the end of the 1966 financial year.

254. The proposed Commission regulations to increase the effectiveness of the European Social Fund¹ are still before the Council.

In April 1965 the Commission had also proposed a regulation waiving certain provisions of Regulation No. 9 on the European Social Fund, with the object of helping redundant Italian sulphur-mine workers. The Council consider that this waiver should not be limited to a particular category of worker, and on 21 February 1967 adopted a regulation covering all workers for whom it was difficult to find jobs within the prescribed time-limit of twelve months.²

EQUAL PAY FOR MEN AND WOMEN

255. The Member States' representatives, meeting in the Council, studied the Commission's report on progress made at 31 December 1964 in implementing the equal pay principle, and also examined the further information supplied by the Member States on the situation in the spring of 1966. On the Commission's proposal the Council agreed that a new report should be drawn up giving the situation at 31 December 1966.

Statistical information on this matter will be obtainable from the inquiry into the structure and distribution of industrial workers' wages, which has been planned for October 1966.

¹ See Ninth General Report, sec. 239, and Eighth General Report, sec. 253.

² See official gazette No. 33, 24 February 1967.

TABLE 19

*Balance sheet of the activities of the Fund
From 20 September 1960 to 1 December 1966*

(in u.a.)

Country	Type of operation	Total represented by			
		Applications submitted	Applications examined	Aid granted	No. of persons benefiting
Germany	Retraining	19 175 390	8 522 084	7 695 941	38 780
	Resettlement	5 627 098	3 909 894	616 171	64 377
	Total	24 802 488	12 431 978	8 312 112	103 157
Belgium	Retraining	3 258 905	2 580 242	2 490 355	5 864
	Resettlement	2 236	1 479	1 477	9
	Total	3 261 141	2 581 721	2 491 832	5 873
France	Retraining	15 990 732	10 768 346	10 628 123	20 588
	Resettlement	1 792 874	538 673	415 854	58 836
	Total	17 783 606	11 307 019	11 043 977	79 424
Italy	Retraining	19 260 918	13 855 032	12 653 120	142 830
	Resettlement	3 992 105	2 036 576	1 940 182	167 652
	Total	23 253 023	15 891 608	14 593 302	310 482
Luxembourg	Retraining	25 333	8 831	8 831	92
	Resettlement	—	—	—	—
	Total	25 333	8 831	8 831	92
Netherlands	Retraining	6 439 378	4 467 236	3 925 352	8 502
	Resettlement	16 094	14 903	14 903	205
	Total	6 455 472	4 482 139	3 940 255	8 707
EEC	Retraining	64 150 656	40 201 771	37 401 722	216 656
	Resettlement	11 430 407	6 501 525	2 988 587	291 079
	Total	75 581 063	46 703 296	40 390 309	507 735

Working conditions and wages

256. The Commission has examined points of agreement and divergence between labour laws in the various Member States.

In consultation with the Member States the Commission has worked out methods for assembling and analysing the collective wage agreements existing in the Community.

A study on working hours in the EEC Member States will shortly be published in the "Social Policy" series. It will give a detailed description of laws and of arrangements under collective agreements regarding working hours, and also of actual working hours in six branches of industry, for which use has been made of the results of a Community survey of weekly time schedules and breaks allowed in selected firms in these branches.

For the first time, harmonized statistics on the working week in industry have been drawn up; they relate to October 1965. In future such statistics will be compiled every six months, for April and October.

An up-to-date version of the study on holidays with pay in the EEC Member States¹ has been completed and will be published.

Sunday working was dealt with in a study which described the legal situation in the Member States and the actual amount of Sunday work in five selected branches of industry which are generally known to operate on Sundays on a large scale. The information on the amount of work was obtained from a Community survey of selected firms in the five branches. The study is now being prepared for publication in the "Social Policy" series.

257. With publication of the results of the survey of wages and salaries in 1964, the Statistical Office of the European Communities has completed the second stage of its inquiry into labour costs, each of which stages covers three consecutive years. In addition to compiling harmonized statistics on the wages of industrial workers every six months, the Statistical Office has carried out a survey for October 1966 into the structure and distribution of industrial and building workers' wages which will supply information on the influence of the various individual factors on the amount of wages and on the classification of workers in the light of this amount. Finally, a survey of labour costs in all branches of industry is being conducted for 1966 as a whole, and a similar survey is also being carried out concerning wages in road transport in 1967.

¹ See Ninth General Report, sec. 247.

258. A recommendation on the protection of young people at work was sent to the Member States on 31 January 1967.¹ Furthermore, in June the Commission received the opinion of the European Parliament, and in October that of the Economic and Social Committee, on its draft recommendation on maternal welfare.²

Social security

259. On 20 July 1966 a recommendation on compensation for victims of occupational diseases,³ following on that of 23 July 1962 on a European list of occupational diseases,⁴ was sent to the Governments of the Member States. The European Parliament and the Economic and Social Committee had already given their opinions on it. The main object of the new recommendation is to remove the restrictions applying to compensation for occupational diseases on some national lists. These stipulations concern the period of exposure to a health hazard and the time of appearance of the disease after exposure to such a hazard. This second recommendation also amplifies the "mixed system" already advised in the first recommendation.

A draft recommendation concerning a common definition of disablement was sent to the European Parliament and the Economic and Social Committee for their opinions. On 27 September 1966 the Committee approved the recommendation subject to certain amendments. The Parliament has not yet finished its examination of the text.

260. A study on the financing of social security in agriculture and a study of the economic effects of social security will shortly be completed. A study of consumption of pharmaceutical products within the framework of social security is being prepared, and the same applies to a study on the different legal systems. A survey of the supplementary social security systems has been published.

These studies complete the documentation on the numerous social security systems existing in the six countries.

A study has been put in hand on the financial problems of social security. The trend of receipts and expenditure in this field up to 1970 is to be evaluated on the basis of certain financial and economic hypotheses.⁵

¹ See official gazette No. 25, 13 February 1967.

² See Ninth General Report, sec. 248.

³ See official gazette No. 147, 9 August 1966.

⁴ *Ibid.* No. 80, 31 August 1962.

⁵ See above sec. 138, end.

261. The Commission held a meeting to which the leading social security officials in the six countries were invited; the progress of the Commission's work was reviewed, and the present situation and probable trend of legislation in this field were discussed.

The third programme of exchanges between social security institutions, comprising seven periods of in-service training, was concluded in December 1966.

About fifty information memoranda concerning occupational diseases on the European list are being drawn up by a panel of independent experts.

Industrial health and safety

262. Two meetings of heads of government departments responsible for industrial health and safety were held in 1966, for a general exchange of views.

The programme of study periods for officials responsible for factory inspection in the Member States¹ continued in 1966. Twenty-eight periods were organized in the various member countries, and their results have already been demonstrated, notably at technical meetings. A better understanding of member countries' administrative principles and practices considerably facilitates approximation of the different concepts and helps to speed up the work.

From 14 to 16 June 1966, a seminar was held in Brussels on the psychological and educational aspects of industrial accident prevention. This seminar was attended by experts and specialists from the competent organizations and representatives of the European Parliament and the Economic and Social Committee. It provided an opportunity of exchanging detailed information on the methods and means applied in the Member States to develop a greater awareness of risk. The discussions, based on fourteen reports drawn up by national experts, dealt with three groups of questions: the use of means of individual protection and of various visual media (colours, symbols and signs) in the prevention of accidents; the results of large-scale anti-accident campaigns carried out in recent years by certain Member States in agriculture, industry and schools; specific problems in the prevention field with respect to migrant workers, and psychological problems of adaptation to a new environment, with their effects on the attitude of such workers to danger. In February 1967 the European Parliament discussed a report on the seminar and asked the Commission to step up its work in this field.

¹ See Ninth General Report, sec. 252.

263. As regards industrial safety, the preparatory studies on the approximation of national legislation pertaining to the security of workers and third parties continued.¹ Other studies have been put in hand concerning presses, centrifugal apparatus, lifting gear, compressors and winches.

264. As regards industrial health, on 27 July 1966 the Commission sent the Member States a recommendation on the medical supervision of workers exposed to special hazards.² The European Parliament and the Economic and Social Committee endorsed this recommendation³ but suggested several amendments, which the Commission incorporated in the final text. This recommendation amplifies the two preceding ones on the adoption of a European list of industrial diseases and on industrial medicine.⁴ It is designed to harmonize procedures for the medical supervision of workers liable to special hazards.

In 1966 the Commission, in response to the wishes of the European Parliament, began three studies concerning heavy agricultural work habitually done by women; measures to reduce noise in factories and protect workers against it; and physical qualifications at present required of workers in road transport.

SOCIAL SERVICES

265. In conformity with the conclusions of the recommendation on the activity of social services with regard to workers who move from one Community country to another,⁵ the Commission has begun to assemble material for a second report on the application of this recommendation.

Studies are also being prepared concerning the social situation of workers and their families moving about in the Community. The third and fourth programmes of scholarships for in-service training in social services dealing with these workers⁶ have been completed; a total number of 22 scholarships was provided.

¹ See Ninth General Report, sec. 253, and lists of studies on the approximation of legislation, sec. 87.

² See official gazette No. 151, 17 August 1966.

³ See Ninth General Report, sec. 254.

⁴ See official gazette No. 80, 31 August 1962.

⁵ *Ibid.*, No. 75, 16 August 1962, and Ninth General Report, sec. 255.

⁶ See Ninth General Report, sec. 255.

HOUSING POLICY AND FAMILY QUESTIONS

266. The Commission has begun to prepare its report on progress in implementing the recommendation on the housing of workers and their families who move from one Community country to another.¹

In order to keep abreast of the trend of family policy in the Community, the Commission has also examined measures and schemes which the Member States are carrying out to help families.

Towards a Community policy on education and research

267. The Commission has continued its efforts for a common policy on education with the aim not only of facilitating people's adjustment to the consequences of economic unification but also of promoting awareness of a "European dimension" in social relationships and in attitudes to life.

In the field of scientific and technical research, practical progress was made on 20 March when the three Executives submitted a memorandum to the Councils, which then began discussions on this basis. The period under review was marked by the emergence of certain requirements, which were then given expression by various Community institutions. This situation confirms and justifies the Commission's analysis and its efforts to forward the action undertaken by bringing into play simultaneously the various means at its disposal under the Treaty.

TRAINING

268. Measures with a view to defining a genuine common policy for vocational training and as regards "career briefs", inventorization of teaching methods, and joint programmes for the exchange of young workers, are dealt with under the heading of social policy.² The first decision designed to help introduce a common vocational training system concerned a rapid training programme for adults.³ This proposal was not accepted by the Council, and the Commission therefore withdrew it and is preparing new ones aimed at achieving the objectives defined by the two Action Programmes.

As regards mutual recognition of diplomas, the decisions taken and the appreciable progress made as regards right of establishment⁴ advance the work in this field too, in so far as recognition is linked with the

¹ See official gazette No. 137, 27 July 1965, and Ninth General Report, sec. 256.

² Sec: 239 sqq.

³ See Ninth General Report, sec. 258.

⁴ See above sec. 33.

conditions of exercise of an activity and in so far as the Member States, in the context of a directive on right of establishment, recognize the equivalence of the various qualifications required for a profession (diplomas, training periods, etc.) in a relatively pragmatic manner without prejudging their academic value.

If it is divorced from this precise context, the problem takes on wider aspects. The ultimate object is not merely to augment Community facilities for increasing workers' productivity by means of better training, nor to ensure freedom of establishment by the mutual recognition of diplomas—the minimum programme jointly accepted—but to approximate study curricula by comparisons (year of study, details of the education given, training periods), in order to narrow divergences in the systems of training with an eye to the requirements of European integration and to the gradual establishment of a Community education policy. In this connection studies are taking place in close co-operation with the universities.

269. The Commission acts in university circles through subsidies, scholarships and training periods, and through the Joint Information Service and its university information section.

In 1966 the Commission granted Bfrs. 1 390 000, as against Bfrs 915 000 in the previous year, in the form of subsidies for institutes or courses at university level dealing with European affairs. A total of Bfrs. 75 000 was granted to the authors of three scientific works on problems of European unification to help defray costs of publication or translation.

In 1966 a total of Bfrs. 993 000 was allotted in the form of scholarships to students attending institutes of European studies. The figure for 1965 was Bfrs. 789 000, and for 1964 Bfrs. 688 000.

The training periods spent in the Commission's departments by young university graduates were organized in such a way that the average number of trainees was never less than 80, compared with 74 over the previous two years. The total number of trainees was 205 as against 197 in 1965. This was despite a slight falling-off in the number of applications, chiefly owing to certain changes in Germany, the only Member State which has so far counted the six months' training with the Commission as part of the career of its young law graduates in government service. It should furthermore be noted that the trainees' allowance was increased on 1 January 1967.

270. Apart from these Commission activities, action with the universities is the responsibility of the Joint Information Service.

The list kept in co-operation with the European Community Institute for University Studies shows a rapid rise in the number of courses and seminars on European integration in the various universities inside and

outside the Community,¹ and consequently the number of doctorate theses on Community questions is growing likewise from year to year; in the Member States, five other European countries, and the USA, 585 had been completed in 1965 or were in preparation at the beginning of 1966, as compared with 373 at the beginning of 1965. This interest in studies concerning European integration now extends to the universities of several east European countries, notably Poland, Czechoslovakia, Yugoslavia and the Soviet Union.

The work of the Joint Information Service in this field has continued along four main lines:

- a) Help in organizing about forty seminars in Brussels or in the various universities of the Member States, through direct contact with the universities or via inter-university associations such as "Europe Université" in France, the "Arbeitskreis für Europakunde" in Germany, and the "Società italiana per l'organizzazione internazionale" in Italy;
- b) The issue of special publications for university circles, "Nouvelles universitaires" and "Dossiers pédagogiques" in France, "Europa in Wissenschaft und Bildung" and "Beiträge zur Europakunde" in Germany, "L'Università e l'Europa" in Italy;
- c) The reception of professors, lecturers and students on individual fact-finding visits;
- d) Distribution to university libraries of a card index of works on European integration.

In spite of all that this detailed co-operation is doing to adapt higher education to the development of the Community, the Commission remains convinced of the importance of setting up a European university.

271. As in previous years, the special programme of youth information and adult education was pursued with schools and institutions providing out-of-school education.

¹ Courses and seminars in European universities:

Country	1964/1965	1965/1966
Germany	32	40
Belgium	17	28
France	59	69
Italy	10	21
Netherlands	4	10
United Kingdom	11	32
Switzerland	12	17
Total	145	215

See "University Research and Studies on European Integration", Bulletin of the European Community Institute for University Studies, No 3 - 1966.

As regards schools, about 250 meetings to study European subjects were organized for teachers by the Joint Information Service or, in liaison with it, by private bodies such as the European Association of Teachers, "Europe Day" in the schools, the Committee for European Civic Education, the International League for Education and Culture, the Catholic International Education Office, and various teachers' associations.

In the field of out-of-school education, about five hundred meetings were organized in co-operation with widely differing international and national educational organizations: European Centres, associations for European education, political, confessional or trade-union youth movements, students' associations, adult education movements, young workers, hostels, young farmers' associations—particularly in connection with the joint programme for the exchange of young workers.¹

Referring to the work thus accomplished since 1960, the European Parliament adopted a resolution on 9 May 1966 requesting the Governments and Parliaments of the Member States to take the initiative in setting up a European Youth Office and calling on the Executives and Council to expand European information activities for young people. The policy for and development of these activities are discussed periodically by the departments of the responsible national ministries and the representatives of the Joint Information Service.

SCIENTIFIC AND TECHNICAL RESEARCH

272. Study of the problems posed for the Community by technological progress underwent important developments in the various EEC bodies. The European Parliament, at its session of October 1966, held a debate on scientific and technological research on the basis of reports by M. Oele and M. Schuijt. The resolution adopted following M. Oele's report particularly emphasized that the Community was a more suitable framework for co-operation than wider-based international organizations. The resolution proposed in M. Schuijt's report suggested that either Euratom or a special body under the future single Commission should organize a joint research programme for the Member States. Speaking after M. de Groote, who presented the report on behalf of Euratom, M. Marjolin, Vice-President of the Commission, gave the Commission's views. He expressed agreement with M. Oele's conclusions and stressed the inadequacy of research in the Community countries, especially in comparison with the effort of the United States. He analysed the causes of this situation and enunciated several principles whose application might represent the first step towards a solution.

¹ See sec. 416.

The role of technological progress in the Community was also stressed in the report on the activities of the European Parliament drawn up by M. Catroux for the joint meeting with the Consultative Assembly of the Council of Europe.

The Working Party on scientific policy attached to the Medium-term Economic Policy Committee has followed the programme which it laid down in June 1966, under which a report is to be submitted by the spring of 1967 to enable the Medium-term Economic Policy Committee to take better account of problems of scientific and technical research than had been possible when the first preliminary draft of the medium-term economic programme was drawn up.

In preparing this report, the Working Party aims to highlight the existing possibilities of action to promote scientific and technical research and innovations. To this end it is making a critical analysis of the three types of factors which influence research and new departures: general conditions, selective measures, and international co-operation—more particularly Community co-operation—in specific fields.

At the same time the Commission has undertaken certain studies on the state of research in industry. A general study is being carried out concurrently with a series of monographs on particular sectors. The first of these—on research in the electronics sector—was begun at the end of 1966.

At government level, two national leaders have recently stressed how important and urgent it is for Europe to find joint solutions to the problems raised by technological progress.

The first, Mr Harold Wilson, the British Prime Minister, made a speech on 15 November 1966 in which he mentioned the possibility of British membership not only of the EEC but also of the two other Communities, and advocated a European Technological Community.

The second, M. Fanfani, Italian Foreign Minister, submitted to the EEC and Euratom Councils on 6 December 1966 a memorandum on the subject, which he had previously put before the NATO Council. The aim of this Italian Government initiative is to enable Europe to make up its technological leeway in relation to the United States by joint efforts and an agreement with that country. Following the submission special session in the first half of 1967 to discuss the problems of technological progress.

273. To provide the basis for discussions at this special session, on 20 March 1967 the three Executives submitted a joint memorandum to the Councils on "the problems of scientific and technological progress in the Community". This memorandum, which was drawn up following M. Fanfani's statement on 6 December 1966 and with due regard to the

French Government's note of 4 March 1965,¹ surveys the key factors of the situation and recommends certain lines of approach.

The memorandum begins by defining the scope of the problem which faces the Member States and the Community and is generally described as a problem of scientific policy or of research policy. It concerns the whole of the process by which, beginning from scientific investigation and technical improvements, "new products and processes are introduced into daily life, i.e. made available to users and, above all, to the market".

The document then brings out the importance of scientific and technological progress for economic growth and in particular for the competitive capacity of the Member States and of the Community. Raising the level of scientific and technological knowledge may not alone suffice for economic progress. Nevertheless, it is essential: only thus can less costly processes be introduced and new goods supplied which are more attractive and therefore more profitable.

The memorandum adds that in recent years certain highly industrialized countries, in particular the United States, have achieved an indisputable lead in the technological field, so great as to be often disquieting in certain sectors, especially the leading sectors which condition technological development as a whole and therefore economic development. Numerous pointers suggest that the gaps between Europe and the more technologically advanced countries are becoming wider. They can still be bridged, but if this is not done in good time they may well produce a lasting state of inferiority.

A third section of the memorandum makes a tentative analysis of the causes of Europe's technological lag, i.e. the deficiencies which make themselves felt along the whole of what could be called "the technological chain": insufficient market incentives, inadequate industrial research and innovation, inadequate non-industrial research.

The memorandum, after concluding that the European countries can no longer plan or apply their technological policy in isolation and must consequently move towards the concentration of human, financial and material resources, the combination and co-ordination of efforts, and joint organization, suggests the following courses of action:

a) In order to enable enterprises to make greater efforts in research and in the introduction of new products and processes, industrial structures must be adapted. Complete economic union in the Community is therefore a prerequisite for Europe's recovery. Economic union must be pressed forward and the necessary measures, which have a specific role to play in the promotion of technological progress, must be speedily adopted.

¹ See Eighth General Report, sec. 270.

b) Government aid to firms and, in certain cases, the assumption by the State of financial liability for research and development activities are essential to stimulate research and innovation. In order to give them maximum efficacy at Community level, the Member States should compare their schemes for aid to enterprises or for research activities proper, in relation with the medium-term economic programme.

c) Arrangements by which co-operation between Member States in joint or co-ordinated projects and programmes may attain maximum effectiveness must be decided. The advisability of extending joint action to new fields or sectors also needs to be studied.

d) In order to stimulate scientific and technological research independently of the means of promotion available to firms, measures calculated to develop research activities in general or to improve the training of research workers and technicians need to be worked out, with particular reference to exchanges, liaison and co-ordination of research activities.

e) Procedures for actively associating other European countries in the work undertaken, and also the bases of co-operation with the United States, should be determined.

A draft resolution is attached to the memorandum. In it the Executives propose that the Councils express their resolve to take vigorous steps to restore and promote scientific and technological research and new departures in industry. The resolution also suggests that the studies undertaken in the Medium-term Economic Policy Committee be continued so as to enable the Councils to take appropriate decisions.

274. The three Executives have also continued their co-operation in the inter-Executive Working Party on Scientific and Technical Research,¹ which has dealt with the following matters:

i) The problems raised in the 1966 debates on technological progress in the European Parliament;

ii) Co-ordination of the Executives' standpoints in their collaboration with the Medium-term Economic Policy Committee's Working Party on Scientific Policy;

iii) Preparations for the meetings of the OECD Committee for Science Policy, Committee for Research co-operation, and Committee for Scientific and Technical Personnel;

iv) Preparations for the special Council session on technological progress to be held in the first half of 1967;

v) Problems arising from studies on scientific and technical research within the different Executives.¹

¹ See sec. 420.

275. The Commission has also endeavoured to further Community research in the field of agricultural science. The joint research programme to combat African swine fever¹ is already an important achievement, and the draft regulation which is being prepared on agricultural research in general opens up wide possibilities for future work.

¹ See sec. 204.

**THE ASSOCIATED AFRICAN STATES AND MADAGASCAR AND
THE ASSOCIATED OVERSEAS COUNTRIES AND TERRITORIES***INSTITUTIONS OF THE YAOUNDE CONVENTION*

276. Meeting for the first time in Africa, the Association Council held its third ordinary session at Tananarive on 18 May 1966 with M. Marcel Fischbach, Luxembourg Deputy Minister for Foreign Affairs, in the chair. The Council laid down the guidelines of an approach to the outstanding problems of "goods originating in...". After preparatory work in the Association Committee, it was then able to reach an agreement, at an extraordinary session in Brussels on 28 October 1966 under the chairmanship of M. Barnabé Kanyaruguru, the Burundi Vice-Premier, on a common definition for use in the Association of all the products in question save petroleum products.¹

277. The Association Committee, armed with powers delegated by the Association Council, held its eighth, ninth, tenth and eleventh meetings in Brussels on 18 March, 22 April, 6 May and 25 July 1966. The delegation of powers concerned the establishment of methods of co-operation between administrations, and the approval of the Association Council's second report and its submission to the Parliamentary Conference of the Association. The Committee examined the problem of defining "goods originating in" the Associated States, and also the steps to be taken by those States in connection with the establishment of the Community's common agricultural policy concerning oils and fats. It examined the Community's Kennedy Round offers for tropical products and discussed financial and technical co-operation under Article 27 of the Yaoundé Convention. It completed the consultation of the Associated States, pursuant to Article 58, on the EEC-Nigeria Association Agreement.²

At its eleventh meeting the Committee examined the conclusions of the Association Council concerning the GATT multilateral negotiations and adopted the Council's second report to the Parliamentary Conference of the Association. The Associated States presented a general table of their quota situations and were invited to give information on the agreement, signed at Tananarive, on the organization of the sugar market between the countries of the Joint African and Malagasy Organization.

¹ See sec. 281.

² See Ninth General Report, sec. 265.

The main purpose of the Committee's twelfth meeting, held in Brussels on 7 October 1966, was to prepare the Association Council's extraordinary session on the concept of "goods originating in...". The Committee then dealt with the improvement of the marketing of goods originating in the Associated States, a matter that has already been examined by a joint panel of experts following instructions issued by the Committee on 22 April 1966.

The Committee also examined the implementation of Article 12 of the Yaoundé Convention as regards the trade agreements between Senegal and Tunisia and between the Ivory Coast and Israel. It reminded the Associated States that by the end of May 1967 they had to adjust their laws regarding the right of establishment in accordance with Article 29 of the Yaoundé Convention.

At its thirteenth and fourteenth meetings in Brussels on 2 December 1966 and 10 March 1967, the Committee heard a report by the joint panel of experts studying methods of increasing outlets for goods originating in the Associated States. In pursuance of Protocol No. 2 to the Yaoundé Convention, the Community issued a general communication concerning the reporting of the Associated States' quota situations.

The Associated States also agreed to the extension for one year of the suspension or reduction of CCT duties on tea, maté, tropical hardwoods and certain spices. At the request of the Associated States, there was an exchange of views on world trade in cocoa. The Community informed the Associated States of its new arrangements for imports of industrial products manufactured from agricultural products. The Community also consulted the Associated States about the new offers it was proposing to make in respect of tobacco, oleaginous products and sugar at the GATT multilateral negotiations. Lastly it informed the Associated States of the progress of negotiations with the three East African countries. Reference was also made to the implementation of Article 29 of the Yaoundé Convention.

278. The Parliamentary Conference of the Association held its third annual session at Abidjan from 10 to 14 December 1966¹ under the chairmanship of M. Lamine Gueye, President of the Senegal National Assembly. The main subjects of debate were the fluctuations in commodity prices and the stagnation of trade between the Associated States and the Community. The resolution on the Association Council's second annual report, while expressing the Conference's satisfaction with progress in co-ordinating policies between the Associated States and the Community, stressed the need to find ways of increasing trade in the Association.

¹ See official gazette No. 242, 29 December 1966.

removing obstacles to the marketing of African products on the Community's markets and solving the problem of price rationalization, on which the indispensable stabilization of commodity prices depended. It raised the matter of certain consumer taxes in the Member States and welcomed the establishment by the Council of a joint group on ways to increase trade.

Two further resolutions were adopted on (a) the 1965 operational accounts of the Parliamentary Conference of the Association and the estimates for 1967, and (b) an amendment to Article 6 of the Conference's rules of procedure concerning the composition of its Bureau.

The business of the Parliamentary Conference was prepared by the Joint Committee set up by the Conference to ensure the continuity of the Association's parliamentary activities; this met on three occasions, at The Hague in May, at Mogadishu in September and at Abidjan during the Parliamentary Conference in December 1966. At the Mogadishu meeting the Committee examined the report submitted by M. Sissoko, Vice-President of the Mali National Assembly. This report was itself based on a analysis of the Association Council's second annual report to the Parliamentary Conference of the Association. The Committee also examined a report on technical and cultural co-operation in the context of the Association.

279. On 15 March 1967 the European Parliament discussed the results of the Parliamentary Conference of the Association at Abidjan. Members' speeches showed that the Parliament, while welcoming the strengthening of links between Europe and Africa, desired a serious examination of the chief request put forward by the Associated States, namely the stabilization of the prices of tropical commodities. M. Rochereau, member of the Commission, referred to the various aspects of the Association: financial assistance, trade, price stabilization. He mentioned the climate of frankness in which the Conference had been held, and stressed that the correct application of the Association machinery could not solve all the economic difficulties of the Associated States and that, moreover, the Community's imports from Africa had increased considerably of late. He emphasized the point that the level and fluctuations of prices of tropical products should be considered of the utmost importance in a realistic and coherent development aid policy.

In the resolution adopted at the end of the debate, the Parliament agreed to go more deeply in the near future into certain specific issues, such as the increase of trade and intensification of technical assistance.

M. Konkoud of the Congo (Brazzaville) was appointed deputy judge of the Association's Court of Arbitration at the third session of the Association Council.

280. In pursuance of Article 29 of the Yaoundé Convention, three Associated States—Upper Volta, Mauritania and Gabon—respectively passed two laws and a decree putting an end to all discrimination in this sphere between nationals of the Member States of the Community. The latter two enactments were deemed satisfactory, but a questionnaire was sent to Upper Volta for further details. In view of the deadline of 31 May 1967 fixed by Article 29 of the Yaoundé Convention, the Association Committee decided at its fourteenth meeting to instruct its alternate members to see to it that the necessary action be taken by the Associated States to conform with the provisions of the Yaoundé Convention within the prescribed time-limit.

DEVELOPMENT OF TRADE

Definition of the concept "goods originating in..."

281. At its ninth meeting the Association Committee had taken a decision on this definition¹ in implementation of Protocol No. 3 to the Yaoundé Convention, but certain products continued to be temporarily outside the scope of the decision; this was supplemented on 28 October 1966 at the fourth meeting of the Association Council so that now all goods, except petroleum products, are covered by a common definition for the purpose of the Association.

Removal of quotas and customs barriers

282. Rwanda has begun to apply a new double-column customs tariff, similar to those of most Associated States: Member States of the "Union douanière et économique de l'Afrique centrale" (UDEAC) and the "Union douanière et économique de l'Afrique de l'Ouest et Madagascar"; this tariff includes a first 15 % reduction of customs duties applicable to imports from the Community. The Somali Government undertook a study of how its customs tariff could be reformed with a view to adopting the Brussels Nomenclature and introducing a double-column system allowing duties on imports from the Community to be reduced.

283. Regarding the removal of quotas, the Associated States, acting in accordance with Article 6 and Protocol No. 2 to the Convention, have increased the quotas opened for Member States. Some have even liber-

¹ Ninth General Report, sec. 269.

alized certain products, thus complying with Article 4 and Protocol No. 2. Other Associated States continued to experience serious balance-of-payments difficulties and some made use of the waiver provisions of Article 6(3); these cases were examined by the institutions of the Association.

Markets for products of the Associated States
(Annex VIII to the Convention)

284. The development of the Associated States' exports to the Community, one of the main points discussed at the Abidjan Parliamentary Conference, has been the subject of studies and numerous discussions by the institutions of the Association. A joint panel of experts was instructed to undertake a general survey of the production, marketing and consumption of products of special interest to the Associated States, to examine the difficulties involved in marketing these products and indicate measures to help alleviate them.

On 14 March 1967 the Chairman of the joint panel of experts submitted to the Chairman of the Association Committee its report on outlets for goods originating in the Associated States. The report gives a picture of the present situation, product by product, and of the likely trends, followed by a list of the general and specific difficulties encountered in marketing the products under review. Suggestions for remedying these difficulties are put forward in the conclusions of the joint panel. The experts from the Associated States also put forward some separate recommendations of their own.

The Community has informed the Associated States of the provisions of the new regulation on the trading system for certain goods processed from agricultural products.¹ The applicability of this regulation to trade with the Associated States is being examined.

GATT multilateral negotiations

285. As required by Article 12 of the Convention, the Community kept the Associated States regularly informed of offers it intended to make in the GATT trade negotiations.

At their request, the Associated States were consulted on various occasions, in particular at the meeting of the Association Council in Tananarive, on the offers the Community proposed to make in GATT for tropical agricultural products. Consultations were continued in the Association Committee on 25 July and 7 October 1966, and also on 2 December, regarding a list of supplementary offers.

¹ See official gazette No. 195, 28 October 1966.

*Sugar agreement concluded by the Member States
of the Joint African and Malagasy Organization*

286. By letter of 14 November 1966, the Secretary-General of the Joint African and Malagasy Organization transmitted to the President of the Association Council the Afro-Malagasy sugar agreement signed at Tananarive on 27 June 1966 by the Heads of State of the Organization.

The content of the agreement is being examined by the Community authorities.

*Accommodating the interests of the Associated States as regards
agricultural products similar to and competing with European products*

287. Certain products have been the subject of measures to implement the principle named above, which is stipulated in Article 11 of the Yaoundé Convention.

Rice. A regulation amending Regulation No. 121/64 concerning the system applicable to imports of rice and broken rice originating in the Associated States and associated countries and territories¹ was approved in principle and referred to the European Parliament and the Association Council. It was adopted by the EEC Council on 27 October 1966 and took effect on 18 November 1966 (Regulation No. 169/66).²

The regulation provides that the Associated States, countries and territories shall enjoy a commercial advantage for rice and broken rice comparable to that granted by the Member States to each other; furthermore, exemption from the levy, for certain quantities, is allowed until 31 August 1967.

Oleaginous products. After the entry into force of Regulation No. 136/66 of 22 September 1966 establishing a common organization of the market in oils and fats,³ the Commission submitted to the Council, on 8 February 1967, an amended draft Council regulation⁴ simplifying the machinery for granting financial aid for oleaginous products originating in the Associated States, countries and territories. Though this regulation modifies the arrangements for giving such aid, it adheres to the principles contained in the Commission's initial proposal and in the Council resolution of 23 December 1963, which established a tariff preference for oils on Community markets, special measures in case of need for oilseeds and, for oleaginous products as a whole, financial aid to alleviate the consequences of any fall in world prices below a reference price.

¹ See official gazette No. 147, 29 September 1964.

² *Ibid.* No. 197, 29 October 1966.

³ *Ibid.* No. 172, 30 September 1966.

⁴ See Eighth General Report, sec. 327.

Tobacco. The Commission pursued its study of provisions applicable to tobacco originating in the Associated States and overseas countries and territories which give an appreciable commercial advantage to unmanufactured tobacco imported into the Community.

Aids to production

288. The trend of world prices since the approval of the five-year programmes has made it possible to reorganize aid, in particular for coffee and groundnuts. Funds for structural improvement have been increased and those for price support reduced; credit has been cut back from 42 to 33 million u.a. for price support and raised from 46 to 55 million u.a. for structural improvement.

The Community approved a further two instalments of credit for the second year of implementation and two for the third year, bringing the total funds committed to production aid up to some 51 million u.a. at the end of March 1967. The dossiers for the third instalment in three other States are being prepared.

In order to reconcile the EDF's procedures with the requirements of the agricultural calendar, the Community has relaxed as far as possible the procedure for calls for tender of certain supplies, in particular fertilizers and insecticides for use in structural improvement schemes.

Stabilization of prices

289. The repayable advance of 6 million units of account granted by the Community to the Cameroon Cocoa Price Stabilization Fund for 1965/66 was for the most part not used. Thanks to the improvement in world prices, the Fund was able to limit its drawings on the advance to about 900 000 units of account.

Because of the situation on the world cotton market, the Community decided to examine a request for a repayable advance to be granted to the Chad Cotton Price Stabilization Fund. The advance will be used to support prices in 1966/67.

Trend of the Community's trade with the Associated States

290. The Ninth General Report¹ gave an account of the drop in the value of imports due to the lower prices of certain important products. The Parliamentary Conference, meeting in Abidjan, expressed its concern

¹ See sec. 271.

regarding this falling off which had been observed in 1965, in exports of tropical products to the Community. It must be noted that an improvement was already evident in 1966. Statistical data at present available are still, however, too vague for it to be possible to draw conclusions and give an assessment of the direction taken by trade between the Community and Associated States for 1966.

As may be seen from the following table, the value of the Associated States' exports to the Community was 16 % higher than in the same period of 1965. Of the eighteen Associated States, twelve increased their exports to the Community; for the remaining six, exports made no advance or declined slightly. The Community's exports to the Associated States showed an overall increase of 3 % in value, but because of the movement of prices in the Community this does not reflect an increase in sales.

TABLE 20

*Comparison of EEC trade with the Associated States
for the first nine months of 1965 and 1966*

(£ million)

Origin and destination	9 months 1965		9 months 1966		1966/1965 index	
	Imports	Exports	Imports	Exports	Imports	Exports
Cameroon	100	61	90	69	90	114
Madagascar	38	60	42	63	109	106
Mali	1	10	1	8	100	79
Niger	17	12	23	13	137	103
Chad	9	9	11	12	125	145
Senegal	106	87	105	88	99	101
Ivory Coast	161	116	181	111	113	96
Central African Republic	7	12	11	15	155	132
Gabon	64	26	65	30	102	113
Congo (Brazzaville)	23	34	25	37	113	111
Congo (Kinshasa)	235	87	344	94	146	108
Rwanda-Burundi	6	9	5	9	86	100
Somalia	22	12	15	10	68	82
Togo	21	17	26	15	123	87
Mauritania	39	11	44	9	111	84
Upper Volta	2	14	3	10	158	72
Dahomey	11	16	12	15	111	94
Totals	862	593	1 003	608	116	103

A study of the trend of trade between the Community and the Associated States and the other developing countries is near completion.

THE COMMUNITY AND THE ASSOCIATED OVERSEAS COUNTRIES
AND TERRITORIES

291. In accordance with the agreement of 29 December 1964,¹ the Council, on 5 May² and 14 December,³ adopted decisions establishing the list of products that may enjoy the advantages accruing to "goods originating in...". These decisions were taken in implementation of the decision of 25 February 1964 relating to the association of overseas countries and territories, which provides for customs duties and charges having an effect equivalent to such duties to be removed when goods originating in these countries are imported into Member States, and pursuant to decisions taken by the Association Council.⁴ Implementation of the decision of 25 February 1964 as regards customs tariffs is still being examined in the case of Surinam, the Netherlands Antilles and the Comoro Islands.

TABLE 21

*EEC trade with the associated overseas countries and territories
for the first nine months of 1965 and 1966*

(\$ million)

Origin and destination	1965		1966		% increase 1966 to 1965	
	Imports	Exports	Imports	Exports	Imports	Exports
Total: Associated overseas countries and territories	72	107	80	101	112	94

The most marked advance was made by exports from Surinam to the Community, which went up from \$7 to \$17 million.

CO-OPERATION WITH THE ASSOCIATED STATES, COUNTRIES
AND TERRITORIES ON VOCATIONAL TRAINING

Scholarships

292. At its session of 27 June-1 July 1966 the Parliament adopted a resolution on the current problems of technical and cultural co-operation with the Associated States; it called for greater efforts to train supervisory

¹ See Ninth General Report, sec. 275.

² See official gazette No. 94, 26 April 1966.

³ *Ibid.* No. 236, 23 December 1966.

⁴ See sec. 281.

TABLE 22

Breakdown of scholarship-holders (1966/67) according to training establishments situated

	In the Member States								In the Associated States										In the non-member countries
	Belgium	Germany (FR)	France	Italy	Luxembourg	Netherlands	Total Member States	Burundi	Cameroon	Congo (Kinshasa)	Ivory Coast	Dahomey	Upper Volta	Mali	Mauritania	Rwanda	Senegal	Total AASM	
Percentage from the AASM	17.8	15.1	16.8	14.4	± 0.01	2.5	66.6	0.3	11.2	4.2	7.8	1.5	0.7	0.6	1.8	1.5	1	30.7	2.7
Percentage from the AOCT	4.2	1.7	16	1.7	—	76.4	100	—	—	—	—	—	—	—	—	—	—	—	—
Percentage of all scholarship-holders	17	14.2	16.8	13.5	± 0.01	7.5	69	0.3	10.4	3.9	7.3	1.4	0.7	0.6	1.6	1.4	0.9	28.5	2.5

(in %)

staff in the associated countries (new teaching schemes, on-the-spot training and improvement in the present system of scholarships), and an active and direct contribution by European youth to the progress of all these countries.¹

Thanks to experience gained in earlier years and an increase in the allocations from the European Development Fund, training schemes undertaken this year were more diversified than in previous years. Besides the usual scholarships for full-time training, there was a programme of scholarships for correspondence courses, which began in the 1965/66 academic year.²

The two programmes were financed by a credit of 1 million u.a. from the Commission's budget and 4 800 000 u.a. from the European Development Fund.

The Community has begun to operate specific programmes for training the supervisory and other staff necessary if industrial and infrastructure investment is to make good progress. It has commissioned studies and surveys of training problems.

Programme of scholarships for full-time training. For the 1966/67 academic year, 1 776 scholarships were awarded (in 1965/66, 1 740 were actually taken up) of which 1 657 to nationals of the Associated States and 119 to nationals of the associated countries and territories.

A breakdown of scholarship-holders in training institutions (see table below) shows a distinct increase in the percentage being trained in the Associated States: 28.5 % of the whole as against 19.3 % in 1965/66. This ratio is even as high as 30.6 % if only scholarship-holders from the Associated States are considered, since those from the associated countries and territories do their training exclusively in the Member States. It is to be noted that some new countries—Burundi, Mauritania and Rwanda—are accepting scholarship-holders for the first time.

A breakdown by main branches of training shows a further increase in the proportion of all students taking agricultural courses; for nationals of the Associated States in particular this proportion went up from 22.9 % in 1965/66 to 26.1 % in 1966/67.

It will be noted that of all scholarship-holders, technical subjects attracted 37.7 %, economics 27 %, agricultural 24.7 % and women's occupations 10.6 %. As regards nationals of the associated countries and territories, the relative importance of "technical subjects" and "economics" in comparison with other subjects should be noted.

¹ See official gazette No. 130, 19 July 1966.

² See Ninth General Report, sec. 277.

TABLE 23

Breakdown of scholarship-holders by main branches of training

(in %)

	Branches of training			
	Economics	Agriculture	Technical subjects	Women's occupations
Scholarship-holders from the AASM	26.7	26.1	36.2	11
Scholarship-holders from the AOCT	30.3	5	59.7	5
Total	27	24.7	37.7	10.6

Furthermore, the Community paid the fees (but no other expenditure) of 157 persons taking part-time courses arranged on the spot, to provide training and further training for employees and medium-grade supervisory staff of small and middle-sized firms: of the 157 taking courses of this kind, 91 are at Brazzaville and Pointe Noire, 42 at Douala, 9 at Libreville and 15 at Tananarive.

Programme of scholarships for training by correspondence. 263 scholarships of this type were awarded during the 1965/66 academic year. Application for scholarships for 1966/67 were much more numerous and after a selection procedure the Commission granted 503 new ones. The following is the breakdown by branches:

Economics: 45 % (in this branch two-thirds of the courses consist of training in applied economics techniques: book-keeping, commerce, co-operative management, business management); agriculture: 29 %, of which about a quarter consists of rural training for women; technical subjects: 26 % of these deal with training for public works and building, radio and electricity, mechanics and secretarial work.

The courses are given by establishments situated in the member countries (eight establishments) and in the Associated States (six establishments).

This small-scale programme is still at the experimental stage and it is therefore not yet possible to give a final opinion on the results achieved, since they are not all known yet. However it may be pointed out, as an example, that some of the courses have enabled Associated States for the

first time to present candidates successfully at the Yaoundé International Centre of Statistical Training.

In certain cases the Commission has arranged regular on-the-spot lecture courses for students studying by correspondence courses.

Specific training programmes. In 1966, for the first time, programmes for the training of supervisory and other staff for firms and public services were financed by the European Development Fund. Some programmes are linked with Fund schemes such as the training of workers for the Chad textile mill and the training of middle-grade supervisory staff for the Public Works Department of the Central African Republic. Others, like the programme for supervisory staff for OTRACO (Transport Board) in the Congo (Kinshasa) provide for in-service training.

Surveys. Various surveys such as the one completed on teaching and vocational training at Kinshasa and in the Central Congo province have been undertaken to provide detailed inventories of existing training facilities in certain Associated States, or to establish training or further training plans (analysis of posts and methods) for personnel and supervisory staff, such as the one to train 200 senior officials of OTRACO and the REGIDESCO staff training programme in the Congo (Kinshasa) (also completed).

In-service training

293. As was the case last year, two training courses of 5 months were held in 1966 for nationals of the Associated States and associated countries and territories who belonged to the civil service or were about to enter it.

The number of trainees attending the two courses was 16: 10 from the Congo (Kinshasa), 2 from Somalia, 1 from Ivory Coast, 1 from the Netherlands, 1 from Madagascar and 1 from Cameroon.

A new course began on 15 February 1967 for 8 trainees.

Seminars and "Courrier de l'Association"

294. Between 1 April 1966 and 31 March 1967, 33 seminars were held in the Member States. They were attended by 1 170 students and trainees, 236 of whom were English-speaking. Four seminars were held in Africa in August and September 1966 and in February and March 1967, at Abidjan, Lomé, Bobo-Dioulasso (Upper Volta) and Douala. These 4 seminars were attended by 460 Africans.

Three issues of the "Courrier de l'Association" have come out since April 1966.

EUROPEAN DEVELOPMENT FUND

The first Fund

295. In 1966 the Commission did not provide any more finance for new schemes under the first European Development Fund.

Table 24 shows the figures for commitments and expenditure broken down by beneficiary country. The commitments are overall ceilings limiting the costs of schemes. Any excess expenditure as a result of unforeseeable circumstances in carrying out a scheme must be offset, within the limit of the ceilings established for each country, by a saving either in other contracts for the scheme in question or in other schemes financed in the same country.

The differences between the commitment ceilings and those given in the Ninth General Report¹ result from internal adjustments made after the conclusion of contracts or the covering of technical risks by recourse to funds earmarked for miscellaneous expenditure.

The breakdown by branch of activity of the first Fund schemes remained largely as shown in the Ninth General Report (economic projects 63 %, social projects 35.8 %, general surveys and technical assistance 1.2 %).

By 31 December 1965 total expenditure was about 306 million u.a., and by 31 March 1967 it had gone up to 398 million u.a.

At 31 March 1967, of the 382 schemes financed, 158 could be considered completed, 103 having reached the final and 55 the provisional acceptance check stage.

The Commission has carried out inquiries and spot checks into the follow-up of first Fund investments (allotment of budget funds for recurrent expenditure, maintenance and operational costs, etc.).

The second Fund

296. Table 25 shows the situation at 31 December 1966 of commitments decided upon by the Commission by country and type of scheme. It also shows expenditure by country at the same date.

From the beginning of the second Fund to 31 March 1967, a period of two years and ten months, the Commission took 180 decisions on financing projects from the Fund's resources for a total of over 379 million u.a. in the form of outright grants and loans on special terms.

¹ See sec. 280.

TABLE 24
First EDF

Commitments shown according to beneficiary country at 31 March 1967

Beneficiaries	Number of projects	Ceiling of commitments	Expenditure up to 31 March 1967
<i>A. Associated States</i>			
Burundi ¹	11	4 846	3 361
Cameroon	27	52 805	36 181
Central African Republic	27	18 509	9 620
Congo (Brazzaville)	18	24 623	19 484
Congo (Kinshasa)	16	19 605	9 974
Ivory Coast	19	39 659	28 399
Dahomey	18	20 777	13 135
Gabon	15	17 780	12 834
Upper Volta	12	28 268	21 371
Madagascar	40	57 067	46 609
Mali	23	42 132	37 777
Mauritania	11	15 380	12 808
Niger	6	31 102	19 561
Rwanda	11	4 946	3 892
Senegal	23	43 836	29 549
Somalia	6	9 912	7 426
Chad	18	27 926	22 657
Togo	18	15 935	10 208
Total A	319	475 108	344 846
<i>B. Associated countries and territories, French overseas departments</i>			
Algeria	9	25 094	9 732
Netherland Antilles	9	11 853	2 035
Comoro Islands	7	3 077	2 818
French Somaliland	2	1 199	1 178
Guadeloupe	4	4 490	2 909
French Guiana	1	1 863	1 862
Martinique	3	6 720	4 501
New Caledonia	5	2 167	1 802
Netherlands New Guinea	4	4 490	4 077
French Polynesia	1	4 262	816
Réunion	5	8 862	3 466
St. Pierre and Miquelon	1	3 545	2 898
Surinam	9	17 060	6 962
Total B	60	94 682	45 056
Total A + B	379	569 790	
Inter-regional projects	3	— ²	— ²
Technical control, etc.	—	11 460	7 710
First EDF total	382	581 250	397 612

¹ Republic of Burundi since 28 November 1966.

² Commitments and expenditure for these schemes have been broken down by country.

TABLE

Second

Commitments at

Beneficiaries	Economic and social investments		Aid to diversifications	
	Grants	Loans on special terms	Grants	Loans on special terms
<i>A. Associated States</i>				
Burundi	6 149	—	5 250	—
Cameroon	11 019	—	749	6 482
Central African Republic	9 491	—	—	—
Congo (Brazzaville)	8 168	—	5 169	—
Congo (Kinshasa)	35 174	—	—	—
Ivory Coast	2 245	—	34 814	3 644
Dahomey	6 146	—	486	—
Gabon	—	—	—	—
Upper Volta	13 074	—	1 175	—
Madagascar	33 979	—	284	—
Mali	9 985	—	41	—
Mauritania	11 307	—	1 357	—
Niger	9 388	—	936	—
Rwanda	979	—	4 448	—
Senegal	6 367	—	1 025	—
Somalia	8 562	—	—	—
Chad	20 861	1 215	—	—
Togo	2 066	—	—	—
Total A	194 960	1 215	55 734	10 126
<i>B. Associated countries and territories, French overseas departments</i>				
Netherlands Antilles	6 709	—	—	—
Comoro Islands	790	—	—	—
French Somaliland	606	—	—	—
Guadeloupe	375	—	—	—
Réunion	8 102	—	—	—
New Caledonia	2 395	—	—	—
French Polynesia	869	—	—	—
Surinam	960	—	—	—
Total B	20 806	—	—	—
Aids not distributed	—	—	—	—
Grand total	215 766	1 215	55 734	10 126

¹ This refers to the part of the two overall amounts (5 million and 4 million u.a.) which have not yet been used by the control and EDF administrative costs are not included.

² This consists of the overall totals allocated under the heading of scholarship, traineeship, seminar, and information

EDF

31 March 1967

('000 u.a.)

	Aid to production	Technical assistance linked with investment	General technical co-operation	Emergency aid	Total	Advances to price stabilization funds	Expenditure u.a. at 31 March 1967
	—	1 665	451	—	13 515	—	600
	4 372	372	—	—	22 994	6 076	3 200
	3 668	1 371	150	—	14 680	—	2 900
	—	406	—	—	13 743	—	400
	—	457	2 267	—	37 898	—	700
	—	51	8	—	40 762	—	13 200
	1 965	587	2	—	9 186	—	500
	—	2 378	—	—	2 378	—	900
	—	1 181	30	—	15 460	—	1 300
	16 344	860	66	—	51 533	—	1 900
	2 847	1 026	—	—	13 899	—	1 200
	—	35	—	—	12 699	—	200
	2 030	735	—	—	13 089	—	1 700
	—	1 687	435	—	7 549	—	700
	21 963	81	—	—	29 436	—	15 500
	—	722	1 068	1 850	12 202	—	1 200
	2 985	990	68	—	26 119	—	4 100
	991	682	—	—	3 739	—	300
	57 165	15 286	4 545	1 850	340 881	6 076	50 500
	—	5	—	—	6 714	—	—
	—	154	—	—	944	—	100
	—	16	—	—	622	—	—
	—	—	—	—	375	—	—
	—	—	—	—	8 102	—	—
	—	—	—	—	2 395	—	—
	—	—	—	—	869	—	—
	—	188	—	—	1 148	—	—
	—	363	—	—	21 169	—	100
	—	3 591 ¹	13 509 ²	—	17 100	—	7 259
	57 165	19 240	18 054	1 850	379 150	6 076	57 859

EDF's principal Certifying Officer to finance surveys or supervision of works. Commitments re technical training to programmes which it is not possible to break down as between the beneficiary states and countries.

The tempo of commitments at 31 March 1967 must therefore be considered very satisfactory, since each year have amounted to about 125 million u.a. or one fifth of the funds available for the five years.

The distribution of commitments between the Associated States can by no means be considered to foreshadow the final breakdown. Certain States have already received large sums, while others are lagging behind. This situation is due to various causes, the main one being the different degrees of preparation of projects to be financed by the second Fund. The Commission aims at managing the second EDF as a whole in such a way as to arrive at a reasonable final distribution by 1969.

As from the beginning of the second Fund, steps have been taken to provide any applicant State with the necessary technical assistance in preparing dossiers for submission. This is why, of the 19 million u.a. set aside at 31 December 1966 for technical assistance linked with investments, nearly 12 million have been allocated to the preparation of dossiers prior to implementation, as against 6 250 000 u.a. in 1966. But these preparatory studies, which are carried out under contract by consultant engineers, are usually complex and require considerable time. For this reason, they have not yet provided all the results expected.

Breakdown of second Fund commitments at 31 December 1966 by the main types of project (Table 26) shows that the general lines of financial and technical co-operation desired by the Association Council have on the whole been respected.

As regards the different financing methods used, the Commission in 1966 made a first short-term advance to a stabilization fund and granted the first loan on special conditions—3.7 million u.a. for the further cultivation and exploitation of oil palms in the Ivory Coast, this loan supplementing the outright grants to finance a scheme for 32 000 ha of palm plantations. A second scheme, which also involves manufacturing (textile mill), was likewise approved but because of certain special features had to be submitted to the Council, which approved it on 12 January 1967. On 6 March 1967 the Commission approved a third loan on special terms of some 6.5 million u.a. for planting 4 380 ha of selected palms in Cameroon and processing their production.

Two problems continue to engage the Commission's special attention: the tempo of expenditure and the role of competition in work and supply contracts.

At 31 March 1967 expenditure of the first and second Funds totalled approximately 456 million u.a. (398 million for the first Fund and 58 million for the second).

TABLE 26
Second EDF
Commitments at 31 March 1967 (Sectors of activity)

('000 u.a.)

Sectors	Amounts	%
0. <i>Agricultural price support</i>	28 009	
1. <i>Development of production</i>		
12. Structural improvement of agricultural production	30 964	
13. Agricultural diversification	67 912	
14. New agricultural developments	30 007	
15. Livestock and fishing	6 023	
16. Development of co-operatives	2 139	
17. Rural and pastoral water supply	8 568	
18. Industrial diversification	8 005	
19. Trade promotion	266	
Total 1	153 884	44.3
2. <i>Modernization of economic infrastructure</i>		
21. Ports and waterways	11 878	
22. Roads and bridges	95 414	
23. Railways	1 170	
24. Telecommunications	4	
25. Airports	727	
26. Energy	53	
Total 2	109 246	31.4
3. <i>Social development</i>		
31. Training of supervisory staff	15 477	
32. Education	27 568	
33. Public health	22 933	
34. Urban water supply	10 310	
35. Urban drainage and sewerage	5 755	
36. Electrification	5	
Total 3	82 048	23.6
4. <i>Miscellaneous</i>		
41. Development programming	1 887	
42. Information	225	
43. Emergency aid	250	
Total 4	2 362	0.7
Total 1 + 2 + 3 + 4	347 540	100.0
+ Funds not yet allocated ¹	3 601	
+ Agricultural price support	28 009	
= Total commitments	379 150	
Stabilization of prices of agricultural products ²	6 076	

¹ This refers to that part of the overall amounts available under the heading of technical assistance linked with investment and of general technical co-operation (studies) not yet used by the EDF principal Certifying Officer to finance individual operations.

² Price stabilization advances are financed from the liquid assets of the EDF (Convention, Article 20) and their total need not be added to that of commitments.

Expenditure amounted to 105 million in 1965 and about 107 million in 1966, i.e. a figure approaching that of the annual total for new commitments. Since nearly one third of the first Fund's projects have still to be carried out and since implementation of schemes under the second Fund is not yet in full swing, it may be estimated that in the next six or seven years, expenditure at an annual rate of some 110 to 120 million u.a. is likely.

This figure, a large one in itself, gives a better idea of the economic impact of the Fund on the development of the 30 countries and territories associated with the Community and, in view of the funds deployed, may now be considered satisfactory.

As regards the play of competition, the Commission is always careful to achieve as satisfactory a balance as possible in awarding contracts to firms in the Member States and overseas associates. Since the beginning of the first Fund the Associated States have, together with the Commission, issued 580 invitations to tender for works or supplies totalling over 530 million u.a.

At the end of 1963 and 1966¹ the Commission made a comparative study of data relating to the distribution of works and supply contracts. The results are given in the following table:

TABLE 27
Distribution of works and supply contracts

Country	(in %)			
	Works contracts (Allocated)		Supply contracts (origin of supplies)	
	End 1963	September 1966	End 1963	September 1966
Germany (FR)	2.02	4.27	22.63	21.65
Belgium	1.50	1.37	3.70	3.49
France	62.61	50.72	51.70	42.01
Italy	11.50	13.33	7.49	11.29
Netherlands	1.89	3.08	4.72	2.68
Luxembourg	0.00	0.25	0.00	0.02
AASM	20.48	26.98	9.42	17.72
Non-member countries	—	—	0.34	1.14
Total	100.00	100.00	100.00	100.00

¹ When this report was drafted data were available only up to 30 September 1966.

The first point to be made about both works and supply contracts is that the number awarded to firms in the former metropolitan country has shrunk very distinctly. Whereas French firms has received 62.61 % of the works contracts in 1963, they obtained only 50.72 % by the end of September 1966.

The increase in the percentage of local firms is very marked and is connected with the beginning of industrialization in some Associated States. This increase shows the confidence of some European heads of firms in the future of the Association. They have reactivated branches or, in some cases, have established themselves in certain Associated States. It must be pointed out that the average value of works contracts financed by the European Development Fund has gone up from \pm 1.5 million u.a. to about 2 million u.a.

Leaving aside French firms, this increase in the volume of contracts also seems to have been one the decisive factors encouraging firms from all the member countries to play a greater part.

As a general rule, a study of the data confirms that supply contracts arouse a far greater spirit of competition between firms in the member countries. However, the success of these firms, for all classes of contracts, depends not so much on the possible improvement of one or other point in the Fund's rules as on their determination to obtain contracts, their dynamism and a correct appreciation of the real risks which are necessarily incurred when embarking on any new contract. The growing success of Italian firms is doubtless to be explained by these considerations.

The Commission, however, cannot but encourage the formation of groupings of firms of various nationalities.

To obtain a complete idea of the distribution of contracts financed by the European Development Fund, it must be noted that the contracts for surveys, technical control and work supervision (which account for a small percentage of the total—only some 15 %), were distributed among the Member States at 30 December 1966 as follows: Germany (FR) 26.2 %; Belgium 14.4 %; France 26.3 %; Italy 20.9 %; Luxembourg 1.1 % and the Netherlands 11.1 %. This seems to be a satisfactory share-out.

Lastly, the Commission has endeavoured in 1966 to bring about greater co-ordination between Community aid to the Associated States and that supplied by the Member States.

In this way the Commission's staff held two meetings in 1966 with their counterparts in the French organization FAC (Fonds d'Aide et de coopération), two meetings with the representatives of Belgian bilateral aid and one meeting with those of German bilateral aid. Specific schemes and programmes were examined, with reference to the distribution of aid by area and sector and the co-ordination of aid in a single development effort by the Fund and corresponding national organizations.

Thus, it was agreed that the European Development Fund should be responsible for building and equipping a hospital at Gaoua in Upper Volta and the French FAC for providing the finance to staff it. For an agricultural scheme in the Central African Republic, it was decided that the EDF would finance the investment and the FAC should provide the necessary supervisory staff for carrying it out.

One of the meetings with the Belgian representatives concerned the technical assistance that Belgium could supply for the EDF-financed scheme to boost agriculture in Katanga. As this co-ordination had proved fruitful, it was agreed on both sides that it should be continued.

RESEARCH ON THE ASSOCIATED STATES

297. *General documentation.* The collective report containing statistical data on the 18 Associated States¹ has been brought up to date.

Progress of industrialization in the Associated States. The programme of surveys by three teams of experts² was continued. After their first mission in Africa (January-February 1966), the experts made a second and longer visit to each of the countries in their area and held detailed discussions with government departments, firms and occupational associations. Their reports were submitted to the Commission in December 1966 and January 1967. A body of documentation has been assembled for West Africa, the "Union douanière et économique de l'Afrique centrale" (UDEAC), the Congo (Kinshasa), the area of the east African lakes (Kivu, Rwanda and Burundi), Madagascar and Somalia.

For each area the experts drew up a general report on development guidelines and a balance sheet of development (inventory of firms and schemes) and listed the surveys made for each of the selected investment projects. A general collective report has been established to make it easier to transmit the experts' reports to the Associated States.

298. *Sales promotion for goods originating in the Associated States.* Two studies have been completed. The first³ concerns pineapples and various secondary tropical fruits. It makes a thorough examination of the situation and the marketing possibilities in the Member States at the different stages. The second study, a particularly important one, concerns the market for tropical oleaginous products in the Member States. The collective report has been finished and will be published very shortly.

¹ See Ninth General Report, sec. 282.

² *Ibid.*, sec. 284.

³ *Ibid.* sec. 285.

The statistical and economic information available as a result of this study forms a collection of documents on the complex oils and fats market such as has never been assembled hitherto.

Three new studies were launched in November 1966 and will be completed in the first half of 1967. They concern the possibilities for the consumption of Robusta coffee from the Associated States in the Member States, the conditions for the utilization of cocoa-butter by the oils and fats industries, and ways of inactivating rinderpest virus by heat in meat from countries where enzootic diseases exist and the possibility of using the meat thus treated for canning. Besides the technical aspect, the latter study contains an important economic section which will provide precise information on conditions of supply, the possibilities of African markets, the European market situation and, in general, the competitive position of treated meat.

It should be added that a study on leather and skins has been prepared and will be brought out in the very near future with a view to adjusting African supply more closely to the requirements of European demand.

In the near future, therefore, there will be a body of practical and up-to-date information concerning the problems involved in marketing in the Community goods originating in the Associated States; these problems are being discussed by the Council's joint panel of experts in pursuance of Annex VIII to the Yaoundé Convention.

TREND OF TRADE BETWEEN THE COMMUNITY AND THE ASSOCIATED STATES

299. A study on the trend of trade between the Community and the Associated States from 1958 to 1965 is near completion. It traces the trade pattern for the main products or groups of products.

ASSOCIATION OF EUROPEAN COUNTRIES
WITH THE COMMUNITY

Greece

300. Between April 1966 and 31 March 1967 the EEC-Greece Council of Association held six sessions, two of them at ministerial level.

Continuing its discussions on the harmonization of EEC and Greek agricultural policies, as required by Article 35 of the Athens Agreement, the Council instructed the Association Committee to examine the question of financial aid to Greek agriculture from the beginning of the second phase of harmonization.

The provisional system established, pending harmonization, to govern trade between the Community and Greece in certain farm products covered by Article 37(1) of the Athens Agreement, lapsed on 30 June 1966.¹ The Council of Association took two further decisions (Nos. 2 and 3/66) extending this system from 1 July to 31 December 1966 and from 1 January to 30 June 1967.

The second decision provides that, in respect of the products covered by Regulation No. 23 (fruit and vegetables) and listed in Annex III to the Athens Agreement, Greece shall benefit until 30 June 1967 by the same tariff system which the Member States apply between themselves.

The Council of Association reviewed the implementation of the financial Protocol to the Athens Agreement. Following this examination the second and final instalment—75 million units of account—of the loans provided for in paragraph 2 of the Protocol was released, by a new credit mandate from the EEC to the European Investment Bank.²

In conformity with Protocol 10 of the Athens Agreement, the Council also renewed its approval of the temporary maintenance of the CCT duties on rosins (heading 38.08 A) at 3.5 % and on turpentine (heading 38.07 A) at 3 %, for 1967.

¹ Decision No. 4/65 of the Council of Association.

² Since the Agreement came into force the European Investment Bank has granted Greece loans amounting to \$69.1 million, 53.3 million of which are for eight infrastructure schemes and 15.8 million for six industrial projects.

The Council of Association agreed on the application in 1966, under Articles 10 and 65 of the Athens Agreement, of export regulations to be applied to non-member countries in the case of certain kinds of ash and residues of non-ferrous metals. The aim was to prevent any deflection of trade or other economic difficulties which might be caused by the removal, under Protocol 6 (1 e) to the Agreement, of restrictions on the export of these products from the Community to Greece.

Under Article 28 (2, second sub-paragraph) of the Athens Agreement, Greece opened a global quota of 450 000 tons of bauxite for the Member States in 1966.¹

301. Under Article 64 of the Athens Agreement, there have been consultations between the Community and Greece concerning:

- a) Additional Community offers in the agricultural sphere for the GATT multilateral tariff negotiations;
- b) Extension of the Trade Agreement between the Community and Iran from 1 December 1966 to 1 December 1967.

In conformity with Article 34(3) of the Athens Agreement, a consultation was held on the system of trade in oils and fats between the Community and Greece, which was the subject of a regulation adopted by the EEC Council on 27 October 1966.²

The Council of Association adopted its third annual report, which it presented to the Joint Parliamentary Association Committee on 5 April 1966 in conformity with Article 2 of its Decision No. 1/63. A memorandum supplementing this report was submitted to the Joint Committee in August 1966.

302. The organs of the Association also examined other questions, such as increasing tariff quotas for Greek wines imported for industrial use into the Federal Republic of Germany; the trading system between the Community and Greece for certain processed agricultural products; and various customs problems connected with the import of certain Community products into Greece.

However, the Council of Association has not yet studied a Greek request for technical assistance to develop education and vocational training.

303. At the end of 1966 the Committee, composed of representatives of the Greek Government, the European Investment Bank and the EEC Commission, which is co-ordinating studies on an industrial development pole in Greece approved a report containing suggestions on general lines of approach.

¹ In conformity with paragraph 2, first sub-paragraph of the Article, Greece has restricted exports of this product since 1963.

² See official gazette No. 197, 29 October 1966.

The town of Volos is named as the possible centre for the future pole, which could eventually be extended in the direction of Larissa, Lamia and Stilis. The industrial sector which appeared most suitable was mechanical engineering, a sector which is expanding favourably and at the same time becoming widely diversified. The prospects of establishing the Volos centre can therefore be considered very real.

The method would be to set up, more or less simultaneously, a number of enterprises which could constitute a coherent functional whole, the choice of manufacturing units being determined by the possibilities of the Greek market and of export markets.

The success of this experiment would have effects beyond the purely regional on the Greek economy as a whole, for it would contribute to a better territorial distribution of economic activities and would also establish an original pattern of co-operation between the public authorities and private sectors and between Greece and the Community.

304. As regards the customs union, no tariff reduction under Articles 14 and 15 of the Athens Agreement was made during the period under review. On the other hand, a decision on 5 April 1966 by the representatives of the EEC Governments in the Council¹ reduced basic duties on tobacco by 75 % on 1 July 1966 and 80 % on 1 January 1967, and this decision was extended to Greece under the Athens Agreement.

Basic duties on imports of Community industrial products into Greece will have been reduced by 40 % on 1 May 1967, except for those covered by Annex I, which are subject to the 22-year tariff reduction.

305. The EEC-Greece Customs Co-operation Committee held its fifth and sixth meetings in Brussels on 17 November and 1 December 1966. Problems concerning the alignment of the Greek customs tariff on the common customs tariff were among the items on the agenda.

The Committee also dealt with certain implementing details of the Convention on methods of administrative co-operation to give effect to Articles 7 and 8 of the Athens Agreement.

306. The EEC-Greece Joint Parliamentary Association Committee held its sixth, seventh and eighth meetings respectively on 26-27 April 1966 in Rhodes, 29 September and 1 October 1966 in Toulouse, and 30-31 March 1967 in Salonika.

At the Rhodes and Toulouse meetings, the Council of Association's third annual report was examined on the basis of reports by M. Scarascia Mugnozza and M. Hassapidis. At the end of the Toulouse meeting the

¹ See official gazette No. 69, 19 April 1966.

Committee unanimously adopted six recommendations concerning: the evolution of the Association as shown by the third report; the organization of the Committee's work; private investments; the development of the tourist industry in Greece; the creation of industrial development poles; and the co-ordination of markets for products of the Mediterranean basin. The European Parliament approved these recommendations in its resolution of 2 December 1966.¹

At the Salonika meeting the Committee specially studied the problem of harmonizing Greek and Community agricultural policies and adopted a final communiqué stressing the need for rapid solution of problems still pending in the framework of the Association.

Turkey

307. The EEC-Turkey Council of Association held its fourth meeting on 23 November 1966. In conformity with Article 4 of the Provisional Protocol to the Ankara Agreement, it decided to raise, as from 1 January 1967, the annual tariff quotas for tobacco, dried grapes, dried figs and hazelnuts provided for in Article 2 of this Protocol.

Inclusive of the increase which had already taken place following the previous decision of the Council of Association on 20 December 1965, these quotas are now as follows:

<i>a)</i> 24.01 - Unmanufactured tobacco; tobacco refuse	
Belgo-Luxembourg Economic Union	2 000 t
Germany	10 565 t
France	2 850 t
Italy	1 500 t
Netherlands	1 000 t
 <i>b)</i> ex 08.04 - Dried grapes (in packages of up to 15 kg)	
Belgo-Luxembourg Economic Union	4 000 t
Germany	11 000 t
France	4 000 t
Italy	8 570 t
Netherlands	11 000 t
 <i>c)</i> ex 08.03 - Dried figs (in packages of up to 15 kg)	
Belgo-Luxembourg Economic Union	1 400 t
Germany	7 500 t
France	9 500 t
Netherlands	500 t

¹ See official gazette No. 232, 16 December 1966.

d) ex 08.05 - Nuts fresh or dried, shelled or not; hazelnuts

Belgo-Luxembourg Economic Union	594 t
Germany	15 950 t
France	1 375 t
Netherlands	781 t

The Council of Association also sent the Six and Turkey a recommendation that they should act to give maximum effect to the suggestions in the Association Committee's report on Turkish manpower problems.

308. The Council noted that the financial Protocol to the Ankara Agreement is being implemented satisfactorily. Thirteen loan agreements, three for infrastructure and ten for industrial schemes, have been signed between the European Investment Bank and the Turkish Government since the Agreement came into force. These loans total \$67.71 million.

309. The EEC-Turkey Joint Parliamentary Association Committee held its first meeting in Brussels on 16-17 May 1966 and its second in Ankara on 6-7 January 1967. On the basis of reports by M. Brunhes and M. Erez it studied the first annual report of the Council of Association.

At the conclusion of the Ankara meeting, the Committee adopted four recommendations concerning: the functioning of the Association institutions; commercial relations between the EEC and Turkey; the application of the financial Protocol; emigration and vocational training of Turkish labour. The European Parliament took note of these recommendations in its resolution of 16 March 1967.¹

¹ See official gazette No. 63, 3 April 1967.

CHAPTER VI

EXTERNAL RELATIONS THE KENNEDY ROUND OF TRADE NEGOTIATIONS IN GATT

The multilateral trade negotiations in GATT

Development

310. On the evening of 15 May 1967, the countries which for the four years since the ministerial meeting of the Trade Negotiations Committee in May 1963 had been engaged in the multilateral trade negotiations known as the Kennedy Round were in a position to make known their agreement on the essential points determining the scope and nature of the results of these negotiations.

The definitive conclusion of the negotiations, i.e. the signing of the Final Act, could thus be fixed for 30 June 1967, the date of expiry of the authority granted to the President of the United States under the Trade Expansion Act. By this date all the legal instruments of the negotiation will have been drawn up. These include the lists of tariff concessions, arrangements to implement them, and the texts relating to the special arrangements (cereals, dumping) to be annexed to the Final Act.

From the lists of concessions taken as a whole, each party will be able to calculate exactly the sum of the direct and indirect benefits it draws from the negotiations. Although the negotiations were novel in that they were on a linear basis and essentially multilateral, the parties, in fact, practically reverted during the closing months to the more traditional bilateral approach. The agreement reached on the evening of 15 May represents the outcome of the bilateral agreements between the major participants. This bilateral feature is found even in such sectors as chemicals, cereals or steel, where although multilateral agreements were reached, the key element in each case was the bilateral relationships between the Community and the United States and between the Community and Britain.

311. By way of introduction to a general review of the results of the negotiations, it would be useful to outline developments since the end of the period covered by the last General Report on 31 March 1966.

The Community offers were gradually completed as work progressed in Committee 111 and the relevant Council decisions were reached.

June 1966

Offers on tropical products tabled;
Supplementary proposals for a cereals arrangement tabled;
Offers on pulp and paper and on aluminium defined.

August 1966

Most of the agricultural offers on products not covered by the general arrangements tabled.

November 1966

Supplementary offers tabled on products processed from agricultural commodities covered by common policy regulations.

February 1967

Offers on products regarded as industrial products derived from agricultural products tabled (products appearing in the first 24 chapters of the Brussels Nomenclature and known as Article 235 products);
Offers on eggs, poultry and derived products explained;
Ceiling fixed for the "reference prices" offered for binding certain fruit and vegetable products.

March 1967

List of disparities invoked by the Community for the application of the special reduction rules tabled.

April 1967

Certain offers in the fisheries sector specified (herring and tunny);
Offers for various industrial products specified and improved.

May 1967

Offers on various products of special interest to the developing countries improved.

Both the industrial offers and those on agricultural products not subject to general arrangements were the subject of many bilateral discussions aimed at pinpointing mutual interests. Because of the dominant role of the Six in world trade, there was hardly any country participating in the negotiations which was not anxious to affirm bilaterally its interests vis-à-vis the Community.

The special concern shown by the Community for the problem of intra-European relations gave rise to lengthy discussions and thoroughgoing studies with the Swiss and Nordic delegations.¹

The bilateral negotiations with the United Kingdom were pushed forward actively; they were governed by strictly economic and trade considerations on both sides.

Finally, the dialogue between the EEC and the United States formed the hub of the negotiations, and its result determined their outcome. Although, at the behest of this or that particular interest, alliances shifted to the advantage now of one and now of the other partner, or even manoeuvred tactically between the two, the dominating trend was none the less a certain convergence towards essential European interests.

On 30 November 1966 the Community's negotiating partners evaluated the results of the bilateral discussions. Basing themselves on the state of the initial offers and on the requests they had made in respect of these, they submitted, each on its own account, their appraisal of the situation along with the improvements they considered necessary in order to maintain their initial offers and the withdrawals they would be obliged to make if these improvements were not obtained.

Most of these appraisals and requests were addressed to the Community, which at this stage did no more than take note of the evaluations presented to it, reserving the right to make known later its own position on the situation of the initial offers.

At its session of 12 January, when the Commission submitted a progress report by sector and country, the Council stated its view that before the evaluations were made on 30 November 1966 there had been an adequate balance between the Community and its negotiating partners—except in the case of Switzerland and the Nordic countries, where some improvement in the EEC offers seemed justified.² The Commission delegation was empowered to explore the possibilities of improvement.

This was done as soon as the final phase of the negotiations began on 20 January 1967. The Community made a special effort to strike a balance, but this was not always easy in view of its essential interests.

THE KEY SECTORS OF THE MULTILATERAL NEGOTIATIONS

312. Three sectors determined the outcome of the negotiations as a whole: chemicals, steel and cereals.

¹ From 1 December 1966 the Nordic countries (Sweden, Norway, Finland and Denmark) were represented by a single delegation with a joint spokesman.

² At this stage the initial offer of these countries was still a linear one without exceptions.

Chemicals

As early as November 1964, when it tabled its list of exceptions, the Community had announced that its offers in the chemicals sector (Chapters 29 to 32 and Chapter 39 of the Brussels Nomenclature) were conditional on the abolition of the US method of customs valuation known as the American Selling Price.

The initial American reaction in 1966 was to propose the conversion of the ASP method into one based on actual value and to apply the 50 % reduction to the total level of protection thus calculated.

Although it was the first sign of any American willingness to put an end to this abnormal method of protection, this proposal none the less permitted the continuation of such a degree of disparity in the level of protection for the products concerned that it could not be accepted.

In this matter, the interests of the United Kingdom and Switzerland made these countries the Community's natural allies. It was in the obvious interest of Switzerland especially, as the EEC's main supplier of some of the products concerned (in particular dyes and drugs), that the conditions governing a Community offer should be fulfilled.

At the initiative of the Community delegation, the parties chiefly concerned with chemicals agreed, as the negotiations were drawing to a close, to consider a general solution on the basis of the following concessions: the United States, after converting the incidence of ASP and abolishing this method of evaluation, would consent to 50 % reductions as a general rule and to larger ones wherever the converted basic duty exceeded 40 %; for its part, the Community would generally reduce its duties by 50 % with the possibility of a limited number of exceptions. Britain's duties, which are very high, would also be cut by 50 %.

These were the general lines on which agreement was finally reached. The terms of the package deal specifying the concessions to be made by each of the countries concerned (EEC, United States, United Kingdom and Switzerland) were defined without too much difficulty. On the other hand there was hard bargaining on the question of *découpage*, i.e. whether the other participants would make concessions, whatever happened, to the United States in response to the offer of a 50 % reduction of American duties, what points these concessions would concern and, as a corollary, what *quid pro quo* would be given for the abolition of ASP.

The Community has long insisted on the "single package", all its concessions being conditional on the abolition of the American Selling Price. By accepting the idea of *découpage*, it made a considerable concession to the United States. Until the last hours of the negotiations, there was keen discussion on the details of this *découpage*, and the matter was further complicated for the Community by its concern to safeguard Swiss interests

in the market of the Six. An effort was made on both sides, and the final agreement in this sector is properly balanced.

The Community hopes that when the US Congress debates this question, it will bear in mind the advantages gained by the American chemicals industry from the Kennedy Round and the importance of the further concessions which the abolition of ASP will bring in its wake.

Steel

This is a sector which particularly concerned the ECSC offers and those of the United Kingdom. An initial approach was made at the initiative of the ECSC—an attempt to find a multilateral solution with a view to the harmonization of tariffs between the main steel producers. The ECSC offer was based on the level of the duties bound in GATT. This level was such that the effect of the 50 % offer was practically to reduce the duties to the level actually applied. Subsequently, the ECSC offered a reduction valid both for the Kennedy Round and for the renegotiations which the implementation of the common tariff will necessitate—on average 33 % of the duties applied. This approach had to be abandoned because of opposition from the United Kingdom, which, up to the final phase of the negotiations, obstinately refused to make any concession on steel, arguing that the ECSC offer in its present form did not constitute a concession, in view of the undertakings already embodied in an agreement negotiated between the United Kingdom and the ECSC in 1957. Insisting that the United Kingdom could not agree to pay for the same concession twice, the British delegation tried to avoid making any concession on steel up to the final hours of the negotiations. The United States and Japan joined the Community in bringing pressure to bear on the United Kingdom; it depended on the British whether steel would be included in the negotiations at all, since their attitude determined whether the final ECSC offer would be maintained, and this in its turn determined the fate of the United States offer, whose repercussions on the Japanese offer were considerable. The United Kingdom finally consented to make the necessary effort to avoid such a chain reaction.

Cereals

For three major agricultural commodities—cereals, dairy products and beef and veal—it had been decided to negotiate with a view to general arrangements to regulate world markets.

Although, strictly speaking, this aim was not attained, it did nevertheless set in train an enormous amount of study and make the participants aware of the real problems for the liberalization of world trade which are posed

by the scope and nature of the support and production systems inherent in domestic agricultural policies. The problem is now quite clear, and the political will to resolve it must mature further before it can be translated into action. Despite the failure of the plan, the Community's initiative in this matter should still be credited as one of its achievements in the Kennedy Round.

The essential reason why this attempt failed was the inability of the big exporting countries to shake off the traditional concept of access in terms of quantitative commitments. Concern for the immediate cash profit carried more weight than the more solid and real long-term profits accruing from genuine international co-operation.

The cereals arrangement, which had been worked out to an extremely advanced point, finally came to grief in the final weeks of the negotiation on the stumbling block of the concept of "access" expressed as importers' commitments on the self-sufficiency ratio.

The United States, having failed to persuade the EEC and the United Kingdom to fix a self-sufficiency ratio calculated to guarantee automatic access corresponding to what it considered its established rights, suddenly put an end to all hope of a cereals arrangement by proposing to reduce the whole business to a purely commercial transaction based on two elements—a price schedule for wheat with a system of maximum and minimum prices on the lines of the International Wheat Agreement. This would involve a higher world price and a fixed food-aid programme of 4.5 million tons of cereals, 42 % of this to be supplied by the USA and 23 % (1 035 000 tons) by the Community. The effect of this would be to create new needs for cereals in countries with purchasing power and to this extent increase access to their markets.

The Community regretfully accepted this proposal. Besides, it had not been able to find in the negotiations on the general arrangement any genuine equivalence of commitments and responsibilities as regards stabilization of the market between exporters and importers. Furthermore, its acceptance of this substitute solution made it possible to round off the negotiations, since some agreement on cereals was a *sine qua non* for the United States.

The future will show what is to be expected from an agreement of this kind. The fact that it will produce direct and unprecedented advantages for the undernourished peoples is a cause of deep satisfaction to the Community.

313. A real evaluation of the results of the negotiations on both the general and the bilateral plane will not be possible before they are formally brought to a close.

A few general conclusions may already be drawn, however, from the agreement on the essential points reached on 15 May.

Industrial goods

An unprecedented effort has been made to reduce tariffs. The proposed 50 % reduction will in fact be made for a considerable number of items. The incidence of total and partial exceptions is extremely low if it is borne in mind that the average reduction of industrial tariff protection is at least 35 %.

The average level of protection under the common tariff, which was already the lowest when the negotiations began, is still below the average of the US and UK tariffs.

Except in a few isolated cases, it can be taken that the duties under the common customs tariff no longer constitute significant barriers to trade. This will have a particularly marked effect on intra-European trade, and it is the result of a deliberate effort by the Community.

Non-tariff barriers of all kinds are now in the forefront. A wide breach has been made in this bastion by the agreement on an international anti-dumping code, which introduces a new measure of discipline to a field previously governed too often by arbitrary action, even though it did not prove possible to go as far as making fundamental changes in certain national laws whose provisions do not always comply with Article VI of the General Agreement.

Agricultural goods

Here, the results achieved are much more modest. Tariff reductions play an illusory part in this field, and—as was shown above where the main agricultural commodities were discussed—the approach proposed by the Community to get to grips with the real problems met with failure. Some of the other participants, notably the United States, sharply reproached the Community with the weakness of its tariff offers on other products. Although it must be admitted that this reproach seemed to be justified since the United States offer, for example, (a 50 % cut on nearly all items) appeared particularly generous, the real effects of the American offer nevertheless fell short of what the Community offered in its enlightened self-interest.

Notwithstanding this, one of the points at issue between the Community and the USA up to the last moment was how to deal with about a dozen of the products on which the United States requested an improvement in the EEC offers, first because of their real commercial effects but even more so for internal political reasons (products typical of certain areas).

Finally, important offers were made on products of particular interest to the developing countries. The Community endeavoured to make the maximum possible concessions compatible with safeguarding the vital

interests of the countries associated with it and respecting its commitments towards them.

It is none the less true that in this field the results do not really measure up to all that was planned in the ministerial resolution of May 1963. Further efforts may be made to improve this situation, such as advance implementation of concessions for the benefit of the less-developed countries.

One final matter still remains obscure and promises to be extremely disappointing. This is the participation of those countries which were dispensed under the rules of the negotiations from applying across-the-board reductions. The contribution of these countries was made in the form of selective positive offers and was to be based on the principle of reciprocity. The result of this special latitude seems to tend towards a very marked imbalance in favour of these countries (particularly Canada, Australia and South Africa), which without any *quid pro quo* are in a position to enjoy all the indirect advantages accruing to them from the concessions exchanged between the linear participants while the latter are to all intents and purposes without any effective means of pressure or retaliation whereby they could obtain equivalent concessions.

It would seem logical that the "linear" countries should keep this situation in mind on any occasion which might arise in the future.

External trade

314. Trade between the EEC and non-member countries continued to expand.

TABLE 28
EEC external trade

(in million u.a.)

	1958	1960	1962	1963	1964	1965	1966
Imports	16 156	19 444	22 352	24 677	26 856	28 582	30 735
Exports	15 911	19 483	20 636	21 629	24 179	27 093	29 412

Total EEC imports rose by 7.5 % in 1966, as compared with 6.4 % in 1965.

This relatively considerable increase is all the more remarkable as business clearly fell off last year in two Member States which account for about half of all EEC imports from non-member countries.

The growth of the Community's total exports was again noteworthy (8.6 %) but was, however, lower than in the previous year (12 %). This can be partly attributed to special features of the expansionary trend in certain Member States.

The breakdown of trade by main geographical area reveals fairly divergent tendencies.

TABLE 29
EEC trade : main economic areas

(in millions of u.a. and in %)

	1964	1965	Increase %	1966	Increase %
	Imports				
<i>Category 1</i> (industrialized countries)	15 467	16 227	4.9	17 315	6.7
EFTA	6 591	6 896	4.6	7 242	5.0
USA	5 438	5 693	4.7	6 021	5.8
<i>Category 2</i> (developing countries)	9 843	10 529	7.0	11 312	7.4
<i>Category 3</i> (state-trading countries)	1 508	1 778	17.9	2 056	15.6
	Exports				
<i>Category 1</i> (industrialized countries)	15 638	17 612	12.6	19 127	8.6
EFTA	8 849	9 602	8.5	9 999	4.1
USA	2 849	3 425	20.2	4 098	19.6
<i>Category 2</i> (developing countries)	6 892	7 510	9.0	7 955	5.9
<i>Category 3</i> (state-trading countries)	1 331	1 663	24.9	2 005	20.6

In 1966 imports from industrialized countries continued to grow in relation to 1965 (6.7 %). The 15.6 % increase in imports from the state-trading countries shows that they benefited particularly from the Community's ever-growing purchases, and clearly reflects the greater efforts being made by these countries to obtain a footing in the EEC market.

Although the United States and EFTA stepped up their sales in relation to 1965 by 5.8 % and 5 % respectively, growth was nevertheless less than the average for all EEC imports.

In 1966, as in 1965, the Community's exports to the United States and the state-trading countries increased at a particularly vigorous pace (20.6 %). Sales to EFTA did not increase so strongly.

The substantial visible trade deficit which has existed since 1962 continued in 1966: at \$1 323 million, it was only \$166 million below that of 1965. As in the previous years, the surplus of imports from the United States (\$1 923 million) and the developing countries (\$3 357 million) was an influential factor in this imbalance of foreign trade. However, the Community's trade balance with the United States improved slightly in 1966 because of the strong advance in exports from the Six.

The deficit is offset—at least partially—by the Community's traditional trade surpluses with EFTA (2 757 million u.a.) and other European countries, in particular Spain (751 million u.a.), Greece (331 million u.a.), and Yugoslavia (108 million u.a.).

As in previous years, the 1966 rise in intra-Community trade had no negative effect on trade with non-member countries. On the contrary, all countries derived comparable benefit from the expansion of the Community's trade. The following table shows that the shares of the main economic areas in EEC imports were much the same in 1966 as in 1964.

TABLE 30
EEC external trade by area

(in %)

	Imports			Exports		
	1958	1964	1966	1958	1964	1966
EEC	100	100	100	100	100	100
<i>Category 1</i> (industrialized countries)	53	58	56	54	65	65
EFTA	22	25	24	31	37	34
USA	17	20	20	10	12	14
<i>Category 2</i> (developing countries)	42	37	37	38	29	27
<i>Category 3</i> (state-trading countries)	5	6	7	6	6	7

On the export side, sales to the United States increased. Exports to industrialized non-member Western countries continued at the very high level reached in 1964 (65 %), while those to the developing countries fell. However, it must always be remembered that these are only relative values; in absolute values, as was observed above, exports to the developing countries are constantly increasing.

Despite the slowdown of growth in certain Member States in 1966, the European Economic Community is an ever-expanding market for international trade.

Common commercial policy

GENERAL

315. During the period under review the Council of Ministers took no decisions in the field of common commercial policy apart from those concerned with the Kennedy Round. However, in its resolution of 11 November 1966¹ the Council declared its intention to give a ruling as soon as possible on the various proposals submitted to it by the Commission.

The Member States' systems for imports—and more particularly for exports—are already largely harmonized. But we should not underestimate the dangers, particularly for sensitive products, of disparities in the trading systems, above all in view of the 1 July 1968 deadline, when the customs union will be in full operation. To parry these dangers, the Commission therefore advocates measures in the field of import liberalization, Community quotas and commercial defence.

HARMONIZATION OF IMPORT AND EXPORT SYSTEMS

316. *Liberalization of imports.* The proposal for a regulation on a common liberalization list for imports from non-member countries² is still being studied in the Council. The list as drawn up by the Commission on 15 January 1965 has grown longer as further tariff headings have been fully liberalized since.

For products which are imported from other GATT countries but are not covered by this list, the Commission is studying the possibility of further liberalization and of fixing at Community level quantitative restrictions for the group of sensitive products involved.

¹ See sec. 4.

² See Ninth General Report, sec. 296.

As liberalization advances, it will be possible to reduce the application, which is limited to the transitional period, of protective measures under Article 115. Moreover, the wide degree of liberalization already implemented by the Member States for certain products and vis-à-vis certain countries (particularly the state-trading countries) has enabled relaxations to be made in the restrictions on intra-Community trade applied under this Article as a protection against distortions of competition and deflection of trade. In this way, the number of cases in which protective steps under Article 115 have been taken in the Community fell from 122 on 1 January 1966 to 90 on 1 January 1967. Half the cases still outstanding concern measures arising from divergences in the trade policies of the Member States towards the state-trading countries, and about a quarter relate to divergences in policy towards Japan. They affect only a small part of the Community's volume of external trade. However, controls at the internal frontiers can only be completely abolished when the last differences in treatment at the external frontiers have disappeared.

ADMINISTRATION OF COMMUNITY IMPORT QUOTAS

317. At its session of 13 May 1966, the European Parliament gave its opinion concerning the proposed Council regulation on the gradual establishment of common procedure for administering quantitative quotas for imports into the Community. In view of this opinion and of the one rendered by the Economic and Social Committee,¹ the Commission amended its proposal in conformity with Article 149, second paragraph, of the Treaty. The Council is discussing this amended proposal, which is of real importance in preparing the establishment without friction of a Community administration procedure after the transitional period.

COMMUNITY MEASURES IN DEFENCE OF TRADE

318. The proposed regulation on defence against dumping practices and the payment of export bounties or subsidies by non-member countries is being examined in the Council in its amended version on 17 February 1966.²

RESTRICTIONS ON EXPORTS

319. On 21 December 1966 the Commission, acting under Articles 115 and 155 of the Treaty, sent the Member States three recommendations concerning restrictions on exports to non-member countries of some cate-

¹ See Ninth General Report, sec. 297.

² *Ibid.* sec. 298.

gories of raw hides and skins, certain non-ferrous metal residues, and hemp seed.¹ The purpose was to prolong for a year the system in force since 1962.

NEGOTIATIONS ON TRADE AGREEMENTS

320. A number of multilateral agreements are being negotiated, in particular concerning raw materials. The Commission has worked out recommendations for a uniform attitude on the part of the Member States and of the Community. Participation in such long-term agreements is important from the angle of common policies, existing or future association agreements and, especially, the establishment of a Community commercial policy. The rules recommended by the Commission primarily concern the terms on which the Community and the Member States should take part in negotiating and concluding such international agreements, in view of the extent to which the common policies have been implemented. It is necessary to ensure that the undertakings contained in these agreements do not affect the further building-up of the common market in conformity with the Treaty, or the association relationships established by the Community.

The Commission has sent a recommendation to those Member States which are parties to the International Olive Oil Agreement, concerning extension of the Agreement's period of validity.

The opening of multilateral negotiations in Geneva in 1966 on extension of the long-term Arrangement on world trade in cotton textiles gave occasion for working out a concerted attitude between the Member States and the Commission and for reducing divergences between Member States' trade policies. At its meetings of 12 January and 7 March 1967, the Council approved the general lines of the solution to be negotiated, whether multilaterally in the Cotton Textiles Committee or bilaterally with the non-member countries supplying low-price cotton goods. These general lines, and the common safeguard measures that the EEC Governments will apply during the period for which the Arrangement is to be renewed (three years beginning 1 October 1967), will guarantee solidarity between Member States and make it easier to operate a common commercial policy in this sector.

In conformity with Article 3 of the Council decision of 9 October 1961,¹ concerning a uniform period for trade agreements with non-member countries, the Commission is studying trade agreements and commercial and navigation treaties concluded by Member States, in order to determine

¹ See official gazette No. 11, 20 January 1967.

² *Ibid.* No. 71, 4 November 1961, and No. 223, 29 December 1965.

whether they impede the introduction of a common commercial policy. The Commission expects to report to the Council by the end of 1967.¹

The Council decision of 9 October 1961 called for consultations when Member States are engaged in trade talks. Such consultations have taken place periodically. Member States' bilateral trade policies, though still divergent, have thus been further approximated.

The Community and Europe

THE ACCESSION OF EUROPEAN COUNTRIES

321. The statement of the UK Prime Minister, Mr Wilson, in the House of Commons on 10 November 1966 was the first step taken to revive the question of Britain's membership since the breakdown of negotiations on 28 January 1963.² The Prime Minister announced the British Government's decision to make a fresh approach in order to discover whether conditions were favourable for successful negotiations and on what basis these might take place. He stated that the United Kingdom would be ready to enter the Community provided essential British and Commonwealth interests were safeguarded. The conditions for Britain's entry would be a healthy British economy, a strong balance of payments and a firm pound sterling. The British Government affirmed its intention of respecting the Treaty of Rome in full.³

On 17 January and 8 March 1967, Mr Wilson began a series of visits to the six capitals of the Community countries with a view to establishing contacts with the heads of States or of Governments.

On the occasion of his visit to Belgium, the British Prime Minister met members of the EEC Commission on 1 February 1967 in Brussels and had talks with them, principally on agricultural matters and Britain's financial situation.

In a speech on 23 January 1967 to the Consultative Assembly of the Council of Europe, Mr Wilson again summarized the British position, mentioning the possibility of membership or association for other EFTA countries. The British approaches were, in fact, the occasion for some European countries to reaffirm their intention to follow Britain into the Community.

¹ See Ninth General Report, sec. 301.

² See Fifth General Report, sec. 239.

³ In a letter dated 11 May 1967 to the President of the Council of Ministers, the British Government made formal application for the United Kingdom's membership of the Community under Article 237 of the Treaty of Rome. On the same date, the Danish and Irish Governments also applied for membership.

The accession of further European States had been discussed at the thirteenth joint meeting of the European Parliament and the Consultative Assembly of the Council of Europe on 23 and 24 September 1966. The report submitted by M. Catroux (France, UDE) indicated the economic consequences of an expansion of the Community's internal market and its repercussions in the field of political union. Mr Kershaw (UK, Conservative) stressed the importance to Europe of the United Kingdom's membership of the Community. The President of the Commission, M. Walter Hallstein, pointed out that in other European countries too the Community was being increasingly considered as the only possible form of European economic integration. He emphasized that the responsibility assumed by Europe in the world, both economically and politically, would increase as the unification of the EEC progressed.

These questions were taken up again at the traditional joint meeting of the Community institutions on 28 November 1966, in various speeches which emphasized that the problem of British accession was now linked with the question of a technological Community; moreover, the speakers said, while it was desirable that the Community should speedily adopt an unequivocal position regarding the accession of European countries and its relations with other countries, it was also necessary for Britain to recognize the priority of European problems.

The British initiative aroused great interest in European circles, and gave rise to a number of statements by political or business organizations representing the Six in favour of Britain's entry, provided she accepted the Community in its present form.

RELATIONS WITH THE UNITED KINGDOM AND EFTA

United Kingdom

322. On 28 September 1966 the United Kingdom Mission to the Communities forwarded to the Commission an aide-mémoire concerning prolongation of the arrangement suspending customs duties on tea, maté and tropical hardwoods which was to expire on 21 December 1966.¹

On 7 December 1966, following a communication by the Commission dated 24 October 1966, the Council adopted two decisions in this field.²

The first prolongs, by virtue of Article 28 of the Treaty, the suspension of CCT duties on tea, maté and tropical hardwoods until 31 December 1967. Also on 7 December 1966, the representatives of the Member States of the Community meeting in the Council referred to this decision and agreed, on the basis of Article 24 of the Treaty, to full application for the same period of the suspension of CCT duties on these products.

¹ See Ninth General Report, sec. 309.

² See official gazette No. 10, 19 January 1967.

The second decision, taken under Articles 111 and 114 of the Treaty, concludes the arrangement between the Community and the United Kingdom concerning extension of simultaneous suspension of the customs duties applicable to tea, maté and tropical hardwoods until 31 December 1967. This arrangement was made on 23 December 1966 in the form of an exchange of letters between the Community and the United Kingdom Mission.

The Associated African States had been consulted on these measures.

Denmark

323. Continuing the discussions which have taken place periodically between the Commission and the Government of Denmark, the Danish Minister of Foreign Affairs, M. Haekkerup, paid his fifth visit to the Commission on 3 and 4 June 1966. The conversations covered general problems of the European economy, the GATT multilateral trade negotiations and agricultural questions, in particular those mentioned in a memorandum to the Commission on the effect of the common agricultural policy on Danish exports.

The same subjects were discussed again on 16 December and 23 January 1967, when the Commission was visited by M. Tyge Dahlgaard, Minister for Commerce, Industry and European Market Relations in the Danish Government formed the previous month. The prospects of Denmark's joining the Community were also discussed.

Each visit was followed by meetings between Danish experts and senior officials of the Commission, during which social matters (20 October 1966), agricultural matters (22 December 1966) and certain financial problems (17 January 1967) were dealt with.

Norway

324. Continuing the talks which have taken place periodically between the Commission and the Government of Norway, M. Willoch, Norwegian Minister of Trade and Shipping, visited the Commission on 14 October 1966. Views were exchanged mainly on possible closer relations between EFTA and the Community, the prospects of the GATT multilateral negotiations, and the Norwegian interests involved.

These talks were followed by a discussion between Norwegian experts and senior officials of the Commission on Community tariff quotas concerning Norway.

In addition, the Industrial Affairs Committee and Finance Committee of the Norwegian Parliament visited the EEC Commission on 5 and 13 September 1966 respectively for detailed exchanges of views on various aspects of economic integration.

Ireland

325. The regular contacts at ministerial level between the Community and Ireland continued. Mr Aiken, Minister for External Affairs, and Mr Lynch, Minister for Finance, visited the Commission on 20 September 1966. Visits were also made by Mr Neil Blaney, Minister for Agriculture and Fisheries, on 4 and 5 January, by Mr Colley, Minister for Industry and Commerce, on 27 February and Mr Hillery, Minister for Labour, on 9 March 1967.

The topics discussed during these visits included the general problems of European integration, Ireland's position with regard to the GATT negotiations, and agricultural matters.

NEGOTIATIONS WITH AUSTRIA

326. The Council instructed the Committee of Permanent Representatives to examine the Commission's two reports on the first phase of negotiations with Austria, which were submitted to the Council on 22 October 1965 and 28 April 1966. As a result, further directives were given to the Commission for pursuing negotiations on trade in industrial goods, agriculture, and trade relations between Austria and the eastern European countries, all of which matters were dealt with in the first of these reports.

Following the further terms of reference given by the Council on 6 December 1966, a second phase of negotiations took place, in two sessions (13-16 December 1966, and 30 January - 2 February 1967).

During this second phase, agreement was reached on tariff disarmament in the industrial sector between the Community and Austria by the application of a time-table divided into five stages and spread over four years. The Community agreed to reduce duties during the first stages at a more rapid rate than Austria. The precise amount of the tariff reduction to be made by the two parties at each stage, has not yet been decided. The quantitative restrictions existing in this sector will be eliminated as soon as the Agreement comes into force, subject to certain very limited exceptions requested by Austria.

The two delegations reached agreement on the principle of progressive alignment of the Austrian tariff for industrial products on the common customs tariff over a period of two years. Subject to possible minor exceptions, Austria will be applying the same duties as the Community at the end of this period.

The discussions were conducted on the assumption that the preferences which Austria grants to its EFTA partners would be progressively eliminated as the Austrian tariff was aligned on the common customs tariff. Austria would nevertheless prefer the alignment of the duties applicable to the EFTA countries to take place over a longer period.

Austria considers that freedom of movement must also be achieved for agricultural products. For this purpose, it has declared itself ready to undertake the commitments necessary for establishing and automatically maintaining agricultural harmonization, subject to exceptions arising from its neutrality obligations. The Austrian delegation considered that harmonization should be achieved progressively during a transitional period following the entry into force of the agreement. The Community has not yet decided on the principle of such harmonization, but in any case a system of reciprocal preferences limited to a certain number of products is to be set up at an early stage.

Both delegations recognized the necessity for trade between Austria and the eastern European countries to continue developing satisfactorily. The Commission agreed to Austria's introducing special measures to this end. However, the two delegations were unable to reach agreement at this juncture on the form which these measures should take.

Its task completed, the Commission submitted its report to the Council on the results of the second phase on 20 March 1967.

The report dealt with the establishment of a preferential zone for Austria's industrial products, agriculture, and Austrian trade with the countries of eastern Europe.

EXPLORATORY TALKS WITH SPAIN

327. A Spanish and a Commission delegation met for the first time on 9 December 1964 for exploratory talks which were concluded on 19 July 1966. At this latter meeting, the Spanish representative confirmed that his Government wished for a progressive link-up of the Spanish economy with that of the Community.

On 25 November 1966 the Commission submitted to the Council a report on the exploratory talks in which it examined the various alternative patterns in which future relations between Spain and the Community might be laid down. The Council is currently considering the Commission's report.

RELATIONS WITH EASTERN EUROPEAN COUNTRIES

General remarks

328. The progress made in harmonizing the commercial policies of Member States vis-à-vis eastern Europe is largely due to the broad independent liberalization measures applied by some of the Member States. The initiative in the liberalization process, which has received considerable public attention, was taken by France, early in 1966, and it has since been extended throughout the Community to a large number of products. It is the Benelux countries which have actually liberalized trade in the widest range of products. They are currently negotiating with a number of eastern European countries on the basis of their list.

France followed the liberalization measures mentioned by further opening its markets to the eastern European countries in the course of 1966 early in 1967, and has since achieved the remarkable number of some 960 independently liberalized items applicable to state-trading countries. The number of items liberalized in Germany since action started in this field in May 1966 is approximately 650.

However, differences remain regarding the geographical area to which these liberalization measures apply. In France, for instance, liberalization applies to all eastern European countries while in Germany it is limited at present to the countries with which she is connected by trading agreements still in force (Bulgaria, Hungary, Poland and Rumania).

It is, in particular, this alignment of import systems vis-à-vis eastern Europe which, as mentioned above, has caused an appreciable reduction of protection measures in accordance with Article 115.

A particularly important part in these liberalization measures has been played by the periodic consultations between the Member States and the Commission, which take place in accordance with the general decisions of the Council of 9 October 1961 before trading agreements are concluded or extended and which apply to all provisions of such agreements.

On 22 December 1966 the Council, acting on a proposal by the Commission, extended for one year Regulation No. 3/63/CEE concerning trade with state-trading countries in certain agricultural products.¹ Before the single market for the products included in this Regulation comes into being, the Council is to decide on the system to be applied.

Yugoslavia

329. On 1 February 1967 the Commission sent the Council a memorandum on the Community's relations with Yugoslavia. At its meeting on

¹ See official gazette No. 240, 27 December 1966.

7 March 1967, the Council noted that the Committee of Permanent Representatives had acted on the Commission's memorandum by arranging for a study to be made of the terms of a possible non-discriminatory trading agreement between the Community and Yugoslavia.

Yugoslavia, which has been a provisional member of GATT since November 1962, became a full member on 25 August 1966. The Community has conducted tariff negotiations with Yugoslavia according to Article XXXIII of the General Agreement.

Poland

330. On 10 January 1967 the GATT Council considered the request for membership made by Poland. On this occasion the Community indicated that it was favourably disposed towards the Polish application, and expressed its willingness to participate in the work of the committee set up to examine the conditions of accession. The Community has been holding bilateral discussions with Poland in connection with the Kennedy Round since November 1966.

EUROPEAN ORGANIZATIONS

Council of Europe

331. The Commission was represented at the sessions of the Consultative Assembly and took part in the work of a number of Committees: The Legal Committee (legal co-ordination, criminal problems), the Social Committee (public health, air pollution, social security, etc.), the Committee on Agriculture (wines and spirits, etc.), the Cultural and Scientific Committee (cultural co-operation, youth) and other work (population conference, local powers).

The officials of both the Commission and the Council of Europe are maintaining close contact in order to exchange technical information on work undertaken in Brussels and Strasbourg in similar fields.

Western European Union (WEU)

332. The Commission was represented at the sessions of the WEU Assembly and at the meetings of the Council of Ministers devoted to economic questions. In both cases prominent consideration was given to questions arising from the possible resumption of negotiations for United Kingdom accession to the Community.

European Free Trade Association (EFTA)

333. Exchanges of views took place with the Secretariat of EFTA, continuing those which began in 1965 on various technical questions in respect of which the two organizations may compare and confront their experience and the lessons they have learned. In 1966 meetings were arranged on 22 March, 14 July, 28 November and 21 December in Brussels and on 12 July in Geneva.

The exchanges of information mainly concerned the following matters:

- 1) Non-tariff obstacles of trade including problems of technical laws and regulations, relaxation of state monopolies, and public works and supplies contracts;
- 2) The international comparability of financial and industrial statistics;
- 3) Co-ordination and working methods in economic and monetary policy;
- 4) The effects of economic integration.

The Community and OECD

334. The Commission continued to participate in the regular activities of the Organization via the various committees and working parties, particularly as regards international trade, agriculture and aid to development. The OECD co-ordinated the western nations' views for the meeting of the Trade and Development Board (UNCTAD).

The OECD also continued its studies on non-tariff and non-quota obstacles to trade. It completed and published a survey on regulations and procedures in the member countries in connection with Government purchasing.

The Commission followed with particular interest the work of the Group on Export Credits and Credit Guarantees.

It also took part in the discussions on restrictive business practices and in a confrontation on the subject of commercial relations between Japan and the other member countries.

The activities of the Committee for Agriculture were dominated by the examination and comparison of the OECD member countries' agricultural policies, the common agricultural policy of the Community being examined at the same time. The conclusions of the examination were adopted by the Ministers of Agriculture of the OECD countries on 27 and 28 October. Special attention was given to commercial relations between the member countries and world supply prospects for farm products. The latter subject is associated with the matters mentioned below¹ concerning food aid under the heading "Development Assistance Committee" (DAC).

¹ See sec. 347.

As a result of the common agricultural policy and the current international negotiations on agricultural products, the Commission has been very closely concerned with the studies and work of the OECD in this field.

As regard new activities of the Organization, mention should be made of the fact that the November 1966 ministerial meeting entrusted to OECD the task of promoting closer contacts with eastern European countries.

The organs and committees of the Organizations are studying the possibilities of improving economic relations with these countries; this is of the greatest interest to the Community.

The Committee for Science Policy has set up a small working party to study the technological gap between the western European countries and the United States in certain subjects.

Finally, the OECD submitted to the Ministers of Finance of the Group of Ten a report examining methods of improving the procedures for adjustment of balances of payments. This survey is directly linked with the matter of examination of international liquidity. In this way the OECD activities concerning consultations on balance of payments have been reinforced, and Working Party No. 3 of the Economic Policy Committee has arranged to prepare an "alarm system" for detecting signs of disequilibrium.

The Community and Africa

ASSOCIATION WITH NIGERIA

335. The sixth round of negotiations with a delegation from Nigeria took place from 26 April to 7 May 1966. It resulted in an Agreement¹ which created an Association between the Community and Nigeria, defining reciprocal rights and obligations, particularly in the field of trade; this was signed on 16 July 1966 in Lagos by the plenipotentiaries of the Member States and of the Community on the one hand and of Nigeria on the other. In many places the wording of the Agreement is based on Titles I, III and V of the Yaoundé Convention, and takes into account both the existing association links between the Community and the eighteen African States, and the relations between Nigeria and the United Kingdom.

Thus, in the field of trade, the Agreement makes provisions for all Nigerian exports to be subject to the same duties as are applied by the Member States among themselves, apart from tariff quotas for cocoa beans,

¹ See Eighth General Report, sec. 309, and Ninth General Report, sec. 323.

veneered wood or plywood, palm oil and groundnut oil. Customs duties and taxes with effect equivalent to duties, as well as quantitative restrictions on exports from Nigeria to the Community, will be progressively eliminated. The Community has agreed that reciprocity on Nigeria's part need not be complete and that the dismantling of customs duties on imports from the Community need apply only to some products.

The Agreement also contains provisions on the right of establishment and freedom to supply services, payments and capital, the institutions of the Association, and general and final provisions. It is to come into force after ratification by the Member States and Nigeria. The ratification procedures are in progress. The Agreement is to expire on 31 May 1969, i.e. on the same date as the Yaoundé Convention. A year before its expiry, arrangements may be made for a renewal under conditions to be determined by mutual consent.

When the Agreement was signed in Lagos, but before it came into force, an EEC-Nigeria Interim Committee was formed to do the work necessary for its speedy implementation. The Committee met for the first time on 17 February 1967, in Brussels.

NEGOTIATIONS WITH THE EAST AFRICAN STATES: KENYA, UGANDA AND TANZANIA

336. Negotiations with a joint delegation of these three States, the first stage of which took place from 1 to 8 March 1965,¹ were resumed in Brussels from 7 to 17 November 1966. This second stage was preceded by a working meeting of senior officials of the Commission and the States concerned, which was held on 17 and 18 October 1966.

The purpose of the negotiations was to establish relations based on the second option of the Yaoundé statement of intent, namely, establishment of an association comprising mutual rights and obligations, particularly in the field of trade.

At the request of the East African delegation, the second stage of negotiations was considered as not closed on 17 November 1966, to enable the delegation to consult the Governments of the three States.

Arising out of these talks, diplomatic relations have already been established between the Community and Tanzania and Uganda. In addition, the East African Common Services Organization has set up a liaison office in Brussels.

¹ See Ninth General Report, sec. 234, and Eighth General Report, sec. 310.

NEGOTIATIONS WITH THE MAGHREB COUNTRIES

337. On the basis of the first partial mandate approved by the Council on 15 June 1965, a session of negotiations took place with the Tunisian and with the Moroccan delegation in July 1965.¹ The Commission's report on the exploratory talks with Algeria in 1964 had been transmitted to the Council in February 1965.

At the end of this session of negotiations, the Commission sought, first with the observers of the Member States and then in the Algeria-Morocco-Tunisia Group of the Council, to obtain the agreement of the Member States on the replies to be given to the Tunisian and Moroccan delegations. This was a particularly difficult task, owing to the situation of the Community at that time, and it was not successful.

The Commission then considered that the talks could not usefully be pursued without further Council directives on all matters and more particularly on the intended system for imports of fruit and vegetables and olive oil from the Maghreb. The first mandate contained no indication concerning these products because the Community regulations for them were then in preparation.

Following the adoption by the Council of various decisions on agricultural policy and more particularly Regulation No. 65/65 on fruit and vegetables, the Commission undertook a further general examination of the problems of negotiations with the three Maghreb States, and submitted to the Council on 15 December 1966 a document including proposals for a further mandate so that negotiations with Tunisia and Morocco could be continued and negotiations with Algeria could be opened; these negotiations were to be conducted separately. The Council is examining the document concerned.

The Community and the Middle East

IMPLEMENTATION OF THE AGREEMENT WITH LEBANON

338. The Agreement between the Community and the Lebanese Republic which was signed in Brussels on 21 May 1965² has not yet come into force because the approval procedures in certain Member States and in Lebanon have not yet been completed. Nevertheless, under the terms of a joint declaration by the contracting parties to the Agreement, the arrangements for technical co-operation were implemented provisionally as soon as the Agreement was signed.

¹ See Ninth General Report, sec. 321.

² For the substance of the Agreement, see Eighth General Report, sec. 307.

The Lebanese authorities sent the Member States and the Community institutions a memorandum embodying requests for technical assistance on seven projects. This document was examined in the Technical Assistance Group. In the light of the conclusions reached, the first meeting of the EEC-Lebanon Technical Co-operation Group set up in accordance with Article VII of the Agreement was held on 28 and 29 September 1966. This meeting, which was of an exploratory, fact-finding nature, was followed by a second meeting at the beginning of April 1967, the object of which was to ascertain practical ways in which the Member States could co-operate bilaterally in certain Lebanese Government projects.

Bilateral contacts were subsequently made between Member States and the Lebanese authorities for the purpose of a more detailed study of projects considered to be of interest by one or other of the Member States.

RENEWAL OF THE AGREEMENT WITH IRAN

339. The Trade Agreement between the Community and Iran, which was signed in Brussels on 14 October 1963, expired on 30 November 1966, in accordance with Article V.¹ The Agreement was extended to 30 November 1967 by exchange of letters dated 27 October 1966.

RELATIONS WITH ISRAEL

340. On 4 October 1966 the Israeli Government handed the Council a *note verbale* and a memorandum requesting replacement of the present Trade Agreement, which expires on 30 June 1967, by an association agreement.

The Council noted this application and on 7 December 1966, without prejudice to the form of any new agreement with Israel, it invited the Commission to begin exploratory talks with the Israeli authorities and to report back to it as soon as possible. These exploratory talks, which likewise did not prejudice the form of any agreement, took place from 23 to 26 January 1967 between an Israeli delegation led by H.E. Ambassador Amiel E. Najjar, Head of the Israeli Mission to the European Communities, and a Commission delegation.

The general problems of the future economic and commercial relations between the European Economic Community and Israel were reviewed, and various possible solutions were discussed. At the end of March the Commission submitted a report on these exploratory talks to the Council.

¹ See Eighth General Report, sec. 293.

341. The Joint Committee set up under the Trade Agreement of 4 June 1964¹ met for the second time from 22 to 24 June 1966.

The Joint Committee examined the trend of trade between the Community and Israel, and in particular the problems connected with Israel's chief exports to the Community.

As a result of the Joint Committee's work, the Council decided to reduce by 20 % the duties specified by the common customs tariff for sliced grapefruit and for dihydro-ethoxy-trimethylquinoleine (a product mainly used for pharmaceutical products). The Member States for their part decided to apply the reduced duties immediately.

342. During the period 1964-66 Community trade with Israel developed as follows.

TABLE 31
Community trade with Israel

(in millions of u.a.)

	1964	1965	1966
Imports into the EEC from Israel	96	110	128
Exports from the EEC to Israel	234	190	190
Balance in the EEC's favour	+ 138	+ 80	+ 62

The balance of trade with Israel has been in the Community's favour ever since 1958, but the difference is tending to diminish because of the considerable growth of imports from Israel and because of the apparently stabilized falling-off in exports from the Six to Israel.

It is also apparent that Community imports of Israeli products, particularly agricultural products, have continued to increase. But it is difficult to assess the extent to which this trend has been influenced by the facilities provided under the Trading Agreement, mainly because the relevant statistics for most of the products mentioned in the Agreement are not available, these products being included under much more general statistical headings.

¹ See Seventh General Report, sec. 284.

The Community and the Latin American countries¹

343. At the end of the second series of meetings of the Contact Group between the Latin American Missions and the Commission,² the Missions presented to the Commission on 4 February 1966 a memorandum summarizing requests made by them in the course of the work, for measures whose implementation would, they considered, improve relations between their countries and the EEC. The Commission presented two documents to the Council during 1966: in June, a descriptive report of the work of the second series of meetings, and in December a statement of conclusions, including the Commission's attitude to the Latin American desiderata in the memorandum mentioned above.

Numerous problems of external trade raised by the Missions are closely linked with the decisions taken by the Community in the Kennedy Round negotiations. Hence, many requests for tariff reductions cannot be examined until the tariff negotiations are completed.

With regard to requests for preferences for semi-finished and finished products, a problem being studied by UNCTAD, the Commission has already suggested to the Council of Ministers that a favourable attitude should be adopted towards all developing countries.

In response to one of the Missions' suggestions, on 24 November 1966 the Council pronounced itself in favour of continuing the meetings between the Commission and the Latin American representatives so that economic and commercial problems arising from relations between the Community and the Latin American countries can be studied effectually and regularly.

The Commission was present as an observer at the meeting of the Inter-American Economic and Social Council in Buenos Aires in March 1966. In December 1966 the President-elect of Brazil, Marshal Arthur da Costa e Silva, paid a courtesy visit to the Commission. In November 1966 the President of the Inter-American Development Bank, M. Felipe Herrera, also visited the Commission.

Relations with Asian countries

344. The Indian Mission sent the Council a memorandum dated 4 May 1966 on commercial relations between India and the Community, suggesting that the situation of trade between the Community and India should be re-examined, that action should be taken to find practical solutions to problems, and that the mandate given to the EEC's representatives at the GATT negotiations should be amplified in order to permit more extensive and more rapid results to be obtained at Geneva.

¹ See also relations with GATT, sec. 353.

² See Ninth General Report, sec. 326.

As a result of the contacts made with the Indian Mission, a note giving a general view of trade between India and the Community and repeating the Indian requests was prepared for the Member States and the Community delegation at the GATT negotiations.

On 24 June 1966 the Commission also submitted to the Council a memorandum on the food situation in India and the measures intended to remedy the shortage, in connection with the resolution on the subject adopted by the European Parliament during its session from 7 to 11 March 1966.

The suspension of the common customs tariff duties on certain spices and sports requisites of particular interest to India (decided by the Council on 3 December 1963 and extended to 31 December 1966) was further extended to 31 December 1967.¹

The Community and the developing countries

THE TREND OF TRADE

345. The trend of trade between the Community and the developing countries and territories² in 1966 was characterized by two tendencies.

Firstly, Community imports from the developing countries continued to progress, reaching a figure (in cif values) of 11 312 million u.a., and showed a slightly higher annual growth rate than that of the previous year (7.5 % compared with 6.9 %). These data for 1966 show that Community purchases from the developing countries in current cif values have risen by 66 % since 1958, with an average annual growth rate of 6.6 %, i.e. the highest growth rate recorded among industrialized countries (except Japan) over the same period.

On the other hand, the rate of growth of Community exports to the developing countries, in current fob values, showed a distinct falling-off (6 % in 1966 compared with 8 % in 1965). In 1966, exports from the EEC to the developing countries amounted to 7 955 million u.a.

Moreover, the developing countries' share in total Community imports has remained since 1960 at around 37 % of an import market which is steadily expanding. This trend corresponds to the constant decline in these countries' relative share in world imports. Furthermore, in 1966 imports of commodities³ from the developing countries amounted to 9 623 million u.a., i.e. a growth of 54 % compared with 1958. Imports

¹ See official gazette No. 10, 19 January 1967, and sec. 322.

² Class Two countries of the SOEC geographical code.

³ Classification statistique et tarifaire (CST), Sections 0 + 1 + 2 + 3 + 4.

of semi-finished and manufactured products¹ showed an even higher growth of 197 %, from 550 million u.a. in 1958 to 1 631 million u.a. in 1966.

These various factors have a good influence on the balance of trade of the developing countries as a whole. The fact that it has been in credit with the rest of the world is basically attributable to the surpluses recorded in trade with the Community, and these surpluses are increasing from year to year, reaching the exceptional figure of 3 357 million u.a. in 1966. This means that the Community's trading deficit with the developing countries has enabled them to maintain a high level of imports, mainly from other industrialized countries with which (apart from the EFTA countries) their balance of trade has shown a deficit ever since 1958. So the Community's deficit on trade with the developing countries undoubtedly helps their economies, without, however, being a substitute for more deliberate action when circumstances require it.

It was in the light of the foregoing that the Commission forwarded to the Council on 22 November 1966 a memorandum on the granting of tariff preferences by the industrialized countries for the semi-finished and finished products of developing countries. This step is part of the preparation for a Community position at the second session of the United Nations Conference on Trade and Development.

UN CONFERENCE ON TRADE AND DEVELOPMENT

The work of the Trade and Development Board and its subsidiary agencies

346. The Board held its fourth session in Geneva from 30 August to 25 September 1966. It reviewed the work and progress accomplished since the first Conference in 1964 and began preparations for the second, which is to take place in New Delhi at the beginning of 1968.

The examination of the first report of UNCTAD's Secretary-General, on international trade and economic development, gave rise to debates which revealed the gap between the objectives of the Conference and the results. The developing countries have remained convinced that systematic implementation of the recommendations contained in the Final Act of the first Conference will not fail to improve this situation. However, all the industrialized countries, which are categorically opposed to compulsory implementation of these recommendations, stressed the idea of concerted action between States in order to find and apply measures acceptable to all parties interested in advancing the developing countries.

¹ CST Sections 5 + 6 + 7 + 8.

In the preparations for the second Conference, the industrialize countries showed great flexibility by agreeing to virtually all that their partners in the developing countries asked for as regards the objectives, the draft agenda and the place and date of the meeting. The Board was therefore able to adopt a draft agenda including all the problems connected with development. This draft will be examined by the Board at its fifth session, and may of course still be changed if necessary by the Conference itself when it opens.

The work of the Board's subsidiary agencies has also proceeded regularly.

The Community has been represented in the activities of the Board and its main subsidiary agencies by observers, in conformity with the status granted by UNCTAD to inter-governmental organizations.

THE OECD AND DEVELOPMENT WORK

The Development Assistance Committee (DAC)

347. In July 1966 the DAC held a high-level meeting in Washington to examine the problem of food shortage. As a result of this meeting, the Secretary-General of OECD received a mandate to enter into consultations with the member Governments of the Organization and with the other international organizations, with a view to increasing the efficiency of bilateral and multilateral programmes of food aid to developing countries. The Secretary-General is to submit proposals to this end during 1967.

The Committee also examined the efforts made by the Community in 1965 through the European Development Fund and the European Investment Bank.

The Committee also studied other important questions (financial aspects of aid, needs for aid, UNCTAD; etc.). It concentrated on the demand for and offers of technical assistance, the harmonization of conditions for aid, debt problems, distribution of the financial burdens, obstacles to growth of the volume of aid, export credits, private investments and additional financial measures.

Technical Co-operation Committee

348. The Commission took part in a number of meetings of this Committee, which deals with the technical assistance granted to developing countries that are members of the Organization (Greece, Turkey, Spain, Portugal, Yugoslavia, Iceland). It did not restrict itself to proposing and directing operational programmes but also undertook studies of a more general scope concerning technical assistance.

GATT ACTIVITIES IN THE TRADE AND DEVELOPMENT FIELD

349. Part IV of the General Agreement, concerning trade and development, came into force on 27 June 1966 for the Contracting Parties that had agreed to it. In March 1967, 53 out of 71 Contracting Parties were bound by these provisions. The new Part IV provides a contractual and legal basis for individual and collective action to augment the resources of underdeveloped countries, raise their standard of living, and promote their rapid economic development via a share in international trade and a steady increase in their export receipts.

The EEC Council has still not decided whether the Community as such should sign the Protocol inserting Part IV into the General Agreement.¹

The Commission took part in the work of the Committee on Trade and Development which was instructed by the Contracting Parties to deal with the special problems of developing countries and in particular to watch over the implementation of the new Part IV. The Commission was represented at the session of the Committee held from 16 to 20 January 1967. This session was mainly concerned with the position of the trade negotiations² from the point of view of the interests of the developing countries, and with examining the activities of the GATT International Trade Centre, whose task is to help the developing countries in marketing their exports. The delegations of a number of these countries took the opportunity to express the hope that the Community would reconsider its standpoint with regard to the acceptance of Part IV so that it could take part as such in the work of the Committee. The problem of the instability of commodity markets was also mentioned. At the request of Chad, the Committee set up a working party to study the recent trend of the cotton market.

THE CO-ORDINATION OF DEVELOPMENT AID AND OF TECHNICAL ASSISTANCE

350. The Technical Assistance Group set up by the EEC Council to deal with problems of co-ordination arising between the Community and the Member States met five times. It examined the action taken and the technical assistance policies pursued by the Member States and the Commission. The main purpose of this exchange of information was to harmonize attitudes towards certain specific technical co-operation activities.

The Group devoted a large amount of time to co-ordinating the bilateral and Community contributions towards operating the Industrial Research

¹ See Eighth General Report, sec. 303.

² See also sec. 310 sqq.

Centre for Central Africa (CRIAC) in Congo (Kinshasa), and to examining bilateral technical assistance, which the Member States intend to co-ordinate for the benefit of Lebanon under the agreement with that country.¹

COMMODITIES AND INTERNATIONAL COMMODITY AGREEMENTS

351. The Community's action in this field has taken the form of specific offers for the purpose of concluding a general cereals arrangement, and of new offers for the purpose of concluding general arrangements for milk products, beef and veal, and sugar.²

The Community is represented by an observer in the Councils administering the inter-governmental coffee, wheat, sugar and olive oil agreements; it has also participated as an observer in the multilateral negotiations to extend the wheat agreement and the administrative provisions of the sugar agreement, and to conclude an agreement on cocoa.

The Community participated as an observer in the work of the International Coffee Council: an important meeting was held in London from 22 August to 6 September 1966. Problems of quotas and prices, production and diversification were solved by a general compromise. It was not possible to modify the distribution of basic quotas, but exemptions over and above their quotas were granted to certain countries for 1966-67. A system of adjustment of quotas linked with the prices of various types of coffee was instituted. Measures to reinforce controls on exports and imports were also adopted, notably rules for imports from countries not parties to the International Coffee Agreement, in order to make the export quota machinery more efficient. Various working parties were formed to find long-term solutions to the problems raised in the field of basic quotas, stocks, production targets, control of production and diversification.

As regards wheat, the 1962 Agreement, further extended for one year, expires on 31 July 1967, when the single market for cereals will come into force in the Community.

As regards sugar, since the end of the first session of the conference to negotiate a new agreement (October 1965), consultations have been taking place in UNCTAD and the International Sugar Council. The administrative clauses of the 1958 Agreement are being extended to the end of 1968 or until the entry into force of a new agreement if this happens first. The Community's offers to GATT for the purpose of concluding a general

¹ See sec. 338.

² See sec. 310 sqq.

arrangement have also been passed to the Secretary-General of UNCTAD, to help UN action for a new agreement on sugar.

As regards cocoa, a Conference was convened in New York from 23 May to 23 June 1966 under the auspices of UNCTAD, in order to negotiate an international agreement on this product. Five Community States and five associated African States took part in it, as well as the Community as a body, which was invited as an observer on a consultative basis. This Conference failed to arrive at an agreement and had to be adjourned. Its failure is attributable to the question of prices, despite a substantial rapprochement of the attitudes of producer and consumer countries (except for one important country) regarding the minimum price. The Conference did, however, agree on solutions to certain problems such as quotas, financing and stock volume; in addition to prices, other important matters were shelved, notably prefinancing, stocking procedures and conversion factors.

When it adjourned, the Conference asked the Secretary-General of UNCTAD to undertake appropriate consultations and negotiations to find out when the Conference could meet again. A number of consultations, mainly of a technical nature, took place during the second half of 1966 and in February 1967. They revealed the extreme difficulty of reaching agreement on prices in the present circumstances, and also gave some non-Community countries an opportunity to raise the problem of obstacles to trade and consumption in clear terms.

As regards olive oil, extension of the 1963 Agreement which expires on 30 September 1967 is envisaged. Since this Agreement does not include directly binding clauses on trade it may be extended by the Community until sufficient experience has been obtained of the functioning of the single Community market for olive oil, which has been in existence since 10 November 1966.

As far as possible, the Commission also took part regularly in the FAO's work on cereals, rice, citrus fruits, oil-seeds and oils and fats, jute and hard fibres; in the DAC's work on food aid; and in the work of international study groups on products such as lead and zinc, rubber, wool, etc.

Study on developing countries

352. The Commission prepared and published a study on developing countries' trade with the industrialized countries, more particularly the member countries of the Community, during the period 1953-64. This study helps to provide a better understanding of the commercial problems being discussed in UNCTAD.

*The Community and GATT*¹

353. *Renegotiation of tariff concessions.* In 1966 the Commission, acting on behalf of the Community under Article 111 of the Treaty, notified the GATT Contracting Parties of its intention to renegotiate the tariff concessions which the EEC had granted to GATT on certain cheeses and certain olive oil residues. It referred to Article XXVIII of the General Agreement, which allows concessions to be modified or withdrawn every three years, subject to compensation. These renegotiations are being conducted on the basis of Council directives and in consultation with the special Committee provided for in Article 111 of the Treaty.

With regard to cheeses, in particular Emmental, Gruyère, Sbrinz and Cheddar, it became necessary to renegotiate the concessions granted by the Community in the Dillon Round (1960-61). These concessions enabled cheeses to be imported into the EEC at prices which were such that Community producers of milk to be used in making these types of cheeses could not obtain a price for their milk which was in line with the target price.

Negotiations were therefore begun in GATT with Switzerland and other European suppliers of Emmental cheese and with the customary suppliers of Cheddar cheese (notably Australia and New Zealand).

The EEC imports Emmental, Gruyère and Sbrinz cheese to a value of some \$22 million and Cheddar cheese to a value of some \$3 million (average of imports for 1963, 1964 and 1965).

With regard to olive oil residues, when variable levies for olive oil came into force it appeared advisable to establish variable levies for olive oil residues as well, in order to prevent frauds. To this end, some of the concessions granted in the Dillon Round will have to be withdrawn. The commercial interests involved are, however, negligible.

354. *Finland.* The Finnish Government made an offer of compensation to the Community on 12 March 1964.² After long discussions and a substantial improvement of the Finnish offer, the tariff renegotiations ended on 27 June 1966. An agreement was formally concluded by the Council of Ministers on 9 February 1967.

355. *Turkey.* As a result of negotiations under GATT, Article XXVIII, which were completed on 1 September 1966, Turkey agreed to allow

¹ See also secs. 349 and 310 sqq.

² See Eighth General Report, sec. 342, and Ninth General Report, sec. 328.

compensation for the damage caused to the Community by modifications to the Turkish customs tariff (raising of certain duties previously bound).¹ On 7 March 1967 the Council adopted a decision formally concluding the agreement with Turkey.

356. *Peru.* After increasing its duties, the Peruvian Government renegotiated certain concessions under Article XXVIII by way of compensation. The negotiations between the Commission, acting on behalf of the Community, and a Peruvian delegation resulted in a draft agreement on 31 December 1966. Account has been taken of the liberal import policy pursued by the Peruvian Government and of the legal provisions permitting the import of raw materials and basic capital goods into Peru with total or partial customs exemption. The Commission recommended the Council to conclude this draft agreement.

357. *Australia.* After receiving permission from the Contracting Parties, in accordance with Article XXVIII (4), the Australian delegation took action to renegotiate with the Community concessions applicable to glassware and motor vehicles, which had been bound on behalf of EEC Member States or in which the Community had a substantial interest. Renegotiations to unbind four tariff headings in the chemistry and footwear sectors are also on the point of being satisfactorily concluded.

358. *Various other Contracting Parties.* Mention should also be made of waivers granted by GATT under Article XXV (5) of the General Agreement in respect of the new customs tariffs of Chile (tariff in accordance with the Brussels Nomenclature) and Brazil. Furthermore, the tariff agreement negotiated by the Community in connection with the accession of Korea to GATT protects the Community's essential interests and also takes Korea's underdeveloped state into account. The Commission has recommended to the Council that the agreement should be concluded and the Protocol of accession be signed.

359. *Revision of tariff countermeasures.* In June 1962 the United States increased the customs duties on certain types of sheet glass and carpets which were bound in GATT.¹ This decision, which had a serious effect on Community exports, caused the Community in its turn to adopt countermeasures with regard to certain products. As the American Government decided in January 1967 to re-establish in part the customs duties on sheet glass which were valid before the 1962 increases, the Commission has proposed to the Council that the tariff increases which it instituted at the time should be reduced in proportion to the United States tariff cuts.

¹ See Sixth General Report, sec. 270.

The Community and the United Nations

360. Relations with international organizations are described in the individual chapters. Relations with the organs and specialized agencies of the United Nations continued according to the arrangements made.

At the invitation of the Secretary-General of the United Nations, Community representatives were present at the 41st session of the Economic and Social Council (ECOSOC). The Community was also represented at the plenary sessions and sessions of the main subsidiary Committees of the Regional Economic Commissions, at the invitation of their Executive Secretariats.

The Community's relations with UNCTAD are reported elsewhere.¹

The Commission also maintained close relations with the International Labour Organization (ILO), particularly in connection with social security for migrant workers. It was regularly represented on the Governing Body and at the Annual Conference.

Relations were maintained with the FAO (United Nations Food and Agriculture Organization) and with UNESCO (United Nations Educational, Scientific and Cultural Organization).

Progress towards the customs union and the establishment of the common agricultural organizations increase the Community's responsibilities in the world and increasingly demand that it should present itself in international relations as a distinct economic entity. The European Parliament has already repeatedly stressed this need. The form of the Community's relations with the international organizations, in particular the United Nations, should be such as to permit it to participate more directly in their activities.

THE COMMUNITY'S DIPLOMATIC RELATIONS

361. At the time of writing, seventy non-member and associated countries had diplomatic representation with the Community. The procedure for establishing a mission is in progress in the case of six other countries.

¹ See sec. 346.

CHAPTER VII

ACTIVITIES OF THE INSTITUTIONS

The European Parliament

362. The European Parliament met in ordinary session six times during the 1966/1967 parliamentary year. It also held its thirteenth joint meeting with the Consultative Assembly of the Council of Europe on 23 and 24 September 1966. On 28 November 1966, the joint meeting between the institutions provided an opportunity to make a wide survey of questions relating to the completion of the economic union.

Addressing the Parliament at the 27 June-1 July 1966 session, the President in office of the Councils explained the importance of the agreements of 11 May 1966. However, members expressed some apprehension concerning the institutional and economic aspects of the agreements concluded in Luxembourg on 29 January 1966.

During the year, the Parliament adopted approximately one hundred resolutions and opinions on numerous proposals in all the fields covered by the Treaty, on which the Council has sought its advice. Some twenty of these concerned the common agricultural policy and about the same number the right of establishment, the approximation of legislation and the free movement of goods. The Parliament also received the Commission's replies to 131 written questions.

The Parliament devoted particular study to several matters which gave rise to reports, debates and exhaustive opinions. These included the first draft medium-term economic policy programme, the Community's monetary policy and the prospect of setting up a European monetary union, the schemes for world markets in agricultural produce and the agricultural and industrial aspects of the Kennedy Round.

The Parliament also made special efforts to advance the implementation of the Treaty, particularly through discussions with the Council. An example was the social affairs debate in which the Minister who had presided the Council's last session on these matters addressed the Parliament.

Furthermore, the Parliament widened the scope of its work by tackling certain problems whose solution would help forward the building of Europe. Thus, using the powers conferred on it by the statement issued after the Bonn "summit" on 18 July 1961, the Parliament discussed scientific research, technological progress and colour television. Lastly,

it passed a resolution on the prospects of a meeting of the six Heads of State or Government in Rome on the occasion of the Community's 10th anniversary.

In order to render its work more effective, the Parliament on 14 March 1967 recast its own internal structure. The new parliamentary organization now comprises twelve committees—six large committees of 29 members each: Political Affairs, Economic Affairs, Agriculture, Social Affairs and Health Protection, External Trade Relations and Research, Energy and Atomic Problems; three 17-member committees: Finance, Administration and Accounts, Legal Affairs and Transport. Finally, there are two 15-member Committees for the Association with Greece and the Association with Turkey, and a Committee of 18 members on Relations with African States and Madagascar.

The following pages provide only a brief chronological sketch of the Parliament's work, with references to the appropriate chapters of this report containing more detailed accounts of the deliberations. The resolutions are merely cited in the next few pages and follow the same order as that of the chapters in this General Report.

Session of 7-11 March 1966

363. The parliamentary year opened with the election of the President, M. Poher (France, Christian Democrat); M. Kapteyn, M. Battaglia, M. Vendroux, M. Furler, M. Wohlfahrt, M. Berkhouwer, M. Carboni and M. Metzger were elected Vice-Presidents.

An account of the debates at this session was given in the Ninth General Report.¹

Session of 9-13 May 1966²

364. After hearing the President recall the sixteenth anniversary of the Robert Schuman declaration, the Parliament discussed the proposal for the establishment of a European Youth Office on the basis of a report by M. Scarascia Mugnozza. The spokesmen for the political groups expressed their approval of the scheme.

The rapporteur recalled the far-reaching task which the Joint Information Service of the European Communities had been tackling with limited means since 1960, to help the younger generation to an awareness of the developments in which they and their countries are involved. This action, undertaken at the instigation of the European Parliament and the Council

¹ See Ninth General Report, sec. 341.

² See official gazette No. 96, 28 May 1966.

of Ministers, was intended to provide information for students and the leaders and active members of adult and youth organizations.

Furthermore, in accordance with Article 50 of the Treaty of Rome, the Communities have drawn up a programme for exchanges of young workers.

The resolution adopted emphasized that the time was ripe to expand and co-ordinate these various activities, and hoped that a European youth office would be set up as a public foundation administered by representatives of the Member States and the Commission assisted by a General Council of European youth; the office should be financed by a Community fund which ought to reach 500 million Belgian francs per annum by the end of the first decade of its existence. The resolution also expressed the wish that the "Kreissig" funds to promote the dissemination of information about European matters among young people, would be made available again.

When the Parliament was asked on 11 May 1966 about the conclusion of the Council's work on the establishment of a common level of farm prices,¹ it expressed its regret that the undeniable progress made in agricultural affairs had been counteracted by considerable delays in other sectors. Winding up the debate, M. Marjolin, Vice-President of the Commission, endorsed the Parliament's view and declared that complete economic unity of Europe could not be achieved if a start were not made on political union, which might well be on federal lines.

At this session the Parliament adopted resolutions concerning the following matters:

Free movement of goods, freedom of establishment and company law: three resolutions embodying opinions on a common definition of the concept of the origin of goods, on a directive pertaining to self-employed occupations in forestry, on an amendment to the General Programme, and on guarantees required of companies within the meaning of the second paragraph of Article 58 of the Treaty.

Approximation of legislation: resolution embodying an opinion on the alignment of postage rates.

Common agricultural policy: two resolutions embodying opinions on prices for milk products, beef and veal, rice, sugar, oilseeds and olive oil, certain special measures concerning sugar and milk, and the extension of certain time-limits for the EAGGF (Guidance Section).

Social policy: two resolutions, one on measures to assist redundant Italian sulphur-mine workers and the other rendering an opinion on the proposal to amend regulations Nos. 3 and 4 concerning social security for migrant workers.

¹ See sec. 169.

Common commercial policy: resolution embodying an opinion on the procedure for administering quotas on imports into the Community.

Session of 27 June - 1 July 1966¹

365. A report on the activities of the Councils was presented by their President, M. Werner, and this was followed by an exchange of views between the Parliament, the Councils and the Commissions. The President laid particular emphasis on two matters in his report: the scope and significance of the agreements of 11 May 1966 and problems connected with the multilateral negotiations in GATT.

The debate gave several speakers a new opportunity to express their satisfaction with the way the Community crisis had been solved by the Luxembourg agreements of 29 January 1966.² The Parliament nevertheless stressed some general problems concerning the Community and its future.

Thus, regarding the Community institutions, almost all the speakers expressed apprehension with regard to the Luxembourg agreements, particularly as they affected the majority rule, relations between the Councils and the Commission (it was stated that in no circumstances should the application of the "seven points" adopted limit the powers and competence of the Commission), the strengthening of the Parliament's functions and the maintenance of a balance of powers.

The economic matters discussed were chiefly the problems entailed in the transition from a customs union to an economic union, all kinds of obstacles to freedom of movement, the harmonization of turnover tax, and delays in the elaboration of the common policies.

M. Werner concluded the debate by remarking that despite its dark sides the general picture was one of positive achievement and that in any case the crisis has shown that the present links between the six countries were irreversible.

Parliament held lengthy debates on such matters as regional policy,³ the social aspects of industrial conversion, the application of the rules of competition to agriculture, State aids⁴ and the stabilization of world markets for raw materials.

¹ See official gazette No. 130, 19 July 1966.

² See Ninth General Report, sec. 20.

³ See sec. 141.

⁴ See sec. 191.

The Parliament passed a number of resolutions :

Free movement of goods: resolution on the levying of a countervailing charge on certain goods manufactured from agricultural produce.

Regional policy: resolution concerning the Commission's first memorandum on this subject.

Agricultural policy: four resolutions on the esterification of olive oils for culinary uses, the application of certain rules of competition to the production of and trade in agricultural products, levies applicable to mixed cereals, rice and broken rice, and health requirements for intra-Community trade in cattle and pigs and in fresh meat.

Transport policy: resolution embodying an opinion on the introduction of a rate-bracket system for goods transport by rail, road and inland waterway.

Social affairs: resolution embodying an opinion on maternal welfare, and three resolutions on the implementation of Article 119 of the Rome Treaty, on industrial medicine in the framework of the three Communities and on the social aspects of industrial conversion.

External relations: three resolutions on a world cereals agreement (Kennedy Round negotiations), on negotiations in GATT and on the stabilization of world markets for raw materials in connection with the United Nations Conference on Trade and Development.

Association between EEC and AASM: resolution on current problems of technical and cultural co-operation.

Budget matters: three resolutions (draft supplementary EEC budget for 1966, estimates of receipts and expenditure of the Parliament for 1967, adjustment of the allowances provided for under item 108 of the estimates of receipts and expenditure of the Parliament):

Thirteenth joint meeting of the European Parliament and the Consultative Assembly of the Council of Europe (23 and 24 September 1966)

366. The thirteenth joint meeting was held at Strasbourg on 23 and 24 September 1966, with M. Poher, President of the European Parliament, and Sir Geoffrey de Freitas, President of the Consultative Assembly of the Council of Europe, successively in the Chair.

The topic selected for this year's discussion was "The enlargement of the European Economic Community and Europe's political and economic responsibilities in the world".

The report presented by M. Catroux on behalf of the European Parliament dealt especially with the possibilities of instituting a European scientific policy and with relations between the Six and the Seven, in particular

with regard to foreign policy and technological co-operation. Comparison of research investments in the USA and the EEC led the rapporteur to conclude that collaboration is indispensable and should take place within a wider European framework. In all sectors of European development, the major problem was that of achieving a concerted overall policy for the Member States, or even for all west European countries. If negotiations were to take place between the EEC and those of the EFTA countries that wanted to join the Community, this question would become even more acute, since the formulation of a European scientific policy would be mandatory for a grouping of States with an economic potential of such magnitude.

Speaking for the Consultative Assembly of the Council of Europe, M. Czernetz expressed his belief that, with its great freedom of initiative, this institution provided the right framework for co-ordinating Europe's efforts to fulfil its world-wide obligations.

M. Czernetz held that if Europe lacked the will to form a political union she would be unable to assert herself in the concert of world powers and would lose her attraction for the non-aligned countries.

The President of the Commission, M. Walter Hallstein, agreed with the principal ideas contained in M. Catroux's report, emphasizing that a widening of the Community would be to the general advantage and that such a larger grouping would carry more weight on the world political scene.

From many speeches made during the general debate it was clear that both assemblies were anxious to examine the problems involved in any new dialogue between the Community and the United Kingdom and the other EFTA countries. The remarks of British MPs from the two main parties were received with particular attention.

Session of 17-21 October 1966¹

367. The Parliament held its annual debate on the activities of the Community (Ninth General Report) on the basis of a report presented by Mme K. Strobel, President of the Socialist group.

Discussion mainly turned on the problems of transforming the Community from a customs union into an economic union and the work still to be done before the end of the transition period.

The rapporteur laid special emphasis on institutional matters (the Parliament's relations with the Commission and the Council, democratic features of the institutional framework, principle of the separation of

¹ See official gazette No. 201, 5 November 1966.

powers, merger of the Executives). In making an assessment of all the activities of the past year, Mme Stobel noted with satisfaction that the crisis that had been threatening the continued economic and political development of the Community had been overcome. She regretted, however, that apart from agricultural policy the common policies were far behind schedule, despite the Commission's efforts.

In reply to Mme Stobel's sometimes rather pessimistic appraisal of certain branches of Community activity, M. Walter Hallstein, President of the Commission, considered that, with the decisions of 1966, a good half of all the tasks envisaged by the Treaty had been carried out. The vital conclusion to be drawn from the rapporteur's disappointment was the need to work with even greater tenacity, imagination and resolution for the creation of a united Europe.

Many other speakers took up these subjects and drew special attention to the problems of the Community's institutional organization and the need to complete the economic edifice by establishing a politically united Europe.

Various speakers also raised such matters as the considerable lag in social policy, distortion of competition through the action of public authorities (measures having the same effect as quantitative restrictions, government monopolies), the development of Community law, the common commercial policy and external relations. The members of the Commission replied to the questions put to them by the rapporteur.

In its resolution, the Parliament noted with satisfaction that the crisis which began on 30 June 1965 had been overcome, and expressed its pleasure that the decisions taken by the Council in May and July 1966 had enabled a final agreement to be reached on the establishment of the customs union, on the common agricultural policy and on important questions relating to the Kennedy Round.

However, the resolution called attention to the fact that the Community is still labouring under severe handicaps because of the refusal to extend the Parliament's powers, the delay in effecting the merger, and also because of continuing differences of opinion concerning both the Community's political objective and the application of the mandatory provisions of the Treaty (majority vote).

The Parliament hoped that the Commission would itself take appropriate action to strengthen parliamentary democracy, to develop the Community's political character and to smooth the path for progress beyond partial integration; it hoped that the time-lags in certain areas of Community policy, mentioned in the General Report, would be made up with a view to the construction and development of the economic union. In particular, it emphasized the urgency of decisions on the Community's commercial policy vis-à-vis non-member countries.

During the same session, the Parliament also held two other important debates: one on technological progress, scientific research and the common scientific policy¹ and the other on the institutional development of the European Communities.

In the resolution which concluded the second debate, the Parliament reaffirmed its claims regarding its jurisdiction and powers and decided to incorporate regularly, in its resolutions amending the Commission's proposals, a clause calling upon the latter to adopt the proposed amendments. The Parliament also wished, when necessary, to be informed of the Council's reasons for not adopting the amendments it proposed and hoped that the Commission would not leave it to the Committee of Permanent Representatives to work out new proposals.

Problems of capital movements to and from non-member countries² and questions relating to petroleum and natural gas³ were also discussed at length.

The Parliament also adopted resolutions on the following matters:

Scientific research: two resolutions, one on technological progress and scientific research in the European Community and the other on a common scientific policy for Europe.

Approximation of legislation (common agricultural policy): resolution embodying an opinion on the proposals for a decision to set up a Foodstuffs Committee and for two directives on permitted preserving agents and colouring matters in food for human consumption.

Imports from certain associated countries: resolution embodying an opinion on the system applicable to imports of rice from Madagascar and Surinam.

Freedom of establishment: six resolutions embodying opinions on proposals concerning restrictions on freedom of establishment and freedom to supply services in a self-employed capacity in banks and other financial establishments, on freedom for farmers, who are nationals of one Member State and are established in another Member State, to join co-operatives and have access to credit facilities; on the removal of certain restrictions on freedom of establishment and freedom to supply services in a self-employed capacity (certain transport auxiliaries, travel agents, forwarding agents, customs agents), and on transitional measures governing the same activities.

Capital movements: resolution on capital movements to and from non-member countries.

¹ See sec. 272.

² See sec. 131.

³ See sec. 157.

Energy policy: resolution on the Community's petroleum and natural gas policy.

Budget matters: four resolutions (operating accounts, balance-sheets and report of the Audit Board on the 1964 accounts; the Parliament's accounts as at 31 December 1964, the portion of the preliminary draft budgets for 1967 concerning the Parliament, estimates of the Parliament's expenditure and receipts for 1966).

Joint meeting of the Institutions (28 November 1966)

368. The annual joint meeting of the European institutions was held on 28 November 1966 to discuss the "Progress of the Community towards economic union and future prospects".

In his speech inaugurating the debate, M. Luns, President of the Councils, laid special stress on the Community's vitality, a good illustration of which was the progress of trade, and he emphasized that the established regulations already concerned matters which go beyond the requirements of a mere customs union.

In the opinion of M. Luns, economic union called for appropriate measures to ensure genuinely free movement of goods, persons and capital and the application of the common policies envisaged by the Treaty (agriculture, trade and transport); economic union embraced matters requiring increasingly close co-ordination of the action of Member States (short-term and medium-term economic policy) and was the answer to the specific problems posed by the size of the new economic area in process of creation.

The debate was then opened by M. Illerhaus, on behalf of the Christian Democrat group; he detailed the sectors in which he considered Community action was urgently necessary. The spokesman of the Socialist group, M. Apel, feared that certain national measures might neutralize the effects of integration and therefore concluded that common regulations on economic policy should be formulated with all dispatch.

M. Armengaud, for the Liberals, said that the object of the Community was to merge the economies of the Member States with a view to creating a large economic and even political entity, which would be a valid partner for the United States and the Soviet Union and could provide effective support for the uncommitted nations. The spokesman for the European Democratic Union, M. de la Malène, regretted that endeavours to form a political union had been suspended.

Several speakers alluded to the merger of the institutions, and said that the progress under this head was not the sole prerequisite for the establishment of a common economic policy. In the social field, several speakers deeply regretted the delays in the execution of a Community

social policy, which have given rise to discontent both among the European trade unions and the employers' organizations (UNICE).

The problems of the Community's expansion, in particular through the accession of the United Kingdom and other EFTA countries, were also broached; in this connection, M. de la Malène added, however, that such accessions might affect the character of the Community by turning it into a commercial and industrial organization based on free trade and competition on a world scale.

M. Walter Hallstein, President of the Commission, then described the tasks which the Commission considers should be completed by 1 July 1968; he mentioned, in particular, the completion of freedom of movement for goods (unification of customs laws, removal of obstacles to trade caused by differences in technical standards between one Member State and another, removal of frontier controls), abolition of tax frontiers, liberalization of capital movements, the common commercial policy (the need for Community import regulations vis-à-vis non-member countries), and the social policy (free movement of workers, co-ordination of social security systems, improvement of the Social Fund). In conclusion, M. Hallstein exhorted the Parliament and the Council to join forces with the Commission to attain the final objective of economic integration, namely the unification of the six national economies to form a single European economy, since economic integration is one constituent of political union.

The Vice-President of the Euratom Commission, M. Carelli, stressed the need for effective action in support of scientific and technological research.

M. Del Bo, President of the High Authority of the European Coal and Steel Community, pointed out that the object of ECSC's work was not only market integration but rather the implementation of an economic and, most important, an industrial policy of European scale.

To conclude the debate, M. Luns replied to the questions put to him by various speakers and said that, in his view, the political will to give full effect to the Treaty now existed in the Member States. Proof of this was the fact that, after the crisis, the Community has got under way again without having allowed its fundamental interests to be damaged.

Session of 28 November - 2 December 1966¹

369. Opening the session, the Parliament joined the other Community institutions in declaring its solidarity with Italy after the recent disastrous floods. The President declared that "Europe shares the sorrow of those who have had to suffer hardships without number; the work of men has

¹ See official gazette No. 232, 16 December 1966.

been jeopardized, work which has formed part of our common heritage for many a day”.

The proposals which the Commission laid before the Council were examined in accordance with the emergency procedure. On a motion of M. Pleven, the Parliament adopted a resolution asking the Council and the Commission to use every possible means to succour the victims and contribute towards the early resumption of economic activity in the devastated areas.

Following a debate on the proposal for a regulation on the grant of EAGGF aid to repair the damage sustained in Italy, a second resolution was adopted in which the Parliament expressed its pleasure that the Community had immediately risen to the occasion and recalled the principle of Community responsibility for distressed regions.

The Parliament also held broad debates on the draft medium-term economic policy programme,¹ the organization of world agricultural markets, particularly in cereals,² and budget matters.³

The following resolutions were adopted during this session:

Free movement of goods: resolution on the establishment of a common system of trade in egg albumin and milk albumin.

Approximation of legislation: two resolutions, on permitted preservatives in food for human consumption, health requirements for imports of cattle, pigs and fresh meat from non-member countries, and the setting-up of a Veterinary Committee.

Economic and financial affairs: an opinion on the draft medium-term economic policy programme (1966-70), and a resolution on the Community's future activity in the sphere of monetary policy and the establishment of a European monetary union.

Agriculture: resolution on problems of the organization of world markets for agricultural products, especially cereals, and an opinion on aid from the EAGGF (Guidance Section) for 1966 and 1967.

Social policy: resolution on the development of the social situation in the Community in 1965.

External relations of the Community: resolution on the agreement to set up an association between the EEC and Nigeria.

Association between the Community and Greece: resolution on the third annual report of the Association Council.

¹ See sec. 136.

² See sec. 208 (end).

³ See sec. 409.

Budget matters: four resolutions, on the draft EEC budget for the 1967 financial year, the distribution of funds provided for under Chapter XVIII of the provisional estimate of the Parliament's receipts and expenditure for 1967, the administrative directory of the Parliament appended to the draft EAEC and EEC budgets for 1967, and the supplementary EEC and EAEC draft budgets drawn up by the Councils for 1967.

Session of 30 January - 3 February 1967¹

370. At this session, the European Parliament held a full debate on the outlook for the European social policy following the Council of Ministers' session of 19 December 1966. Speaking on behalf of the Social Committee, M. Troclet and M. Dittrich expressed pleasure that there had been some revival in the activities of the Council of Social Affairs Ministers, but regretted that the work to which the Council had decided to give priority at this session was hardly likely to make up for the time lost in this field.

All the speakers expressed concern at this delay, they dealt *inter alia* with the following subjects: the statute and activities of the European Social Fund, compressed training courses, and aid for redundant Italian sulphur-mine workers.

M. Servais, the Belgian Minister for Social Affairs and President in office of the Council, recalled that the Treaty left the responsibility for social policy to the Member States, while requiring them to co-operate closely in this field.

Replying to remarks addressed to him by the preceding speakers, M. Servais rejected the allegation of "bilateralism" made against the solution adopted for the Italian sulphur mines and said that some of the delay was due to the crisis of 30 June 1965.

M. Levi Sandri, Vice-President of the Commission, stressed the importance of the decision of the Social Affairs Ministers to meet as soon as possible.

During this session, the Parliament was addressed by M. Marjolin, Vice-President of the Commission, on the economic situation in the Community in 1966 and the outlook for 1967.

Resolutions were adopted on the following matters:

Approximation of legislation: four resolutions, concerning direction indicators and braking systems for motor vehicles, duty-free entry for fuel contained in the tanks of commercial vehicles, wheeled farm tractors, and the suppression of radio interference from motor vehicles.

¹ See official gazette No. 28, 17 February 1967.

Common agricultural policy: two resolutions on the organization of the world sugar market and measures for the common organization of sugar markets in the 1967/1968 marketing year, and five resolutions embodying opinions on transitional measures for the application of common cereal prices, the establishment of the import price and calculation of the levy for derived products in the beef and veal sector, measures to combat potato wart and the potato-root eelworm, aid from the EAGGF, Guidance Section, for the year 1965 and, lastly, the conduct of a basic survey in France and Italy as part of a programme of surveys on the pattern of farming.

Social policy: two resolutions on the outlook for the European social policy, following the Council of Ministers' session of 19 December 1966, and on the prevention of industrial accidents in the Community.

A resolution on the number and composition of the Committees of the European Parliament, appreciably modifying the organization of the Parliament's work.

Session of 13-17 March 1967¹

371. The parliamentary year opened with the re-election by acclamation of the President, M. Poher; at the same time M. van der Goes van Naters, M. Battaglia, M. Vendroux, M. Furler, M. Wohlfahrt, M. Berkhouwer, M. Carboni and M. Metzger were elected Vice-Presidents.

At this session, the President of the Councils, M. van Elsslande, presented a report on their activities and the broad lines of Community policy during the preceding months, and pointed out that Community activity would be greatly improved when the merger of the Executives was achieved.

The Parliament debated M. Bousch's report subsequent to M. Marjolin's statement to the previous session on the economic situation of the Community in 1966 and the outlook for 1967; the resolution adopted embodied a number of desiderata and requests both to the Council and the Commission.

Several other full-scale debates were held on the following subjects: the prospects for the Kennedy Round, bearing in mind the time-limit of the Trade Expansion Act,² the results of the Parliamentary Conference of the Association in Abidjan,³ scientific research and technological progress, as well as the prospects for a conference of Heads of State or Government in Rome.

¹ See official gazette No. 63, 3 April 1967.

² See sec. 310 et seq.

³ See sec. 279.

Lastly, an oral question about the possible effects of the draft treaty for the non-proliferation of nuclear weapons on the functions and activities of the EAEC and the Communities as a whole touched off a debate in which M. Chatenet, President of EAEC Commission, M. Hallstein, President of the EEC Commission, and M. Coppé, Vice-President of the High Authority, took the floor.

The Parliament adopted the following resolutions:

Tariff disarmament: resolution embodying an opinion on the first reduction, during the third stage, of the customs duties between the Member States for certain products listed in Annex II of the Treaty.

Right of establishment: resolution on the progresses of the Commission's work on the application of this right to activities concerned with health.

Approximation of national legislation: two resolutions embodying opinions on permitted colouring matters in branded pharmaceuticals and in food-stuffs for human consumption, and a resolution on measuring instruments.

Common agricultural policy: five resolutions, relating to the use of certain preservatives for the surface treatment of citrus fruits and measures to detect and identify preservative on or in citrus fruits; jams, marmalades, fruit jellies and chestnut purée; milk and cream; the subsidies granted by Luxembourg in the beef and veal sector, and the postponement of the entry into force of the trading system for certain farm products instituted by Council Regulation No. 160/66.

Common transport policy: two resolutions, one rendering an opinion on the harmonization of certain social provisions in the field of road haulage and the other relating to the UNIR Plan and the regulation of capacity in inland water transport.

Association with the African States and Madagascar: resolution on the results of the third meeting of the Parliamentary Conference held in Abidjan between 10 and 14 December 1966.

Association of European States with the Community: resolution dealing with the first annual report of the EEC-Turkey Association Council.

External relations of the Community: two resolutions, on the progress of the negotiations in GATT and on problems of the organization of world markets for beef and veal.

Three resolutions on: *the procedure for examining the General Reports on the activities of the Communities, the composition of the Parliament's Committees* (amending the resolution adopted on 2 February 1967), and the political and cultural problems arising from the introduction of *colour television* in the Community.

Budgetary matters: resolution on the draft proposal for the settlement of the Parliament's accounts for the 1966 financial year.

Lastly, a resolution on the prospects for an early conference of Heads of Member States or Governments.

The Council

372. During the period under review the Council held twenty-nine sessions. Thirteen were devoted to agriculture, two to transport and one to social questions; they were presided over successively by the Luxembourg member (until 1 July 1966), by the Netherlands member (until 31 December 1966), and by the Belgian member (since 1 January 1967).

Three of the sessions were of unusually great moment for the advancement of the Community, viz: the one held between 4 and 11 May 1966, during which the Council adopted the whole complex of decisions and resolutions governing the time-table and the financing of the common agricultural policy and determined its objectives in other fields of common interest; the session of 22, 23 and 26 July 1966, when the common price level for certain agricultural products was laid down and the common organization of the markets in several sectors was finalized and, lastly, that of 9 February 1967, during which the first two directives on the harmonization of turnover taxes were adopted and also the first Medium-term Economic Policy Programme.

As a result of the numerous studies and discussions forming part of the multilateral trade negotiations under GATT, commonly known as the Kennedy Round, efforts more and more similar in character were noted.

The other questions coming within the competence of the Community, together with those pertaining to the association negotiations or relations with non-member countries, received much attention from the Council and its organs.

Apart from the annual joint meeting between the institutions (held on 28 November 1966), the President of the Council, speaking in the course of the session of 27 June to 1 July 1966, gave a report on the Council's activity and this was followed by consultations on the institutional and economic aspects of the Luxembourg agreements¹ and on the accomplishments of the Community subsequent to these agreements. The prospect of completing economic unification was the subject of a report and another contribution which the President of the Council made to the debate held at Strasbourg on 28 November 1966: replying to the expressions of

¹ The previous joint meeting of the institutions took place between the two ministerial meetings at Luxembourg on 20 January 1966. See Ninth General Report, sec. 20.

concern and speaking several times on behalf of the six Governments, he voiced the latter's firm intent to implement the Treaty's provisions in their entirety, while especially emphasizing the interdependence of the Member States' economies and the Community solidarity deriving therefrom.

The following pages give only a broad review of the principal acts of the Council, not including decisions on procedure or preparation of business by working parties. They contain a simple chronological list of decisions the details of which have been set out in the preceding chapters.

182nd session: 4 and 5 April 1966

373. The Council dealt with the second alignment towards the common customs tariff and adopted a position of principle regarding manufactured goods: this alignment of the national tariffs will be effected, pursuant to the Treaty, in respect of the tariff headings which are subject to special treatment in the multilateral tariff negotiations.

In connection with the multilateral trade negotiations at GATT, the Council thoroughly examined the main questions and drew up directives relating in particular to chemical products and aluminium, to enable the Commission to continue or resume the GATT talks and reach a satisfactory settlement of the problems connected with the American Selling Price, tropical products, pulp and paper and the negotiations with Japan.

The Council also resumed its examination of problems arising in the financing of the common agricultural policy.

With regard to the EEC-Greece Association, the representatives of the Member States adopted a decision reducing internal duties on tobacco by 10%.¹

183rd session: 21 April 1966
(Agriculture)

374. The Council continued its discussions on the market organization for fruit and vegetables and sugar; it adopted, as a working hypothesis, that the common system for olive oil and the common price for this product would be applied from 1 November 1966.

It also drew up a regulation suspending until July 1966 import levies on certain types of chilled beef and veal for processing. Two decisions relating to potatoes were also adopted.

¹ See sec. 304.

184th session: 27 and 28 April 1966

(Agriculture)

375. The Council held an initial discussion on the Commission's "memorandum on the establishment of a common price level for milk, milk products, beef and veal, rice, sugar, oilseeds and olive oil"; it instructed the Special Committee on Agriculture to study the technical questions raised by this proposal.

185th session: 4, 5, 9, 10 and 11 May 1966

376. The Council adopted the whole set of decisions and resolutions on the financing of the common agricultural policy, in particular, a decision setting a time-table which will bring about the free movement of agricultural and manufactured products by 1 July 1968, together with a series of resolutions setting forth the objectives of the Council in commercial policy, the harmonization of taxation, social policy and regional policy.¹

The Council also took note of the Monetary Committee's Eighth Report and of the Short-term Economic Policy Committee's opinion on the economic budgets for 1966.

In addition, the Council was addressed by M. Rey, member of the Commission, on the progress of the GATT negotiations in Geneva and in particular on the general arrangement for cereals.

Two decisions were taken on relations between the Community and the associated countries and territories: one concerning definition of the origin of goods and the other laying down methods of administrative co-operation.²

186th session: 17 and 18 May 1966

(Agriculture)

377. The Council pursued its study of the proposed regulations for the organization of the market in fruit and vegetables (supplementary provisions) and a common organization of the market in sugar. Furthermore, it approved a programme of surveys of farm structures.³

The Council took several decisions concerning milk and milk products (revision clause for target prices; quantities of Cheddar-type cheese to be admitted to Member States' markets) and adopted, in the languages of

¹ See sec. 169.

² See secs. 291 and 292.

³ See sec. 206.

the Community, a decision authorizing Germany to suspend customs duties on imports from non-member countries of cattle for the production of foot-and-mouth vaccine.

Lastly, the Council appointed the members of the Economic and Social Committee for the period 17 May 1966 - 16 May 1970.

187th session: 25, 26 and 27 May 1966
(Agriculture)

378. The Council continued work on the common level of prices for milk and milk products and on the organization of a basic survey of farm structures, and approved measures to control certain epizootic diseases.

It also resumed its work on fruit and vegetables.

Continuing its study of questions relating to the reorganization of the world cereals market with a view to a general arrangement for cereals, the Council asked the Special Committee set up under Article 111 of the Treaty to take the matter up again.

188th session: 13 and 14 June 1966

379. The Council continued its work on problems arising in the proposed regulations for the gradual creation of a common organization of the markets in fruit and vegetables (supplementary provisions) and in sugar.

It also discussed the practices followed with regard to credits for trade with eastern European countries.

The Council took a certain number of decisions regarding the multilateral trade negotiations in GATT which concerned industrial products (paper and pulp, aluminium and derived products) and agricultural products (extending the instructions given to the Commission in respect of the negotiations for a general agreement on cereals).

In connection with the common agricultural policy, the Council adopted a regulation extending to 31 July 1966 the date when the Commission was to make a basic decision on requests for aid from the EAGGF, Guidance Section, for 1965;¹ it also adopted, in the official languages of the Community, directives on the marketing of certain seeds, as well as a decision setting up a Standing Committee on Agricultural, Horticultural and Forestry Seeds and Seedlings.²

¹ See sec. 187.

² See sec. 202.

With regard to tariff questions, the Council adopted a decision providing for partial suspension of certain duties in the common customs tariff until 30 June 1967.

Lastly, the Council invited the Commission to report on the exploratory talks it had had with a Spanish delegation (in accordance with the mandate of 2 and 3 June 1964).

189th session: 28, 29, 30 June and 1 July 1966

380. The Council approved the text of the Association Agreement between the Community and Nigeria, the three Protocols appended to it, the text of the Final Act and the Internal Agreement on Procedure.¹

The discussions on agriculture were mainly devoted to problems relating to the common organization of the markets in fruit and vegetables (supplementary provisions), in sugar, and in fats and oils on the one hand, and to the common price levels for milk and milk products, beef and veal, sugar, olive oil and rice, on the other.

As far as relations with GATT were concerned, the Council decided to conclude the negotiations on the accession of Switzerland to the Agreement; the Council also made three other decisions concerning the extension of arrangements under GATT and the conclusion of bilateral tariff negotiations on the accession of non-member countries to GATT.²

In connection with the association with Greece, the representatives of the Governments of the Member States, meeting within the Council, gave their assent to the decision of 21 June 1966 by which the Board of Governors of the European Investment Bank authorized the Bank to provide aid in Greece, under certain conditions, through a further instalment of 75 million dollars.³

190th session: 13, 14 and 21 July 1966

381. The Council continued its discussions on the organization of markets (sugar, fruit and vegetables, oils and fats) as well as on the common prices; it received a communication from the Commission on criteria for a common policy on aids to agriculture.

It also adopted two regulations on the conduct of wage surveys in the industries and road transport of the Community.⁴

¹ See sec. 335.

² See secs. 353 sqq.

³ See sec. 300.

⁴ See sec. 257.

Furthermore, the Council renewed the term of office of the Community's Consultative Committee on the free movement of workers for the period up to 13 July 1968.

191st session: 22, 23 and 26 July 1966

382. The Council took a number of decisions regarding the common agricultural policy establishing common market organizations for fruit and vegetables, sugar, and oils and fats; fixing the common prices for milk, beef and veal, sugar, rice, oilseeds and olive oil; adopting the Community's agricultural offers for the Kennedy Round, support measures for beef and veal, a resolution on aids to agriculture, and measures to promote agriculture in Luxembourg.¹

In pursuance of the decisions of 11 May 1966, the Council adopted the regulation on the financing of the common agricultural policy and decided the arrangements by which the Guarantee Section of the EAGGF would meet the calls made on it.²

The Council examined the problem of apportioning the expenditure resulting from gifts of food that were to be made by the Community under the general arrangement on cereals which was being negotiated in Geneva; it also finalized the Community's offers to GATT for agricultural products other than cereals.

With regard to customs tariffs, the Council adopted a decision on the abolition of customs duties and the prohibition of quantitative restrictions between Member States, as well as the application of the common customs tariff for products other than those listed in Annex II of the Treaty.³

Concerning the negotiations with Austria, the Council agreed to draw up the terms of a second mandate by November 1966 at the latest.

Furthermore, it received an interim oral report by the Commission on the exploratory talks with a Spanish delegation.

192nd session: 28 July 1966
(Transport)

383. The Council examined a proposal to institute a rate-bracket system for transport by rail, road and inland waterway. It instructed the Committee of Permanent Representatives to examine a communication from

¹ See sec. 169.

² See sec. 186.

³ See sec. 6.

the Commission on the UNIR (International Union for the Navigation of the Rhine) plan and the regulations on the capacity of inland water transport.

In addition, a regulation concerning common rules for international road passenger transport was adopted.¹

In connection with the common agricultural policy, the Council adopted a number of regulations on common prices for rice and malt together with certain special measures relating to cattle; it also adopted provisions concerning certain milk powders and the classification of certain types of cheese.

Concerning economic trends, the Council adopted a recommendation to improve short-term statistics (Article 103 of the Treaty).²

193rd session: 21-22 September 1966
(Agriculture)

384. The Council adopted the regulation establishing a common organization of the markets in oils and fats;³ it overcame various difficulties still outstanding after the decisions, taken in July 1966, with regard to sugar, and after the additional provisions relating to the organization of the market in fruit and vegetables.

It also adopted regulations on eggs and poultry, pigmeat, milk products and maize groats and meal.

The Council also discussed problems concerning the manufacture of maize and potato starches and the progressive establishment of a common organization of the market in non-edible horticultural products. The Council also took note of the Commission memorandum on the prohibition of the import of eggs without a mark of origin.

194th session: 19-20 October 1966
(Transport)

385. The Council found that it was impossible to attain the unanimity required for the adoption of the amended proposal for a regulation relating to the introduction of a rate-bracket system applicable to the transport of goods by rail, road and inland waterway; it was therefore agreed to

¹ See sec. 211.

² See sec. 123.

³ See sec. 174.

let the Council's decision on the question of rates form part of a set of measures concerning the organization of the transport market.

The Council adopted a resolution inviting the Commission to propose measures relating to the capacity of road transport vehicles and to inland water transport, as well as to entry to the profession; it instructed the Committee of Permanent Representatives to examine the proposal relating to the rules of competition, the question of safeguard measures, the Commission's communication on the UNIR plan, and the regulation of the capacity of inland water transport.

195th session: 24-25 October 1966

(Agriculture)

386. The Council approved a series of implementing regulations with a view to achieving a single market in olive oil (these regulations were adopted during the following session)¹ and agreement was reached on the problem of the implications for the Community market of the arrangements governing oils and fats from Greece.

It also adopted regulations on supplementary arrangements for the common organization of the market in fruit and vegetables, the financing of domestic market support for rice, the establishment of a supplementary list of basic products for the calculation of refunds on exports to non-member countries, the levies applicable to mixed cereals, rice and broken rice, the application of quality standards to fruit and vegetables marketed within the Community, the method of ascertaining beef and veal prices in an importing Member State, as well as directives amending those of 26 June 1964 concerning health requirements for intra-Community trade in cattle and pigs and in fresh meat.

The Council also approved a certain number of regulations on glucose and lactose, the granting of refunds to producers in respect of maize groats and meal used in the brewing industry, the establishment of common threshold prices for rice in the non-producer Member States for the period 1 December 1966 to 31 August 1967 and the increase in the levies on certain beef and veal imports from non-member countries.

196th session: 26-27 October 1966

387. The Council adopted the regulation establishing a trading system for certain goods resulting from the processing of agricultural products.²

¹ See sec. 174.

² See sec. 29.

In connection with the trade agreement between the Community and Israel, the Council endorsed a decision temporarily suspending the common customs tariff duties on sliced grapefruit.

Concerning the association with Greece, the Council approved the regulation defining the arrangements for trade in oils and fats between the Community and Greece, after studying the comments of the Greek Government;¹ it also decided to extend the EEC-Iran Agreement for a period of one year from 1 December 1966.²

197th session: 24-25 November 1966

(Agriculture)

388. The Council took several decisions on the granting of refunds to producers in respect of maize groats and meal used in the brewing industry, the levies on certain imports of beef and veal from non-member countries, and a reduction in the threshold price of powdered milk for use as cattle feed.

The Council discussed in detail the measures of agricultural aid compatible with the Common Market and held an exchange of views on the implementation of the regulation on oils and fats with regard to the intervention prices for olive oil for the 1966/67 marketing year.

198th session: 24 November 1966

389. The first part of the session was devoted to the recent disasters that had occurred in Italy in November 1966; the President of the Council, M. de Block, expressed the solidarity of the Community with the Italian Government and the victims of the floods.

The Council then agreed to request, by emergency procedure, the opinion of the Parliament on the Commission's proposal in this matter; it resolved to take the most appropriate measures to bring rapid and effective aid to the people afflicted by the disaster and to arrange for immediate examination of the proposals which had been or would be submitted by the Commission (in particular with regard to agricultural and social matters), and it requested the European Investment Bank to grant aid, on the easiest terms, to promote schemes to restore production in the distressed areas.

¹ See sec. 301.

² See sec. 339.

In addition, the Council studied the proposals for the agricultural offers which were still to be made by the Community in connection with the Kennedy Round (sugar, fruit and vegetables, tobacco, fishery products and oilseeds). Finally, the Council agreed that regular contacts with representatives of the Latin American countries should be continued.

199th session: 6 and 7 December 1966

390. The Council adopted the draft regulation on the contribution of the EAGGF (Guidance Section) to making good the damage caused by the recent floods in Italy, in pursuance of the decision of 24 November 1966. The regulation adopted provided for the allocation of 10 million u.a. from the Fund to restore normal conditions of production in agriculture and in the food industry.¹

In consideration of the arrangement with the United Kingdom pertaining to the duties on tea, maté and tropical hardwoods, the Council decided to renew the suspension of such duties (for one year from 1 January to 31 December 1967).² It also took a similar decision regarding certain spices and sports goods of interest to India.³

In the matter of freedom of establishment and freedom to supply services, the Council approved a directive in respect of self-employed persons engaged in dealings in real estate and certain services rendered to firms.

Continuing the study of the additional offers which the Community might make to the contracting parties to GATT, the Council agreed on the broad policy to be followed with regard to sugar and oleaginous products, fruit and vegetables, raw and manufactured tobacco and fishery products were discussed in detail.

The Council took note of the Commission's report on the exploratory talks with Spain.

It also took cognizance of the "note verbale" and memorandum of the Israeli Government, dated 4 October 1966, which dealt with the Israeli request that its current trade agreement with the Community should be replaced by an association agreement. The Commission was instructed to begin exploratory talks with Israel.

The Council also approved the text of a partial mandate to be given to the Commission for the resumption of negotiations with Austria relating to arrangements for trade in manufactured and agricultural products and trade with the eastern European countries.

¹ See sec. 188.

² See sec. 322.

³ See sec. 344.

The Council heard a statement by M. Fantani, the Italian Minister for Foreign Affairs, on the problem of the technological gap separating Europe and the United States.

200th session: 13 and 14 December 1966
(Agriculture)

391. The Council adopted six regulations concerning certain categories of compound animal feedingstuffs based on cereals and rice, compound feedingstuffs based on milk, and powdered milk for use as cattle feed; an amendment to the list of products falling under Regulation No. 19 and Regulation No. 13/64; the monthly increases in the target price, the intervention price and the threshold price of olive oil for the 1966/1967 marketing year; the suspension (up to 30 June 1967) of the levy on imports of olive oil for use in making certain preserved foods; and the establishment of a quality class over and above the common quality standards for cauliflowers, tomatoes, apples and pears, peaches, citrus fruit and dessert grapes. In addition to the above, the regulation authorizing Italy to suspend the customs duties and levies on imports of live cattle of a unit weight not exceeding 300 kg (tariff heading ex 01.02 A II) was extended until 31 March 1967.

The Council also adopted a directive on the approximation of Member States' legislation on permitted preserving agents in food for human consumption, and approved a decision on the definition of the concept of "goods originating in..." and methods of administrative co-operation pertaining to the association of overseas countries and territories.

The Council examined a draft regulation on aids to agriculture.

201st session: 19 December 1966
(Social affairs)

392. The Council discussed in detail the President's memorandum on social policy in the EEC and agreed that systematic studies should be made on the harmonization of the concepts and definitions used in the various social systems, on social security costs and their apportionment between employers and wage-earners and the possibility of financing them from public funds, and on the conventions relating to minimum social standards.

In accordance with Protocol No. III concerning the sulphur industry, which was signed when the Agreement of 2 March 1960 was concluded, and the suggestions in the report of the Liaison and Action Committee for the Sulphur Industry (CLAISI), the Council adopted a decision to grant Community aid to Italy in order to enable that country to assist workers discharged from the sulphur mines.

The Council also took note of the Commission's report on manpower problems in the Community in 1966, while the representatives of the member Governments, meeting in the Council, took note of the Commission's progress report on application of the principle of equal pay for men and women.

202nd session: 20 December 1966

393. After a debate on short-term economic policy, the Council adopted a recommendation concerning guidelines for economic policy in 1967, and a decision on the improvement of procedures to co-ordinate the policies followed in the various countries.¹

In addition the Council, after discussing the draft text of the first Medium-term Economic Policy Programme instructed the Committee of Permanent Representatives to finalize the text of this document.

It also discussed the Commission's proposal for a first and a second directive on turnover taxes, in the light of the harmonization of fiscal legislation.

203rd session: 21 and 22 December 1966

394. The Council adopted several decisions in the customs field relating to tariff quotas (opening or increase) and the duties of the common customs tariff (suspension or amendment).

It further decided to extend until 31 December 1967 those parts of a regulation on commercial relations with state-trading countries which concern certain agricultural products covered by market organizations,² and decided that the provisions on certain sub-contracts in the field of export guarantees and financing should be further extended until 31 December 1967.

In addition to the above, the EEC budget for 1967 was finally adopted.³

The Council reviewed the progress made in the GATT trade negotiations (agreement was reached concerning the offers to be made on raw and manufactured tobacco, and concerning the fuller details and additional elements to be put forward in connection with fruit, vegetables and poultry), and discussed relations between the Community and Spain.

Finally, the Community took note of a Commission memorandum on relations with the Maghreb countries.

¹ See sec. 114.

² See sec. 328.

³ See sec. 409.

204th session: 21 and 22 December 1966
(Agriculture)

395. The Council continued its investigation of the problems raised by the proposed regulation amending the system of aids to agriculture.

The Council decided on the principles which would underlie the regulations on basic prices and support prices for certain fruits and vegetables (oranges, lemons, tangerines, mandarins, apples, pears, cauliflowers); these regulations were to be finally adopted by 1 January 1967 (the date when the single market for fruit and vegetables will be established).

205th session: 12 January 1967

396. The Council approved a directive introducing freedom of establishment and freedom to supply services for self-employed persons engaged in dealings in real estate and certain services rendered to firms.¹

With respect to the common agricultural policy, the Council adopted the regulations establishing the basic prices and support prices of certain fruits and vegetables.

The Council discussed the preparation of the 22nd session of the EEC-Greece Association Council and, more particularly, the draft of a proposed "Community declaration" on the possibility of the Community granting financial support to Greek agriculture; the Council also investigated the progress of the multilateral trade negotiations in GATT.

Turning to relations with the Associated African States and Madagascar, the Council endorsed a grant to be made from the European Development Fund.

206th session: 23 and 24 January 1967
(Agriculture)

397. On the basis of an interim report by the Special Committee on Agriculture, the Council had a preliminary discussion of a few difficulties common to all the regulations on the organization of agricultural markets at the single market stage, particularly the fixing of prices and levies.

There was also detailed examination both of the problems raised by the French Government's proposals for its poultry market and of a proposed regulation concerning the common organization of the market in sugar for the 1967/68 marketing year.

The Netherlands delegation informed the Council of the discovery of a pocket of foot-and-mouth disease in their country.

¹ See sec. 26.

207th session: 8 and 9 February 1967

398. The Council adopted the first and second directives on the harmonization of the Member States' legislation on turnover taxes, laying down the principle that a common system of tax on value added would be applied, fixing its structure and settling the methods by which the system would be put into practice. The Chairman of the Committee of Permanent Representatives submitted a report on the compilation of a list of fiscal problems which called for examination.¹

In the field of medium-term economic policy, the Council and the Governments of the Member States adopted the programme for the period 1966/70 which had been debated during the 202nd session.²

Furthermore, the Council heard a Commission report on progress made in the GATT multilateral trade negotiations. It took note of the report by the Chairman of the Committee of Permanent Representatives on relations with the Maghreb countries and of his oral statement on the result of the efforts to promote good relations with Spain.

208th session: 8 and 9 February 1967

(Agriculture)

399. The Council expressed its agreement with a number of measures intended to limit sugar production in 1967/68; it also agreed that the Community would assume financial responsibility for the sugar produced.

The Council further agreed to the regulation introducing certain measures concerning imports of frozen beef and veal from non-member countries.

In addition, it discussed certain problems connected with transitional measures for the application of common prices in the cereals sector.

209th session: 20 and 21 February 1967

(Agriculture)

400. The Council approved in principle the transitional measures for implementation of the single market in cereals, pigmeat, eggs and poultrymeat.

¹ See sec. 80.

² See sec. 136.

The Council also expressed its agreement with the regulation on certain measures concerning the common organization of the market in sugar for the 1967/68 marketing year.¹

The Council continued its examination of the still unsolved problems connected with the application of certain rules of competition to the production of, and trade in, agricultural products (the question of aids to agriculture).

The Council also had before it a first progress report from the Special Committee on Agriculture, on the work on the co-ordination and harmonization of the arrangements governing imports of fruit and vegetables from non-member countries.

Lastly, the Council adopted regulations on imports from non-member countries of frozen beef and veal and of live cows intended for slaughter and of certain groups of items in the milk and milk products sector, and on the conduct of the basic survey in France and Italy. In addition, it adopted a regulation concerning the European Social Fund² and a decision on the French arrangements for subsidizing paper pulp.³

210th session: 7 March 1967

401. The Council heard a statement by the representative of the Commission on developments in the Kennedy Round and gave the Commission a number of guidelines for the subsequent stage of the negotiations.

The Council considered the possible content of a preferential agreement with Spain and heard a statement on the Community's trade relations with Yugoslavia.

In connection with agricultural policy, the Council adopted a decision relating to certain categories of molasses, as well as several regulations concerning the time-limit laid down in Article 20(1) of Regulation No. 17/64 (the European Agricultural Guidance and Guarantee Fund), and a Community tariff quota for heifers and cows of certain hill breeds. Lastly, it adopted a regulation extending to seamen the social security provisions applicable to migrant workers.⁴

¹ See sec. 177.

² See sec. 254.

³ See sec. 74.

⁴ See sec. 249.

402. The Council adopted the regulation concerning prices in the milk and milk products sector for the 1967/68 marketing year and providing for certain other measures intended to cut down the amount of aids currently granted in certain Member States.¹

It approved the regulation concerning the guide prices applicable to beef and veal in the 1967/68 marketing year.

The Council examined a proposed regulation on transitional measures with a view to the application of common prices in the cereals sector; it then discussed the main general problems resulting from the regulations on the organization of markets at the single-market stage and a number of problems raised by the proposals for regulations on the common organization of markets in the cereals and pigmeat sectors. There was a preliminary discussion of the proposed regulation amending Regulation No. 14/64 in respect of the determination of import prices and calculation of the levy on derived products in the beef and veal sector.

In addition, the Council approved the offers relating to certain fishery products which the Community could put forward at the trade negotiations in GATT; it also adopted regulations relating in particular to imports of pigmeat, calculation of the levy on certain milk products and imports of live animals into Italy.

The Commission

INTERNAL ADMINISTRATION

403. *Establishment.* The Commission's establishment in 1966, still the same as in 1965, numbered 2 732 permanent posts in Grades A, B, C and D (plus 6 temporary posts), broken down as follows:

Grade A	745 (plus 6 temporary posts)
Grade B	534
Grade C and D	1 168
Linguistic staff	285

In order to discharge the many duties falling to the Commission under the Council's decisions on the common agricultural policy, the Commission

¹ See sec. 166.

found it advisable during the course of the year to lay before the Council a preliminary draft for a supplementary budget to provide:

- a) 343 new posts (95 A, 64 B, 168 C and 16 D) and
- b) 30 new posts (20 L/A and 10 C) for the translating and interpreting service.

The Council examined these proposals (to supplement the 1966 budget) together with the preliminary draft budget for 1967 and combined the two to form a single draft for 1967. In the preliminary draft budget for 1967 the Commission has asked for the following increases in its establishment:

- a) 135 posts (58 A, 1 B and 76 C) for the most seriously understaffed divisions;
- b) 39 posts (14 L/A and 25 C) for the linguistic service.

Before asking for these posts, the Commission had thoroughly investigated the needs of all its departments, bearing in mind the transfers of staff that might take place after the merger of the Executives.

Of the total of 547 new posts requested (in the 1966 supplementary budget and the 1967 budget), only 186 were granted by the Council.

404. *Total strength.* The total employed by the Commission was 2 992 on 3 March 1967, distributed as follows: 2 521 regular and temporary staff (704 A, 485 B, 1 105 C and D and 227 L/A, 295 auxiliary staff and 176 local staff.

405. *Reorganization.* The Commission continued its efforts to adapt its organizational structure to the expansion of its activities. Changes were made in the following Directorates-General:

- a) Internal Market: reorganization of Directorate C (Right of Establishment and Services) and Directorate D (Industry, Crafts and Commerce);
- b) Competition: establishment of Directorate E as a new unit to deal with individual cases of agreements, monopolies, dumping and private discrimination, taking over the work of four divisions that were part of the old Directorate A (Agreements, Monopolies, Dumping and Private Discrimination);
- c) Administration: establishment of an independent Budget and Financial Control Directorate (formerly a unit of the Directorate-General for Administration). The financial supervision of the European Development Fund—hitherto the responsibility of the Directorate-General for Overseas Development—has been transferred to this autonomous Directorate.

406. *Accommodation of departments in new premises.* During 1966 the first removals were effected in accordance with the plan, adopted by the

Commission and endorsed by the Council, to centralize the Community's staff in the buildings on or in the immediate neighbourhood of the Rond-Point Schuman.

The Directorates-General for Economic and Financial Affairs, the Internal Market, Social Affairs, Transport and Overseas Development, together with the Statistical Office of the European Communities and the Audit Board, have thus been re-accommodated in two blocks bearing the names "Archimède" and "Charlemagne".

This has put an end to the inconvenience of scattered departments, accelerated communications and contacts and made it possible to vacate all the outlying buildings except one.

The move has been slightly held up by the difficulties encountered in completing the first wing of the Berlaymont complex on time, but there is every reason to expect that the operation will be concluded during 1967.

407. Documentation. The increase in the number of documents about European integration has reached the point at which electronic data processing has become indispensable.

The first encouraging results noted during the current inquiry into the potentialities of applying automation techniques to documentation have suggested that such procedures will, within the not too distant future, promote much wider diffusion of documentary information and facilitate its storage.

In order to satisfy the growing demand for information, improvements such as the constitution of a systematized catalogue of reference works and automatically compiled bibliographical lists have already been made.

408. Linguistic matters. The five language sections, aided by the Terminology Bureau, have translated and revised 173 000 pages of documents. This figure is 9.5 % above that of 1965, the increase having been achieved by encouraging translators to specialize, extending the use of terminology card-indexes and providing more reference works and tape-recorders.

The interpreting service still has its problems, and it is often difficult to supply as many interpreters as required. Consecutive or simultaneous interpretation was provided at 3 881 meetings, representing a total output of 19 271 interpreter-days—11 % more than the year before.

Every endeavour has been made to recruit suitably qualified conference interpreters, in particular by maintaining close contact with the specialist training schools, by continuing to provide interpreters to lecture at some of them and by offering EEC traineeships and scholarships to their students.

409. *Budgets.* On 8 June 1966 the Commission submitted to the Council the preliminary draft for a supplementary budget for 1966. This request for additional funds was the first of several the Commission was to make in the course of the year, and was for 3 001 100 u.a. to defray the cost of measures to be taken by the Community to guard against the potential danger to its livestock constituted by the foot-and-mouth disease raging in Turkey and the swine fever prevalent in Spain and Portugal. The draft was endorsed by the Council on 14 June, voted by the European Parliament on 29 June and finally adopted by the Council at its session of 22-23 July 1966.

The Commission made two further requests for supplements to the 1966 budget in July 1966—one to make available 767 560 u.a. to provide the Directorate-General for Agriculture and the administrative departments with the manpower and funds needed to implement the numerous decisions on the common agricultural policy taken since the beginning of the year, the other for 94 020 u.a. to enable the Statistical Office to make the basic survey on the pattern of farming in the Community which had been approved by the Council on 14 June.

In accordance with the relevant agreements, the Community's preliminary draft budget for 1967 was submitted to the Council on 15 September 1966. The budget was established in draft form by the Council at its 196th session on 26-27 October 1966, the two requests for supplementary funds made by the Commission in July being taken into account, and amounted to 611 681 309 u.a. This was broken down as follows:

European Parliament	(EEC share)	2 681 300 u.a.
Council	(EEC share)	2 857 153 u.a.
Court of Justice	(EEC share)	557 290 u.a.
Commission		605 585 566 u.a.

The section of the budget relating to the Commission was in its turn broken down to:

48 375 960 u.a. for administrative expenditure
 19 817 606 u.a. for European Social Fund expenditure
 537 392 000 u.a. to cover foreseeable European Agricultural Guidance and Guarantee Fund expenditure for the 1964/65 and 1965/66 accounting periods.

By comparison with the preliminary draft:

a) The sums allocated for administrative expenditure showed a total reduction of 7 377 960 u.a., though this figure was still about 3.7 million u.a. up on the amount voted in the 1966 budget. This rise was mainly due to the increase in total strength anticipated for 1967 and the implementation of the Council decisions of 5 May 1966 to increase Community

officials' salaries, and also to the accommodation of staff in new premises, the all-round stepping-up of activity and the rise in the cost of both services and equipment.

b) The European Social Fund's estimated disbursements were cut by 3 185 000 u.a., the decision to grant aid to redundant workers from the Italian sulphur mines not having been taken when the budget was drawn up.

c) The estimated expenditure of the European Agricultural Guidance and Guarantee Fund was unchanged at 537 392 000 u.a. As the Commission had been unable to take the decisions in respect of the closure of the 1964/65 accounting period before the end of 1966, the credit items relating to this period were carried forward to the 1967 budget.

In its resolution of 29 November 1966 on the EEC's draft budget for 1967, the European Parliament laid special emphasis on the inadequacy of the new posts granted for 1967 in view of the responsibilities to be shouldered by the Commission under the common agricultural policy and in view of the completion of the customs union on 1 July 1968, the pressing need for special measures to aid Italian flood victims, and the fact that no decision had yet been taken on assistance for workers discharged from Italian sulphur mines, the programme of compressed vocational training courses or the review of the European Social Fund.

When it finally adopted the 1967 budget on 22 December 1966, the Council decided to include an appropriation of 1 500 000 u.a. for measures to assist redundant Italian sulphur-mine workers and to change the appropriations for staff, to correspond to the decision on salary increases which it took on 7 December. On 6 December the Council had already decided to allocate 10 000 000 u.a. from the 1967 budget of the European Agricultural Guidance and Guarantee Fund (Guidance Section) to make good the damage done to farming in Italy.

With these changes taken into account, the EEC's budget for 1967 was finally settled at 614 990 049 u.a.

SPOKESMAN'S GROUP

410. In the course of 1966 the Spokesman's Group gave particular attention to fitting its daily news items into a more general context: over a third of its releases were in the form of résumés taking stock of each of the major fields of activity when the Community decisions were taken.

The Group has gone to a lot of trouble to keep the newspaper correspondents accredited to the Commission well briefed with current information. The Spokesman's press conferences, in which senior specialist officials often participate, were held at more regular intervals during the year,

thus enabling journalists to provide general coverage of Community problems of topical interest.

Apart from issuing daily bulletins to the press, drafting official statements and numerous notes, comments or reports, as well as running a department to supply priority information to the Commission, the Spokesman's Group arranged for its members to take part in a great many lectures or information courses of all kinds organized by private business, social, university and other associations. Numerous requests had to remain unsatisfied, however, and experience in this tenth year of the Community's existence demonstrated even more patently the gap which exists, owing to lack of resources, between the activities of the Community's institutions and the amount of information reaching business circles both inside and outside the EEC, which are showing ever-increasing interest in the progress of the Community.

JOINT SERVICES

Statistical Office of the Communities

411. During the period under review, the Statistical Office made a great deal of basic statistical material available to the Community's authorities and to the general public. It also prepared, carried out or processed surveys in various spheres. Work on nomenclatures and harmonization in many fields has been continued.

The Office's Supervisory Board met on a number of occasions during the year and devoted most of its attention to budgetary matters and the reshaping of the Office's internal organization.

The conference of the heads of national statistical offices was principally concerned with the conduct of the surveys on social statistics for 1966, the survey on the pattern of farming, the programme of work for 1968 and the problems involved in working out a system of common industrial statistics.

In the field of demographic statistics, the Office studied the problems raised by the alignment of population and housing censuses.

Details on national accounts for 1966 were published in a special booklet containing not only much information on the Member States but also summary tables on the EEC as a whole, the United Kingdom and the United States.

Transactions concerning income distribution and transfers were most prominent in the method studies in this field. Furthermore, the Office

took an active part in discussions about the reform of the United Nations system of national accounts at meetings of the Economic Commission for Europe in Geneva.

A comprehensive study has been prepared on the technique of financial accounts. A draft has been worked out in connection with the consolidated balance-sheets of credit institutions, while a survey on balance-sheets of production firms is in progress. Monographs have also been written on methods relating to the Member States' balances of payments.

As part of its input-output studies, the Office published a table covering the whole of the European Community in General Statistical Bulletin No. 9. Like the national tables used in preparing it, this input-output table is for 1959 and covers thirty-seven branches of production. The next year for which the working group responsible for these matters will design similar tables will be 1965.

The Office's programme for structural returns on the retail trade, based on uniform definitions, has been approved by those Community countries which carry out surveys of this kind. The implementation of this programme, a new version of proposals made by the United Nations, will be recommended by the UN agencies concerned to the organization's member states. Work has begun on the assessment of the effects of the Common Market on prices, with the aid of surveys carried out in collaboration with department stores and speciality shops.¹

Statistical work relating to the non-member countries was again chiefly concerned with summarizing on the trade of the eastern European countries and the preparation of inquiries into the expansion of trade between the Community and the state-trading countries.

In the sphere of energy statistics, the standard balance-sheet has been enlarged—mainly in respect of the industrial sector. Some basic data on the Community's crude oil supplies have been published in Statistical Information. New questionnaires have been drawn up for coal statistics.

A small handbook containing general statistical data on the countries and territories associated with the Community has been published.

In the sphere of external trade statistics, apart from the numerous documents again supplied this year for the Kennedy Round and other purposes, it should be particularly noted that the harmonized NIMEXE nomenclature (European import and export nomenclature) has now come into force. Discussions were pursued on the statistics of trade between the six countries after the elimination of customs barriers, and on the alignment of methods on a synoptic table of techniques employed in the member countries and a provisional catalogue of common standards.

¹ See secs. 103 to 106.

Work on the survey on infrastructure costs constituted the major part of the work on transport statistics.

In industrial statistics, mention should be made of the exploratory talks with the appropriate Directorates-General, UNICE (Union of Industries of the European Community) and certain national organizations concerning the institution and development of a coherent system of surveys. Furthermore, the compilation of the nomenclature (common nomenclature of industrial products) which will provide the basis for future production statistics continued. Lastly, the Member States have communicated the figures of the 1963 industrial census to the Commission for further processing.

In the field of social statistics, Council Regulations No. 100/66 (on the conduct of an inquiry into wages in road transport) and No. 101/66 (for an inquiry into wages in industry) are of particular importance. The latter will provide statistics on wage costs during a given year for industry as a whole—information that had hitherto been available only for different industries each year. A survey on wage structures was completed in 1966; this was the first survey in which Greece participated. Much of the Office's work on social statistics was concerned with the joint index referred to in Article 65 of the Statute of Service for Community officials. By way of preparation for detailed surveys on industrial accidents in the Community, a trial survey was carried out in the paper-making industry. The results of the survey of several countries' family budgets have been published.

Work on agricultural statistics was concentrated on the preparation of the survey on the pattern of farming. The remaining gaps in the system of supply balance-sheets were made good in the course of the year, so that balance-sheets are now available for all products. A long-term timetable for livestock-products statistics has been discussed with the various countries. Studies have been made on the comparability of the classes of slaughter livestock and on fruit and vegetable statistics. Finally, with regard to fishery statistics, data have been compiled on the national fishing fleets and on prices at various stages of distribution.

412. *Joint Information Service.* In accordance with the general guidelines laid down in 1963 in the memorandum on the information policy of the Communities,¹ and within the scope provided by working funds only 3.2 % up on those voted for the year before, the Supervisory Board of the Joint Information Service approved on 23 July 1966 a detailed programme for 1966, the essential provisions of which have now been put into practice according to plan.

¹ See Seventh General Report, sec. 384.

The following pages outline the main activities of the Service, first from the angle of the media employed and then with reference to the public to be reached.

413. *Media.* The main emphasis was still on publications, especially the six general reviews; their circulation was usually kept steady for reasons of economy, but their quality (new headings, layout, contributors, studies and reports) was again improved. The Spanish-language bulletin for Latin America¹ met with continued success. Likewise, the supplements for African readers of the French and English editions of the reviews seem to be highly thought of in the countries associated with the Community.

Besides these reviews, the Joint Service published in 1966 seventy-six booklets in nine languages (over 1 100 000 copies), six folders (375 000 copies) and two maps (60 000 copies).

To satisfy growing popular demand, the libraries of the Bonn, Paris, Rome, London and Washington offices and those of the Communities' information centres in Athens and Dublin, as well as the Brussels library, have had to expand their activities—especially with regard to documentation proper. In addition, arrangements were made in Turkey for to new centres—one in Ankara and the other in Istanbul—to handle Community documents.

414. In the field of audio-visual information, co-operation with the television networks of the six countries continued, but without formal agreement being reached on any joint broadcasting project. On the other hand, officials of the broadcasting authorities helped to plan a number of films made at the instigation of the Joint Service, and several agreed to transmit them from their own studios. The most important films produced in 1966 dealt with the use of steel in agriculture, the problems of industrial conversion and retraining workers, and the association of Turkey with the Community.

Another form of co-operation with television and sound radio networks which proved to be particularly advantageous was the welcome and technical assistance extended to teams of reporters who came to Brussels on their own account to provide coverage of Community problems.

Co-operation with African broadcasting stations—mainly through the distribution of newsreels and documentary reports adapted to the interests of the associated States—was continued through the Service's Africa Bureau in conjunction with OCORA (the French Radio Co-operation Office).

As it is always concerned to have expert opinion when it makes and distributes films, the Joint Service organized in December 1966 a meeting

¹ See Ninth General Report, sec. 397.

of a committee of experts from the European film industry. Likewise, co-operation with several film producers' associations and with newsreel companies was intensified.

Lastly, in order to draw benefit from the combined efforts made by the major manufactures of photographic and film equipment to promote the training of the rising generation in photographic techniques, a second European competition was staged; over twenty thousand young people in the six member countries and two European countries associated with the Community took part in this event.

415. There was relatively little activity in connection with fairs and exhibitions in 1966, since the Community was preoccupied with its preparations for the Montreal Universal Exhibition (Expo 67). Nevertheless, the Italian exhibition van was seen at five regional events. At the request of the local authorities, the Community had a stand at the fair held at Romans (south-eastern France) in September. In the Netherlands, the two exhibitions for schools continued to tour the country, and a third is ready for use. In Belgium, two events were organized in Brussels and, through the good offices and facilities of the Ministry of Education, a travelling schools exhibition on European integration is now on tour. Exhibition material was put at the disposal of various organizations in Germany, the United Kingdom and the United States.

In view of their importance, two undertakings of interest to ECSC and Euratom should also be mentioned: the High Authority's participation in the Seventh Technical Exhibition in Charleroi and that of Euratom in the NUCLEX 66 Exhibition held in Basle (both in September 1966).

416. *Information for key groups:* The operations summarized above were intended for very large and often widely differing sections of the public, coming under "public relations" in the broadest sense.

The Service also works to supply more detailed information to a number of groups playing a key part in the progress of European integration.

Fifty-two study visits to Brussels and Luxembourg for trade unionists were attended by some fifteen hundred union leaders in all, and two hundred similar meetings were held in the several member countries; about twelve thousand trade unionists took part in these different activities. Moreover, the majority of the union training centres or institutes include Community affairs in their curricula. Finally, there is a network of trade-union lecturers disseminating information to local audiences (275 lectures in 195 localities were given to about 14 000 active union members).

A symposium at university level was held in 1966 as well; the Joint Service, the International Federation of Christian Trade Unions and the University of Louvain pooled their efforts to organize this conference on "Incomes policy in Europe". The success of the symposium encouraged

the Service to plan other activities linking universities or other institutions of higher education with trade unions.

Lastly, mention should be made of the regular publication of trade-union information memos, a digest of the trade-union press, a time-table of trade-union events and a special information bulletin published by the Washington office for circulation in the USA.

The important agricultural decisions taken by the Council during 1966 aroused still more interest among farming organizations and in farming periodicals. Consumer organizations, represented in Brussels by a liaison committee set up in conjunction with the trade unions, the family organizations and the co-operatives, also showed at times a critical but always a very keen interest in the Common Market.

A special effort was made in 1966 to decentralize the diffusion of information—particularly in France, where six meetings were arranged with the National Young Farmers' Centre and two seminars with the National Federation of Farmers' Unions, and in Italy where nine meetings were organized in co-operation with the *Giovani Rurali* and four with the *Donne Rurali*.

A third seminar for Community students reading advanced agricultural subjects was held at Annecy in September on the financing of the common agricultural policy. In June the Association of Agricultural Engineers also held an important meeting in Brussels to consider problems arising from freedom of establishment. The Young Farmers' Committee met twice in plenary session—once to look into the problems of poor or backward agricultural areas and once to study the alignment of social legislation relating to farming. Lastly, the second meeting of a working group comprising the editors of young farmers' journals arranged for publication of special numbers of these periodicals to cover the Community's "problem regions". The group also decided to bring out a regular bulletin chiefly designed to facilitate the exchange among editors of news and articles dealing more especially with the activities of the Community institutions and the development of the common agricultural market. This bulletin is edited in Brussels with the assistance of the Joint Service.

Publications issued by the Joint Service include booklets and pamphlets, a second set of graphs on "Agriculture in the European Community", and twelve numbers of the "Newsletter on the Common Agricultural Policy" and of its Washington edition the "Common Market Farm Report".

Lastly, the periodical meetings of the directors of the information departments of the six ministries of agriculture with representatives of the Joint Service were resumed in September 1966, when information problems relating to various aspects of the common agricultural policy were discussed.

417. More and more of the Community's information services are being directed towards the universities, youth organizations and institutions of further education. This aspect of the Joint Service's work has been dealt with in the sections of this Report dealing with the Community's education and research policy.¹

Numerous contacts with all walks of life are made daily by the outside offices of the Joint Service in the six member countries, in the United Kingdom, in Switzerland, in the United States and in Latin America, quite apart from the study visits to Brussels and Luxembourg by the leaders and promoters of the most widely varying organizations—political, professional, press, etc. (in 1966 three hundred groups totalling ten thousand visitors).

418. Finally, special efforts are made to disseminate information in the African States with the Community—through newspapers, radio, television and the cinema, and by direct contacts with the various groups concerned with the problems of association and the workings of the European Development Fund. And this work in the associated countries is complemented in Europe by information on these African countries. In fact, the department of the Joint Service responsible for such matters in Brussels works along the same lines as an outside office—answering a great variety of questions asked by the public, supplying members of the public with the documents they ask for, issuing posters and booklets, making contributions to fairs, exhibitions, conferences, etc. It is only because funds were limited that this many-sided activity, an important factor in the strengthening of the links between Europe and Africa, was not intensified still more.

Joint Legal Service

419. The Joint Legal Service continued to function along the lines laid down in 1960, which subsequent experience showed to be sound.

The Supervisory Board—M. Sassen of the Euratom Commission (Chairman), M. Rey of the EEC Commission and M. Wehrer of the ECSC High Authority—carried out its regular budgetary and administrative duties. More particularly, it drew up the preliminary draft budget of the Joint Legal Service, and its advice was sought on proposed appointments and promotions in three branches of the Service (ECSC, EEC, Euratom).

The three branches co-ordinated their work as required by the matters dealt with and in accordance with established custom.² They co-operated

¹ See secs. 269 to 271.

² See sec. 443.

closely in respect of institutional law and administrative law, where the three Communities are often beset with identical or analogous problems —as, for instance, the difficulties arising out of the application of certain provisions of the Statute (the Community official's service regulations). The branches also liaised on substantive legislation in the economic field when problems relating to this arose, i.e. legal difficulties under the ECSC and EEC Treaties stemming from the German Federal Railways' special rates for their Saar-Palatinate lines.

CO-OPERATION BETWEEN THE EXECUTIVES IN MATTERS OF COMMON INTEREST

420. Co-operation between and joint action by the Executives were continued and developed in various fields.

In energy, collaboration between the Executives was continued at two levels.

Firstly, the Inter-Executive Working Party on energy and its *ad hoc* groups continued the examination of problems of common interest such as the memorandum on the coal production target for 1970 and on coal policy, further commentaries on the long-term energy prospects of the Community, the ensuring of supplies, and implementation of the protocol of agreement on energy policy adopted on 21 April 1964.

Secondly, at the request of the High Authority, both the EEC and the Euratom Commissions were associated in the work of the *ad hoc* Committee on Coal Problems set up by the Special Council of Ministers of the ECSC on 7 March 1966 to prepare proposals for solving the existing or foreseeable difficulties in the Community coal market, particularly the problem of surpluses.

Similarly, officials from the Commission were regularly invited to take part in the work of the *ad hoc* Committee on Steel Problems set up by the ECSC Special Council of Ministers on 22 November 1966, which was instructed to examine measures to remedy the difficulties arising in the iron and steel industry and to promote the efficient functioning of the steel market.

In turn, representatives of the High Authority and the Euratom Commission attended the meetings of the Medium-term Economic Policy Committee and those of its working parties.

Matters connected with regional policy were also the subject of periodic discussions in the Joint Working Party on Industrial Conversion (ECSC - EEC - EIB).

The Inter-Executive Working Party on Scientific and Technical Research, set up in April 1965, continued its work in 1966,¹ in particular its *ad hoc* group held a number of meetings, M. Carelli, Vice-President of the Euratom Commission, has replaced M. de Groot as chairman of the Working Party, on which the EEC Commission is still represented by M. Marjolin and the High Authority by M. Hettlage.

In the sphere of customs policy, the Commission was associated in the work of the ECSC Technical Committee on customs problems which has been preparing explanatory notes for the sub-headings of the common customs nomenclature, and of the ECSC Committee on commercial policy matters which has been examining problems raised by the GATT multi-lateral trade negotiations in the steel industry.

Officials of the Commission collaborated with officials of the Euratom Commission in preparing a proposal for a Council decision extending the partial suspension of the common customs tariff duty applicable to certain parts and spares for nuclear reactors under sub-heading 84.59 II (a). This proposed decision was approved by the Council of Ministers on 22 December 1966.

As in previous years, the ECSC High Authority and the Euratom Commission were invited to follow the work of the EEC on social policy.

It should moreover be noted that the EEC Commission's recommendation of 27 July 1966² concerning medical examination of workers exposed to special risks applies also to persons and enterprises in the ECSC sphere, those in the Euratom sphere being governed by Euratom's special standards.

In the agricultural sector, senior officials of the Commission collaborated with officials of the High Authority in the work of the third congress on the use of steel organized by the High Authority on 25, 26 and 27 October 1966 on the theme: "Steel in agriculture".

In the sphere of external relations, representatives of the ECSC High Authority continued to take part in the meetings of the Foreign Trade Committee set up under Article 111.

The Inter-Executive Working Party on Transport continued its discussions on the problem of special rail tariffs allowed by the German State railways to Saar undertakings³ while reserving to each Executive the right to apply the measures specified by the two Treaties.

¹ See secs. 273 and 274 above.

² See official gazette No. 151, 17 August 1966.

³ See Ninth General Report, sec. 378.

The EEC Commission and the ECSC High Authority also undertook joint reviews of matters of common interest and exchanged information on activities in progress.

In the administrative sphere, co-operation was continued at the level of heads of administrations of the Community institutions in the unification of the Community provisions for the application of the Service Regulations. As a result the Community institutions drew up the agreed rules concerning the coverage of sickness risks specified in Article 72 of the Service Regulations and an agreed list of public holidays in accordance with Article 61 of the Regulations. The Councils of Ministers also drew up rules concerning the housing allowance and the transport allowance on the basis of proposals submitted by the EEC and Euratom Commissions in agreement with the ECSC High Authority.

The merger of the Executives

421. The procedures by which Member States ratify the Treaty instituting a single Council and Commission of the European Communities¹ have been completed in accordance with their constitutional provisions.²

The Belgian Senate approved the Treaty on 5 April 1966.

The Italian Senate gave its approval on 29 April 1966.

The Parliament of the Grand Duchy of Luxembourg approved the Treaty on 30 June 1966.

In the Netherlands, the approval of the Chamber of Deputies was given on 21 June 1966 and that of the Upper House on 25 October 1966. On this occasion M. Luns, Foreign Minister, recalled his previous statements concerning the assurances called for by the Government before the deposition of the ratification instruments.

Court of Justice

NEW CASES

422. During the period under review, 20 new cases concerning the activities of the EEC were brought before the Court of Justice. All are still pending.

¹ See Eighth General Report, sec. 1.

² See Ninth General Report, sec. 360.

The 20 cases fall into the groups shown below:

a) 13 cases brought against the Commission under Article 215(2) by private organizations, namely cereal importers (cases 13/66 to 24/66 and 30/66).

These cases consisted of claims for damages resulting from the Court decision of 1 July 1965 in the joint cases 106 and 107/63, which annulled a Commission decision maintaining a safeguard clause against the import of maize into Germany.¹

b) 6 requests for a preliminary ruling on interpretation of Community law (Article 177).

Case 1/67 — M. Stanislas Ciecchelski v. Caisse régionale de sécurité sociale du Centre

The Orléans Court of Appeal requested the Court of Justice to interpret Article 51 of the Treaty and Articles 27 and 28 of EEC Council Regulation No. 3 concerning the social security of migrant workers.

Case 2/67 — M. Auguste de Moor v. Caisse de pension des employés privés

The Court of Justice was also asked, in a case brought by the High Court of Justice of the Grand Duchy of Luxembourg, to interpret the provisions of Council Regulation No. 3.

Case 5/67 — W. Beus & Co. v. Hauptzollamt München

The Finanzgericht München requested the Court of Justice to give a ruling on the interpretation and the validity of Commission Regulation No. 144/65/CEE instituting a countervailing charge on the import of grapes.

Case 6/67 — Mme Teresa Guerra v. Institut national belge d'assurance maladie-invalidité

Request submitted by the Belgian Conseil d'Etat on the interpretation of Article 45 of Council Regulation No. 3.

Case 7/67 — H. Wöhrmann u. Sohn KG v. Hauptzollamt Bad Reichenhall

A request submitted by the Finanzgericht München on the interpretation of Article 12(2) of Council Regulation No. 13/64 on the common organization of the market in milk and milk products, in particular the export of milk powder to Germany.

¹ See official gazette No. 153, 19 September 1965.

Case 9/67 — K. Colditz v. Caisse d'assurance vieillesse des travailleurs salariés de Paris

This request submitted by the Paris Court of Appeal concerns the interpretation of a number of provisions of Council Regulations Nos. 3 and 4.

c) *Suit filed by an official of the EEC Commission under Article 91 of the Service Regulations*

Case 10/67 —

CASES DECIDED BY THE COURT

Suits concerning acts of the institutions

423. *Joint cases 56/64 and 58/64* — Société Consten v. EEC Commission and Grundig Verkaufs GmbH v. EEC Commission

These suits sought the annulment of a Commission decision of 23 September 1964 finding that agreements between Consten and Grundig fell under Article 85.

On 13 July 1966 the Court of Justice handed down its findings, in which it dismissed all the arguments of the plaintiffs to the effect that the import monopoly for the benefit of Consten was not prohibited by Article 85 of the Treaty. However, the Court decided that, according to the statement of grounds attached to the decision contested, only certain clauses of the agreements conflicted with the Treaty. It concluded that only these were affected by the ban and it annulled the Commission's decision only in so far as the Commission had extended the ban to all parts of the agreements.¹

Case 32/65 — Italian Republic v. EEC Council and Commission

This case was brought before the Court of Justice by the Italian Government, which, when asking the Court to annul Council Regulation No. 19/65, had at the same time requested a declaration that Council Regulation No. 17/62 and Commission Regulation No. 153/62 were inapplicable.

In a decision of 13 July 1966 the Court declared the suit inadmissible in respect of Council Regulation No. 17/62 and Commission Regulation No. 153/62. On the merits, the Court dismissed the appeal against Regulation No. 19/65, ruling that the scope of Article 85 included "vertical" agreements, for example an agreement between a producer and a distributor.

¹ See sec. 59 above.

Joint cases 52/65 and 55/65 — Federal Republic of Germany v. EEC Commission

The Federal Republic requested the annulment of two Commission directives fixing the time-table for removing charges imposed by the Federal Republic on imports of sheep for slaughter and of mutton (Case 52/65) and of farm and food products subject to import licensing (Case 55/65). The directives challenged were based on Article 13(2) of the Treaty.

By its ruling dated 16 January 1966, the Court dismissed both cases as groundless. Giving its reasons, it confirmed in particular that the provisions concerning removal of taxes with effect equivalent to customs duties also applied to fees due for action taken by a public authority when goods are imported. The Court also rejected other arguments submitted by the applicant, refusing to give a restrictive interpretation of the powers which the Treaty confers on the Commission in respect of the conditions under which such removal takes place.

Joint cases 8 and 11/66 — S.A. Cimenteries CBR and others, CEMIJ NV, ENCI NV, A.G. Alsen'sche Portland-Cement-Fabriken and others v. EEC Commission

These four cases had been brought against letters sent by the Commission under Article 15(6) of Council Regulation No. 17. The purpose of the letters was to withdraw from the enterprises receiving them the benefit of paragraph 5 of the said article, a benefit which they enjoyed in view of having given notification of the agreement. After a provisional examination, the Commission has considered that the conditions of application of Article 85(1) were fulfilled and that Article 85(3) did not apply.

In its ruling given on 15 March 1967 the Court of Justice, disagreeing with the theory put forward by the Commission, classed this type of communication as a decision within the meaning of Articles 189 and 173 of the Treaty in view of the legal effect which it had on the recipient. On the basis of this observation, the Court allowed the appeal and annulled the acts as insufficiently reasoned.

*Requests for preliminary rulings on matters of interpretation
or validity submitted on the basis of Article 177*

424. *Case 56/65* — Société Technique Minière v. Maschinenbau Ulm

The Paris Court of Appeal had asked the Court of Justice for a preliminary ruling to interpret Article 85 of the Treaty.

In its decision of 30 June 1966 the Court ruled that contracts containing a clause "granting exclusive selling rights" did not *per se* contain the elements constituting incompatibility with the common market mentioned in Article 85(1) of the Treaty. An contract of this category considered

individually might, however, by reason of a specific factual situation or particular clauses, contain these elements if certain conditions specified in the ruling obtained.

The Court also ruled that the nullity in law provided for in Article 85(2) covered all contractual provisions incompatible with Article 85(1), and that the consequences of this nullity for all other elements of the agreement were not a matter of Community law.¹

Case 57/65 — Alfons Lütticke GmbH v. Hauptzollamt — Saarlouis

The tax tribunal (Finanzgericht) of the Saar had asked the Court to interpret Article 95 of the EEC Treaty.

In a finding dated 16 June 1966, the Court ruled that:

“a) The first paragraph of Article 95 is directly applicable and creates for the individual citizen specific rights which must be upheld by the municipal courts;

“b) Under the third paragraph of Article 95, the first paragraph is applicable only from the second stage onwards to legal provisions already in force when the Treaty came into effect.”

Case 61/65 — Mme Vaassen-Goebbels v. Central Committee of the Beamtenfonds voor het Mijnbedrijf (Mineworkers' Fund), Heerlen

The Court had been asked for an interpretation of certain provisions of Regulation No. 3 concerning the social security of migrant workers by a Dutch organization (Scheidsgerecht) set up to arbitrate in disputes arising between the Mineworkers' Fund and persons affiliated to it.

In its ruling of 30 June 1966 the Court allowed the request for interpretation because, in view of the manner of its establishment and functioning, the organization might be regarded as a court or tribunal “within the meaning of Article 177”. On the merits of the case, it found that an arrangement constituting a special social security scheme was indeed legislation within the meaning of Article 1(b) of Regulation No. 3 despite the fact the body that made the arrangement and was responsible for its application was a private institution.

Case 4/66 — Mme Hagenbeek v. Raad van Arbeid, Arnhem

The “Centrale Raad van Beroep” of Utrecht has asked the Court of Justice for an interpretation of an annex to Council Regulation No. 3 in connection with Articles 27 and 28 of the Regulation.

¹ See sec. 450 below.

On 13 July 1966 the Court ruled that the widow of a worker who had been insured in the Netherlands under the old law on invalidity and death but who died when he was insured in another Member State should draw part of the benefit of the Dutch pension. The Court based its ruling again on the principles governing Regulation No. 3 and Article 51 of the Treaty, considering the essential point to be that a migrant worker should be able to obtain the right to payments for all the periods of work he has completed in different Member States "without being given treatment less favourable than that given to other workers because he has exercised his right to freedom of movement".

Orders and decisions

425. The following three cases were struck out:

Case 38/65 (Art. 169) — *Commission v. French Republic* — DIOFAN
Withdrawn by the Commission.

Case 2/66 (Art. 173) — *INAPLI v. the Commission*
Non-compliance with a rule of procedure by the plaintiff.

Case 6/66 (Art. 179) — *Scheinert v. the Commission*
Withdrawn by the plaintiff.

In addition the Court gave rulings in various cases concerning attachments; on several occasions it also gave rulings, in accordance with Article 74 of the rules of procedure, on recoverable costs that had been contested by one party.

Economic and Social Committee

426. The Economic and Social Committee held eight plenary sessions and rendered 34 formal opinions, nine of these after discretionary consultation by the Commission and the Council.

At the opening session of its third four-yearly term (28 and 29 June 1966) the Committee unanimously elected M. Louis Major as its chairman, for a period of two years, in succession to M. Giustiniani. Vice-Chairmen MM. Germozzi and Kramer and the twelve other officers were also chosen.

After his election, M. Major stressed the great effort required of all members of the Committee—an effort which depended on adequate resources being made available to them. In particular he urged the early adoption by the Councils of the Committee's revised rules of procedure.

Following the procedure adopted in 1965, the Committee rendered an opinion on the economic situation in the Community in the light of the Commission's annual report to the European Parliament.

During the period under review, the Commission referred six recommendations to the Committee on its own initiative and the Council two.

53rd session (20 and 21 April 1966)

427. At this session the Committee rendered opinions on the following matters:

- i) Proposals for Council resolutions on common prices for milk and milk products, beef and veal, rice, sugar, oils and fats and olive oil, and on certain special measures in the sugar and milk sectors.
- ii) The economic situation in the Community.

The Committee also heard a statement by M. Rey, a member of the Commission, on progress in implementing the common commercial policy.

54th session (28 and 29 June 1966)

428. Since this was the opening session of its third four-yearly term, the Committee met under the chairmanship of M. Brand, its senior member. It unanimously elected for two years M. Louis Major (Belgium) as Chairman, MM. Manlio Gormozzi (Italy) and Hans Kramer (Germany) as Vice-Chairmen, and its twelve other officers.

55th session (13 July 1966)

429. At this extraordinary session, there was a general debate on Commission proposals to the Council modifying Council Regulation No. 26 on aids in agriculture, and on two Council directives dealing with health requirements in intra-Community trade. (Opinions on these proposals were rendered at the following session.)

56th session (27, 28 and 29 September 1966)

430. At this session the Committee rendered opinions on the following matters:

- i) The Commission's draft recommendation concerning a Community definition of disablement qualifying for benefit.
- ii) Proposal for a Council regulation amending Council Regulation No. 26 applying certain rules of competition to the production of and trade in agricultural produce (aids in agriculture).

iii) Proposals for a Council directive on health inspection in intra-Community trade in cattle and pigs, and a proposal dealing with health requirements in intra-Community trade in fresh meat.

iv) Proposal for a Council directive relating to jams, marmalades, fruit jellies and chestnut purée.

v) Proposal for a Council directive relating to esterification of olive oil used for culinary purposes.

vi) Amendments to the proposal for a regulation establishing a rate-bracket system for goods transport by rail, road and inland waterway.

57th session (26 and 27 October 1966)

431. During this session the Committee rendered opinions on the following matters:

i) Draft of the first medium-term economic programme.

ii) Proposals for Council directives on the harmonization of legislation concerning direction indicators for motor vehicles, the suppression of radio interference from motor vehicles, and braking systems for certain categories of motor vehicles.

iii) Proposal for a Council directive to remove restrictions on freedom of establishment and freedom to supply services in a self-employed capacity in banks and other financial establishments.

iv) Draft Commission recommendation on maternal welfare.

58th session (29 and 30 November 1966)

432. Opening this session, the Chairman, M. Major, expressed the Committee's solidarity with Italy following the floods which had afflicted certain parts of that country early in November.

During the session the Committee rendered opinions on the following matters:

i) Proposal for a Council regulation amending and supplementing Regulations Nos. 3 and 4 concerning the social security of migrant workers.

ii) Proposal for a Council directive to remove restrictions on establishment and the supply of services in certain self-employed capacities (certain transport auxiliaries and travel agents (group 718 ISIC), warehouse men (group 720 ISIC) and customs agents (ex group 839 ISIC)).

iii) Proposal for a Council directive on the details of provisional measures for self-employment in these same groups.

- iv) Proposal for a Council directive to harmonize the legislation of Member States concerning classification of wood in the rough.
- v) Draft Council decision instituting a Committee on foodstuffs, and two proposals for Council directives on the approximation of Member States' legislation concerning permitted preservatives in food for human consumption and the approximation of Member States' laws and regulations on permitted colouring matters in food for human consumption.
- vi) Proposal for a Council directive on the approximation of Member States' legislation concerning permitted preservatives in food for human consumption (extension from 31 December 1966 to 30 June 1967).
- vii) Proposals for Council directives relating to freedom for farmers who are nationals of one Member State and established in another Member State to join co-operatives and have access to various types of credit.
- viii) Proposal for a Council directive on notification to the Commission of statistical data relating to capital movements to and from non-member countries, and Commission recommendation for a Council decision laying down procedure for consultation on national policies relating to capital movements from non-member countries.
- xi) Proposal for a Council directive on the approximation of Member States' legislation concerning permitted colouring matters in branded pharmaceuticals.

59th session (25 and 26 January 1967)

433. During this session the Committee rendered opinions on the following matters:

- i) Proposal for a Council directive concerning the approximation of legislation on wheeled agricultural tractors.
- ii) Proposals for Council directives concerning the approximation of legislation on measuring instruments in general.
- iii) Proposal for a Council directive on the application of social security schemes to wage-earners and their families moving within the Community.
- iv) Proposal for a Council decision making Article 51 of the Treaty applicable to the French overseas departments.
- v) Proposal for a Council directive concerning the standardization of provisions relating to the duty-free import of fuel contained in the tanks of commercial vehicles.
- vi) Report on the situation in the fishing industry in the Member States and basic principles for a common policy.
- vii) Proposal for a Council directive concerning health requirements and health inspection for imports of cattle and pigs and fresh meat from non-member countries, and a draft Council decision setting up a Veterinary Committee.

434. During this session the Committee rendered opinions on the following matters:

- i) Proposal for a Council regulation on the abolition of discrimination in transport rates and conditions.
- ii) Proposal for a Council regulation on the harmonization of certain social provisions in road transport.
- iii) Proposals for Council directives on measures to combat potato wart and potato-root eelworm.
- iv) Proposal for a Council directive amending the directive on the approximation of legislation concerning permitted colouring matters for use in food for human consumption.
- v) Proposal for a Council directive on the use of certain preserving agents for the surface treatment of citrus fruits and on measures of control for the detection and identification of preserving agents in and on citrus fruits.

At this session the Committee also heard two statements, one by M. Marjolin on the economic situation in the Community and the other by M. Levi Sandri on the progress of the Community's work in the social field.

Other Community institutions

MONETARY COMMITTEE

435. The Monetary Committee held ten sessions during the period under review. Since the mandate of its officers had expired, the Committee re-elected them at its meeting on 9 and 10 June 1966. M. E. van Lennep, Chief Treasurer at the Netherlands Ministry of Finance, was unanimously re-elected Chairman and M. B. Clappier, Deputy Governor of the Banque de France and M. O. Emminger, Member of the Directorate of the Deutsche Bundesbank, Vice-Chairmen.

In accordance with Article 105 of the Treaty, the Committee continued its regular examinations of the monetary and financial situation in the Member States and reported to the Council and Commission.

In the field of capital movements, the Committee submitted a memorandum to the Commission on new measures to liberalize capital movements which could be taken in the immediate future. Furthermore, the Council rendered an opinion on a proposal for a Council directive on notification to the Commission of statistical data relating to capital movements to and from non-member countries, and on the Commission's recommendation for a Council decision laying down procedures for consultation on national policies relating to capital movements from non-member countries.

Finally, the Committee has held several exchanges of views on the international payments situation. With the aim of co-ordinating the views of Member States, it has also prepared the work on the improvement of the international monetary system which is carried on in other bodies.¹

SHORT-TERM ECONOMIC POLICY COMMITTEE

436. The Short-term Economic Policy Committee met on four occasions during the period covered by this report. At its meeting on 12 and 13 July 1966, elections were held and M. Pérouse, *directeur du Trésor* in the French Ministry of Economy and Finance, was re-elected Chairman. M. Mertens de Wilmars, a counsellor of the National Bank of Belgium, M. Guidotti, Director-General of the Banco di Napoli, and M. Schöllhorn, *Ministerialdirigent* in the Federal Ministry of Economics, were re-elected Vice-Chairmen.

The Committee was consulted by the Commission on several occasions, particularly in connection with the preparation of the Commission's proposal for a Council recommendation to the Member States concerning the main lines of short-term economic policy for 1967 and the proposal for a Council decision on improving the procedure for co-ordinating short-term economic policy. In agreement with the Monetary Committee, which examined the monetary and financial aspects of these proposals, it was decided that the two Committees would form a joint group of experts to examine the technical problems involved in the proposed decision.

The Committee has continued its periodical surveys of the economic situation in the Member States and in particular the preliminary and definitive economic budgets for 1966. Its conclusions were embodied in two opinions to the Commission.

BUDGET POLICY COMMITTEE

437. The Budget Policy Committee held three meetings during the period under review.

In July 1966 the Committee examined the broad lines of the member countries' budget policy for 1967. The aim of this annual examination, which takes place in July each year is to enable Member States' Governments to take account of the Committee's observations and suggestions and of developments in other Community countries before the draft budget is laid before Parliament.

¹ A full account of the Monetary Committee's activities will be found in its ninth annual report dated 1 March 1967.

In November 1966, the Committee examined the Member States' draft budgets for 1967 and rendered an opinion to the Council and Commission. Finally, the Committee examined certain studies which it had instructed its group of alternates to make on the elasticity of public expenditure and the possibility of improving it, methods of budgeting for a number of years and public savings.

MEDIUM-TERM ECONOMIC POLICY COMMITTEE

438. The Medium-term Economic Policy Committee met five times during the period under review.

At its 18th meeting, the Committee bade farewell to its Chairman, M. Langer, State Secretary, who had been called to take up new duties in his country, and elected M. Arndt, parliamentary State Secretary at the Ministry of Economic Affairs in the Federal Republic of Germany, as its new Chairman for a period of two years. M. Ortoli, *Commissaire général au Plan* in France, and M. Brouwers, Secretary-General in the Netherlands Ministry of Economic Affairs, were re-appointed Vice-Chairmen.

The Working Parties on sectoral structure policy, incomes policy, and scientific and technological research continued their studies.

An *ad hoc* working party was formed to study agricultural forecasts.

STUDY GROUP ON MEDIUM-TERM ECONOMIC FORECASTS

439. The Study Group whose task is to draw up medium-term forecasts for the Community countries and to make other assessments necessary for medium-term economic programmes, resumed work on 23 November 1966. Its programme of work for 1967 includes the establishment of value projections and the examination of external trade prospects.

CONSULTATIVE COMMITTEE ON TRANSPORT (Article 83)

440. The mandate of members of the Committee expired on 27 January 1967 but a Council decision in 1964 authorized it to remain in office until new appointments are made. During 1965/66 the Committee continued its programme of work, details of which will be found elsewhere:¹

¹ See sec. 231.

AUDIT BOARD

441. 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 its report on the accounts for 1965, by the time-limit fixed; 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, was submitted to the Council and the European Parliament.

Community law

442. Last year, with the beginning of the final stage of the transition period, the Commission for the first time included in its General Report a special chapter on Community law and the establishment of the Community legal system.¹ As a sequel to this first general summary, the sections which follow give details of the principal events in this field since that time,² preceded, as last year, by a survey of the contribution made by the Commission's Legal Service to the framing of Community law.

THE EEC LEGAL SERVICE AND COMMUNITY LAW

443. In its Ninth General Report the Commission outlined the tasks falling on the Legal Service in the field of consultation, litigation and information on Community law. The salient features of its work in these spheres during the period under review were as follows:

444. *Consultations:* Apart from participating in working parties and negotiating groups, and drawing up texts adopted by the Commission, the Legal Service rendered approximately 1 200 written opinions.

Particular emphasis should be placed on certain sectors:

i) *The customs union:* the preparation of final measures for the abolition of intra-Community tariffs and an increased effort to track down and eliminate charges with equivalent effect to customs duties and measures with equivalent effect to quantitative restrictions.

¹ See secs. 384 et seq.

² The three tables included in the Ninth General Report, showing legal decisions in the field of Community law, have also been brought up to date and will be found at the end of this Chapter.

ii) Implementation of common policies: a series of measures dealing with the common organization of agricultural markets, the system of aids to agriculture, the recasting of rules on the social security of migrant workers, the free movement of workers and the Social Fund; in application of the General Programmes, numerous proposals on freedom of establishment and freedom to supply services.

iii) Decisions of the Court of Justice on exclusive dealing agreements gave rise to new studies in this sector and to the preparation of a regulation on block exemption adopted on 22 March 1967.¹

iv) Two sectors were given top priority by the Legal Service. The fiscal system applicable within the Community had to be defined in its present state on the basis both of Article 95 and the following Articles of the Treaty and of national and Community judgments, and in its future development, particularly as regards proposals for directives on the harmonization of turnover tax. On the other hand, the increased number of proposals for the approximation of legislation in many fields and the procedure for the elimination of distortion instituted under Articles 101 and 102 of the Treaty brought up difficult methodological questions.

The legal bases for two important measures proposed by the Commission and approved by the Council also deserve attention:

i) Although earlier decisions on the reduction of customs duties were made by the representatives of the Member States' Governments in the Council, measures for the completion of the customs union were adopted by the Community institutions themselves by virtue of the Treaty provisions.²

ii) Since experience has shown that a special system must be provided for certain industrial goods processed from agricultural products, and since the Treaty contains no special provision adapted to the complex nature of these goods, Regulation No. 160/66/CEE, based principally on Article 235 of the Treaty, has stopped this gap.³

In connection with proposals for Council regulations or directives, the Legal Service has often had to examine the problem of devising procedures applicable to measures to implement Community legislation.

445. *Settlement of disputes.* During the period under review, the Legal Service had to deal with 38 cases before the Court of Justice; 16 of these were settled and the remaining 22 are pending.⁴

¹ See official gazette No. 57, 25 March 1967 and also sec. 60.

² *Ibid.* No. 165, 21 September 1966.

³ *Ibid.* No. 195, 28 October 1966.

⁴ For full details see Chapter on the Court of Justice.

The 20 cases brought before the Court during this period include:

i) 13 claims for damages brought against the Commission by individuals under Article 215 of the Treaty. These suits necessitated a detailed examination of this Treaty provision which is couched in very general terms and for which there have been no precedents so far.

ii) 6 cases dealing with requests for preliminary rulings referred by courts in the Member States under Article 177 of the Treaty. Four of these concerned the social security of migrant workers, the fifth the common organization of the market in fruit and vegetables and the sixth charges on imported goods.

iii) A suit brought by a member of the Commission's staff under Article 91 of the Statute.

In the 11 cases settled in the Court of Justice during the period in question, decisions were given against the Commission on two points, namely:

i) Consolidated cases 56 and 58/64¹—the prohibition provided for in Article 85(1) and the nullity referred to in Article 85(2) apply only to those clauses of the agreements which are incompatible with the Treaty and do not extend to the agreements as a whole.

ii) Consolidated cases 8 and 11/66²—the Court held that the communication provided for under Article 15(6) of Regulation No. 17³ on agreements was a decision within the meaning of Article 173, second paragraph, of the Treaty and that, consequently, enterprises may appeal against it. On the basis of this finding, the Court annulled the decision in question as inadequately grounded.

446. *Information.* The Legal Service, in co-operation with the other Commission departments, in particular the Joint Information Service, continued to make special efforts to meet the growing need for information on the development of Community law. Following the established tradition, legal counsellors took part, as far as their other commitments would allow them, in congresses and meetings organized by specialized associations, universities or institutes, and in working sessions for groups of lawyers visiting the Community institutions.

Members of the judiciary proved particularly eager to obtain more detailed information on Community law. Working meetings were organized in

¹ See sec. 424.

² See sec. 423.

³ See official gazette No. 13, 21 February 1962.

Brussels for judges of the higher courts; for members of the Italian and Belgian Councils of State and for Dutch and Austrian judges.

University circles have shown their customary interest in increased research on Community law. It may be noted in this regard that the governing board of the Max Planck Institute for International and Comparative Law met in Brussels to obtain information on certain aspects of Community law from representatives of the Commission.

The legal problems posed by the development of the Communities are being increasingly discussed at international conferences and congresses. The International Law Association devoted to them a great part of the debates organized in Brussels by its Belgo-Luxembourg section and at its 62nd Conference in Helsinki. Among international colloquia on various aspects of Community law, mention may be made of the meeting convened by the European Institute of the Liège Faculty of Law to discuss the merger of the Communities and the congress held in Rotterdam on "Arbitration and the Common Market".

Eagerness to obtain information about the machinery and problems of the Community legal system is becoming manifest in ever wider circles. Apart from the sustained interest shown in British and American legal quarters since the outset, it is worth mentioning that a member of the Communities' Legal Service was asked to attend two meetings held by lawyers of the East bloc countries to compare the Communities' experience with that of COMECON and on another occasion to discuss this experience with a Round Table of Latin-American jurists.

Apart from contributions made by the Communities' services themselves, this great need for information is being satisfied by a great deal of action on the part of law faculties and institutes, associations and specialized reviews, the number of which is on the increase. Thus, in the period under review, a new association entitled "French Standing Committee for the national application of Community law by municipal courts" was formed in France and a new review, "Europarecht", launched in Germany.

THE COMMUNITY LEGAL SYSTEM

447. Following the pattern of the Ninth General Report,¹ the sections which follow indicate the main developments of case law during the period under review, under the heads of the characteristic machinery of the Community legal system and the interpretation of the substantive rules of Community law.

¹ See sec. 384.

Nature and scope of Community law

448. a) The judgment handed down by the Court in Case 57/65¹ lends new precision to case law dealing with the effect of the provisions of the Treaty on municipal law. Even if these provisions are *prima facie* limited to creating obligations for the Member States, it must be recognized that they also have a direct effect which may be invoked by individual citizens when they are not subject to any condition, require no further legal action by Community institutions for their implementation and do not allow the Member States any real discretion as to their application. On this basis, the Court considered as directly applicable various provisions, like those of Articles 12, 37(2) and 53 of the Treaty, which impose clear and unconditional obligations on Member States (standstill clauses). In its judgment on Case 57/65, the Court conceded that the same applied to the rule arising under Article 95, first paragraph, of the Treaty forbidding Member States to impose internal charges on products of other Member States in excess of those applied to like domestic products, although under the terms of the third paragraph of the same article this prohibition includes an obligation on the Member States to abolish or amend, not later than the beginning of the second stage, any existing provisions which are contrary to the principle laid down in the first paragraph. Thus the existence of an obligation on the Member States to act does not of itself stand in the way of the creation of direct rights for individual citizens if the provisions of the Treaty are sufficient to define the precise scope and nature of these rights.

b) Using the judgment of the Court of Justice in the *Costa Enel* case² as a precedent on various points, several national courts of first instance have been able, in cases of conflict, to uphold the provisions of Community law against those of municipal law.²

¹ Reports of the Court, Vol. XII, p. 293; see also sec. 424.

² Judgment 6/64, Reports of the Court Vol. X, p. 1149.

² See in particular:

a) Bremen Finanzgericht, decision of 17 August 1966, *Zeitschrift für Zölle u. Verbrauchssteuern* No. 1, January 1967.

b) Saarland Finanzgericht, decision of 9 September 1966, *Betriebs-Berater* 1338, No. 33, November 1966.

c) Saarland Finanzgericht, decision of 15 November 1966, *Entscheidungen der Finanzgerichte*, Judgment No. 83, No. 2, 1967, pp. 76-79.

d) Giudice Conciliatore of the Court of Milan, decision of 1 May 1966, *Rivista di diritto europeo* No. 2, 1966, pp. 148-155.

Article 177 of the Treaty: uniform application of Community law

449. a) After the recent decision by the Belgian Council of State¹ to refer a case for preliminary ruling, the procedure laid down in Article 177 has now been put into operation in all Member States.

Furthermore, this decision and a remand order for preliminary rulings made by the High Court of the Grand Duchy of Luxembourg,² sitting as a supreme court of appeals, mean that requests for such rulings have now been submitted to the Court of Justice by the highest juridical authorities in the Member States.

These decisions are concrete evidence of the fact that the Member States are growing accustomed to the procedure for legal co-operation established by Article 177.

b) The Court had occasion to rule on the concept of "a court or tribunal of one of the Member States" within the meaning of Article 177, second paragraph.³ This question of interpretation was referred to it by a Dutch body the "Scheidsgerecht", whose function is to settle disputes between the Fund for Mine Employees and those insured with it. In order to decide on the admissibility of the request, the Court first had to settle whether or not this body was a court or tribunal within the meaning of the Treaty. Although under Dutch law the "Scheidsgerecht" is not regarded as a court or tribunal in the strict sense, the Court gave an affirmative answer to this question in view of the constitution and functioning of the body. It based its decision in particular on the fact that the members of the "Scheidsgerecht" are nominated by the competent Minister, that the body is subject to contentious rules of procedure similar to those governing the operation of common law tribunals, and that the persons covered by the regulation in question were required to address themselves to the "Scheidsgerecht" as a legal authority. However, this judgment leaves undecided the much vexed question of whether arbitration bodies may call upon Article 177.

c) For the first time the decision of a national court⁴ illustrated one of the dangers inherent in the provision of Article 177 on the validity of acts of the institutions of the Community. Invoking the competence which is expressly assigned to it by this provision, the Court of first

¹ Case 6/67, see sec. 422.

² Case 2/67, see, sec. 422.

³ Case 61/65, Reports of the Court, Vol. XII, p. 377, see Chapter on the Court of Justice, sec. 424.

⁴ Frankfurt Verwaltungsgericht, decision of 12 December 1966, Aussenwirtschaftsdienst des Betriebs-Beraters, No. 2, 15 February 1967, pp. 67 to 71.

instance contested the validity of a Community regulation and refused to apply it.¹

Interpretation of the substantive rules of Community law

450. Three important judgments on competition handed down by the Court of Justice during the period covered by this report deserve mention. Since they have been discussed elsewhere, all that needs to be done here is to highlight some points fundamental to the development of Community law.²

As regards methods of interpretation, the Court confirmed its earlier decisions that an Article of the Treaty can only be interpreted in relation to the aims and objectives of the Community: the aim of Article 85 of the Treaty is to contribute to the establishment of a system which will ensure that competition is not distorted, so that one of the fundamental objectives laid down in Article 2 of the Treaty, a single market between the Member States, is achieved.

For the first time, the Court of Justice rules on the relationship between Article 85 and industrial property rights. It rejected arguments based on Articles 36, 222 and 234 of the Treaty, and held that these provisions do not preclude all possibility of Community law effecting the exercise of national industrial property rights. The effects of territorial protection arising from municipal legislation are nullified in so far as the transfer or utilization of industrial property rights are governed by an agreement between enterprises. An agreement of this kind could be prohibited under Article 85(1) of the Treaty if the conditions described therein obtain.

The different concepts contained in Article 85(1), which have hitherto been the subject of controversy, have been clarified by these judgments.

The purpose of the condition relating to trade between Member States is to distinguish, purely from the angle of the rules of competition, the sphere of competency of Community law from that of municipal law. It is only in so far as the agreement can affect trade flows between the Member States that the distortion of competition provoked by it comes within the purview of Article 85.

¹ The judgment recently given by the Court of Justice in Cases 8-11/66 (see Chapter on Court of Justice, sec. 423) clarified several points concerning the legal protection of private persons.

² Judgments 56/65 (*Société technique minière v. Maschinenbau GmbH*); 32/65 (Italian appeal: inapplicability of Regulation No. 17), and 56-58/64 (*Grundig-Consten*), Reports of the Court, Vol. XII, pp. 281, 457 and 321; see also Chapter on the Court of Justice, sec. 423, and in particular Ch. II, secs. 39, 43 and 58.

In order to determine whether competition is being distorted, the object of an agreement must be examined. If it becomes clear that the agreement is intended to prevent, restrict or distort the free play of competition consideration of its effects is superfluous. If this is not the case, the effects must be examined, and evidence produced showing that competition has, in fact, been prevented, restricted or distorted to an appreciable extent.

As regards exclusive dealing agreements, the Court ruled that Article 85 does not create any precedent based on the legal nature of such agreements. On the contrary, an economic assessment should be made with particular reference to the nature and quantity of the products covered by the agreement, the severity of the exclusivity clauses, etc.

In view of the complex assessments in the economic sphere which the Commission must undertake in the exercise of the powers that have been given to it, legal control is limited in this regard to an examination of matters of fact and the legal qualifications which the Commission deduce from them.

TABLE 32

Decisions concerning Community law handed down by Courts of the Member States¹

EEC	Tariffs taxes ²	Competition		Agricultural policy ³	Transport	Social policy	Free movement of workers	Art. 220	Total
		Agreements, monopolies, dumping	Aids						
Belgium		17						1	18
Germany	25	24	1	7			4		61
France	5	11			1	2	1		20
Italy	1	3	1			2			7
Luxembourg		1							1
Netherlands	3	22		1					26
Total	34	78	2	8	1	4	5	1	133

¹ Decisions published as at 31 December 1966 not including cases referred to the Court of Justice for preliminary rulings (see Table 34).

² Since many decisions refer to both tariff and tax clauses in the Treaty, separate classification is not feasible.

³ Cases concerning tariff or tax questions in the field of agriculture are included in the first column.

TABLE 33

Suits broken down by subject
 Situation at 31 March 1967

	Customs union	Competition (including taxation cases)	Social affairs	Agricultural policy	Privileges and immunities	Application of the Statute of service, etc. (total)	Totals
Suits filed	30	15	15	30	1	41	132
Cases settled out of Court	6	1	1	2	—	10	20
Cases decided	24	13	10	12	1	30	90
Cases pending	—	1	4	16	—	1	22

TABLE 34

Suits broken down by type
 Situation at 31 March 1967

	Arts. 169 193	Art. 170	Art. 173 filed			Art. 175	Art. 177			Art. 184	Art. 215	Art. 170 Suits filed by staff ⁴	Grand total ⁵	
			By Govts.	By indi- viduals	By Insti- tutions		Total	Valid- ity	Inter- pre- tation					Total
Suits filed	10	—	10	21	—	31	2	4	28	3	16	41	132	
Cases settled out of Court	3	—	3	2	—	5	—	—	2	—	—	10	20	
Cases decided ¹	7	—	7	19	—	26	2 ⁶	3	21	3	1	30	90	
In favour of plaintiff ²	7	—	1	6	—	7	—	—	—	—	—	15		
Dismissed on grounds of substance ³	—	—	6	2	—	8	—	—	—	—	1	8		
Ruled inadmissible	—	—	—	11	—	11	1	—	—	3	—	7		
Cases pending	—	—	—	—	—	—	—	1	5	—	15	1	22	

¹ The number of judgments is smaller than that of cases heard because some cases were consolidated.

² In respect of at least one of plaintiff's main pleas.

³ This also covers suits dismissed partly because they were ruled inadmissible and partly because they were ruled groundless.

⁴ Against the Commission only i.e. excluding those against the joint institutions.

⁵ The total may be smaller than the sum of cases listed since some suits are based on more than one article of the Treaty.

⁶ Including one judgment to the effect that no ruling was necessary except on costs.