

# EUROPEAN STUDIES

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# 20

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# The European Community and the Third World II

Frank Ellis

Continued from ESTS 19

## The Common Agricultural Policy

Agricultural commodities and processed foods are a group of products which are of particular concern to developing countries because it is often the case (a) that they are at their most competitive in the production of such goods, which use a great deal of labour but do not require large quantities of expensive capital, and (b), that such goods can provide the best contribution to development in rural areas where the problems of unemployment and poverty are at their most acute. With this in mind we need to examine the agricultural policy of the EEC and its effect on markets for developing country exports.

The Common Agricultural Policy (CAP) came into being as a consequence of two main pressures operating at the time of the formation of the Community. In the first place, harmonisation of food prices and the free movement of food through the Community were essential to the idea of a common market. Failure to achieve such harmonisation would have meant widely differing food prices in the separate member countries, because national agricultural policies had varied considerably before the Treaty of Rome. This in turn would have implied varying wage costs between different countries which would have seriously undermined the aim of free trade in manufactures. Secondly, all European countries had a 'farm problem' in the sense that the majority of the rural population were peasant farmers working small and inefficient holdings for incomes which steadily fell behind those obtained in the industrial sectors of each country.

The aims of the CAP were thus to guarantee European farmers a fair income in comparison to non-farm incomes, and to harmonise prices. Unfortunately for outside suppliers of foodstuffs to the Community, the method chosen to achieve both these objectives was to set common prices at a level well above those ruling on world markets at the time, backed up by a system of variable import levies so that suppliers from outside could not undercut or compete with the chosen internal price level.

Regulations under the policy were established between 1965 and 1970 for all cereals (including rice, which was grown inefficiently in a small area of Italy); all meat (excluding mutton and lamb); eggs; dairy products; oilseeds and vegetables. The mechanism for regulating each product is essentially the same. Each year a desired internal price level is agreed, called the target price. This is supported internally by an *intervention price*, about 7 per cent below the target price. If internal prices fall to the intervention level government authorities must buy all supplies coming onto the market at that price. The target price is supported externally by a *threshold price* (which equals the target price minus the cost of transport to internal markets) which is the minimum price at which outside suppliers

can enter the Community. Any difference between the world price and the threshold price is collected as a variable levy (variable so that it always adjusts for changes in the world prices). In order to get rid of surplus supplies at times of over-production *export subsidies* are also provided so that surpluses can be sold on the world markets at world prices.

When world prices are low, the Common Agricultural Policy has undesirable consequences, both internally, and particularly for outside suppliers, including potential Third World exporters of agricultural products. Internally, if prices are too high home production increases rapidly so that the Community becomes self-sufficient in one or more commodities. But the process does not always stop there: self-sufficiency may turn into over-production, and then surpluses must be exported at great cost to Community tax-payers – unwanted surpluses of butter were sold cheaply to Russia in 1973, for example.

In such a situation of internal prices, high relative to world levels, the effect of CAP is to diminish the size of the market available for outside suppliers as internal production expands. Products of particular interest to Third World exporters which have in the past been affected in this way are sugar, rice, beef, tobacco, oilseeds, fruit and vegetables. Canned and processed foods are also adversely affected by CAP regulations – for instance, exporters of tinned fruit to the EEC must pay a levy on the sugar content of the tin as well as a normal CET duty on canned foods. It is also CAP and its supporters which have made sure that agricultural commodities are excluded from special trade arrangements like Association. Table 3 shows how far above world prices Community prices for some products were in the 1971/72 crop year.

Table 3

Product	World price at Community ports £ per ton	Minimum import price into the Community (Threshold price) £ per ton	Community price as a % above world price
Wheat	22.8	47.7	109
Barley	23.2	42.9	185
Maize	23.6	41.5	76
Rice	43.3	88.5	105
White Sugar	66.7	96.5	45
Beef	228.8	304.8	33
Eggs	169.4	274.4	62
Butter	478.4	829.0	72

Source: *European Communities Yearbook of Agricultural Statistics 1970 and 1972*.

A very substantial increase in the world price of foodstuffs since late 1972 has created a new situation in which Community prices are now below world

prices for a number of products. For example, wheat has risen to between £60 and £70 a ton; barley £50 to £60 a ton; sugar up to £200 a ton; and rice up to £85 per ton. These increases have resulted in the CAP operating in reverse, to keep internal prices down. Nevertheless the conclusions which have been drawn about the effect of the policy remain unaltered in respect of the period between 1965 and 1972 when CAP prices were considerably above world levels. There is no certainty how long world prices will continue at current levels, and in the event of a fall the policy will once more have the same consequences.

An important example of the way in which the effects of CAP differ from alternative possible agricultural policies, whatever the level of world prices, is the special case of sugar. Britain has traditionally restricted its own production of sugar from beet to about one third of total requirements by acreage quotas, keeping two thirds (1.8 million tons) available for outside suppliers under the Commonwealth Sugar Agreement. By contrast the EEC was already self-sufficient at the start of its sugar policy in 1968, and under the stimulus of high CAP prices has since moved into a surplus of roughly 1 million tons. 1.4 million tons of the Commonwealth Sugar Agreement come from seven developing countries which depend on the export of cane sugar for most of their foreign exchange revenues, employment, and resources for development. (The countries concerned are Barbados, Fiji, Guyana, Jamaica, Mauritius, Swaziland, and Trinidad: the value of their sugar exported to the UK was £62 million in 1972). Under the terms of UK entry to the EEC the Commonwealth Sugar Agreement expires at the end of 1974. Unless it is extended or replaced by a new agreement, these countries will lose their UK sugar market to the surplus being generated in the six.

In general it must be stated that there are a number of potential ways of safeguarding the interests of farmers in developed countries other than the particular methods adopted by CAP. In Britain there was a policy of subsidies by product (called deficiency payments), allied with grants to make farms more efficient – consumers paid world prices, and supply did not expand very much (or was restricted so that outside suppliers kept a guaranteed market). In the United States large acreages were taken out of production when over-supply occurred.

## The European Generalised Schemes of Preference (GSP)

The principle of Generalised Schemes of Preference (GSP), in which all countries were to offer poor countries preferential access for their manufactured exports, emerged from a resolution passed in the 1968 meeting of the United Nations Conference on Trade and Development (UNCTAD). The implementation of an agreed world-wide scheme was prevented by the refusal of the United States to participate, and therefore individual developed countries including Britain and the EEC separately brought out their own schemes in 1970. The original GSP proposal was for duty-free and flexible access to be granted for all manufactured products under terms which would give developing countries the maximum freedom to expand existing output and develop new industries. This has turned out to be far from the actual outcome, as the EEC scheme exemplifies.

The European GSP permits duty-free entry for most (but not all) manufactures *only up to fixed quotas for each product from each exporting country*. These 'tariff quotas' are based on past actual imports, so the possibility of starting from scratch is virtually excluded. If imports from any country exceed its quota the full CET duty is automatically re-applied. In addition products are classified as 'sensitive', 'quasi-sensitive' and 'non-sensitive'. For sensitive items not only are the basic terms more restrictive, but the Community can also suddenly decide to withdraw the preference if it judges that market disruption is being caused for domestic producers of the same or competing goods. Needless to say the sensitive list includes those very products mentioned earlier which are of most interest to the poorest developing countries, namely: textiles, clothing, leather goods, footwear, carpets, toys and handicrafts. Additional restrictions applying to all GSP products are that the annual growth of the quotas were fixed in advance at a low level (5 per cent in the original EEC scheme) and that all products must comply with strict 'rules of origin' regulations.

The original European scheme was in some ways less generous than that implemented separately by Britain before Accession. Also the relatively favourable Commonwealth textile quotas will be lost when Britain adopts the EEC scheme. An UNCTAD study of 1973 showed that out of a total of \$5,300 million of Third World exports in 1970 potentially eligible for GSP schemes (i.e. dutiable manufactured products), only \$2,100 million (or less than half), were actually included in the GSPs which actually emerged. See insert The European Community and the Third World – 'Recent Developments'.

## Current events of importance to the relationship between the EEC and developing countries

### (a) The increase in oil prices

The rise in the international market price of oil from £1.13 per barrel in October 1973 to £3.35 per barrel in January 1974 (initiated by the strategy of OPEC – the Organisation of Petroleum Exporting Countries) has large and widespread implications for world development in the next decade. The majority of non-oil producing countries, both developed and developing, face massive balance of payments deficits and inflation problems resulting from the increase. For developed market economies as a whole the extra oil import cost amounts to about £21,000 million in 1974, of which £13,000 million falls on Western Europe. For developing countries the cost is estimated at £5,000 million.

The short-term temptation for all countries is to take actions which would make matters worse. For instance, developed countries are tempted to restrict imports of other goods from their neighbours (and from developing countries) and to devalue their currencies in order to try and cancel out their individual national deficits. Such actions would have the effect of creating a downward spiral in economic activity leading towards a major world depression, and meanwhile the underlying problem – the deficit with the oil producing countries – would remain unsolved. Developing countries face a particularly acute problem because their ability to borrow money is

extremely limited compared with developed countries and because for some of them the increase in oil prices has come on top of increased prices for imports of food and other goods required for their development plans. India, Bangladesh and Sri Lanka are the most seriously affected on all these counts. India, for instance, will be paying £330 million more for her oil in 1974 compared to 1973, an amount equivalent to 30 per cent of her total export earnings and half her accumulated foreign exchange reserves. (In addition India has already experienced serious difficulties in paying for food and raw materials imports in recent years; and because fertilisers are manufactured directly from oil by-products, her own food production will suffer through inability to afford the import or manufacture of fertilisers.)

Solutions to these problems are not easily worked out. Much depends on the use to which the surplus

tion of indecision, the greatest danger is that the funds will be made available too late to prevent a severe breakdown of economic progress in those countries most seriously affected – in which case the task of getting back on an upward growth path will be more difficult and more expensive.

(b) **The drought in the Sahelian countries of West Africa**

Six countries in West Africa bordering on the southern edge of the Sahara desert (an area known as the Sahel) have been suffering increasing and serious problems of drought and widespread famine in the last five years due to the advance of the Sahara southwards. This phenomenon has itself resulted from successive failure of rains, soil erosion caused by too intensive cultivation and grazing, and deforestation in the area. The countries concerned are amongst the poorest in the world, and are therefore least able to

## GENERAL SUMMARY OF TRADE FIGURES

### Exports from developing countries to the main industrialised countries 1966 and 1971.

	TOTAL EXPORTS TO WORLD	USA	Centrally Planned Economies	Japan	£ million		Value	EEC and UK
					EEC (Six)	UK		As a % of total Third World Exports
1966	16,140	3,090	975	1,355	3,930	1,635	5,565	34.5%
1971	25,800	4,660	1,320	2,910	6,360	2,340	8,700	33.7%
Annual % Increase	12%	10%	7%	23%	12%	9%	11%	—

### Exports from the EEC\* to developing countries 1966 and 1971.

	£ million					
	EEC Total Exports to World	EEC Exports to Third World	EEC Exports to Third World as % of Total Exports	USA Exports to Third World**	Total Developed Country Exports to Third World	EEC Exports to Third World as % of Total Developed Country Exports to Third World
1966	27,820	4,750	17%	4,160	12,310	39%
1971	51,350	7,530	15%	5,530	19,960	38%
Annual % Increase	17%	12%	—	7%	12%	—

\* Old EEC (Six) and UK.

\*\* America is the second largest supplier of goods to the Third World.

funds (estimated to be £15,000 million by the end of 1974) of the Arab oil producers are put. The United Nations has been trying to create a special fund of some £1,250 million for emergency relief for the most seriously affected developing countries, of which contributions of £210 million each would come from USA, Europe, and other industrialised countries, and £625 million would come from the oil producers. At the time of writing it is uncertain whether this figure will be achieved; and meanwhile several of the oil producers have expressed their own plans for the creation of an Arab Development Bank, and Iran has announced its intention of directing special funds to the International Monetary Fund for concessional loans to developing countries. In this complex situa-

tion of indecision, the greatest danger is that the funds will be made available too late to prevent a severe breakdown of economic progress in those countries most seriously affected – in which case the task of getting back on an upward growth path will be more difficult and more expensive.

cope with the tremendous problems of hunger and malnutrition being caused.<sup>6</sup> The European Community has done much to try and alleviate this problem both by contributing to the United Nations Food Aid programme and by making grants available from the European Development Fund (£9 million in 1973). The Commission has proposed further and increased help in 1974, amounting to £18 million in Food Aid and £16 million in Financial Aid from the EDF. This is an example of a situation of extreme difficulty and poverty in which Europe has responded quite generously in attempts to alleviate the problem.

<sup>6</sup> Chad, Mali, Niger, Upper Volta, Mauritania, and Senegal: average annual incomes ranging from £30 to £70 per capita with the exception of Senegal – £100 per capita.

## Conclusions and policies for the future

If the discussion in this paper has appeared at times critical of European efforts towards the Third World, it is because major changes in the attitudes of rich and fortunate countries are required if any progress is to be made in halting the increasing inequality and poverty which characterises world development in this decade. In all fairness, Europe's record in relations with developing countries is much better than that of either the USA or the Eastern bloc. But this does not give grounds for complacency – there is still much the Community can achieve.

The shortcomings of Europe's current policies towards the Third World may be conveniently summarised under three headings:

- (a) Pressures from declining or inefficient domestic industries which cause discrimination between commodities (agriculture *versus* manufactures, sensitive items *versus* non-sensitive items).
- (b) The apparent failure of politicians to realise that the very sound arguments for mutual gains from free trade can be extended beyond the Community itself.
- (c) The discriminatory nature of current schemes between countries (Associates *versus* the rest of the Third World).

The most difficult question is that of pressure and political lobbying from traditional and declining industries of the Community for protection against imports, so that they can continue their inefficient operation. This is the case of agriculture, textiles, footwear and similar industries which face competition from the now more efficient and cheap producers of the Third World. The answer here is for a comprehensive policy of 'adjustment assistance' to compensate people in such industries with re-training schemes, retirement grants, and the creation of alternative jobs. Britain carried out such a scheme quite successfully with its declining cotton industry, and there are few reasons why such a policy should not be equally successful in other cases.

To the second heading all that needs to be added to what has already been said is that for every pound's worth of imports that Europe agrees to buy from a developing country, it is more than likely to be able to sell a pound's worth in return. And this process is cumulative, because when developing countries really get moving they will require increasing quantities of goods from Europe. The argument made sometimes that entry for developing countries' products worsens balance of payments problems in Europe has little factual basis. The latter problems derive almost exclusively from import and export imbalances in trade amongst developed countries themselves or (since autumn 1973) with the Middle-East oil producing countries.

Regarding the third point (the divisive effect of Association), the discrimination amongst developing countries embodied in the policy of Association has serious consequences for the ability of Third World countries to take joint action in international negotiations with rich countries.

Europe should proceed to make non-discriminatory trade agreements with any Third World country which approaches with the elements of a mutually satisfactory trading relationship. It has in fact, recently

made an agreement with one of the poorest countries of the world which had been excluded from current policies: India. This broadening of Community policy should be resolutely pursued.

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# TRADE

DEPENDENCE OF INSOLUBLE COUNTRIES ON AGRICULTURAL EXPORTS FOR FOREIGN EXCHANGE EARNINGS (Average 1965-66)

## Notes on table:

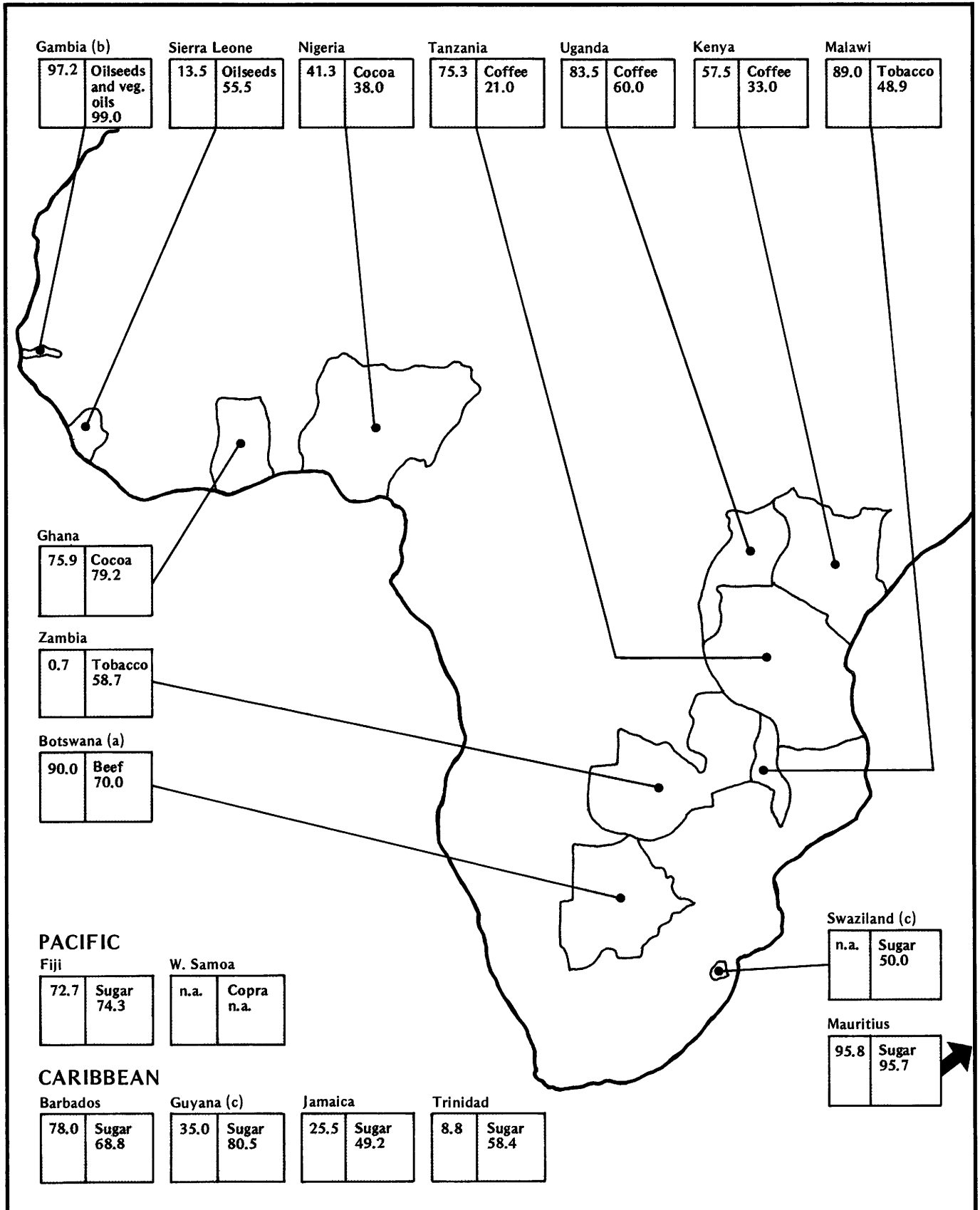
- (a) Estimate from Botswana Meat Commission Report.
- (b) 1965-66 two-year average.
- (c) Estimated from sugar reports.
- (d) Information on Lesotho and Tonga not available.

## KEY

Agricultural exports as % of total exports	Most important agricultural export as a % of agric. exports.
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\* Ten of the sixteen countries for which figures are available are more than 50% dependent on agricultural exports for their export earnings, and for twelve countries the chief agricultural export is in direct conflict with European production under the Common Agricultural Policy (sugar, tobacco, oilseeds, and beef).

## AFRICA









# THE EUROPEAN COMMUNITY AND THE THIRD WORLD: Recent Developments

## New EEC policies for associates

AT THE END of much hard bargaining and cliffhanging in the Jamaican capital last week the developing countries of Africa, the Caribbean and the Pacific came to a reasonably good agreement with the Nine on the way forward to a new convention of association which is due to go into effect on February 1. At the end of January the Yaoundé and Arusha agreements which regulate relations between much of French-speaking Africa and the East African Community on the one hand and the EEC on the other expire. Besides prolonging and improving the trading and aid relationships established under Yaoundé and Arusha the new agreement must take account of the aspirations of other Commonwealth African countries and the newly emerging states of the West Indies and Oceania.

### Details

As a result of the deliberations of ministers in Kingston the technicians of the ACP group and the European Community will meet in Brussels in September charged with the job of working out the details of the new instrument by the end of November. This then must be approved by another ministerial meeting before it is signed finally at the end of the year or early in January in Lomé, the capital of Togo.

The guidelines set out by the ministers for them last week fall under three headings; trade cooperation, export earnings and industrial cooperation. The concept of industrial cooperation is the least detailed but if it is imaginatively handled could produce a growth of new industry in much of the Third World under the aegis of European manufacturers. That could present opportunities for both sides. On trade cooperation the Nine have conceded that the ACP countries must be given much freer access for

their products in Europe whether or not these products clash with those items which are produced in Europe and covered by the Common Agricultural Policy. In this context it will be very difficult for Britain's partners to renege on the understanding that Commonwealth sugar producers should be allowed to sell 1.4m. tonnes of sugar a year to the Nine. If they are determined the ACP negotiators will be able to sweep aside many of the non-tariff barriers and excessively stringent rules of origin which have hitherto blocked their export growth in Europe. European consumers of a wide range of goods, from alumina to sweetened orange juice could be the beneficiaries of such liberalisation.

It is however with Europe's new offer of a limited guarantee to stabilise the export earnings of the ACP countries from a range of export products — raw materials, semi-manufactures and manufactures—that much new ground has been broken. For the first time in history a major trading group has undertaken to assist in halting the erosion of developing countries' purchasing power which results from periodic sharp falls in commodity prices or the inexorably increasing prices of industrial goods that the poorer countries have to import. ACP countries which are squeezed in this way will be entitled to special financial assistance.

### Concern

The assistance is likely to have a firmly fixed ceiling placed on it and will not take into account the problems faced by ACP countries in the form of sharply increased oil prices which are not Europe's responsibility. Nevertheless it is a promising new initiative which will manifest the Nine's concern for a large part of the developing world.

## OVERSEAS NEWS

## EEC agrees to with associabl

BY HUGH O'SHAUGHNESSY

THE AFRICAN, Caribbean and Pacific countries (ACP) and the EEC yesterday agreed on sketchy political guidelines for the elaboration of a new convention of association to come into force on February 1.

Agreement was reached after late night discussions between ministers of the ACP and EEC which dragged on till 3.25 a.m. yesterday morning. In their communique the ministers declared that the way was now open for technicians to work out a final convention by the end of November at the latest. Both sides hope to sign a new agreement which would supersede the Yaoundé and Arusha agreements and bring many Commonwealth countries into a relation with the enlarged Community for the first time, in December or January. The Togolese capital of Lomé is the most likely venue for the signings.

The most novel and significant concession that the ACP countries managed to wring out of the Nine was an undertaking that the Community should take steps to guarantee financially their earnings on exports to the Community arising not just from primary products but also from manufactured and semi-manufactured goods. Though the ACP group failed to reach an all-embracing guarantee which would protect the real purchasing power of their export earnings from the full effects of world inflation, the Community

### Rules of origin

The ACP countries secured concessions Nine on the difficult question of the origin for ACP exports. Hitherto of a product has been determined with reference to headings. In a new agreement will also be determined the proportion of value of ACP products which will be treated as ACP products. A minimum of 25 per cent of value has been added to ACP country.

The EEC undertakes to remove obstacles to the ACP countries arising from tariff barriers within the Community and from the Common Agricultural

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## More help for Developing Countries

The European Community has now proposed its generalised system of preferences (GSP)

The improvements include:

(a) **Processed agricultural products**

The Community's GSP, which was originally limited to manufactured goods, has been progressively extended to include processed agricultural produce. The Commission proposes both to extend the list of products covered and to increase the margin of preference for most of the products already covered by the Community scheme. If the Commission's proposals are accepted, the

volume of trade covered, which was approximately £234 million in 1974, would rise to approximately £300 million in 1975.

(b) **Semi-finished and manufactured industrial products**

The basic improvement proposed by the Commission concerns an increase in the level of the ceiling for imports into the Community under the GSP. This increase of about 15% results from a recalculation of the ceilings on the basis of

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# Basis of pact the group

KINGSTON,  
JAMAICA, July 28.

to take into is also expected to foster in-  
ation of the dustrial co-operation with the  
en the ACP ACP group through such means  
and the as joint ventures and the grant-  
orking out ing of soft loans for ACP in-  
er by the dustrialisation.

s an under- The final complexion of a new  
ans to com- convention of association will in  
tries from great part depend on the success  
ce of goods or failure of the ACP negotiators  
m Europe in pinning down firmly the con-  
utable to cessions sketched out in yester-  
on. ACP day's document.

ive money A major battle will still  
e would be centre round the actual amount  
e European of aid which the ACPs will re-  
w they used ceive though they have accepted  
pecial con- there must be a ceiling on the  
to its use. guarantee fund the two sides are  
still wide apart on figures. The  
Community is thinking in terms  
of a total of between 3,000m.-  
4,000m. units of account over the  
next five years while the ACPs  
would like to see a grand total  
nearer 8,000m. units of account.

tries also from the  
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been deter- e to tariff  
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aded. The or goods to  
roducts if a ent of their  
within the

nk to mini- e trade of  
e out of non- the Com-  
e European Policy. It

# Proposed improvements to for 1975.

was latest trade statistics. On the basis of  
74. preliminary estimates, the volume of  
338 trade covered should rise from £1.040  
million in 1974 to £1.196 million in  
red 1975.

(c) **Textiles**  
The Commission is awaiting the  
outcome of the bilateral negotiations  
under the Multi-fibres Agreement,  
which have not yet been completed  
before presenting its proposals for  
the GSP in the textiles sector to the  
Council. In 1974, the volume of trade

covered by the GSP will amount to  
about £260 million

### (d) **Jute and Coir Products**

The preferential margin will be  
raised from 40% in 1974 to 60% in  
1975, as provided for in the agree-  
ments with India and Bangladesh.  
The question of continued duty-free  
entry for imports into the United  
Kingdom and Denmark will need to  
be considered.

The improvements of the Com-  
munity's scheme for 1975 will  
increase the practical value of the  
generalised preferences to the de-  
veloping countries; but its purpose  
cannot be fully realised without a  
better understanding and utilisation  
of the generalised preferences both  
by the beneficiary countries, and by  
those concerned within the Com-  
munity. For this purpose:

- a system for gathering statistical information on the utilisation of the scheme will shortly become effective;
- the creation of a separate agency for documentation, research and

advice on the generalised preference  
scheme should be studied;

- a programme of seminars and other information activities for the assistance of the beneficiary countries will be actively pursued by the Commission.

### **Administration**

The other main section of the  
Commission's proposals concerns  
*the way the Community's GSP is  
administered*, and which has often  
given rise to criticism. The principal  
improvements are the following:

- The number of sensitive products whose import into Member States under the scheme is subject to quota will be reduced from 51 in 1974 to 7 in 1975. (There were 60 in 1973.)
- A Community reserve will be introduced into the remaining quotas, as agreed in principle by the Council in December 1973.
- The cut-off point which limits the exports of individual beneficiaries under the scheme, will be raised to

## A World Aid Fund

The Commission has proposed a  
world fund of \$3,000 million to aid  
the developing countries in the world  
most affected by the dramatic in-  
creases in world prices. The proposal  
will be discussed at a special meeting  
of the United Nations on April 10.

Rising commodity prices have had  
a severe effect on the developing  
countries. The increased price of oil  
since 1972 will cause an added  
import expenditure for all the  
developing countries of the order  
of \$10,000 million and this is  
unfortunately far from being an  
isolated case. In 1974 expenditure  
by these countries on wheat and  
fertiliser is expected to increase by  
about \$3.3 thousand million and  
\$2,000 million respectively. To this  
must be added the increases in export  
prices by the industrialised countries  
(19 per cent by OECD countries in  
1973).

The price rises for these three  
commodities alone (\$15,000 million)  
represent 30 per cent of the total  
value of the exports of developing  
countries.

The Third World is affected in  
three different ways. Firstly, there  
is a relatively favoured group of  
countries (e.g. Nigeria) who can  
compensate by increasing their own  
export prices. A second group can  
soften the shock by loans or by  
using their own exchange reserves.  
Included in this category are countries

exporting manufactured goods; for  
instance, South Korea, Taiwan and  
Singapore. The third category, in-  
cluding countries in SE Asia (India,  
Pakistan, Bangladesh, Sri Lanka),  
Central America, the Caribbean and  
some African countries (the Sahel  
area, Senegal, Kenya, Burundi) will  
be the most affected. OECD has  
estimated the additional burden for  
these countries at about \$3,000  
million.

These countries are in a very  
serious situation because they can  
count on no return of capital from  
the oil exporting countries and they  
cannot expect to raise loans on the  
capital market. They are also likely  
to suffer from any import restrictions  
imposed by the industrialised  
countries. Furthermore any restric-  
tions they impose themselves on oil  
and fertiliser imports will have  
serious effects on the agricultural  
situation in these countries, possibly  
leading to famine.

In the light of this situation the  
Commission has proposed to the  
Council that the Community should  
appeal to all rich countries to join it  
in an exceptional aid effort. The  
Commission suggests a world fund of  
approximately \$3,000 million to  
distribute to the most affected  
countries. The Community would  
provide about \$500 million of this  
amount, in addition to the develop-  
ment aid which it must maintain.

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# The Common Agricultural Policy II

Michael Berendt

*The events of the last four years have left the common agricultural policy much changed. Its old principles of free competition between farmers in all Member States have been hampered by the problems of monetary instability. Since the world grain surplus turned to shortage, its rôle of protecting the farmer has extended to the protection of the consumer. It has become more responsive to public opinion in the enlarged Community, but it has failed to solve the acute problems of those farmers hit by the rapidly changing economics of food production following the increase in commodity and energy prices.*

*The policy is changing still. Britain's renegotiation demands are on the table, with particular emphasis on changing the beef regime and introducing greater flexibility into the system. Germany is uneasy about the open-ended financial commitment of paying for the policy and has persuaded the Council of Ministers that a 'stock-taking' should be carried out before the end of February 1975.*

## A protectionist system

Several aspects of the common agricultural policy were distasteful to Britain in the late 1960s. Britain's adoption of the policy seemed a necessary but unpleasant *quid pro quo* for the political and economic advantages of membership. To British eyes it seemed a policy tailor-made for high-cost farmers, damaging to world trade and disdainful of the consumers' needs. It maintained prices well above world levels, yet was expensive for taxpayers too because of the high cost of keeping a floor in the market when world prices were low. It also militated against the low-cost agricultural producers of the Commonwealth, such as New Zealand, Australia and the Caribbean countries, by excluding their relatively cheap supplies.

Since 1970 these arguments have been turned on their head. The policy still insulates the Community market from trends on world markets, **but now it protects consumers against high world prices instead of protecting farmers against low prices.** The productive capacity of West European agriculture, operating with relatively stable weather conditions and a highly controlled market are positive benefits in a world of grain shortage. The extent of the change is indicated by the Labour Government's attitude. While pressing the need to renegotiate Britain's terms of entry, the Foreign Secretary has several times emphasised the importance of the common agricultural policy for assuring stable supplies of foodstuffs at reasonable prices. (See insert Common Agricultural Policy – 'Eurofood in a hungry world'.)

The 1960s were characterised by heavy wheat and maize surpluses throughout the world, as the Americans, Australians, Canadians and Europeans subsidised their exports in order to dispose of surplus output. For a Britain purchasing its food on world markets, it was a good time. Those surpluses have now disappeared. There is serious famine, especially in North Africa and the Indian sub-Continent; fertiliser production and irrigation are hit by the rise in oil prices, jeopardising agricultural development in the Third World; harvests have been mediocre in both the United States and Canada. The world price of wheat,

less than £25 a ton up to 1970, is now £100 a ton or more and the United States, which has traditionally met the world's grain needs, has been obliged to put curbs on its exports.

The capacity of the EEC for producing food takes on a real importance in these circumstances. Taking all grains together, the Nine can produce about 90 per cent of their needs at home, although 40 per cent of the maize and most of the special hard wheats used for pasta and for British steam-baked bread have to be imported from America. Grain is the basic raw material of most food production, not only for bread and beer, but for pork and bacon, poultry and eggs and, to a lesser extent, beef and milk. A policy which stabilises grain prices is thereby achieving a fundamental aim of agricultural policy.

It is the protectionist mechanisms of the common agricultural policy which allows the Community to insulate itself from trends on world markets. Intervention, under which commodities can be offered to official agencies which are obliged to buy at a guaranteed price, thereby putting a floor in the market, works well with grains and may be introduced on a world scale. Wheat, barley and maize can be stored indefinitely without dropping in value. They can be moved relatively easily and used in many different ways. Thanks to the intervention system, the EEC started the 1974/5 cereal year with eight million tons of wheat in store, bringing the price of wheat in the Community well below the price prevailing on world markets. In order to prevent producers or traders from exploiting high world market prices, the levy system is reversed, with levies imposed on *exports* of grain and grain products. This keeps down the domestic price and allows controlled exports such as the proposed one million tons of wheat for India which will be provided on special terms.

**However, although the mechanisms of the common agricultural policy work well on storable products like cereals and sugar, where intervention buying effectively levels out the peaks and troughs of price and supply, the same cannot be said for livestock products, where there have been increasing problems.**

## The consumer influence

In the summer of 1973, 200,000 tons of butter which had been bought by official intervention agencies in the Nine were exported to the Soviet Union at a knock-down price, mainly because this was the cheapest way of disposing of the butter. The response of public opinion was intensely hostile, not just in Britain, but in other member countries of the Community too. This was symptomatic of an increasing public awareness, a consumer voice in the development of the common agricultural policy which had not been much evident before the enlargement of the EEC. This consumer interest, which expressed such hostility to the butter sale, has had considerable influence in the development of the common policy. It has led to the introduction of two types of butter subsidy, one for consumers in general and one for those on social security benefits. It has been instrumental in producing a fundamental reshaping of the beef policy, as well as the introduction of a Community beef subsidy for old-age pensioners. When the basic regulations setting out the market system for various commodities are changed, the consumer interest is spelled out as it never was before enlargement.

Consumer organisations are now brought into the policy-making process together with the farming and business pressure groups. This increasing public awareness, expressed particularly but not exclusively by the British government, is forcing the system of market support to be changed, as far as animal products are concerned. It is an important element in the current beef crisis.

## The crisis in beef production

The tidal wave of price change which has engulfed the world since 1972 has had particularly serious consequences for beef producers, who found themselves through the summer and autumn of 1974 receiving market prices of £12 a live cwt. in Britain and Ireland compared with £22 only a year previously. Their plight was the result of a conjunction of circumstances which the common agricultural policy was ill-equipped to tackle.

Governments and international organisations were unanimous only two years ago in suggesting almost limitless possibilities for beef expansion. As standards of living rose throughout the world, and especially in Europe, so beef consumption rose faster than production. With the Continental market in mind, British and Irish producers invested heavily in beef. They kept more cattle for breeding, borrowed heavily to build up their investment, and anticipated a high level of beef prices.

In the spring of 1973, the Conservative Government abandoned the British guarantee arrangements on beef, since the buying-in system had been strengthened to put a bottom in the market: if prices dropped to the official support levels, farmers would be entitled to sell to the intervention agencies and be guaranteed the intervention price. The British Government believed that this EEC policy should give beef producers security enough.

When the Labour Government took office in March 1974, it found the intervention system politically unacceptable. Taking beef off the market, freezing it and then exporting it could be justified neither within

the Labour Party nor to public opinion in general. **The government pressed successfully for the suspension of intervention in Britain, leaving beef producers with neither the old form of support nor the new.** The early optimism of British and Irish farmers bore fruit in the summer of 1974. It proved misplaced. The costs of their feeding stuffs had increased, interest rates were at record levels and – perhaps worst of all – the oil crisis had severely cut the spending money available to consumers. People were no longer buying as much beef, yet some 30 per cent more was coming on to the market. Support buying was operated by the Irish government, but the weakness of the British market made the system totally ineffective. It worked better on the Continent, but even there the authorities were short of storage space and market prices fell far below the intended floor price.

Throughout 1974 the British government was pressing for changes in the Community's beef support system, advocating the introduction of deficiency payments in place of intervention. In the summer a beef slaughter premium scheme was introduced as an alternative to intervention – at least a half-way step towards deficiency payments, but even that was powerless to ward off the beef crisis of the autumn, which was in turn exacerbated by shortage of winter feed. The slaughter premium scheme involved a direct payment on each beef animal going through the slaughterhouse, raising the farmer's return without pushing up the price of meat.

Although it did not solve the problems, the Community's introduction of such a scheme was significant. It was a recognition that a system of direct payments not affecting the market price could play a useful role in the market organisation for a livestock product, making intervention less important and allowing greater play to the pressures of supply and demand. **Development of the common agricultural policy will almost certainly follow this new path.<sup>1</sup>**

## Towards deficiency payments?

Deficiency payments are often seen as the answer to all the problems facing the common agricultural policy, but this ignores the fact that, as applied in Britain, they were designed for an agricultural industry which could not meet all domestic needs. Deficiency payments cover the difference between the average market price and a guaranteed price. In Britain market prices could be sustained by applying quotas or levies on imports, thereby limiting the financial liability of the guarantees. For products where the Community is in substantial deficit, as with olive oil and the durum wheat (which is used for making pasta), a system akin to deficiency payments is used, but for other products where self-sufficiency is already achieved (including beef during 1974), there would be no limit on the Community's financial liability under a guarantee system. M. Lardinois, Commission member responsible for agriculture, has estimated that the cost of a guarantee system would be at least *double* that of the existing EEC arrangements.

A further problem of deficiency payments is administration. The British farming population is small and well-informed, while government extension

<sup>1</sup> Under interim arrangements agreed in November 1974, Britain did actually introduce a deficiency payment scheme with Community blessing, coupled with limited intervention buying to put a floor in the market.

Services are highly trained. The administrative problems facing countries like France and Italy would be formidable, since the farming population is so much larger and the government services less involved in such policy administration. Direct payments on the product are likely to become a more common element in EEC agricultural policy. The measures already adopted by the Council of Ministers for providing special aid to farmers in regions with low incomes and a declining population will provide direct aid in the form of payments per head of cattle and sheep on a similar basis to British hill farm subsidies. This hill farming measure recognises that special regions have special problems – a recognition which was difficult to find in the early days of the common agricultural policy.

An additional measure much discussed in the context of high Community prices is the *direct social subsidy*, designed to raise the farmer's personal income to a certain level while allowing guaranteed prices to fall. In a limited sense this has already been introduced for older farmers who wish to quit farming. They now qualify for a pension plus an acreage bonus for giving up most of their farm for the enlargement of another. On a larger scale, however, direct income subsidies are never likely to be acceptable. They are intensely disliked by the farming population, and are both difficult and expensive to implement, although there is nothing to stop member governments applying them if they wish.

## A common policy

An early aim of the common agricultural policy was to strengthen the ties between member countries by linking their economies more closely. To the extent that trade in agricultural products between Member States has increased enormously over the last 10 years it has been effective, but monetary difficulties have presented many problems. Instead of representing a single market for agricultural goods, the Nine comprise five separate markets, each protected from the others. This has become necessary or desirable for member countries for complex monetary reasons. To take one example: when the £ floats down in value it would normally make the British farmer more competitive in the markets of other EEC member countries, while correspondingly raising the cost of imported food to British consumers. When a country like Germany revalues its currency, it has the opposite effect.

In order to protect consumers and farmers from this sudden change, border taxes are imposed on agricultural products flowing from one member country to another (so-called *monetary compensatory amounts*). In countries with strong currency it is the farmers who are defended, whereas consumers benefit in countries with weak currencies. A British producer selling to Germany would have to pay a substantial levy to nullify any advantage given him by the devalued £. His German counterpart receives an equivalent subsidy to allow him to compete as before in the British market. To importers and exporters, such complication is a nightmare. But trade continues to flow, while different – rather than common – levels of price prevail in different member countries.

The other aspect of the 'common' policy which has been put under pressure is that relating to national aids. Community rules are strict. **Only national aids which do not distort competition by giving farmers in**

**one country an advantage over those in another are acceptable.** France, once the staunchest defender of Community discipline, breached these rules in July. The government introduced special payments to French cattle and pig producers to help them weather the problems of low prices and high costs. France did not consult the Commission or the Council of Ministers about these measures and as a result the Commission decided to challenge French action at the European Court of Justice.

There is a further logic in the restrictions on national aid. Help may be given to a particular farming sector by a member government, leading to increased production which may in turn cost money for the EEC Farm Fund, so all member countries have to pay for the consequences of one country's unilateral action. Any concessions to Britain's renegotiation request for the right to take limited unilateral action for a limited period in particular areas will therefore have to take into account these financial considerations. It was on this basis that the German Government delayed agreement on agricultural prices in September 1974, demanding a Council declaration against unilateral national aids.

## Agricultural policy and general policy

Because agricultural policy has developed much more quickly and much further than other Community policies, it has sometimes failed to take adequate account of other sectors. The ministers meeting in the Council have tended to take decisions which have important implications for development policy, over seas trade or economic policy, without taking those implications fully into account.

This has not been the fault of agricultural policy as such, nor of the ministers concerned, but rather of the Community as a whole for failing to develop a common position on those other policies. This is something which is now changing. The Community of Nine conducts 40 per cent of world trade, giving it a heavy responsibility to see that its agricultural policy making does not damage that world trade. The Commission successfully resisted the imposition of a ban on beef imports despite the deteriorating market situation during 1974 and although the ban was later imposed, talks were immediately started with supplying countries to discuss some type of phasing agreement.

The financial constraints on the policy are also becoming tighter and the heads of state of Germany, France and Britain have all spoken of the need to watch more carefully the decision of their agricultural ministers. **In these ways, the policy is being forced to become more responsive to the needs of the Community and is no longer as single-mindedly concerned with the position of the farming population as it was in the 1960s.** While one cannot anticipate the results of the renegotiation process, it is remarkable how far the conflicts of interest between nine different agricultural policies in the mid-1960s will have become a largely common interest by the mid-'70s.

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See also The Common Agricultural Policy I, ESTS 19.





## DORDOGNE

# The farmers' unhappy lot

BY GILES MERRITT IN PARIS

THEY LIKE a good joke in the Dordogne and right now, in spite of their anger, the farmers there have got one that is cheering them all up no end. The joke revolves around M. Yves Guéna, the Gaullist politician who was Transport Minister until earlier this summer when M. Giscard d'Estaing's presidential victory shuffled him out of the Government. M. Guéna is also Mayor of Périgueux, the regional seat of the deeply rural Périgold area in South West France.

Driving to an urgent meeting recently, the ex-Minister had the misfortune to run foul of a contingent of militant farmers on their way into town to take part in a 20,000-strong demonstration in support of their "fair deal for agriculture" campaign.

## Punctured

His tyres were slashed and, immobilised, M. Guéna had no choice but to take part in an hour-long, heated debate on the farm crisis. What makes everyone in the Dordogne region laugh so much is the simple, perhaps rather laboured, pun that Guéna was "désoigné," a term meaning punctured which is also slang for taking someone down a peg.

The laughter at M. Guéna's quite unsought humiliation is probably in direct proportion to the farmers' resentment against the French authorities who they blame for their current unhappy circumstances. For in the quiet, hilly Dordogne, as in most other agricultural areas in France, the farmers' lot has become a very unhappy one.

The "paysans" reckon that, overall, their standard of living has dropped a shattering 20 per

cent this year because of falling prices for their produce and rapid inflation in the cost of the materials they must buy to run their farms.

The unrest that has broken out in sporadic acts of violence during this year has in high summer begun to reach crisis proportions. The technique of blocking main roads busy with tourist traffic has brought home to the French the depth of the farmers' feeling far more than previous demonstrations, even when they resulted in tragic injuries to passers-by. There has also been an element of comedy and rural farce in many of the protests; the spectacle of cows carrying placards along crowded holiday beaches, for instance.

But in the Dordogne there are fears that an increasing number of small farmers may have to sell-up. Squeezed between rising costs—fertilisers have risen almost 50 per cent. this year, while jute and sisal increases have tripled the cost of binder twine—and earnings likely to be down 15 per cent. this year because of weak market prices, farming seems to have become a profitless occupation.

In the last 20 years French farmers have gone out of business at the rate of one every 10 minutes. The proportion of the population on the land has dwindled from 29 per cent. to 13 per cent. In really poor areas of France, such as the mountainous Savoie, farming family incomes average only Frs.7,900 a year. French farmers calculate that 60 per cent. of their number earn considerably less than the SMIC, the legal minimum wage of £1,100 a year. In the Dordogne the percentage is put at about 70 per cent.

One of the chief militants in

the Dordogne is M. Georges Trijoulet, the chairman of the region's influential Chambre d'Agriculture, whose presence at the Guéna tyre-slashing incident has not gone unremarked. Mayor of the tiny village of Allemans and a smallholder himself, M. Trijoulet is the fervent advocate of a major reappraisal by the Government of the farmers' situation—he claims that under the present system they are discriminated against in a way that no other occupation or social class is.

## Wood Fires

President Giscard d'Estaing agrees. He recently said that "farmers' incomes should be comparable with those of other occupations." The problem, however, goes rather deeper than the vagaries of market prices. The yeoman farmer tradition that has helped British agriculture to become remarkably progressive when compared to that of France, does not exist. In most areas smallholdings are the rule, largely as a result of the Code Napoleon, which for over a century called for property to be divided equally between a dead man's children. Poor education and a lack of regional development until recently have made rural life the slowest changing element in modern France. In the Dordogne farmers' wives still often cook over wood fires in their kitchens and if their footwear is no longer clogs it is the Twentieth Century equivalent—straw filled wellington boots.

M. Trijoulet and his supporters are pressing for the Dordogne to be declared a "Rural Renovation Zone," as a first step towards modernisation, and already the

Government has indicated that it intends introducing general reforms that would make credit easier for farmers.

But the reform which farmers throughout France want most urgently of all is the immediate raising of produce prices and their pegging to the official cost of living index. The Government, of course, is caught squarely between these demands and the conflicting wishes of the EEC Commission, which has already instituted proceedings against France in the European Court.

The emergency aid funds amounting to Frs.600m. that the French Government voted last month to cushion the effects of price falls on farmers here, principally those engaged in beef and pork production, are considered by the EEC to threaten the fairness and stability of the Common Agricultural Policy.

The farmers, though, consider that these controversial subsidies are not enough and back their case up by pointing out that this year French agricultural production will have dropped Frs.10,000m. from 1973 levels—as much as the country's total farm produce export surplus last year.

The problem appears as intractable in France as it is in other EEC member countries. And the situation is made no easier by the fact that farmers in, say, the Dordogne find the intricacies of Brussels negotiation and CAP wrangling as perplexing as anyone else. Asked how he believes the French Government should reconcile the clash in interests of its own farmers and of its European partners, M. Trijoulet replied flatly: "I don't know. That's up to them."

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## EEC & U.K. industry

By Robin Reeves

### BRUSSELS

THE BRITISH agricultural fishing industries up to £11m. in the guidance of EEC farm fund.

Allocation of the of payments out guidance budget of account (some announced to-day for some £5m. grants toward things, new che processing facto drainage project and wholesale fr table markets in and Belfast.

On the fishing is being paid on tion of nine t announcement o tion of the seco still to come.

Distribution of between countri the subject of versy, with Irele mark being cut original expectati bigger share to Italy—on the gro latter do not bei from the guarant

As a result Bri ing 12 per cent. whereas Ireland are receiving jus cent. and 6 per tively. Even so, a number of applicants in Bri

# Eurofood in a hungry world

**ROBERT STEPHENS, our Diplomatic Correspondent, says membership of the EEC may have cut the cost of our food.**

The recent increase in world food prices, especially for cereals, has been almost as striking as for oil. Some experts believe this is a temporary phenomenon and that prices will go down again as supply increases. Others argue that what we are seeing is a structural change in the world economy com-

parable with the increasing scarcity value of oil. For there is constant pressure on food supplies from expanding world population and from the change in eating habits of richer countries. And countries which were formerly big food exporters, such as the Latin Americans, are eating more of their produce

themselves instead of selling it abroad.

A switch to eating meat instead of cereals means in effect a greater consumption of cereals, because the livestock or poultry have to be fed. It is Russia's commitment to a richer diet, as much as poor home harvests, that has in recent years sent her

into the world markets as a heavy buyer of grain.

There is strong evidence that the old picture of Britain being forced to choose between free access to cheap world food and the high prices of the protected Common Market is no longer valid. The era of cheap food, like cheap oil, may now be

over. wheat may pro product and dai are eve by grain

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This longer p wheat t mon Ag an incre port pr prices i this lev between

# EEC farm fund aid for U.K.

By Reginald Dale, Common  
Market Correspondent

BRUSSELS, August 5. **BRITAIN IS** to receive a further series of grants, totalling £3.3m., from the EEC farm fund towards modernising agriculture and the food and fishing industries, the Brussels Commission announced to-day.

Coming on top of a first batch of grants, worth just over £5m., announced last month, the latest payments mean that the U.K. will have received a total of just over £8.3m. from the "guidance" section of the fund for 1973.

With the allocation of last year's funds now complete, to-day's figures show that Britain received just under 12 per cent. of the 170m. Units of Account (£70m.) for structural improvements in the first year of U.K. Common Market membership.

The largest amount, 47m. Units, or almost 28 per cent. of the total, went to Italy, followed by Germany with just under 40m. Units, and France, with just over 30m. Belgium and the Netherlands both received around 10m., Ireland 6.9m. and Denmark 4.7m.

British projects qualifying for help under the decisions announced to-day include road-building, drainage and flood control in rural areas. Other grants will go to the meat, dairy and vegetables sectors. Funds will also be made available to help a number of other projects, including the construction of three fishing boats and a new potato chip factory in West Lothian.

the European price when the latter was higher. Now, instead of protecting the European farmer against cheaper cereal imports, the Community is having to pay him a subsidy, raised through an import levy, to sell his grain within the Common Market rather than outside it at the world price. In practice, as Mr George Thomson has pointed out, this means that France is giving Britain a bread subsidy.

Britain imports just under a half her wheat needs. In 1972 about half her imports came from the United States and Canada and a quarter from Western Europe, but British millers are now using twice as much European grain as last year. The EEC as a whole is almost self-sufficient in wheat.

Under the EEC agreements, Britain still has access for some time to New Zealand butter and cheese and to

Commonwealth sugar at prices well below those obtainable in Europe or elsewhere. But higher-priced markets are likely to exert a growing attraction for these producers: already New Zealand is exporting a good deal less than her permitted quota of butter and cheese to Britain.

In Europe itself the size of the farm problem has, in any case, begun to change, and with it the political influence of farmers on European governments. Over the past seven years the number of people engaged in farming on the continent has shrunk from an average of nearly 16 per cent to 11 per cent. The European Commission has also proposed reforms that would reduce the costs of the CAP by about £500 million a year.

The British are not alone in criticising the cost of the CAP and its more absurd

## EEC AGRICULTURE

# Militant farmers march again

BY JOHN CHERRINGTON, AGRICULTURE CORRESPONDENT IN BRUSSELS

FRENCH AND BELGIAN farmers have been demonstrating their discontent during the last few days by blocking roads with tractors, spreading slurry in the streets of Le Mans in Normandy, letting pigs loose in traffic in Brittany, and yesterday they blocked the motorway from Namur to Brussels for a while to impress the public with their problems.

The reactions of the French Press have been cool, but these happenings have been widely reported and are likely to continue if the Agricultural Ministers who have been meeting here for the past two days fail to come up with some "miracle" solution of their problems, which goes far beyond those of beef on which British attention is focused.

In spite of diligent research the only actual demonstrations I have encountered was outside the Charlemagne building here to-day where the Agricultural Ministers are meeting—and the police seemed to be in about equal numbers to the farmers. So I will crystallise the farmers' case in the words of one lady I met driving her herd of cows along the road between Reims and Verdun in North-East France, a pleasant area reminiscent of Hampshire, devoted mainly to mixed farming in quite big units.

### Interest rates

She was, she told me, farming 150 acres of moderate land not too badly fragmented although the cows were being driven a mile to that day's pasture. She had one son at home and another in the army whom she hoped would come back and take her place. She was getting tired of milking 30 cows twice a day which she had been doing for 20 years. The farm had been pretty derelict when she rented it but thanks to loans totalling about £17,000 at 4½ per cent., she had renewed the buildings and

made other improvements and increased the stocking rate. She had quite a good car, two tractors, a baler, combine harvester and all the usual machinery.

She did not feel she was lucky to be borrowing at such a low rate of interest. It was only provided because, she said, the authorities knew the farmers could not pay more. The milk price was poor in her region (it varies considerably over the country) and prices for calves and cull cows were now at "disaster" levels. She had no intention of giving up before her son came home but intended to increase the cows to 40 when he did.

Grain prices were good but, of course, her farm was not big enough for cereal production alone. She was on the look-out for more land, as quite a bit was coming up to rent as very small farmers were forced out of farming. But although rents were strictly controlled, somehow or other it was always the larger farmers who managed to get hold of it, and once installed there was no chance of dislodging them.

Like most farmers I met she had been well briefed in such things as the comparison between farmers' incomes with those in industry. The inequities of the Common Market and of some of France's partners in the enterprise are a common talking point. The Italian market for beef had been destroyed, but the Italians were taking beef still from Eastern Europe. The compensatory amounts payable on exports and imports of farm products should be abolished. The Irish should not flood France with cheap cattle and calves (this was news to me and a very doubtful claim but was repeatedly said). They had been encouraged to produce more beef and rear more calves two years ago, and now they were unsaleable. The cost of all inputs was rising fast and nothing was done.

There had been hopes during the period that M Chirac the Prime Minister was in charge of agriculture. He had defended them well in Brussels. Of the present Minister, M. Christian Bonnot, she used a phrase best translated as a man who would be unable to fight his way out of a paper bag.

She had not yet demonstrated, but would be happy to send a tractor if asked. Her hopes of the future depended either on a "green franc," since denied by the Government, and a realisation by consumers that they must pay more

### Feed costs

Looked at objectively the standards of living of her sort of medium farmer did not seem to be too bad. They had to work hard, in some cases very hard, but their cars, machinery and household equipment were good. It is significant that the complaints are for the most part centred on the medium-sized enterprise such as she had. The very small peasant holdings have already been more or less written off by both the Government with special subsidies for retirement, and by their fellow farmers working on rather larger units.

Any farmers growing grain on the better lands and on economically sized holdings are keeping a pretty low profile. The high grain prices over the past few years have made them very prosperous and these high prices have at the same time made things immensely more difficult for the livestock farmers who have to feed grain to their stock.

The demonstrations are aimed as much at national governments as at the Common Market, and French farmers are setting great store on the results of their own Government's Cabinet meeting this week when they hope that some national relief measures will be announced.

LS, July 18.  
agriculture and  
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# Direct Elections

Ben Patterson

*The 198 members of the European Parliament, unlike those of most other parliaments in the world, are not at present elected directly by the people they represent. Instead, under Article 138 of the EEC Treaty, they are drawn from among Members of the various national parliaments 'in accordance with the procedure laid down by each Member State'.*

*It was never envisaged by the founding fathers of the Community, however, that this arrangement should be permanent. Article 138(3) of the EEC Treaty declares that the Parliament shall itself 'draw up proposals for elections by direct universal suffrage in accordance with a uniform procedure in all Member States'. It is then up to the Council, 'acting unanimously', to recommend appropriate provisions to Member States 'for adoption in accordance with their respective constitutional requirements'.*

## Why direct elections?

There are good arguments, both practical and of principle, for pressing ahead with the change to direct elections. To begin with, the first sentence of the EEC Treaty refers to 'an ever closer union among the peoples of Europe'. So far, what unity there has been has largely concerned administrations and politicians. The exercise of suffrage as a European civil right would help give ordinary people the sense of belonging to a European political whole.

Secondly, direct elections would embody another fundamental principle: the faith of the Community in free elections and in parliamentary democracy. This is all the more important in that parliamentary institutions have recently been under attack both within the Community and in other parts of the world.

Thirdly, direct elections would help restore democratic control over those aspects of government which have been transferred from the competence of nation states to supra-national institutions. Critics of the Community repeatedly complain that the 'Eurocracy' (both Commission and Council) is remote, secretive, and irresponsible. Control by a directly elected Parliament would do much to put matters right.

Finally, there is one severely practical argument. Nomination from national parliaments under Article 138(1) means that each Member of the European Parliament has a dual mandate.<sup>1</sup> As Parliament's powers increase, so will the work load – and it is already estimated, for example, that a United Kingdom Member of the Commons would need some 450 days in the year to carry out properly his duties at Westminster and to his constituents, and his duties at Strasbourg, Luxembourg and Brussels. Only by directly electing European Parliament Members can this growing problem be satisfactorily overcome.

## What has been done?

Acting with immense promptness, the European Parliament had by 1960 already drawn up a draft Convention for the holding of direct elections. This was based on the report of a working party chaired by Fernand Dehousse, and envisaged simply tripling the

size of the Parliament (then 142 members), the extra 284 being directly elected. This scheme, however, has 'lain on the table', awaiting Council decision, ever since. Meanwhile, as Fernand Dehousse himself noted in 1969, 'not a year has passed without its motions, declarations, symposia, bill proposals and papers on the subject'. Almost every Member State has at some stage considered proposals to elect directly at least its own national delegations, on a unilateral basis.

With the enlargement of the Community in 1973 it became necessary for the Parliament to draw up a revised Convention. The Parliament's Political Affairs Committee presented revised proposals in January 1975.

## Some problems

The long delay since the 1960 Convention was drafted, however, is evidence of the difficulties which must be overcome. A directly elected Parliament, it has been argued, might be isolated from the real centres of power, that is, the national governments. The political make-up of the Parliament after direct elections might be more hostile to the Community than the present assembly. There might be a disreputably low poll; or the results might reflect domestic issues in the Member States rather than Community matters.

Initially, perhaps, some of these fears might be realised; but essentially they are self-contradictory. A Parliament which brought forces of discontent into the open, for example, would stimulate interest in European elections, and would focus critical attention on the collective performance of the national governments. In moving to direct elections, nevertheless, a number of particular problems have to be solved.

## The chicken and the egg

One major reason for the delay in holding direct elections has been the feeling that these would be meaningless until the Parliament has greater powers; simultaneously, it has been argued that Parliament cannot be given such powers until its Members are more democratically elected. To break out of this 'chicken-egg' dilemma, a programme is required in which the move to direct elections and the increase in powers takes place in parallel.

<sup>1</sup> Article 138(1) states: 'The Assembly shall consist of delegates who shall be designated by the respective Parliaments from among their members in accordance with the procedure laid down by each Member State.'

## Unilateral action

The delay in implementing Article 138(3)<sup>2</sup> of the EEC Treaty has prompted a large number of schemes for directly electing separate national delegations while 138(1) is still in force. The chief difficulty here is that Members must still, formally, be 'designated by the respective (national) parliaments from among their members'. This effectively means that only *existing* national MPs can be eligible to stand (as in the most recent Belgian proposal); or that, after election, European Parliamentarians must somehow be co-opted to the national parliaments (as proposed by Lord O'Hagan in his recent Bill). The Vedel Report pointed out in 1972 that such schemes would also tend to 'nationalise' European elections, and 'would not mobilise public opinion at a European level'.

## What is uniform?

National electoral systems within the Community vary widely, from proportional representation through a party list system in Belgium, Italy,

<sup>2</sup> Article 138(3) states: 'The Assembly shall draw up proposals for elections by direct universal suffrage in accordance with a uniform procedure in all Member States.'

The Council shall, acting unanimously, lay down the appropriate provisions, which it shall recommend to Member States for adoption in accordance with their respective constitutional requirements.'

Luxembourg and the Netherlands, to the British system of 'first past the post' in single-member constituencies (see Table 1).

How can a system of election possibly be devised which will be simultaneously acceptable to the voters in all these countries? A great deal depends on what is meant by the phrase in Article 138(3) of the EEC Treaty: 'a uniform procedure'. It is not necessarily the same thing as a 'uniform electoral system'. Both in the 1960 Convention, indeed, and in preparing the new Convention, the Parliament has interpreted the Article to mean only a 'minimum of common principles', which each Member State can implement in its own way. Thus, initially at least, European Parliamentarians could be elected according to the systems prevailing in their own countries.

## Minimum common principles

What, then, should be the scope of the regulations to be laid down at Community level?

First, there is the question of what constitutes a *genuine election*: the main basic principles are that elections should be free, general, direct and secret.

Secondly, there is *admissibility of parties*. Clearly, a 'direct election' in which all but one party was banned would be a sham; but can it be left to Member States

Table 1  
Systems of Election in Member States

Country	Voting age	System of voting (lower chambers)
Belgium	21	Votes for party lists in multi-member constituencies. Proportionality between parties assured at provincial level. Voting compulsory.
Denmark	20	Votes for party lists in multi-member constituencies. Proportionality between parties assured at national level.
France	18	Single vote in single-member constituencies. If no absolute majority, second ballot between leading candidates. Proportionality not assured.
Germany	18	Each elector has two votes: one for candidates in single-member constituencies, the second for party lists. Proportionality between parties assured at national level.
Ireland	18	Single Transferable Vote in multi-member constituencies. Proportionality assured between candidates at constituency level, but not between parties.
Italy	21*	Votes for party lists in multi-member constituencies. Proportionality between parties assured at national level.
Luxembourg	18	Votes for party lists in four electoral districts, in which proportionality between parties assured. Voting compulsory.
Netherlands	18	Votes for party lists in single national constituency. Proportionality between parties assured at national level.
United Kingdom	18	Single vote in single-member constituencies. One ballot in which only simple majority required. Proportionality not assured.

\* 25 for Senate elections.

to decide whether extremist parties, of right or left, should be banned? (For example, certain parties are still banned in Germany).

Next, is a uniform *voting age*, and a uniform *age of eligibility for election*, necessary? The 1960 draft Convention fixed a common minimum voting age of 21 and a common minimum age of eligibility of 25. The normal voting age today varies between 18 and 21 in Member States (see Table 1). Linked to the matter of voting age is that of *where the vote may be cast*. The draft Convention envisaged that nationals of Member States would only be able to vote in their countries of origin, if necessary by post or proxy; but there are also strong arguments for allowing Community migrant workers to vote in their countries of residence, at least as far as the European Parliament is concerned.

Then there is the question of whether some degree of proportionality should be stipulated. Would it be admissible, for example, merely to hold a single national vote, with the winning party taking all the seats?

Direct elections also raise the problem of what is to be done *in the event of a Member being no longer willing or able to retain his seat*. In some Member States a constituency by-election to elect a new Member would be the usual practice; in others the delegation would be replenished from the appropriate party list.

There is the question of whether membership of the Parliament should be compatible with *the holding of certain other offices*: for example, the 1960 proposals excluded members of national governments and of the Community Commission.

Finally, there is the question of *cost*: how far, for example, should the Community finance elections? In some Member States parties are supported by public funds, in others not.

## Election dates

A more difficult problem is that of whether there should be a single European election date. One ballot, from Jutland to Sicily, would clearly have a dramatic impact. On the other hand different political situations in Member States might make this difficult to organise. Were it left to Member States to arrange for the election of their delegations separately, European elections might be combined with national elections. This would have some clear advantages: size of poll and cost, for example. It would also have clear

disadvantages: for example, the maximum confusion of election issues.

Eventually, however, a single election date will clearly be necessary. As the Parliament acquires powers, the balance between the political parties represented in it will become increasingly important, and it will no longer be tolerable for the membership – and possibly the political complexion – of the Parliament to be constantly changing as a result of different national elections. The question will then arise as to whether the Parliament should have a fixed term: for example, the five years proposed in the 1960 Convention; or whether there should be a procedure for dissolution in the event of crisis.

## Size and allocation of seats

*Possibly the most thorny problems of all are the size of the Parliament, and how the seats are to be allocated among Member States.* Directly electing the current 198 Members would mean about 1,250,000 population (849,000 registered to vote) for each Member. However, if no changes were made in national allocation, the number of voters per German Member would be some 1,150,000 as compared with only 32,000 in the case of Luxembourg. Why not redistribute the seats on the basis of population? In this case, Luxembourg would have, instead of the present six, no seats at all! It would become part of some Belgian, French or German electoral area.

To solve this problem alone, there is a case for enlarging the Parliament. The larger the Parliament, too, the easier it will be to provide for manageable constituencies, and the representation of minorities. On the other hand, there is clearly a point beyond which the Parliament would cease to operate as a deliberative assembly at all. The 1960 Convention proposed simply tripling each national delegation. This solution, today, would give a Parliament of 594 seats, in which for example, Luxembourg would have 18 seats to Germany's 108. On the other hand, a Parliament of, say, 505 allocated strictly according to population, would give Germany 123 seats, Ireland only six seats and Luxembourg only one. (See Table 2.)

## The dual mandate

Although the present dual mandate of European Parliamentarians creates many problems, there are good arguments for preserving strong links between the European Parliament and the national parliaments. The 1960 Convention solution was that, initially, one-

Table 2  
Possible Numbers and Distribution of Seats

Country	Present	1960 Convention basis: all delegations × three	One Member per half-million population (1972)	Six per Member State + one per half-million population	Six per Member State + one per one million population
Germany	36	108	123	129	67
UK	36	108	111	117	61
Italy	36	108	108	114	60
France	36	108	103	109	57
Netherlands	14	42	26	32	19
Belgium	14	42	19	25	15
Denmark	10	30	10	16	11
Ireland	10	30	6	12	9
Luxembourg	5	18	(1)	6	6
TOTAL	197	594	506	560	305

third of the Parliament should retain the dual mandate, and be nominated as at present, while the other two-thirds should be directly elected and be forbidden to hold the dual mandate. There are, however, other possibilities. For example, the dual mandate might neither be made obligatory nor be forbidden for a wholly directly elected Parliament, it being left up to individual Member States – or individual MPs – to decide whether to hold a dual mandate or not.

## The first election

The 1960 Convention envisaged that direct elections would come in two stages: a transitional period, with two-thirds of the Parliament being elected simultaneously, but by different national systems; and a final stage of full direct elections on a single basis, the details of which would be worked out by the elected Parliament itself. It has been suggested that use could be made of a transitional stage even as regards the timing of the elections. Individual Member States might be required to elect their delegations directly within a deadline of, say, four years. By the end of this period, the whole Parliament would have been directly elected, albeit by different systems and at different times.

Most opinion, however, is in favour of a single election date right from the start.

How quickly could this first election be organised? Following the Summit Conference held in Paris during December 1974 a communiqué was issued in which the Heads of Government noted: 'that the election of the European Assembly by universal suffrage, one of the objectives laid down in the Treaty, should be achieved as soon as possible. In this connection, they await with interest the proposals on the European Assembly, on which they wish the Council to act in 1976. On this assumption, elections by direct universal suffrage could take place at any time in or after 1978.' Britain and Denmark, however, inserted reservations into the communiqué.

## The longer term: the role of parties

Once these initial elections are out of the way, the job will begin of transforming the 'uniform procedure' into a full 'uniform system of election'. How this is done will depend very much on the attitude taken by the political parties.

Already, in the present Parliament, Members sit, not in national delegations, but in multi-national political groups: Christian-Democrat, Socialist, Liberal, European Conservative, European Progressive Democrat and Communist. (See ESTS 19 'The European Parliament', Table 1.) During the transitional stage of direct elections – particularly if the European vote is held simultaneously with different national elections – there will not be much scope for these groups to fight as single parties, or alliances of parties, in different countries. Once there is a single election date, however, genuine European parties become a possibility. In turn, once there are European parties, it becomes possible to devise an electoral system geared less to national identities and more to political tendency.

One major issue this raises is the degree of proportionality any European electoral system should have. Here, the practices of different Member States

indicate sharp differences of approach. The majority of States place emphasis on reflecting exactly in their national parliaments the proportions of votes received by the different political parties. In other states the emphasis is not on parties, but on individual candidates, and on links between Members and particular geographical constituencies.

It is possible to ensure proportionality, however, at different levels of an electoral system: at *constituency* level through multi-member constituencies (though the Irish single transferable vote system ensures proportionality between candidates rather than parties); and at *regional* or *national* level through party lists. The German system combines simple majority, single-member constituencies with a national result fully proportional between parties.

With *European* parties it would also be possible to secure proportionality at a *Community* level. Thus those individual States which prefer a constituency system might be able to retain it, with European party lists ensuring that voters' political preferences were reflected exactly in the Parliament itself.

## What would be the results?

Politicians are unlikely to rush into any system for direct elections, though, until they have some idea of what the results will be. The present multi-party 'status quo' could seem preferable to a Parliament totally dominated by one political tendency. However, research by Professor Richard Rose of Strathclyde University in Scotland has revealed that direct elections, whatever the allocation of representation between Member States, would probably produce political groups of almost the same relative strengths as at present. Only the Communists would get a major change in representation – up by 5 per cent. Naturally, it would always be possible for a single political party to 'win' an election, but this is what democracy is all about. The substance within the framework of eventual European Union should ultimately be decided by the political will of the people; and it is through direct elections that this will can best be given a voice.

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# East-West Relations in Europe II

Charles Ransom

*In the preceding article (ESTS 19) an attempt was made to identify some developments in relations between Western and Eastern Europe where, in the course of the last two decades, both sides have come to accept that the threat of destruction by nuclear weapons is an enormously powerful deterrent to war in Europe and have been hoping for a positive outcome to the Strategic Arms Limitation Talks (SALT) between the USA and USSR.*

*In the course of the brief survey it was concluded that as a result of this approach progress has been made towards better relationships between governments but that détente and co-existence as we have known them are still negative and leave the peoples of the two halves of the continent divided by visible and invisible barriers. In the present article some consideration is given to other developments which might conceivably overcome this state of affairs by presenting governments with facts as apparently unalterable as those posed by the threat of nuclear war.*

## Trade

Perhaps the most important of the developments which seem to indicate improved relationships can be found in the field of economic links between the states of Western and Eastern Europe. No basic ideological objection is raised by either side here, for such links are potentially a source of increased economic welfare.

In the past two decades the value of total trade between Western and Eastern Europe (calculated by adding the value of exports from Western to Eastern Europe to the value of exports from Eastern to Western Europe) has grown substantially, as Table 1 demonstrates.

The importance of East-West trade to some of the principal European nations can be deduced from Table 2 which shows that the pattern differs considerably from one country to another.

The main economic motives which lie behind the growth of East-West trade are, on the Western side, the search for new markets by industrial producers and on the Eastern side the desire to obtain technologically advanced industrial products, especially machinery. These two motives have played, and are playing, an important part in another form of East-West economic relationship namely – industrial co-operation between enterprises in Western and Eastern Europe for the joint production of manufactured goods, usually in the East European country concerned. There are now Polish as well as Soviet-built Fiat cars and in a year or

Table 2

### Trade of East European countries with Western Europe and of some West European countries with Eastern Europe as a percentage of their total trade in 1971

<i>Eastern Europe</i>	<i>Exports to Western Europe</i>	<i>Imports from Western Europe</i>
Bulgaria	14.9	17.1
Czechoslovakia	22.6	25.5
GDR	23.1	26.1
Hungary	26.1	26.9
Poland	27.0	25.8
Rumania	34.8	36.5
USSR	19.1	19.3

<i>Western Europe</i>	<i>Exports to Eastern Europe</i>	<i>Imports from Eastern Europe</i>
Federal Republic of Germany	3.9	3.7
France	3.5	2.7
Italy	4.9	5.6
UK	2.8	3.6
Austria	12.2	9.1
Finland	14.0	17.9
Yugoslavia	36.4	23.7
Average for Western Europe as a whole	4.1	4.1

Sources: *United National Economic Bulletin for Europe*. Vol. 23 No. 2 and Vol. 24 No. 1.

Table 1

### Growth of East-West Trade

Year	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
\$M	3372	3771	4527	4824	5239	5635	6050	7010	8050	8920	9550	10610	11300	13800	16050	*

\* Full information not yet published but as West European exports to Eastern Europe rose from \$8,050m in 1972 to \$11,400m in 1973 the total is likely to be above \$20,000m.

Source: United National Monthly Bulletin of Statistics Special Tables.

so there will be Polish-built Massey-Ferguson tractors; Rumania builds Renault cars using some French components; the Hungarians are to be the sole manufacturers of a four-wheel drive Volvo jeep; and the West German company Anker has arranged integrated production lines for cash registers in Austria, Hungary and Czechoslovakia. Many other examples could be cited. These arrangements, which involve technological transfers and, very often, joint participation in management, augment the flow of goods and services between East and West and bring considerable numbers of people from both halves of the continent together.<sup>1</sup>

Closer economic relations have increased the number of contracts between businessmen, technicians and managers of East and West who meet for the purpose of producing goods and services. One beneficial effect is to establish new areas of mutual interest, to extend knowledge of differing rules of behaviour and to improve at least one channel of communication between the two halves of Europe.

Whether the growth of these relationships represents an irreversible trend to which both sides must of necessity remain committed and by which governments will be carried along despite their political differences is, however, an open question. (See insert East-West Relations - 'Trade leaps the ideological barriers', 'More commercial links'.)

It would be rash to prophesy that the scale of interchange between Eastern and Western Europe will necessarily grow at a sharply increasing rate: if it does not do so the scale will still be comparatively small by world standards for many years to come. At the present time the degree of interdependence between the economies of Eastern and Western Europe is certainly not so great that either side would suffer disaster if the exchanges were to stop altogether, although several of the smaller states, especially in Eastern Europe, would experience some hardship. For rapid growth to continue, governments must give encouragement and the decision to do so is partly political.

Economic relations are not yet strong enough (if they ever will be) to affect to any great extent the politics of the European situation. Nor does historical experience offer irrefutable proof that nations will have good political relations with each other merely because their economic relations are good.<sup>2</sup> Nevertheless, in spite of these reservations, the growth of economic links can be considered to be a step forward on the human plane.

## Environment

Another matter of major concern to the modern world is the condition of the environment. To an even greater extent than the common problem of improving economic welfare this might appear to be of such importance as to draw governments and peoples together into a natural alliance, transcending differences of political systems, to combat the deterioration of the earth on which we *all* live.

Study of environmental problems is of course being undertaken throughout the world and the United

Nations has a programme intended to affect all nations. In Western Europe, in addition to the national programmes of its Member States, the Organisation for Economic Co-operation and Development (OECD) established in 1970 an Environment Committee to provide governments with information. In Eastern Europe the Council for Mutual Economic Assistance (COMECON) began joint work on the protection of water resources in 1962. Since then its industrial Standing Commission responsible for engineering, chemicals, iron and steel have been charged with responsibility for studying and making recommendations to combat the air pollution effects of the industries in question, while the Standing Commission on construction concerns itself with town planning.

Some of the most vigorous efforts to stimulate an international approach to environmental problems have been made by the United Nations Economic Commission for Europe (ECE). Founded in 1946 this organisation is still the only true example of an all-European body, embracing as it does virtually all the nations of Western and Eastern Europe. Its main concern is with economic research and consultation but it has also taken a lead among other United Nations organisations in the study of environmental questions. For example, some years ago it produced common standards for vehicle-exhaust pollution. These have not, however, been adopted by all the Member States and, having no executive powers, ECE cannot enforce its recommendations.

It may be a sign that the impact of this general concern for the environment upon international political conduct is still comparatively slight that when in June 1972 the United Nations held a conference on the Human Environment at Stockholm, the USSR and all the East European states, with the exception of Rumania, decided to absent themselves because no invitation had been issued to East Germany, which was not then a member of the United Nations. Whatever the rights and wrongs of the political dispute may have been, the conclusion seems inescapable that at that time the USSR and the East European states considered it more important to make a political case than to assist in the work of the conference. No doubt a year or so in a matter of such long-term significance is unimportant and it may well be that in future Soviet priorities will change, but the conflict over membership of the Stockholm conference

### *Comecon in first formal contact with Community*

The first formal contact between a Common Market institution and one from Comecon took place unannounced in Luxembourg this week (December 4, 1974).

In spite of continued delays in preparing a meeting between the Comecon Secretariat and the EEC Commission here, a delegation from Comecon's International Investment Bank was received at the Luxembourg headquarters of the EEC's European Investment Bank on Monday. The Comecon bank's delegation was headed by Mr S. Kobak, a Polish vice-president.

The EEC has so far reacted coolly to advances by Comecon, which has been pushing for a dialogue with the Community for the past year.

<sup>1</sup> The flow of technology is not always one way. For example, William Old Ltd. (London), have recently purchased the technology for the manufacture of hearing-aid batteries from a Hungarian firm.

<sup>2</sup> For a discussion of some aspects of this question see 'Is trade the key to a better world?' 'Europea' Vol. II No. 1 October 1974.

shows that concern with the environment has not yet reached the stage where it occupies a leading position in political decision-making. One day it may do so and add another dimension to international co-operation in a matter of common concern to all mankind. It will thereby extend the field of contacts between people in Eastern and Western Europe as citizens of the world.

Economics and environmental questions have been chosen as examples of matters in which purely political or ideological questions might be expected to play a secondary rôle. Although the promise they contain is not yet fulfilled it is still alive. But even when reinforced by inter-governmental cultural agreements, and such arrangements as those between Universities for the exchange of staff and students, the East-West contacts arising from the growth of common interest in the large issues mentioned above still affects comparatively limited groups of specialists. The development of tourism, mostly from Western to Eastern Europe, has in recent years brought about some enlargement of contacts between ordinary people but the opening up of the free exchange of peoples and ideas between the two halves of Europe is still delayed.

## Security and co-operation

It is probable that in the course of time social changes, such as those brought about by the general possession of cars and television sets in all European countries, will tend to generate a pressure of public opinion against the barriers which still exist between the free flow of people and ideas within the continent as a whole. Meanwhile, as the record of the Conference on Security and Co-operation in Europe (CSE) shows, if the nations of Eastern and Western Europe attempt to confront this problem by formal intergovernmental discussion, underlying political differences make their appearance and retard progress to a snail's pace. (See insert East-West Relations - 'Lifting the Iron Curtain'.)

The CSE proceedings began with preparatory talks at Otaniemi, Finland in November 1972. In July 1973 the Foreign Ministers of the participating states met in conference in Helsinki and the matters under discussion were then referred to a Committee stage which began in Geneva in August 1973 with the possibility in mind that a final meeting of heads of governments would assemble in due course to sign agreed documents. In October 1974 the Committee stage is still unfinished and the final meeting seemingly far off.

The idea of holding a security conference originated in Eastern Europe and the effective starting point of the conference which met in Finland was a declaration issued by the East European states at Bucharest in July 1966. The Bucharest declaration was followed in March 1969 by a 'Message from the Warsaw Pact States to all European Countries', issued from Budapest, and by a communiqué of the Warsaw Pact after a meeting of its leaders in Prague in October of the same year. The Budapest communiqué proposed that the two main items for the agenda should concern (a) European Security and (b) the expansion of trade, economic, scientific and technical relations 'aimed at the development of political co-operation among European states'.

At their meeting in Washington in April 1969 NATO Ministers responded to this initiative by agreeing to explore issues which might profitably be discussed with the USSR and the East European states

bilaterally and a year later, at their meeting in Rome in March 1970, declared themselves ready to examine the possibility of holding a general conference. They suggested that one of the most important matters for discussion should be 'the development of international relations with a view to contributing to the freer movement of people, ideas and information and to developing co-operation in the cultural, economic, technical and scientific fields, as well as in the field of the human environment'.

The words 'freer movement of people, ideas and information' in the NATO proposal aroused considerable suspicion in the USSR and elsewhere in Eastern Europe on the grounds that they implied interference in Eastern European affairs and although the NATO Ministers used them again at this meeting in Brussels in December 1971 there was no response from Eastern Europe until January 1973 when the preparatory talks for the Conference were already taking place in Finland. The USSR then amended its own draft agenda for the Conference by including the extension of cultural contacts, on condition that they complied with the laws and social philosophies of the participating states. Eventually the third items on the agenda (known as 'Basket 3') covered in very general language the dissemination of information and freer contacts between people.

At the Conference of Foreign Ministers in Helsinki in July 1973 when the Western States put forward various suggestions for securing freer movement of people, ideas and information - including some from the British Government for the free circulation of newspapers, linked television programmes and the publication of a European magazine - Mr Gromyko, the Soviet Foreign Minister, in his speech gave great emphasis to the observance of the existing laws and traditions of the States concerned. Transferred to the Committee stage in Geneva, Basket 3 immediately ran into trouble from which, despite minor concessions by both sides, it has not yet emerged. The principal point of contention has been the extent to which the flow of people, ideas and information should be controlled by governments, the Eastern side pressing for much more than is acceptable to the Western side. (See insert East-West Relations - 'The fine print of détente'.)

Two kinds of comment on the deadlock are possible. A pessimistic one is that here, at the very heart of détente, we are faced by an unbridgeable gulf between political philosophies. The other, more optimistic, is that deadlock of this sort is typical of nearly all East-West negotiations, because the Russians in particular are notoriously hard bargainers, and that in the end some compromise will emerge representing another inch of progress along the road towards a more open European society. The present author is inclined somewhat towards the second view.

## Détente or delusion

Where progress is so slow, uncertain and difficult it is natural that some writers on the whole subject of détente should hold deeply pessimistic opinions about it, going so far as to argue that détente is an illusion fostered by the USSR in order to weaken the will of Western nations to preserve their own liberal institutions and lull them into a naive acceptance of Soviet policies.<sup>3</sup> What, however, could be the alternative to

<sup>3</sup> For a forceful expression of this argument see Leo Labedz' article 'Détente or Deception?' *International Review* No. 1 Spring 1974.

détente in a nuclear age? If there are dangers such as those suggested by the more pessimistic students of the subject the right way to meet them can hardly be to turn a blind eye or to treat the whole matter with cynicism or indifference. What is needed is (a), that public opinion should begin to play a larger part than it has hitherto in the debate and (b), that public opinion should be well-informed. In the last analysis powerful public opinion in both Western and Eastern Europe in favour of dismantling the barriers to free communication could present governments with as crucial a set of circumstances as any encountered since the war.

To this it may be objected that under authoritarian regimes like those of Eastern Europe public opinion can be so easily controlled that it has almost no independent political effect. It is true that we in the West do not yet fully understand how public opinion works in Eastern Europe but a case could be made for believing that on issues of major importance it has in recent years been taken very seriously by the East European governments. To cite one example: public discontent with Stalin's methods of government was an important factor in bringing about reforms throughout Eastern Europe in the years immediately following his death.

## Conclusion

The expectations of people everywhere of better economic circumstances for themselves and their families affects Eastern as well as Western Europe and has been one of the spurs to experiments in new forms of economic management which have been going on in Eastern Europe in the past dozen years. If public opinion about the political situation in Europe were to become as influential as it has been about economic policy it could play an important part in healing the division of Europe. **It may well be that public opinion will form more slowly in Eastern than in Western Europe but if this is so there is all the more reason for Western opinion to give a lead.**

For such a lead to be effective requires as a minimum that West European public opinion should be based on as good a knowledge as it is possible to acquire of the purposes and methods of the East European societies, of their successes and failures. Since communication between the two halves of Europe is still restricted it is not easy, even for specialist students in the West to acquire all the information needed to form the basis of an objective opinion.

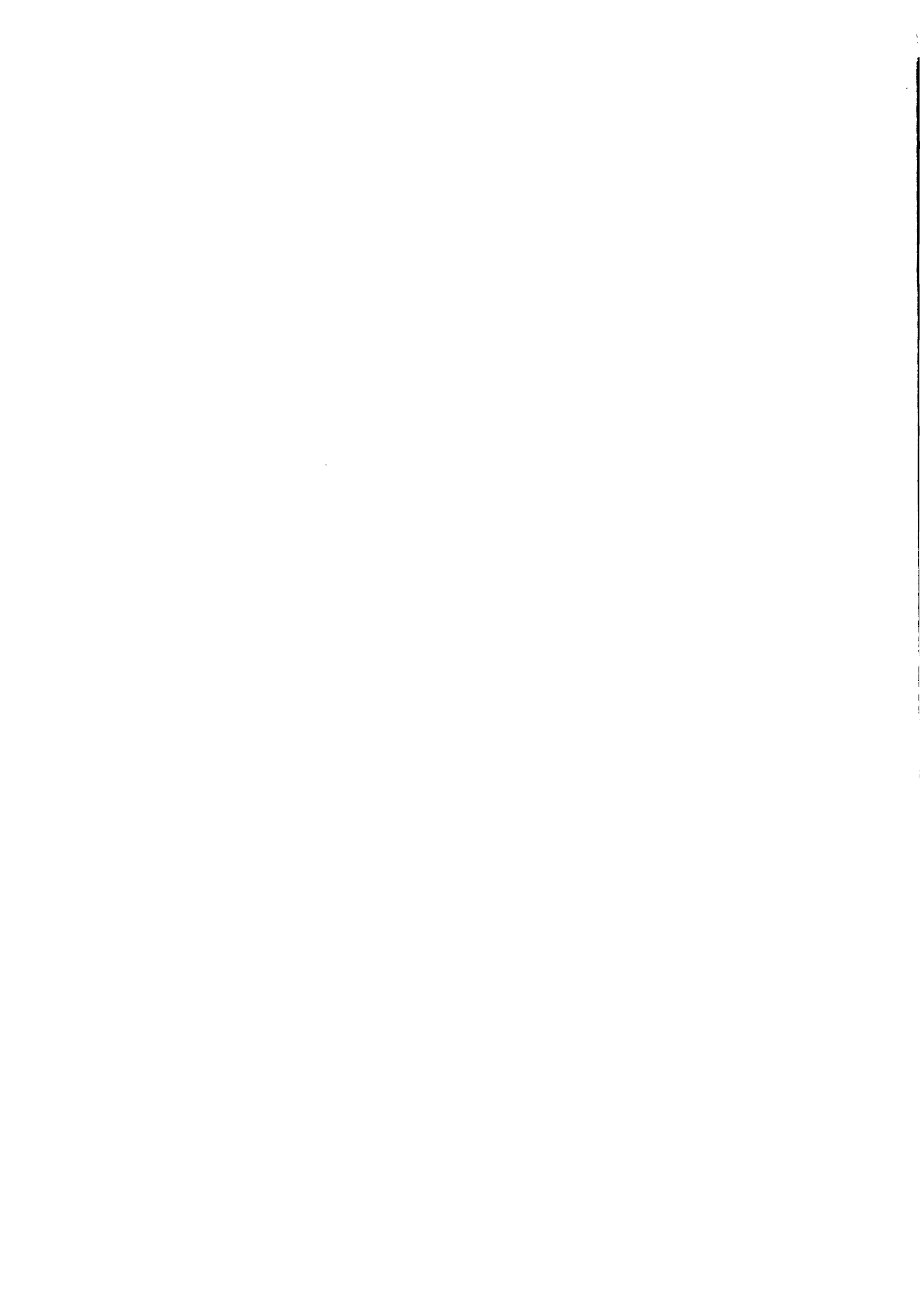
Secondly, it seems to the present writer that well informed public opinion in the West needs to consider the **effect of the image of Western Europe** upon public opinion in Eastern Europe. Hard line propagandists in Eastern Europe seek to present Western Europe as a

society not only inequitable but unstable – a society which must collapse under the stress of its own internal contradictions. To the extent that the liberal institutions of Western Europe fail to secure orderly economic growth, rational political processes and social justice without detriment to the liberty of the individual, they strengthen the hands of ideological extremists in Eastern Europe. To the extent that our institutions provide an attractive model of successful liberal and democratic political behaviour they will strengthen the hands of the vast numbers in East Europe who are not extremists but who, in the course of time, could create the body of public opinion in that part of Europe actively seeking for an open, all-European society.

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See also 'East-West Relations I', ESTS 19.



# Trade leaps the ideological barriers

By JONATHAN STEELE

for the first time Germans without trade as internal German trade and exempt from EEC tariffs.

East Germany benefits by having privileged access to the Common Market denied to the rest of Eastern Europe, while West Germany has a head start over its Western competitors in East Germany. West German importers can also exploit East Germany's lower labour costs by buying goods which can then be sold as German without consumers knowing where they come from.

Just as many British importers use the label "Empire made" to conceal the exact origin of goods, West German importers have been afraid that people might be reluctant to buy goods labelled as East German.

One third of East German exports to the Federal Republic are now consumer goods and clothing. Some of this year's tourists may be unconscious owners not just of East German

Treaty of Rome defining the trade as internal German trade and exempt from EEC tariffs.

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One third of East German exports to the Federal Republic are now consumer goods and clothing. Some of this year's tourists may be unconscious owners not just of East German

suits and cameras, but of refrigerators and typewriters too.

This anonymous labelling has caused occasional problems in West Germany. Last summer vineyard owners there were urging the Federal Government to demand accurate labelling of the "sekt," that is German champagne, coming in from East Germany. Since East Germany's vineyards are not noted for their size, it was suspected that the East Germans had become shrewd students of the international jungle of wine-labelling in the West and were simply bottling sekt made in Hungary, Bulgaria, and Rumania.

Trade between the two Germanys has been increasing steadily and its annual turnover now exceeds £500 millions. It has almost doubled in the past four years. West Germany is now East Germany's best trading partner after the Soviet Union. It provides approximately 10 per cent of East Ger-

many's trade. For West Germany, on the other hand, its Eastern neighbour is proportionately less important, accounting for just under 2 per cent of its total world trade. But Bonn would like to increase trade for political reasons as a way of strengthening ties between the two Germanys.

The trade is still conducted on a bilateral and mainly barter basis, as is common in most East-West trade. But in the case of imbalances, Bonn has authorised the award of interest-free credits to East Germany. Another special advantage which East Germany has is that Bonn buys most of its agricultural exports as though they were Community products at EEC prices which are often substantially higher than world prices.

In return for farm products, consumer goods and raw materials, West Germany sends East Germany machinery, steel, and

plastics. Last year produced an East German deficit of about £80 millions with the Communists unable to sell enough goods to pay for their hungry purchases of capital goods from West Germany. This is thought to be one reason why the East German authorities are now planning a dramatic increase in their production of consumer goods—as "money" to continue buying from the West.

Whichever side benefits economically most from the trade, it is West Germany which attaches most political significance to it. On Bonn's insistence, the recently-signed basic treaty between them specifies that trade will develop "on the basis of existing agreements."

Bonn is anxious to maintain this "special relationship" which it wants to maintain with East Germany but which the East, at least ideologically, denies.

There is now some muttering among other EEC members, particularly Holland, Belgium and France. But it is not entirely clear whether they are angry at East Germany's special access to the Common Market or jealous of West Germany's share of the East German market.

At the moment the Federal Republic sells East Germany about four times as much as the original five other members of the EEC put together. Nor is it clear how far Bonn's EEC partners will take the issue.

The ending of the diplomatic boycott of East Germany is likely to lead to an increase in trade for every Western country. But in the short term the main issue for East Germany is to find a way of increasing its own exports to West Germany.

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## Parting the Iron Curtain—a tale of three cities

Trade Balance with Warsaw Pact	
10,000	1,000,000
6,000	16,000
2,064	4,200
7,000	3,500

and Canada (members)

neutral and countries



**HELSINKI**  
Conference on Security and Co-operation in Europe, Stage I. Starts Tuesday. Attending: Foreign Ministers of all European countries (except Albania and Andorra) plus US and Canada; total, 35. Aim: To set up four working parties to examine ways of reducing tension and improving economic and cultural contacts. These four groups will start work in Stage II of CSCE in Geneva.

**VIENNA**  
Reduction of Armaments and Forces talks. Start October 30. Attending: Seven Nato and four Warsaw Pact members with decision-making powers, plus five Nato and three Warsaw Pact states as observers. Aim: To reduce the strength of forces confronting each other across Iron Curtain without giving either side an advantage.

**GENEVA**  
Strategic Arms Limitations Talks, now in second phase, between US and Russia. Aim: To limit the two super-powers' build-up of intercontinental missiles and systems.  
Conference of the Committee of Disarmament. Has been sitting in present form for 10 years. Attending: 25 countries from all continents. Aim: To control arms race worldwide.  
Conference on Security and Co-operation in Europe, Stage II. Starts in autumn and will last several months. Attending: Four working parties set up in Helsinki. Aim: To produce recommendations to be ratified in Stage III by 35 Foreign Ministers or Heads of Governments.

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## term

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reduced, the basic problem remains that everything which East Europe imports from the West must be paid for by something else that is exported, and hitherto there have simply not been enough goods that the West really wants to buy from the East. Not surprisingly, the immediate prospects for East-West trade are regarded fairly soberly in the latest report on the subject by the United Nations Economic Commission for Europe. It says that a continued acceleration of exports from Western to Eastern Europe cannot be relied on since the East European authorities are trying to improve their balance of trade by reducing imports. A great deal of the future expansion of

East Europe's trade will be within Comecon, it says. Trade in machinery between the Soviet Union and individual Comecon countries should increase by 50 to 100 per cent. Integration and recentralization are indeed the watchwords in Comecon now, partly because of the difficulties of exporting enough to the West, partly because more industrial goods are needed for the home market, and partly for political reasons. The Czechoslovak events of 1968 and probably the Polish events of last December have made the Russians more afraid of the dispersion of political power which tends to follow from economic decentralization and the competition for western markets. The progress

of the Common Market has also shown up the relative weakness and disarray of the East European countries. Hence there is growing pressure from Russia and from more orthodox countries such as East Germany for intensified co-operation within Comecon—consultations on long-term planning and investment, specialization, and so on. In the short term, therefore, the growth of East-West trade is likely to proceed at a fairly leisurely pace. For the Soviet Union, large and relatively self-sufficient, it is not an absolutely vital interest, but Soviet leaders have recently been showing themselves more realistic about the different needs of their East European allies.

Reservations may persist on the political effects of western economic influence, and political upheavals such as the Czechoslovak can always check the trend to East-West interdependence. The proliferation of industrial cooperation agreements, nevertheless, testifies to a shared expectation of political peace, trust and continuity. In particular, East Germany, which politically has the most to fear from western penetration, maintains a high turnover of trade with West Germany. In the long run, therefore, East-West trade seems bound to develop. Both sides have an interest in it, and proximity alone is a powerful factor.

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R.D.

## EUROPEAN SECURITY CONFERENCE

# The fine print of detente

BY MALCOLM RUTHERFORD

DR. HENRY KISSINGER, no less, says he fails to understand the European Security Conference (CSE). To which the delegations, beavering away in Geneva, reply: "It's because he hasn't read the papers." Dr. Kissinger apparently admits this, but says he doesn't want to read the papers because there are altogether too many of them.

Dr. Kissinger has a point. The CSE has become so bogged down under paper work that even if there were an immediate decision to tie it all up, it could take a good two months. The final document could run to several thousand words, every one of them, including the punctuation, processed and reprocessed, translated and retranslated, by the 35 delegations. Since one of the objectives is that this should be published and made widely available to inform the man in the street of the human benefits of East-West detente, one may doubt how many people are going to read it.

Stage two of the Conference has just adjourned for the summer recess on a relatively optimistic note. Just before the adjournment—and indeed after some delegates had already gone home or at least completed their final reports—the Soviet delegation came through with some of the concessions for which the Conference had been waiting since Easter. The immediate reaction in the Western camp was one of intense irritation that the Russians had delayed so long, but the result is that there is now agreement on a formula which should allow the freer movement of people and ideas without fearing that their own rights to make their own legislation will be undermined.

### Agreed preamble

Thanks largely to the work of the neutrals (Sweden, Switzerland, Finland and Austria), there will be a preamble to Basket 3, which deals with the human

relations element of the Conference. It states that the participating countries recognise each other's rights to choose their own political, economic, social and cultural systems and to determine their own laws and regulations. But it adds that, in exercising these rights, countries will conform with their legal obligations under international law and will pay due regard to the final document or documents emerging from the CSE.

Coming on the last day, the agreement was the most positive result of a session which began in April in the hope that the entire Conference would be complete by mid-July. Previously the Western powers had feared that any preamble to Basket 3 acceptable to the Russians would effectively nullify the contents, while the Russians had argued that without agreement on a preamble it was impossible for the sub-committees, who are working on specific proposals to improve human contacts between East and West, to make any progress. The merit of the agreed preamble is that it should create the framework for the sub-committees to go ahead more productively at the next session.

As the delegates adjourned, the state of play in the various Baskets was as follows: There has been slow but steady progress in drafting a declaration of principles guiding the relations between participating countries which will form a large part of Basket 1. There is provisional agreement on the "inviolability of frontiers," which for the Russians was one of the main aims of the conference, though the West Germans will see to it that there will be an escape clause allowing for "peaceful change."

In the same basket, there has been the flutter of a movement on confidence-building measures (CBMs), which are the only element of the CSE dealing directly with security. The Russians have accepted the principle of inviting outside observers to military manoeuvres.

They remain extremely chary of Western proposals that advance notice should be given of manoeuvres anywhere in Europe affecting 12,000 men or more, though the West has lowered the demand from 60 to 49 days.

Basket 2 is concerned with economic, scientific and technological co-operation and has proved much easier. But there has been no agreement on most-favoured nation status nor on reciprocity, and this may prove impossible.

There are four sub-committees working on Basket 3: on human contacts, exchange of information, culture and education. Progress has been minimal and not long ago little more than a page of text on the question of reunification of families contained as many as 30 square brackets. Basket 4, which concerns a possible follow-up to the Conference, is virtually empty, though there is a Danish proposal to allow a probationary period to see if the results are being observed, and then perhaps move on to something else.

The conference will resume in early September with the focus on trying to fill up Basket 3, but before then there will be a meeting of the nine Common Market members in Paris and of the NATO permanent council in Brussels—the two fora where the Western position is co-ordinated. These meetings will consider Dr. Kissinger's suggestion that the West has been setting its sights too high and may endanger detente by seeking the unattainable. The conclusion of most Western delegations, including the American, is that they will review the work so far and decide their aims are entirely realistic. Hence the onus will be back on the Russians to deliver on Basket 3.

With the preamble, the framework is certainly there. Delegates will seek to agree on such questions as the unification of families, cross-frontier marriage, wider access to information and multiple visas

for journalists. The general Western assumption is that the Russians will yield in the end because they have always attached great importance to the Conference and are prepared to pay a price for the agreement on the inviolability of frontiers. The stage would then be set for Stage Three which the Russians have always insisted should take the form of a 35-nation summit meeting. The Western view is that the level of Stage Three should depend on the results of Stage Two.

### Hostility

Although it may not be Dr. Kissinger's ideal approach to diplomacy, the Conference has established at least two things. One is the political unity of the Common Market members, which in this case has been remarkable. The leader of one delegation said that the experience of co-operation here had made it much easier for the Nine to pursue the European dialogue with the Arabs, despite initial American hostility. The other is that the Soviet ability to control the diplomacy of its allies is as firm as ever. Since the first stage of the conference in Helsinki a year ago, there have been virtually no cases of other Eastern European countries coming up with initiatives of their own. They watch the Russians, it is said, and do as they are told.

The Conference may still fail, for all agreements on the contents of the separate baskets are conditional on agreement on the whole, which is another way of stressing the importance of Basket 3. It is more likely that it will succeed, but not yet. One delegate, who has been part of the Conference throughout, says the Russians will come through with their next concessions as late as possible—probably on Christmas Eve. There would still be a lot of paper work to wrap up, but Stage Three could take place early next year.

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This year many West family connections many will be country as o

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# More commercial links will be forged in the long

At the height of the cold war it was easy to believe that the main obstacles to East-West trade were political. Some of them were. Europe was divided into two hostile camps, each suspicious of the other and each concerned largely with its own inner problems.

On both sides there were people who opposed any significant increase in trade, and were afraid of too much economic interdependence. In the West there were strategic embargoes on many goods, and suspicions that trade could help to consolidate hostile and tyrannical regimes. In the East there was a tendency to believe that a properly run socialist family under the wing of mother Russia should be able to

manage largely on its own.

Some planners resented having to adjust their tidy systems to the vagaries of the capitalist markets, especially as this meant an erosion of political control over the economy. The Common Market was seen as a political as well as an economic threat, and hostility to it became official policy.

In spite of all these difficulties and suspicions, East-West trade did develop, and as political tension lessened there were hopes that it would develop faster. General de Gaulle spread visions of a new Europe stretching from the Atlantic to the Urals, and offered trade as one of its prizes.

More recently, West Germany's new eastern policy

raised hopes of a great leap forward in East-West trade. Some western businessmen dreamed of making dramatic breaks into the relatively undeveloped markets of Eastern Europe. Some East European planners and economists came to believe that only massive imports of western machinery and skill could modernize their industries, stimulate competition among their monopolies, and provide consumer goods as incentives for impatient workers.

Hopes on both sides are now more modest as people come to see that the problems are more complex. Political agreements and pious words by politicians are useful as far as they go but they cannot remove at a stroke

the complex web of political and economic obstacles to East-West trade that has been woven over many years.

After the Second World War the traditional trading patterns of Europe were broken. East Europe turned towards Russia and became dependent on her for raw materials and in part as a market for industrial goods. It was a relatively easy market which offered no great stimulus for improvements in quality and thus fell increasingly behind that of Western Europe.

At the same time there were obvious difficulties in trying to develop trading relations between different systems. The planned economies of Eastern Europe only gradually adjusted

themselves to doin with western firms, bureaucracies erecte rable barriers betwe ers and their cliey was low, and prices relation to costs market.

Much of this has recent years. More enterprises in Easte are being given pe conduct direct negot western customers, e Poland and Hungar ment offices are bec flexible and realist is improving, suspic ing, and the Commo coming to be accept lity.

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