

January 24, 1966

HIGHLIGHTS OF THE EUROPEAN ECONOMIC COMMUNITY IN 1965

The year 1965 in the European Economic Community was highlighted by work on the common agricultural policy and by disagreement in the Council of Ministers which led to the withdrawal of French representation and a serious crisis in the EEC.

Although France's absence from the Council of Ministers from June 30, 1965 slowed Community activities in the last half of the year, many significant decisions were taken in the Council before the end of June and by written procedure after that date, and much of the important day-to-day operation of the Community continued throughout the year. Some of the major achievements were the signature of a merger treaty for the Councils and executive bodies of the three Communities, submission of a world grains' proposal in the Kennedy Round negotiations, an additional ten per cent reduction in internal tariffs, completion of negotiations with Nigeria for an association with the Community, and approval of the framework for a common market organization in transport.

In addition, the Council approved a revision of the basic fruits and vegetables regulation, a recommendation for cooperation on short-term economic policies, a regulation permitting use of block exemptions by the Commission for certain types of agreements among companies, and a technical cooperation agreement with Lebanon. The Commission's work also included first appropriations from the European Agricultural Guidance and Guarantee Fund, a draft convention on reciprocal recognition of firms, a Community action program for vocational training, studies on the medium-term economic policy, and numerous directives for harmonization of legislation in agriculture, social policy, and the right of establishment.

CRISIS

The agreement in the Council on December 15, 1964 to establish common grain prices in July, 1967, showed the resolve of the member states to continue progress on the integration of agricultural markets as well as industrial markets. The impetus created by this decision was slowed after Council discussions on the common agricultural policy broke down at the end of June, 1965, and the French government announced its decision not to take part in Council meetings.

The Council talks concerned a Commission proposal submitted to the Council on March 31, 1965, for completion of the customs union between the Six on July 1, 1967, financing the common agricultural policy, independent revenues for the Community from agricultural levies and customs duties, and increased powers for the European Parliament. This proposal was based on mandates given the Commission by the Council and by the Treaty of Rome.

At the Council meetings of June 15 and June 28-30, discussions on the member states' views of the proposal as a whole showed that there was general agreement on July 1, 1967 as the date for completing the customs union and introducing free movement of agricultural and industrial goods. No consensus was reached, however, on the establishment of the single market stage for agricultural goods on July 1, 1967 nor on the allocation of independent revenues for the Community from that date.

On July 22, the Commission sent a memorandum to the member states containing modifications to its proposal of March 31. Included in these modifications was the suggestion that the proportion of agricultural expenses which would be paid for by the Community's Agricultural Fund from July 1, 1965, would depend upon the date by which the common agricultural policy and the single agricultural market

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would be fully established. From that date the Community would cover all expenditures under the common agricultural policy.

On the question of resources for the Agricultural Fund, which at present is completely financed by contributions from member states, the Commission suggested that these contributions continue until 1970, at which time the expenditures would be met from the Community's own resources. These resources could be, in addition to agricultural levies, revenue from the common customs tariff as foreseen in the Treaty of Rome. From 1967, at which time the common tariff would go into effect, until 1970 duties would be placed into a special equilization fund from which member states would be reimbursed.

As concerns the increased budgetary powers of the European Parliament, the Commission said in its memorandum that the possibilities of reaching agreement had not yet been exhausted, and it reserved its right to return to this question at a later stage of the Council's discussions.

The Council met without France on July 26 to discuss the Commission's memorandum but took no decision. At the first meeting of the Council after the summer recess on October 26 the five countries agreed upon a joint declaration reaffirming the need of continuing to implement the Paris and Rome Treaties and appealing to the French government to resume its place in the Community institutions. The five invited the French government to attend as soon as possible a special Council meeting with only the ministers present. The Council again examined the Commission's memorandum of July 22 and came to agreement on the basic principles for a settlement.

At the Council meeting of November 30 the five countries, meeting without France, renewed their appeal to the French government to return to the Community institutions and empowered the Council President to make known their common position to that government. Shortly after the French Presidential elections in December, the French government informed the Council President it would attend a special Council meeting in Luxembourg without the participation of the Commission. The date of the meeting was set for January 17-18.

MERGER

At the beginning of March the member countries reached agreement on the merger of the EEC Commission, the Euratom Commission, and the ECSC High Authority and on the corresponding merger of the three Councils. The principal effects of the merger will be that the three executive organs of the European Communities will be replaced by a single executive Commission and the three ministerial councils by a single Council of Ministers.

The single Commission will consist of 14 members until a treaty establishing a single European Community enters into force or until three years from the date on which the members of the single Commission are appointed, whichever occurs first. At that time the number of Commission members will be reduced to nine.

By the end of 1965 the ratification process for the merger treaty signed on April 8 had not yet been completed in all the member states.

INTERNAL MARKET

On January 1, 1965, the customs tariffs applying to trade among member countries were reduced by an additional 10 per cent. The duties for industrial goods were thus lowered to 30 per cent of their level in 1957, those on liberalized agricultural products to 50 per cent, and tariffs on other agricultural goods to 55 per cent.

By July 1, all member states had, upon a Commission recommendation, abolished duties in intra-Community trade on small consignments and goods in travelers' luggage up to a value of approximately \$60. Other charges such as purchase taxes and countervailing duties are still payable.

The Commission submitted a draft directive to the Council in January which would abolish all restrictions in member states on agricultural leases for Community non-nationals who are engaged in an agricultural activity. A second proposal calls for abolition of restrictions applying to Community non-nationals who, having

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worked in an agricultural capacity for more than two years in a member state, wish to transfer from one farm to another.

A Commission proposal was sent to the Council in April which would provide for freedom of establishment and freedom to supply services throughout the Community in a self-employed capacity in forestry. Four other proposals were also submitted at the same time concerning self-employed activities in retail trading, in the personal services sector, and in the food and beverage industries, as well as detailed transitional measures applicable to self-employed activities in the last sector. The Commission proposed another directive in July on the freedom of establishment and freedom to supply services in a self-employed capacity in banks and other financial establishments, with the exception of stock-brokers exercising some public authority.

Also in 1965 the Commission completed work on a draft convention on the mutual recognition of companies in accordance with Article 59 (2) of the Rome Treaty.

ECONOMIC AND FINANCIAL POLICY

At the end of 1964 the Commission submitted to the Council a draft directive on the harmonization of indirect taxes on capital formation. In June, the Council adopted a decision on the rules of credit insurance applicable to certain subcontracts of both member and non-member countries.

The Medium-term Economic Policy Committee adopted draft rules of procedure in January and met regularly during 1965 to draw up a medium-term economic policy for the Community from 1966 to 1970. In April, the Council adopted a recommendation to the member states on short-term economic policy, suggesting policies for each of the countries to follow in order to assure balanced Community growth.

In May, the Commission adopted and submitted to the Council its first report on regional policy in which it suggested the main lines of a general regional policy for the EEC.

The Budget Policy Committee, composed of senior officials from the member states met for the first time in February and in September studied financing operations of public authorities in the Community. The panel of experts on economic budgets met in September to study the world business situation and the development of the Community's external trade, in preparation for work on the 1966 economic budgets.

COMPETITION

In January, the Council adopted a regulation empowering the Commission to grant block exemptions, primarily to exclusive dealing agreements and to agreements on the utilization of industrial property rights. Up to that time the Commission had to rule whether individual agreements were prohibited under the Rome Treaty's competition provisions. In July, the Commission adopted its first decision under Article 85 (3) which permits certain agreements to be exempted from the Treaty ban.

Government experts and the Commission's staff finished drafting a convention to simplify formalities on the mutual recognition and execution of decisions taken by member states' courts.

The Commission sent two directives to the Council proposing immediate steps to correct distortions of competition on the world shipbuilding market by granting aid to Community shipbuilders. In July, the Commission submitted a draft directive for the harmonization of member states' legislation on automobile turn signals. A second draft directive on turnover taxes was drawn up in April concerning structure and application of a common system.

A study of the margarine sector in the Community was begun to examine the reasons for slow development of margarine trade in spite of substantial price differences in member countries. A Commission working group on postal services and telecommunications held its first meeting in January to discuss problems of rates and charges. And in May the member states' finance ministers approved a mandate for a working group on harmonization of excise duties.

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AGRICULTURE

The coming into effect of Community regulations for rice, dairy produce, and beef on November 1, 1964 meant that 85 per cent of EEC agricultural production was covered by common market organizations at the beginning of 1965. Regulations had been proposed by the Commission which would bring two additional sectors under Community rules, sugars and fats and oils. Common policies were also drafted for seeds.

The European Agricultural Guidance and Guarantee Fund began operation in 1965. \$37,780,008 was granted to the member states retroactively for agricultural operations in 1962-3. Of this amount, \$28,723,086 was given for guarantee purposes, that is, market intervention and export subsidies. \$9,056,922 was granted for guidance operations such as modernization of farms.

A major step was taken on May 14 when the Council approved a proposal for a world commodity agreement on grains, which was submitted to the Kennedy Round partners in Geneva on May 17. The Community offer was made possible by the agreement in the Council on December 15 for common grain prices to go into effect on July 1, 1967. The Kennedy Round proposal included the establishment and binding of support levels for each country, stabilization of world grain prices at a fair and remunerative level, and joint efforts for disposal of surpluses, particularly through food aid to developing countries.

The Community did not, however, submit offers for additional agricultural products on September 16 owing to the inability of the Council to give the Commission an additional negotiating mandate.

The Council approved a supplementary regulation for fruits and vegetables in May establishing additional import protection through countervailing duties and minimum prices. The basic fruits and vegetables regulation was extended to asparagus, cucumbers, and garlic. Toward the end of the year a controversy over increased orange prices led to a proposal of the Commission to lower orange prices and grant compensation to producers.

Noting the accumulation of large butter supplies the Commission permitted several member countries to sell public stocks at prices reduced below the lower limit of Community brackets. The large stocks were due primarily to sizeable imports before the common market organizations for dairy produce began at the end of 1964.

Recurring fluctuations of the poultry and egg offer prices on the world market resulted in frequent changes in the supplementary amount added to Community levies to keep up import prices. For the first time a supplementary amount was added to pork imports in July, but this was removed in October.

In order to encourage beef production in the Community, which suffered from a shortage most of the year, the Council raised the level of EEC price brackets. Tariffs on frozen meat imports were partially suspended, and customs duties on live cows and calves were totally or partially suspended in some member states.

Two Council directives concerning health requirements for intra-Community trade in cattle and pigs and in fresh meat went into effect on June 30, establishing common rules to prevent the spread of contagious diseases. The Commission submitted a similar directive to the Council which would apply common controls and standards to imports from non-members.

Activity continued in the field of harmonization of legislation among the member states in agricultural products. The Council passed in January a directive establishing common criteria for conservative agents used in foodstuffs. The Commission submitted other directives concerning jellies and related products, olive oils, and measures against placing harmful organisms in vegetable products.

In February, the Commission sent two draft regulations to the Council proposing training for counsellors in agricultural extension services and vocational retraining for farmers whose farms are undergoing modernization. In June, the Council agreed to an accounting system for farm incomes and conduct of farm business in the Community to provide necessary information on incomes and markets for further progress in the common agricultural policy. The Commission suggested, in addition, a series of EEC farm structures to be carried out from 1966-70.

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SOCIAL POLICY

In 1965, \$7,200,000 was given by the European Social Fund to promote the employment opportunities and the geographical and occupational mobility of 121,000 Community workers. The Fund, which is administered by the Commission, has granted nearly \$32,000,000 to 450,000 workers since its inception in 1960. In January, the Commission submitted two proposed regulations to the Council of Ministers which would increase the effectiveness of the aid and adapt the Fund to the new employment conditions in the Community.

In May, the Commission presented to the Council two action programs in vocational training, one concerning all sectors of economic activity, the other dealing with agriculture. These two programs foresee both immediate and long range action for Community cooperation in vocational training. The Commission also proposed two regulations granting Community aid for the retraining of agricultural workers wishing to change jobs within agriculture.

The Commission suggested to the Council a program of accelerated vocational training to meet shortages of manpower in the Community and proposed the first measures for 3,000 unemployed Italian workers. Three draft measures were sent to the Council for assistance to Italian sulphur workers undergoing hardships as a result of reorganization of the Italian sulphur industry. In accordance with a program approved in 1964, the Council agreed upon exchanges of 4,455 young workers among the member countries in 1965.

In the field of social security, the Commission held a number of meetings in 1965 with experts from its own services and member governments. Representatives of unions and employers' organizations met to survey the progress of all work on social security at the Community level. The Commission published its fourth annual report on the implementation of regulations on social security for migrant workers, covering the period from January to December 1962. Another report was issued on social security for migrant workers, listing all the decisions taken by the Council.

The Commission sent the Council in April a draft regulation amending and supplementing Regulations 3 and 4 of 1958 on the social security of migrant workers. The new proposals concerned payment of allocations directly to the family of a migrant worker. In December, the Commission adopted and presented to the Council a draft regulation extending to sailors the social security provisions for migrant workers. Also in December, the Commission issued a document giving the reports of the member governments on their action in the field of social services for migrant workers.

The Commission sent a recommendation to the six member countries in July concerning housing of migrant workers and their families. The recommendation requests that migrant workers' needs be taken into consideration in construction programs and that countries report measures taken to prevent housing discrimination against non-nationals.

The Commission published three other important reports during the course of 1965. The first of these was its report on the problems of manpower in the Community in which it discussed labor difficulties and causes for strains on the labor market. The report on the social situation in the Community in 1964 was a general survey of social developments in all fields. The Commission also submitted a report to the Council on the degree to which wage equality for men and women had been attained in the member states by December 31, 1964.

TRANSPORT

In June, the Council reached agreement on the general principles for a common transport policy. The agreement comprises a two-stage transitional period ending on December 31, 1972, but does not define the system to be introduced after that date. The main feature of the transitional arrangements for the first two stages is the use of two systems of rate brackets with upper and lower limits. In the compulsory system, rates must be kept within the limits except for special contracts. In the reference bracket system, the limits are only indicative, but firms that do not abide by them must report their rates to special agencies for publication. On October 28, the Commission proposed several amendments to its initial proposal of May 10, 1965.

In March, the Council adopted directives on standardization of licensing pro-

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cedures for road haulage among member states and on harmonization of provisions affecting competition in rail, road, and inland waterway transport.

The Commission adopted in April a decision on censuses and surveys to be carried out in 1966 on the use of infrastructure facilities for transport by rail, road and inland waterway.

ASSOCIATION WITH THE AFRICAN STATES AND MADAGASCAR

The Association between the Community and 17 African states and Madagascar which was signed at Yaoundé, the Cameroons, on July 20, 1963, completed its first year of existence in 1965, and the institutions of the Association were set up.

The Council of the Association held a meeting in Brussels on April 7. The Council agreed on a definition of the concept of origin, except for printed textiles and preparations and preserved fish, and discussed means of enabling the African states and Madagascar to improve their trade balances with the Community. In addition, the members of the Council instituted the practice of consulting on matters of commercial policy in accordance with Article 12 of the Yaoundé Convention.

The Council examined the problem of agricultural products competing with Community products, particularly in regard to the proposed organization of the EEC market in fats and oils.

The Council was also consulted on possible agreements between the Community and other African states, particularly Nigeria and three East African countries. The Parliamentary Conference of the Association held its second session in Rome on December 6-9 and adopted the report of the Association Council.

The last of the resources of the European Development Fund under the first association agreement from 1959 to 1964 were allocated, a total of \$581 million. The second Development Fund, which began operation with the start of the new Association agreement, has much wider functions, particularly concerning aids to production and diversification in addition to other economic and social investment. By the end of 1965 the assistance given from the second Fund totalled \$207 million.

The Community also provided financial aid for education and vocational training for nationals of the associated countries, and 1,341 scholarships were awarded during the 1964-5 academic year.

EXTERNAL RELATIONS

In the Kennedy Round negotiations at Geneva the justification of exceptions lists submitted in November, 1964, began in a general multilateral framework and continued later in bilateral talks. The lists of the United States, Japan, Finland, the United Kingdom, and the EEC were examined in January and February. Working parties initiated discussions on several important industrial sectors including textiles, paper and wood pulp, aluminium, and chemicals. Non-tariff obstacles to trade were also considered by a working group.

On the agricultural side of the negotiations, discussions began on grains offers for a world commodity agreement introduced on May 16 by some GATT partners, including the EEC. Offers on other products were presented in September, but the EEC was unable to participate, as the necessary decisions had not been taken by the Council.

In May, the Commission submitted to the Council several proposals for the adoption of common commercial policies which are particularly important for the GATT negotiations. One proposal was for a Council regulation on Community protection against dumping or payment of export subsidies by non-member countries. A second proposal foresaw the establishment of a common list of liberalized imports, and a third proposal concerned a common procedure for the administration of import quotas.

The Community and Nigeria successfully concluded their fifth and final round of negotiations for an association agreement in July. The Commission drafted a treaty based on the results of the negotiations, which will have to be approved by the Council of Ministers and ratified by the member states' parliaments.

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On March 19 the EEC and Austria began talks on a possible association agreement. Five rounds of discussions were held during the year to discuss trade in the industrial and agricultural sectors and harmonization of Austria's economic policy with that of the Community.

A three-year trade and technical cooperation agreement was signed on May 21 by the EEC and the member states with Lebanon. The agreement provides for reciprocal application of the most-favored-nation clause and coordination of EEC member states' technical assistance to Lebanon. The parliaments of the member states must ratify the agreement before it enters into force.

The EEC began negotiations with Tunisia on July 6 and with Morocco on July 12 on the basis of a partial mandate given by the Council. Both countries have expressed the desire to establish a preferential trading agreement with the Community. Negotiations for trading agreements were also opened in March with a joint delegation representing the governments of Kenya, Uganda, and Tanzania.

Talks were held on a technical level with a Polish delegation at the Commission headquarters in the spring, and following the discussions the Commission decided to exempt Polish eggs from the supplementary levy. In January and May technical trade talks were held with a delegation of the Yugoslav government.

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