Opera Mundi EUROPE

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A WEEKLY REPORT ON THE ECONOMY OF THE COMMON MARKET

CONTENTS

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Opera Mundi EUROPE

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OPERA MUNDI EUROPE

100 Avenue Raymond Poincaré - PARIS 16e
TEL: KLE 54-12 34-21 - CCP PARIS 3235-50

PUBLISHER & EDITOR .. PAUL WINKLER
EXECUTIVE EDITOR .. CHARLES RONSAC
EDITOR IN CHIEF .... ANDRE GIRAUD

SWITZERLAND
54 Rue Vermont GENEVA
TEL: 33 7693

ITALY
72 Corso di Porta Romana MILAN
TEL: 540.301 - 540.309

BENELUX
4 Boulevard Anspach BRUSSELS
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ANTI-TRUST POLICIES

For several months now, the Anti-Trust Division of the US Department of Justice has had a new head: Donald F. Turner, Harvard Professor of Law and Economic Regulation, has been appointed by President Johnson to be Assistant Attorney General for the Anti-Trust Division. In a domain where American businessmen quite justifiably complain that there are no clearly defined landmarks to distinguish what is permissible from what is to be condemned, the coming of a new man who has had a chance to clarify his ideas in the matter during his academic work may prove a blessing. Indeed, the attitude to Government lawyers, and often of the courts also, could sometimes be interpreted as tending to equate "bigness" with "badness" (see No. 336, p. 1). This attitude is evidently an extension of the basic ideas that brought about the American "trust-busting" legislation, i.e. the Sherman Act of 1890 and the Clayton Act of 1914. Their purpose was always to prevent situations where competition would be lessened - and in no country has this principle been carried through with the same consistency as in USA - but business enterprises have often been led to believe that they were not being allowed to enter into mergers, simply because they had already attained sizeable proportions, even though the contemplated concentration in no way put them in a dominating position. A statement of intentions by Mr. Turner before the American Bar Association at Miami on August 10 seems reassuring: "I do not believe it is proper under the law as it is now for the Department to attack mergers or other business conduct on the basis of considerations that have little or nothing to do with competition in the economic sense. We should not attack a merger simply because the companies are large in the absolute sense, and we should not attack aggressive but fair competitive conduct simply on the basis that some competitors are hurt".

His remarks may be regarded as a criticism of some recent administrative or court decisions in the opposite sense. In December 1963, for example, the Federal Trade Commission (which, in addition to the Department of Justice, acts as a watchdog against practices likely to lessen competition) ruled that Procter & Gamble must get rid of Clorox, a company it had bought in 1957, on the grounds that Clorox was the largest maker of liquid bleach. It is true that in 1957 Procter & Gamble did not manufacture any product in this category; but the Federal Trade Commission considered that Procter & Gamble's marketing strength and large advertising resources might give Clorox an unfair advantage over its competitors in a market which was already strongly concentrated. The principle here appears to be that it is wrong for a group to increase its financial, manufacturing or commercial size and strength by acquiring another firm which has a strong position, even in a different market. Merely to state the principle is to suggest that it is not suitable for general application.

In 1964, by a majority (6 to 3), the Supreme Court of Washington confirmed the Department of Justice decision in a case against the Aluminium Co. of America (Alcoa) that this company had violated the anti-trust laws by acquiring the Rome Cable Corp., New York, in 1959. 90% of Rome Cable's output is in insulated copper products that Aloca does not manufacture and it has only slightly over 1% of the aluminium

cable market, of which Alcoa holds 27.8%. It is true that this last percentage is far from constituting a monopoly position in the market - that is specifically prohibited by the law - and slight addition of Rome Cable's share is certainly not a substantial change. (In fact, after acquiring Rome Cable's 1.3% in 1959, Alcoa-Rome's total share had fallen by 1961 to 24.8%, due to aggressively competitive price-cutting in the market). Nevertheless the Supreme Court ruled that "if concentration is already great, the importance of preventing even slight increases in concentration is correspondingly great". And the majority opinion added that Rome Cable seems to the Court the prototype of the small independent company which Congress aimed to preserve by Section 7 of the Clayton Act. This certainly does not seem to be a crystal-clear conclusion from reading Section 7 - as reworded by Congress in 1950 - which is the crucial text for most recent anti-trust proceedings; it prohibits a corporation from acquiring stock or assets of another "where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or tend to create a monopoly". The debatable character of the Supreme Court ruling became apparent even before Donald Turner took charge of the Anti-Trust Division; although the Court ordered immediate divestiture by Alcoa of its Rome Cable Corp assets, it has for quite a while seemed possible that the Department of Justice might not insist upon divestiture if no satisfactory buyer could be found for Rome Cable's assets. Indeed, closing its plant would mean the loss of 1,200 jobs - a paradoxical application of anti-trust doctrine; Mr. Turner's coming into the picture may possibly hasten some undoubtedly necessary re-thinking by the Justice Department.

Once the European Community has emerged from its present painful crisis, it will have to accelerate the necessary harmonizations to catch up with customs disarmament. An appropriate anti-trust regulation will be essential, for it is the only safeguard for the Common Market's principles of a free market economy. It may perhaps be an advantage that the rules laid down in the Rome Treaty on this subject are somewhat vague (see No. 336, p. 1) because they permit of progressive interpretations by the Brussels Commission itself, to be approved by the Council of Ministers and to be completed later by rulings of the European Court of Justice at Luxembourg. These can profit by American experience, with its varied case-histories, and the occasional exaggerations by government and court in USA may spare Europe a certain number of errors.

At the outset, the clear desire of the Six governments to foster mergers within the Community will in any event counter-balance the tendency to oppose concentrations merely because they could be suspected of preventing competition: the Six cannot ignore the need to create production units large enough to stand up against competition from local subsidiaries of large American companies - or from companies operating in USA or Japan, for example - if the Kennedy Round negotiations bring down customs protection in certain industries to a nominal level. In a protected market discouraging large concentrations may safeguard competition, but in a market dominated by gigantic competitors, there is a size under which individual enterprises are unable to compete; it could be said that in this sense "smallness" (below

a certain level) can be "bad" for competition. Being "small" or being "big" should never be understood in the absolute, but comparatively to the rest of the market; for purposes of comparison all competitive factors have to be taken into consideration, including the potential strength of foreign establishment in the Common Market and the possible impact of outside markets, to the extent that it is felt through the tariff wall.

No clearcut percentages can be put forward to determine when a firm's position is so dominant that it might lead to abuse (in the Common Market it is assumed that Article 86 of the Treaty of Rome will be expanded in this direction). In USA Justice Learned Hand's formula - given in 1945 - is often quoted, that 90% of the market is tantamount to monopoly; the point is debatable at 60% or 64%; 33% can in no case be regarded as a monopoly. Donald Turner is less liberal in this respect; in a book published in 1959 (Anti-Trust Policy, written with Harvard economist Carl Kayson) he stated that breaking up a concern is justified when it has accounted for 50% or more of annual sales in a given market for at least five years. No hard and fast rule can be established; the facts rather than the figures alone should decide in each particular case whether or not competition is actually being hampered.

Of course this principle,"facts rather than figures", can be used in a sense unfavourable to the interested parties and can also lead to judgments which may be regarded as debatable. In June 1962, Chief Justice Warren handed down a decision in the "Brown Shoe case" which has since been widely discussed. The Brown Shoe Co of St. Louis is one of the biggest manufacturers of shoes; in 1956 it bought the G.R. Kinney Co, which is the eighth largest shoe retailer in America. But the share of the total market each company controlled was minimal: before the merger, Brown manufactured 4% of all shoes in the country, and Kinney accounted for only a little more than 1% of all shoe sales. Nevertheless the Court approved the Department of Justice's ruling and ordered that Brown divest itself of the Kinney assets. In his opinion, Chief Justice Warren explained that "statistics reflecting the shares of the market controlled by the industry leaders and by the merger are of course the primary index of market power...;" But if the statistics did not lead to definite conclusions (a positive conclusion if there is a clearly defined monopoly or a negative conclusion if the market share involved in insignificant...) "only a further examination of the particular market can provide the appropriate setting for judging the probable anti-competitive effect of the merger". This means that the market does not necessarily have to be taken in its totality: there may be submarkets within the broader market, which must be considered in deciding whether a certain merger is legal or not. In the case discussed, it appeared that in certain cities both Brown and Kinney sold, at the time of the merger, a much higher proportion of shoes than in the total market; in Dodge City (Kansas) for example, Brown sold 34.4% of women's shoes, and Kinney 23.3%; locally, the combined share would reach 57.7%, and the Court decided that in such places consolidation would "substantially" lessen

competition.

As a result of this ruling, Brown was forced to sell its Kinney assets and in 1963 it obtained for them $14.7 million from the Woolworth Company. The decision itself is still regarded as a perfect illustration of the delicate criteria which make it so difficult to apply the fundamentally sound anti-trust principles. Some consider it paradoxical that 284 governmental lawyers in the Anti-Trust division should be left - as in the Brown Shoe matter - to decide how the market should be sliced up, thick or thin as the case demands.

A forthcoming article will discuss the main difficulties of drawing up an anti-trust policy which accords with needs and opportunities of the Common Market.

INTERNATIONAL LIQUIDITY, RESERVES AND THE FUTURE

by Dr. S. Scheps,
Vice-Chairman of the International Credit Bank, Geneva

The problem of international liquidity and reserves has been the subject of discussion for several years at annual meetings of the International Monetary Fund (IMF) and at many internationally convened ad hoc committee meetings and academic conferences; innumerable articles and books have been written on it. Views have become more controversial as a result of the crises of confidence in sterling of November 1964 and February 1965 and of the famous speech by General de Gaulle.

Fundamental questions concerning world currencies and the Bretton-Woods system, which is obviously overdue for reform, are at the root of the problem, rather than the technical mechanism of exchange.

Notwithstanding the important contributions which economists have made towards a solution of the problem, more or less temporary settlements can only be reached as a result of hard bargaining. Internationally, the purpose of a modern well-ordered currency system is threefold:

(1) to cope with the constantly increasing volume of international trade,

(2) to facilitate the international flow of capital, and,

(3) to contribute towards the productive usefulness of development aid.

For the creation of a European capital market, a well organized currency system and purposeful coordination of international reserves and liquidity are factors of prime importance.

The international liquidity problem arises from the need to supply sufficient means of payment without causing world-wide inflation and thus disturbing the rates of exchange. The prerequisite for maintaining stable rates of exchange is internal monetary discipline, in order to avoid exporting inflation.

Currency reserves are required to settle balances arising from trade between countries. These reserves may consist of foreign bank notes, foreign bank balances, bullion, drawing rights upon the IMF, European Monetary Agreement credits and any assets abroad which are capable of being converted into foreign currency.

During the era of the gold-standard international liquidity was maintained by fiscal and credit policies. Fiscal policy was supposed to ensure that budgets were balanced by covering expenditure out of tax revenue plus ordinary loans; credit policy was considered the sole instrument of achieving flexibility in the state of a

country's economy.

When liquidity was threatened discount rates were raised, short-term capital was attracted and long-term interest rates were affected, thus leading to an inflow of long-term capital. But the main effect was a contraction in investment, income, consumption and employment. This helped to slow down or stop wage increases, improved competitiveness and eventually restored an equilibrium in the balance of payments.

After the First World War this mechanism was no longer able to withstand the growing pressures and the system collapsed. After the Second World War a return to the old system was out of the question, because the unemployment which would inevitably have followed would no longer have been tolerated. For this reason credit and fiscal policies alone may be ruled out as adequate means for correcting balance of payments gaps.

Relative to the world's economies, the position of the USA's economy is no longer sufficiently strong to command permanent confidence in the dollar. Hence the occasional crises of confidence. This presents a problem of considerable magnitude.

The different types of reserves (enumerated above) involve greater or lesser risks to the country holding them. Many countries keep their reserves in one of the two reserve currencies (American dollars and pounds sterling) which means that the reserves of these countries are identical with short-term credit balances due to them by the reserve currency countries. This has led to the reserve countries becoming "bankers", dependent on the confidence of their depositors.

It is generally accepted nowadays that the term "liquidity" covers a great deal more than just funds in cash and bank deposits. Distinctions are drawn between "asset liquidity", "position liquidity" and "general position liquidity". "Asset liquidity" means funds available for the payment of debts. "Position liquidity" describes the condition and net-asset position of a country. Liquidity in this sense depends not only upon the quantity and quality of assets but also, and often much more, upon liabilities and the extent to which they are liable to be presented for payment. Professor Sayers defines "General position liquidity" as "the readiness of banks, other financial institutions, traders and individuals to place purchasing power (in whatever form, currency or credit) at the disposal of entrepreneurs."

International trade has been expanding at a rate greatly in excess of the rate at which monetary reserves have been increasing. This aggravates the liquidity problem and tends to jeopardize economic progress. The total world stock of liquidity available for international trade is as important as the liquidity of individual countries. As to the extent of liquidity, it must be stressed that reserves are necessarily limited and cannot be expected to do more than bridge temporary imbalances. In the long run there is no alternative to balancing receipts and payments, but

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the size of the reserves does become of major importance insofar as it allows a country a longer or shorter time to adapt itself before regaining a temporarily lost equilibrium in its external payments.

In recent years the most important supplementary source of liquid assets has been through international ad hoc arrangements of one sort and another. These have included expanding the borrowing quotas of the IMF, the Fund's gold tranches, lending by central banks and international swap agreements (using national currencies, other than sterling and dollars, as international monetary reserves). Thus marks, Swiss and Belgian francs, lires and other currencies acquire, for the time being, international monetary status.

As will be seen from the following paragraphs there are many diverse schools of thought (of which only a small cross-section is quoted) as to how the difficulties are to be resolved.

At the annual meeting of the IMF the president of the German Central Bank, Herr Blessing, stated that it is wrong to acquire liquidity on credit. In his view permanent improvement of the American and British balance of payments situations is of greater urgency than any efforts towards a reform of the international payments system. But he subscribed to the opinion that responsibility for the creation of additional reserve assets must be vested in a small number of highly developed industrial countries, because only such countries could secure a reserve system by their own means. The new reserve units would be an addition to the dollar, which would remain the most important reserve currency, but they would not replace it. In no circumstances, he said, would the role of the dollar be impaired.

The French Finance Minister, M. Giscard d'Estaing, agreed with Herr Blessing's proposal that the first step towards reforming the reserve system must be a return by the reserve currency countries to a state of permanent stability in their balance of payments. The creation of additional liquidity was a secondary step. Beyond this M. Giscard d'Estaing suggested that improvement of the reserve system should be considered in conjunction with aid for development countries, although in our view this is quite a separate problem.

The Secretary of the American Treasury, Mr. Fowler, summarized the views of his government by stating that the crux of the problem was to assure the growth of world reserves at a rate equivalent to the growth of world trade. Since the production of newly mined gold together with the normal drawing rights on the IMF are insufficient for this purpose, new international arrangements would have to be negotiated. This was to be the task of the Committee of Ten.

In this connection I should like to draw attention to a paper entitled "American Currency Policy and the Bretton-Woods System" read by Prof. L. Albert Hahn before the Frankfurt meeting which the List Society held to discuss

"Fundamental Questions of the future Monetary Order".

This paper is a profound and incisive analysis of the circumstances which induced the Johnson administration to embark on an unorthodox currency policy. According to Hahn not all creditor-nations will continue to accept this policy and the Johnson administration will, therefore, have to supplement the Equalization Tax by additional restrictions on foreign investments and bank credits.

Although the Bretton-Woods system may formally remain in force the universally free convertibility which was its primary aim in the interest of unfettered world trade will not have been achieved.

Professor Hahn's views are not shared by Professor Jean Weiller, who states in the monthly publication "Banque" (Paris) that direct foreign investments by American firms more than doubled between 1964 and 1965; he does not believe that solving the international monetary problem will inevitably lead to a slowing down of private foreign investment, because this is the result of USA's manufacturing capacity.

Those who advocate relying on the effectiveness of the self-balancing forces inherent in the private enterprise system, as Mr. Roy F. Harrod does, are prepared to allow these forces a considerable period of time in which to complete the required task of adaptation.

Others prefer to rely primarily on strict and rapidly effective measures by governments and central banks such as controlling credit, foreign exchange and fiscal policy, thus reverting to the effects which, under the gold-standard, had been achieved by movements of gold. They reject the automatic availability of credits. They advocate that loans should only be granted subject to conditions which may be expected to ensure the rapid elimination of payment deficits.

At a conference of the American Enterprise Institute in Washington Professor Haberler expressed the view that excessive liquidity is apt to discourage countries from making the corrective efforts required in order to achieve stability. On another occasion he addressed the following remarks to France: "The USA might consider parting with its entire stock of gold, to the last bar, at the price of $35 per ounce, with the warning that they may not in future be prepared to repurchase gold at this price. After disposing of the gold the dollar price would cease to be fixed, regardless of the effect this would have on the future value of gold. A tender hint that this would be America's reply to a run on the dollar would unquestionably prevent or stop a run. Such a development would be detrimental to the French and their fellow-travellers. In all probability they would find that their gold hoards, acquired at great cost, would have lost in value and the prospects for their currencies would, to say the least, be unattractive."

Political undertones of this nature, which had been provoked by General de Gaulle and his adviser Professor Rueff, were less in evidence at the last meeting of

the IMF in Washington. The question of what France is going to do with its increasing gold hoard will arise in due course and it leads to the suggestion that part of its reserves may have to be put at the disposal of the European capital market. At any rate the controversy between the Anglo-American countries and their opposite numbers has become less acrimonious than heretofore.

The decision taken in Washington by the Finance Ministers and the directors of the Central Banks to instruct their representatives in the Committee of Ten that they should intensify their efforts to improve the currency system, is of the utmost importance. Although an artificially created monetary system, not based on gold, is likely to be unacceptable to de Gaulle, and although the difficulty of reconciling the views of the USA and Britain on the one hand and the other continental countries on the other hand will not be easy to resolve, the Committee of Ten has been requested to report on progress in the spring of 1966.

The special position of sterling as a reserve currency will have to be maintained. Despite the very real difficulties which Britain has had to face, timely support from responsible centres of finance has strengthened this currency.

The world expects the two reserve currency countries to eliminate the deficits in their balance of payments. The Italian Finance Minister Sig. Colombo reminded them of the speedy achievement of balance in the payments position of Italy by applying orthodox methods. He regards the international currency reserves and available credit facilities as adequate for the near future. A similar view was expressed in the report of the Ossola sub-committee and is also implied in the Roosa Plan. The creation of reserves ought to keep step with the rate of expansion of world trade, but the amount required cannot be calculated.

Discussion at the last annual meeting of the IMF concentrated too heavily on the problem of liquidity, instead of on measures to correct the balance of payments gaps. This correction is, of course, the task of the governments of the countries concerned, although international institutions can do a great deal to promote monetary discipline. Above all the key currency countries have to achieve a permanent balance of payments and this objective ought to be given top priority.

Political pressures to place part of the available reserves at the disposal of development countries would have inflationary consequences which must be avoided. It is a mistake to link discussion of the liquidity problem with development aid, as has been done in Washington. The difficulties of the development countries arise from the population explosion, as a result of which the growth of their national production is insufficient. The way to solve these difficulties is to raise loans on a commercial basis and make them available to these countries on International Development Aid terms.

The creation of additional reserves and their distribution has, of course, political implications; these will be the object of tough negotiations, but first of all an atmosphere of mutual confidence is required. Only confidence in the stability of currencies can reduce interest rates and thereby favour the formation and equitable distribution of capital internationally. In this direction lies the future progress of world trade.

THE WEEK IN THE COMMUNITY
December 20 - 26, 1965

From our Correspondents in Brussels and Luxembourg

THE COMMON MARKET

Kiss and be Friends in Luxembourg?

The rendezvous has been settled at last: the Six will meet again at Luxembourg on January 17 and 18 in an attempt to settle the European crisis. Neither the date or the place has caused any surprise, for they had been under discussion for several weeks. Neither is anybody startled now to learn that the meeting will take place within the framework of the Community. It will in fact be held as a Common Market Council meeting, in extraordinary session, a furlong distant from the Commission and at Foreign Minister level. No doubt M. Couve de Murville has given his answer to the Ambassadors of all Five governments by way of a gesture towards bi-lateralism, but he did ask Sig. Fornari, the Italian Ambassador to pass it on to Sig. Colombo in his capacity as President of the Common Market Commission, which was a concession towards the Community. The Five agreed only to acknowledge officially the reply which Sig. Fornari passed on to them, especially as the French Government has once again avoided making any written reply.

The main point is of course that negotiations should start at all. It is however questionable whether the Luxembourg meeting really means that controversy on the problems themselves is nearing an end. There are a few encouraging pointers and on December 20, when the Five met in Brussels, optimism was mounting. It was known then that subject to France's official acceptance, which was no longer in doubt, M. Werner, the Prime Minister of Luxembourg, would receive the Six in that country in the middle of January. There was satisfaction that M. Ulrich, the French Permanent Representative, had accepted Sig. Colombo's invitation to the luncheon at which he would say his farewells on leaving the Presidency of the Council, although some members of the Commission would also be there. The efforts which M. Couve de Murville had made to mend matters in Europe during the NATO talks were commended on all sides. It was recalled that France had always said that she would not meet the Five except after careful preparation, giving the best possible chance of reconciliation. Bearing in mind the Christmas holidays and the time which would be needed to form a new French Government, matters seemed to be going along as well as possible.

But is this really true? Sceptics point out that the French reply of December 23 gives three causes for doubt, quite apart from the procedural precaution used by the French Government. On October 26, the Five invited France not only to take part in an Extraordinary Meeting of the Council, but also to take her place in the ordinary Council so as to discuss the Agricultural Financial Regulation with her partners and with the Commission. Paris has not replied to the latter invitation, which means that she is declining to include that regulation in a "package deal", or else that she declines to bargain political

needs against financial advantages for agriculture. Secondly, M. Couve de Murville has let it be known that he would not use the written procedure to approve the Community's budget, but that he was ready to endorse the use of "twelfths" (see No. 328, p.12). This would allow the Community's institutions to manage financially (Euratom, however, may run into money troubles in carrying out its research programme), but it would also give the French Government theoretical power to turn off the budgetary tap if it did not like the way negotiations were going. Finally, the French Government may agree to lower tariffs within the Community by 10% on January 1, but it is reserving its position on the Five's wish to refrain from changing the Common External Tariff at that date, as permitted by the Rome Treaty. M. Couve de Murville wishes to leave things as they are for the next four months, so as to give time to go into the question more deeply. In this way, he avoids landing the Common Market in a real jam on January 1, while retaining a means of bringing pressure on those of his partners who are keenest on the Kennedy Round negotiations at GATT.

Of course, he may have been acting rather meanly just to save face. Some people think that General de Gaulle has learned his European lesson from the presidential elections (see No.334, p.1) and that he is inclined to make concessions so as to regain votes in the centre and on the right, provided that he can get an honourable settlement of the European crisis. It can certainly be taken for granted that he will do his utmost to remove all "European " and "Atlantic" problems from the 1967 French parliamentary elections, by the simple process of solving them between then and now.

This does not mean that he will be ready to fall in with any superficial agreement which his partners may offer. Probably he is prepared to take a step or two nearer Europe and to re-consider some of his tougher attitudes, but not at one fell swoop; if any of the Five felt so elated by the voting in the presidential election as to get tough themselves, they would of course run the risk of stopping the General in his greatly-to-be desired tracks.

All that can safely be said at present is that the work of seeking a solution of the problems behind the European crisis has begun. There has been some discussion and various ideas for settling them have been put forward, but there is no unanimity on any particular course and next month in Luxembourg no problem is going to solve itself. Indeed, the first time round everybody may think it is good tactics to dig in in their most extreme positions.

The conciliators, M. Spaak and M. Werner, do not seem to be boiling over with impatience; now that the latter is serving as President of the Council he will have the traditional right of stepping in at the eleventh hour if it seems necessary. Meanwhile, he will leave the job to M. Spaak, but the latter seems unlikely to go into action before the meeting itself.

The atmosphere at the meeting will depend mainly on the psychological attitude of those who attend it. There is no certainty how they will approach the questions which have to be settled. For instance, how is M. Couve de Murville going to tackle

the powers of the Commission now? He can of course, lay all the emphasis on personalitities, but this gives him little scope because when the Executives are merged, appointing new people to the single European Commission cannot be made to look like action against the present members of the Common Market Commission; some of the latter will at that point have an honourable or even glorious way out. France can obtain satisfaction in due course without raising this question, and since the questions to be decided are so important, she may bide her time and let the Commission end its term of office without incident, providing that the "code of good conduct" which the Five are prepared to approve is brought into being.

However, if M. Couve de Murville says that he is unable to depend on Prof. Hallstein to solve the crisis using the powers at his disposal, if he refuses to renew the President's mandate on January 9, in short if he takes a tough line, the meeting will end in chaos. There is no doubt that the Germans will not be the only ones rooting for the Professor. There is little chance that offering the Presidency to Italy will split the Five.

On the question of majority voting it seems that France will be satisfied with a re-interpretation of the Treaty, since she knows perfectly well that even if the Five consented to a formal revision of the Treaty it would be well-nigh impossible to get the necessary Parliamentary approval. It also appears that France is not demanding complete suspension of majority voting. This leaves a good deal of room for manoeuvre, from a complete reappraisal of the basic principle to extreme flexibility in the means of application, depending on circumstances; of course it also leaves room for serious disagreement.

A closer study of the situation shows that these two familiar problems can be solved quite easily by the use of tact, psychology and confidence on the part of all concerned. This does not apply, however, to the Agricultural Finance Regulation which, although the apparent cause of the crisis, has been over-shadowed in the past few months. First of all, it is only one aspect of the Common Agricultural Policy, which has yet to be laid down for a good many sectors. To-day France is more than ever in favour of this Policy. If General de Gaulle gets it through, he will be halfway to winning the 1967 elections, but he does not want it at any price. He may be prepared to play Santa Claus on the institutional side of the crisis but he will certainly refuse to make any political concessions. At the same time there is no doubt that he is about to embark on a simultaneous campaign to prevent Germany ever trying to acquire nuclear weapons. So his position is likely to be a delicate one: he will be asking Germany to finance the major part of the Common Agricultural Policy while refusing to give her in exchange even a semblance of atomic power. The German Foreign Minister, Herr Schroeder, will be strongly tempted to take advantage of France's position at the forthcoming meeting to cut down her opposition to the MLF or any substitute for it.

An optimist can believe that the crisis which began on June 30 last is finally over, and that the Six will either succeed in isolating the problems and res-