EFTA

EUROPEAN FREE TRADE ASSOCIATION
ASSOCIATION EUROPÉENE DE LIBRE-ÉCHANGE

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Sir John Coulson, K.C.M.G.,
Secretary-General of the European Free Trade Association
addressing a Luncheon in Chicago sponsored by the
Chicago Association of Commerce and Industry
and the
State of Illinois
on December 4th 1969, said:

THE FUTURE OF ECONOMIC INTEGRATION IN EUROPE

It may seem at first sight odd that in Chicago, in the centre of your great continent, I should be talking to you about the apparently remote subject of European integration. But in the first place it is what my job is concerned with. And secondly Chicago and American industry centred in Illinois and neighbouring states are now, thanks to the St. Lawrence Seaway, part of the Atlantic area. They have spread their manufacture and distribution throughout the world, but especially in Western Europe. So the subject I have chosen is a natural one to discuss here.

I am confident, this being Chicago, that a good number of people in my audience work for those same U.S. corporations which are now large investors and manufacturers in Western Europe. They are very well informed about the European situation, so they will sympathise with me in having to discuss this very difficult subject. I know they will also agree with me that the story of European integration is inevitably told here in terms of its difficulties, its quarrels and its personalities. The result is that what is really happening seldom gets across the Atlantic. So let me first remind you of what has happened in the integration of the economies of Western Europe in the period since the end of the war.

You will recall that we were in a pretty poor state in the immediate post-war years. Industrial production was at a very low level, either because the capacity to produce had been destroyed, or because it had worked without maintenance for many years and was desperately in need of repair and replacement. The same was true of food production and that aspect of the situation was worsened by a series of bad harvests. As a result of all this, there was a danger that some countries in Western Europe would yield to Communist minorities and would be lost to the Western camp.

It was in those circumstances that the historic Marshall Plan was launched, the plan which not only enabled Western Europe quickly to recapture and to surpass its pre-war levels of prosperity, but also to begin the economic integration process. The Organisation for European Economic Co-operation (OEEC) was the instrument created to share out the U.S. aid and to decide priorities. In a very short time the OEEC, which was a co-operative of 16 governments, also got rid of the network of quota and exchange restrictions which were stifling European trade and created a new multi-lateral clearing system which enabled our countries to emerge from the straitjacket of near-barter arrangements in which they found themselves as a consequence of the war.

The success of the OEEC made it possible to be more bold and in the late 50s we saw the creation of the European Economic Community, or the Common Market, as it is usually known here. The Common Market, however, consisted of only six Western European countries. Seven others which are situated in a sort of ring round the Common Market - Britain, Denmark, Norway, Sweden, Switzerland, Austria and Portugal - were very concerned about this. They did not wish to be left behind in the process of economic integration. But for various reasons they would not or could not sign the Treaty of Rome which had brought the Common Market into being. To make a long story short, the seven got together in the European Free Trade Association, or EFTA. A year later, Finland became an EFTA associate, playing her full part in creating the free trade area. The Seven did not see EFTA as a permanent organisation, but thought it would enable them to keep up with the process of economic integration in Europe until such time as an arrangement could be reached with the Common Market countries to make all of Western Europe a single market.

All this was very rapid progress. Two trading groups in Western Europe are, of course, one too many. But two large markets are much better than the 14 separate national markets which existed before the Common Market and EFTA came into being. What Western Europe was really doing was to copy the U.S. formula for prosperity, creating large markets as the basis for production and distribution units on a scale appropriate to the second half of this century.

It must be said that the formula has been a great success. Trade between the six countries of the Common Market has multiplied four times since 1960 and in the same period trade between the EFTA countries has almost trebled. Although the two groups are separated by a tariff wall, they have nonetheless doubled their trade with each other in the past decade. This has naturally been accompanied by rapid growth of the economies of all the countries concerned, so that real standards of living of their peoples have on the average almost doubled over the past ten years. In its turn, this greater prosperity in Western Europe has been very profitable to our trading partners in the rest of the world, and particularly to the United States. Last year, for example, United States exports to the EFTA countries were 120% higher than in 1960. At the same time, U.S. corporations have found the two big European markets a natural environment and a very hospitable one. Since 1960 direct investment by your industries in Western Europe have grown from $6 billion to $20 billion. Thus it is now the situation that the European production of U.S. companies already exceeds U.S. exports to Europe by a considerable margin.

This is the real picture of what economic integration has done for our countries. Compared with such levels of achievement, the more sensational stories of disputes and difficulties shrink into the proper perspective.

How did we go about creating these new European markets? The answer is basically the same for the Common Market as for the Free Trade Area. The main technique in both trading groups was to dismantle trade barriers to zero on an agreed timetable. For example, in EFTA we agreed in 1960 that all tariff and quota restrictions on trade between our member countries would disappear by 1970, with the exception of Portugal, which was allowed a much longer period. In fact we got to zero at the end of 1966, 18 months before the Common Market reached the same objective. Effectively therefore, each of the EFTA countries has had a home market of 100 million people for the past several years and this has enabled our producers and traders to make their plans on a new basis. Of course, the Common Market countries had from the beginning a much more ambitious scenario than ours. As the name implies, they set up a common external tariff, whereas in the Free Trade Area each country keeps its own external tariff towards other countries. The Common Market is aiming at an economic union, which demands far more of its member countries in the sense of seeking to harmonise their economic policies right across the board. And the Common Market also sought a single agricultural regime for the entire area, which EFTA did not.

In addition to getting rid of tariffs and quotas, we have also attacked all non-tariff barriers to trade. This is a long and difficult business and we have already been working on it for the past five years. We have made considerable progress. Besides ridding ourselves of government and private regulations and practices which hampered the growth of trade in EFTA, we have developed over the years rules of competition which attempt to ensure that each of our countries plays fair with the others in matters of trade. It is of great interest to our governments that a review of non-tariff barriers on a world scale is now beginning in the GATT. The EFTA countries are very ready to take part in a negotiation of non-tariff barriers and the experience we have gained in EFTA should be useful on a much wider scale.

The objective of all this, of course, was to make a genuine single market in EFTA and I think we can claim that we have succeeded. There will always be grey areas where disagreement persists, but these are tiny things compared to the general achievement. The same can be said, at least concerning trade in manufactured goods, of the Common Market.

Now let me leave firm ground and speculate about the prospects for the near future. Only too often this question is over-simplified, and becomes merely a matter of whether Britain will enter the Common Market. The answer to that question is only part of a much larger problem. Let me try to give you the broader background.

Western Europe is in fact an inter-dependent economic unit. Whether countries are NATO members, independents, neutrals by choice, or neutrals by compulsion, they are still part of that unit. The split into two trading groups may blur the picture here and there but it does not change the basic unitary situation. For example, the EFTA countries' exports to their free trade area partners are now running at about $10 billion a year. Their trade with the six countries of the Common Market is of the same order of magnitude, which means that, from the EFTA point of view, trade with the Six is just as important today as is trade within EFTA. For individual countries, trade with the other group is actually more important than trade with EFTA. For example, Austria and Switzerland export almost twice as much to the Common Market as they do to EFTA and Britain exports 50% more to the Common Market than she does to EFTA - whereas West Germany, which is in the Common Market, sells to the EFTA countries about twice as much as Britain, which is in EFTA.

You will therefore find it easy to understand that the businessmen of Western Europe have attached great importance to any moves towards doing away with the split into two trading groups. The split has indeed only endured so long because of political arguments which, however important they seemed to their exponents, are irrelevant to the economic integration process. Although businessmen could not break the political deadlock, they could and did try to proceed with their affairs so as to minimise its effects. As I have already shown, they continued to trade in increasing volume across the border between the groups. They continued to invest and to build subsidiaries in the other group, thus binding the two together in an ever-lighter web of economic relations.

Moreover, European industry often acted as a whole to prevent important matters from being settled on a narrow basis. For example, they did not seek agreement on common industrial standards on the basis of the Six or the Seven. They continued to press for the same standards all over Western Europe. Nor was this attitude confined to the private sector. Governments also took the same view. One of the reasons why the EFTA countries so actively strove for the maximum results from the Kennedy Round of tariff negotiations was because success in that endeavour would reduce the height of the tariff wall between EFTA and the Common Market and make the split less harmful to trade.

The question of patents is another example. As in all industrial countries, the patent issuing organisations of Europe are snowed under with applications for patents and the situation cries out for simplification. At this moment that need is being studied jointly by 17 countries including the members of the Common Market and EFTA, with experts from both groups sitting round the same table to draft a new European patent arrangement whereby a single application and search will suffice for the applicant to obtain a patent in 17 countries. Moreover, in seeking this agreement the countries concerned are being careful to keep it compatible with the broader world-wide patent reform which is simultaneously being sought through the international organisation responsible for such matters. We are not seeking to arrive at patent arrangements which would exclude the United States. On the contrary, whatever arrangements are made in Europe will be open on equal terms to other countries.

The same is true of European scientific and technological co-operation. There are many important fields in which action on the basis of the Common Market or EFTA separately would be nonsensical. The Common Market governments who have been studying a report on technology, suggesting various common projects, have very recently invited the EFTA governments to participate. This offer has been welcomed in the last few days, but it is too soon to say how this will all develop.

Yet another example is to be found in the work being carried out by the EFTA governments in further reducing barriers to trade. They consciously try to avoid decisions which would aggravate the split between the two groups. They have always in mind the day, which cannot now be far distant, when all of Western Europe will be united in a single market.

I am not going to risk forecasting what form that single market may take. It is uncertain how far the many countries will be willing to pool their sovereignty by adopting genuinely unified policies. It is uncertain also what the scope of those common policies will be, and especially whether they will go beyond economic integration towards political unity. It is uncertain, finally, whether governments will allow the process of decision-making to pass, in any important sense, to an independent, supra-national authority. And upon the outcome of these developments will depend, in turn, the choice, by each country of Western Europe, whether it wishes to become a full member of the new grouping, or instead will prefer to be associated with it by links shaped to meet its particular economic or political situation.

But among all these uncertainties about the future of European integration there is, I believe, one near-certainty. Although the road we will follow is unmapped, it will lead us forward, not back. It is inconceivable to me that the trade barriers we have torn down between our countries will be re-erected. And the groundswell of integration is so powerful that it surely cannot fail to carry us much further on. Within ten years - perhaps sooner - Western Europe should form one wealthy market of 300 million people, a unit large enough to stand with the United States. It will not, of course, be a homogeneous market. The national and local differences which give Europe its charm as well as its frustrations will continue to present their own special challenges. But it will be a market, nevertheless, on a truly continental scale: a scale which will permit business to operate with a much greater efficiency. It offers Europe's citizens the prospect of greater economic stability, greater prosperity, and the chance to play a fuller role in the world. And it offers American business, which has so much to contribute, perhaps its greatest opportunities in these closing decades of the twentieth century.