

EUROPEAN ECONOMIC COMMUNITY
COMMISSION

FIRST MEMORANDUM
from the Commission of the
EUROPEAN ECONOMIC COMMUNITY
to the Council of Ministers of the Community

(pursuant to the decision of the Council of 3.12.58), concerning the problems
raised by the establishment of a European Economic Association

Blank pages not reproduced: 2, 20, 30

Brüssels, 26. february 1959

CONTENTS

INTRODUCTION

- A. Analysis of the situation
- B. The point of view of the Six
- C. The point of view of the Eleven
- D. The point of view of the Commission

I. THE FACTS OF THE PROBLEM

- A. Position of the European States which are not Members of EEC
- B. Extra-European elements of the problem
- C. Is the concept of a Free Trade Area appropriate?

II. THE POLICY OF THE COMMUNITY

- A. Commercial policy
- B. Quota policy
- C. Tariff policy
- D. Agriculture
- E. Countries in course of development
- F. Policy relating to economic trends

III. EUROPEAN OBLIGATIONS

- A. A European Economic Association must be established
 - Conditions for an European Economic Association
 - Purpose of the Association

	Page
B. Substance of the initial phase	34
- European enquiry into the flow of trade	34
- Quota measures	34
- Tariff measures	35
- European countries in course of development	36
- Agriculture	36
C. Articles 237 and 238 of the Treaty of Rome	38
IV. <u>STRENGTHENING THE COMMUNITY</u>	39
V. <u>ECSC PRODUCTS</u>	40
CONCLUSION	41
RESOLUTION	42
ANNEXES	43

INTRODUCTION

1. The negotiations on the establishment of a free trade area begun in the Council of Ministers of OEEC and later continued in the Inter-governmental Committee, were broken off on 15 November 1958.

On 3 December 1958 the Council of Ministers of the European Economic Community, meeting in Brussels, adopted the following resolution:

" THE COUNCIL

" Anxious to continue the efforts to establish a multilateral
" association between the European Economic Community and the other
" states of the Organization for European Economic Co-operation,
" Recognizing that the difficulties which have come to light during
" the negotiations call for fresh studies and fresh contacts,
" Requests the Commission to undertake, in the light of the work
" already done or now in hand, a detailed examination of the pro-
" blems and of the possibilities of resolving them. In accomplishing
" this duty the Commission will maintain constant contact with the
" six Governments Members of the European Economic Community.
" The Council requests the Commission to submit a report by 1 March
" 1959 on the joint position which could be taken up by the Member
" States.
" The Council, when it has approved this report, will decide on the
" procedure to be followed. One possibility that may be considered
" is that the Commission should make official contact with other
" Governments in order to discuss the problem with these Governments".

A. ANALYSIS OF THE SITUATION

2. In the view of the Community the first requirements, if an early relapse into the same difficulties is to be avoided, is careful analysis of the reasons for the failure of the previous negotiations.

On a number of occasions since it began its work in January 1958 the Commission has expressed serious doubts on the chances of success for a conference bringing to one table states so heterogeneous and with such varied interests as the seventeen states of OEEC.

But this observation is of subsidiary importance when com-

pared with the basic differences which led the Paris negotiations into a cul de sac.

In fact these were based on a number of misunderstandings, at first perhaps not clearly perceived and only gradually noticed by the Community itself as it came into being; these misunderstandings however became more evident as the discussions progressed.

3. Among the Six the view has been widely expressed that the total abolition of obstacles to trade was possible only through a certain degree of harmonisation of economic policy, both external and internal. Among the Eleven, on the other hand, it is widely held that the Free Trade Area could be established without such precise undertakings.

4. The very concept of the work to be accomplished rested on widely differing points of view. For some the main objective of the Free Trade Area was to be the extension to all Europe of the fuller co-operation established by the Treaty of Rome; but for others the extension to the Seventeen of the economic advantages which the Six had accorded to each other, could be looked on primarily as a first move toward liberalisation on a world scale.

5. For the eleven European states outside the Community there should be no difference of treatment between the Member States and the other members of OEEC. No difference can be made between the seventeen members either in the field of tariffs or in the field of quotas. Any measure that can lead to such differences is called "discrimination" and condemned out of hand.

For their part the Member States of the Community consider that by establishing their Community, by agreeing to certain efforts and certain sacrifices in order to bring this community into being, by accepting new disciplines and specific burdens, they have constituted an association which gives them the right to treat each other in a manner which is different from that adopted towards non-member states. At the same time, however, they recognize that their action may raise problems for one or other of the remaining members of OEEC, and they are prepared to join with these countries in seeking practical means of co-operation.

Thus, on the one side, any discrimination between the seventeen members of OEEC is condemned, while on the other there is insistence on the legitimacy of the Common Market, combined with readiness to give the Common Market a liberal policy.

6. It is not surprising that such fundamental differences in conception should have led the negotiations into an impasse. Nor is

it surprising that throughout Europe, among governments, in parliaments, in the press and between individuals these difficulties have led to lively and sometimes heated discussions which for more than a year have been agitating public opinion more than was to be desired.

7. There is in addition a difficulty which is inherent in the Community: it springs from the fact that the question of close association of the eleven European countries with the Community has arisen very early in the latter's history. The Community is only at the very start of its existence, the transitional period has only just begun. The common external tariff, which is the basis of the Community's commercial relations with the outside world, has not yet been fully settled. The common commercial policy of the Six is still in its infancy. It is therefore more difficult for the Community to act than if it had behind it years of life as a Community. It is also difficult for the Community not to be concerned over anything which might harm its development, which might even prove to be a threat to its existence. These worries will no doubt disappear once the Community is fully developed; it will then be in a position to take greater risks. What is difficult to manage today will perhaps be easier tomorrow.

B. THE POINT OF VIEW OF THE SIX

In seeking the elements of an agreement the first requirement is clarity on the positions of the two sides.

The action of the Member States of the Community rests on considerations which are at once juridical, economic and political.

Juridical considerations

8. In the discussion on "discrimination" caused by the implementation of the Treaty of Rome, the Community has always found it hard to accept the idea it had established something which did not conform with existing undertakings.

Looked at from the angle of undertakings at world level the Community conforms with the rules of GATT, in particular with Article XXIV, which expressly authorises the formation of a Customs Union.

From the European angle, the Member States of the Community cannot accept that the Common Market involves a "discrimination", i.e. an unjustifiable difference in the treatment of other OEEC countries. The juridical situation is quite clear on this point. It is defined by article 5 of the Paris Convention of 1948 and by Article 8 of the OEEC Code of Liberalisation in the following terms:

Article 5 of the Convention

" The Contracting Parties agree to strengthen their economic
" links by all methods which they may determine will further the ob-
" jectives of the present Convention. They will continue the study
" of Customs Unions or analogous arrangements such as free trade
" areas, the formation of which might constitute one of the methods
" of achieving these objectives. Those Contracting Parties which
" have already agreed in principle to the creation of Customs Unions
" will further the establishment of such Unions as rapidly as con-
" ditions permit."

Article 8 of the Code of Liberalisation

" Two or more Member countries forming part of a special
" customs or monetary system may apply to one another, in addition
" to measures of liberalisation of trade taken in accordance with
" Article 2, other measures of liberalisation of trade without ex-
" tending them to the other Member countries. Member countries for-
" ming part of such systems shall inform the Organization thereof."

It is moreover difficult to understand why the Common Mar-
ket should be considered to be illegitimate when the Benelux Union,
which also constitutes a Customs Union, has been accepted without
difficulty and the idea of a Nordic common market does not appear to
raise any objections of principle.

Economic considerations

9. The purpose of the Common Market is not simply to reduce
the obstacles to international trade or to establish a large market.
It is to build in Western Europe a vast economic unit with really
creative drive.

In reality the abolition of customs barriers and quota re-
strictions, the drawing up of rules of competition, the inauguration
of a joint commercial policy are only means to an end, and this end
is the establishment of a dynamic whole capable of rapidly increasing
the economic potential of Europe and the level of its social well-
being, of placing Europe once more in a position to exert its full
influence, of allowing it to be once again one of the pillars suppor-
ting the free world, one of the essential elements supplying aid to
states in the course of development. It is for these reasons, and
not merely to safeguard its first steps, that the Community must pre-
serve its original character and its drive and that, in the words of
the resolution adopted on 27 June last by the European Parliamentary
Association, it cannot consent to be dissolved in an entity where it
would be deprived of the advantages of the economic and political in-
tegration which it has undertaken.

It would seem difficult to understand how OEEC could for one moment have been treated, in the name of a mistaken principle of non-discrimination, as an obstacle to this development. If this were ever to be the case, it would mean that OEEC, which up till now has served as an element of progress in that it replaced the old bilateral procedures by methods of multilateral co-operation, had been turned into an element of inertia, a brake on any progressive tendencies in Europe. This cannot have been the intention of its founders, and it certainly cannot be the intention of its present leaders.

Political considerations

10. The Community of the Six is founded on an political idea. It tends, in the words of the preamble to the Treaty of Rome, to "establish the foundations of an ever closer union among the European peoples". With this end in view the Treaty has created a whole complex of institutions and machinery which attain a nice balance between national elements and community elements. The Community has left the door open for later political extensions. The action taken by the Six does not then rest exclusively on a commercial or even economic idea; it is also without any question both the instrument and the expression of a basic political idea.

This means that the Six cannot consider giving up the Community.

C. THE POINT OF VIEW OF THE ELEVEN

11. The Commission does not claim to be the best interpreter of the economic or political thinking of the eleven European partners of the Community. It has none the less attempted to take their arguments into account, giving them all the weight they deserve.

No doubt the Community has the law on its side, some spokesmen of the Eleven have argued; its action may well be legal but there are things which, although legal, are politically unwise. Europe is just building its unity, and this it must have if it is to play its part in the world, a part which at present is essential. Consequently anything which divides Europe is bad; if the Community by its action should divide Europe into two separate economic blocs and if it were not to seek forms which make it possible to avoid this breach, it would quickly move forward to destruction of European solidarity, at first on the economic plane, but inevitably on the political plane later.

This point of view deserves the most serious attention and should determine the efforts of all concerned, including the Community, to avoid such unhappy consequences. But that in no way means that

the formulae which have been put forward in the past to bridge the gap between the Community and the other members of OEEC are fair in their ideas or sound in their economics, nor does it mean that they give due weight to the essential contribution which the development of the Community also makes to the strength of Europe.

12. The Eleven say next - and not without at least some show of reason - that the hopes held out for them have not been fulfilled. When the Treaty of Rome was being negotiated, they did not fail to see what would result from the action being taken. They had therefore asked that it should be completed by the establishment of a free trade area. As early as July 1956 attempts were made to attain this. Subsequently when, after the signature of the Treaty, they returned to the charge, they were asked to show patience in order not to create difficulties for the ratification procedure. Their worries were calmed when, at OEEC in October 1957, the earlier intentions were reaffirmed and the procedure to be followed was laid down. This did not produce results. It is not surprising if the Eleven have a feeling that dilatory methods had been deliberately employed.

These events must be kept in mind if we are really to understand the hopes entertained by the Community's European partners and the consequent sharpness of certain reactions when it appeared that the negotiations which had been undertaken might fail.

13. The Eleven show genuine disquiet over the possible effect on their economies of the implementation of the Treaty of Rome.

The establishment of the Community, its considerable weight, the very fact that in the heart of Europe there is a new and powerful group of States bound together by special bonds is, in their eyes, liable to raise difficult problems for all those on the periphery.

These complaints are somewhat exaggerated, as they look ahead to events which have not yet occurred. But they reflect an already very real concern which must be treated as a fact relevant to the issue.

The Community must pay close attention to these reactions; it must understand them and endeavour to meet them by an appropriate policy. It is perfectly possible that certain of today's anxieties may tomorrow prove to have been justified. The Community must be ready to meet them and to take such measures as circumstances may require.

D. THE POINT OF VIEW OF THE COMMISSION

The conclusions reached by the Commission at the end of its first studies and consultations are set out below; but it may be useful, at this point, to put forward certain general considerations which have guided their work.

The solution should be multilateral

14. Although bilateral discussions or even negotiations may prove necessary, possibly even indispensable, if views on general questions are to be brought closer together or certain specific problems to be settled, the general agreement to be worked out must as far as possible, be multilateral. That this is the intention of the Member States of the Community has quite recently been stated in Rome, in Brussels and in Bad Kreuznach; this intention is repeated in the resolution of the Council of Ministers of the Community of 3 December, to which reference has already been made. There can be no doubt, no ambiguity, on this point.

The activities of OEEC must be maintained and if possible intensified

15. The Organization for European Economic Co-operation has for 10 years provided the forum in which the seventeen member states meet and collaborate. It has to its credit considerable achievements in the field of the liberalization of trade. It is quite natural that the Eleven should be attached to this form of co-operation, which is suited to their diversity and to the courses of action open to them. There is no reason why the Community should seek any other setting for its relations with its European partners. If the coming of the Community has provided the signal and the motive power for a new effort towards the liberalization of trade in Europe, there appears to be no reason why this should not be made in OEEC. New tasks may be given to the Organization. The implementation of the Common Market does not involve the weakening of the Organization of the Seventeen; on the contrary, it must lead to its expansion.

World aspects must be considered

16. The Community is a power with responsibilities on a world scale. The problems raised by the introduction of the EEC cannot be confined to the boundaries of Europe. They have sprung up in all parts of the world. It would be useless to construct a solution in Europe if on the world level in GATT the elements of this solution were next day to come under fire. This point will be expanded below.

The solution must be liberal

17. More than once within the last year the Commission, in statements made on its behalf by its President, especially before the European Assembly, has expressed its intention of following a liberal economic policy. Everything in the Treaty, from the Preamble to the Declaration relating to co-operation with States Members of International Organizations which is appended to the Final Act, shows that this was certainly the intention of the authors of the Treaty and the basis on which they reached agreement. The Commission cannot conceive that the Community could develop a protectionist or autarkic philosophy and it believes that the Community must show in its deeds that it intends to follow a broad liberal policy vis-à-vis its partners in Europe and in the world.

It must be evolutionary

18. The Commission does not believe that it is possible to fix from the outset final and perfect forms of co-operation; it would appear rather that the desired results can only be attained gradually, that action on these lines would make it easier to reach agreement and that it is therefore necessary to find solutions capable of developing in the direction of an ever better organization of Europe's economy and of the economy of the world.

The solutions must be practical

19. The Commission finds that the great ideological battle on discrimination has assumed a quasi-theological character, with each party clinging to its views for such fundamental reasons that it has become almost impervious to the arguments of the other.

Consequently the Commission considers that in present circumstances it would be wise to seek some terrain other than that of doctrinal quarrels. In a perhaps less ambitious but more pragmatic manner, a practical compromise must be found which will allow the two parties to live together. If it is not at once possible to reach a full compromise, temporary solutions must be worked out which will allow time to seek, coolly and unhurriedly, the foundations of a final solution. The search for this solution will be helped forward by the large amount of work already accomplished.

o

o

o

I - THE FACTS OF THE PROBLEM

A. POSITION OF THE EUROPEAN STATES WHICH ARE NOT MEMBERS OF THE E E C

20. The authors of the Treaty of Rome have always thought that the economic expansion resulting from the establishment and development of the Community would be such as to constitute for the neighbours of the latter a source of increased trade far outweighing any diminution which might result for them from the preference which the Member States have granted each other. The example of the Benelux customs union, which has very appreciably increased trade within its frontiers without reducing external trade, is encouraging in this respect. The European Economic Community is above all a great enterprise of economic expansion intended to benefit not only its members but all its partners, and, first and foremost, its European partners.

However, there is always a possibility that, in certain regions or certain sectors, these optimistic forecasts may not be entirely confirmed by the facts. Furthermore, the chronological order in which the results in question may make themselves felt should not be overlooked: it is now that the Eleven fear that the flow of their trade may be disturbed by the development of trade within the Community; it is only in the future that the expected expansion will become manifest.

21. In addition, the increase of productivity in the Common Market, which is one of the essential aims of the organization, may affect the possibilities of competition not only within the Community itself - as in the eventuality mentioned above - but in third markets, particularly outside Europe. Certain countries may be specially sensitive to long-term developments of this nature.

Varied situations among the Eleven

If the causes of concern vary, this is not only because of the dissimilar effects that will be produced by the Common Market. It must always be remembered that there are very appreciable shades of difference in the situation of the individual European countries in their relations with the Community.

22. In the first place, the special problem of European countries in process of development, such as Greece, Ireland, Turkey and - to some extent - Portugal and Iceland, should be recalled. The necessity of special arrangements for these countries is generally recognized. But the diversity of situations is not only a matter of the degree of economic development.

23. The countries of the Eleven depend on their foreign trade to very unequal extent. Norway, Ireland, Iceland, Denmark and Switzerland export 20 to 25% of their gross national product, Great Britain 16.2%, Portugal 15.5%, Greece 7.8%, and Turkey only 3.4%. (See Table I annexed)

The countries most involved in international trade are also those which have the highest proportion of their external outlets in the Common Market (see Table II annexed). Certain countries on the borders of the Common Market are very largely dependent on it as an export market. Austria sends 50% of its exports to Community countries, Switzerland nearly 40%, Denmark more than 30%, whereas the share of the Community in Great Britain's markets is only about 14%.

24. If account be taken of these two elements, it appears that the countries most interested by far in economic integration with the Common Market are Austria and Switzerland, which are geographical enclaves in the territory of the Community. They are followed by Denmark and the other Scandinavian countries, Iceland and Greece, which are exporters of agricultural products. Then come Great Britain, Portugal and Turkey.

25. The situation of the countries forming the Eleven is also different from the point of view of the items which they export.

Denmark, Iceland, and the least developed countries - Ireland, Portugal, Greece and Turkey - sell mainly agricultural products.

On the other hand the exports of the industrial countries of the group, with the exception of Great Britain, are highly specialized. Paper pulp and metals make up the essential part of Austrian exports, while the industrial exports of Sweden and Norway consist of these same products and ships.

Great Britain's exports, on the contrary, are very diversified and Switzerland occupies an intermediate position (see Table III annexed).

26. Finally, among the countries of the Eleven, Great Britain is in a very special position because of the fact that its tariff policy is linked with the Commonwealth preference system.

27. The facts outlined above call for the following remarks:

- When account is taken of the diversity of economic relations in Europe itself, the anxieties of the Eleven differ to some extent in scope and nature.

- Furthermore, sector studies carried out up to the present have shown that, when a certain point is reached in the reduction of trade barriers, the problem of the total elimination of these barriers is linked with the harmonization commitments which the States are prepared to undertake. The diversities recalled above cannot fail to influence the positions which might be acceptable to the different countries of the Eleven in the matters of harmonization of commercial and economic policy or tariff alignment. It is understandable that Great Britain should show no great readiness to alienate its freedom in this field for a market which represents no more than 14.6% of its exports and 2.3% of its G.N.P. (as against 45% of its exports which go to the sterling area and 16% to the dollar area).
- More generally, it is impossible to leave out of account, in any attempt to strengthen economic co-operation in Europe, the extra-European aspect of the tariff and trade policy of the European States themselves. Certain states do a great part of their trade with Europe. Others may consider the non-European aspects of overriding importance.

B. EXTRA-EUROPEAN ELEMENTS OF THE PROBLEM

28. The Six are no more isolated than the Seventeen.

Any analysis of the commercial and economic consequences of the setting up of the Common Market must take account of the fact that neither the Community of the Six nor a possible larger association embracing the seventeen European states is cut off from the world.

The negotiations on the Free Trade Area have already shown how delicate is the problem of the external relations of an European association of seventeen members.

In addition, it is certain that any convention between the EEC and the other members of the OEEC would need to be examined on the world level, in particular by GATT, as is the case for EEC itself. It may even be thought that the alteration in the traditional balance of customs systems brought about by the establishment of the Common Market would become still more farreaching if a treaty were concluded between the Seventeen. The normal outcome would be a general round of tariff negotiations. And the European states must expect to receive, in the framework of GATT, demands which will be all the larger, all the more exacting because of the fact that they have granted each other wider tariff and quota facilities.

This being so, it is important for the Community, if it wishes to avoid being drawn into dispersed but cumulative negotiations, haphazard in their development, and incalculable in their overall results, which would take no account of the particular requirements of the Common Market, to undertake simultaneously the

study of its economic relations with the Eleven and with non-member countries as a whole.

29. Relations of the Community with non-member countries

Among the countries at present most concerned (for instance, those whose exports to the Community represent between 5 and 30% of their gross national product and 30 to 60% of their total exports) may be found, in addition to Austria, Switzerland, Denmark and Sweden, which have been already mentioned as European States, Iraq, Ghana, Syria, Salvador, Costa Rica and Haiti, to which Morocco might also be added. Then would come other European countries with lower percentages, such as Iceland, Norway, Greece and Turkey; further non-European countries like Chile, Kenya, Uganda, Nicaragua, Argentina, etc., could be listed with these (see Table IV annexed).

The above enumeration is given purely as an indication and is not restrictive. Its purpose is simply to bring out the fact that the establishment of the Common Market is not a specifically European problem and to show that it is of at least as much concern to certain third countries, most of which are at an early or inadequate stage of development.

30. Balance between the industrial countries and the countries in course of development

Efforts to find a balance between the industrial countries and the so-called development countries are necessary from the point of view of the Community, but also from another more general point of view.

The greater part of the world is composed of countries whose capacity to ensure a satisfactory development of their national economy by their own means is still doubtful (see Table IV annexed).

It will not be possible to establish a balance on a world scale by eliminating obstacles to trade unless the establishment of free trade goes hand in hand with an active and concerted development policy. In point of fact, experience shows that free trade has not in itself the necessary strength to even out excessive disparities. On the contrary, if special precautions are not taken, it can have the effect of widening the gap between rich and poor countries. Comparison of the development of the national incomes and external trade of the various countries during recent years confirms this conclusion (see Tables VI and VII annexed).

The development countries represent by far the most important economic problem of the free world: the particularly vigorous action of the Soviet Union in this field has increasingly thrown into relief the political aspect of this problem. The Community will therefore not be able to escape the share of responsibility in respect of this problem which falls to it because of the position it will from now on occupy in the economy of the world.

31. Position of the Community in the world economy.
Responsibility of the large industrial units.

Whereas up to the present the United States occupied a dominating position in international trade, followed at some distance by Great Britain, the Treaty of Rome has brought into existence a third great unit whose foreign trade is roughly equal in volume to that of the United States.

In 1957, the share of the United States in world trade was 17.6%, that of the Community 17.4% and that of the U.K. 11.2%, i.e. a total of 46% (excluding trade between Member States of the Community). In the raw materials sector, which is of direct concern to the less developed countries, the share of the Community in 1957 was 33%.

It is clear that this position confers on the Community a special responsibility in the balance and development of world economy which it must fulfil in close co-operation with the United States and Britain, i.e. with the two other great economic units enjoying a high degree of industrialization.

o

o

o

C. IS THE CONCEPT OF A FREE TRADE AREA IN THE FORM WHICH SERVED AS A BASIS FOR THE PARIS NEGOTIATIONS CALCULATED TO RESOLVE THE ABOVE PROBLEMS?

JURIDICAL FRAMEWORK AND ECONOMIC CONTENT

32. The negotiations carried out on the basis of the British proposals came within the juridical framework provided by Article XXIV of GATT, which envisages and authorizes the establishment of a free trade area.

It emerged that to base negotiations not on a economic objective but on a juridical fiat, interpreted in too restrictive a fashion, could prove to be a source of difficulties in defining the actual content of an agreement.

33. Free trade and its conditions

Free trade is an objective impossible of attainment unless certain conditions are fulfilled.

In the first place, it is difficult to conceive of a complete abolition of customs barriers and quotas as long as no sufficient guarantee exists that the free play of competition will not be

hindered by understandings and monopolies, dumping practices, aids granted by States or specific distortions.

In the second place, the States will hardly be prepared to eliminate obstacles to trade in certain products if the volume of liberalization is insufficient to ensure an adequate balance of advantages and burdens. This question concerns primarily the problems of freedom of movement for workers, of the liberalization of services and of increased trade in agricultural products.

In the third place, it is unrealistic to contemplate total abolition of customs barriers and quotas if the maintenance of the liberalization measures adopted is not guaranteed by adequate co-ordination of policy relating to economic trends.

In the fourth place, it would seem necessary that any large-scale elimination of customs barriers and quotas between highly developed countries on the one hand and development countries on the other, should be accompanied by a concerted and active development policy. In point of fact, experience shows that free trade of itself does not lead to the elimination of disparities in levels of development.

Fifth, and lastly, it is only possible to conceive of large-scale elimination of obstacles to trade if there is no appreciable distortion of competition, either in respect of imports or of exports, as a result of diversities in the external tariffs and trade policies of the participating states. A special problem exists in relation to countries with low living and wages standards, which are in a position to offer their products at abnormally low prices, and in relation to those with a centralized, state-controlled economy whose prices do not result from free competition but are fixed arbitrarily by the monopoly of external trade.

34. The idea has been entertained of resolving these problems by a very complex system of definition and verification of the origin of products. Any system of this nature calls for certain reservations. On the one hand, it is inevitable that a free trade area should have a preferential character, and as the definition of origin becomes narrower this preferential character will become more pronounced. On the other hand, in every case where some constituent elements of manufactured products of a given category have originated within the area and some outside, certain problems are insoluble by any system of verification of origins. Neither can a system of compensating taxes provide the answer, for it can at most be applied to the exports of the country benefitting from a difference in customs tariffs towards the country which is at a disadvantage, but it cannot resolve the problem of competition between the two countries on the markets of other member states of the area. This is particularly the case when, in a given country, imported products are substituted for national products in internal consumption, thus leaving internal production free to be exported to other countries.

35. If a very strict system of control of origin, which could well prove an obstacle rather than a liberalizing factor for trade, is rejected, there remain in point of fact only two entirely satisfactory systems of multilateral trade without customs duties or quotas: the customs union (or, more exactly, the economic union) which secures for all participants the same conditions of supply, and world free trade, which ensures this same equality. Any intermediate system is necessarily imperfect. This means that a free trade area is acceptable only to the extent that it is fitted into a setting of increasing liberalization of world trade and abandons any idea of strengthening European economic solidarity in the strict sense of the word, or approximates to the type of the customs union.

36. There is a clear correlation between the abolition of customs duties and quotas on the one hand and the scale on which the five conditions mentioned above are realized on the other. This correlation on which the Common Market is founded, is all the closer as we advance in the direction of the abolition of obstacles to trade.

37. Since the real problem is to harmonize relations between the Europe of the Six and the Europe of the Seventeen in such a way that the first may develop with its own drive without disturbing the functioning of the second, the whole question needs to be taken up again in a wider setting, and perhaps with less rigid procedures and terms of reference, with a view to advancing, *pari passu* on the world and on the European plane, the search for a new economic equilibrium.

These two lines of approach cannot be isolated from each other.

The solution of the European problems can only be harmonized with the interests and responsibilities of Europe if it is determined in relation to a world policy. Similarly, it is not possible to conceive a world policy without taking particular account of the very special solidarity linking the European peoples.

It is in the setting of existing international organizations - both those whose competence is limited to Europe and those which embrace the entire world - that these solutions must be sought, and their result must strengthen these organizations. Finally, the Community itself should be led to reinforce its cohesion and its own development in order to be in a better position to play its part as a driving force in these different circles.

II-THE POLICY OF THE COMMUNITY

38. As has been pointed out above, there are three major units which will henceforward have to be regarded as the motive forces of the economy of the free world: the United States, the United Kingdom, and the Community. The responsibility which they bear demands that they should act in concert for the benefit of all.

It is from this angle that the Community must weigh its policy on the global level. Some of the problems which it faces arise equally for its principal partners. These problems are at the same time very real and of the utmost consequence. This applies, for example, to the attitude towards east European countries, aid for less developed countries, the strengthening of the GATT rules on competition, or to measures to be taken in respect of industries with a very low level of wages. It should be the common objective to avoid divergent action on any of these problems and to work out a co-ordinated position in line with the wish of the free world for equilibrium and economic expansion. Regardless of more detailed action to which reference may be made later, co-operation at this level is already possible and desirable.

A. COMMERCIAL POLICY

39. The general principles of commercial policy are laid down in the Treaty of Rome, particularly in Articles 18 and 110, which read as follows:

Article 18: "Member States hereby declare their willingness to contribute to the development of international commerce and the reduction of barriers to trade by entering into reciprocal and mutually advantageous arrangements directed to the reduction of customs duties below the general level which they could claim as a result of the establishment of a customs union between themselves.

Article 110: By establishing a Customs Union between themselves the Member States intend to contribute, in conformity with the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international exchanges and the lowering of customs barriers. The common commercial policy shall take into account the favourable incidence which the abolition of customs duties as between Member States may have on the increase of the competitive strength of the enterprises in those States."

The general policy of the European Economic Community must be built upon these principles.

B. QUOTA POLICY

40. The general quota policy of the EEC rests on Article 110 and must, therefore, lead to the progressive elimination of quotas.

While pursuing this objective, account must be taken of the OEEC rules and of Articles 11 and 12 of GATT.

41. The quota policy of the Community must also be directed towards standardising methods of liberalization; as far as possible the difference of treatment existing in the OEEC area and the dollar area should be reduced. Article 111 (5) of the Treaty of Rome reads:

"Member States shall aim at securing uniformity between themselves at as high a level as possible of their lists of liberalization in regard to third countries or groups of third countries. For this purpose the Commission shall make any appropriate recommendations to Member States. If Member States abolish or reduce quantitative restrictions in regard to third countries, they shall inform the Commission beforehand and shall accord identical treatment to the other Member States."

The steps recently taken towards a return to convertibility have increased both the importance of and the need for such a development, but they have placed it in a new perspective: standardization amongst the Member States must be supplemented by an alignment of the different levels of liberalization applicable to the various non-member states.

42. The special system from which OEEC has benefited with regard to world trade rules on quantitative restrictions can be considered in this new perspective. At any rate it is in the OEEC that efforts at quota liberalization have been pushed furthest and it is within that body that the Community and its eleven European partners should in the first place seek a common platform for a more general plan.

C. TARIFF POLICY

a) Principles

43. In accordance with the objectives laid down in Articles 18 and 111 of the Treaty of Rome, which deal with the reduction of tariff barriers in the interest of the harmonious development of world trade, the Community will have to take an active and positive

share in all the negotiations carried on within GATT for the reduction of tariffs.

b) Procedure

44. Before studying the substance which any such steps might cover, certain technical aspects should be defined:

In the coming two years, tariff negotiations can be undertaken under several headings:

- the multilateral negotiations for a new general round of reductions in customs duties (Dillon),
- the negotiations which the Member States of the EEC must undertake in connection with Article XXIV (6) of GATT.
- the negotiations in connection with Article XXVIII (withdrawal of concession),
- the negotiations with non-member States applying for admission to GATT.

So far as the Community is concerned, all these negotiations should be carried on in concert, if only to stress the fact that the Common Market now constitutes an economic and customs union and to make it quite clear that all negotiations of this kind must in future be conducted in conformity with the provisions of Article 111 of the Treaty of Rome.

The basic rule for tariff negotiations is that each country must conduct them, product by product, with the country which is its main supplier. Here again, it would seem that in order to confirm, and obtain recognition of, the economic unit represented by the EEC, the total of the trade of the six Member States should be taken as determining the country with which the negotiations must be undertaken. This means that in the case of numerous products the Community will be the main supplier or the main consumer and that non-member States will have to negotiate with the Community.

45. The consolidation of low customs duties or of a system of duty-free entry will be recognized, in principle, as a concession equal to a substantial reduction of high customs duties or to the elimination of tariff preferences.

These rules are of particular interest to the Community because they may allow of more general negotiations on the basis of the consolidation of the customs duties of our common external tariff. Any concession on the part of the Six is of great interest to the non-member States because it will apply to a market of 160 million inhabitants; on the other hand the greater part of the customs duties of

the common tariff, particularly in the fields of raw materials and semi-finished products, should from now on be on a low level.

c) Practical measures

46. The policy of the Community should consist, in the first place, of accepting the proposals made by Mr. Dillon, the U.S. Under-Secretary for Commerce, and of taking part in consequent negotiations in a positive and liberal spirit, taking the initiative to ensure that all possibilities are exploited to the maximum. Once the technical principles indicated above have been recognized no condition other than that of reciprocity should be insisted on during these negotiations.

47. It is not impossible to envisage going beyond the Dillon proposals on the reduction of tariffs. This will depend mainly on the practical results of the negotiations.

Once the result of these negotiations can be judged, the Community, together with its partners in OEEC, should consider what additional proposal for the reduction of tariffs could or should be realized within GATT.

48. It will however not be possible to envisage a more vigorous effort at tariff reductions on the global level without certain conditions going beyond the mere traditional rules of reciprocity.

The Community should insist, as a matter of principle, that no further major tariff reductions could be introduced unless the Member States of GATT are prepared to accept that such a policy presupposes the fulfilment of a series of conditions in the field of economic and commercial policy; in particular, the GATT rules on competition would have to be revised and strengthened, and a policy relating to economic trends gradually introduced at world level.

D. AGRICULTURE

49. If the common agricultural policy is to succeed it is necessary, as stated in the Stresa Resolution "to maintain both trade and contractual, political and economic links with non-member countries."

The Community will, therefore, have to adopt a positive attitude towards co-operation in a wider framework.

This applies in the first place to the implementation of decisions taken by the Contracting Parties in the field of agriculture

at the 13 th session of GATT. The Commission is nevertheless of the opinion that international agricultural trade is so complex that it cannot be regulated by dealing with commercial barriers only, as these are no more than symptoms. The reasons leading to the erection of these barriers should be sought, and to that end all the measures taken by the Contracting Parties in the field of agriculture should be examined. The Commission will ensure that this examination shall bring about a more efficient basis for the widening of trade. With that end in view the Commission proposed, at the 13th session, that an agricultural policy code be laid down within GATT.

50. On the other hand, the Commission believes that a solution of the problem of surpluses, which result from the fact that the output of some agricultural products exceeds the actual demand, is possible only in a wider framework. The Commission will therefore support all efforts made on the global level to solve this problem.

E. COUNTRIES IN COURSE OF DEVELOPMENT

51. The responsibilities of the great industrial countries vis-à-vis the less developed countries have already been mentioned, as has the usefulness of concerted action. In this field a series of measures will have to be taken which will form a co-ordinated policy; the essential elements of these measures are indicated below.

Conscious of its responsibilities, the Community has already undertaken certain obligations vis-à-vis those countries which have special links with the Six; it regards these countries as associates and allows them the benefits which flow from that status. It goes without saying that any effort undertaken on behalf of non-member countries in the course of development, will also benefit them.

a) Collaboration in International Organizations

52. As a first step on the way to a policy of aid to countries in process of development, the Community as such could take an active part within the competent international organizations. Aid to countries in process of development is at present the subject of very many different measures, according to the fields of action and the responsible authorities concerned. The first problem is one of comparison and co-ordination. Rather than setting up a new body, the Community would like to see the actions of its Members co-ordinated within the existing bodies. The latter might well find that this strengthens their position.

If such an attitude were adopted at world level, it would clearly demonstrate the intention of the Community to add a further

effort in this field to the one on which, in the form of the Economic and Social Development Fund for the Overseas Countries, it has already agreed for the benefit of the territories specifically associated with it by the Treaty of Rome.

b) Financial aid

In this field, co-ordination is mainly necessitated by the desire to increase the efforts made. A distinction must be drawn between long-term and medium-term aid.

53. Long-term financial aid is in general practice given direct by one State to another. A first study of the efforts undertaken by the Members of the Community gives the impression that there are wide differences between the relative performances. For instance, it is France which has made the largest effort by devoting, between 1954 and 1956, 1.02% of its GNP to aid to countries in process of development. There might be an exchange of views in order to find out to what extent it would be possible to bring the various national efforts into line.

54. Medium-term credits have recently been developed in order to make up for the reduced contribution from long-term private credits, and to complement the aid given by governments of industrialized states to countries in process of development.

In this field, common action by the countries of the EEC would bring the following advantages to both sides:

- If export credits could be rendered uniform and, perhaps, their periods extended, this would allow the countries in process of development to pursue with greater ease the industrialization programmes which help to introduce more diversity into the economies of these countries, thereby making them more elastic and less sensitive to international trade fluctuations.

- From the point of view of the Community countries, the disparity in the conditions of export financing means a waste of resources. In addition to increasing aid, the approximation of export credit systems would help to prevent competition between enterprises of the Common Market countries from being carried out on the basis of the various national budget resources and the foreign currency reserves of each Member State; on the contrary, each firm would have to enter into competition on the basis of its own position in the Market.

- During a period of recession, finally, a reinforced system of export credits would have a stabilising effect on trade, thus benefiting both importers and exporters. Without wishing to restrict

the activities of the various responsible national organization, it would seem desirable that their work be co-ordinated in order to strengthen the means of intervention at their disposal.

c) Raw materials

55. The problem of raw materials is of particular interest to many less developed countries. As stated above, the Community is the world's largest importer of raw materials. For that reason alone, the Community could by itself contribute to a certain stabilization of the raw materials market, provided the Member States co-ordinate their relevant policies.

56. The European Economic Community will also participate actively on the international level in all studies and negotiations undertaken for the improvement of the situation on the raw materials market in so far as they are compatible with the spirit of the Treaty of Rome and provided that a sufficient number of interested countries takes part in them. A declaration of principle could be issued immediately.

Practical measures could be taken under various types of agreement:

- universal agreements on stabilization, covering the great majority of producer and consumer countries;
- bilateral or regional agreements, concluded where a universal agreement could not be obtained;
- failing agreement on the lines sketched in the preceding paragraphs, aid to countries producing raw materials could, in the last resort, be given by the classic means of commercial policy.

In this context, the recommendations worked out in the memorandum prepared by a group of economists under the direction of Professor Haberler and submitted to GATT should be considered.

d) Tariff policy

57. It is certain that countries in process of development - be they situated in Europe or elsewhere - cannot be expected to give up all customs protection. The Member States of OEEC and of GATT will, therefore, have to accept the principle of exceptions in the progressive reduction of customs duties; the conditions of such exceptions remain to be settled. In addition, more detailed study will be needed to establish whether special measures in the field of quantitative restrictions are also required.

58. In the second place, the Community must make an effort, when customs duty rates for List G are fixed and the proposed negotiations within GATT take place, to pay special attention to the interests of countries in process of development. List G would have to be carefully scrutinized in order to find out whether any countries in process of development have a particular interest in specific products mentioned in that List, and whether it is possible to take account of this interest by fixing the customs duty for such products accordingly.

e) Fiscal duties

59. The Haberler Report concluded that the flow of raw materials from non-industrialized countries on to the market of the Six is, in many cases, limited not so much by agricultural protectionism in the industrial countries as by the imposition of customs duties or taxes, whose sole or principal object is to increase the revenue of the State.

The Community will have to study to what extent it will be possible to increase the consumption of the products concerned by modifying policy on fiscal charges and so to contribute to the increase of export revenues in certain under-developed countries.

F. POLICY RELATING TO ECONOMIC TRENDS

60. Mention has already been made of the need for a co-ordinated policy relating to economic trends in order

- to ensure the equilibrium of the free world,
- appreciably to encourage the economic development of non-member countries,
- to make possible a second phase with general tariff disarmament.

Co-ordination of policies relating to economic trends becomes even more necessary if the aim is a liberal economic policy throughout the world. The possibility of maintaining the equilibrium of a country's balance of payments through measures of commercial policy disappears, and not only partially as in the case of the Common Market and the Free Trade Area (that is to say as far as trade with a limited number of countries is concerned).

To ensure steady expansion it would, finally, be much more effective to co-ordinate policy relating to economic trends with those countries which, like the United States of America, or the United Kingdom, have a particular responsibility in this respect because of their

position in the world economy, than any effort limited to the boundaries of Europe.

If it has been possible, so far, to obtain closer co-ordination of economic policies within a wider geographical field, this is because too many countries have been involved. Here too the establishment of the Community has modified the elements of which the problem is composed. The future development of the world economy depends primarily on the United States of America, on the European Economic Community, and on the United Kingdom. If the promotion of common policy relating to economic trends - in the first place within the Community - were to succeed, an effective co-ordination of economic policies at world level could for the first time be envisaged. Active and carefully concerted expansion would permit the Member States of GATT to conduct their policies in relation to the state of their balance of payments, without having to fear a crisis resulting from deflationary policies adopted in the most highly developed countries.

Periodic consultations between the three great units could be provided for within this framework of economic policy; such consultations would cover any problem that might arise in Europe or elsewhere and any joint action that might appear necessary.

o

o

o

III - EUROPEAN OBLIGATIONS

61. The general policy of the Community, as set out above, means that in many fields there is a need for strengthening co-operation between the seventeen European States.

On the one hand it is essential that, so far as at all possible, a common position be found for all the states of Europe so that they may be better able to play their part in the world.

On the other hand, the solidarity already existing means that we can already define certain obligations for these countries.

o
o o

A.A EUROPEAN ECONOMIC ASSOCIATION MUST BE ESTABLISHED

62. The same reasons which ten years ago led the seventeen European states to unite in the Organization for European Economic Cooperation must today provide even more cogent grounds for the conclusion of a close association between the Community and the other members.

Bound together by European solidarity and convinced of the political and economic value of a union between the peoples of Europe, the six Member States of the Community have never considered the latter as an exclusive club; they have been careful, in the text of the Treaty itself, to leave the door open for any European state wishing to associate itself with the Community in forms ranging from a more or less close association, to entry into the Community as an active member enjoying all rights of the founders.

63. It is certainly no accident that in Article 110 the Treaty of Rome makes a distinction between restrictions on international exchange, which must be abolished, and customs barriers, which must be lowered. It is understandable that quantitative restrictions, which are a recent invention resulting from the depression and the war, are a more debatable item than are protective duties, which have always existed and which have not prevented the enormous industrial expansion of the past century and a half.

It is possible, however, that by virtue of the solidarity which unites them, the European partners should go further amongst themselves than with the rest of the world in eliminating international trade barriers and in adjusting their economies. In the long run this will not be possible except in an economic association, the foundations of which should be laid now.

The conditions for a European Economic Association

64. It is clear, then, that the conditions for such an association have not as yet been set forth with sufficient precision and that the work of the Inter-governmental Committee of the OEEC has not produced an adequate rapprochement between the arguments advanced.

In particular, it has emerged after a careful study of the problem, that no establishment of a free trade area on the European level is possible unless it fulfil certain basic economic conditions which are explained in Part I of this paper. This is particularly the case, and more so than during the last century, at a time when all countries have their policy relating to economic trends and are endeavouring to maintain full employment.

Therefore, the most careful study for the definition of these conditions will have to be made; the Commission is convinced that unless these conditions are fulfilled, the whole system will not be economically viable.

Purpose of the Association

65. It would, of course, be the purpose of the European Economic Association to align the economic policies of the Member States and to proceed as far as possible with the abolition of obstacles to intra-European trade.

Is it possible to fix both the purpose and the date by which the task must be completed? Is it possible to say that all quota and tariff obstacles will, in fact, be entirely abolished? Is it possible to determine the period within which this objective could be reached?

The Commission does not believe that the Community can answer this double question immediately.

66. In fact, the Community itself is still in the process of development and some of its most important aspects, especially its common external tariff, have not yet been fixed. Also, the very recent return to currency convertibility has created a new situation, of which all the consequences cannot yet be gauged. Likewise, the results which may be reached at world level following upon the negotiations which will take place in GATT on the basis of Mr. Dillon's proposals are not known. Is it possible, in these circumstances, to make an immediate reply to the questions put?

67. A negative answer would appear most disappointing to many, both within the Community and outside it. To say that it will not be

possible to reach the complete liberalization of trade in Europe would be to set an arbitrary limit to an effort of solidarity which is recognized as necessary, and the result of which depends both on the will of the partners and on future developments which it is difficult to forecast.

Yet, a positive answer would be premature. It might not take into adequate account the very real difficulties which already be set the liberalization of European trade; it would presuppose - probably rashly - that the conditions to which the Commission has drawn attention in paragraph 33 above can be fulfilled; it might fail to appreciate the differences of conception which led to the interruption of negotiations in 1958 and which have not yet completely disappeared.

The Commission believes, therefore, that for the immediate future a pragmatic approach to the difficulties might be more advisable and would better answer the actual facts of the situation.

68. Apart from seeking a permanent solution, it is now necessary to decide what in practice can be done during the next three or four years and within the framework of the organizations which already exist in Paris and Geneva, in the endeavour to follow a liberal policy of bringing the quota and customs systems of the Treaty of Rome and of the remaining Eleven into line.

The Commission is convinced that it is now possible to define and to put into practice plans for a period of several years of living side by side, while at the same time seeking for solutions of a more definitive character.

Such an approach would offer numerous advantages. It would make it possible to resume in OEEC, and with greater vigour, the efforts made towards the reduction of quantitative restrictions. OEEC would find that the dynamism radiating from the Community would not weaken its actions but would, on the contrary, prove a stimulant and an inspiration for its own efforts. OEEC could also undertake to define and to co-ordinate the positions to be taken jointly by the Community and its European partners in order to pursue a policy of tariff reductions within GATT.

In this way, the Seventeen would from now onwards practice a more vigorous liberalization policy. If such a policy were sought within existing institutions, this would have the advantage of dispensing with the need for the conclusion of a treaty as a first step, little or no parliamentary procedure would be required, and work could start at once.

69. The Commission is of the opinion that such an approach to the problems is the most realistic at this stage and that it offers the best chance for a lessening of tension now, and long term agreement in the future. For these reasons the Commission proposes it to the Council of the Community as the first result of its deliberations.

There follows below a more detailed description of what measures might be adopted during the first phase. Evidently, as time goes on, these measures could be supplemented or modified in accordance with the results which may meanwhile have been reached in the search for a final solution.

o

o

o

B. SUBSTANCE OF THE INITIAL PHASE

70. In order to contribute to the gradual abolition of quantitative restrictions in European trade and to the reduction of customs barriers between European countries, the Community should take the initiative by proposing to OEEC the adoption of a group of measures for early application. These measures would take account of the special interests of the Community's European partners and would in particular renew the considerable efforts already undertaken in OEEC for the progressive elimination of quantitative restrictions.

European Enquiry into the Flow of Trade

71. There should be immediately introduced in OEEC a procedure of appeal or enquiry before a Committee such as the Steering Board of Trade and in conformity with the established practice of that body; this procedure would be open to all European countries wishing to submit any particular case. Without forgetting that the application of quotas must, under GATT rules, be multilateral, tariff quotas might possibly be granted to any member State of OEEC which could prove that it had suffered actual damage as the result of the establishment of the Community.

Quota Measures

72. Action by the Six within OEEC would be directed to the gradual elimination of quantitative restrictions. During the discussions of the 15th of December it appeared that the partners of the Community were especially sensitive to a difference in treatment in this field.

From now on this objective of gradual elimination should not be made subject to any special conditions, since the provisions of the Code of Liberalization can be regarded as adequate to prevent the most serious risks. Should any appreciable progress be made in the move towards world-wide convertibility, it would be necessary at that stage to take into account the extra-European aspects of the problem of the gradual elimination of quantitative restrictions.

73. Taking the above into consideration, the seventeen countries of the OEEC should each year, increase their import quotas by 20%.

The progressive extension of existing quotas up to the point at which they lose their protective character will allow the establishment of a new general economic equilibrium by means of an overall adaptation. This method is doubtless preferable to the established OEEC practice of liberalizing trade by categories of products and by percentages of the trade of 1948. It would seem that the OEEC system of 90% liberalization has now reached its limit and, once that percentage has been exceeded, it is very difficult to make a selection amongst products not yet liberalized.

74. Though it is not in line with the OEEC machinery, the proposed method is none the less appreciably different from that provided in the Treaty of Rome. There would not be any advance conversion of bilateral quotas to global quotas and there would not be any special provisions for small quotas based on a certain percentage of national production. However, certain arrangements covering the smallest quotas would not be excluded.

75. With regard to products that had not been liberalized and for which import quotas had not been fixed, no precise system would need to be worked out during this period. Should it be considered necessary or convenient to prepare exact proposals for these products too, a provision might be worked out requiring OEEC countries to enter into negotiations - within a time limit to be laid down - with any Member State which might request them to do so, in order to fix specific quotas for the products concerned. As soon as these new quotas had been established, the mechanism of progressive extension would immediately begin to apply.

Tariff Measures

76. The tariff policy of the Community finds expression primarily in active and liberal-minded participation in the negotiations on the Dillon proposals.

In order to co-ordinate the position of the European countries in these negotiations, a preparatory consultation should take place in OEEC. This would make it possible to take into account the special interests of European countries with which the Member States of the Community have an extensive trade in certain products.

77. Even before the result of the Dillon negotiations is known a proposal might be made to examine, within OEEC, the adoption of reciprocal tariff reductions in respect of products which are essentially intra-European items of trade. Thanks to the most-favoured-

nation clause these tariff reductions would be legally extended to all the Member States of GATT, but in fact they would mainly benefit the European countries. The above mentioned tariff measures would, therefore, not constitute an European agreement on preferences. An objective might be fixed for an average reduction. This would have to be brought into line with the joint position which the seventeen European countries propose to adopt in the GATT negotiations.

78. After the end of these negotiations the Community should take the initiative in proposing to the other members of OEEC that a balance should be drawn up showing the practical results obtained from the negotiations in GATT, and that a decision should be taken in the Organization as to what further efforts must be undertaken to mitigate the consequences for the Eleven arising from the implementation of the Treaty of Rome.

European Countries in the Course of Development

79. The case of OEEC Member States in the course of development deserves mention, especially because of the close political, legal and economic ties between these countries and the Member States of the Community, especially under the Paris Convention.

Many decisions (especially that referring to the establishment of Group 23) have confirmed this solidarity, while accepting a special status for the countries in the course of development.

80. So far as these countries are concerned, a long-term solution should include:

- a special regime in the field of customs and quotas
- financial aid.

The mechanics of these two elements have already been studied in Group 23 in OEEC. Those relating to financial aid should as soon as possible form the subject of concrete proposals to be submitted on behalf of the Six. An extension of the terms of reference of the European Bank might be envisaged.

81. In the immediate future, the special position of the least developed European countries might be taken into account on the level of commercial exchanges alone, by agreeing long-term contracts for certain products.

Agriculture

82. The prosperous development of agriculture in the framework

of the Six presupposes co-operation with the other OEEC countries.

In the course of earlier negotiations, the Six therefore emphasized from the beginning that the Association must include agriculture.

It is just those special conditions which led to particular arrangements being made for agriculture in the EEC which also make it impossible to begin immediately the reduction of obstacles to trade in the Association. If a reduction of this sort proved feasible under the Treaty of Rome, this was because the special structure of the Treaty guarantees that the arrangements envisaged for the establishment of the joint agricultural policy will actually be applied.

Since the Association does not contain such a guarantee, the Six went no further, in the memorandum submitted on 24 July to the Inter-governmental Committee, than to propose that in a first phase the status quo in the matter of tariffs and quotas be maintained. However, with a view to the greatest possible increase of trade between the member countries of the Association, arrangements will have to be made to reduce some very high customs duties and to grant certain tariff quotas at decreasing rates or duty free. In order to permit the common agricultural policy of the Six and the policies of non-member countries to exercise reciprocal influence on each other from the very beginning, it will be necessary to arrange comparative studies of national policies; for the Six countries these studies will be replaced by an examination of the common policy of the Community as and when it develops.

83. During this initial phase, it will be necessary to work out more precise commitments for the future, one aim of which will be to develop the comparison of agricultural policies with a view to establishing a concerted agricultural policy. As and when this policy is laid down, it will be possible to pass on the stage of the elimination of obstacles to trade.

In view of the unanimous agreement of the Six on the memorandum of 24 July and the welcome reception this document received from the Eleven, it would seem desirable to take it as a starting point for further negotiations.

84. The will of the Community to reach a multilateral settlement for agriculture in the framework of the Association in no way prevents it from taking a positive attitude towards requests which might be submitted by certain countries wishing to adhere to the joint agricultural policy of the Community. This attitude is nevertheless conditional on the countries in question accepting membership of the EEC for the whole of their economy.

C. ARTICLES 237 and 238 of the Treaty of Rome

85. Any European countries already anxious to go further in economic integration and to benefit more rapidly from its machinery are free to bring into play Articles 237 and 238 of the Treaty of Rome.

The conditions of application of these two Articles differ appreciably (chiefly in the matter of ratification); it is therefore necessary to define the two solutions which they imply, e.g. membership of the Community and association with the Community.

86. Membership presupposes the automatic acceptance of the provisions of the Treaty of Rome; in return, the State adhering shall have the benefit of all rights accorded other members of the Community. This is the most complete stage of integration; subject it is true, to the "conditions of admission" and the "amendments to this Treaty" which may be envisaged to allow for certain factors peculiar to the new member. It would seem however that the protocols resulting from these adaptations would deal with precise and limited cases, like those annexed to the Treaty of Rome, and that they could not alter the fundamental provisions of the instrument establishing the Community.

87. Association does not create such close links. The essential advantage of this system is its very great flexibility. Firstly, it allows of both multilateral and bilateral association. Secondly, it allows of all solutions: those which adopt only certain provisions of the Treaty of Rome, and those which take over that instrument almost in its entirety. Furthermore, the system makes it easier both for the country applying for association and for the Community to draft special clauses exactly adapted to the situation of the country in question and to the relations which it already has with the Community. Finally - and this is perhaps the essential difference - the associate country retains its full individuality on the political plane. The pledges which such a country would give in return for certain facilities, like any other commitment to which it subscribed, would be of a contractual nature and it would put them into operation by its own independent action.

o

o

o

IV - STRENGTHENING THE COMMUNITY

88. Step by step with the fulfilment of its many responsibilities, both on the European and the world plane, the Community will inevitably find that it must strengthen its internal structure. During the first year of its history, the Community has already had to face a great number of problems whose solution presupposed a community approach and, consequently, the emergence of a common will. It is only by greater cohesion that the Community will be able to play its full role and to resolve the problems which confront it.

The Commission intends shortly to submit concrete suggestions to the Member States on the strengthening of the Community in the fields of economic and financial policy.

In application of Article 103, for instance, it is not too early to consider whether certain meetings of the Council of Ministers of the Community might not be held periodically at the level of Ministers of Finance and Economic Affairs.

89. Studied in the light of a dynamic conception, the economic problems of the relations of the Community and the outside world become less acute in inverse ratio to expansion within the Community. This category of problems includes in particular the fear of certain European countries that the strengthening of internal Community trade may result in a decline of their own trade with the Six. The fears of numerous non-European countries which export raw materials also fall into this category.

In response to these fears, practical measures to hasten expansion should be studied as rapidly as possible in agreement with the commercial and industrial circles concerned, using very flexible procedures of consultation. Moreover, in face of the Soviet programmes for economic expansion it is of vital importance for the Community that it should present itself in fact as an equally dynamic whole. At least as much as the strengthening of its internal cohesion, this aspect will determine its future.

o

o

o

ECSC PRODUCTS

90. The inclusion in the negotiations on the European Economic Association of the products falling under the jurisdiction of ECSC has already been thoroughly studied within that organization, and its institutions have expressed their points of view.

Any solution covering EEC products as a whole, including coal and steel, would have to take account first of all of the special regime to which ECSC products are subject. Since the rules of the Treaty of Paris are, moreover, on certain points stricter than those of the Treaty of Rome, this solution would have to safeguard the fundamental provisions of the first-named Treaty in their entirety.

Secondly, from the procedural angle, it should be recalled that it is the institutions of the ECSC themselves which are empowered to take all decisions.

o
o o

CONCLUSION

91. The Commission considers that it is along the lines of the above proposals that the Community may try to resolve the problems facing it, both in the field of its world responsibilities and in that of its duties of European solidarity.

Nevertheless, the Commission does not in any way consider that the contents of this Memorandum are exhaustive and that it has herewith completely and finally fulfilled the instructions which the Council gave it on 3 December last. The time limit set was extremely short. Rather than ask for it to be extended, the Commission preferred to give a preliminary reply by the date fixed. The Commission is perfectly aware of the fact that the opinions it has expressed in this Memorandum must be the subject of further and more thorough study and of more concrete programmes of implementation.

92. The Commission consequently sees that it would be a good thing if it could have the opportunity to continue this work in the near future in close contact with Government representatives from the Member States of the Community. In the course of these exchanges of views it would doubtless be possible to work out in detail the common position of the Member States of the Community on the basis of the various suggestions contained in this Report, both in the matter of long-term solutions and in that of the measures to be undertaken immediately.

RESOLUTION

adopted by the Council of the European Economic Community

(at its session of 16 March, 1959)

The Council :

takes note of the memorandum submitted by the Commission of the European Economic Community in implementation of the instructions given by the Council to the Commission at the session of 3 December, 1958, and in particular of the proposals contained in that memorandum;

thanks the Commission for the work accomplished in studying the problems raised by the creation of an European Economic Association;

reaffirms its determination to pursue the efforts for the creation of a multilateral association between the EEC and the other countries of the OEEC and desires that the conditions necessary for its realization may be established at an early date;

anxious in this spirit henceforward to strengthen the solidarity existing between the countries of the OEEC and thus to prepare the foundations for a closer association;

request the Governments Members of the EEC to inform the Commission before 15 April, 1959 of their comments on the memorandum and of their proposals;

instructs a special committee composed of representatives of the Governments of the Member States and of members of the Commission - one of the latter to be chairman - to study these comments and proposals and to report to the Council.

A N N E X E S

TABLE I

EXPORTS OF THE ELEVEN IN RELATION TO GNP - 1956

	Total exports as % of GNP	Exports to EEC as % of GNP
Austria	20	9.9
Switzerland	22.4	8.8
Sweden	22.5	7.7
Denmark	25	7.7
Iceland	33.9	6.4
Norway	21.5	5.5
Greece	7.8	3.7
Portugal	15.5	3.6
United Kingdom	16.2	2.3
Ireland	19.8	1.9
Turkey	3.4	1.2

TABLE II
Exports of European Countries in 1956 (as percentage)

	O.E.E.C.	E.F.C. only	Dollar area & Latin America	Sterling area excl. OEEC countries	Rest of World
	1	2	3	4	5
1) United Kingdom	28.3	13.5	16.4	42.3	13.0
2) Ireland	90.9	9.5	3.5	1.4	4.2
3) Iceland	41.5	18.9	13.2	3.6	41.7
4) Germany (FR)	60.2	29.4	12.5	8.3	19.0
5) Austria	64.2	49.4	6.9	5.0	23.9
6) Belgium-Luxemburg	62.7	44.7	14.3	6.8	16.2
7) Denmark	75.1	29.9	9.6	2.9	12.4
8) France	42.6	25.2	7.9	4.4	45.1
9) Greece	64.6	47.9	12.0	1.2	22.2
10) Italy	51.1	25.1	15.5	9.3	24.1
11) Norway	64.0	25.7	12.6	6.8	16.6
12) Netherlands	65.4	40.4	9.9	7.8	16.9
13) Portugal	44.7	23.6	12.6	4.5	38.2
14) Sweden	69.5	33.9	8.9	6.0	15.6
15) Switzerland	54.8	39.4	18.2	7.5	19.5
16) Turkey	50.2	34.0	19.8	1.0	29.0

Source: OEEC Bulletins, Series IV, 1956

TABLE III

PERCENTAGE SHARE OF C.E.E. IN THE MAIN EXPORTS OF THE INDUSTRIALISED COUNTRIES OF THE ELEVEN - 1957 -

	Meat	Milk Butter Cheese Eggs	Fish	Wood and Paper pro- ducts	Ores	Basic Metals	Elec- trical Ma- chines	Other Ma- chines	Ship- bui- ding	Watches and Peci- sion Instru- ments	Dye stuffs pharma- ceuti- cal Prod.	Percent- age of total Exports
Austria	-	-	-	79.- (24.0)	-	46.- (19.3)	31.- (3.2)	23.- (7.0)	-	-	-	- (53.5)
Denmark	18.5 (26.7)	37.- (19.7)	33.- (3.2)	-	-	-	25.- (3.0)	25.- (10.5)	11.- (2.6)	-	-	- (65.7)
Norway	-	-	12.- (13.7)	26.- (20.3)	66.- (3.3)	30.- (21.3)	8.- (0.8)	21.- (1.5)	34.- (8.8)	-	-	- (66.7)
Sweden	-	-	-	41.- (35.3)	+	32.- (8.8)	13.- (3.8)	24.- (11.3)	-	-	-	- (75.2)
Switzerland	-	-	-	-	-	38.- (2.5)	29.- (6.8)	48.- (24.0)	-	-	-	- (48.6)
												(8.1) (7.2)

+ - Breakdown by countries not available

Note: Figures in brackets represent the percentage of each product in the overall exports of the country concerned. The other percentages are rounded.

Source: OEEC - Foreign Trade Statistical Bulletins - Series II, No. 4

TABLE IV

COUNTRIES OF THE WORLD: GNP, TOTAL EXPORTS, EXPORTS TO EEC,
AND EXPORTS TO EEC AS PERCENTAGE OF GNP - 1956

('000 000 \$)

	GNP	Total Exports	Percentage of GNP	Exports to EEC	Share of EEC in total exports in%	Exports to EEC as % of GNP
	1	2	3	4	5	6
Iraq	977.2	477.8	48	285.2	59.7	29.2
Morocco	1 583	339.5	21.5	240	70.7	15.1
Malaya and Singapore	2 018	1 360.9	67.4	237.1	17.4	11.7
Ghana	795	242.5	30.5	78.3	32.3	9.8
Syria	491	145	29.5	49.9	34.4	10.2
Austria	4 254	849	20	419.7	49.4	9.9
El Salvador	403	112.7	28	39.5	35.1	9.8
Costa Rica	378.6	67.5	17.8	25.1	39.5	9.3
Switzerland	6 435	1 443.5	22.4	568.9	39.4	8.8
Sweden	9 388	1 941.1	20.7	659.3	39.9	7.3
Denmark	4 453	1 111	25	344.2	30.1	7.7
Haiti	325	42	12.9	22.9	54.5	7.1
Chile	1 727	544.2	31.5	130.7	24	7
Kenya	376	92.5	24.6	24.2	26.2	6.4
Iceland	274	63.2	23.1	12	19	4.5
Uganda	305	116.2	38.1	19.3	26.2	6.3
Norway	3 599	771.9	21.5	199.4	25.8	5.5
Union of South Africa	5 034	1 154.3	22.9	229.9	19.9	4.6
New Zealand	2 822.5	770.4	27.3	121	15.7	4.3
Finland	4 480	773.9	17.3	178.8	23.1	4
Greece	2 423	189.9	17.8	90.7	47.8	3.7
Portugal	1 930	298.8	15.5	70.8	23.7	3.6

Sources: UN and IMF Statistics of the U.N.

TABEL IV a

('000 000 \$)

	GNP	Total exports	Percentage of GNP	Exports to EEC	Share of EEC in total exports in %	Exports to EEC as % of GNP
	1	2	3	4	5	6
Guatemala	647.4	116.3	18.0	20.1	22	3.6
Peru	1 664	311.4	18.7	60.5	19.4	3.6
Argentina	9 834	943.8	9.6	340.6	36.1	3.5
Ecuador	726.5	94.4	13	22.9	24.3	3.2
Egypt	2 620	408.6	15.6	86.4	21.2	3.2
Dominican Republic	585	124.6	21.3	18	14.5	3.1
Ceylon	1 090	364.3	33.4	33	9.5	3
Indonesia	8 556	882	10.3	234.1	26.5	2.7
Venezuela	4 791	2 123.6	44.3	125	5.9	2.6
United Kingdom	57 310	9 291.7	16.2	1 339.5	14.4	2.3
Nicaragua	1 225	65.1	53.1	24.1	37.3	2
Pakistan	4 394	340.2	7.7	89.2	26.2	2
Cuba	2 225	666.2	29.9	41.3	6.2	1.9
Honduras	326.3	72.5	22.2	6.1	8.4	1.9
Ireland	1 520	300.8	19.8	28.9	9.6	1.9
Turkey	8 857	305	3.4	103.5	33.9	1.2
Lebanon	460.7	45.3	9.8	7.8	17.2	1.7
Paraguay	252	36.7	14.6	3.5	9.5	1.4
Colombia	5 080	559.1	11.6	67.4	11.3	1.3
Philippines	4 720	451.1	9.6	64.1	14.2	1.3
Israel	1 391	104	7.5	19.2	18.5	1.3
Canada	30 210	4 947	16	353.9	7.2	1.2
Burma	1 047	242.7	23.2	10	4.1	1
Thailand	1 632	335.1	20.5	16.8	5	1
USA	410 800	19 066	4.6	2 871.2	15.1	0.7
India	20 797	1 251.1	6	104.5	8.4	0.5
Japan	25 130	2 495.4	9.9	103	4.1	0.4

TABLE V

Classification of the 67 countries by Net National Product at factor cost.

I. Countries with a Net National Product of more than 500 dollars per head

AFRICA	AMERICA	ASIA	EUROPE	OCEANIA
	USA 1960 Canada 1400		Switzerland 1100 Sweden 1040 Luxembourg 990 Iceland 950 Belgium 870 United Kingdom 850 Norway 790 Denmark 770 Finland 730 France 680 Germany (FR) 650 Netherlands 570	New Zealand 1030
	Venezuela 580	Israel 540		
II. Countries with a Net National Product of less than 500 dollars per head				
Union of South Africa 340	Brazil 240	Japan 210	Greece 260	
Morocco 180	Jamaica 240	Philippines 170	Spain 240	
Tunisia 150	Mexico 240	Ceylon 110	Portugal 220	
Ghana (1955) 140	Guatemala 180	Taiwan 100	Turkey 200	
Egypt (1952-54) 120	Dominican Rep. 170	Hongkong 100		
Rhodesia & Nyasaland 110	Paraguay 170	Indonesia (1952) 90		
Belgian Congo 70	Ecuador 160	Thailand 80		
Kenya 70	Honduras 140	Pakistan 70		
Nigeria (1950) 60	peru 130	Korea 60		
Tanganyika 50	Costa Rica 100	India 60		
Uganda 50	Haiti (1955) 100	Burma 50		
Mauritius 240	Argentina 460	Cyprus 390	Austria 460	
	Puerto Rico 450	Malacca (52-53) 310	Ireland 410	
	Cuba 340	Lebanon 260	Italy 360	
	Chile 300			
	Colombia 260			
	Panama 250			

TABLE VI

REAL PRODUCT PER HEAD OF POPULATION

(1953 = 100)

	<u>Year</u>	
	<u>1950</u>	<u>1956</u>
Argentina (1)	106	102
Austria	89	128
Australia	-	116
Belgium	92	109
Burma (1)	87	109
Brazil (1)	93	108 (2)
Canada	92	105
Ceylon	96	97
Chile	92	92 (2)
China (Taiwan) (4)	83	94
Colombia (1)	89	104 (2)
Belgian Congo (1)	84	105
Cuba	108	119 (2)
Denmark (5)	95	101
Ecuador	94	109
Spain (4)	86	113 (2)
USA	85	103

(1) = Gross domestic product per head of population at market prices

(2) = 1955

(4) = Net National Product per head of population at factor cost
(i.e. national income per head of population)

(5) = Gross domestic product per head of population at factor cost

Table VI (cont.)

	<u>1950</u>	<u>Year</u>	<u>1956</u>
Finland (6)	93		114
France	94		115
Greece	81		114
Guatemala	101		114
Honduras	90		96
India (4)	92		100
Ireland	93		101
Israel	100		-
Italy	86		114
Japan (4)	80		111 (2)
Luxembourg	107		111
Mexico (1)	101		112 (2)
Morocco (1) (8)	-		98 (2)
Norway	95		107
Pakistan (4)	88		103
Netherlands	94		113
Peru	91		110 (2)
Portugal	96 (3)		111
Puerto-Rico	86		108
Germany (FR)	-		122
Rhodesia & Nyasaland (1)	-		106
United Kingdom (1)	93		108
Sweden	96		110
Switzerland (7)	95		107 (2)
Turkey	78		96
Venezuela	-		104

(1) = Gross domestic product per head of population at market prices

(2) = 1955

(3) = 1951

(4) = Net national product per head of population at factor cost
(i.e. national income per head of population)

(6) = Net domestic product per head of population at factor cost

(7) = Net national product per head of population at market prices
excl. direct taxes

(8) = Former French area only.

TABLE VII

INDEX FIGURES SHOWING
TRADE IN CERTAIN AREAS

	<u>Increase (as percentage)</u>	
	1950-56	
	<u>Imports</u>	<u>Exports</u>
USA	+ 57	+ 83
Latin America (non-Dollar)	+ 19	+ 8
Non-Sterling OEEC Countries	+ 89	+ 105
Territories depen- dent on non- Sterling OEEC Countries	+ 65	+ 55
United Kingdom	+ 48	+ 46
India + Pakistan + Burma + Ceylon	+ 37	+ 4

Note : (1) = excl. internal OEEC trade