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Free Trade Area

Report[1]
Committee on Economic Affairs and Development
Rapporteur: Mr John HAY, United Kingdom

1. 1957 - 9th Session - Second part

A. Draft Recommendation

The Assembly,

Welcoming the progress made in the ratification of the European Economic Community Treaty;

Convinced that the creation of a European free trade area including the European Economic Community is essential to the development of a unified European economy;

Recalling the terms of its Recommendation 134 of 3rd May 1957 in which it recommended that the Committee of Ministers should give every assistance to the investigations being made by 0. E. E. C. into the possibility of associating other nations with the European Economic Community under the general form of a free trade area, as suggested by the Government of the United Kingdom, by proposing, if not the formal inclusion of agricultural products in the free trade area, at least effective arrangements by which such countries can look forward to an expansion of their markets for agricultural products in the food-importing countries;

Recalling also paragraph 5 of Recommendation 134, asking that the proposed creation of a European free trade area should be accompanied by suitable provisions enabling all interested overseas countries and territories not covered by the European Economic Community to become associated with such an Area on terms to be determined on the basis of joint consultation;

Considering it essential that the free trade area be as extensive as possible, in the sense of both the number of participating countries and the volume of the trade freed;

Noting that the negotiations on the free trade area within 0. E. E. C. have not advanced as fast as originally expected and have encountered difficulties for which it is vital to find reasonable and acceptable solutions;

Fearing that failure in the negotiations on the free trade area would strengthen potential autarkic tendencies within the European Economic Community vis-a-vis European States remaining outside and would thus become an obstacle to wider economic integration;

Believing that inconclusive negotiations or an actual breakdown would prove disastrous for European unity, both economically and politically;

Stressing the need for the negotiations to be brought to a speedy conclusion,

Recommends to the Committee of Ministers :

1. that, on the one hand, exemptions from the general rules governing the elimination of trade barriers, and, on the other hand, special assistance, particularly in the form of investment finance, be provided for the industrially less developed countries, particularly Greece and Turkey;

2. that the definitions of origin to be applied for the purpose of establishing the right of a given commodity to duty-free treatment should be sufficiently liberal, and the necessary administrative procedures be as simple as possible;

3.
   a. that a solution to the problems of trade in agricultural products be sought by a pragmatic approach aiming at the expansion of such trade in a spirit of non-discrimination, taking into account the special régime for agriculture envisaged in the Rome Treaty;

   b. that the starting-point for such a new approach may be found in the First Report of the OEEC Ministerial Committee for Agriculture and Food;

   c. that the most suitable forum for the negotiations would be that Committee;

   d. that, in order to take account of the legitimate interests of countries benefiting from Commonwealth preference, such countries should be brought into participation in such negotiations; and

   e. that the negotiations should not proceed solely upon broad principles but should involve a close examination of the conflicting interests—product by product and country by country;

Considering, also, that the operation of the free trade area will progressively increase the interdependence of the participating countries,

Recommends to the Committee of Ministers :

1. that special arrangements be provided within 0. E. E. C. for continuous co-operation among Member Governments with a view to ensuring a gradual co-ordination of general economic and commercial policies;

2. that to ensure that the free trade area begins to operate under sound conditions a review of the exchange rates of member countries should be undertaken; and

Requests the Committee of Ministers to obtain the opinion of 0. E. E. C. on each of the above proposals and to report back to the Assembly, if necessary by a communication during the interval between the sessions.

B. Explanatory Memorandum by Mr. HAY

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1. The background

1. One of the main activities of 0. E. E. C. since its inception has been its programme for the liberalisation of intra-European trade. On the payments side, the clearing and credit facilities provided by the European Payments Union have virtually eliminated trade discrimination based on monetary considerations, and quantitative restrictions have been progressively abolished on roughly 90 % of private commodity trade, under the OEEC Code of Liberalisation. Certain categories of invisibles have also been completely liberalised. Progress has been considerably slower with respect to capital transactions.

2. While these have been substantial results, it has become clear over the past two years that further progress would require an attack on other trade obstacles. In particular, countries with moderate tariffs considered that they could not proceed further with the abolition of quotas until a start had been made on the reduction of tariffs. Not only is the incidence of tariffs felt more severely as quotas are removed; the effect of abolishing a quota can be largely nullified by increased duties or taxes on imports. Some countries have also been concerned over the maintenance of regulations on State trading, which varies in extent from country to country and the bulk of which relates to agricultural products. These demands for greater reciprocity in intra-European trading relations were recognised as being justified by the Council of 0. E. E. C, when, early in 1956, it decided to study a plan for automatic non- discriminatory reduction of duties on goods mainly traded between OEEC countries.

3. Before any tangible results had been reached on this new line of action, another development occurred. This was, of course, the maturing of the plans to create the European Economic Community, involving abolition of all quantitative restrictions, tariffs and other barriers to trade between the six countries concerned. The outstanding feature of the scheme from the point of view of European trading relations as a whole was that it would establish a preferential area covering a large part of the Continent. Unless the other OEEC countries were prepared to accept the invitation of the Six to join the Common Market as full Members, it appeared essential, if considerable disruption of normal patterns of trade was to be avoided, to arrive at some arrangements by which free trade could be developed on a basis of reciprocity over as wide an area as possible within Western Europe.

4. Thus was born the idea of creating a Free Trade Area associating with the European Economic Community the member countries of 0. E. E. C. not taking part therein. In July 1956 the Council of 0. E. E. C. accor-ingly established a Working Party, No. 17, to study the problems involved. In its report, published in January 1957, the Working Party concluded that it was technically possible to operate a free trade area which would include the Customs Union of the Six. The Working Party also presented a preliminary analysis of the most important general problems involved in the project—-problems of economic co-ordination, the problem of agriculture and the problems raised by the situation of the less developed member countries. The report of the Working Party was prepared, of course, before full information on the final terms of the European Economic Community Treaty was available. In particular', the special measures for agriculture envisaged in the Treaty were not known in detail, and the inclusion of the overseas territories of the Six in the Common Mai'ket arrangements was not taken into consideration at all.

5. Although the United Kingdom Government had already made clear that it could not accept the inclusion of agricultural products in any Free Trade Area arrangement, and this position was firmly opposed by other Member States, the Council of 0. E. E. C. in February 1957, after considering the Working Party's Report, nevertheless decided to enter into negotiations with a view to the setting up of the Free Trade Area. The Council Resolution announcing this decision drew special attention to the problems of agriculture and the less-developed member countries. Three Working Parties (Nos. 21, 22 and 23) were subsequently set up to deal respectively with general problems and the drafting of the convention; the agricultural problems; and the problems of the less-developed member countries. The Working Parties were instructed to report back to the Council in time for it to take further decisions before the end of July 1957. In the meantime, the European Economic Community Treaty was signed in Rome on 25th March 1957. This was the position when the Assembly concluded its session in May last.

6. Since that time, ratification of the Rome Treaties has proceeded; and there is now good reason to believe that they will enter into force by the end of the year. Meanwhile, it was announced by a Resolution of the Council of 0. E. E. C. of 6th June that the decisions which it had been hoped to take in July must now wait for a meeting of the Council to be held in the autumn. The reasons for this delay are : that the Working Parties have not so far been able to contrive an agreed recommendation on the problems with which they are dealing; the Member States of the E. E. C. have been preoccupied with the necessity for ratification of the Rome treaties; and (more recently) the German Federal Republic's Election campaign.

7. Finally, mention must be made of present negotiations for a Scandinavian customs union, which will no doubt have some effect on the Free Trade Area discussions. This important step in economic integration is expected to cover 77 % of total internal Scandinavian trade. Negotiations are still in progress.

8. What then is the Assembly's task at the present time? We must try to formulate a recommendation which will have the support of the delegations of all our national parliaments, and which can suggest ways whereby the extremely difficult, problems that arise can be solved. It is to an examination of these problems, and to consideration of possible solutions, that we now turn.

2. The Problems

2.1. Conditioning factors

2.1.1. G. A. T. T.

9. In a free trade area, as in a customs union, trade barriers, (tariffs, quantitative import and export restrictions) between the countries concerned are abolished, but, in contrast to a customs union, each country retains its individual tariff towards " third countries ". In either case the result is that a preference area is created with the implication of discriminatory treatment of trade with non-member countries. Discriminatory treatment of trade, of course, in principle runs counter to the Most-favoured Nation Treatment clause of the General Agreement on Tariffs and Trade (G. A. T. T.) to which most of the OEEC countries are Contracting Parties (with the exception of Iceland, Ireland, Portugal and Switzerland).

10. In negotiating the General Agreement, however, the Contracting Parties recognised that the development of closer integration between the economies of groups of countries could in certain circumstances be conducive to an expansion of world trade, and the General Agreement accordingly authorises the creation of customs unions or free trade areas, subject to certain conditions.

11. These conditions are designed to ensure, first, that the barriers to the trade of outside countries are not raised. (In the case of the customs union this means that the common external tariff and other regulations of commerce may not be higher or more restrictive than the general incidence of such duties and regulations in the constituent countries prior to the formation of the customs union). Secondly, the customs union of free trade area must be fully established within a reasonable length of time. Thirdly, the elimination of tariffs and trade regulations must be applied to substantially all the trade in products originating in the countries concerned.

12. The negotiations on the Free Trade Area will undoubtedly be conditioned by these GATT commitments, although there is a possibility of obtaining a waiver from full compliance with the rules summarised above. Similarly, the commitments of member countries in the payments field entered into under the Bretton Woods agreement setting up the International Monetary Fund (I. M. F.) must be taken into account.

2.1.2. The European Economic Community Treaty

13. In view of its importance in the present context, below are recapitulated briefly the main provisions of the EEC Treaty[2]that have a direct bearing on the Free Trade Area negotiations. These are :

14. The progressive elimination, during a transitional period of 12 to 15 years and according to a prescribed method and time-table, of customs duties, quantitative restrictions and other measures of equivalent effect on the import and export of all commodities, between the Six.

15. The establishment of a common external customs tariff and a common commercial policy towards third countries. The overseas countries and territories linked with the Six will, however, be associated with the Community according to a formula whereby the system of free trade agreed among the Six is extended to imports originating from these countries afnd territories. Conversely, the preferential treatment accorded by them to imports from metropolitan countries is extended to the other member countries of the Community[3]

16. The establishment of procedures whereby the general economic policies of memher countries may be co-ordinated. Of particular interest is that the member countries undertake to treat their exchange policies as a matter of common concern. Within this framework of mutual consultation, the Treaty must obviously provide escape clauses whereby a Member State, faced by a sudden balance-of-payments crisis, is authorised to take the necessary protective measures—including the reimposition of quotas. Simultaneously, procedures are foreseen whereby such measures can be suspended or abrogated by majority decision.

17. As is well known, the Treaty endeavours to lay the foundation of a far-reaching economic and political unification. This is apparent not only in the institutional set-up but also in the Treaty provisions concerning, e.g. the abolition of obstacles to the free circulation of persons, services and capital, the establishment of common policies in transport and agriculture, rules of fair competition, the harmonisation of social policies, and the establishment of a European Social Fund and a European Investment Bank. While measures such as these are not indispensable to the setting up of a Free Trade Area, they point to problems that cannot be entirely ignored in the negotiations, if only because they will guide the policies of six of the countries concerned.

2.2. Commercial Problems

2.2.1. Definition of origin of goods

18. It has been seen that the six countries envisage the freeing of all inter-Community trade, i.e., trade in all categories of goods and irrespective of origin. Goods originating in outside countries would thus, after the end of the transitional period, be admitted to dutyfree circulation within the Community at whatever point they cross the common external tariff wall. This would not be the case with goods originating in outside countries and entering a free trade area where member countries still maintain separate external tariffs. (The customs union of the Six must in this connection be considered as a single unit). Indeed, the purpose of the higher tariffs applied by any given member of the area to certain goods would largely be defeated if the goods in question were allowed to enter that member country after coming into the Free Trade Area through another

2. A more detailed analysis of the European Economic Community Treaty is contained in Doc. AS/Ec (8) 35 .
3. The Belgian Congo, Ruanda Urundi, French Equatorial Africa, the Cameroons, Togoland and Italian Somaliland -will continue to apply non-discriminatory tariff régimes by virtue of previous international treaty obligations.

member country where a lower tariff is applied. The Free Trade Area thus requires a system of certificates of origin and other administrative procedures to prevent diversions of trade such as would obstruct established trade policies of other member countries.

19. While the verification of the origin of goods which these procedures involve is straightforward in the case of raw materials and manufactured products originating entirely in countries outside the area, complex problems arise in the case of mixed products incorporating raw materials, semi-manufactures or components which are of outside origin but are processed in the area.

20. The technical aspects of these problems have been studied by Working Party No. 17, which came to the conclusion that they were capable of satisfactory solution. Therefore they need not be considered further here. But it is important to realise clearly that the system of definition of origin adopted will determine the actual scope of the trade liberalisation achieved within the area. Since mixed products constitute a significant proportion of European trade, the adoption of a narrow definition would quite considerably restrict the volume of duty-free trade. Further, it is obvious that the application of different definitions by the various countries would lead to inequalities in the degree of trade liberalisation effectively granted by each of them. In order to prevent this and ensure reciprocity between the countries, Working Party No. 17 recommends that " common criteria be adopted for the definition of origin ".

21. It is thus essential that common definitions are adopted, that they are sufficiently liberal, and, further, that these definitions, as well as the procedures of verification of origin, are as simple as possible and do not entail undue administrative delays.

2.2.2. Elimination of tariffs and quotas

22. Although the complete removal at one stroke of all barriers to trade is not inconceivable when instituting a free trade system, it is generally agreed that where a larger number of countries is concerned, such a procedure would submit the economies and the social stability of the participating countries to intolerable stresses. The essential need of a transitional period thus arises so as to permit a gradual adjustment of the economies to the expected changes in competitive conditions. Secondly, the problems of adjustment will, of course, vary considerably from one sector of the economy to another, as they will from one country to another, and for this reason most countries will also wish to ensure a measure of flexibility in the elimination of tariffs and quotas.

23. However, the two desiderata—a transitional period and flexibility of rules—are confronted with the GATT requirement, representing the interests of non-participating countries, that the free trade arrangements shall be completed within a reasonable period of time and according to a pre-determined plan and time-table. Any system devised for the removal of tariffs and quantitative restrictions will thus have to be flexible in some ways and l'igid in others. This problem, of course, had also to be resolved by the Six, and it is generally considered that the plan and time-table for the removal of trade restrictions set out in their Treaty represent a workable system meeting the GATT requirements.

24. The first problem facing the other countries participating in the Free Trade negotiations is thus whether they can adopt the system of the Six as it stands, which would greatly simplify matters, both administratively and in relation to G. A. T. T. For while an absolute identity between the systems adopted in the Customs Union and the Free Trade Area may not be indispensable, substantial divergences would no doubt give rise to discrimination. In addition it would involve the Six in administrative difficulties since they would then have to apply three distinct tariffs simultaneously to a given product during the transitional period. Shortly, therefore, all parties will have to keep in step.

25. This problem of plan and time-table affects tariffs and quotas differently. The difficulties mainly arise with regard to the abolition of tariffs, where OEEC Member States will be breaking completely new ground.

26. With regard to quantitative restrictions, on the other hand, although the adoption of common methods is again essential, the situation is different, inasmuch as the OEEC Code of Liberalisation can be used, and has, in fact, been accepted by the Six, who propose to dismantle their restrictions by the gradual increase of quotas and the extended use of global quotas. The adoption of the Code of Liberalisation as a basis for eliminating quotas by all countries participating in the Free Trade Area is essential, for it would ensure that discrimination would be avoided.

27. In view of the difficulties encountered in the negotiations, the Assembly may well wish to renew its support of the conclusions reached by Working Party No. 17—that it would be desirable that the same method of abolition of trade barriers, covering the same period, should be used in the Customs Union and in the Free Trade Area with regard to tariffs as well as to quotas.

2.2.3. Escape Clauses

28. During the process of removing tariffs and quantitative import restrictions, certain countries may experience unforeseen difficulties and wish to seek temporary derogation from the common rules. Hence, the need for " escape clauses ". At the same time, exceptions from the common rules inevitably constitute a breach of the principles of reciprocity and non-discrimination and may lead to disequilibrium. The danger of setting off a chain reaction of retaliatory measures and of breaking up the whole system is apparent, and explains why strict rules governing recourse to derogations are essential.

29. It is interesting to note that Working Party No. 17 in examining this question arrived, independently, at conclusions similar in many respects to the system of derogations adopted by the Six, which are based on prior consultation and authorisation except in certain predetermined cases. The suggestions of Working Party No. 17 majr be summarised as follows :

30. Escape clauses would be applicable :

30.1. in cases of difficulties in specific sectors of the economy;

30.2. in cases of temporary balancc-of-payments difficulties.

31. With respect to specific sectors, unilateral action would have to be prohibited, and there would have to be a procedure for majority decisions. Working Party No. 17 properly stresses that the right to invoke the escape clause in such circumstances must be strictly limited, since it is " the very essence of the Free Trade Area that the removal of import barriers will gradually lead to a redistribution of productive resources and greater industrial specialisation". There is as yet no agreement whether derogations made to cope with sector difficulties should be limited to quantitative restrictions or should extend also to tariff reductions.

32. With respect to balance of payments difficulties, while derogations from the rules would be permitted exclusively as respects quantitative restrictions, unilateral measures would be authorised in cases of urgency, but subject to subsequent examination. In the case of such an examination, or if a request to invoke an escape clause is made in accordance with the general rule of prior examination, a unanimous decision would be required to disapprove the measures taken or proposed. Some member countries believe that the unanimity rule should continue to apply to subsequent re-examinations, which would take place at fixed intervals, while others consider that it should be possible to revoke the authorisation given, or to make recommendations to the country in question, by a specified majority. The Six have agreed among themselves on the latter formula, but this fact does not in itself make the extension of the same rule to the Free Trade Area imperative since the Six would enjoy the same latitude, as a bloc, as any other country participating in the Free Trade Area, and no question of discrimination would therefore arise.

33. The Assembly, for its part, would certainly wish to request that the specific recommendations which the Working Party has made in this field should be adopted.

2.2.4. Co-ordination of general economic policies

34. Recourse to the escape clause is a measure of last resort, and one that must serve where all else has failed. It cannot therefore be separated, realistically, from the question of the other techniques for restoring balance in the economy.

35. It is clear that if a country agrees in advance to limit the extent to which it may have recourse to quantitative restrictions in order to restore equilibrium in its balance of payments, it will have to rely more heavily on the remaining three methods which, theoretically, are available; outside financial assistance; an adjustment of its rates of exchange; or a reduction of its internal price level.

36. Outside financial assistance, which is sometimes more of a palliative than a cure, may not be available or even desirable. In this connection, it may be jDointed out that the Common Market Treaty (in Article 108) appears to accord but a limited role to such assistance.

37. As regards an adjustment of exchange rates, it is generally recognised that this is a radical measure whose effects cannot always be clearly foreseen. Post-war experience shows that Governments are loath to resort to it save in the most exceptional circumstances.

38. There would then, in many cases, only remain for the country in question to resort to a reduction of its price level. This is always a painful operation, and, generally speaking, more suitable for correcting a permanent imbalance than a temporary balance of payments disequilibrium.

39. It is, of course, precisely because the three methods of restoring balance mentioned above are fraught with technical and political difficulties that Governments have relied so heavily on quotas in post-war years, and are now reluctant to see their right to resort temporarily to this practice too severely curtailed. Since, however, strict rules in this respect are recognised to be a sine qua non of success for the Free Trade Area, the remedy must be sought in a closer co-ordination of the economic and financial policies of member countries.

40. It is therefore encouraging to note that agreement appears to have been reached, within Working Party No. 17, that the increasing inter-dependence of the economies of the countries of the Free Trade Area means a closer co-ordination of economic and financial policies. It has been stressed above that the Common Market Treaty provides procedures and institutions for an increasingly close co-operation in a great many fields, economic, social and administrative.

41. Apart from the need lo agree on rules of fair competition (which appears to be recognised in principle), opinions in the Working Party are, however, sharply divided as to the ways and means of co-ordinating economic policies. While the existing rules and procedures of 0. E. E. C. regarding economic and financial co-operation, the liberalisation of invisible transactions, capital movements and manpower will no doubt be re-examined in the light of the requirements of the Free Trade Area, agreement on the fundamental approach to the co-ordination of policies still appears remote. Some Members indicate that they are not prepared to commit themselves to finding, in advance, solutions to all the problems that are likely to arise; others consider that rules for the gradual harmonisation of certain policies must be established from the outset; and others, again, that financial resources for investment purposes must be provided in advance.

42. In the light of what has been said above of the crucial importance of the overall balance of payments equilibrium of each participating country, and considering that primary responsibility in this respect remains squarely placed upon the shoulders of national Governments, it would appear to be a minimum requirement that machinery be created to ensure continuous consultation on all major economic and financial policies which are likely to affect this vital issue.

43. In this connection one point deserves special attention. The long-standing argument over the extreme creditor position of Germany and the grave debtor position of France within the E. P. U. is more than a reminder of the reality of this problem and of the difficulties it presents. It is also an indication of a serious maladjustment of present exchange-rate structures. While this situation underlines the need for closer economic co-ordination in general and for the future, it calls for the most serious efforts towards a re-alignment of exchange rate structures.

44. In recommending Member Governments to do their utmost towards reaching agreement on the co-ordination of their major economic and financial policies, the Assembly will therefore no doubt wish to urge them to review the present exchange rate structure in order to lay a sound foundation for the operation of the Free Trade Area. In this connection it may well prove necessary to revise the EPU arrangements and strengthen the authority of its Managing Board.

2.3. The Problem of Agriculture

45. It is well-known that one of the main difficulties encountered in the OEEC negotiations concerns agricultural products. At the time of writing no agreed solution of these difficulties is in view, and the Assembly will no doubt wish to give careful consideration to possible ways out of the stalemate.[4]

46. The point at issue is whether the Free Trade Area should comprise all the categories of goods which the OEEC countries produce and trade between themselves, or whether agricultural products should be excluded from the arrangement. The positions of the OEEC countries on the issue are equally clear-cut. On the one hand, most Members, including the Six, have declared that agricultural products should be covered by the arrangement—some of them insisting that it would otherwise be extremely difficult for them to participate

4. In this connection it will be recalled that Recommendation 134, adopted on 3rd May 1957, already contains the following passage relating to agriculture : " 4. Recommend s also that the Committee of Ministers should give every assistance to the investigations being made by 0. E. E. C. into the possibility of associating other nations with the European Economic Community under the general form of a free trade area, as suggested by the Government of the United Kingdom, by proposing, if not the formal inclusion of agricultural products in the Free Trade Area, at least effective arrangements by which such countries can look forward to an expansion of their markets for agricultural products in the food-importing countries."

in the Free Trade Area; on the other, the United Kingdom has consistently maintained since the outset of the negotiations that agricultural products must be excluded and that it could only contemplate participation in a partial, i. e. industrial, Free Trade Area.

47. The position adopted by the former countries is naturally dictated by a variety of reasons, which differ from one country to another, and the following paragraphs attempt to set out the pros and cons of the situation as regards the countries or groups of countries most typically affected. At the outset we must distinguish (a) between countries exporting agricultural products which are Members of the European Economic Community and those which are not Members, and (b) between those countries which are industrially more developed and those which arc less so.

The Six as a whole

48. In speaking of the agricultural exporters among the Six one is confronted with the positions of Holland and France, on the one hand, and of Italy, as a country presenting special development problems, on the other; but it is important to keep in mind that we are in fact dealing with six countries that have pledged themselves to co-operate closely in all matters of trade policy. The interests of the individual countries will thus tend to add up rather than to cancel out, and will be backed by impressive bargaining strength.

49. The outlook of the Six as a whole is, of course, conditioned, basically, by the fact that they have decided to include agricultural products in the customs union arrangement, in the sense that they have made special arrangements to organise the agricultural sector of their customs union, without, however, going as far as free trade in all agricultural products among themselves. In their view there would be no reciprocity if the other Members of the Free Trade Area abolished tariffs and quotas on industrial products only but retained these restrictions on agricultural imports. The inequalities resulting from this would, of course, be particularly serious for countries such as the Netherlands, and to an even greater extent, Italy, which are heavily dependent on their agricultural exports. As shown below, the reciprocity these countries will enjoy within the Common Market is already qualified by many uncertainties, and it is therefore understandable that they are deeply concerned at the prospect of being flooded with the industrial goods of the United Kingdom, Sweden, Austria and Switzerland, without obtaining expanded markets for some of their principal exports in return.

Individual cases within the Six

50. In 1956 the agricultural exports of the Netherlands accounted for 30 % of its total exports ($865 out of $2,862 million) and a slightly larger share, 34 % of its total exports to OEEC countries ($630 out of $1,874 million). No less than 65 % of its exports of agricultural products to the OEEC area was taken by the Six, 26 % by the United Kingdom and 9 % by the remaining OEEC countries. It may be added that for the principal Dutch exports, dairy products and eggs, which alone account for almost one-third of agricultural exports to the OEEC countries, the Six were even more dominant, accounting for 87 % of the total (Germany alone 54 %). Outside the Customs Union area the United Kingdom was by far the most important market for the Netherlands, absorbing more than half of its European exports of fruit and vegetables.

51. Italy's exports of agricultural products in 1956 represented 23 % of the country's total exports ($487 out of $2,157 million) and 33 % of exports to OEEC destinations ($358 out of $1,103 million). For Italian exports of fruit and vegetables, which are the principal items involved, the Six, and particularly Germany, again represented the largest market, absorbing together about 55 %, while the United Kingdom took about 18 %, and remaining OEEC countries 27 %. The distribution was much the same with respect to wines and cereals, the next most important items in Italian agricultural exports.

52. For France, the relative importance of agricultural exports is, of course, far less dominant, being 14 % of total exports (S650 out of 84,541 million) and 13 % of all exports to OEEC destinations (S268 out of §1,937 million) in 1956. The distribution by products —wines, cereals, fruit and vegetables, meat and meat products, in this order—is also considerably more even than in the case of the Netherlands and Italy. Germany occupied first place by taking 30 % of French agricultural exports and was followed by the United Kingdom with 25 %. All told, the Six together accounted for 56 % of the total and other OEEC countries for 44 %.

53. These figures are, of course, only an indication of the present situation and do not in themselves give any clue as to what trade flows would be if agricultural products were included in the Free Trade Area, or, for that matter, what they will be in future in the Customs Union. All that can be said is that European countries outside the Common Market account for a sizeable share of the agricultural exports of the Netherlands, Italy and France, and, further, that the British market is by far the largest of these outside markets. It is worth noting also that for the main export products of these three countries import duties in the United Kingdom as well as in the Scandinavian countries are even at the present time low, and in fact lower than in some of the Customs

Union countries. It is to develop further their already considerable export markets in a sector which is of vital importance to them that the three countries wish agriculture to be included in the Free Trade Area, thus obtaining a quid pro quo for the opening of their own frontiers to the industrial exports of the other OEEC member countries.

Countries outside the Six

54. For those countries outside the Six which are agricultural exporters, the problem of reciprocity in their trade relations with those other OEEC countries outside the Six that are primarily exporters of industrial products and importers of agricultural cornmodities arises in much the same terms as for the countries of the Six. Again, the United Kingdom market dominates the picture, both present and future; this holds true of Denmark more than of any other country with the exception of Ireland.

55. Denmark. — In 1956 agricultural products made up almost two-thirds, 63 %, of total Danish exports ($690 out of $1,092 million) and as much as 70 % of all its exports to OEEC destinations ($575 out of $821 million), of which a little more than half was marketed in the United Kingdom. In that year, despite the spectacular decline of British imports of eggs, the United Kingdom took about 55 % of Denmark's total exports to OEEC destinations of dairy products and eggs, and about 80 % of meat and meat products. The total exports to OEEC countries of these two categories of products amounted to $429 million, of which the United Kingdom took $291 million, the other non-Six countries $17 million, and the Six $121 million (Germany alone $68 million).

56. The last two figures serve to illustrate the fact that the share of the Six in Danish agricultural exports, with 39 % of the total, is also impressive and leads up to the other aspect of the problem facing Denmark and other countries outside the Six which are exporters of agricultural products. For, if the proposal to exclude agricultural products from the Free Trade Area raises the question of reciprocity as regards trade with certain other non-Six countries, and particularly with the United Kingdom, it also raises the problem of discrimination in the Common Market. The agricultural products of the Six would be traded duty-free, but similar products from outside countries would in this eventuality be subject to the common external tariff of the Customs Union. (To cite only one example : the European Economic Community Treaty proposes an external tariff of 24 % on butter, a major Danish export). The effect of Dutch competition particularly on the German market, would in those circumstances no doubt place Danish exports in a very difficult situation.

57. Faced with these two prospects it is natural that Denmark should insist on the inclusion of agriculture in the Free Trade Area, or otherwise that it must seriously examine the possibility of joining the Customs Union.

58. Industrially less developed countries. The same two aspects of the problem are, of course, also of vital interest to the industrially less developed OEEC countries outside the Six which are agricultural exporters— Greece and Turkey in particular, but also Ireland and Portugal. They present themselves, however, in different terms there, and especially because these countries would in any case find it impossible to enter a Free Trade Area arrangement unless special safeguards are offered in the industrial sector.

59. United Kingdom. — It remains to examine the position of the United Kingdom, which is, of course, crucial for the successful outcome of the negotiations for a Free Trade Area. Indeed, without the United Kingdom's participation, it is virtually certain that there will be no Free Trade Area. As is well-known the standpoint of the United Kingdom Government rests on two arguments; first, that it must be able to continue the preferential arrangements it has established over the past twenty-five years with the Commonwealth, and second, that it must protect its home agriculture. These arguments will now be separately and fully examined. In considering them, however, two facts must be constantly borne in mind. The first is that the United Kingdom is already the world's largest food importer, and that its capacity to absorb more is strictly limited. A comparison of food consumption, for example, in the United Kingdom in 1956, with pre-war food consumption, reveals an increase of only 35 lbs.[5]per head per annum (from an average of 1,022.7 lbs. in 1934-38 to 1,058.7 lbs. in 1956), or roughly 3 1/2 %[6]. The second fact is that the United Kingdom's agricultural import policies are already very liberal compared with those of most countries in Western Europe.

Commonwealth preference

5. 1 poun d (lb) = 453 gr, 59.
6. United Kingdom Board of Trade Journal, 12th July 1957.

60. Of the United Kingdom's total imports of agricultural products in 1954, aggregating £1,430 million, approximately 60 % came from the Commonwealth, a little less than 10 % from the Six, a little more than 10 % from other OEEC countries and the remainder, about 20 %, from the rest of the world. The £870 million worth of agricultural imports coming from the Commonwealth countries entered the United Kingdom free of tariff, whereas agricultural imports from the OEEC countries and from the rest of the world faced tariffs the average of which probably lies in the range of 10-15 per cent of dutiable items".[7]

61. The apparent area of conflict between imports from the Commonwealth and OEEC countries is, however, much narrower than these overall figures would suggest. In fact three-quarters of Commonwealth exports to the United Kingdom can be classed as non-competitive with those of OEEC countries,[8]either because the goods in question (tropical products for instance) are not produced at all, or in insignificant quantities, in the OEEC countries,3 or because they do not enjoy any preference, the tariff being nil (as in the case of wheat and maize, which alone accounted for £125 m. of United Kingdom imports in 1954). This fact, which is crucial to any understanding of the problem of agriculture in the Free Trade Area is undoubtedly not sufficiently appreciated. As for agricultural imports where there is competition between the Commonwealth and OEEC countries, nearly half already came from the latter (£194 m., out of £403 m.)[9]. Thus, in the British view, the exclusion of agriculture from the Free Trade Area would not prevent the other OEEC countries from retaining a sizeable share of the United Kingdom market for their agricultural exports.

62. If these figures and facts are taken as a measure of the area of conflict they would seem, however, also to indicate that the reliance of Commonwealth countries on existing preferences in relation to markets for which the OEEC countries also compete can hardly be called vital. Granted that for certain Commonwealth countries the protection offered may be a matter of life and death for a particular branch of agriculture, the hard core of the problem appears limited and could probably be reduced to even more manageable proportions.

63. The Commonwealth Preferences of course have another aspect that cannot be ignored. Industrial exports of the United Kingdom enjoy preferences in the Commonwealth countries and these preferences might be reduced as a measure of retaliation, should the United Kingdom accept the inclusion of agricultural products in the Free Trade Area. Indeed, it is a matter of some difficulty for the United Kingdom to maintain the level of preference she enjoys at the present time in some Commonwealth countries for her industrial products, since the latter are increasingly concerned to provide protection for their home manufacturers.

64. On the other hand, Commonwealth countries have a real interest in promoting their own exports to continental Europe[10]. It is clear, therefore, that a reduction of the preferences they enjoy in the United Kingdom market might perhaps be balanced by a reduction of continental tariffs affecting those exports.

65. To sum up the Commonwealth Preference problem :

65.1. certain agricultural products already enjoy duty-free entry;

65.2. on a large number of other items, tariffs could be removed in favour of the other prospective member countries of the Free Trade Area without causing noticeable damage to Commonwealth and United Kingdom interests, but also without noticeable benefit to those countries;

65.3. as regards goods where competition exists and where the preference is valuable to Commonwealth countries, it would be useful to study the possibilities of negotiations among the countries chiefly involved, including the Commonwealth countries themselves, on ways and means by which these goods could be included in the arrangement while at the same time taking into account the legitimate interests of the Commonwealth countries;

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7. Estimate contained in Agriculture and the Free Trade Area published by the United Kingdom Council of the European Movement, June 1957, page 8.

8. The proportion would, of course, change if, as suggested below, the overseas territories of all member countries of the Free Trade Area were to be associated therewith, but not, it is considered, to such an extent as to make it no longer susceptible to the empirical treatment suggested in para. 64 (iv) below.

9. Op. cit.: assessed on the basis of those items imported from the Commonwealth, amounting to more than £500,000, which are covered by Commonwealth Preference and which are also imported from OEEC countries.

10. For example, the sterling area (less the United Kingdom, Iceland and the Republic of Ireland), in 1955 exported over $ 6 milliard worth of merchandise to the countries likely to become members of the Free Trade Area. Out of this total the bulk, obviously, went to the United Kingdom but as much as $ 2.3 billion worth to the Common Market countries. The sterling area's exports to the whole world, excluding trade among its members, amounted to approximately §9.5 billion.

65.4. the hard core of the controversy might possibly, after a very close examination of the situation product by product, and country by country, be so reduced as no longer to obstruct the creation of the Free Trade Area. The fact that tariffs on some hard core products might be reduced more slowly than on others, or might not be reduced at all, should not, if these exceptions from the general rule are not too numerous, constitute a material or technical impediment.

66. Before going any further, it is important to stress that the value to OEEC countries of including agriculture in the Free Trade Area is not confined to obtaining equality of treatment vis-a-vis British agricultural imports from the Commonwealth, but also extends to securing preferential treatment in relation to agricultural imports from the rest of the world. Such imports in 1954 amounted to no less than £280 million, on the basis of major products imported from OEEC countries, the largest groups of items of interest here being fruit and vegetables (£56 m.), meat and meat preparations (£52 m.) sugar (£25 m.), feeding stuffs (£21 m.) and vegetable oils (£8 m.). These would appear to include some of the main markets into which the OEEC countries could hope to make substantial inroads, and do so without damaging Commonwealth interests.

Protection of United Kingdom agriculture

67. The arguments in favour of the protection of British home agriculture are familiar and need not be elaborated here. It may suffice to recall that British policy is principally dictated by the desire to ensure a minimum supply of foodstuffs in the event of a crisis and to maintain agricultural incomes at a reasonable level; and that British agriculture is as heavily protected—despite the relatively low tariff level—-as that of any other European country. In order to evaluate the British case in this regard it may be useful to examine what the effects of the inclusion of agriculture in the Free Trade Area would be on national agricultural policies and it would seem appropriate to begin by asking the question; what sort of freedom of trade are the Common Market countries envisaging in this sector? One reason for doing so is that, as previously mentioned, it would be necessary to synchronise the elimination of tariffs and quotas in the two schemes (i.e., the Common Market and the Free Trade Area) as closely as possible. Another is that the Treaty provisions represent the established views of six of the countries taking part in the negotiations and may be taken as representative to some extent also of the attitude of other OEEC countries that have maintained protectionist policies in the past and are unlikely to wish to abandon them in the future.

68. The fact of the matter is that, as already mentioned above, the Six do not intend to introduce complete free trade in agricultural products. True, tariffs and quotas will be reduced in accordance with the general formula applying to industrial products, but supplementary rules provide for a comprehensive set of measures which amount more or less to the setting up of a special regime for agriculture. Thus, for the transitional period the Treaty foresees two types of safeguard measures. In the first place, Member States will be entitled, subject to certain conditions, to apply a system of minimum prices implying the suppression of imports at lower prices. These prices will, after the first three years, be based on objective criteria established by the Council of Ministers and will be controlled by the institutions of the Community. In the second place, long-term contracts will be concluded for selected products. Quantities will be based- on the trade of these products among the countries of the Community during the three years preceding the entry into force of the Treaty and prices, it is stated, should gradually approach those paid to domestic producers in the importing country.

69. Moreover, there is no question of abolishing the protective devices other than tariffs and quotas in which European agriculture is straight-jacketed. The Treaty, on the contrary, provides for their being retained initially and for the gradual replacement of existing national policies by a common agricultural policy. Considering furthermore that the main objects of this future common policy will be to stabilise markets in order to guarantee supplies and raise the standard of living of the agricultural population, taking into account the special social structure of agriculture and the natural differences between various agricultural areas, it is clear that the dismantling of tariffs is not intended to abolish national agricultural protection. This sobering conclusion is reinforced by the fact that the only concrete provisions in the Treaty for the purpose of increasing productivity call for nothing more than the co-ordination of efforts as regards research, vocational training, popularisation of agricultural knowledge and the promotion of consumption of agricultural produce.

70. It follows that a refusal to include agriculture in the Free Trade Area cannot very well be criticised as being a rejection of free trade in agricultural products. But it follows also that the United Kingdom argument that it must protect British home agriculture against competition from other OEEC countries can hardly he considered decisive. For it may be taken for granted that the Six, in any event, and probably all the other OEEC countries, with the possible exception of Denmark, can only contemplate the inclusion of agricultural products in the Free Trade Area on the understanding that there is set up a special regime for agriculture, similar, if not identical to, that of the Customs Union. The acceptance by the United Kingdom of the inclusion of agricultural products in the Free Trade Area would therefore not deprive it of the possibility of continuing to

protect its home production just as would the other participating countries. The main difficulty for the United Kingdom would arise when it comes to the gradual harmonisation of its agricultural policies with those of the other Free Trade Area countries, owing to the fact that, for the principal products, British farm support is based on budgeted subsidies from general revenue by way of deficiency payments, whereas farm support in most other OEEC countries is operated by way of higher internal consumer prices. The British attitude to such a regime would almost certainly be to approve it if it were based on liberty and freer markets, but to oppose it if it were based on price-fixing and dirigisme. Although the difficulties should not be minimised, they are hardly by themselves of sufficient weight to obstruct the creation of the Free Trade Area.

71. To demonstrate that the problem of agriculture docs not present itself as a clear-cut choice between free trade and protection does not, of course, resolve it. For it is clear that other things being equal, i. e., agricultural policies remaining in substance what they are in the Customs Union as in the Free Trade Area, the incidence of tariffs and quotas is not a matter that can be disregarded. If the reciprocity issue is not viewed too dogmatically—- and the Customs Union itself would certainly not bear close scrutiny from that angle—but in terms of real interests, our previous examination would tend to show that it should nevertheless be possible to arrive at mutually satisfactory solutions.

72. The following basic considerations therefore appear to emerge :

72.1. British agriculture could still be protected even if tariffs on agricultural imports from Free Trade Area countries were progressively abolished;

72.2. the area where Commonwealth Preferences (in the form of tariff protection against competition from European sources) really matters is not so large as is commonly believed and is susceptible of further reduction by negotiations in which the Commonwealth countries should take part;

72.3. a large measure of reciprocity could be achieved at the expense of outside countries without destroying the fundamentals of Commonwealth Preference;

72.4. the maintenance of United Kingdom tariffs on a limited range of agricultural products would probably not create insuperable technical difficulties nor materially affect the issue vis-a-vis G. A. T. T. In fact, the special regime provided in the community treaty may lay this instrument open to as severe criticism from the side of other contracting parties of G. A. T. T. as would be levelled against a Free Trade Area Convention restricted to trade in industrial products.

73. In trying to work out a compromise, special attention must be given to the position of the less developed OEEC countries, since an expansion of their markets would contribute towards improving their balance of payments situation and their prospects of economic development. Special measures will, obviously, also be required in the case of these countries as regards the industrial sector, and in this connection the Consultative Assembly may wish to impress upon Member Governments the need for securing financial assistance for the countries of Southern Europe within the Free Trade Area scheme (c/. Recommendation 95) and to secure adequate co-ordination between such assistance and the investment Fund set up by the Common Market Treaty (cf. Recommendation 134).

74. The agricultural problem cannot be dismissed without an urgent reminder that the benefits of integration in the agricultural sector will not be fully realised unless determined efforts are made with a view to improving production techniques and organisation, i. e., increasing output per man-hour. In its own long-term interest, Europe must, in the field of agriculture also, pursue a policy aiming ultimately at the general expansion of world trade. The protection which the Community Treaty affords its members and which it may prove necessary to duplicate in a Free Trade Area convention should not be viewed as a permanent feature of European trade policy, but should serve only to cushion the social effects of modernisation and improved specialisation.

75. At this point reference must be made to the activities of the Ministerial Committee for Agriculture and Food set up by 0. E. E. C. in January 1955. The First Report of the Ministerial Committee, which was published in June 1956, showed a wide measure of agreement with regard to future co-operation and suggested a practical programme of action which might itself be taken as the basis of a special régime or arrangement for agricultural products in the context of a Free Trade Area. The objective would be to bring about an expansion of intra-European trade by

75.1. increasing import quotas;

75.2. correcting excesses in import restrictions, particularly by reducing excessive tariffs;

75.3. limiting export aids and dumping practices;

75.4. consultations allowing member countries to explain their difficulties in foreign trade in individual agricultural and food products;

75.5. consultations on price and income support policies with a view to achieving a gradual co-ordination of such policies. In addition, multilateral arrangements for stabilisation and orderly marketing for specific commodities could be undertaken after full examination of each individual case. Countries would also be asked to agree not to intensify protective measures to stimulate production in sectors where a surplus already exists and to abolish gradually the encouragement of production in regions where it is clearly uneconomic. The First Report also stresses the possibility, where production conditions and the market situation in certain sectors preclude full liberalisation, of taking other relaxation measures, in particular, seasonal liberalisation. This expedient is already in operation in some countries.

76. Action has, in fact, already been taken by the Committee in connection with some of the above points. At its last meeting in July 1957, the Ministerial Committee adopted a resolution by which a member country which provides aids to agricultural exports undertakes to consult with other Members affected by such measures on the possibilities of restricting these measures themselves or their effects. The Ministers' Deputies were furthermore instructed to examine.aids relating to cereals, sugar, butter, eggs and meat, in order to prepare an agreement on common rules of competition. The Ministerial Committee also adopted a resolution the object of which is to arrive at certain common principles in farm support policies. In particular, the Ministerial Committee resolved that member countries should take the necessary measures to adapt production to the development of effective demand, and to co-ordinate production plans and programmes. The Ministers further agreed that farm support policies should be aimed rather at maintaining and increasing farm income than at regulating prices of farm products. Negotiations on the lines described above would be in conformity with the views of the Assembly on the problem of agriculture, as given in paragraph 4 of Recommendation 134 (quoted in footnote 1, page 16 of the present paper).

77. The First Report also contains one further important suggestion which may be of great significance, particularly for the Commonwealth countries. This is to combine the seasonal abolition of restrictions on agricultural imports with the establishment of a system of minimum prices, discussed jointly and adapted to market needs. Such a system is already in operation in the Benelux Customs Union and in respect of horticultural products between Germany, Italy and the Netherlands. Under this system, minimum prices for individual commodities are fixed, and, when internal market prices fall to these fixed levels, imports may be suspended. If such a scheme were instituted for the Free Trade Area as a whole, a parallel agreement might be possible between the Commonwealth countries and the United Kingdom's OEEC suppliers whereby any such suspension of imports by the United Kingdom might be counterbalanced by increased imports of Commonwealth products by some or all of the Continental countries.

78. It is the opinion of your Rapporteur that, in view of the foregoing analysis of the problems raised by agriculture in relation to a Free Trade Area, a more hopeful situation in fact exists than most people imagine. On the one hand, the United Kingdom Government has stated plainly and categorically that it cannot and will not participate in a Free Trade Area where free trade in agriculture is a condition, but such a policy is not apparently the desire of any of the other possible participants (except, perhaps, Denmark). On the other hand, the Six presumably envisage a " managed market" for agriculture in the Free Trade Area similar to the special regime to be set up for the Common Market.

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80. The present discussions at governmental level seem dangerously close to foundering on the issue whether agriculture should be excluded from, or included in, the Free Trade Area. It would, therefore, appear reasonable to suggest that the subject of trade in agricultural products be approached from a new angle and that this pragmatic approach be based on an assessment of the interest involved both within the area of the Six and within the remainder of the proposed Free Trade area. An examination of this kind, country by country and product by product, would have to take into account, on the one hand, the British interest in safeguarding legitimate Commonwealth interests and the specific needs of British home production, and on the other hand, the interests of other prospective members of the Free Trade Area which are agricultural exporters, not only in developing their traditional market in the United Kingdom, but also in avoiding the discriminatory effects of the

common tariff of the Common Market upon traditional agricultural exports of OEEC members to the countries participating in the Common Market. It seems at least possible that the United Kingdom would not refuse to take part in negotiations along such lines, and an agreement might well emerge, assuming that the results were liberal and aimed at fair trade in agricultural products, and were not restricted. An acceptable starting point for such a discussion would be the first report of the OEEC Ministerial Committee for Agriculture and Food, in view of the substantial agreement already reached therein, and that Committee itself would appear to be an appropriate forum in which negotiations could take place with the Commonwealth countries affected being brought actively into consultation.

2.4. Overseas countries and territories

81. As originally conceived, the Common Market project was confined to the European territories of the six ECSC countries. Nevertheless it was decided at a late stage in the negotiations to associate the overseas countries and territories linked to the Common Market countries with the Community.

82. The overseas countries and territories in question number about 25 and differ widely in size, structure, degree of development and political régime. Some of them, however, as indicated above (see footnote 2 page 8) are committed to an open-door trade policy by international treaty. In these conditions there could be no question of their inclusion in the Common Market. The Treaty lays down the general principles of association while the concrete measures to be taken are set out in a separate convention concluded, initially, for five years.

83. Summarily put, the formula of association finally agreed upon is as follows :

84. The export products of the overseas countries and territories will be permitted to enter the Common Market on the same terms as will apply among the six countries, that is, after the end of the transition period, dutyfree. In return the overseas countries and territories will gradually extend to the exports received from all of the Six the more favourable conditions that they apply to those European States with which they respectively have special relations.

85. The association arrangement also provides for the creation of a Development Fund for overseas countries and territories to supplement the contributions already made by the authorities responsible for these areas. The contributions of Member States will total S581 million.

86. Furthermore, and as a logical consequence of this agreement, the right of establishment in the overseas countries and territories will be progressively extended to nationals and companies of Member States other than the metropolitan country.

87. The association called for by the Treaty thus amounts to the creation of a new preferential trading area comprising certain overseas countries and territories, chiefly in Africa. The emphasis being upon the interests of these overseas areas, it appears natural to ask in what way the interests of other overseas countries and territories may be affected thereby.

88. The question applies particularly to those countries and territories, also mainly in Africa, which have connections with the United Kingdom and Portugal, and whose exports cover very much the same range of products as those of the associated countries and territories of the Common Market : vegetable oil and oil-seeds, cotton, cocoa and coffee. A sizeable proportion of these exports has hitherto been marketed within the region of the future Common Market. Thus, Ghana (essentially dependent upon cocoa) has relied upon the six countries for no less than 30 per cent of her total exports. Comparable figures for the Central African Federation, Nigeria and Kenya-Uganda, while smaller, are still significant, varying between 13 and23 percent, and the same applies to Portuguese Africa (Angola and Mozambique).

89. On the European side it is significant that the six Customs Union countries have in fact been taking a far larger share of their imports from the overseas territories of the United Kingdom than from the overseas territories of their partners in the Community. This is illustrated summarily in the following table.

Proportion of Selected Imports[11] of six OEEC member countries coming from overseas territories[12] 1953-1955 (per cent)

Importing country	from own 0. T. s.	from U. K. 0. T. s.	from other 0. T. s.	from all 0. T. s.
U. K.	14.3		2.1	16.4
France	23.9	6.7	1.5	32.1

[Source : OEEC Foreign Trade).

Importing country	from own 0. T. s.	from U. K. 0. T. s.	from other 0. T. s.	from all 0. T. s.
Germany		4.3	3.1	7.5
Belgium and Luxembourg.	8.2	1.9	1.1	11.2
Netherlands.	0.7	5.3	2.4	8.3
Italy.		5.9	2.7	8.6

[Source : OEEC Foreign Trade).

90. Once the common external tariff of the Common Market is established, the exports of the overseas countries and territories linked to the United Kingdom and Portugal which are destined for the Common Market countries will, of course, be placed at a disadvantage vis-a-vis the goods coming from the associated countries and territories in proportion to the height of that tariff : 9 % for cocoa beans, 16 % for coffee, to mention just two important examples for which the common external tariff has already been determined. What this may entail by way of actual economic losses is difficult to estimate, dependent as it is on elasticities of demand and supply and numerous other factors, but it is at least understandable that the areas involved should view this feature of the Rome Treaty with apprehension. Kingdom reacted to the inclusion of the Association arrangements in the Treaty with some-ciation arrangements in the Treaty with something less than enthusiasm, precisely because of the added complications which would be caused to the Free Trade Area negotiations. At the present time " Britain is consulting with the Commonwealth—both the independent Commonwealth and the Colonies—on the effects of this decision, ft will thus be some time before a policy can be decided "[13].

91. If the Free Trade Area is strictly confined to Europe, the export interests in the Common Market of overseas countries and tei'ritories with which the United Kingdom is linked will inevitably be unfavourably affected; this applies whether agriculture is included in, or excluded from, the Free Trade Area. If, on the other hand, the Free Trade Area scheme is supplemented by an association arrangement covering the overseas countries and territories linked with all of the member countries, this will mean that the countries and territories linked with the United Kingdom will lose the preference which they have enjoyed up to now in the British market at the same time as they will be given free access to the European markets of all the participating countries of Western Europe; needless to say, this extension of the Free Trade Area implies the inclusion in that scheme of agriculture.

92. Nothing is yet known as to whether the European Economic Community would expect or desire their own overseas territories to be included in the Free Trade Area arrangements. It would seem logical for the United Kingdom and Portugal to press strongly for the association of all territories linked to the participating European countries, since the alternative is for them to suffer the disadvantages outlined earlier in this section. This attitude would presumably be supported by the respective metropolitan countries.

93. Assuming, then, the treatment of agriculture on the lines suggested in Section C, and assuming also that the overseas territories of both the European Economic Community and the United Kingdom would be associated with the Free Trade Area, it remains to be seen what adverse repercussions there might be for the United Kingdom and her overseas partners. Two points should perhaps be borne in mind. First the scope of preferences given by overseas territories to the United Kingdom's industrial exports is limited—to give only three examples, there is no preference for British industrial exports in the markets of Ghana, Kenya and Nigeria. Secondly, it should be remembered that the most important of the overseas associates of the United Kingdom concerned in this whole problem will either themselves take the final decision on whether or not to join whatever arrangements are finally made, or will be extremely influential in taking the decision for which, for constitutional reasons, the United Kingdom may in fact be formally responsible. In other words, the position of the United Kingdom is largely one of ensuring that whatever arrangements she enters into will permit the

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11. The selection accounts for about 54 % of the total value of imports in the years 1953-1955. It covers all the main commodities imported from overseas territories (fruits and nuts, vegetables, oil seeds and oil kernels, sugar, coffee, cocoa, tea and maté, tobacco, hides and skins, crude rubber, cotton, other vegetable fibres except jute, wood in the round or roughly squared, crude fertilisers, ores and concentrates of non-ferrous base metals, copper and tin). The main item excluded is petroleum, which alone accounts for approx. 23 % of total imports from these sources.
12. Including Morocco and Tunisia.
13. Freer Trade in Europe; An Official Account—H.M. S. 0. May 1957.

accession of her own overseas associates if they so desire, and on terms which satisfy their legitimate interests. It seems, then, that no adverse economic repercussions for the United Kingdom and her overseas partners need be feared from the association of the latter with the Free Trade Area.

3. Conclusions and suggestions

94. There can be little doubt that the economic integration of Western Europe and the mutually profitable development of all the countries of which it consists would be dealt a shattering blow if six countries set up in its midst a Customs Union without a formula being found whereby free trade were also extended to the other countries. With the virtual certainty that the European Economic Community Treaty will soon be ratified by all of the six contracting countries, it is now imperative to reach speedy agreement on this matter.

95. An attempt has been made to show the nature of the divergent views of all parties concerned on the problems involved in setting up the Free Trade Area. It is clear that if all the parties concerned not only continue to abide by these views, but to negotiate only on condition that those views are fully and formally met, there can be no solution to these problems, and the Free Trade Area would prove to be an empty dream. The consequences for European unity would then be grave.

96. It follows inevitably that some compromise must be worked out. The nature of such a compromise has been suggested by the assessment made in this paper of the various interests involved, and the foregoing draft Recommendation is submitted in the hope that it may show the way to a solution which can be accepted by all Governments.