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Political and institutional aspects of the Free Trade Area

Report[1]
Committee on Political Affairs and Democracy
Rapporteur: Mr Marinus van der GOES - van NATERS, Netherlands

1. 1957 - 9th Session - Second part

A. Draft Recommendation presented by the Political Committee

The Assembly,

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

2. Convinced that the development of the European economy demands that the European Economic Community should form part of a Free Trade Area which could prevent Europe from being divided both politically and economically and contribute to world peace and stability;

3. Recalling the terms of its Recommendation 134 of 3rd May 1957, in which it adjured the Committee of Ministers to 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 in 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;

4. 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 a joint consultation,

5. Recommends to the Committee of Ministers that they should adopt the following policy :

As far as agriculture is concerned, the negotiations for the Free Trade Area should not proceed solely upon broad principles but should involve a close examination of the conflicting interests—product by product and country by country; moreover, the instruments setting out the arrangements agreed for agriculture and for the Free Trade Area Convention, should be formally linked to each other;

As regards countries and territories outside Europe, Member Governments should aim at avoiding steps which might cause economic dislocation for such countries and territories, and which might in turn result in their being alienated from the democratic world;

The institutions for the Free Trade Area should be set up jointly by the Organisation for European Economic Co-operation and the European Commission and should be adequate to provide effective collaboration between the two bodies, for which a single location should be found;

6. Recommends also that the Council of 0. E. E. C. be invited by the Committee of Ministers to take such action as may be possible on the above proposals and that, for the future, the Consultative Assembly be enabled to follow the implementation of the Free Trade Area Convention by receiving all requisite information from the bodies responsible and by being empowered to address to those bodies opinions on the problems arising.

B. Explanatory Memorandum

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1. Introduction

1. While the ratification of the European Economic Community Treaty is proceeding satisfactorily, the present negotiations for a Free Trade Area in Europe have reached an impasse. The Assembly's task is to examine the political and institutional aspects of the problems which have arisen in the negotiations and to try to indicate how they may best be solved in the interests of European unity.

2. The last pronouncement of the Assembly on the Free Trade Area was Recommendation 1341, which was based on a draft emanating from the Political Committee, and which your Rapporteur had the honour of presenting at the last session of the Assembly. The three essential points of this Recommendation as regards the Free Trade Area were :

> *an urgent call for the creation of the Free Trade Area around the European Economic Community in the interests of the overall political unity of Western Europe;*
>
> *a solution of the problem of agriculture through the proposal, if not formally to include agricultural products, at least to make effective arrangements by which agricultural exporting countries could look forward to an expansion of their markets for agricultural products in the food-importing countries;*
>
> *a recommendation that the Free Trade Area should be accompanied by provisions enabling interested overseas countries and territories not covered by the European Economic Community to associate themselves with the Free Trade Area on terms to be determined by joint consultation.*

3. Although in practice it will probably be necessary to limit, geographically speaking, the application of this third suggestion, these three points offered a concrete basis for carrying on the Free Trade Area negotiations. We must now look at what has taken place since the adoption of this Recommendation in the Assembly.

2. Developments in the negotiations

4. Three questions must be answered. What has happened to the Assembly's Recommendation 134? What has happened in the OEEC negotiations? What changes, if any, can be discerned in European public opinion since last April?

5. First, what has happened to the Assembly's Recommendation 134? As the Committee of Ministers indicated in its statement on this Recommendation of 8th October 1957 (AS/Pol (9) 42), the Recommendation has been transmitted for information to the six Governments which signed the Rome Treaty, represented at present, as your Rapporteur understands, by the Interim Committee at Brussels. On none of the paragraphs have the Six given a definitive answer.

6. Your Rapporteur regrets that the Committee of Ministers, to whom the Recommendation was addressed, has not yet been able to define its attitude towards it. ft cannot be argued that the Recommendation is not concrete and specific, or that it is not of real significance for each of the member

countries of the Council of Europe, supported as it was by the parliamentary delegations of all fifteen Member States, including representatives of all the parties in power. Not only were three basic proposals made concerning the Free Trade Area (discussed in paragraph 2 above), but there were calls for :

precise arrangements to enable the Council of Europe and the Consultative Assembly to keep abreast of developments in the European Economic Community (paragraph 1);

presentation to the European assemblies of proposals for a European Civil Service (paragraph 2); and

co-ordination of the investment and development arrangements for under-developed areas in the European Economic Community with those which may be made for the under-developed areas of the OEEC States as a whole (paragraph 3).

Were all these proposals unworthy of the attention of the fifteen member Governments? The fact of the matter is that hardly any account has been taken of this previous Recommendation of the Committee, unanimously adopted by the Assembly, although it is the only pronouncement in recent months by responsible parliamentarians speaking for the whole of Europe which offered practical suggestions for bringing the Free Trade Area negotiations to a satisfactory conclusion.

7. What has happened in the intergovernmental negotiations in the 0. E. E. C? Obviously, the fate of Recommendation 134 would have caused much less concern if Governments had themselves been able, in the months that have elapsed since April, to achieve any measure of progress. It will be remembered, however, that within a few weeks of the Assembly's April session, the Council of the 0. E. E. C. announced 1 that negotiations were proceeding so slowly that it would be pointless to hold the meeting jireviously envisaged for July at which Governments were intending to take further decisions. That meeting would now be held " at as early a date as is practicable in the autumn ". At present there is no further indication of whether any meeting in the early autumn is likely to produce practical decisions, and informed opinion in the capitals of Western Europe seems to be that no decisions will be possible before the end of the year.

8. Why have negotiations slowed down in this way, almost to a full-stop? There are, of course, very many problems to be settled before the Free Trade Area can be set up, and it is not surprising that negotiations should take some time. First, there are the problems (very technical in nature) of the timing of tariff reductions, their simultaneity with corresponding reductions in the European Economic Community, the procedures for certificates of origin, monetary questions, and so forth. Secondly, there are the problems which would arise for countries such as Greece and Turkey, whose need for planned and rapid industrial development is so great that it would be extremely difficult for them to apply the tariff reductions for industrial products to the same extent and at the same speed as would be desired by the more highly industrialised members. Thirdly, there is the question of whether the Free Trade Area arrangements should include agricultural products or not. Fourthly, the problem arises, in view of the fact that arrangements have been made for the association with the European Economic Community of French, Belgian and Dutch overseas territories, as to whether these territories are to be given the opportunity of becoming associated with the Free Trade Area and what, in that case, the .position would be regarding the overseas territories of the United Kingdom and Portugal.

9. It is an open secret, however, that the fundamental problem of all these is that relating to agriculture, since, unless this problem is solved, it is unlikely that a Free Trade Area can come into being at all. The three OEEC working parties which between them are dealing with all the problems arising have, it seems, been marking time until a solution is found for agriculture, since the form of that solution will have an important effect on the way in which other problems are treated. It must not be supposed that no major difficulties will arise on these other problems; but your Rapporteur believes that public opinion generally is right in feeling that, although such difficulties may arise, solutions will definitely be found—provided only that the agricultural problem has been satisfactorily solved beforehand. To sum up, then, it is the problem of agriculture which has in the first place brought the negotiations to a halt.

3. Developments in public opinion

10. What changes, if any, have been discernible in European public opinion on the Free Trade Area since April? The most important fact affecting European opinion is one which has not so far been mentioned in this paper, although it has undoubtedly had a significant effect on recent developments. This fact is that the Rome Treaties have now been ratified by France, the Federal Republic of Germany and Italy, and it is virtually certain that they will come into operation by the beginning of next year.

11. The effect of the ratifications on public opinion has been two-fold. First, countries which are not members of the European Economic Community now realise that, if overall European co-operation in economic affairs is to be ensured, the need for an early conclusion of the Free Trade Area Convention has

become urgent. Secondly, members of the European Economic Community, having brought about what is generally agreed to be one of the most important political events in European history, may now feel, if only slightly so, less urgently committed to the Free Trade Area negotiations.

12. Let us examine this psychological change in the attitude of the Six a little more closely. There are two reasons for it. First, now that doubts about the ratification of the Rome Treaties have proved unfounded, and their coming into force at an early date is assured, people everywhere in the Community of the Six are faced with the immense practical problems of building up the Community over the next few years. Of necessity, the emergence of these problems as an immediate reality, and the practical tasks of grappling with them, may appear to put the economic relationships of the Six with the rest of the world into a secondary position, if only for the time being. This attitude is, psychologically speaking, fully understandable, even though it should not be taken as implying that the Community is in any way becoming, or • likely to become, economically protectionist | or politically isolationist. The second reason underlying any feeling among the Six of being at this stage less urgently committed to the Free Trade Area negotiations is that in a certain sense they are now arguing from a position of strength. Their own problems in making a success of the European Economic Community are so enormous that, if they are to accept the additional complications which will arise through becoming members of a Free Trade Area, they must be able to see correspondingly greater advantages which they can expect in return. In other words, if they are to take on still further administrative and technical burdens in their economic life, they must be able to see clearly some quid pro quo.

13. The attitude so far taken by the other Governments who are potential members of the Free Trade Area, and the United Kingdom Government in particular, may seem to have contributed to this subtle change in the psychological attitude of the Six. On the fundamental problem of all—agriculture—one governmental pronouncement after another coming from the United Kingdom makes it plain that its refusal to consider a Free Trade Area covering agricultural products remains absolutely unchanged, though in certain sections of the British press there has been a call for realisation that some kind of concession on this matter must be made to the Six. It is therefore understandable that some people in the European Economic Community now appear to feel that the United Kingdom and other countries may be concentrating too much on the advantages which they hope to gain from the Free Trade Area arrangements without paying sufficient attention to the concessions which are necessary if negotiations are to be successful.

14. There is another feeling, too, which has arisen in some sections of opinion in the European Economic Community. This Community is going to require, for its future development, really close governmental consultation and collaboration. The machinery set up for this purpose must be strong and efficient. There will have to be a real degree of economic planning. Although it is impossible to foresee at present how the similar questions which arise for the Free Trade Area will finally be settled, and although it is certain that effective machinery will have to be set up, and may involve more economic planning at the European level than one or two potential members of the Free Trade Area might at present consider likely, there are certain to be differences in approach on such questions at between the European Economic Community and the Free Trade Area members as a whole. In other words, members of the Six are anxious lest their own determined efforts to organise their economic development may run into difficulties if the Free Trade Area is allowed to develop too much on purely " laissez-faire " lines.

15. We can thus summarise the psychological changes in Europe since April. As a result of the slowing down of the OEEC Free Trade Area negotiations, on the one hand, and the ratification by the leading Powers of the Six of the Rome Treaties, on the other, the various potential members of the Free Trade Area may now think of themselves not so much as a group of individual representatives sitting round the conference table, but as two sides, the Six and the non-Six, facing each other across it. This situation creates indeed a new problem, a political and psychological one, which must be taken account of, together with the various technical problems we have mentioned above. It is to an examination of all these problems, and to a consideration of what solutions, from the political point of view, can best be offered, that we now turn.

4. The problems

4.1. General

16. We may begin by considering the psychological problem just described. As a result of this development, the situation is less favourable for rapid negotiations than previously, and we should therefore consider how the psychological climate from this stage onwards can best be made conducive to the successful conduct of negotiations. In a situation like this it is difficult to call for specific action from

Governments. What seems to be required is, rather, a declaration of intention, an avowal of a sincere and active will to pursue negotiations as rapidly and effectively as possible, and to make frank concessions to the point of view of the " other side " wherever necessary.

17. The Six must not feel that the implementation of the Rome Treaties is all that remains to be done in the cause of European unity over the coming years. The immense political and economic benefits that would accrue from the association of other Members of the 0. E. E. C. with an expanding European economy cannot be over-estimated. Nor should the Six feel that the hesitancy of the British Government so far has been dictated solely by considerations of the immediate interests of the United Kingdom. Every political analysis of the United Kindgom position in regard to the Free Trade Area demonstrates clearly the delicacy of the choice for the United Kingdom Government—indeed, if anything, it is the political rather than the economic issues which present the chief difficulty for Britain at this time. In short, the Six must continue to show patient understanding for the British position. They should the more easily be able to show this understanding precisely because strong Commonwealth links are an important factor for world peace and stability, and the Six have almost as deep an interest in seeing those links maintained as the United Kingdom herself.

18. In the same way the British should realise that, just as the Six must show understanding for the political and psychological position of the United Kingdom in relation to the Commonwealth, they themselves must show understanding for the Continental position regarding agriculture. It cannot possibly be fair or equitable that the British should obtain the advantages of new outlets for their industrial exports without giving some compensatory advantage to the Continental countries in the British market for imported foodstuffs. The United Kingdom Government must therefore make it plain that it is willing to make real concessions in this matter. Both sides, in fact, must declare, and convince the European public, that they will now make a determined effort to overcome this main hurdle in the Free Trade Area negotiations. The formula for the solution to the agricultural problem will be considered later. At this point the main thing is to start in the right psychological atmosphere.

4.2. Agriculture

19. The economic aspects of the agricultural problem have, in your Rapporteur's view, been fully set out in the Report of the Economic Committee (Doc. 698). The Six wish agriculture to be " included " in the Free Trade Area arrangements; but the kind of agricultural arrangements they seem to desire are so far removed from the genuine free trade proposed for other sectors of the economy that they can hardly be described as amounting to the inclusion of agriculture in practice at all. Similarly, the British Government, although it wishes to " exclude " agricultural products from the provisions of a Free Trade Area Convention, should be invited to make arrangements towards increasing the Continent's share in the United Kingdom market for agricultural imports; for in this sense the British position is not really one of wishing to exclude agriculture, in practice, from trade liberalisation arrangements as a whole. In other words, both parties could set up a special regime for agriculture, and for the reasons set out in the Economic Committee's Report, it is not inconceivable that both sides could agree on what this special regime might be. But should this regime be described as " including " agriculture in, or " excluding " it from, the Free Trade Area arrangements? The answer is that the problem is a purely verbal one; neither term accurately describes the arrangements actually envisaged either by the Six, on the one hand, or the United Kingdom, on the other.

20. What can the Assembly say about this situation? Your Rapporteur suggests that the root of the problem is whether or not the special arrangements made for agriculture will form part of the text of the Free Trade Area Convention. If they do, then the British Government may have difficulties in obtaining support for the Convention from public opinion in Britain and the Commonwealth. On the other hand, if no mention is made in the Convention of the arrangements for agriculture, it is impossible to believe that the parliaments of the Six would authorise their Governments to ratify it.

21. There are two important points to be borne in mind here. The first is that the arrangements governing the position of agriculture in the Free Trade Area will be highly detailed and technical; to that extent, they are in any case less suitable for incorporation in the body of the text of an international treaty, such as the Free Trade Area Convention. What seems to be required is an agreement which would be attached to the Convention, fixing these detailed arrangements for agriculture. The second point is the fact that, if a Free Trade Area Convention which does not itself set out the agricultural arrangements is concluded before the nature of those arrangements is itself determined, the position of those States which have an interest in pressing for the fullest liberalisation of agricultural trade in the Free Trade Area would be unfairly prejudiced.

22. It is in the light of the above considerations that we must consider an appropriate solution. Such a solution might be that the conclusion of the Free Trade Area Convention would be formally linked with the conclusion of a protocol attached as an appendix to the Convention setting up special arrangements for

agriculture. This solution seems to your Rapporteur to offer satisfaction to the legitimate interests of all parties —and also to give the best chances of acceptance by the parliaments and public opinion of all the countries concerned.

4.3. Countries and territories outside Europe

23. Some general comments may first, be made on the position of countries not likely to become members of the Free Trade Area or be associated with it. There are several countries which feel that the whole pattern of their trade relations may be adversely affected by the Free Trade Area. There is, for example, already some fear among South American countries, e.g., Brazil, that their existing trade with European countries may be prejudiced by the closer relations now taking shape between Europe and some parts of Africa. Japan cannot be indifferent to the prospect of a European Free Trade Area in which Germany and the United Kingdom would be placed in such a favourable position to supply the industrial goods needed in the area as a whole. Indonesia, again, may feel that if Europe's African associates are to be given an advantage as suppliers to Europe of products which Indonesia would like to export, Indonesia will to that extent suffer from the setting up of the Free Trade Area.

24. The point which your Rapporteur wishes to make is not, however, the economic difficulties which might arise for some countries outside Europe. (European Governments are indeed—e. g. those which have set up the European Economic Community— already conscious of those difficulties and have expressed their determination to avoid creating a protectionist bloc which would adversely affect world trade as a whole). It is to the political consequences of any such economic difficulties that your Rapporteur calls attention. If South American or South-east Asian countries find themselves in future at an economic disadvantage in their relations with Europe, there may well follow some degree of political alienation from the democratic West. This might have serious consequences—for example in the United Nations, where the support of such countries is often of vital importance to the democratic Powers.

25. These problems will, of course, be of prime importance at the October Conference of G. A. T. T., and it is there that the European position must be explained fully and clearly to the outside world if it is to be sympathetically understood. The first need in this connection is for joint consultation between Member States of the Council of Europe so that Europe can present a co-ordinated answer to the various objections that may be raised. Secondly, it must be made clear to other countries that, as with the European Economic Community, there is no intention that the Free Trade Area should become economically protectionist and that, on the contrary, the increase in European prosperity which the Free Trade Area is expected to bring about will only increase Europe's capacity to help (e. g. through increased investment potential) in the economic development of other parts of the world. This essentially political background to the October Conference of G. A. T. T. is something which must be borne constantly in mind.

26. A second general comment is on the position which would arise from the association with the Free Trade Area of the overseas countries and territories linked with the United Kingdom. There is no knowing at present exactly which members of the Commonwealth, whether dependent or independent, would desire or obtain such association. It is already clear, however, that membership of, or association with, the Free Trade Area, whatever the country concerned, will call for an important degree of governmental consultation and collaboration in overall economic policies. The presence in the Free Trade Area organisation of a large number of non-European countries, whether older members of the Commonwealth such as Australia or Canada, or more recent members such as India or Ghana, etc., could conceivably change in a significant way the essentially European character of the organisation which has been envisaged so far. Your Rapporteur does not wish at this stage to go further into this problem but feels that its long-term implications are ones which the Committee will wish to bear in mind as the negotiations proceed.

27. As regards the immediate issue concerning the position of the overseas associates of potential members of the Free Trade Area, this hinges to a large extent on the solution found for agriculture, since the interests of the overseas territories are concerned with (a) the possibility of increasing the markets for their exports, which are largely agricultural, and (b) their special need for providing such tariff protection in the matter of industrial imports as may be necessary to assist their own industrialisation and the diversification of their economy.

28. All that can be said at this stage is : first, that it can only be in the long-term economic interests of these territories to be associated with the economic expansion which is likely to come from the establishment of free trade in Western Europe; secondly, that their association with the Free Trade Area should be envisaged if they so desire. The Assembly has in fact already given its views on this latter point in Recommendation 134, where it is stated that the creation of a Free Trade Area " should be accompanied by suitable provisions enabling all interested overseas countries and territories... to become associated with such an Area on terms

to be determined on the basis of joint consultation " (paragraph 5). There is nothing to add to these points at present, and these general principles should continue to guide the Free Trade Area negotiations as they affect the overseas countries and territories.

4.4. Institutions

29. On this subject it is difficult to be precise at the present stage. Two dangers in particular, however, are to be avoided. The first is that the institutions may themselves not be strong enough to carry out the " special arrangements for continuous co-operation among member Governments with a view to ensuring the gradual co-ordination of general economic and commercial policies " rightly called for in the Economic Committee's draft Recommendation. Secondly, there may be inadequate co-ordination between the planning of the Free Trade Area and the work of setting up the European Economic Community. With regard to the first of these points, your Rapporteur feels that it would be logical if the 0. E. E. C. as such were expanded sufficiently to cope with the new tasks. With regard to the second, the prime requirement must be that the headquarters of the European Economic Community and the seat of the 0. E. E. C. are in one and the same location. The question of location of European institutions is, of course, already under separate examination by the Political Committee, and your Rapporteur feels that it is sufficient to draw the attention of Governments to the particular need arising here in connection with the Free Trade Area.

30. There remains the question of how far it will be possible for the European parliaments to follow the work of setting up the Free Trade Area. It is clear that a large measure of responsibility here falls upon the parliamentary body representing all interested European countries, i. e. the Consultative Assembly itself. The questions of the rationalisation of European institutions as a whole, and of the relations between the Council of Europe and the 0. E. E. C, are already being dealt with separately by the Committee, and it is not appropriate to go into the substance of these questions in the present Report. It is for this reason that paragraph 6 of the draft Recommendation calls simply for practical arrangements to enable the Consultative Assembly to carry out the duties which will devolve upon it in connection with the Free Trade Area. This does not, of course, prejudice in any way the position of the Consultative Assembly in its claim to be the most suitable body to provide overall parliamentary supervision of the activities of the 0. E. E. C.

Appendix

RECOMMENDATION 134 (1957)[2] on steps to be taken by the Committee of Ministers as a result of the creation of the European Economic Community

The Assembly,

Welcoming the conclusion of the Treaty instituting the European Economic Community, and having urged the Governments and Parliaments of the six countries to make every effort to ensure the speedy ratification of the Treaty,

1. Recommends to the Committee of Ministers that they should propose to the Governments of the Six the signature of an agreement providing, inter alia, for an annual report to be presented by the Commission of the European Economic Community to the Consultative Assembly and for joint meetings between the Consultative Assembly and the EEC Assembly, for discussion of the extent to which the activities of the European Economic Community are likely to impinge on the economic and political life of the other members of the Council of Europe. This discussion should he based both on the EEC report called for above and a corresponding report from the 0. E. E. C ;

2. Recommends also that the Committee of Ministers make arrangements as a matter of urgency for the European assemblies to be consulted on the administrative regulations for the staff of the European Economic Community and of the European Atomic Energy Community now being prepared by the Interim Committee in Brussels, and, furthermore, that this occasion be used to work out concrete proposals regarding a European Civil Service embracing the staff of as many European organisations as possible, these proposals to be presented to the European assemblies within one year;

3. Recommends also that the nine other Members of the Council of Europe should approach in good time the six Governments of the European Economic Community and other competent bodies of that organisation so that investment and development arrangements which are to be made with regard to the areas of the E. E. C. still to be developed can be co-ordinated with those which may be undertaken within the framework of the 0. E. E. C. for the development of similar areas in the wider community;

4. Recommends 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 ;

5. Recommends 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 he determined on the basis of joint consultation

2. This Recommendation was adopted by the Assembly at the 8th Sitting of its Ninth Session, on 3rd May 1957 (see Doc. 648, Report of the Committee on General Affairs).