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Political problem of the Free Trade Area and the European Economic Community

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

1. 1958 - 10th Session - First part

A. Draft Recommendation presented by the Political Committee

The Assembly,

Having examined the political implications of the recent setting up of the European Economic Community,

Recommends that the Committee of Ministers should make every effort to ensure the conclusion before the end of this year of an outline treaty linking all other members of the O.E.E.C. with the European Economic Community on a multilateral basis; this outline treaty would set out the rules governing whatever conventions were established.

The outline treaty should be based on the following principles:

1. I.

   a. The European Economic Community must maintain its whole momentum, which is an essential element in the strengthening of free Europe.

   b. A split between the European Economic Community and the other Members of the Council of Europe may well lead to the setting up of two economic systems increasingly opposed to each other ; such a conflict would inevitably lead also to a political split in free Europe.

2. II.

   1. Any agreement between the European Economic Community and the other Members of the O.E.E.C. must be concluded within the latter Organisation, so as to ensure that a mixed body composed partly of representatives of the European Economic Community and partly of representatives of the O.E.E.C. (i. e. the Maudling Committee less the members of the Six) actively contributes to the conclusion of the agreement.

   2. In pursuing negotiations towards such an agreement, the Consultative Assembly of the Council of Europe, the body whose business it is to exercise political control over the activities of the O.E.E.C, must be consulted.

   3. The mixed body mentioned above should be considered as the forerunner of the executive organ which, with a ministerial council, will later direct Free Trade Area policy.

3. III. A Free Trade Area which creates a genuine economic equilibrium among the Members of the O.E.E.C. must be based, whether directly or by stages, within a suitable period, on arrangements aimed at the confrontation and harmonisation of national economic policies.

B. Explanatory Memorandum presented by M. van der GOES van NATERS

1.

I. — Introduction.

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VI. — Conclusion — Possible compromises.

2. Introduction

1. When the Assembly last discussed the Free Trade Area project in October 1957, the Council of Ministers of the O.E.E.C. had just issued a resolution announcing its " determination to secure the establishment of a European Free Trade Area". Serious problems, obviously, had to be solved before the convention could be concluded, concerning agriculture, definition and control of origin, the association of overseas territories, and so forth. But with unanimous determination on the part of the Member Governments of O.E.E.C. to go through with the project, and with fifteen months to solve the major technical problems (actual tariff reductions in the Free Trade Area taking effect only on 1st January 1959, to harmonise with the first tariff reductions in the European Economic Community) there seemed to be every reason to expect that the European Economic Community and the Free Trade Area would begin operations in harmony with each other at the beginning of 1959.

2. But the horizon has darkened. Six months later we find ourselves in a position where not merely have the really crucial problems in setting up the Free Trade Area remained unsolved, but also serious misgivings have arisen in some quarters as to whether, after all, the whole scheme is desirable. This setback, even though it may be only psychological, has become apparent when little time is left to construct even the framework of a convention within which the Free Trade Area can begin to operate in harmony with the European Economic Community. What exactly has gone wrong? How can things be put right? Can they be put right by the end of the year? The Consultative Assembly is to debate this problem at a crucial moment. It is, as Mr. Maudling, the Chairman of the OEEC Intergovernmental Committee has stated, a political problem; and it is for the parliamentarians of Europe to weigh carefully the political and economic factors involved and to press for a solution which will take full account of both.

3. To do this, your Rapporteur suggests that we briefly examine, first, the relationship between the Common Market and the Free Trade Area plan. Secondly, we must try to see exactly what is involved in the political problem of harmonising the two. Thirdly, we must examine possible solutions to the problem. And, finally, having looked at what role " the Council of Europe can play in helping to harmonise the two schemes, we must see if we can recommend one solution that is best calculated to be successful.

3. Relationship between the Common Market and the Free Trade Area

4. The first official suggestion of a Free Trade Area was made by Mr. Harold Macmillan in London on 3rd October 1956, almost eighteen months after the Messina Conference at which the Six set up their Intergovernmental Committee to study the possibility of a European Common Market, and four months after the Venice Conference of the Six, at which the green light was given to go ahead with the drafting of the Common Market Treaty.

5. At the beginning the British Government made it clear that what they had in mind was a partial Free Trade Area. Details were given in their White Paper of February 5th 1957. In that paper it was stated that " the arrangements proposed for the Customs and Economic Union [of the Messina Powers] involve far-reaching provisions for economic integration and harmonisation of financial and social policies, and for mutual assistance in the financing of investment, these arrangements to be effected within an appropriate institutional framework. Her Majesty's Government envisage a Free Trade Area, on the other hand, as a concept related primarily to the removal of restrictions of trade such as tariffs and quotas ". It is true that the Paper goes on to say that the United Kingdom Government recognises " that co-operation in the field of economic policy is of great and continuing importance " and that " in practice an appreciable movement towards closer economic

cooperation may be expected to take place among members of a Free Trade Area over a period of years ". But it is nevertheless clear that in the early stages of the United Kingdom proposal it was envisaged as being an altogether more limited arrangement than the " unity of their economies " which was the avowed purpose of the signatories of the Common Market Treaty.

6. It is not, however, necessary to feel that, because the British produced their plan under the stimulus of work on the Common Market Treaty of the Six, they were moving primarily to protect United Kingdom interests in the face of the economic strenght which would accrue to the Community of the Six through the establishment of the Common Market. Nor is it necessary to feel that the scheme was in any sense in competition with the Common Market. The British scheme should be regarded as a " form of association " with the Common Market (the words Mr. Macmillan used when he first broached the scheme in public). It proposes arrangements which, in the view of the United Kingdom Government, would help to extend the benefits of economic co-operation created by the European Economic Community to as many other European States as possible, having regard to the limitations, political, economic and social, inherent in the situation of those other States. There is no question that the schemes were, or are, competitive, or exclusive alternatives.

7. On the other hand, it should be recognised that the United Kingdom's own view of the Free Trade Area as a form of association with the European Economic Community has changed somewhat in the twelve months since the British White Paper was first published. It is now recognised that great efforts must be made to ensure that the two schemes are properly harmonised. Tariff reductions in the European Economic Community and in the Free Trade Area must proceed pari passu. It is generally recognised that, as far as the same ground is covered in the Free Trade Area Convention and the European Economic Community Treaty, the Rome Treaty will be the text on which the Free Trade Area Convention is modelled. To quote Mr. Maudling " a tremendous amount of the detailed work [of the Free Trade Area Convention] can be based on the text of the Treaty of Rome... The Free Trade Area institutions and those of the Common Market should work together closely and constantly in the greatest possible unity". And it would be, again in Mr. Maudling's words, " an excellent thing " if the institutions of the European Economic Community and the Free Trade Area could be in the same place.

8. How different, then, in view of this development of the United Kingdom's views, will the Free Trade Area really be from the European Economic Community? The fact is that the Free Trade Area, if set up in accordance with the proposals so far tabled, will still remain fundamentally different.

9. The technical differences are well-known. The Common Market will have a common external tariff, while separate external tariffs will be retained by the members of the Free Trade Area; there will be, at the very least, a substantial difference in the arrangements made for agriculture in the Common Market and those made in the Free Trade Area; and so forth. But it is in the whole spirit of the two systems that the fundamental difference is to be found, and to see this clearly we have only to look at the question of institutions.

10. In the European Economic Community the Assembly will have real powers and a voice in the development of the Community; it is far from certain, on the other hand, that the Assembly of the Free Trade Area will have anything more than a consultative function. Again, the European Commission of the European Economic Community is independent of Governments and is likely to be a very much more powerful body than the executive organ of the Free Trade Area. The latter will be established within the framework of the O.E.E.C. and would presumably work in the tradition of OEEC intergovernmental methods. Thirdly, and most important of all, it is not certain that the United Kingdom will agree to arrangements by which a Free Trade Area Council of Ministers would abandon the unanimity rule for really important decisions — a subject on which it is interesting to note not only the position of the Government of the United Kingdom, but also of the Labour Opposition [2]. Finally, although the European Economic Community has a Court of Justice whose function it is to " ensure observance of law and justice in the interpretation and application " of the Rome

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2. See The Irish Times report of 20th February 1958 on the European Industrial Conference in London, and Mr. P. C. Gordon Walker's speech there: « ...Mr. Gordon Walker dealt at length with the essential problem of how the majority rule should be applied in decisions of a future Free Trade Area council. He insisted that this principle should not apply when the provision for full employment and the safeguarding of the balance of payments of a Member was involved. This is taken to mean that a future Labour Government would, in effect, by-pass the majority principle, even if the Common Market countries agreed to the Free Trade Area. Almost every economic issue touches on full employment and the balance of payments... » For Mr. Maudling's views, see report in The Times of 27th February 1958 of his address to the British Chamber of Commerce in Paris on February 26th. Speaking of the Common Market and the Free Trade Area, he is said to have given, among reasons why it would be difficult for other countries to join the Common Market, " the great difficulty of making the institutions of the Common Market work satisfactorily in practice even among the six countries, let alone the seventeen of 0. E. E. C. " The members of the Free Trade Area would " have to establish institutions of a kind suitable to a much wider group of countries than that covered by the Treaty of Rome ".

Treaty, no one has so far suggested that the Free Trade Area should have such an institution, presumably because its very character is thought not to call for one. In short, the fundamental differences between the two systems remain: the Free Trade Area aims at co-operation, the European Economic Community at integration.

4. The political problem of the Free Trade Area and the European Economic Community

11. In the light of the above, we can perhaps see a little more clearly what has happened to make negotiations take a turn for the worse. Neither the Members of the Six nor the Members of the Nine/Eleven had seen, until they came to grips with the problem of negotiating a Free Trade Area Convention, how serious the difficulty of harmonising the scheme with the Common Market was. The problem falls into two parts, political and economic. The technical economic difficulties had, indeed, been largely foreseen, and the present position regarding them is commented on in the report of the Economic Committee. But it is obvious that it is the political side of the problem of harmonising the two schemes which has been the real cause of the difficulties that have arisen in the last month or two.

12. What is this problem? It is essentially a problem of the Six. They fear that, their own European Economic Community having been the starting-point and the stimulus for the Free Trade Area, their future partners in the latter wish, if the present version of the scheme is accepted, to create arrangements which will have the effect of reducing the degree of economic integration they have set as their own target, and reducing the speed with which they can achieve complete unity of their economies.

13. Why, however, should the existence of the Free Trade Area and the working of its institutions affect the degree to which the European Economic Community achieves its objectives? The reason is that the institutions of the Free Trade Area and those of the European Economic Community will inevitably have to co-operate closely at all stages (and it is right and proper that they should do so); in consequence, the greater the differences between those institutions, and the greater the differences between their objectives, the more difficult cooperation will be and the greater the pressure will be for the Six to make compromise arrangements on the various problems of economic policy that arise with the Eleven. It is for this reason that the Six are afraid lest the institutions and the objectives of the Free Trade Area be too different from those of the European Economic Community, and that this may be a legitimate fear is evident from the differences we have seen in the scope of the two schemes. And, of the Six, France, in particular, is afraid that the concessions to her own position which have been won through negotiations with her partners in the Six on the Common Market, cannot be retained in the Free Trade Area, and that she will therefore have to take on intolerable additional burdens in making herself economically competitive in the Free Trade Area, without receiving in return the same measure of compensation that her partners among the Six have given her.

14. The Six, therefore, feel that it is essential that the structure of the Common Market and its working remain intact, whatever additional arrangements may be made for Free Trade Area countries grouped around the Common Market. We cannot deny the reasonableness of this position. Not only is it in the interests of the Six that nothing should hamper the speedy progress of the Common Market, but it is also in the interests of the Nine/Eleven, as Europeans. For they have never denied the intrinsic desirability of a system such as that of the European Economic Community and have been prevented from joining it only by the special difficulties inherent in their individual positions. The problem is, then, to ensure that the Common Market arrangements are not, so to speak, watered down by the convention which is being negotiated in Paris.

15. Conversely, the Free Trade Area should as far as possible take its orientation from the European Economic Community and must recognise, respect and meet, as far as ever possible, the position of the Six.

16. Moreover, a Free Trade Area, too, must avoid creating new divisions among the free countries of the world. This bring us to a further political problem — that of the Area's relationship with the outside world. We have clear examples in the Far East and in South America, areas far removed from the political centre of gravity of Europe, where policies have been considerably influenced by Europe's work towards economic integration.

17. In the case of Japan, for example, the establishment of the Common Market has already caused a certain amount of concern lest the new Community should become protectionist in outlook or, through being less dependent on trade with other countries, should disrupt traditional patterns of trade. The Japanese Government has set up [3] an ad hoc governmental committee to examine the possible effects of the Common Market on Japanese trade, and the possibility of creating similar arrangements in East Asia.

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3. As reported in Relazioni Intcrnazionali, page 370, 23rd March 1957.

18. In the case of South America, the reaction to the new moves in Western Europe have been even more specific. One of the fears there is that the association of African territories with the European Common Market will benefit the former at the expense of themselves (in items of trade like coffee, for example). On 24th February 1957, the Ministers of Economy of the five Central American republics of Costa Rica, Guatemala, Honduras, Nicaragua and el Salvador, met in Guatemala City and approved in principle two treaties designed to create a free trade area in Central America and a system of regional industries. More recently a working party of seven South American experts met at Santiago from 3rd-l 1th February last to examine ways and means of creating a common market in Latin America as a whole [4].

19. Your Rapporteur draws attention to these developments not so much for their economic as for their political implications. If present patterns of world trade are changed as a result of the Common Market and the Free Trade Area to the detriment of other friendly areas of the world, there is a danger that we shall forfeit some of the support of the latter in international affairs (at the United Nations, for instance). Both the Free Trade Area and the Common Market must therefore ensure that the interests of other countries outside Western Europe are fully consulted in the course of building the new communities.

20. These, then, are the political problems that must be solved before a Free Trade Area Convention can be concluded in a form that will be acceptable both to all its Members and to all those who will remain outside it. We now turn to examine the possible solutions to the first of our problems, getting a Free Trade Area started at all —within a short time, if possible, and in any case at some point irrevocably.

5. Four different answers

5.1. The British Plan

21. The first alternative is of course to accept the broad outline of the British proposals for the Free Trade Area. These amount to virtually the same plan as was put forward in the White Paper of February 1957, with the modifications described earlier — modifications which are of attitude and approach and, to some extent, of substance. The British now realise that the Convention will be much closer to the Rome Treaty than they probably realised at first. They have expressed willingness to examine all possible ways and means of enabling continental exporters of agricultural products to make a better showing in the United Kingdom Market: " freer and fairer trade " in agricultural products, as Mr. Heathcote Amory described it recently. And they now recognise more readily the political implications of the whole scheme.

22. Although the British attitude has softened appreciably, the deadlock has arisen because the softening process does not seem to have gone far enough to meet the objections of the Six. In particular, there are, first, the difficulties which have found expression in many sectors of French public opinion on how to provide sufficient safeguards for the special position of France and provide her, in fact, with the same kind of security she has in the European Economic Community. Secondly, there is the problem of defining the origin of goods and preventing diversion of trade. This is, of course, a technical problem on which the Intergovernmental Committee has commissioned a special study by OEEC experts. Its interest for us lies in the fact that this particular difficulty has been taken, by French public opinion, as a peg on which to hang all their political and psychological doubts about the whole Free Trade Area scheme. Thirdly, there can be no doubt that British offers on the agricultural question have simply not gone far enough to meet the needs of the continental agricultural exporters.

23. To agree to an examination of the agricultural problem, product by product and country by country, as advocated in Recommendation 152, is one thing; to contrive negotiations in practice in such a way that there will result clear and tangible benefits to countries such as France, Holland, Italy or Denmark, is another. The British idea of a system of confrontation of agricultural policies, a procedure for examining complaints, and a general development of the kind of co-operation so far attempted in the OEEC. Ministerial Committee for Agriculture and Food, remains, in the eyes of the agricultural exporting countries, inadequate. We may add that new proposals from the United Kingdom to deal with the agricultural problem are perhaps to be expected. According to The Times of 17th January 1958, these contain the following points:

> 23.1. Export subsidies should not be granted for agricultural goods where they result in export prices being lower than domestic prices, or where they give one nation a greater share of the export market for any given product than that nation has had in a given period of years previously.

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4. See La semaine aux Nations Unies, No. S of 18th February 1958.

23.2. Procedure to be established for modification in domestic taxes which may favour any given domestic product in fore.gn trade.

23.3. No new restrictions to be placed on imports which have been freed from quotas, especially for goods in straight trading.

23.4. A series of " institutional" provisions: a Council of Ministers of Agriculture to be established, to examine annually price levels, national agricultural policies and levels of protection of agricultural production (this Council would come to its decisions unanimously) ; a directing committee of six to nine members of senior officials; an advisory committee of non-official persons (presumably representatives of the farming industry) ; and a complaints committee. Your Rapporteur is of the opinion that these proposals, if correctly reported, are still not likely to satisfy the Six for the same reasons as are given in paragraph 23, for they do not provide anything like the equivalent of the common agricultural policy provided for in the Rome Treaty.

5.2. The French Plan

24. The second choice before European States considering how other OEEC Members can be associated with the European Economic Community, is the French plan for a European Union for Economic Co-operation.

25. Official details of this plan are not available at the time of writing. This is logical, since the plan, like any other project emanating from one of the members of the Six, must be approved by the Six before it can be backed in the outside world. Certain suggestions regarding its contents have, however, been made in the Press. The following is an extract from Le Monde of 28th February 1958, which may perhaps be legitimately taken as a first very rough indication of what the plan is likely to contain.

26. Le Monde says the following of the French proposal: " Its object is the same [as that of the Free Trade Area] — multilateral association with the Common Market of the OEEC countries not willing to be actual members of it; but the methods are very different. (1) The chief innovation is this: instead of trying to negotiate a general agreement, France suggests that agreements should be signed industry by industry. The economic content would be divided into sectors, and negotiations would proceed chapter by chapter on the well-known subjects: abolition of quotas and reduction of tariffs, control of the origin of goods so as to avoid deflections of trade, competitive conditions, relations with " third " countries, eic. (2) Two sectors would he dealt with separately: that of the products of the E.C.S.C., and that of agriculture, which are known to present special difficulties. For these, a more closely-knit organisation is suggested. (3) To give some measure of unity to the whole arrangement, a " general framework " would be worked out, constituting as it were the common law by which the machinery of liberalisation would be governed, and the pace at which the " Union " actually evolved would depend on the results achieved. (4) These technical processes are inconceivable without prior agreement on basic aims: the parties concerned must, in particular, ensure conditions of fair competition at the same time as they widen the field of competition. (5) For the smooth running of the whole scheme, France envisages strengthening the existing machinery of O.E.E.C. rather than creating a new organisation. Escape clauses, the alignment of economic policies, are also contemplated... "

27. In a subsequent article[5], Le Monde gives a further indication of points contained in the French memorandum. The memorandum is said to indicate " that the maintenance of imperial preferential tariffs creates the risk of disequilibrium in the European Union; similarly the deficit on balance of trade between the franc area and the sterling area also represents a danger for the proposed Union... As regards customs tariffs, the memorandum suggests reduction in 12-15 years (as in the Common Market), this reduction taking place parallel with an increase in, and, finally, the abolition of, quotas. The move from the first to the second stage, however, would be decided by a unanimous vote, and the abolition of customs duties would take place only three years after this had been done in the Common Market. " Regarding the above-mentioned Commonwealth preferences, we may add that reference has been made in British publications[6] to indications that the French memorandum suggests that preferential tariffs in overseas Commonwealth countries should be extended to a certain quota of continental goods.

28. It should, of course, be remembered that the French Government are seeking the support of their partners in the E.E.C. for their plan, before putting it forward in the OEEC negotiations. It is therefore hardly possible to take up any definite position on the proposals until later.

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5. See Le Monde of 9th/10th March 1958.
6. See The Economist, page 767, March 1st 1958, and The Financial Times, page-6,-March 3rd 1958.

29. We may, however, make one or two comments already on the rough outline of the plan as presented above. First, negotiations country by country and product by product will be extremely arduous and technically very complicated. Secondly, if the scheme is to prove acceptable in G.A.T.T., it must be presented as either a customs union (which it is certainly not), or as a free trade area. And it is almost impossible to believe that a proposal of this kind could fairly be described as a free trade area. For it appears improbable that the proportion of total trade freed through sector-by-sector negotiations in the Union will be large enough to meet the requirements of G.A.T.T. And it is also improbable, even if a satisfactory proportion of total trade could be so freed eventually, that it could be freed under the French plan within the " reasonable period of time" required by G.A.T.T. In short, and quite apart from the requirements of G.A.T.T., it seems clear that the total degree of economic co-operation between the E.E.C. and other members of the proposed Union would be only a fraction of that aimed at under the present Free Trade Area proposals.

30. On general grounds also the French proposals, based as they are on a sector-by-sector approach to the task of freeing trade relations, may be open to objection since they invoke a method which has already been seen, in the E.C.S.C., to be inadequate. In the Coal and Steel Community it has been increasingly found that attempts to liberalise trade in one or two sectors are always coming up against the difficulty of the interdependence of those one or two sectors on other sectors of the economy. Fully satisfactory progress is impossible in such conditions.

5.3. The Carli Proposal

31. At a recent meeting of the OEEC Intergovernmental Committee M. Carli, Italian Minister of Commerce, put forward a proposal designed to meet one of the fundamental difficulties in the negotiations, the problem of definition of origin. On this proposal, too, which is limited in scope since it deals with only one of several difficulties, the Six must first reach agreement among themselves. The essence of this proposal is that, since there will be no common external tariff in the Free Trade Area, some attempt must be made to harmonise the different external tariffs of individual countries. Maximum and minimum tariff levels for goods entering the Area from outside would be fixed, within the limits of which any product circulating in the Area would receive Free Trade Area treatment. Thus would be avoided the administrative complications of defining and controlling origin. Where, however, the difference between two Area countries' tariffs on a given product coming from outside the Area was greater than the maximum difference allowed, an importing country with a higher tariff would be permitted to levy a compensating tax if it so desired, equal to the difference. The system, both as regards permissible disparities and authorisation to impose compensatory taxes, would begin after the first four years of the transition period, disparities arising in the first years being regarded as insufficient to call for special arrangements.

32. The technical implications of this proposal are being examined by a group of experts set up by the Intergovernmental Committee, who were to report back before 31st March. Regardless, however, of the technical difficulties that may arise in implementing this very elastic proposal (e. g. the proposal looks as if it would tend to make individual tariffs of member countries gravitate to a higher rather than a lower level; and the system of compensatory taxes would not of itself eliminate the disparities at all, but simply off-set them) your Rapporteur feels that, though it may offer a helpful solution to a specific difficulty, it is not likely materially to assist the negotiators in dealing with the present Anglo-French differences of approach since these differences cover, as has been seen, far more than the definition of origin problem. And in consequence a more far-reaching solution would be required to reconcile them.

33. Is there any alternative? If a convention instituting a Free Trade Area cannot be concluded this year, the negotiations on the present model could be continued into next year in the hope that final agreement could be reached in time for first tariff reductions to take effect on 1st January 1960. This would mean a larger, but not impossibly difficult, initial lowering of tariffs for the OEEC countries outside the Six. And it is possible — though politics play a large role here— that a further year's negotiations would help to reconcile the differences of approach which subsist at present between the United Kingdom and France.

5.4. The Vos Proposals

34. Next, your Rapporteur would like to draw attention to the suggestions of Senator H. Vos, which were discussed at a meeting of Assembly representatives with Mr. Maudling in February. In regard to these proposals, Mr. Maudling acknowledged the usefulness of having alternative suggestions in reserve. M. Vos envisages association with the European Economic Community by other Member States of the O.E.E.C. through treaties of association, the advantages of which would be that these could be readily adapted to the

different economic and political situations prevailing in each country. In principle, these treaties would be bilateral, but in order not to place the Community of the Six in too favourable a position, the United Kingdom could always be a third party to such treaties of association, which would thus be tripartite rather than bilateral.

35. The disadvantages of M. Vos's suggestions —and probably of any other bilateral solution to the problem— are twofold. Politically, it would, even if the United Kingdom were a party to each association treaty, still perhaps lend too much weight to the Six in the eyes of other countries, and would certainly seem to be a much less satisfactory arrangement for the overall political unity of Western Europe. Economically, the treaties could not but create discrimination in some shape or form, and thus undermine the whole system of the O.E.E.C. To meet these disadvantages, M. Vos suggests that the treaties of association be entered into for a transitional period only, for example the first stage of the European Economic Community treaty, with a general agreement on a free trade area coming into force at, say, the beginning of the second period. This view seems also to be in the minds of others •—for example, M. von Brentano, in an interview recently, put forward a very similar view [7].

36. These, then, are the various possibilities open to us at the present time. Can one formula be recommended with greater chances of success than the others? Before answering this question, your Rapporteur wishes to stress one factor which all the solutions presently offered have in common— the O.E.E.C./Council of Europe " duo ".

6. The rote of the O. E. E. C. and the Council of Europe

37. The link between the two organisations, approved in Recommendation 152, and in several other pronouncements of the Consultative Assembly, allows us to deal here with both organisations together. The role to be played by the O.E.E.C. is not in question. All the solutions offered mention it. We shall therefore concentrate rather on the part to be played by the Council of Europe.

38. What value can a pronouncement by the Consultative Assembly have in this whole matter? Is it the plaintive voice of a thrice-yearly parliamentary conference crying in the wilderness? Is it to be a resolution or recommendation which will merely duplicate the work of the Assembly of the Six and of the national parliaments of the Nine, without any practical effect on the executive bodies of the European Economic Community or on the work of the civil servants in the O.E.E.C? Have we, in short, any locus standi at all? Those who may have been discouraged in recent months by what may have appeared to some to be the ineffectiveness of the Consultative Assembly in this problem should take heart from Mr. Maudling's words at a recent meeting with representatives of the Consultative Assembly: " I do think it is so important in all our countries to drive home the political importance of the conception [of the Free Trade Area]. I think it is somewhat handicapped by the name " Free Trade Area ", which implies an economic matter, whereas it is a political matter. I am sure that it is an aspect of our work on which the Assembly could have a very great influence indeed, and I know the Intergovernmental Committee would welcome assistance in that field. " Mr. Maudling pointed out that the last Assembly Recommendation on the Free Trade Area, No. 152, had been of " very great value and importance to those engaged in the negotiations ", and also said: " We all know this is not merely an economic problem: it is a political problem of the greatest possible importance to the future of Europe; and the guidance you have given us, not only on the economic aspect of the policy but on the political aspects, is quite invaluable. "

39. The Assembly's role in fact is to provide political leadership. This means that the recommendation we are to adopt on how to solve the deadlock, or apparent deadlock, in attempts to harmonise a Free Trade Area with the European Economic Community, can guide not only the Ministers who are negotiating in the Intergovernmental Committee and the European Commission representing the E.E.C, but home parliaments when they in turn are giving their views to their own Governments on what should be done next.

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7. A D.P.A. (Deutsche Prcssc Agenlur) despatch recording an interview in Bonn on 19th February 195S with Herr von Brentano, states: " He suggested the conclusion of treaties of association between the Common Market, on the one hand, and any other given partner, on the other, which would take account of the special interests of the particular countries concerned. Certain rules might then slowly emerge which could lead to a unification of the association agreements. " It is fair to mention, however, that Professor Hallstein is reported as having " rejected the suggestion of bilateral association agreements between the E.E.C. and the Free Trade Area countries. " (Die Welt, 21-2-58). Whether this " rejection " would apply to bilateral agreements which were merely forms of transition towards a general Free Trade Area is not, however, clear.

40. This political leadership is necessary not only to resolve difficulties that have emerged in the negotiations, but also towards defining the fundamental political reasons for these major changes in the structure of Western Europe. Increased economic efficiency is not the sole objective of these changes. We should not be squeamish about admitting that the attainment of increased political strength is also one of our aims. For this is almost the only way in which we can significantly increase our ability to compete in the world with Communist totalitarian society. And, if harmonisation of the two schemes fails and a split in Europe occurs, we shall be so much the weaker in that competition. There should be no mistake about the Soviet attitude towards economic co-operation and integration in Western Europe. The Russian statement, on 16th March 1957, violently attacking the Common Market and Euratom and proposing forms of economic co-operation covering the whole of Europe testify to their anxiety about the increase in economic and political strength which Western Europe will derive from its movement towards unification. Since the Council of Europe is the only political forum with competence in this matter, the Free Trade Area negotiations directly affect it.

7. Conclusion — Possible compromises

7.1. The Rapporteur's Analysis

41. We now turn to examine what conclusions we can draw in recommending a solution to the present difficulties. We must first note that there is much to be said for each of the various points of view put forward. Your Rapporteur, however, would suggest that on balance the United Kingdom's views, on the one hand, do not seem capable of being modified within a sufficiently short time to meet the views of the Six, and of France in particular, and thus to enable a free trade area to be set up by next year; while, on the other hand, the French proposal, though it might (with difficulty) enable some further freeing of certain sectors of trade in the OEEC area in a relatively short time, sets altogether too limited an objective for the extension of the E.E.C.'s economic co-operation in trade as a whole. The French proposal, moreover, is not well calculated to avoid conflicting with the requirements of G.A.T.T.

42. At this point we are confronted with a choice between two arrangements, one of which would be, at least initially, bilateral, while the other would be multilateral from the beginning, even if this beginning were a modest one. Let us examine first the system of bilateral agreements as proposed in various solutions. Herejgthe objections —only too well founded— against the bilateral method would be met if the following conditions were fulfilled.

42.1. Any agreement between the European Economic Community and one of the other Members of the O.E.E.C. must be concluded within the framework ofJthe O.E.E.C, in the sense that an organ set up within the latter Organisation, endowed with full powers, actively contributes to the conclusion of the agreement. (One might think in terms of the Maudling Committee here, put on a permanent footing; in the active role proposed —this OECC organ would also be a signatory to the agreement— it would be in a position to establish, by common agreement with the European Economic Community, the " common rules " mentioned below).

42.2. In the series of negotiations to be opened, the OEEC organ must ensure, by common agreement with the European Economic Community, that any serious discrimination is avoided.

42.3. Each agreement to be concluded must include " common rules", among which will be the obligation to adapt the agreement to an overall Free Trade Area by the end, at the latest, of the first stage of the transition period provided for in the Treaty setting up the European Economic Community. The E.E.C./O.E.E.C. organ will work for this adaptation.

42.4. The E.E.C./O.E.E.C. organ should be considered as the forerunner of the executive organ which, in the framework of a Ministerial Council, will later direct Free Trade Area policy, in the sense that it will prepare, as from now, for its own expansion.

42.5. From the beginning of the period of the proposed negotiations, the Consultative Assembly of the Council of Europe must be consulted on all general problems regarding the setting up of the projected Free Trade Area.

7.2. Proposals of the Commission of the European Economic Community

43. Finally, however, we must also take into consideration the proposals for a strictly multilateral system which may be made by the Commission of the European Economic Community. For it is clear that the European Commission must, on the one hand, assist Governments to formulate a united policy and on the other hand must ensure that the solution found for the Free Trade Area in no way prejudices the Rome Treaty

or its implementation. We may also presume that for obvious reasons, both political and economic, the European Commission will in fact press for the association of the other members of the O.E.E.C. within a Free Trade Area, in order to ensure that the Six do not become a closed community and that the economic advantages of freeing trade are extended over as wide an area as possible. Exactly what proposals the European Commission is likely to sponsor for resolving the present deadlock in negotiations cannot be known until they are published later. But it is certain that countries which are not prepared to accept the kind of obligations taken on by signatories of the Rome Treaty (inclusion of agricultural products, common rules of competition, and the unification of external tariffs and commercial policy) must be prepared, if they wish to be associated with the Common Market, to see arrangements made in a Free Trade Area Convention which would compensate for the absence of the forms of har-monisation mentioned. The following may perhaps be considered as the points to which the proposals of the Commission may be generally directed.

44. Some form of harmonisation of external tariffs must take place —probably a combination of certificates of origin, the levying of compensatory taxes, and the actual unification of tariffs in certain cases will be proposed. The appropriate system for each sector of trade would be determined in the light of the particular circumstances affecting it, though this sector-by-sector examination would not, of course, be aimed at producing a series of partial agreements. The European Commission will presumably also take the view that arrangements should be provided by which commercial policies can be compared and contrasted in an effort to achieve co-ordination. Economic and financial policies must be similarly co-ordinated. And an appropriate special regime must be found for agricultural products and for products of the E.C.S.C. Rules of competition must be found corresponding to those provided in the Treaty of Rome, and social conditions must also be harmonised to the degree provided for in the European Economic Community. As regards safeguard clauses, these would probably be limited, as far as possible, and must be sufficiently precise to ensure that they would only be invoked in clearly defined cases. The institutions would, as already indicated in the report, necessarily be of a different character from those set up under the Rome Treaty and would, as seems to be the general wish, be modelled on the existing OEEC bodies.

45. As regards the timing of the establishment of the Free Trade Area, it is understood that in the view of the Commission of the European Economic Community it is hardly possible for a complete agreement on the Free Trade Area to be signed and ratified by the seventeen national parliaments between now and the 1st January next. Unless it is thought necessary to hold up the conclusion of an agreement until every point is settled in detail, the European Commission may propose that an agreement be concluded before work on all problems is completed, fixing certain guarantees beforehand, in particular a date for the introduction of forms of compensation mentioned earlier. And an intermediate solution might also be considered by which the Members of the Free Trade Area agreed, on an experimental basis and without binding themselves for the future, to reduce their tariffs by 10 % beginning January 1st next, on a reciprocal basis. Since the second tariff reduction in the Common Market is only due to take place eighteen months after 1st January 1959, there would thus be ample time for working out all the remaining details to be covered by a Free Trade Area Convention.

46. Your Rapporteur has very little to add, except that the above account of proposals of the Commission of the European Economic Community has been given last of all for the reason thest these proposals came last in the chronological order we have tried to follow in the report. Before we know what reactions there are to these proposals (and all the members of the European Commission are, it seems, agreed on them), it would be premature to suggest —though this possibility must be kept in reserve if the situation deteriorates again— a procedure by which there would be a transition period, covered by bilateral agreements, to bridge the gap between an agreement in principle on a genuinely multilateral convention and the actual conclusion of this convention in all its details. If as a result of the intervention of the European Economic Community it were possible to agree on a multilateral arrangement right from the start, this would, of course, be certainly very much better. However, even if that were to happen, your Rapporteur feels that some of the points made above (i) — (v) in paragraph 42 remain valid and, in particular, points (iv) and (v).

47. Finally, your Rapporteur believes that, on whichever of the various suggestions 'for solving the deadlock it may be based, a solution must be found urgently. If there is no free trade area in Europe, within a reasonably short time and irrevocably, the political and economic division which will follow will be a serious danger for the future of European co-operation. Every effort must therefore be made to find an appropriate compromise to solve the present difficulties.