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Free Trade Area

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

1. 1958 - 10th Session - Second part

A. Draft Recommendation

1. The Assembly

2. Recalling that by Recommendation 152, passed by the Assembly on 29th October 1957, it expressed its conviction that the creation of a European Free Trade Area including the European Economic Community «is essential to the development of a unified European economy, and would lead to a rapid rise in the total income of Europe and the standard of living of its peoples », and that it could prevent Europe from being divided both politically and economically; and that by Recommendation 160, passed by the Assembly on 3rd May 1958, it requested the Committee of Ministers " to make every effort to ensure the conclusion before the end of this year of at least an outline treaty linking all other members of the O.E.E.C. with the European Economic Community on a multilateral basis ", and observed that " 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 an opposition would inevitably lead also to a political split in free Europe ";

3. Noting with satisfaction that, on 27th June 1958, the European Parliamentary Assembly passed a Resolution approving the principle of a Treaty of European Economic Association (Free Trade Area) associating the European Economic Community and the European Coal and Steel Community with the other OEEC countries and expressed the hope that the negotiations then in progress would be brought to a satisfactory conclusion;

4. Believing, on the eve of . the meeting of the Intergovernmental Committee which is to take place in October, that it is urgently necessary for the Members of OEEC to make every effort to reach agreement and thereby to give concrete evidence of their desire to extend economic co-operation in Europe;

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5. Believing in the importance of devising adequate financial arrangements to help the economic development of underdeveloped countries, Members of the O.E.E.C.; and of raising the level of their economy, so as to enable them to participate fully in the Free Trade Area,

6. Recommends to the Committee of Ministers that it should urge the Council of O.E.E.C. that the special treatment which shall be accorded to less developed countries should include financial arrangements to ensure that funds necessary for their economic development are available, if necessary through an international agency;

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7. Recalling that the Commission of the European Economic Community has proposed a " provisional agreement" under which all OEEC countries would reduce their tariffs vis-avis one another by 10% from 1st January 1959, for a period of 18 months, so as to synchronise with the tariff reductions due to take place between the Members of the Community on that date, with the purpose of allowing further time for the negotiations to be concluded and agreement to be reached, while preventing any tariff discrimination arising;

8. Considering that the foregoing suggestion deserves careful examination, both on its intrinsic merits in the present situation and as an indication of the good will of the Community towards the difficulties to be expected for the other partners in O.E.E.C,

9. Recommends to the Committee of Ministers that it should urge the Council of O.E.E.C.

10. to give full and favourable consideration to this suggestion, provided that it is clearly understood that the purpose would be to enable genuine agreement on the major problems at issue to be translated into a Convention or Treaty for signature as soon as possible;

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11. Considering that European public opinion appears to have paid insufficient attention to the consequences of failure to reach agreement, both economic and political, and both for the members of the European Economic Community and the other members of O.E.E.C, and that these might well be:

a. on the economic side, to weaken economic collaboration in Europe; to abandon the principle of equal treatment which has been basic to OEEC's efforts for freeing intra-European trade; to hazard the continuance of the European Payments Union; and to jeopardize the present export position of the countries of the European Economic Community in respect of their trade with the other countries of Europe;

b. on the political side, to create serious division in western Europe arising from the inevitable formation of at least two groups of countries pursuing conflicting trade policies, which in turn could weaken their present political collaboration and gravely prejudice the hopes of greater co-ordination of their political purposes,

12. Recommends to the Committee of Ministers that it should make urgent representations to the individual Governments of the Member States of the Council of Europe, drawing their attention to these matters and requesting them to take early and favourable political decisions so as to bring the negotiations to a successful conclusion and make possible the establishment of a Free Trade Area in Europe.

B. Explanatory Memorandum

1. The Present Position

1. When the First Part of the Tenth Ordinary Session of the Assembly (April-May 1958) took place, the Free Trade Area negotiations appeared to have reached an impasse. Among the main controversial problems were deflection of trade, agriculture and harmonisation, but there was also a deeper conflict arising from the very concept of a Free Trade Area. In fact, further progress seemed to be blocked mainly by France's fears that the French economy and indeed the Common Market itself would be subjected to great strains if the Free Trade Area were put into effect simultaneously with the Common Market.

2. These problems were dealt with in the reports tabled by the Economic, Social and Political Committees, and it was the aim of the economic section of the Recommendation adopted by the Assembly on 3rd May (Recommendation 160) to allay the prevailing fears while at the same time pressing for a solution on the original lines.

3. The negotiations in the OEEC Intergovernmental Committee under Mr. Maudling's chairmanship were not resumed until late in July. This lengthy postponement was due to a number of reasons. First, the Six desired to agree on a common policy but their discussions were complicated by general elections in Belgium and Italy, leading to changes of Governments. Elections were also held in Switzerland, Greece and Portugal — all countries equally concerned in the negotiations in the Maudling Committee. Finally, the turn of political events in France made it difficult for that country to participate in the negotiations until July.

4. But on 23rd July the Ministerial Council of the European Economic Community met in Paris in order to prepare the participation of the Six in the Intergovernmental Committee meeting on the following two days. Although final agreement was not reached on all issues arising in connection with the Free Trade Area — this being left for a further Council meeting in September — the Council did succed in defining a common position on certain key-problems, notably deflection of trade and agriculture. Most important, it appears that a considerable measure of agreement was reached among the six Governments on a basically positive attitude towards the Free Trade Area.[2].

5. The Maudling Committee resumed its work on the 24th and 25th July. No decisive progress was registered in the form of agreed solutions to any of the major problems outstanding, and the original time-table — for a general agreement by the end of July and a ratified Convention before the end of 1958— had to be abandoned. But there was unanimity to push on with the negotiations, and more particularly it was decided to hold a further meeting in the latter half of October for perhaps as long as a week or ten days, when it is hoped to reach general agreement on the fundamentals.

6. The Agenda of the Maudling Committee at its recent meeting is believed to have covered four points:

6.1. problems of origin and deflection of trade;

6.2. agriculture;

6.3. the position of underdeveloped member countries;

6.4. the possibility of a provisional agreement.

(There was no official declaration after the meeting to indicate the exact point which the negotiations reached on these issues, and the following paragraphs are therefore based upon the information published by the press, including statements by numerous personalities more or less directly involved in the negotiations).

7. Two important concessions made respectively by the United Kingdom and French Governments in the course of the meeting should be mentioned. The United Kingdom Government had opposed for some time the idea that the sectors of trade to be freed would be examined separately and individually. They feared that this would lead to delays and that if full Free Trade Area treatment were in consequence only given to those sectors in which a given member State could easily cope with competition from the industry of another state, then the benefits of freeing trade would be correspondingly diminished. This position was abandoned by the British Government. France, for her part, abandoned another equally difficult principle, which had seemed to bar progress for some time. She had originally insisted that the difficulties of setting in motion the European Economic Community on January 1st, 1959, when the first tariff and quota changes are due to be made, would be so great as to make it impossible for the additional complications of a Free Trade Area to be dealt

2. New York Times, 24th July, 1958.

with at the same time. The French, therefore, proposed a décalage, i.e. that a certain time-lag should be allowed between the first practical steps taken in setting up the Common Market and the corresponding steps which would be taken to implement the Free Trade Area. The French Government now abandoned this principle, and agreed that the functioning of both systems should be synchronised. These two extremely important concessions augur well for future progress.

1.1. Deflection of Trade

The problem of origin and the risk of deflection of trade, inherent in the Free Trade Area concept, centre upon the degree of liberality to be given to the rules of origin.[3]In March of this year the Italian Minister of Foreign Trade, Signor Carli, put forward a proposal to bridge the differences of view by providing, first, for a tariff " margin " within which countries could set their tariffs at will without forfeiting the advantage of Area treatment for the goods in question, and second, for products to be subject to compensating taxes equal to the difference in the tariffs of the exporting and importing countries where tariff differences exceeded the " margin ".[4]

But this was only one of the solutions which have been propounded at different times during the negotiations. A number of other suggestions had previously been made — " certificates of origin ", " added value ", " measurement of content by percentage ", to name only three. In examining these various ideas, it had already become apparent that no single solution had any likelihood of providing a comprehensive answer to all the problems involved.

In the July discussions in the Maud-ling Committee, the Six put forward a proposal that in the light of this situation a study should be made of the possibility of solving the deflection of trade question by applying each of these ideas or a combination of them to specific commodities. This useful initiative was accepted by the Committee, the Chairman stating (at his closing Press conference); "We all agreed that different solutions would be needed in different sectors.[5]

But the most important decision was to entrust this study to the OEEC's " Steering Board for Trade"—a permanent organ of O.E.E.C. which had already done some preliminary work on these lines. This body is composed of senior representatives of some (not all) of the Member Governments and, not being composed of " experts ", has to some extent a political rather than a purely technical approach. The Steering Board for Trade was accordingly given instructions to examine the problems of origin and deflection of trade on a "sector-by-sector" basis to establish what method, or combination of methods, would be best suited to the particular problems of each group of goods.[6]The Steering Board will, of course, report back to the Maudling Committee. Its use in this context is, however, a happy example of the flexible nature of OEEC's machinery, which might be borne in mind for the future institutions of a Free Trade Area.

In deciding upon this, course the Maud-ling Committee was in fact going beyond the issue of trade deflection proper, since an examination sector by sector would enable countries to bring up the difficulties of. industries likely to be seriously affected by the expected stiffer competition within the Free Trade Area.[7]French fears of Norwegian and Swedish superiority in the aluminium and pulp industries, respectively, are examples of this preoccupation. The fears of the British textile industry are another.

Important as these decisions are, it is now apparent that the sector-by-sector examination by the Steering Board for Trade will take some time, for it was unable to begin its task until the beginning of September. Although a broad survey may be available by the time of the October meetings of the Maudling Committee, it is clear that detailed results cannot be expected until some time later.

1.2. Agriculture

8. The main event in this field prior to the meeting of the Intergovernmental Committee was the Stresa Conference held 3rd—11th July when the six partners of the European Economic Community took the first step on the road towards a common agricultural policy forecast in the Rome Treaty—the confrontation of national agricultural policies and the establishment of the principles which would guide the formulation of the future common policy.

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3. For an analysis of this point, see paras. 37-47 of the Economic Committee's Report of 11th April 1958 (Doc. 801).
4. Ibid, paras. 87-88.
5. The Irish Times, 26th July 1958.
6. Europe, No. 184, 24th July 1958.
7. The Economist, 2nd August 1958.

9. On the basis of this preparatory work the Council of Ministers of the Six, at their meeting on 23rd July, adopted a joint memorandum on agricultural problems for submission to the Maudling Committee when it met the following day.

10. The main features of this document were, first, that the Six desire any Convention on agriculture to be included in the general Free Trade Area Agreement or, if two separate Agreements are concluded, that they be interdependent and assured of parallel implementation. Secondly, any such agricultural agreement must not jeopardise the common policy to be worked out by the E.E.C. In the latter connection it was pointed out that the Six—as the Stresa Conference had indicated — were not bent upon a policy of autarchy but upon the maintenance of their agricultural trade with the other member countries of O.E.E.C. While certain objectives could be established from the outset, the final detailed rules could be determined only after the Six have formulated their common agricultural policy; in the meantime there should be at least a " standstill "as regards tariffs and quotas and, if possible, a reduction of the highest tariffs and an increase of quotas.

11. No definite decisions were taken, but the Maudling. Committee agreed to accept the memorandum of the Six as a working basis, together with the earlier British and Swiss papers on the same subject. This may be taken as an indication that the principles embodied in that memorandum did not encounter any major objections from the other participating countries.[8]

1.3. Less developed member countries

12. Two of the main problems facing certain industrially less developed member countries Greece and Turkey, in particular, but also Iceland and Ireland — are: the rate at which these countries will free trade and the capital aid that other member countries can provide for them.

13. On both counts the discussions in the Maudling Committee revealed a generally favourable attitude in so far as it appears firmly agreed that these countries cannot enter a European Free Trade Area without receiving " special treatment". Here again, however, no final decisions were taken.[9]

14. As regards the first problem, it was decided to ask OEEC Working Party No. 23 to prepare precise proposals as to the slower procedure by which these four countries would gradually eliminate tariffs and quotas. The impression seems to be that during the the first two phases of the transitional period such countries would be expected to make only symbolic moves in that direction, and that for them the total transitional period might be upwards of thirty years[10]i.e. double that envisaged for other countries

15. As regards capital aid, the Committee had before it a report prepared by a group of financial experts of Working Party No. 23, proposing a number of measures to facilitate the supply of foreign capital to the less developed countries—in particular by the creation of a European Development Fund to be endowed with a capital of 1,000 million dollars. This report was accepted by the Maudling Committee for study, but, while the potential beneficiary countries tend to take the principle of establishing such an institution for granted, a number of other countries, notably the potential contributors, are more reserved in their attitude and in any case do not wish to commit themselves at this stage of the negotiations. This problem has also been referred back to Working Party No. 23 and the financial experts for further study.[11]

16. Despite these difficulties, there seems nevertheless to be a general appreciation of the necessity, both political and economic, of ensuring that the less developed countries should participate in the Free Trade Area arrangement, and a real determination to find appropriate arrangements to enable this to be done. For the virtual exclusion of those countries—which would result if they were asked to undertake obligations beyond their capabilities—would limit the Free Trade Area to the economically strong countries. Since a very high proportion of the trade of the less developed countries is with the latter, the consequences would be most damaging—the stronger countries would become stronger, while the less developed countries would become weaker. This would be completely contrary to the prime objective of the Free Trade Area: that all should become stronger together.

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8. Europe, No. 185, 25th July 1958, and Combat, 27th July 1958.
9. Le Monde, 26th July 1958.
10. Europe, No. 187, 28th July 1958 and The Irish Times, 26th July 1958.
11. Europe, No. 184, 24th July 1958 and No. 187, 28th July 1958.

1.4. Possibility of a Provisional Agreement

17. As indicated earlier, the original timetable of the Free Trade Area negotiations was to secure general agreement by the end of July and a ratified Convention before the close of 1958, so that the Free Trade Area could take effect " parallel with " the Common Market as required by OEEC Council Resolution 221.[12]

18. Owing to the slow progress of the negotiations during the first months of this year, however, the Commission of E.E.C. already in March proposed a " provisional agreement " under which all seventeen OEEC countries would reduce their tariffs vis-a-vis one another by 10% as from 1st January 1959, for a period of 18 months, on the lines of the first tariff reduction which is to take effect between the Six on that date. This would give more time for the necessary negotiations and for the ratification of the final Treaty concerning the Free Trade Area—or European Economic Association as the Six would prefer to call it. It would prevent any tariff discrimination among OEEC countries in the meantime, i.e. until the second tariff reduction among the Six falls due ,on 1st July 1960, and if the negotiations came to nothing, each party would be released from its commitments at the end of the 18 month period[13]

19. This proposal was endorsed by the European Parliamentary Assembly in a Resolution adopted on 27th June 1958, suggesting at the same time that the envisaged cut in tariffs should so far as possible be accompanied by a " declaration of intent ", setting forth the principles on which the Treaty might be based (a suggestion not favoured by the Commission and Council of E.E.C.)[14]The basic ideas of this resolution were in turn approved by the Political Committee of the Consultative Assembly on 11th July.[15]

20. The general possibility of a provisional agreement was raised " in principle " by the spokesman for the E.E.C. during the subsequent meeting of the Intergovernmental Committee although no detailed suggestions were made.[16]

21. While certain countries—Austria, Greece and Sweden—were reported to have expressed themselves in favour, others—including the United Kingdom—feared that discussion at present of any such provisional regime would tend to slow down work on the main task, a Free Trade Area Convention.[17]

22. The key to the attitude of the latter countries would seem to be their conviction that if it proves possible to obtain substantial agreement towards the end of the year—although a ratified Convention by that time is now no longer considered possible—a few months of discrimination could be accepted as long as the nations outside the E.E.C. know that an agreement is in the making.[18]On the other hand, even on this favourable assumption, a provisional agreement might be useful to bridge the gap of some months that could be expected.

23. Supposing, however, that no substantial agreement were in sight towards the end of 1958, the attractiveness of any provisional agreement would appear dubious.

24. The only decision taken by the Committee on this point was to refer the whole matter for further deliberation at its next meeting in October when, as stated by Mr. Maudling, it would be " one of the major questions to be examined ".[19]

25. Your Rapporteur would seek to offer some observations here. It seems important, in considering the question of a provisional agreement, to begin by asking what purpose it is intended to serve. If the object is to bridge a gap in time between substantial agreement on the main problems at issue in the negotiations and the preparation and signature of a Convention and its ratification, it would undoubtedly be useful. Rut if such a provisional agreement were intended as an effort to prevent the breaking off of negotiations which were still far from conclusion owing to the differing standpoints of the participants, this might well be more dangerous than no agreement at all. The fact must be faced that discussions on a Free Trade Area have now been going on, in one form or another, since it was first suggested by O.E.E.C. in July 1956; that is, for over two years. Complicated and varied as the problems are, the ground has been very fully explored, and Governments have had ample time in which to make up their minds. Both the Consultative Assembly and the European

12. Doc. AS/Ec (9) 20.
13. Speech by M. Jean Rey, Member of the European Economic Commission, before the European Parliamentary Assembly on 25th June 1958. (Doc. AS/Ec (10) 2).
14. Doc. AS/Ec (10) 2.
15. Doc. AS/Pol (10) 22.
16. The Financial Times, 26th July 1958.
17. Europe, No. 187, 28th July 1958. See also Hansard 30th July 1958, col. 1380.
18. TNew York Herald Tribune, 26th July 1958.
19. The Financial Times, 26th July 1958.

Parliamentary Assembly, in which parliamentary opinion is represented, have gone on record in the clearest terms as to the desirability of a Free Trade Area or similar arrangement, the former on several occasions. What appears to be lacking is the political will on the part of the Governments to reach agreement. If that will is still lacking at the October meeting of the Maudling Committee, then no " provisional agrrement" whether or not accompanied by a " declaration of intent ", would be more than an empty sham.

26. Accordingly, the Assembly could well underline this fact, and remind the Committee of Ministers, as representing their Governments, that it is high time for them to give positive evidence of their often expressed desire to extend economic co-operation in Europe by reaching real agreement on the outstanding problems in the Free Trade Area negotiations. It should state bluntly that if they are unable or unwilling to provide the essential political will to reach such agreement, it would be better for the negotiations to be broken off. For to continue them in an atmosphere which is bound to become increasingly embittered would do no service to the cause of European unity and friendly harmony.

27. Two months after the July meeting of the Maudling Committee, the Council of Ministers of the European Economic Community met in Venice for the sole purpose of discussing the Free Trade Area negotiations and agreeing common suggestions to put to the Maudling Committee. Although no final Press communique was issued at the end of these meetings, Press reports indicate that considerable progress was made, but final agreement was deferred until a further meeting of the Council to be held in Brussels on October 8th. Virtual agreement was reached on the nature of the institutions to be created. These would be modelled on the O.E.E.C. and would include a Council of Ministers (on which the European Commission of the E.E.C. would be represented separately) assisted by their permanent Representatives, a Managing Board, and a series of steering committees, which would be independent and objective organs to deal with specific problems entrusted to them. As regards a Court of Justice, a decision on this subject was held over.

28. It is believed that the Council has rejected the idea of a Parliamentary Assembly for the Free Trade Area on the ground that the organisation would have no supranational powers, and that any parliamentary control would therefore be inappropriate.

29. Agreement was almost reached on the question of the unanimity rule. This would be required for all decisions by the Council of Ministers, though the need for unanimity might be reconsidered at the end of the first stage of the transitional period.

30. On the question of safeguard clauses, it was agreed to propose that any country could take unilateral action to safeguard its balance of payments or to avoid deflection of trade and that such action would be subject only to subsequent examination by the Council of Ministers. It is clear, however, that since the unanimity rule would be required in any subsequent decisions by the Council of Ministers, the country which had itself invoked the safeguard clauses could not be required to change its policy at the wish of other members.

31. It was agreed that the Free Trade Area should take effect on 1st January 1959. Discussion was, however, postponed on the problem of origins (we have seen earlier how this point had been passed by the Maudling Committee to OEEC's Steering Board for Trade), on what is described as the " globalisation " of quotas, and on the question of Commonwealth preference.

32. Finally, the Council of Ministers is to propose to the Maudling Committee that the name of the organisation should be the " European Economic Association " instead of " Free Trade Area ". Since all have thought the latter an unsuitable and misleading title, this proposal is unlikely to meet with opposition.

2. Future Outlook

33. Three situations are possible on 1st January 1959:

34. First—and most favourably—it may have proved possible before the end of the year to obtain substantial agreement on the chief objectives and principles of a Free Trade Area.

35. If this agreement is supplemented by a provisional arrangement under which the 10% reduction in tariff takes place throughout the Area from 1st January 1959, no discrimination (or " differentiation ") will arise and the fact that ratification of the final Convention will require several months becomes of no practical importance. If, on the other hand, no such provisional arrangement is made, the date of 1st January will mark the introduction of a measure of discrimination proportionate to the varying importance for different goods of the 10% tariff reduction between the six EEC countries and lasting until the Free Trade Area Convention will have been ratified and put into effect. The importance of this " time-lag " should probably not be viewed too seriously.

36. The second possibility assumes that no substantial agreement has been reached towards the end of this year but that it may be reasonably expected within, say, the following six to twelve months.

37. In this case, also, a provisional arrangement may provide for a 10 % cut in tariffs throughout the Area on 1st January 1959, thus avoiding any intra-Area discrimination but an effort would have to be made to assure that ratification is completed before the end of the 18 month period, i.e. before 1st July 1960 when the Six introduce the second 10% reduction in tariffs among themselves. (To envisage a second " 20% " provisional arrangement would hardly be realistic). If no such arrangement is made, to operate from 1st January 1959, the effects will again be much the same as in the first situation described above, only that the period of discrimination will be somewhat longer and nervousness somewhat greater — especially if there should really be a risk that ratification will not have been completed before 1st July 1960 when the Six will proceed with their second 10% reduction.

38. Finally, the third—and most serious— situation would be a breakdown either before the end of 1958 or early in 1959. In this case, the idea of a provisional arrangement would no longer be relevant and the Six would thus go ahead with their predetermined time-table involving a progressively increasing degree of discrimination— or " differentiation " vis-a-vis their other OEEC partners.

39. As for the economic consequences of such a development, a first effect would be a serious weakening of that wider Europen economic collaboration for which O.E.E.C. has become the main symbol. The Europe Payments Union would certainly be dissolved once the principle of non-discrimination among OEEC countries, which has been the basis of the E.P.U. as well as of the Code of Trade Liberalisation, was no longer valid.[20]For instance, Switzerland has already shown some hesitation in renewing EPU as from 1st July 1958 for a further year in view of the uncertainty as to the creation of a Free Trade Area effective from 1st January 1959. The winding-up of the E.P.U. would, in its turn, gravely jeopardise the hard-won results of European trade liberalisation and a fortiori render any further progress towards freer trade in Western Europe as a whole extremely difficult.

40. Moreover, it could be expected that the current GATT discussions over the " legitimacy " of the Treaty of Rome vis-d-vis the GATT rules would become much more difficult, and prospects of approval would reach vanishing point. For not only would countries outside Europe see the breakdown of the Free Trade Area negotiations as a weakening of the " European" front, but the non-six members of O.E.E.C. might well be tempted to take a much less friendly line in G.A.T.T. as a measure of self-protection against the consequences of the discrimination which would arise against their exports if G.A.T.T. were to approve the application of the Six.

41. A probable corollary to these developments would be attempts by the non-six OEEC countries to seek compensation for the deterioration of their position in the area of the Common Market by alternative groupings of their own. There can thus be no doubt that the United Kingdom would concentrate upon the intensification of her economic ties with the Commonwealth. It is not improbable that the Scandinavian countries, already far on the way towards establishing a customs union of their owni[21], might find it in their interest to associate themselves in one way or another with such a British-led undertaking, with Iceland and Ireland as probable additional adherents. Moreover, and this is not the least serious aspect of the matter, the weak economies of Southern Europe—especially Greece and Turkey—would see themselves isolated from the rest of the West European economy and with diminished prospects for economic development.

42. The other side of the picture is, of course, that the interests of the six EEC countries will also be adversely affected by such a turn of events. These countries at present market about 30% of their total exports (excluding trade among themselves) in other OEEC countries and, what is more, enjoy an annual export surplus in this trade to the tune of 1,500 million dollars with which the Six finance their trade deficit with a number of non-European countries. It goes without saying that this state of affairs would not remain unchanged, with resulting important disturbances in the economic life of the Community.

43. Serious as these economic consequences of a failure would be, the political consequences would, however, be much more serious. It is worth recalling that the intention of the Free Trade Area was to provide a framework which would contain the great experiment of the Common Market in such a way as to extend some of its benefits to the other members of O.E.E.C. as well as to ensure that they do not suffer positive damage to

20. And also, of course, all hopes for the eventual implementation of the European Monetary Agreement, a project -which has grown out of the successful working of the E.P.U.
21. It is believed that a Treaty for a Nordic Customs Union is already prepared, but signature is being held over until the outcome of the Free Trade Area negotiation is known.

their trade. But over and above this intention has been the wider purpose — to promote in a practical way the idea of European unity. The Treaty of Rome was itself expressly designed as a big step along that road. It would be little short of a tragedy if that step resulted in the division and not the unity of Europe.

44. For it must be understood that if no agreement is reached, and if there is no Free Trade Area or similar arrangement, the immediate consequence must be discrimination by some countries against others in respect of some of the goods in trade. This is bound to give rise to protective measures, whether by tariffs, import restrictions or otherwise. As a result trade relations between the Six, on the one hand, and the non-Six, on the other, must inevitably become more difficult. From there it is but a short step to the division of Europe into two opposing economic groups, and this at a time when there is clear evidence that Soviet policy is to attack the West in the economic field. It is obvious that a Europe so divided could not expect to be able to co-operate amicably on political questions, still less to unify its approach to world problems.

45. Of course, agreement on a Free Trade Area will involve sacrifices for every one of its participants. Each will have to be prepared to give up something. But if the negotiations fail the sacrifices will be heavier and more widespread. In short, the consequences of failure are so much more serious than the consequences of agreement that common sense alone demands a real effort on the part of the Governments to succeed. Time is short, and the Assembly can do a real service in reminding them of their responsibilities as well as their opportunities.