



**Doc. 537**

03 October 1956

## European general common market

### **Motion for a resolution<sup>1</sup>**

Committee on Political Affairs and Democracy

Committee on Economic Affairs and Development

Mr Marinus van der GOES - van NATERS, Netherlands

Mr Roy JENKINS, United Kingdom

Mr Fritz HELLWIG, Germany

---

1. 1956 - 8th Session - Second part



## A. Draft Resolution

A<sup>2</sup>

The Assembly hereby :

1. Expresses its conviction that the efficiency, stability and rate of growth of the European economy and its ability to assist in the economic and social progress of the underdeveloped areas both in Europe and overseas can be effectively improved by the establishment of a common market in Europe;
2. Congratulates the Intergovernmental Committee on its Report and the Governments of the six Messina Powers on their prompt acceptance of the Report as a basis for negotiating a treaty for the establishment of a common market between them and urges these Governments to take the steps necessary for the earliest possible implementation of the Report;
3. Welcomes the initiative taken by the Ministerial Council of O.E.E.C. in establishing a Special Working Party to study possible forms of multilateral association between the Customs Union envisaged in the Brussels Report and member countries not taking part therein and, in particular, the suggestion that the sphere of the common market might be enlarged by including both the Customs Union and also, on a Free Trade Area basis, such other countries as are willing to abolish their trade barriers with the six Messina Powers and with each other without, however, being prepared to harmonise their foreign trade policy vis-a-vis third countries with that of the Customs Union;
4. Urges the Governments of all the Member States of the Council of Europe to use every possible means to inform public opinion in their countries of the purpose and implications of the establishment of a common market in Europe.

B

The Assembly further :

5. Urges the Governments participating in the Brussels negotiations in drawing up the treaty for the creation of a common market :
  - a. to specify as precisely as possible the exact division of powers between the institutions to be set up and to ensure in particular that the powers accorded to the Common Market Assembly are adequate for effective control of all other authorities and thus enable it to fill the gap left in national parliamentary control;
  - b. to make the budgets of these institutions subject to the prior approval of the Common Market Assembly;
  - c. to recognise that Assembly's right to all information needed for the exercise of its duty of supervision;
  - d. by the end of the transition period, at the latest, to make binding those Assembly recommendations adopted by a specified majority, and also, by the end of this period, at the latest, to provide for the Assembly's election by universal suffrage;
6. Urges that the institutions proposed be set up in such a way that there is no duplication of work with other European institutions ; and that in this connection the Council of Europe and, in particular, the Consultative Assembly should be the liaison organ for the various European bodies;
7. Expresses its belief that overseas countries having constitutional or special economic links with the States participating in the Brussels negotiations would benefit by belonging to the common market and that provision should be made for their representation or, where appropriate, for the requisite protection of their interests;
8. Draws the attention of the participating Governments to the special problems arising in the agricultural field;  
3
9. Draws the attention of the participating Governments to the need for ensuring that the common market will not in time develop a politically isolationist attitude or turn into a protectionist area to the detriment of European economic and political unity.

C

---

2. See 23rd Sitting, 23rd October 1956 (Draft Resolution adopted) and Resolution 101.

3. The Committee on Economic Questions reserves its right to expand this paragraph after consultation with the Special Committee on Agriculture.

The Assembly also :

10. Calls upon the Governments of member countries not taking part in the Brussels negotiations to give their earnest consideration to the effects of their non-participation in a European Common Market on their own export prospects;

11. Urges, these Governments no less than those participating in the Brussels negotiations to consider the best ways and means whereby they may as quickly as possible abolish the remaining barriers to trade, payments and migration between all member countries of the Council of Europe; and

12. Expresses its hope that as many Member States of the Council of Europe as possible will be able to join the European Common Market as proposed by the Brussels Report or at least form part of a Free Trade Area built around such a Common Market and thus give a new and powerful impetus to the cause of European political unity.

NOTE. — Both Committees reserve the right to make such modifications to this draft Resolution as may be called for in the light of developments taking place before the opening of the Assembly's Session on 16th October 1956.

**B.**

<b>Contents</b>	<b>TABLE</b>	<b>OF</b>	<b>CONTENTS</b>
Page			
A. INTRODUCTION - 5			
I. — The background - 5			
II. — The economic significance of a common market - 6			
III. — Some definitions - 13			
B. THE COMMON MARKET AS SEEN FROM THE PARTICIPATING COUNTRIES - 16			
I. — The fusion of markets - 16			
II. — Policy towards the rest of the world . - 18			
III. — The problems of agriculture - 19			
IV. — Questions of monopolistic control - 22			
V. — Questions of State intervention. - 24			
VI. — Balance of payments and trade policy - 28			
VII. — The development and full utilisation of European resources - 29			
VIII. — The inclusion of overseas countries - 32			
IX. — Institutional problems - 34			
C. THE EXTENSION OF THE AREA OF THE COMMON MARKET - 35			
I. — Iceland, Greece, Turkey and Austria - 35			
II. — Scandinavia - 38			
III. — The United Kingdom - 40			
I. — INTRODUCTION - 48			
II. — THE PLAN AS SEEN IN RELATION TO PARTICIPATING COUNTRIES - 49			
A. — The " Balance-sheet " : Advantages and disadvantages of the Common Market compared - 49			
B. — Special problems for successful operation of the Common Market : - 53			
(i) The Community's external policy. - 53			
(ii) Overseas associates and territories - 55			
(iii) Powers of the institutions - 58			
(iv) The problem of centralised authority - 62			
(v) Composition of the institutions and of the Assemblies in particular - 63			
III. — THE PLAN AS SEEN IN RELATION TO NON-PARTICIPATING MEMBER COUNTRIES OF THE COUNCIL OF EUROPE - 65			
A. — General considerations for Governments other than " the Six " - 65			
B. — Particular considerations : (i) Greece and Turkey - 67			
(ii) Scandinavia - 67			
(iii) United Kingdom - 67			
C. — Conclusions - 69			

## 1. I - Explanatory Memorandum <sup>4</sup> on the economic aspects of the general Common Market submitted by MM. HELLWIG and JENKINS, Rapporteurs of the Committee on Economic Questions

### 1.1. A. INTRODUCTION

#### 1.1.1. I. The background

1. The Messina Conference held on 1st and 2nd June 1955, presided over by the Foreign Minister of Belgium, M. Paul-Henri Spaak, and attended also by the Foreign Ministers of the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands, decided that the efforts for the unification of Europe should now concentrate on unification in the economic field. They emphasised two important goals : the common expansion of atomic energy and the establishment of a general market. These aims, however, in their turn, call for immediate measures to prevent the development of Europe from being hampered by insufficient resources of energy as well as by insufficient means of transport, and for measures to provide a solution to the particularly difficult problems of air traffic and the aircraft industry in Europe. The efforts initiated must be pursued in all these fields so that the foundations may be laid for a common development of Europe and for the gradual merging of European markets.

2. In order to prepare the agreements which are designed to further these efforts the Ministers have called upon a group of experts —working under the direction of national delegates— to determine ways and means of achieving these goals. The Heads of these national Delegations submitted their report to the Foreign Ministers on 2st April 1956, and it is this which is before the Assembly for comment. The Heads of Delegations emphasise that the Report is their sole responsibility and thus not binding upon Governments; but they are agreed to recommend that the Report be accepted as a basis for negotiating the Treaties envisaged. The Report comprises three parts : Part I : The Common Market; Part II : Euratom; and Part III : Sectors requiring urgent action (energy, air transport and postal and telecommunication services). The draft comments submitted herewith to the Assembly deal only with Part I of the Report : The Common Market. The other parts of the Report <sup>5</sup> are dealt with under separate items of the Assembly's Agenda.

#### 1.1.2. II. The economic significance of a common market

3. The Report of the Intergovernmental Committee stresses the importance of a European common market. Its objective is to create a vast area of common economic policy leading to economic expansion, stability and higher standards of living. Optimum productive efficiency in large-scale production and the elimination of monopolies call for a merger of existing separate markets. Such a merger, however, will only be possible if there is a period of transition during which measures of adaptation are taken, if restrictive practices are eliminated and if the individual countries co-ordinate their economic policies.

4. There must be common rules, and action and a supervisory institution in common. Given these requirements a genuine common market can only be regional and not universal. But there is no intention whatever that such an inevitably regional common market should develop into a closed system of high protection. It would, on the contrary, be hoped that, far from being at odds with the rest of the world, the combined strength of the national economies would, in spite of all the political and administrative difficulties involved, be so handled as to contribute to a general reduction of trade barriers.

**TABLE I - Percentage share of world production**

	1913	1938	1947	1951	1955
(a) of world coal production					
O.E.E.C. countries	40.1	39.4	26.9	30.6	29.9
E.C.S.C. countries	16.1	20.0	11.9	15.2	15.4
(b) of world production of pig iron					
O.E.E.C. countries	48.4	44.6	22.3	29.3	30.2

4. This Explanatory Memorandum has been issued before the opening of the Assembly's Session on 16th October 1956, and before the meeting of the Foreign Ministers of the six Messina Powers scheduled for 10th October 1956. It cannot therefore take account of whatever statements or decisions may be made by the Foreign Ministers at their meeting on the latter date in connection with the work, now proceeding, of drafting the Common Market Treaty.

5. Excepting classical energy.

	1913	1938	1947	1951	1955
E.C.S.C. countries	33.5	34.6	13.1	21.1	21.7
(c) of world production of crude steel					
O.E.E.C. countries	44.7	41.0	22.7	26.9	28.9
E.C.S.C. countries	34.7	29.8	11.8	17.9	19.6

1. Figures for the German Reich exclude Eastern Upper-Silesia.

**TABLE II - Increases in production, Augmentation de la production, internal trade, imports, and exports du commerce intérieur, des importations of E. C. S. C. between 1952 and 1955**

	INCREASE over 1952 figure
<b>A. PRODUCTION</b>	
Coal	3%
Iron Ore	14%
Raw Iron	18%
Crude Steel 1	26 %
Rolled Steel Finished Products	22%
<b>B . TRADE WITHIN THE COMMUNITY</b>	
Coal	42%
Coke	11%
Iron Ore	44%
Iron and stell products	170%
All Goods covered by the Treaty	93%
All other Goods	59%
<b>C. EXPORTS TO THIRD COUNTRIES</b>	
Coal	127%
Coke	2.20%
Iron and Steel Products	17%
<b>D . IMPORTS FROM THIRD COUNTRIES</b>	
Iron and Steel Products	91%

1. N. B . Crude Steel Production within the E. C. S. C. rose between 1929 and 1953 by 11 %, and between 1953 and 1955 by 32 %. The corresponding U. K. figure for the latter period was 12 %.

5. The present unfavourable trend in Europe's economic prospects can hardly be overstated : some figures of her share in total world production and trade are given in Tables I and III. These figures cannot, of course, be regarded as disastrous in themselves. In so far as Europe's declining share is only a reflection of the rapid advance of the under-developed countries of the world, they show a not unexpected and entirely healthy trend. But that is only one of the elements in their significance. Two others are of a less encouraging nature; in so far as they reflect a loss of vigour in the economies of Europe and are the outcome of political as well as economic parcellation, and in so far as they reflect more rapid advances by the already very highly developed countries than by the less developed countries, thus increasing rather than diminishing the difference between the standard of living of different countries, they provide a stern warning. Europe herself may become an economic and hence a political backwater unless she learns the lessons of an age in which only a large union can take full advantage of the potentialities of modern science and modern technical resources to do her share in the development of the world's social product; and that would seem a worthy aim, in whatever way that product may thereafter be distributed.

6. In 1913, the member countries of O. E. E. C. accounted for 40 % of world coal production, in 1955, their share had fallen to a mere 30 %. In 1913, they accounted for 48 % of world production of pig iron, in 1955 for only 30 %. In 1913, they accounted for 45 % of world production of crude steel, in 1955 for only 29 %. For the

countries of E. C. S. C, the decline shows a similar pattern. The setback suffered by Western Europe is particularly marked in the field of iron and steel production : in 1947, Western Europe's share had fallen to about half that of 1913, and subsequent years have seen only a limited reversal of this trend. For the ECSC countries the fall in production is even greater than that for the countries of Western Europe as a whole.

7. An analysis of world trade (export and import figures) testifies to the diminishing role of Europe in the world economy. The volume of the foreign trade of Europe, on the one hand, and of the non-European countries, on the other hand, shows an unequal development. By value, Europe's share of world trade has, in the course of half a century, declined from 66 to 43 %. During this period, the volume of European foreign trade has barely doubled, while it increased more than five times in the case of the non-European countries.

8. For several years already we have been witnessing efforts to promote the economic integration of Europe. These efforts have followed two main directions : overall co-operation within O. E. E. C. and E. P. U., and integration ' by sector' through E. C. S. C. Integration by sector in individual fields is important in the sense that experience may thus be gained with regard to further measures. But it must be stressed today that integration by sectors will become a blind alley if it is not supplemented by measures leading toward overall integration. Without convertibility of currencies and without a general integration of economic policy, especially of tariff and commercial policy, the partially integrated sector will remain incomplete and indeed something akin to a foreign body in the European economy

9. This is brought out in Table I : from 1951 to 1955 the ECSC countries' share in world production of raw iron and crude steel rose only very little faster than that of the OEEC countries taken together. In fact, after deduction of the rise due to the reconstruction of Western Germany the ECSC countries' share in world production of raw iron has decreased and in that of crude steel has risen by a minimal amount.

It has justly been pointed out that from 1952 to 1955 the ECSC countries increased their exports of products covered by the ECSC treaty by only 21.1 %—which is less than the simultaneous 32.4 % increase noted in respect of exports of all other products of ECSC countries. The share of products covered by the ECSC treaty fell from 17.1 % of all the ECSC countries' exports in 1952 to 15.9 % in 1955. Likewise, it is no mere coincidence that the European Coal and Steel Community has, contrary to all expectations, not been enlarged either geographically or in the range of products and services covered.

The figures given in Table II are of equal interest in this connexion. They show that a common market established between a certain group of countries can affect not only production and trade within that group but also trade with third countries.

**TABLE III - World trade (imports and exports) since 1900 <sup>6</sup>**

	VALUE AT	EUROPE'S	VOLUME (1936 =		
	CURRENT	SHARE in %	100)		
	PRICES (in billion of German marks)		Europe	All other countries	
	Europe	All other countries	Europe	All other countries	
1900	54.2	28	66	71	41
1913	98	62	61	106	75
1920	143	147	49	69	79
1929	151	133	53	120	118
1938	61	53	54	104	101
1947	160	255	39	78	141
1954	277	371	43	139	212
	Changes in %				
1900-1913	+ 81	+ 122	— 7	+ 51	+ 84
1913-1920	+ 46	+ 137	— 24	— 36	+ 5
1920-1929	+ 6	— 9	+ 8	+ 75	+ 50
1929-1938	— 60	— 60	+ 1	— 13	— 15
1938-1947	+ 163	+ 381	— 28	— 33	+ 40
1947-1954	+ 73	+ 45	+ 11	+ 64	+ 50
1900-1954	+ 411	+ 1224	— 35	+ 96	+ 420

6. Figures for 1947 and thereafter exclude the exports of China, Bulgaria, Rumania, the Soviet Union, Hungary and the Soviet Zone of Occupation in Germany, figures for 1950 and after also exclude the exports of Poland and Czechoslovakia.

**TABLE IV - Some Basic Data**

	OEEC countries	ECSC countries	U. S.
Area in millions of square kilometers	3	2	8
Population (1955) in millions	284	165	165
Inhabitants per square kilometer	95	141	21
Gross social product (1955 in billions of U. S. dollars)	208	126	387
Percentage-share of gross social product going into personal consumption	67	63	65
1. Excluding Luxembourg. For Greece, Ireland, Austria and the Saar, 1953 figures have been used.			
2. Excluding Luxembourg. For the Saar, 1953 figures have been used.			

10. The merging of the OEEC countries, or even of the ECSC countries alone, into one economic bloc would create a large economic area, which could compete on an equal footing with the U. S. and could be an important factor in the world economy.

11. In terms of population, the ECSC countries as a whole come up to the level of the U. S. and the total population of the OEEC countries is nearly double that of the U. S. Certainly the total volume of purchasing power of the European population is not as great as, indeed, the figures of gross social product roughly indicate. Calculated at current exchange rates, national income per capita amounts in fact to 729 U. S. dollars for OEEC countries, 767 U. S. dollars for ECSC countries and 2,343 U. S. dollars for the U. S. In making such a comparison, the following points should, however, not be overlooked :

- a. Relative purchasing power does not correspond to official exchange rates <sup>7</sup>.
- b. Owing to special circumstances the rate of increase over the past few years has in fact been greater in Europe than in the U. S. From 1951 to 1955, the gross social product (at 1951 prices) increased in the OEEC countries by 19.5 % the U. S. by - 8.3 %
- c. Moreover the establishment of a common market is designed to help the rate of growth at a higher level than the maintenance of separated national economies would allow.

**TABLE V - Trade liberalisation - Position on 1st August 1950 - References Year : 1948 - 1949 for Germany - 1952 for Austria**

	% OF PRIVATE TRADE LIBERALISED POURCENTAGE DU COMMERCE PRIVÉ LIBÉRÉ			
	Cat. I	Cat. II	Cat. III	Total
Germany	81.3	98	96.2	91.5
Austria	79.4	98.0	87.2	90.3

7. (Thus the relation between the U. S. dollar and the German mark, for instance, amounts to D M 4.21 : \$ 1 according to the official exchange rate, but to D M 2.49 : S 1 according to purchasing power based upon the German pattern of consumption, and to D M 3.48 : \$ 1 according to purchasing power based upon the U. S. pattern of consumption).

**% OF PRIVATE  
TRADE  
LIBERALISED  
POURCENTAGE DU  
COMMERCE PRIVÉ  
LIBÉRÉ**

	Cat. I	Cat. II	Cat. III	Total
Benelux	69.0	98.6	91.8	91.1
Denmark	80.6	98.2	77.5	85.5
France	72.9	96.3	71.6	82.3
Ireland	84.6	97	88.9	90.2
Iceland	56.5	40.9	15	29
Italy	97.5	100	99.2	99.1
Norway	81.3	90.9	73.2	78
Portugal	88.2	98.9	91.7	93.7
Sweden	79.6	100	90.6	92.6
Switzerland	66.7	100	97.2	92.5
Turkey	—	—	—	—
United Kingdom	90.3	99	90.2	93.7
	82.7	97.6	84.8	88.8

12. Of course, the importance and the value of the common market increase with its size. A solution based on the Brussels proposals but covering all OEEC countries would be better than one for the ECSC countries alone. Nevertheless, the fact that integration will be limited geographically need not cause concern since integration will cover all products and services of the member countries. Moreover, it is to be expected that a general common market between ECSC countries will be more attractive to other countries than the hitherto limited common market for coal and steel, and that it may thus before long embrace a somewhat wider group of nations.

*1.1.3. III. Some definitions*

13. Economic parlance draws a distinction between two species of the genus ( ' Common Market ' : the Customs Union and the Free Trade Area. Involved in either type is

the abolition of quantitative restrictions and

the abolition of customs duties between the countries forming part of the Common Market : with the abolition of legislative and administrative obstacles to the movement of capital and of labour usually thrown in.

14. In a Free Trade Area it is only this abolition of internal barriers that is involved : there is no correlative harmonisation or unification of the system of barriers still maintained by each of the member countries against imports from States outside the common market. In the case of a Customs Union separate tariffs are abandoned in favour of

(c) a single common external tariff

right round the whole common market with a harmonisation if not unification of quantitative restrictions and of immigration and capital import and export restrictions thrown in as well.

15. The Brussels report here under discussion proposes that the Common Market should be set up in the form of a Customs Union; and it is the proposal for this customs union involving measures (a) (b) and (c) which form the subject of Section B of this Report. The question of a Free Trade Area involving only (a) and (b) does, however, become relevant in Section C in which relations of the other member countries of the Council of Europe to the possible common market of the ' Six ' is the subject of enquiry.

16. The main measures to be taken for the creation of a common market of the Free Trade Area type are thus only twofold :

- a. the abolition of quantitative restrictions
- b. the abolition of customs duties.

Of these, the first has been a major concern of O. E. E. C. ever since its foundation, and at 100 % liberalisation condition (a) would be fulfilled for a common market among all the OEEC countries. A large number of countries are very close indeed to doing their part to integrate themselves in such a common market where quotas are concerned, as Table V bears witness : of the others only Denmark, Iceland, Norway and Turkey are below the 90 % liberalisation mark. Of the ' Six ' Italy has less than 1 %, Benelux less than 10 % and only France as much as 18 % of private trade still to free from quantitative restrictions.

17. Progress on the side of trade liberalisation has lately become more difficult and, in the thinking of some States on the future work of O. E. E. C, a simultaneous attack on the tariff side has appeared to be the most promising approach. The low-tariff nations, the Netherlands and Scandinavia in particular, have indeed regarded the lowering of tariffs on goods entering European States as part and parcel of an equitable policy of liberalisation : too many goods now free of quota restrictions are effectively kept out, or their import limited, by customs duties in high tariff countries while low tariff countries have no such alternative line of protection. Quite generally too, it is clear that as quotas become larger, tariffs become more important in their impact.

18. With these considerations in mind, a " Low Tariff Club " line of thinking in O . E. E. C. has for some time been at the back of attempts to secure the ' non-discriminatory' lowering of duties on goods mainly traded between OEEC countries (since a preferential lowering of duties according to the country of origin is excluded by the rules of the General Agreement on Tariffs and Trade). No progress has been made in the implementation of this idea up to the present. It should be pointed out, however, that were tariffs on all goods that are—(or would, if duty-free), be traded between member countries to be progressively abolished, then condition (b) of a common market among not merely the Six but all member countries of O. E. E. C. would be fulfilled. A combination of such action with 100 % liberalisation would constitute a common market for goods over the whole OEEC- area. It would, to repeat, be a common market of the ' free trade area ' and not of the customs union type. But that does not prevent its effectiveness in promoting that selection of factors, division of labour, concentration of production and competition among firms which are the means whereby a common market strives to raise the productivity of the European economies.

## **1.2. B. THE COMMON MARKET AS SEEN FROM THE PARTICIPATING COUNTRIES**

### *1.2.1. I. The Fusion of markets*

19. The Brussels report proposes to establish the common market in successive stages over a period of twelve to fifteen years. The feasibility of this plan will depend on whether an agreement can be reached on precise and concrete measures. The technical side of the proposed measures presents difficulties. A lack of precision might therefore prevent a solution of these difficulties—and indeed its constant postponement. The transition period now envisaged should be sufficient; a definite deadline of about 12 to 15 years set from the beginning should assure that no further postponement of the final date at the request of any member country should endanger the fulfilment of the previously determined time-table.

20. Some countries would like the agreement to stipulate that no customs duties or measures having a similar effect shall under any circumstances remain at the end of the transitional period. The report is too vague where the methods of elimination of customs duties during the last stage are concerned. Such countries would wish strict rules to be established for the last as well as for the earlier stages.

21. The proposals made in the report that the reduction of internal tariffs must be accompanied by a prior, or at least by a simultaneous, reduction of quota restrictions as between the Six is to be accepted. The procedure of arriving at a de facto liberalisation by raising the remaining quotas yearly by about 20 % over the preceding year seems a suitable method. The report also objects to any discrimination whatsoever with regard to the distribution of the remaining quotas. It seems desirable that the treaties to be signed should state explicitly that new quota restrictions must not be introduced after the agreement has come into force. A provision should also be included about the abolition of export subsidies within the common market, which does not seem to have been explicitly agreed upon.

22. It will not be possible to do without a safeguard clause during the transition period. It must, however, be stated explicitly that after the end of this period the reintroduction of tariffs and quota restrictions within the common market must under no circumstances be permitted.

23. So far as the provisions for services are concerned, it should be pointed out that efforts should be made to achieve a liberalisation of the inter-State system of payments which should be as complete as possible. In particular, the plans for the recovery of European distressed areas should attempt to solve the problem of the

transfer of earned incomes and returns on capital. Definite support should also be given to the repeatedly submitted proposal that there should be mutual acknowledgment of the various educational and vocational systems and the corresponding examinations as well as of the official regime governing professional activities.

### 1.2.2. II. Policy towards the rest of the world

24. The report stresses that the common market should take the form of a customs union and not that of a free trade area, the latter solution being regarded as administratively cumbersome and economically inadequate. The following three conditions stipulated by Article 24 of the General Agreement on Tariffs and Trade would then have to be met :

1. The elimination of trade barriers must extend to substantially the whole of trade within the Union. (The common market will cover all such trade);
2. The union must be realised within a reasonable space of time. (12 years is reasonable) ;
3. The common external trade barriers must on an average be no more restrictive than the previous separate trade barriers which they replace. (This condition will also be met.)

25. The common market will be open to all countries willing to accept the rules, and forms of close association may be devised for others. Precise relationships will also be established between the Community and other international organisations with a wider competence and membership.

26. Working out a common tariff towards other countries should go hand in hand with the abolition of customs duties within the community. The experts propose that this tariff should represent the average of the customs tariffs of member countries—i.e. the highest allowed under Article 24 of GATT. The lowtariff countries, on the other hand, will naturally insist that the common external tariff should be as low as possible, in order to discourage self-sufficiency and promote the structural changes within the common market necessary to adopt it to the optimum world division of labour. Sight should never be lost of this point. Similarly, the European common market should, from the very beginning, avoid becoming an obstacle to a further liberalisation of world trade. Any other course could lead to isolation in the field of commercial and tariff policy. What is needed, therefore, is a liberal import policy which should not be restricted by the demands of the weakest country.

27. Some countries, such as Germany, do far more of their trade with Scandinavia, South America and the countries of the East than do most of the other countries of the Six. This raises the question as to how such special interests can be safeguarded after the end of the transition period, when the conclusion of trade agreements must, of necessity, be entrusted to the Union.

28. The report makes no reference to the kind of measures to be taken to deal with the practices of third countries which distort competition when supplying the common market. Undoubtedly a gradual harmonisation of the foreign trade laws and regulations of the member countries and the development of common rules for the customs union will be necessary already during the transition period. This applies especially to the development of common anti-dumping laws.

29. All this having been said, it must be emphasised quite clearly that the common market will only stand to gain by the adhesion of any further countries. There has never been any intention on the part of the Six to set up a market of the Six only : they have regretted that further countries have not so far declared their willingness to join it also. It is essential that the Six should continue patiently to hold open the door to others as much as they can without thereby impeding their own progress. For the Six no less than any others joining them, any extension of the area and thereby of the resources and the purchasing power of the common market, should increase its economic effectiveness to a corresponding extent.

### 1.2.3. III. The problems of agriculture <sup>8</sup>

30. The position of agriculture during the period of establishing the common market raises a critical problem. It might at first sight be thought that the special problems arising in the agricultural field would suggest that agriculture should at least be left outside the overall agreement for the establishment of a common market. But an economic union at first restricted to industry and trade alone might in the end, paradoxically enough, adversely affect the weaker agricultures in the member countries. Countries which attempt to contract out of the common market in respect of agricultural products would find themselves urged by the other members of

---

8. The Rapporteurs wish to acknowledge the work done on this subject by the Special Committee on Agriculture (AS/SA (8) PV 4 and 5) which they have used and indeed ventured largely to incorporate into the present report.

the industrial common market which export large quantities of agricultural products at least to enlarge their quotas in return for their being allowed to export their industrial goods in complete freedom. It is doubtful whether these individual countries could withstand such pressure; but once they lower their barriers, they must do so on a non-discriminatory basis as laid down in the Code of Liberalisation and then the impact of imports on their agricultures might be greater than ever before. If, on the other hand, their agricultural protection reached excessive heights it would lead to a reduction in the volume of industrial imports of the countries which derive their purchasing power largely from agricultural production, and this reduction would in turn damage the export interests of the industrial countries participating in the common market. We may also remember that weak agricultures are not necessarily found in countries with strong industries, and vice versa, and where both agriculture and industries would be comparatively weak on a common market the problem cannot be solved by leaving agriculture aside, but must be tackled by very different methods.

31. Moreover, whatever may be said about it by the industrial countries, the predominantly agricultural countries can hardly be expected without further ado to disband their protection against the exports of their industrial neighbours without a quid pro quo on their part benefitting agricultural exports. It may be that the Netherlands with an already very low tariff could afford to do this more than some other countries; but, certainly, if an extension of the common market to Greece, Turkey and even to Denmark is contemplated agricultural products must enter integrally into the system. Otherwise any pleas from industrial countries that they will only enter an industrial common market might well be countered by agricultural countries that they will only enter an agricultural common market, and from fishing nations that they will only enter a common market for fish products. That way nothing will ever be done.

32. If then agriculture is included in the common market—as quite emphatically it must be—the methods of its inclusion should of course take account of the special circumstances and requirements of the production and consumption of agricultural products. The common market must ensure adequate supplies for the population, encourage high-grade production and reconcile fair prices for producers with the legitimate interest of the consumers. By the expansion and stabilisation of the market for agricultural products through the expansion of the purchasing power of all sections of the population and the stabilisation of price and employment conditions throughout the common market, the institution of the common market must be made to serve the improvement of the standard of living of the farming no less than the industrial population of all the participating countries.

33. Special attention is required in the transition period. In particular, specific distortions of comparative cost must be eliminated by measures of harmonisation. It must, moreover, be remembered that agricultural production is less adaptable and the factors entering into it are less mobile geographically, economically and socially than those of industry. Due account must therefore be taken, in establishing the common market, of the balance of economic, social and human factors entering into the present structure of European agriculture, and the adjustments necessary to ensure the livelihood and indeed the rise in the standard of living of the agricultural population must be made resolutely and with all due care.

34. It would thus seem to be only realistic to anticipate a longer transitional period for the establishment of a common market in agriculture than for any other sector. A steady reduction in the existing restrictions on agricultural trade must, however, be guaranteed. Certain stabilising and transitional measures in the field of agricultural production and prices are justified only if such measures are not made generally applicable but are used for very specific purposes and for strictly limited periods. Such measures should not go beyond the extent justified by the special problems of agricultural production.

35. A common agricultural policy must in fact always be co-ordinated with a common overall economic policy. It is to be noted that the Brussels Report devotes much space to references to a common order and to a regulation of the market. It does so not only as regards the transitional measures, but also as regards the ultimate stage. Assuming that during the transition period some kind of market regulation would seem called for in a particular sector, then such regulation should—in the case of the ultimate stage—only be considered as an exceptional measure, allowed only in very specific cases and for very limited periods. In view of the very close inter-relationship between various agricultural products, it is difficult to arrange for a market regulation of some products while leaving out the rest. In the ultimate stage, the market regulation envisaged would also be effective with respect to third countries, while such regulation could not apply to trade in agricultural products between the member countries of the Union.

#### *1.2.4. IV. Questions of monopolistic control*

36. The report attempts to outline the kind of economic policy which should be pursued within the common market in order to achieve conditions of competition which are as similar as possible. The report deals with existing or future conditions which distort or will distort competition within the common market. Realistically

enough, the report acknowledges that a transitional period will be needed for the reduction of discriminatory practices and harmful restrictions of competition through monopolistic control as well as for the elimination of public subsidies that distort competition. The common market will automatically tend to eliminate such practices. During the transition period, however, anti-dumping legislation, preferably uniform and in any case conforming to the GATT, would be allowed. In the ultimate phase, uniformity should, however, be achieved also, vis-à-vis third countries.

37. The sections of the report dealing with the control of monopolies and agreements are unsatisfactory. The principle that action should only be taken against monopolies and agreements which jeopardise trade between the States concerned is to be welcomed. However, the subsequent definitions show that this principle has not been followed consistently enough. It cannot be said that any difference in pricing, any regional cartel or any restriction of production represents a discrimination against the other members of the common market and a restriction of competition.

38. Before the signing of the Treaty these inadequate definitions of the report will have to be revised. The report itself notes that the principles to be embodied in the Treaty should be defined more clearly. It is proposed to do this with regard to the rules about discrimination, the establishment of a system of control over mergers, and the drawing up of a provision outlawing agreements which may lead to a partition or exploitation of markets, to a reduction of production or to the restriction of technical progress. It is planned that in such cases the European Commission shall issue executive regulations which will have to be submitted to the Assembly for approval, and which might also be made a case for recourse before the Court. In order to avoid an accumulation of legal proceedings before the Court it is planned to establish a Consulting Committee on Agreements and Discriminations with the European Commission.

39. It can be seen from these provisions of the report that many questions have been left open in this field. These should be answered before the signing of the Treaty in order to avoid the institutions of the common market (European Commission, Assembly, Court and Consultative Committee for Agreements and Discriminations) being overloaded with work from the very outset. This, however, will only be achieved if, with regard to monopolies and agreements, a general rule of the most flexible character is agreed upon, which unreservedly aims at the condemnation of abuses which might result from the operation of agreements or monopoly positions, but does not subject all concentrations ipso facto to control. No national legislation has as yet established such an extensive system of control. The provisions in force in the E. C. S. C. (Art. 66) refer to basic industries in which there are not many individual enterprises. Such provisions would become impracticable if they were applied to a common market embracing the whole of the economy of the six countries.

40. It should be remembered that it is the express purpose of the common market to encourage the better use of technology and the growth of enterprises. In the light of technical and economic experience, such a policy will also lead to the merging of smaller enterprises to form larger units. Moreover, mergers of enterprises can considerably facilitate the process of technical and economic adaptation. Since such a process of concentration will be an automatic consequence of the common market, any attempt to stipulate that all mergers must be approved by a control authority, would be unreasonable. It is generally held that controls against possible abuses are necessary. But outright inhibitions should be confined to the following practices :

- a. Discrimination against buyers or sellers with the intention or with the effect of jeopardising their competitive chances;
- b. Allocation of markets, restriction of production or complete control of the market for one single product whenever such practices have a harmful effect on the development of production and on trade between the various States;
- c. The exploitation of positions of market control by :
  - discrimination against buyers or sellers with the intention or with the effect of substantially restricting competition;*
  - abusive handling of prices and general terms of business.*

#### 1.2.5. V. Questions of State intervention

41. In this connection the report also deals with the practice of State assistance of one kind or another. It is true that the report declares any aid, whatever its form, to be incompatible with the common market if it distorts competition by favouring certain enterprises or products. But the application of this general rule to existing State aid systems as well as to future exceptional State assistance cannot be regarded as satisfactory. The report also contemplates granting a permanent or temporary exemption to some forms of

State aid, even if the impact of such aid upon the conditions of competition cannot be denied. The payment of subsidies to balance regional or national differences in costs of production will not promote the division of labour which is the express aim of the common market. For this reason subsidies paid to balance so-called specific distortions, or subsidies paid for the purpose of stabilising the balance between various social groups will have to be viewed critically. In any case, it is necessary that private enterprises be put on an absolutely equal footing with the public sector of the economy.

42. The report by the Heads of Delegations of the Inter-Governmental Committee set up by the Messina Conference also proposes that the European Commission should investigate and classify the different kinds of State aid. Instances of such assistance should be notified to the European Commission. This suggestion makes it clear that the report is not the final word on this problem.

43. The proposals regarding the problem of the harmonisation of policies deal with specific distortions and provide for further studies by the European Commission; decisions would require Ministerial unanimity in the first phase, but later only a qualified majority. The best way of eliminating the distortions, it is admitted, would be to harmonise the various legislations, since most distortions result from existing legal divergencies. Unification of the systems of taxation and social security finance would facilitate the functioning of the common market; decisions in these fields would require unanimity. There is need for a flexible approach that takes into account the diversity of economic conditions, of labour attitudes and so forth.

44. These proposals rightly distinguish between different conditions of competition. It is made clear that the natural basic factors covering cost prices cannot be made the subject of measures of harmonisation. It is, on the contrary, precisely by virtue of differences in such basic factors—differences in wage-levels, for example, when they correspond to differences in productivity—that healthy competition, a regional division of labour and an expansion of trade can be secured. The Brussels proposals seek only to reduce artificial disparities, i.e. to correct or eliminate specific distortions resulting in an artificial advantage or disadvantage to certain sectors. General distortions resulting from overall divergencies in cost levels at existing exchange rates are examined together with the means of assuring equilibrium in the balance of payments. A warning should be uttered against making harmonisation a premise of the common market. Such harmonisation will naturally follow from the common market, since only the establishment of the common market will show where and how harmonisation is necessary or possible. This warning must also be uttered in view of the difficulties in the detection and assessment of such distortions.

45. The relevant provisions of the Treaty should prevent all economic groups which shun competition in the common market from trying to detect so-called distortions in order to force the institutions of the common market to introduce compensatory levies, tariffs or subsidies. To prevent barriers of taxation from being erected in place of the tariff barriers eliminated by the establishment of the common market, the common market must not provide for any tax relief for exports or any tax burdens on imports. In view of the differing systems of taxation and, in particular, the different systems of turnover tax of the six countries, a gradual reduction of tax relief and tax burdens on trade between the States would seem advisable. Too little is known about the impact of taxation upon the common market. But it is necessary that the Treaty should stipulate that after its coming into force no country must try to make up for the gradual reduction of tariffs by new measures of taxation. On the contrary, all measures must aim at a progressive harmonisation of tax systems.

46. Social security systems differ considerably in structure from one European country to another according to the extent to which they are financed out of ordinary taxation by levies on wages and salaries. In practice, different systems may well have the same results. If, for instance, one considers the situation in France and Germany, the difference is due to the fact that in Germany, where social security payments are not as high as in France, the balance is made up by so-called voluntary social benefits (marginal benefits) contributed by the enterprises. The proposal that Governments should eventually take steps to bring about harmonisation carries with it the danger that the State may interfere with liberty and freedom of action in labour-management relations, and that, in Germany, the closer association of the individual worker with his enterprise will be undermined.

47. It remains to be seen how it will be possible—by methods appropriate to a democratic State—to eliminate distortions due to the conditions of work and freely to bring about a harmonisation of wages and weekly working hours and of the duration of paid annual leave. It would be appropriate to grant employers and labour as much freedom as possible for bargaining, so that collective agreements may adapt themselves to differences of labour productivity. The harmonisation of the systems of taxation and social security should be sufficient to prevent uneconomic movements of persons and capital not justified by the levels of productivity.

48. Harmonisation measures in the field of transport and freights should only be carried out in so far as an orderly functioning of the common market requires it. Harmonisation in this field should not be undertaken as an end in itself and should not degenerate into equalization. The aim of a common transport policy must be to make international transport cheaper, better and simpler. It will be difficult to carry out precise international cost analyses in this field such as the report of the heads of delegations envisages. Existing information about the general cost situation is sufficient for adapting rates to costs ; thus, in the near future, rates may be established which, though they do not exactly correspond to costs, at least come pretty close to them. So far as the Federal Republic of Germany is concerned, consideration should be given to the special situation caused by the political and economic partition of Germany which will make it necessary to devise special measures of assistance in the form of transport rates and policy along the border between the two zones. Allowance for this should be made when the harmonisation of rates and conditions in transport is undertaken.

#### *1.2.6. VI. Balance of payments and trade policy*

49. The common market presupposes appropriate national policies to avoid balance of payments disequilibria, while maintaining a high level of employment. The report envisages that , as a result of the establishment of the common market, problems created by the balance of payments of any single member with non-members of the common market will be shared by the Community as a whole. In the ultimate stage, fundamental divergences of economic policy will scarcely be possible. The commercial policy will necessarily be that of the Community, which will negotiate for Members as a whole. A joint attitude in international monetary relations (convertibility) will be a natural corollary of a joint trade policy just as a common trade policy will be entailed by a common attitude in international monetary affairs.

50. The temporary difficulties which can arise in the very course of the elimination of distorsions in the payments system of member countries will be overcome more easily if one acknowledges that the equilibrium of the balance of payments is not an end in itself but is a result to be obtained through sound economic and monetary policies on the part of each of the Members as well as of the community as a whole. A general adaptation of exchange rates during the transitional period should be the first step, but thereafter the equilibrium of the balances of payments will have to be brought about by the classical methods of monetary and fiscal policy. The goal to be reached by co-ordinating the monetary and fiscal policies of the six countries is, in fact, a uniform European currency with national currencies at a fixed exchange rate with one another. It will hardly be possible to reach the additional goal called for by the Report, namely that each country should work out its economic policy in such a way as to prevent distorsions in the equilibrium of its balance of payments while, at the same time, preserving a high level of employment. The transitional difficulties in the balance of payments should be sufficiently taken care of by resorting during the transitional period to the safeguard clause and thereafter by international credit facilities.

51. The risks which might arise during the transitional period call for mutual assistance among the Members in addition to the help available through E. P. U. and I. M. F. During the transitional period such aid may—in addition to credit—take the form of favourable trade treatment by other Members, of permission to go slow or even temporarily to go back on measures for setting up the common market. In the final period any re-introduction of restrictions should be out of the question, but if this recourse is ruled out, the necessary credit resources must be forthcoming.

52. The report provides for so-called safeguard clauses, which should be included in the final agreement. These safeguard clauses must be effective but their application should be permitted only in exceptional circumstances, and only for a limited time. No safeguard clauses should, under any circumstances, be allowed to slow down or jeopardise the realisation of the customs union itself.

#### *1.2.7. VII. The development and full utilisation of European resources*

53. In order to bring about a full development of the economic resources to be found within the common market the Brussels Report provides for the creation of an Investment Fund and a Re-adaptation Fund. While there is no objection to the principle of the Re-adaptation Fund, a reserved attitude is called for in the case of the proposal for yet another Investment Fund. There is, of course, the problem of the division of functions between the two Funds. (For instance, the reconversion of enterprises necessitated by the creation of the common market falls within the scope of the Re-adaptation Fund rather than that of the Investment Fund.) But even when such questions are answered others remain. The Consultative Assembly has already proposed the establishment of an Economic Development Fund for Southern Europe and a European Investment Bank for the Development of Overseas Countries. A multitude of funds competing with each other on the capital

markets would lead to financial not less than administrative waste. It is quite possible to have a single fund with several departments handling the various schemes, and it is in this spirit that the various proposals should be integrated with each other.

54. So far as assistance to under-developed areas is concerned, it should be borne in mind that no new industries must be established that would be permanently dependent on subsidies. Any adaptation payments out of the Investment Fund should be made dependent upon contributions of the country in question. In any case, the establishment of the Investment Fund should be supplemented by the liberalisation of movements of capital intended for direct investment. The investment projects to be assisted by the Fund should be defined more clearly in order to limit the action of the Fund and to prevent any intervention by it in the financing of private investments except in cases of reconversion.

55. The main task of the Re-adaptation Fund is the prevention of unemployment. Reasonably enough, it will not be necessary to prove that unemployment has been directly caused by the common market. In order to protect the Fund against unjustified claims it would seem advantageous to block payments by the Fund until unemployment has risen over a certain percentage. Moreover, the Fund should refund only up to half the amount of the expenses incurred by the member countries.

56. The proposal to procure the means for the Re-adaptation Fund out of customs duties raised within the common market should be re-examined. It is not feasible for a country to erect tariff barriers to prevent the inflow of products of other countries producing more cheaply, and at the same time to get help from the Re-adaptation Fund, thus subsidising its workers with money coming from industries producing more cheaply. Needless to say, since re-adaptation is to be regarded as a transitional measure it is to be stressed that the Re-adaptation Fund should be conceived only as a temporary institution intended to solve certain problems of the transitional period.

57. What the report says about the free movement of workers can be fully accepted. The proposals for the elimination of structural unemployment by creating employment opportunities in less favoured areas have special importance. One should not overlook, however, that although these proposals may be right in theory they are hard to realise in practice.

58. The free movement of persons comprises freedom of establishment, which means the possibility of setting up an enterprise anywhere within the common market. National laws governing the creation and development of enterprises should be harmonised to permit full freedom of movement of workers, enterprises, and capital. As a first step towards that aim discrimination on grounds of nationality should be abolished.

59. The elimination of all obstacles to an uninterrupted flow between the States of payments connected with the supply of goods, with services and with the movement of workers is justly considered a preliminary condition for the liberalisation of the movement of capital. This would also facilitate a consistent elimination of all rules still preventing the founding of new enterprises or subsidiaries and/or the integration of capital and of personnel of enterprises of different member countries. The surest method of eliminating obstacles in the way of full liberalisation of the movement of capital, such as speculative transfers based upon differing tax rules as well as differences in monetary policy, would be a uniform policy designed to preserve the inner financial stability of the member countries and the signing of uniform dual taxation agreements providing for tax relief in respect of exchanges of capital between the states including the transfer of returns on capital.

60. Safeguard clauses are needed during the transitional period to counter speculative capital movements that endanger the balance of payments. Although such clauses may be of doubtful effect, the possibility of their application should be retained subsequently, since the common market, after all, represents from the industrial point of view only a partial economic integration.

61. It is to be regretted that the freeing of capital movements raises particularly difficult problems, so that on this point the report of the heads of delegations expresses itself with cautious reserve. It should, however, not be overlooked that freedom of capital movements, accompanied by the liberalisation of payments and services, belongs to the very definition of the common market and is therefore a *sine qua non*. For this reason, a more rapid procedure, both for long and short term capital movements, would be a most essential contribution to the development of the common market.

#### *1.2.8. VIII. The inclusion of overseas countries*

62. It is plainly difficult for one and the same country to be a member of two separate customs unions : not only is there the obvious problem of preventing the re-export of goods coming from Customs Union A through the country with dual membership to Customs Union B thus avoiding the tariff levied on regular trade between the other members of each of the two Customs Unions, but there are also difficulties of a political nature

involved. The prevention of re-exports under a system of dual membership was explored at length in the studies made for the Council of Europe plan for the Saar<sup>9</sup>; and if they could be solved for the Saar with its land frontiers we may take it that they can be solved for such aggregates as a Western European Customs Union and the overseas and metropolitan parts of the French Union.

63. The report of the heads of delegations completely avoids dealing with this thorny problem. One point of principle should, however, be made in this connection: that any decision on the economic future of these overseas countries must, in accordance with the past recommendations and resolutions of the Assembly, be taken only in accordance with the wishes expressed by the representatives of the peoples whose future is most directly involved. The view taken by the French Government has been squarely one of either not coming in at all or coming in with her overseas territories. There can be no doubt that this is a political decision which must be respected by the other participating countries. It remains to deal with the economic problems that arise in consequence.

64. One of the main economic difficulties in the creation of a common market is the present French price level. It must be recognised that this is due, in some not unsubstantial measure, to the drain on the 300 milliard francs spent by France annually on investment in Africa and the 250 milliard that has been spent annually in the past for administrative and similar purposes. The expenditure entailed by the exercise of French sovereignty is plainly a matter for France alone: but if the other countries of Europe expect to export free of customs duties and free of quantitative restrictions to France Overseas and if they expect to be able to place commercial investments there which benefit from the basic and social development financed by the French State, then it is only fair for them to take their share in such future basic and social development as will undoubtedly be required as an infrastructure for the raising of the standard of living of the peoples of these overseas countries.

65. Such a development of a common market between European countries and the overseas countries having constitutional links with them would be no more than a part of the ideas promulgated by the Assembly as long ago as 1951 in what came later to be known as the Strasbourg Plan. This Plan is itself now being revised in accordance with Order 77 by a group of independent experts composed of representatives of African and European countries who will submit proposals for the co-operative development of Africa on an equal footing between the countries of Africa and of Europe,

66. In Recommendation 26 the Assembly considered that the rate of progress in the economic development of these countries and the well-being of their inhabitants would be increased by making available to them the benefit of the economic, financial, scientific and technical resources of those European countries which have themselves no dependent overseas territories and recommend the establishment of a European Bank for the development of overseas territories and the introduction of a preferential system between dependent territories and the countries of Europe. The proposals of the Brussels Report go indeed to the extreme of preference—the abolition of quantitative restrictions and the customs duties altogether; and if the Brussels Report regarded a Development Fund necessary for the consummation of a common market in Europe so the corollary of the extension of the common market to Africa must be that the scope of that Development Fund—not so unlike the European Investment Bank of the Strasbourg Plan—must be extended to Africa also.

#### 1.2.9. IX. Institutional problems

67. It has been said that the most effective method of forming a common market is to set up common political institutions directly responsible to the electorate and possessing the necessary powers for the accomplishment of their task. We regret that this has proved impossible. The Brussels Report envisages drawing up one or more agreements and avoiding the transfer of executive powers to supranational authorities. The proposals of the Report follow this line by simultaneously availing themselves of the experience gained with E. C. S. C.

68. The following organs are proposed in the Report:

*A Council of Ministers, for consultation both between Governments and between these and the Community; decisions to be taken unanimously or, in certain cases, by a qualified majority.*

*A European Commission, composed of Government-appointed members, an executive organ operating by majority decision.*

---

9. Cf. Mr. Federspiel's interview given to *Le Monde* 6th-7th June 1954, (Dee. AS/AG (6) 9) and Mr. van der Goes van Naters' speech in the Assembly, 25th May 1954, [Official Report of Debates, 1954, vol. II, pp. 179-181].

*The ECSC Court of Justice as arbiter on charges of Treaty violations by the States and on appeals against Commission decisions.*

*The Common Assembly of E. C. S. C. as the organ of parliamentary control.*

69. In addition, the Investment Fund will operate as an autonomous organ of an essentially financial character.

70. The Treaty to be signed should also provide for the co-operation of employers' and workers' organisations within a consultative committee corresponding to the consultative committee of E. C. S. C. In addition to its controlling function the Assembly should also be given increasing competence as a legislative body, since the harmonisation of legislation of the member countries and the development of a common legislation for the common market call for an early co-ordination of the activities of the national parliaments and of the Assembly of the Union. The easiest way to bring about such a co-ordination is for the delegates to be members of their national parliaments as well as of the Assembly of the Union.

### **1.3. C. THE EXTENSION OF THE AREA OF THE COMMON MARKET**

#### *1.3.1. I. Iceland, Greece, Turkey and Austria*

71. It has already been said that the greater the area covered by the Common Market the greater will its benefits be both for those taking part in the common market of the Six and for those who may be coming in to make it one of the Seven, the Ten, the Fifteen or the Seventeen. It is therefore appropriate for all member countries of the Council of Europe to ask themselves whether it is not in their own economic interest to participate in the establishment of the Common Market and to become integral members of it.

72. There are certainly some member countries which can hardly be expected to join the Common Market. Iceland, with one of the highest tariff walls (as well as one of the highest standards of living) in Europe, which is not even a member of G. A. T. T. and conducts almost half of its trade with communist countries is an unlikely candidate for membership even of a Free Trade Area. The high tariffs are needed not merely to maintain a rate of exchange quite out of proportion to purchasing parity, but also for fiscal purposes to subsidise the fishing fleet.

73. While Iceland may be somewhat marginal to the economic problem, Greece and Turkey are quantitatively of much greater importance. In 1955 Greece sent 53 % of her exports and received 43 % of her imports from the Six, Turkey 32 and 30 %. Both these countries have an immediate and important interest in a common market for agricultural products (just the reverse of the German and United Kingdom position) and also in the suppression of barriers to migration; but a common market for industrial products is another matter. Their attitude in fact puts into relief the problems of under-developed countries overseas as well as in Europe when the suppression of customs duties is mooted : tariffs perform an almost irreplaceable fiscal function as well as protecting infant industries and the level of employment in an under capitalised economy. Both countries suffer from the relatively low degree of liberalisation of agricultural products, while Greece at any rate has herself introduced a 97 % liberalisation. Without special exemptions on the side of industrial products it may be too much to expect either Greece or Turkey to take part.

74. The position of other countries, however, is rather different. There may certainly be difficulties in their joining the Customs Union and unifying their tariff structures with that of the Six. For this reason the extension of the Common Market to a wider area has usually been discussed in terms of a Free Trade Area, and not of a Customs Union. We propose to follow this sound and relatively modest approach.

**TABLE VI - United Kingdom and Scandinavian trade 1955 - Monthly averages in millions of dollars, imports c.i.f. exports f.o.b., and percentages of total trade (in brackets)**

A. Exports to of	UNITED KINGDOM	TOTAL SIX <sup>1</sup>	SCANDINAVI A <sup>2</sup>	WORLD			
	Million \$	%	Million \$	%	Million \$	%	Million \$
United Kingdom <sup>3</sup>	—	—	97	(14)	58	(8)	706
Denmark	29	(34)	23	(27)	10	(16)	87
Norway	11	(22)	13	(24)	8	(15)	53
Sweden	28	(20)	46	(32)	23	(11)	144
Scandinavian <sup>4</sup>	69	(24)	83	(29)	41	(15)	283

A. Exports to	UNITED KINGDOM	TOTAL SIX1	SCANDINAVI A2	WORLD			
of	Million \$	%	Million \$	%	Million \$	%	Million \$
B. IMPORTS from	UNITED KINGDOM	TOTAL SIX	SCANDINAVI A	WORLD			
of	Million \$	%	Million \$	%	Million \$	%	Million \$
United Kingdom	—	—	112	(12)	73	(8)	907
Denmark	25	(26)	36	(37)	12	(12)	98
Norway	18	(20)	25	(28)	18	(20)	91
Sweden	23	(14)	69	(41)	11	(7)	166
Scandinavia	66	(19)	130	(37)	41	(12)	354
1. Excluding Overseas Territories.							
2. In the case of Scandinavian countries : "							
Trade with the other Scandinavian countries							
3. General imports and general exports (exports plus re-exports).							
4. Total (for absolute figures) or weighted average (for percentages) of Denmark, Norway and Sweden together.							

75. The question of Austria's joining the Common Market is, as it happens, hardly one of greater difficulty than that for any of the Six themselves. Indeed, it is perhaps more essential for Austria, which does more than half of its trade with the Six, not to find itself at a sudden disadvantage on this market. It was only out of regard for its position of neutrality that Austria did not itself participate in the Brussels negotiations. Austria appears to be very anxious now to join the Common Market on a Free Trade Area basis, and although economically their desire is unconditional on the attitude of any other Member State, the Austrian Government would be greatly helped if it were not isolated in such an action—primarily from the point of view of international relations, but also in order to overcome the political arguments which vested interests at home might otherwise be tempted to use to shield their own economic position.

76. It might be argued that there were difficulties involved in a country in Austria's geographical position joining only on a Free Trade Area basis. Could not its technical position between two important members of the Customs Union be used to re-export goods to which the common tariff at a low rate was applied in Austria, and transport them across the Austrian frontier in the guise of transit goods. This very apparent difficulty has, however, called forth its own appropriate mechanism of control. Transit goods, e.g. from Germany to Italy pass through Austria every hour without paying Austrian customs duties and without remaining on Austrian soil. The present provisions for transit goods have therefore only to be continued. There may be no very great saving of frontier formalities, but there will certainly be no extra administrative difficulties involved.

### 1.3.2. II. Scandinavia

77. Scandinavia may well be treated as a whole in spite of the very divergent trading interests of the three countries. Although progress towards a Scandinavian common market has so far been nugatory, and inter-Scandinavian trade amounts to no more than 15 % of total Scandinavian exports, these three countries, for political reasons, are unlikely to move except together. Moreover, since Britain is the country which provides the largest single market for the Scandinavian countries, and accounts indeed for 24 % of Scandinavian exports, the three Scandinavian countries in turn must needs regard the action taken by the United Kingdom as one of the decisive factors in determining their own.

78. Table VI gives a breakdown of the trade of the Scandinavian countries with one another, with the United Kingdom and with the Six. On the import side the Six taken together are in each case of far greater importance as suppliers than the United Kingdom or indeed the whole Sterling Area taken together. On the export side, too, the Six have in the past provided a much greater market for Sweden than has the United Kingdom or the whole Sterling Area. Only Denmark sends more of her produce to the United Kingdom than to the Six; and there is no reason why if Denmark joined the Common Market (even if the United Kingdom were to remain outside) Danish exports to the United Kingdom should suffer thereby—more than exports to the Common Market would increase—or indeed why they should suffer at all.

79. More striking indeed than the problem of what would happen if the countries of Scandinavia join the Common Market is what would happen if they did not. Denmark has already experienced a sharp decline in the exports of her produce to Belgium as a result of the creation of the Benelux Common Market, restricted though it still is in many respects on the agricultural side : the joint competition of Holland, France and her overseas territories on the German and Belgian market, once that competition is freed from customs duties and quantitative restrictions, would indeed be formidable unless Denmark too came within the Common Market. Nor should it for a country with as low a tariff as Denmark be too difficult to join in a Free Trade Area which would give her the double advantage of retaining her own low customs duties with the rest of the world and also having free access to the markets of Continental Europe.

80. There would, of course, be difficulties for certain branches of Danish industry if the customs barriers and quantitative restrictions on Danish imports were to vanish suddenly : even greater difficulties might arise for the domestic industries of Norway—a country which has in the past given first priority in its reconstruction investment to certain export industries and to housing. But the Brussels plan does not envisage any sudden removal of barriers : a twelve to fifteen-year transitional period with the re-adaptation fund to help out countries that might face particular difficulties should go a long way to cushioning the difficulties of transition. It is true that Norway is having no particular difficulty in exporting to the Six at the moment, but the Norwegians themselves would be the first to admit that their export earnings could have been substantially increased but for customs duties (particularly on imports to France) and but for certain quantitative restrictions.

81. It would seem that none of the Scandinavian Governments has so far decided on its attitude to this problem: the Committee's rapporteurs hope that these countries are in process of studying the plan and of carefully weighing the advantages and disadvantages of joining the Common Market.

### 1.3.3. III. The United Kingdom

82. There remains the large problem of the participation of the United Kingdom. It would be unrealistic not to set into relief the special situation in which the United Kingdom finds itself, firstly, because its trade with the Six amounts to only 13 % (1955 imports 12 %) of its total trade—with Scandinavia included the figures would be 20 and 22 %—and, secondly, because of the United Kingdom's special relationship of a political and economic kind with a Commonwealth whose formal links are today much weaker than even ten years ago and a sterling area which still absorbs 48 % of United Kingdom exports and from which 40 % of the United Kingdom imports come.

83. A frank discussion of these issues must certainly not be inspired by any wish to deny the great advantages to which the common market proposals may lead, to divert the political force which lies behind them, or to pretend that imperial preference in all its present forms is the ark of the covenant for British trading policy which must be accepted without question or discussion. The system has in any event become of much less importance both for Britain herself and for the other Commonwealth countries over the past decade; independently of what happens in Europe this tendency shows signs of continuing. There should certainly be no question of Britain attempting, even if it were possible, to put difficulties in the way of a common market on the grounds that it threatens imperial preference.

84. At the same time the plans currently put forward confront the United Kingdom with a genuine dilemma which cannot just be ignored. A Europe in which the six Powers were as closely integrated as the full common market proposals would imply, but in which the other OEEC countries remained entirely unconnected with the plan, would obviously be a Europe subjected to a new and sharp division. Such marked divisions of economic alignment could hardly fail to have their effect upon political alignment. Certainly for Britain herself there would be grave disadvantages of a political as well as of an economic nature in standing outside such a sharply defined and closely integrated union. There are probably many in the six countries themselves to whom the political disadvantages of such a course are equally clear.

85. It is, of course, easy to reply by saying that, if the United Kingdom is so sensitive to the difficulties of exclusion, it is open to her to escape them by accepting the invitations offered and becoming a full member of the customs union. One does not, however, have to be a fanatical advocate of imperial preference to see that such a course is totally impracticable for Britain, unless she were prepared to see the complete destruction of the economic ties which still unite the Commonwealth. It is not so much the absolute importance of the Commonwealth preferences that exist today, although these are not of negligible importance. Their scale can be measured roughly by the following figures : in 1955 rather more than \$600m. worth, or about 20 % of Britain's total exports, benefited from imperial preferences, overwhelmingly the most important being those given by Australia, New Zealand and Canada. In Australia and New Zealand about 90 % of goods imported from the United Kingdom enjoyed a preference of an average margin of between 15 and 20 %. In Canada only about 60 % imports from Britain enjoyed a preference, of about the same average order of magnitude. In India and South Africa only about 30 % of imports from Britain received preferential treatment. Broadly speaking, the position in regard to Commonwealth exports to Britain is roughly the same, despite the current Australian complaint. Indeed, a rather higher percentage of goods moving in this direction—55 as against 50 %—enjoyed a preference of some sort than is the case with those moving out from Britain to the rest of the Commonwealth. But the position can be seen to be averaged out when it is stated, in summary form, that Britain gives and receives preferential margins amounting to an average of 6 % on all goods entering into Commonwealth trade

86. Such a margin, it may be thought, is not an absolutely vital matter either to Britain or to the rest of the Commonwealth. Certainly, in the interests of an integrated European market and in those of a general freeing of world trade it might be argued that a further whittling-down—a process to which, as has already been indicated, the Commonwealth has become used over the last decade—might be contemplated without undue alarm. British membership of the Common Market, however, would imply something much more drastic than this. Current recommendations of the Intergovernmental Committee make it clear that what is proposed is not a free trade area but a customs union. The arguments in favour of this course are no doubt strong. The practical difficulties in the way of a free trade area, with all the administrative problems of certifiably fixed origin which would be involved if the participating countries were to maintain their own independent external tariffs, may well be almost insurmountable—for the continental countries at least. But a customs union does, of course, involve a common external tariff. Under the rules of G.A.T.T. this must not be higher on the average than the existing separate external tariffs which it replaces. But it is difficult to see how it can take a form which will allow Britain, if a full member of the Common Market, to continue to import most Commonwealth products duty-free and therefore on a par with similar products from the continent of Europe, or even to continue to give them preference as against third countries outside both Europe and the Commonwealth. There is no doubt, therefore, that British membership of the customs union would involve not merely the further whittling-away of imperial preference, which might be possible, but the institution of anti-imperial preference, which is politically quite impracticable. Commonwealth links might conceivably survive a gradual movement towards a situation in which Australian or New Zealand agricultural products competed in the British market with European agricultural products on equal terms; they could not survive a situation in which they were made to compete on less favourable terms and in which, moreover, they lose any preference against imports from, say, the Argentine.

87. There would also be other, although perhaps smaller, difficulties associated with full British membership. A customs union would imply, even if this was not explicitly stated in the Report of the Intergovernmental Committee, the closest co-ordination of monetary, fiscal and import policies among the participating Powers. It is suggested that when there were balance-of-payment difficulties with the rest of the world these would be common to all members of the union, and could be solved by a common approach. In the case of Britain, so long as the sterling area exists in anything like its present form, this is not necessarily so. As was the case in 1949, and as on present indications may again be the case towards the end of this year, an improving United Kingdom balance of payments position can be combined with a worsening position in the rest of the sterling area, with a consequent drain upon Britain's gold reserves. As the reserves are held by the Bank of England, the responsibility for maintaining them inevitably rests primarily upon the United Kingdom Government, even though the drain may be caused primarily by conditions in countries several thousand miles away. In these

circumstances it would be very difficult for the United Kingdom Government to agree that it should pursue a disinflationary monetary and fiscal policy or restrict imports from the rest of the world only if the Common Market as a whole was suffering from a balance of payments difficulty.

88. It should also be borne in mind that a country so dependent on imports as the United Kingdom, and selling less than 13 % of its total exports to the ECSC countries, must be closely interested in the removal of restrictions against its exports all over the world. A European customs union created on terms compatible with G.A.T.T. does not, of course, of itself militate against this. But it must be said that such a union, once created, and composed of a large number of still sovereign countries, would not be an easy body with which to negotiate further removals of trade restrictions. Yet, of course, all countries which were members of such a union could only negotiate through the union as a whole.

89. In the view of your British Rapporteur therefore, the correct policy for the United Kingdom should be one of modified attachment to the Common Market. It would then be for the Messina Powers to consider whether they wish to go ahead to the full, leaving the United Kingdom and possibly some other OEEC countries to be half-participants, or whether they would regard a more general European achievement of a somewhat less ambitious goal as an adequate alternative.

90. Britain's modified membership would revolve around two questions: first, what groups of products were to be included or excluded; and, secondly whether it was on a Free Trade Area or on a full customs union basis that the United Kingdom was asked to participate. On the first question it must of course be appreciated that a piecemeal approach does carry with it certain important theoretical objections. To institute complete free trade for some products, while others remain highly protected, may in itself introduce a new economic distortion into the pattern of production. But in practice too much weight cannot be attached to this objection. The approach might be that of starting, so far as United Kingdom participation were concerned, with products on which preferences granted by the United Kingdom to other members of the Commonwealth are not an important item. Coal and steel, even though there might in these cases be difficulties associated with the sharp upward adjustment of the price-level in Britain which this would involve, might be an encouraging beginning for United Kingdom participation.

91. Alternatively, of course, one could proceed by general United Kingdom participation, subject only to specific exceptions. Here, clearly, the most obvious candidates for exclusion would be agricultural products, as these constitute by far the most important Commonwealth imports into Britain from a preference or indeed from any other point of view. The exclusion from the Common Market of agricultural products might also ease the problems of entry for countries other than the United Kingdom, although it would no doubt make the problem more difficult for the Netherlands and perhaps Italy.

92. The second question is that of whether the United Kingdom is to join on a customs union or a free trade area basis. Attachment on a free trade area basis might be at once more desirable and more practicable for the United Kingdom than for continental countries. The Channel may no longer be of much strategic importance, but it is still at least enough of a barrier to make it easier for the United Kingdom, while participating in a common market, to maintain its own external tariffs than might be the case for one of the Six. A free trade area, as opposed to a customs union, would also, of course, greatly lessen the " anti-imperial preference " nature of Britain's commitment, and make it easier for her to negotiate tariff reductions by third parties independently of action by all the members of customs union.

93. In view of these considerations the initiative taken by the Council of O.E.E.C. in its resolution of last July on ' the study of the relationship between the proposed European Customs Union and member countries not taking part therein ' is to be most warmly welcomed. On the proposal of the Secretary- General of O.E.E.C., the Council decided that :

1. " A special Working Party is hereby established which shall study the possible forms and methods of association, on a multilateral basis, between the proposed Customs Union and member countries not taking part therein. As a possible method of association the special Working Party shall take into account the creation of a free trade area which would include the Customs Union and such member countries.
2. The special Working Party shall be composed of Member Governments which, by 31st August 1956, signify to the Secretary- General their desire to take part in its work and inform him of the names of their representatives.
3. The special Working Party shall make a report to the Council not later than 31st December 1956. "

94. The Consultative Assembly can only urge on all its member countries to co-operate to the best of their abilities in this study, to do their utmost to find a formula which will allow the benefits of a common market to be extended over the widest possible area of Europe, and thus to realise one of the great objectives which the Assembly has pursued since its first session seven years ago.

## **2. II - Explanatory Memorandum <sup>10</sup> on the political and institutional aspects of the General Common Market submitted by M. van der GOES van NATERS, Rapporteur of the Committee on General Affairs**

### **2.1. I. INTRODUCTION**

Consultative Assembly's position.

1. The Consultative Assembly's last ASSEMBLY'S position. pronouncement on the European General Common Market was its Resolution 90, adopted on 26th October 1955, and the Assembly will at its forthcoming Session debate the developments that have taken place since that date. It will have before it the present document, containing the draft Resolution presented by the Committee on General Affairs and the Committee on Economic Questions (for the political and institutional aspects, on the one hand, and for the economic aspects, on the other), and the explanatory memoranda from Rapporteurs of both Committees dealing with their respective sides of the question.

Aim of the political explanatory memorandum.

2. The Intergovernmental Committee's Report (particularly the first part mittee's Report (particularly the first part which deals with the Common Market) is a lengthy, and in parts complex document, elaborating the technical ways and means by which the General Common Market could be set up. The explanatory memorandum of the Economic Committee's Rapporteurs has covered the salient points arising out of these proposals and, precisely because technical considerations play so large a part in them, it is the aim of the present memorandum to give, in as concise and simple a form as possible, a political judgment on the proposals which it is hoped can be readily grasped by European public opinion outside the walls of the Assembly. It may be fairly said that the general public has not, certainly in European countries outside the Six, taken a really close interest in, or grasped the implications of, the Common Market plan. For this reason an attempt has been made to ensure that the memorandum makes as short and easy reading as possible. As far as ever practicable, it is specific in the position it takes up and avoids mere expressions of sympathetic interest.

3. Generally speaking, the Assembly, in examining the proposed General Common Market, will have in mind two questions :

*is the plan, as presently elaborated, intrinsically a sound scheme, and in the interests of the participating countries (in particular, its present sponsors, the E C S C Powers)?*

*what position should be taken up by Member Governments of the Council of Europe who are not sponsoring the plan at present?*

Two questions to be answered.

The following sections of the present memorandum are designed to provide answers to these two questions.

Two questions to be answered.

---

10. This Explanatory Memorandum has been issued before the opening of the Assembly Session on 16th October 1956, and before the meeting of the Foreign Ministers of the Six Messina Powers scheduled for 10th October 1956. It cannot therefore take account of whatever statements or decisions may be made by the Foreign Ministers at their meeting on the latter date in connection with the work, now proceeding, of drafting the Common Market Treaty.

## 2.2. II. THE PLAN AS SEEN IN RELATION TO PARTICIPATING COUNTRIES

### 2.2.1. A . The ' Balance-sheet " : Advantages and disadvantages of the Common Market compared

4. We can divide our examination of the Common Market plan in relation to participating countries into two parts. First, we can try to draw up a balancesheet of the benefits, on the one hand, and the disadvantages and difficulties, on the other, which the Common Market would create for its members. Secondly, we can examine those special problems which will have to be solved if the Common Market is to be given the best possible chance of being set up and operated successfully.

#### ADVANTAGES

Will ensure maximum economic development quickly,

5. First, the balance-sheet. What are the main advantages of the Common Market for its members? What the Report of the Committee on Economic Questions concludes we can here take as our basic premiss : the fact that the proposed common market will, much more effectively than mere tariff agreements or even a free trade area, enable economic progress within the community taken as a whole to be far greater and far more rapid than would be possible for States operating as separate markets.

and match the new Soviet economic offensive.

6. Apart from the intrinsic importance of any method which will enable Western Europe to increase its rate of economic progress, a new and compelling phenomenon has recently arisen to make the economic development of free Europe even more urgent. That phenomenon is the new Soviet economic offensive, by which the Russians aim in the next five-year plan to increase their scale of production by 65 %, so as to overtake the Western democracies. Dare we ignore the threat that would arise from a massive increase in Soviet economic performance, proclaimed by its sponsors as an increase in Communist strength? The only way in which we can respond is by an economic counter-offensive, directed by a " unified command ".

Will provide further impulse to political integration :

at governmental and popular level,

and in political parties.

7. The second benefit we must put on the credit side of the balance-sheet is the renewed impulse to political integration which the setting up and operating of the Common Market will provide. The process of solving the various practical economic and social problems that will arise will bring about, on an infinitely wider scale than hitherto, association at governmental level, communal administration, and a search for mutually satisfactory policies. And in the same way these problems and solutions, because they will affect directly and practically workers, managements, and all sectors of the community, will ensure that European society as a whole is drawn into the work of integration and the concerted political action which will increasingly be called for as time goes on. In particular, a larger stimulus will be given to political parties, who will now view the whole field of economic effort (and not merely one or two sectors of it) on a European basis.

Will increase European influence abroad.

8. The third gain which will be registered as the Common Market develops will be an increase in European prestige and political influence in the outside world. By a rising level of economic prosperity, by an increased ability to help the economically less favoured areas of the world, and by the proof thus afforded of the superiority of enlightened internationalism over sterile and reactionary nationalist policies, a massive blow will be struck for the Western democratic system.

#### DISADVANTAGES, DIFFICULTIES

9. What disadvantages or difficulties attendant upon the creation of a Common Market are to be placed on the debit side of the balance-sheet?

Economic and social difficulties in some sectors of production.

10. The most immediate will be the difficulties caused for particular sectors of production, where these are uneconomically based. Forced to face up to competition, such sectors will have to adjust themselves. This process may be painful and, in the last analysis, if effective readjustment or conversion proves impossible, certain undertakings may have to be liquidated. The difficulties here will fall alike on management, workers,

stock-holders and all others who are affected by their work. Some managers and skilled workers will have to face a variety of changes—training for new types of production, change of location, etc.; some stock-holders will find their assets declining in value.

-outweighed by general economic benefits.

11. On the other hand, this temporary economic discomfort for certain groups in European society will be outweighed by the economic benefit which will accrue to the community as a whole. And the provision made for funds to help undertakings and individuals to readjust themselves should ensure that none of these will be called on to make unfair sacrifices. The Intergovernmental Committee's Report speaks plainly on this point. "The first necessity is to facilitate the transfer of workers to other jobs, for without changes there can be no progress. Hence the importance of arrangements for re-training which will protect the workers against the expense and risk involved. Secondly, efforts must be made on a considerable scale to assist in the change-over of industry to other lines of production"<sup>11</sup>.

Outburst of hitherto latent opposition from political and economic sectional interests

12. The second main difficulty to be listed against the Common Market plan is political, and must be placed alongside one of the political benefits noted above—the stimulus towards political integration within the community. The very fact of this stimulus, developing over a new and much wider field than before, will provoke reactions. These reactions will be felt in direct proportion as political and economic unification is accelerated under the natural pressure of economic and social forces. National political interests which so far have been untouched by the move towards European integration will be forced to face up to new demands. Vested economic interests of all kinds will protest—and in some cases try to oppose inevitable change.

-will ebb in face of economic progress.

13. This opposition by sectional political and economic interests must, however, ebb as the benefits of the Common Market begin to make themselves felt and spread over the whole of the economy. And it will, like the possible opposition from those who experience temporary disturbances of the kind described in paragraph 10, ebb the more quickly if the European public at large understands exactly what is aimed at in the establishment of the Common Market, and the exact course which the Common Market's development can be expected to take. Hence the vital importance of information and explanations to the general public of what the Common Market means.

Conclusion : the scheme is sound.

14. It is clear from the summary balance-sheet contained in the preceding paragraphs that we can already give an answer to the first of the two questions the Assembly will have in mind. Is the Common Market plan intrinsically a sound scheme, in the interests of the participating countries? Our answer must be : yes. But that answer will only hold good if those who have planned the Common Market succeed in making it work. Here we come to the second part of our examination of the Common Market in relation to participating countries : what are the special political and institutional problems which will be met with in making the Common Market work efficiently?

## *2.2.2. B. Special problems for successful operation of the Common Market*

### *2.2.2.1. (i) The Community's external policy*

#### SPECIAL PROBLEMS

Attitude of the community to outside States.

15. The first problem is fundamentally psychological. It is unlikely that the Common Market community can be built up without a risk of undesirable changes in the attitude of members to outside States. A new sense of identity, of identity of interests in so wide a field, may alienate member nations, however slightly and subtly, from others who do not belong to the Community. This is a problem of very special concern to the Council of Europe. There would be little point in unifying one part of Europe if a new division and a new conflict of interests were to be created which would hinder the integration of Europe as a whole.

---

11. Intergovernmental Committee Report, Introduction, II (C), pp. 11-12,

16. Economically, the present Common Market plan faces up to this problem. GATT rules forestall the possibility of non-members' facing any overall trading disadvantage with the area covered by the community as a consequence of setting up the Common Market, and the Intergovernmental Committee's Report says plainly that GATT rules will be complied with. Thus the Common Market " will be safe from the clanger of constituting a highly protectionist area tending to cut itself off from the rest of the world... " <sup>12</sup>

17. Politically, however, the problem presents intangible features and is therefore far more difficult. Discriminatory political policies and attitudes on the part of the Common Market community must not develop to the detriment of other European States and the world as a whole. The community should think not only of breaking down internal barriers but of opening at the same time as many doors as possible on the outside by which non-members may enter.

18. It is fair here to point out that the Common Market plan does in fact expressly envisage and invite the participation of States other than the plan's present sponsors : " The Common Market, with all its rights and obligations, will, of course, be open to any country prepared to accept its rules. If other countries show no disposition to join, negotiations should be begun as soon as possible to arrive at some form of close association with them. <sup>13</sup> " And the Foreign Ministers' communique after the Venice meeting endorsed this : " The six Ministers reaffirm the hope of welcoming forthwith those countries which are ready to collaborate in their work on an equal footing. They instruct the Chairman of the Conference to keep O. E. E. C, E. C. S. C, the Council of Europe and the European Conference of Ministers of Transport regularly informed of the progress of their work and to address the appropriate invitations to the Member States of O. E. E. C. with a view to securing their participation in or association with the treaties to be concluded <sup>14</sup> ". On the other hand, those States which are considering the possibility of joining the Common Market in one way or another must not allow the impression to arise in the sponsoring Governments' minds that they (the former) are considering their position from a purely national point of view. There must, therefore, be a sympathetic psychological understanding of the situation by the Governments of both sponsoring and of potential Member States.

#### 2.2.2.2. (ii) Overseas associates and territories

Overseas associates and territories.

19. The second problem is created by the fact that some Governments sponsoring the Common Market plan must take account of overseas associates and territories linked to them in varying ways <sup>15</sup> . Not only did the authors of the Intergovernmental Committee Report feel unable to touch upon the delicate problem of how these overseas connections are to be treated in relation to the Common Market, but the six Foreign Ministers themselves postponed any decision in the matter—an announcement of their policy may be expected in the near future <sup>16</sup>. We cannot therefore comment at present on any proposals by sponsoring Governments; we merely offer views based on general considerations.

Exclusion impossible.

20. What of the possibility of overseas territories' being excluded from the Common Market? One might in theory consider making practical arrangements to do this. A system could be set up, for example, to prevent fraudulent reexports. But it would certainly be a delicate, costly and complicated operation. And there would be a major political objection. A situation would be created in which European Powers were reaping the benefits of membership of the Common Market—continual reduction in prices of goods, and increase in trading outlets—while the overseas territories would to a large extent be excluded from these benefits. And the views, for example, of the African, who would thus see further benefits accruing to peoples already far more prosperous than his own, might well be bitter. One may certainly conclude that it would be politically impossible for the metropolitan Governments responsible for dependent overseas territories to exclude the latter from the benefits of the Common Market if they themselves enjoyed those benefits.

inclusion difficult;

21. What, then, would be the position if the overseas territories were included in the Common Market? From the standpoint of the metropolitan Powers, there would be the objections, which would surely find political expression, of all those sectional interests who saw in the opening of the economic gates of these territories to

---

12. Intergovernmental Committee Report, Introduction III B p. 15.

13. Intergovernmental Committee Report, Introduction III B p. 15.

14. See AS/AG (8) 15, para. 8.

15. The expression " overseas territories " should be taken in this Section of the paper to mean, according to the sense of the passage, associated and/or dependent territories.

16. Paragraph 4, Venice Communique (AS/AG (S) 15).

other European Powers fundamental damage to their own economic and political position. From the standpoint of the overseas territories themselves, two results might be expected. First, there would be real benefits to their economies (particularly if, as the Economic Committee's Report recommends, those European Powers without overseas connections join in helping overseas development in return for the benefit of new outlets for their own goods). Secondly, there would be opposition from those who would see in the incorporation of their territories into a European Common Market a new offensive by "European economic colonialism". (When demagogues take up this question, in fact, Europe will be under attack, whatever she does; for discriminating against these territories, if they are excluded from the Common Market, and for exploiting them, if they are incorporated.)

22. Such attacks could, however, be parried if it were recognised that the industrial and agricultural stability which characterises European countries does not exist in those territories, which have, in part, been developed at an extremely rapid rate, but which have not yet achieved an equilibrium as between the various branches of production. Accordingly a special status must be recognised for these territories, and special arrangements agreed upon for protecting their new development industries.

but the only possibility.

23. With regard to the sectarian interests affected in the metropolitan countries by the inclusion of overseas territories, this nettle should be grasped firmly now. Sooner or later all economic discrimination against overseas associates or overseas territories of European Powers must go. If that involves some sacrifice for the States concerned, it would be far better that it were freely made as soon as possible, rather than forced from them some years hence. The Common Market cannot introduce new forms of discrimination; as far as those who might oppose the scheme overseas are concerned, we must point to what the proposal could mean for them : enlarged development funds, bigger markets abroad, cheaper goods.

24. The conclusion of all this is obvious. First, we must pin our faith resolutely to on the economic advantages that inclusion of the overseas territories in a general Common Market will bring to them. Secondly, the development of general political relations with those territories must be such that their leaders will never wish, in order to gratify political resentment, to break off an economic collaboration which could prove so fruitful for the Common Market as a whole.

25. How can this development be ensured as far as the Common Market is concerned?

26. We have to do two things. We must ensure that local opinion overseas is fully informed and convinced of the advantages of the general Common Market right from the start of negotiations and that their interests are associated with these negotiations. This will ensure that the overseas territories would enter the Market willingly. Secondly, we must provide for the representation of overseas territories—or, where appropriate, for the requisite protection of their interests—in the institutions to be set up, and above all, in the Assembly. This will ensure that, through co-operative association in the work of establishing and developing the Common Market, the overseas territories, whatever constitutional changes may take place in future, would freely remain in the Common Market community.

### 2.2.2.3. (iii) Powers of the institutions

The institutions :

division of responsibilities

particular the degree of parliamentary control.

27. The third problem is important not only for the long term progress of the Common Market, but for dealing immediately with the various tasks involved in the process of establishing it. These tasks will, to a large extent, be unique in kind, and they must be accomplished not only successfully from the technical point of view, but harmoniously as between the various national interests and Common Market institutions involved. For this to be ensured, there must be a clear and rational distribution of responsibilities between existing and planned institutions. The problem here, then, is to see how far the Intergovernmental Committee Report's proposals on the institutions are satisfactory, and in particular, since an Assembly is one of these institutions, we must be satisfied that the parliamentary control provided for is adequate.

Comparison with pattern of national administrations.

28. If the institutions proposed were to operate on the lines of our national administrations as we know them, they would have very clearly divided responsibilities. The European Commission would operate exclusively under the instructions of a Council of Ministers, while the policy of the latter would be subject to the approval

of the Assembly and, if not approved, would involve the Ministers' replacement. Thus the Ministers, responsible to the Assembly, would be responsible for carrying out a policy approved by that Assembly. This is the essence of parliamentary government.

Intergovernmental Committee's proposals : dominating position of Council of Ministers.

29. What do we find in the Intergovernmental Committee's proposals? The European Commission, which will do the spade-work of setting up and operating the Common Market, will in some cases (the more routine ones) be responsible for its own decisions, in others (the more important), will be limited to recommending decisions to the Council of Ministers.

but Council Of Ministers not responsible a community parliament.

Thus far the Council of Ministers appears to be the final authority. But whereas the Council of Ministers should, in turn, be collectively responsible to a parliament which could dismiss them, they have in the Common Market plan no corresponding responsibility to the community's parliament. Moreover, in the present state of European integration and of relationships between member countries, there can be no such responsibility.

National parliamentary control will exist,

but this should be supplemented by community's Assembly control.

30. The Ministers who compose the Council are indeed responsible singly to their national parliaments in the last analysis, but this would mean that Council decisions would, in the last analysis also, reflect either purely national interests or only such a degree of success in harmonising those interests as would be represented by their highest common factor. Clearly, this would be unsatisfactory for the efficient running of the common economy of Member States. The Intergovernmental Committee is aware of this, of course, and has therefore gone a long way towards defining the scope of the only genuine common institution, the European Commission. They propose that " the European Commission would be responsible to [the] Assembly, which should have the power to cast a vote of censure <sup>17</sup> ". If the precedent of the ECSC Common Assembly could be followed, this might involve the resignation of the European Commission and the appointment of a new one. But any new Commission would be appointed by the same Council of Ministers. In theory, therefore, if the policy pursued by the European Commission and disapproved by the Assembly had found the approval of the Council of Ministers and, ultimately, of national parliaments, the Ministers could appoint a new Commission holding the same views as the earlier one, and continue to sponsor a policy of which the Assembly had expressed its disapproval. All this, it is true, is a matter of pure constitutional theory, but it reflects the fundamental difficulty of reconciling existing national institutions with the creation of a new, and what should properly be dominating, field of community interests.

Nonetheless, in practice, censure by the Assembly should be morally binding.

32. But if we look again at the practical side of the Intergovernmental Committee's institutional proposals and remember the indirect influence which could be exercised on the Council of Ministers through the intermediary of national parliaments, it seems unlikely that a vote of censure by the Assembly would not carry its full weight and lead to a replacement of the European Commission's policy by one of which the Assembly would approve. The Assembly's power over Common Market policy would thus far be assured, except for the question of direct relations between the Assembly and the European Commission. We must now examine these relations.

Details of European Commission's responsibility to Assembly ;

Importance of full information for Assembly.

33. There is indeed some doubt on how far the European Commission's responsibility to the Assembly will be fully effective. It is certainly an advantage that the budget proposals for the several institutions should be submitted to the Assembly, provided that, as we may assume, and must insist, this submission would be of budgetary accounts in advance and not, as in the case of E.C.S.C., retrospectively. It is also satisfactory that " the Assembly will approve the general decisions of the Commission and its proposals to the Council of Ministers <sup>18</sup> ". With these two provisions, if the moral effect of an Assembly vote carries its proper influence with the Council of Ministers, the total degree of Assembly control will be considerable. But, as is already clear from the experience of the Common Assembly with the ECSC High Authority, the Assembly cannot possibly

---

17. Intergovernmental Committee Report Introduction IV (B), p. 18.

18. Intergovernmental Committee's Report, Introduction IV (B), p. 19.

make well-founded judgments on the European Commission's policy, whether budgetary or other, unless it is put in possession of all the relevant detailed information on any given project or policy. This condition must therefore be met if the provisions in the Intergovernmental Committee's Report for Assembly control are to be fully effective. If it is met, something of the national parliamentary system, as we know it, will come into existence in the responsibility of the executive (composed in this case of the European Commission plus the Council of Ministers) to a parliamentary control, either direct or indirect.

Three principal Assembly rights :

34. We thus come to a clear conclusion. The Assembly's powers, when the Treaty is finally drafted, must be defined; and they must include, from the beginning, as recognised rights, those powers which the Assembly would, after a long struggle, create for itself in practice. Among the powers in question we must mention in particular : approval of budgets for the institutions in advance; the right to full information from the European Commission; at the end of the transition period those recommendations adopted by a specified majority to be made binding. If these powers are written into the treaty text, harmonious co-operation between the Community's institutions will be ensured right from the start. The Assembly, instead of wasting its strength in the battle for essential parliamentary rights, will then be able to make its proper contribution to the constructive work of the Community's administration.

Proper powers for the Assembly will facilitate work of European Commission

35. Finally, the endowment of the Assembly with proper powers will have one more important effect. It will enable the European Commission, instead of serving two masters, to have a proper mandate for its work, so that it is not limited by whatever may be the highest common factor of individual national interests but can work for the economic welfare of the community as a whole.

#### *2.2.2.4. (iv) The problem of centralised authority*

Centralised " State " control

36. The fourth problem is what we may call the problem of centralised community control. In national administrations, the increasing role played by the State (i. e., the civil service) in the lives of the general public has called for a corresponding increase in parliamentary vigilance. It is precisely this parliamentary vigilance for which the arrangements proposed are, as we have seen, liable to be defective in some degree. Because the Intergovernmental Committee's plan deals only with general principles, and practical instances of the problem will only arise in the actual creation and operation of the Market, we must reserve our position, bearing well in mind the risk of the centralised authority's acquiring and using powers which effective parliamentary supervision would not countenance. The Assembly, however, will not be alone in guarding against excessive growth of the power of central authority. It will also be the task of the Court to watch for any wrongful use of powers.

#### *2.2.2.5. (v) Composition of the institutions and of the Assembly, in particular*

Composition of the institutions

37. Our fifth and final problem is the composition of the four institutions proposed. The principle here must be that there should be no unnecessary overlapping with institutions which already cover in part, or could easily take over, tasks involved in operating the Common Market. Public opinion will readily understand that a number of divergent interests are in question in each of the various fields in which European collaboration and integration are attempted, but this must not lead to the wasteful expenditure of large sums of money and conflicts between new sets of vested interests.

Connection EPSC institutions.

38. The Court and the Assembly are, it is proposed in the Intergovernmental Committee Report, to be in each case the Court and Common Assembly of the E. C. S. C., suitably modified. The reason for this proposal is clearly the economy which would result in administration and the fact that only the E. C. S. C. Common Assembly and Court have the immediate and indispensable experience of the type of community it is desired to set up. And just as it seems most logical and economical to use these two existing institutions for the general Common Market, so it seems logical and economical that close relations should be established between the European Commission and the High Authority of E. C. S. C. The Intergovernmental Committee Report makes no mention of this point, but it would be clearly impossible to have two entirely clearly separate executives, one dealing with the Common Market as a whole, the other dealing with two particular items which

are inextricably bound up with that economy. It seems, then, that on the institutional side the general Common Market should be closely tied to the existing institutions of E. C. S. C. (the identity of the Council of Ministers would, of course, depend entirely on the number of States which finally signed the Treaty).

39. It would be imprudent, however, to overlook the fact that this identification, whether partial or complete, of E C S C institutions with those of the Common Market, may result in criticism. In the debate on the Euratom proposals in the French National Assembly, it became clear t h a t there might indeed be a current of opinion which would regard with misgiving the possibility of the Common Market and Coal and Steel Communities' being served in practice by one set of institutions, those of E. C. S. C. And, though the logic of association or identification with E C S C institutions cannot be denied, one might consider whether some realignment of institutions might not be found which would meet those critics' objections, and yet not lead to wasteful duplication of effort.

#### Connection with the Council of Europe

40. It is here that the Council of Europe, and in particular the Consultative Assembly, centre of the parliamentary work of Europe, can play an important role, creating or supporting organic links between the various institutions.

#### Universal suffrage

41. Finally, if the proposed Assembly is genuinely to represent the interests of the community for which it will work, it is essential that it should be elected, sooner or later, by universal suffrage. This point is well in the minds of the Representatives to the Common Assembly, who do not however believe this scheme is practicable a t the present time <sup>19</sup> . It may be true that election to the Assembly of the Common Market Community or to any other European Assembly by universal suffrage is not possible immediately. But the fifteen years during which the Common Market is to grow up should surely bring about a sufficient degree of unity among the various national electorates to justify consideration of universal suffrage at the end of that period.

### **2.3. III . THE PLAN AS SEEN IN RELATION TO NON-PARTICIPATING MEMBERS OF THE COUNCIL OF EUROPE**

#### *2.3.1. A . General considerations for Governments other than " The Six "*

Why are only the " Six " at present sponsors?

42. We have said in Section II that, provided the special problems discussed there can be successfully dealt with, the Common Market as proposed by the Intergovernmental Committee will represent a major economic advance for those countries who join it. If this is so, we must ask ourselves why it is that so far only the six Governments of the ECSC States have considered joining the Common Market and accepted the principle of a common economic policy which underlies the Common Market plan.

Parity economic reasons ;

43. The economic reasons which must have been uppermost in the minds of the other Governments in considering whether or not they can join the Common Market have been dealt with in the Economic Committee's Explanatory Memorandum. In the case at least of Scandinavia and Austria, that memorandum shows that there is no strong economic justification for an unsympathetic attitude on the part of those countries, still less for a definite decision not to be associated with the Common Market in any way. The economic reasons behind the special difficulty of the United Kingdom position are more important, but there, too, the Economic Committee's analysis shows clearly that these economic considerations are only half the story. We must seek in the position of these Council of Europe Members outside E. C. S. C. the underlying political considerations which have made them so very hesitant in deciding their attitude towards the Common Market. What, exactly, are these considerations?

partly long-term political considerations,

---

19. See Doc. 523, paragraph 60. Report of the Common Assembly to the Consultative Assembly. One of the most justified objections to the idea is that it is impossible at the present time to do without the indirect influence exerted on members of the Council of Ministers by members of the Common Assembly in their capacity as members of national parliaments (see paragraphs 30, 32 and 33 of the present memorandum).

44. We may say first that, however strongly the various schemes for European unification have been justified on economic grounds, it has been generally realised that it is not in practice possible to collaborate closely, much less to establish a form of actual integration in any sphere of the European economy, without preparing the way for intimate political collaboration and, ultimately, for political integration. The general Common Market is the most far-reaching of all the measures recently proposed, and it is readily seen that the creation of a common economic policy must vitally affect the capacity of Governments to pursue their own general policies in complete independence of one another. It is, then, the realisation that to join the Common Market would affect in one way or another the unlimited exercise of national sovereignty that has caused Governments other than the Six to be so cautious.

partly historical reasons.

45. It should be remembered, in particular, that all these Governments are on the periphery of the E C S C Community. The political life and the law, public and private, of the countries of the E C S C Community have impinged upon each other at every point for centuries ; it is not quite the same, for example, for the United Kingdom, Greece and Turkey. It seems natural then that there should be this attitude of caution on the part of such Powers.

### *2.3.2. B. Particular considerations*

#### *2.3.2.1. (i) Greece and Turkey*

Greece and Turkey ;

46. There have been also more particular reasons for caution on the part of these countries. Greece and Turkey, for example, are physically separated from the whole area of the rest of the Council of Europe, and some of their interests are different from those of the rest of our Member States.

#### *2.3.2.2. (ii) Scandinavia*

Scandinavia ;

47. The Scandinavian position is more pronouncedly political. On the one hand, Denmark, Norway and Sweden tend to form a Scandinavian unity, as far as possible with Iceland and Finland. On the other hand, they are bound to bear in mind (a) their important maritime and commercial links with the United Kingdom and (b) the fact that their civilisation binds them closely to the Continent of Europe. As far as their European policy is concerned, they "expect their liberty of action to be respected, and they will consider with circumspection the various factors at issue before taking a decision on Common Market membership.

#### *2.3.2.3. (iii) United Kingdom*

United Kingdom and the Commonwealth.

48. There is a specific political motive behind Britain's having taken no steps so far to associate herself with work on the Common Market plan. Political ties with the Commonwealth, though they might remain unaffected if Britain were to be associated with the Common Market Community as a free trade area extension, would certainly be seriously damaged if Britain were to consider joining as a full member and to accept the economic consequences described in the Economic Committee's Explanatory Memorandum. Moreover, the British Government is committed to harmonising, as far as possible, its general political policy with that of other members of the Commonwealth in a way that is unique in international affairs, and certainly quite unlike the pattern of foreign relations of any other European State. The consequences for general policy resulting from integration of economic policy over wider fields might therefore be thought profoundly to affect Britain's future relations with the Commonwealth. This seems to be the great stumbling-block for the British Government.

49. On the specific economic difficulty for Britain, that of her relations with the Commonwealth, the arguments set out in the memorandum of the Committee on Economic Questions seem conclusive. There can be no question at present of Britain's destroying the existing pattern of her economic relations with the Commonwealth.

Effect of participation on Britain's world political position ;

50. With regard to the specific political difficulty for Britain, the possibility and a hypothetical one (a) that political Britain would become in the course of position; years so involved politically with the Common Market Community that she would no longer be able to play her present part in the Commonwealth, we can say two

things. For Britain to be associated with the Common Market as a free trade area extension of that Market, because it need not necessarily damage her economic relations with the Commonwealth, would not provoke political difficulties with the Commonwealth over the years immediately to come. As regards the possible political repercussions in later years of Britain's association with the Common Market as a free trade area extension, our own view of the political future must surely be that the democratic nations of the world as a whole, including the Commonwealth and the United States, must work together in a way in which fundamental political conflicts would be unthinkable. In this sense, there is no reason for Britain to fear that she may ever have to make disagreeable political choices, between Europe, on the one hand, and Commonwealth members, on the other. Moreover, it is in the interests not only of the Western world as a whole but also of these Commonwealth countries whose commercial relations with Britain are so important, that Europe should be economically strengthened. Those countries can only welcome the fact of Britain's becoming part of a rapidly developing economic area offering cheaper export goods and larger markets for imports. This, then, must be the real answer to Britain's problem in considering her position.

### *2.3.3. C. Conclusions*

Britain should be free trade area extension ;

51. Our ultimate conclusion must therefore be that Britain should be recommended to associate herself with the Common Market on the basis of a free trade area extension. And if she does agree to take this imaginative and enterprising step, the consequence must surely be that the other Council of Europe members who have not yet taken any decision will be strongly tempted to join, either as full members or on a similar basis to that of Britain. It remains then to say a word about this possibility of association of States with the Common Market not as parts of the customs union, but as extensions of an area of free trade.

#### The Free Trade Area Arrangement

52. We can say at once that while membership of the Common Market Community on a free trade area basis is less satisfactory than full membership, it is to be welcomed if it is genuinely the biggest contribution a given State can make. We have already said that the United Kingdom can hardly be expected to do more than join on that basis. The same is not quite so true, for example, of Denmark, Norway and Austria, and they should certainly consider whether they cannot come into the Common Market as full members. What must, however, be strongly opposed, is any attempt to water down the whole Common Market plan from the present proposal for a customs union into a mere free trade area. What is required is that the maximum number of Member States should form a customs union, while all others who are genuinely unable to join on that basis, should be associated as a free trade area extension. This must be the answer to the second of the two basic questions put at the beginning of this memorandum—what position should be taken by Member Governments of the Council of Europe who are not sponsoring the plan at present?

and the OEEC Study.

53. In this respect, the Resolution of study. the OEEC Council of Ministers dated 19th July 1956 is to be very warmly welcomed. This Resolution takes as its starting-point the proposed Customs Union of the Intergovernmental Committee's plan. And, of the possible ways of extending the economic co-operation involved in that Customs Union, the attention of the Special Working Party set up by the Resolution to examine these ways is specifically drawn to that of " the creation of a free trade area which would include the Customs Unions and [O. E. E. C] member countries [not taking part in the Union] ". Provided, then, that no State which at present feels hesitant about committing itself seizes upon the OEEC proposal as an excuse for substituting free trade area membership for full membership, this OEEC plan deserves our full support.

Final conclusion.

54. The conclusions we have reached in earlier sections of this paper lead in turn to one final conclusion. Is the plan likely to advance the cause of unified European policy and European integration as a whole? Our answer to that question must be : yes. Of all the plans for European collaboration and integration, it is the one for a general Common Market now presenting itself to us which will involve for the whole jaolicy of free Europe the most decisive consequences for the remainder of the present century.