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European Economic Association

Report¹

Committee on Economic Affairs and Development

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A. I . Draft Recommendation

1. The Assembly,
2. Noting the satisfactory development of the European Economic Community since the first measures to eliminate restrictions on trade between Members of the Community were taken on 1st January this year;
3. Welcoming the views which leaders of the Community have expressed regarding the need for the Community to be outward-looking and to move in the direction of freer trade with non-member countries and in particular the other countries of O. E. E. C. ;
4. Noting the draft Plan agreed in Stockholm for a European Free Trade Association;
5. Noting with satisfaction the affirmation by the Ministers responsible for this Plan that it would be their purpose to facilitate early negotiations with the European Economic Community and also with the other Members of O. E. E. C who have particular problems calling for special solutions;
6. Believing that the measures proposed for the progressive elimination of barriers to trade in the European Free Trade Association may contribute to the development of a multilateral association covering the whole of O. E. E. C. ;
7. Believing that the setting up of a second unified trading system makes it increasingly urgent, in the interest of all OEEC countries, to multilateralise the arrangements for freeing trade, and that a failure to do so would perpetuate a division in Europe;
8. Drawing the attention of Governments to the particularly grave problems with which OEEC countries belonging to neither group are faced both in the short term and in the long term,
9. Recommends to Member Governments :

that they should sign, as previously recommended by the Assembly, a Declaration of Intent not later than March 31st 1960, indicating the broad principles of an Association Agreement and defining the extent of differential trade treatment which would continue during the period between the signing of the Declaration and the coming into force of an Association Agreement, (which it is suggested should be possible by 1st January 1962) such a Declaration to be submitted to national Parliaments, as soon as possible after signature;

that, in working out the broad principles of the Association Agreement mentioned above, due weight should be given to any proposals from the Special Committee of the European Economic Community and the Official Committee of senior officials now drafting the Convention for a European Free Trade Association;

that, for this purpose, both Committees should be instructed, by the Governments to which they are responsible, to produce new proposals in sufficient time for agreement on the contents of the Declaration of Intent to be arrived at within the immediate future;

that parallel with the discussions now proceeding between Greece and Turkey, on the one hand and the European Economic Community, on the other, regarding the form which an association between these parties might take, the Member Governments of the O. E. E. C. should examine possible solutions to the short-term problems of export trade which countries belonging to neither the E. E. C. nor the E. F. T. A.² now face;

that the resumed negotiations leading to a Declaration of Intent and the conclusion of the Association Agreement itself, and the discussions among OEEC Member Governments referred to in paragraph (iv) above, should take place as far as possible in the framework of O. E. E. C

2. European Free Trade Association.

B. II . Explanatory Memorandum by M. HECKSCHER

1.

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1.1. A. Introduction

1. The body of this report is divided into two main parts. The first (Section B below) sets out the material developments which have taken place since the Assembly last met, and attempts to indicate how responsible opinion in our countries has evolved on the question of a European Economic Association. The second part (Section C) lists, and tries to answer the four key questions which, in the view of the Economic Committee must be satisfact-orily answered if we are to put before our Governments a sound recommendation on the policy they should now follow.

1.2. B. The situation today

1.2.1. (i) Developments in the European Economic Community

2. After little more than eighteen months of existence, the European Economic Community can look back with considerable satisfaction on its growth so far. The process of creating a single market in the Community was begun with the first tariff and quota measures on 1st January this year, and by the end of June Professor Hallstein ³ was able to say that " all the Governments of the Community did everything which could reasonably be expected of them in order to get the Com-mon Market going ". True there were some difficulties, some growing pains?the German Government's conversion of duties on tea and coffee into internal consumption taxes or the allegedly inequitable way in which the Italian and French Governments calculated the enlarged and globalised quotas they were obliged to fix for automobile imports But the complaints among consumers or exporters to which such incidents gave rise were minor matters compared with the overall achievements of the Community in its early months

3. In some ways even more important than the high marks which the Chairman of the EEC Commission was able to give to Governments, was the way commerce and industry in the Common Market has set to work this year. In my last report to the Assembly, I mentioned the way in which business planning was now dominated by Common Market considerations. Professor Hallstein confirmed this striking development in June when he spoke of the specialisation agreements, joint sales agree-ments, company mergers, and the setting up of

3. Addressing the European Parliamentary Assombly on 25th June 1959.

common supply arrangements, which were everywhere evident in the Community, and in sectors as important as the automobile, electrical, typewriter, aircraft, locomotive and coal-mining machinery industries. Some thirty co-operative arrangements have been reported between undertakings in different countries of the Community ; fifty mergers for the purpose of improving competitive efficiency have been recorded within individual member countries; several groups of banks have concluded important working arrangements to help their operations in the developing single market; and no fewer than sixty new joint organisations have been formed by business and pro-fessional associations in the six countries ⁴. (These developments may of course involve certain dangers for the Community such as the growth of cartels and other restrictive business practices which might frustrate in part the commercial purposes of the Rome Treaty it is even possible that such undesirable trends could adversely influence the attitude of business in the Community towards the idea of a multilateral association throughout the OEEC area. But so far we can probably feel justified in regarding the new business patterns primarily as a sign of the consolidation of the E. E. C.)

4. Professor Hallstein actually noted "signs of impatience" ⁵ in Common Market business circles with the transitional period laid down in the Rome Treaty, which is beginning to be regarded by some as too long. Even the French National Employers Council, representing that part of the Common Market's industries which has usually felt that it needed more time to adjust to the increased competition brought about by the customs union of the Six, thought it worth while to look at this question recently and concluded that " accelerated creation of the Common Market is not inconceivable " ⁶ ? even though it thought that priority should be given to accelerating the " harmonisation of conditions of production and competition", rather than the automatic tariff and quota clauses of the Treaty.

5. But the six Governments have by no means neglected the non-commercial arrangements provided for in the Rome Treaty. Consultations have now been organised in the field of financial and monetary policy between the Finance Ministers, who are to meet every three months in future. Continuous observation of economic trends has been arranged by the Commission, and a special committee of senior officials from the six administrations appointed by the Governments. They will publish regular monthly quarterly and annual economic reports. Periodic surveys of the monetary and financial situation of the Community will be made by the Monetary Committee. Permanent contact with the relevant ministers of the six Governments has been organised and a working party of specially eminent economists from each country has been created to prepare studies on long-term prospects and possibilities for the Community's economy. A first study of regional development policy has been completed by the Commission. A joint energy policy committee has been set up. Progress has been made by the Commission in formulating recommendations regarding freeing movements of capital. All this demonstrates beyond doubt that the flesh and blood of a living Community is now being added to the bones of the Rome Treaty.

6. Moreover, this growth of the European Economic Community as an independent entity is taking place against a background of satisfactory economic development in the area of the Six. In all six countries, increased industrial production (except for Belgium and Luxembourg, which are barely recovering from the recession), rising employment figures, and the state of order books, show an upturn in economic activity which means that the situation of the coal industry apart the institutions of the E. E. C. are likely to be able to continue their work relatively unimpeded by immediate and grave economic problems.

7. Against this encouraging background, what do the leaders of the European Economic Community think of the Community's relations with the world at large and with the other members of O. E. E. C. in particular? The evidence is not entirely clear, varying as it does between that which indicates a genuine desire to act speedily and effectively to bring about an Association of all OEEC countries, and that which indicates an altogether more hesitant attitude.

8. Professor Erhard is perhaps the best example of the former school of thought. He appears to believe that the end of the old Free Trade Area negotiations last December did not spell the end of the prospects for an Association; that there must be room for new attempts to bring the two sides together; and that in September energetic negotiations for a European Economic Association will have to be renewed. He has welcomed the fact that the draft plan for the European Free Trade Association does not represent any move hostile to the E. E. C, but is designed rather to bring about a link with the Common Market; and he believes firmly in the possibility that a bridge can be built between the two systems ⁷. His view is presumably, influenced considera-

4. For further details, see Monthly Information Bulletins of the European Community, Nos. 5, 6, 7-8, May, June, July-August 1959 and The Economist of 8th August 1959.

5. Loc. cit.

6. See July Bulletin of the Conseil National du Patronat français, pp. 22-24.

7. See the Federal Government's Press and Information Service Bulletin No. 120/S/1225 of 8th July, reporting an interview given by Professor Erhard to the Westdeutscher Rundfunk.

bly by the effects which the E. F. T. A. might have on West Germany's export trade, 27 % of which at present goes to member countries of the E. F. T. A. the same proportion, in fact as (goes to the Common Market countries themselves. And German industry itself has, naturally, been quick to seize on the consequences for its exports of a new preferential system among the Seven.

9. Professor Müller-Armack, Secretary of State for European Affairs in Professor Erhard's Ministry of Economic Affairs, has added his voice to those pressing for the earliest possible resumption of negotiations for a European Economic Association. In a speech at Lausanne on 23rd June, he is reported as having said that this " would be the happiest solution to the present deadlock, since the Common Market cannot remain in a state of isolation " ⁸.

10. As regards France, it has been reported that M. Couve de Murville has agreed with Mr. Selwyn Lloyd, in the course of the Foreign Ministers' Conference at Geneva, that conversations at a high level would have to take place as soon as possible between representatives of the Common Market countries and those of the Little Free Trade Area " countries ⁹. Professor Erhard, in the interview quoted above, has himself commented on France's attitude and said that Finance Minister Pinay specifically assured him that he did not wish to see Europe split into two hostile blocs. France, according to Professor Erhard, might have her own views on how this split could be avoided and how an Association could be brought about, but he stressed that the France which had signed the Rome Treaty was economically and financially, a completely different country from the France of today. " I have the real hope that the speedy progress made in putting the French economy on a sound and healthy footing will also bring about a change of attitude as regards European co-operation. There is nothing tangible as yet... but it is unmistakeable that changes in this direction are now afoot "

11. This transformation of the economic position of France was mentioned in our last report to the Assembly. It remains a key feature of the present situation, and all the recent evidence shows that the " redressement " of the French economy is continuing most satisfactorily. Its most recent and relevant manifestation has been the increase announced on 23rd July in the liberalisation of trade with other OEEC countries from 91 % to 95 %. Simultaneously 60 % instead of the previous 50 % of trade with the dollar area was liberalised. Moreover bilateral talks with a number of other OEEC countries (Austria Denmark Sweden and the U. K.) have led to increases in the import quotas applying to those countries.

12. The attitude of the Benelux Governments was clearly indicated by the Belgian Minister for External Trade, M. van Offelen, when he spoke to the Assembly at our April Session. The desire of these Governments to make every effort to break the present deadlock is unmistakeable, and indeed M. van Offelen specifically supported the Declaration of Intent which the Assembly suggested as one of the points in a programme by which the OEEC countries might resume their work for an Association. M. van Offelen said, « We in Benelux would like to see European integration taking place at the level of the Six... At the same time, however, we should like to go further and create a seventeen-Power Europe, which would mean a further stage in European co-operation... Undoubtedly, ... on the side of the Six there is an easing of tension with regard to their own integration and the wider-scale integration that may take place later. » More specifically, M. van Offelen stated that « What my country and, generally speaking, all the Benelux countries, would like is a free market between the Six and the Eleven. We should like to fix a deadline for this at once but there is no need at the moment to decide in detail on its structure or the stages by which it will be introduced. What is important is for us to proclaim our resolve to create this free market for the Seventeen... This long-term objective coincides in certain ways with the Declaration of Intent, proposed by M. Heckscher which states, inter alia, that trade restrictions by means of customs tariffs and quotas must finally be abolished over the whole area. This part of the Declaration of Intent is almost identical with the hopes expressed by the Benelux countries regarding the creation of a free market between the Seventeen " ¹⁰. This approach to the problem coming from so eminent an authority, is clear evidence of another strong current of opinion in the Economic Community in favour of an Association and of the existence of concrete proposals for what should be done. These proposals, as is known, were subsequently taken up by the Belgian Government with the Danish Government, before the Seven went ahead with their own negotiations, and, although the new joint approach by the Benelux and Scandinavian countries which was envisaged in those Belgo-Danish conversations did not in the end materialise, the development showed that the promoters of the idea of an Association can count on strong Benelux support.

8. Financial Times, 25th June.

9. See Le Monde, 25th July.

10. See Official Report of the Consultative Assembly's Eleventh Session, 10th Sitting, Monday 27th April 1959.

13. At another level, the International Association of Chambers of Commerce in the Common Market countries, which includes France, of course, is to organise a series of talks this autumn between the Chambers of Commerce of the Six and those of the Seven, in order to find out where the essential commercial difficulties lie in trying to bring the opposing viewpoints together.

14. Finally, Professor Hallstein himself has stated that "We do not consider this move [the proposed European Free Trade Area Association] as something specifically directed against ourselves." ¹¹ In his speech to the European Parliamentary Assembly of 25th June, quoted above, Professor Hallstein also said that "not only the EEC Treaty, but also our own interests and the psychological situation of the Community compel us in the direction of freer trade. I think that it is a good thing to spread conviction on this point more widely than has so far been the case".

15. But this evidence that there are in the European Economic Community forces at work and trends of opinion which must facilitate a multilateral association of all the States of the O. E. E. C., is offset by certain other evidence which is not quite so encouraging. There has been, for example, to my knowledge, no major statement by any prominent French spokesman in recent months, stressing the need for positive steps to prevent the present split in Europe from widening still further. On the specific issue of a European Economic Association Professor Hallstein himself seems to have gone no further than the thinking expressed in the so-called Hallstein Memorandum prepared by the Commission of the E. E. C. and published in February last. This Memorandum, as Representatives will remember discussed the general principles of the relationship between the European Economic Community and the outside world, and also made one or two suggestions for settling immediate and practical difficulties between Member States of the Community and other members of O. E. E. C. But it hardly dealt with the way in which a permanent multilateral Association could be formed. When the Consultative Assembly itself, in adopting Recommendation 202 did put forward some suggestions, Professor Hallstein's reply ¹², while stating that "the Commission fully approves the idea that a solution to the problem of economic co-operation between Member States of the O. E. E. C. must be found on a multilateral basis", said also that the Commission "feels that the elements in this problem have been described most appropriately in point 4 of the Recommendation". Now point 4 is in fact only part of the preamble of the Recommendation and states principles which, though important are very general in character, and ones with which hardly anyone could be in disagreement, viz. "that... a satisfactory arrangement must at once respect the integrity of the European Economic Community, consolidate the economic cooperation developed in the O. E. E. C. and accord with the spirit of G. A. T. T." Professor Hallstein does not mention what his or the Commission's reactions were to the operative part of this Recommendation (para-graph 10) in which specific proposals were put forward for a renewed move towards an Association.

16. Finally, and perhaps most important of all, the one body specifically entrusted by the Council of Ministers of the E. E. C. to work out proposals for a European Economic Association?the Special Committee composed of representatives of the Governments and of the Commission, with the Commission providing the Chairman, which was set up on 16th March of this year to elaborate and develop the ideas set forth on the Hallstein Memorandum? does not appear to have made any significant progress. Professor Hallstein, in addressing the European Parliamentary Assembly at its session in June, did not give any indication either of the lines on which the Special Committee was working or of a date for the presentation of its report?although the Council of Ministers had asked that the comments of the six Governments on the Hallstein Memorandum, and their own suggestions, be transmitted to the Special Committee by 15th April last. We ourselves, in adopting Recommendation 202 on 27th April, expressed the hope that the Special Committee's report would be ready within two months! While some delay must, of course, be attributable to the fact that the Special Committee may have held up part of their work pending the results of the Stockholm negotiations, it is perhaps not unreasonable to feel that there could have been somewhat more tangible results than have appeared so far.

17. We can thus sum up the present position of the European Economic Community as follows. The Community, as a new and independent political entity on the European and world scene, is, after a most remarkably short period of time, firmly established, and the short-term economic future which the Community faces, is, by and large, a promising one; to this extent, the forces at work in the Community for setting up a multilateral Association with the rest of OEEC Europe have been strengthened and the voices which were more stridently raised against earlier efforts in that direction have died down; but as far as this larger Association is concerned there is still overall a degree of inertia in the Community which?-I think it can be fairly said__means that we cannot count in the early future on any new strong initiative from them towards a permanent solution of the commercial problem that now exists between the Six and the rest of the O. E. E. C.

11. Financial Times, 16th June.

12. See his letter to the President of the Assembly, dated 25th May (Doc. AS/EC (11) 2).

1.2.2. (ii) *The position in O. E. E. C.*

18. The O. E. E. C, through which negotiations for the seventeen-Power Free Trade Area/European Economic Association were conducted until December 1958, has not concerned itself further with the question of a European Economic Association since the negotiations in the Maudling Committee were suspended, and has had no part whatever in the recent negotiations among the Seven. There is, therefore, nothing to report from this quarter specifically concerning our problem, though two points should be mentioned which are relevant to it.

19. The first is Spain's accession to the organisation on 20th July 1959. Leaving aside the political implications of this new development, it does, of course, mean that when we talk of a multilateral economic Association covering "all OEEC countries" we now refer to eighteen countries. Among these Spain, by reason of the present state of her economic development, is to be classed with the countries described as in process of development", and therefore needing some kind of special arrangements if they are to be included in an Association of the kind envisaged so far. Spain's own view is that the question of joining either the Common Market or the Outer Seven (or presumably also a multilateral Association covering the two groups) would only be considered once the economic stabilisation programme, begun with the foreign aid arranged at the time of Spain's adherence to O. E. E. C, had been put into effect and the way ahead for the Spanish economy had become clearer¹³.

20. The other event in O. E. E. C. which is of interest is the agreement announced on 1st July last to prolong until 30th June 1960 member countries' obligation to free from quantitative restrictions at least 90 % of their imports from other OEEC countries. These liberalisation measures (which will continue to be applied to at least 75 % of private imports in each of the three sectors defined by the Code of Liberalisation of Trade? agricultural products, raw materials and manufactured articles) are of importance because, although practically all member countries have reached or exceeded the level of liberalisation laid down, (the actual average level of liberalisation reached between member countries stands at 90 % and exceeds 85 % in each of the three categories of products), there was some indication that one or two member countries, in view of the threatened economic split in Europe were hesitant to renew this obligation to prolong 90 % liberalisation for a further year. Member countries were in any case contractually obliged to continue liberalisation at a level of 75 % since this level is that incorporated in the O. E. E. C's Liberalisation Code but the continuation of liberalisation at the higher level is a welcome sign that no country has wished to start any kind of trade skirmish at the present juncture.

1.2.3. (iii) *Developments among the Seven*

21. Seven OEEC countries (Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the U. K.), faced with the situation in the European Economic Community and the O. E. E. C. described above, feeling that no early initiative for resumed negotiation was likely to be forthcoming from the Community, and desiring to limit as far as possible the prejudicial effects on their own export trade which the nascent preferential system of the Six might have begun in the Spring the negotiations which resulted in the Stockholm Agreement in July on a draft plan to set up a European Free Trade Association.

22. The purposes of this plan have been clearly and succinctly stated¹⁴ by the British Chancellor of the Exchequer, Mr. Heathcoat Amory. "In the first place, these arrangements will be advantageous in their own right to the United Kingdom and to all the other members. ... Secondly we and all the other Governments believe that this is the best way to advance towards a single European market, free of tariffs and other restrictions. " How far these two beliefs are justified are two of the crucial questions about the E. F. T. A. which we have to try to answer and which are examined in greater detail in the next section of this paper. The full text of the draft plan agreed on in Stockholm, together with an analysis of the plan, showing the chief differences between it and the provisions of the Rome Treaty, is contained in the Secretariat's study of the economic consequences of the E. F. T. A. which has also been circulated to the Committee. It may however be useful to list at this point those features of the plan which must be borne in mind when we come to assess its consequences for the prospects of a full multilateral Association.

(a) The practical arrangements on which the Seven countries have agreed, at least in outline, (the abolition of tariffs and quantitative restrictions by 1st January 1970, the rules to ensure fair competition, the rules for identifying which goods will be entitled to Association treatment? definition of origin? member countries' retention of control over their own external tariffs, etc.) are largely (except for the arrangements for agricultural

13. See statement by M. Ullasteres, Spanish Minister of Commerce, reported in the Financial Times of 4th August.

14. 1. See House of Commons Hansard, 23rd July 1959, col. 1534.

and fishery products) what the United Kingdom Government originally proposed in its White Paper of February 1957. (The problem of establishing sufficient reciprocity between countries which are primarily exporters of industrial products and those which are primarily exporters of agricultural or fishery products has been solved by special arrangements. Those concerning agriculture have been, or are to be, negotiated bilaterally between the countries principally affected and will be incorporated in a separate agreement on agriculture. It is also probable that there will be a separate agreement on trade in fishery products.)

(b) The methods and procedures by which the seven countries propose to implement the above arrangements are pragmatic ones of the kind for which the Eleven pressed in the old Free Trade Area negotiations and which, we should remind ourselves, the Eleven believe should produce as close and effective co-operation in economic policy-making as the Six sought to attain by institutional arrangements.

(c) The practical arrangements for tariff reductions are synchronised with the corresponding arrangements of the Rome Treaty up to the end of 1964; and subsequent reductions can no doubt be fitted in without difficulty with those made in the Common Market. And no problem arises in subsequently harmonising the arrangements for progressive increases in quotas in the E. F. T. A. (though these are somewhat different from those provided for in the Rome Treaty) with those of the Six.

(d) One member of the new grouping ?Portugal?needs special arrangements in certain respects in the matter of tariffs and, although these arrangements are to be the subject of further study, they must surely mean that Portuguese participation in the Association will be of a very different order, at least in the early years, from that of other members.

(e) On the important question of membership, the draft plan provides that "membership of the Association shall be open to other countries ready to assume the obligations. Admission shall be by unanimous decision of the Members ". Thus, it seems to be neither more nor less of an " open club " than the E. E. C.

(f) Finally, the Ministers who approved the draft plan in Stockholm " affirmed that in establishing a European Free Trade Association, it would be their purpose to facilitate early negotiations both with the E. E. C. and also with the other Members of the O. E. E. C. who have particular problems calling for special solutions "¹⁵. It seems practically certain that the attitude expressed in this statement was one of the most important conditions for the acceptance of the plan by public opinion in the countries concerned : if the proposed Association had appeared as an acceptance of the split in Europe, it would have met with strong opposition in many quarters. This, of course, provides no guarantee for the future attitude of public opinion in the seven countries, if attempts at a wider association were to fail again or be postponed for a long period of time.

1.2.4. (iv) The position of the Five

23. The five Governments (including Spain) which are Members of the O. E. E. C. but were not founding members either of the Six or of the proposed E. F. T. A., are all countries in process of economic development. The present structure of their economies would not, generally speaking, allow them to dismantle trade barriers (especially those maintained by tariffs) at the speed envisaged in the E. E. C. or the E. F. T. A., and, in addition, it has always been recognised (for example, in the OEEC Free Trade Area negotiations) that assistance in various forms will be needed if their economic development is to be brought more quickly to a point at which they will be able to participate in a single European market on the same terms as other members.

24. As has been mentioned above, the Ministers who approved the plan for a European Free Trade Association intended in so doing not only to facilitate resumed negotiations with the E. E. C, but also with "other Members of the O. E. E. C. who have particular problems calling for special solutions". And the senior officials who are to draft the EFTA Convention will be constituted an official committee " to advise Governments on questions regarding other countries arising out of the establishment of the Free Trade Association ".

25. It will be remembered that the first memorandum (the " Hallstein Memorandum") from the EEC Commission to the Council of Ministers of the Community on the subject of a European Economic Association already gave special attention to this problem. As regards European countries in process of development, the Memorandum suggested that a long-term solution for the problem of including them in a multilateral Association should include a special regime in the field of customs duties and quotas, and financial aid (perhaps extending the terms of reference of the European Bank). And for the immediate future, long-term contracts for certain products might be concluded ¹⁶.

15. See the press release issued in Stockholm on 21st July (included in Doc. AS/Ec (11)25).

26. The first moves by countries in this special group came on 8th June when the Greek Government applied for association with the European Economic Community, invoking Article 238 of the Rome Treaty. This Article provides that

" The Community may conclude with a third country, a union of States or an international organisation agreements creating an association embodying reciprocal rights and obligations, joint actions and special procedures.

Such agreements shall be concluded by the Council acting by means of a unanimous vote and after consulting the Assembly. Where such agreements involve amendments to this Treaty, such amendments shall be subject to prior adoption in accordance with the procedure laid down in Article 236. "

27. The Greek application was discussed by the Council of Ministers of the E. E. C. at a meeting in Brussels on 26th July and the Ministers declared themselves in favour of Greece's application. It was decided to open preliminary talks, through the Commission, with the Greek Government in order to draw up the terms and conditions of the association envisaged. 44 % of Greek exports (West Germany and Italy are Greece's most important customers for oriental tobacco, Germany takes large quantities of her fresh fruits and France is an important buyer of Greek wines) go to Member States of the Community, and the latter in turn supply 40 % of Greek imports.

28. The Greek application for association with the Community was followed on 29th July by a similar application from the Turkish Government. This application will no doubt be considered by the Council of Ministers of the E. E. C. at its next meeting scheduled for 11th September. Turkey takes about 31 % of her imports from Common Market countries and relies in turn on the Community for about 30 % of her exports, consisting mainly of tobacco, dried fruits, cereals, cotton and chrome¹⁷.

29. While Greek and Turkish trade is closely linked with the countries of the Common Market, Ireland's exports, predominantly agricultural, have their biggest market in the United Kingdom. From May onwards, when the plan for a European Free Trade Association was first mooted, the Irish Government was in close contact with the United Kingdom Government. By the time it became clear in July that it was likely that agreement would be reached on a draft plan for the E. F. T. A., an Irish Delegation, headed by Mr. Lemass, Prime Minister, went to London to discuss Anglo-Irish trade, and, in particular, the effects of the E. F. T. A. on that trade. The main outcome of the talks, according to an announcement by the British Board of Trade, was that an official study would be carried out of ways in which commercial relations between the two countries might be improved. Ireland, clearly, was apprehensive about the effects on Irish exports to the United Kingdom, especially bacon, of the concessions given to Denmark by Britain, under the bilateral agreement concluded between those two countries. While it is impossible to forecast in precise terms how this agreement, and the general agricultural agreement still to be worked out between members of the E. F. T. A., will affect Irish agricultural exports as a whole, it seems at least clear that, in the absence of a multilateral Association, the position of Irish exporters will to some extent be made more difficult in the near future.

30. Iceland has not taken part in the talks concerning the European Free Trade Association, and there is no official indication of the views of the Icelandic Government on the problems which the present situation creates for Icelandic trade. O. E. E. C.'s latest report on economic conditions in Iceland¹⁸ points out that severe inflation has accompanied the fast rate of economic growth in Iceland which official policies have encouraged in recent years, and Iceland's foreign exchange reserves have been exhausted. Apart from the considerable tightening of fiscal and monetary policies which the restoration of economic stability requires, the OEEC report stresses the need for increased exports, particularly since military receipts are at present much lower than the peak level of the period 1953-1955. Responsibility for increasing exports must lie mainly with the fisheries and they in turn depend, apart from the fish catch itself, on marketing conditions abroad. It is thus clear that the development of the Common Market, on the one hand, and the arrangements for trade in fishery products which will finally be agreed between members of the E. F. T. A., on the other, are of vital importance for Iceland, whose interests must be taken into account by her partners in O. E. E. C. in the negotiations which lie ahead.

16. Paras. 79 - 81 of the Hallstein Memorandum.

17. For these details of the Greek and Turkish applications, see *Neue Zürcher Zeitung* and *London Times* of 27th and 28th July, and the *Financial Times* and *Neue Zürcher Zeitung* of 5th August. The figures for Greek and Turkish imports/exports are those for 1957 - sources : OEEC Foreign Trade Bulletin series 4.

18. See *Economic Conditions in Member and Associated Countries of the O. E. E. C. - Denmark, Iceland, Norway, Sweden* .pp. 26-29. OEEC document EC (58) 12, 14, 18, 19, published November 1958.

31. As regards the fifth of the five countries discussed here, Spain, the terms and conditions under which she could take part in any multilateral association of OEEC countries must come up for consideration at a later date (see paragraph 19 above).

1.2.5. (V) G. A. T. T.

32. It will perhaps be useful to conclude our survey of European developments with some mention of what the trend of opinion is outside Europe, and G.A.T.T. is the natural indicator to which we turn for this purpose. The proceedings at the fourteenth Session of the Contracting Parties to that organisation were particularly revealing.

33. In reviewing import restrictions applied for balance of payments reasons at the first plenary meeting, the United States delegate expressed his Government's view that recent convertibility measures have created a new setting for commercial policy and that discrimination and bilateralism should now give way to non-discrimination and multilateralism in trade. This view was, in general terms, supported by a large number of non-European countries?the Canadian, South African and Australian delegates concurred with the United States's views on this question, and the New Zealand delegate criticised the discriminatory restrictions imposed by some European countries under the OEEC liberalisation programme for which, in his country's view, there was no longer any justification. This opposition to the continuance of regional discrimination, or regional preferences?whichever description ones cares to use?was also supported by India, Ceylon and Czechoslovakia. Indeed, when the French delegate asked the United States delegate whether in his Government's view the logic of convertibility meant that a number of practices followed by the O.E.E.C. should be discontinued, the U.S. delegate replied that it was indeed his country's view that the establishment of external convertibility by member countries of the O.E.E.C. removed any basis for continued discrimination.

34. It seems clear, then, that there is a widespread feeling among the members of G. A. T. T. that Europe can now afford to move away from regional arrangements of the kind developed in O. E. E. C., and that there is now " a unique opportunity for the achievement of the world-wide system of nondiscriminatory trade on a multilateral basis which contracting parties sought when they created the General Agreement"¹⁹.

35. The above discussions were concerned with quantitative restrictions on trade, applied for balance of payments reasons. Independently, however, of these discussions, which arose directly out of the move to convertibility, the contracting parties showed their determination to tackle the problem of other trade barriers and they agreed on a time-table for a new round of tariff negotiations and a review of quantitative restrictions applied for other than balance of payments reasons, particularly in the agricultural sector.

36. The practical significance of this mood in G. A. T. T. is, of course, that the European Free Trade Association, like the Rome Treaty itself, can be expected to meet with close and critical scrutiny from the organisation.

1.3. C. Four Key Questions ? and Suggested Answers

1.3.1. (i) Is the E. F. T. A. likely to become useful as a separate organisation?

37. The Ministers of the seven Governments, in the press release issued at the end of their July meeting in Stockholm, said that the object of the Association would be " to strengthen the economies of its Members by promoting expansion of economic activity, full employment, a rising standard of living and financial stability". And it is clear that, if these results are in fact achieved by the measures provided for in the EFTA Convention, the answer to our question must be affirmative. Can we say that the draft Plan, when implemented, is likely to produce the results aimed at by the Governments?

38. It is, as the Secretariat-General's study of the economic consequences of the E. F. T. A. shows, impossible to forecast accurately and in detail how the pattern of industrial, agricultural and fisheries production in the area of the Seven will be modified as a result of the creation of the E. F. T. A. We can see that some sectors and some industries will expand as the gradual freeing of trade enables them more effectively to exploit their competitive advantages over other producers : that other sectors and industries may contract as the protection hitherto afforded by customs duties and quantitative import restrictions is withdrawn; and member countries will, it can be presumed, to that extent be able to make more rational use of their resources as a whole. At the same time, of course, producers inside the Association will enjoy the advantage

19. 1. Quotation from the concluding paragraph of the Report on the Review of Import Restrictions, adopted unanimously at the fourteenth Session.

of preferential access to the Association's market, and that will, inevitably in some cases, result in losses of markets to outside producers. In these respects, the positive and negative effects of the establishment of the E. F. T. A. will of course be quite parallel to those resulting from the establishment of the E. E. C.

39. But neither an expansion of economic activity nor the maintenance of full employment and financial stability will be guaranteed by this somewhat more rational exploitation of the economic resources of the Seven and the tariff preference given to producers inside the Association. For an expansion of economic activity will depend also on world economic developments, while the maintenance of full employment and financial stability will depend both on those developments and on the domestic economic and social policies of Governments.

40. We must therefore be content with the assurance that a European Free Trade Association will, through a more efficient use of the economic resources of member countries, at least permit a greater and more rapid economic expansion than would be possible if barriers to trade were not removed. This assurance alone would make the E. F. T. A. worth establishing as an objective in itself, provided that the setting up of the Association does not provoke in the outside world such adverse reactions that internal economic progress is offset by trading difficulties with non-member countries. To put a brutal question: is there any danger that the overall economic benefits to Association members will be reduced, to a greater or lesser extent, because its creation could spark off a trade war between its members and other countries or groups of countries?

41. The answer to this question is partly to be found by looking at the international obligations by which members of the Association and their most important trading partners, including the European Economic Community, are already bound. One of the chief weapons used in any trade war would be the discriminatory maintenance of existing tariff and quantitative import restrictions, or the setting up of new ones, or both. But the rules of G. A. T. T., the interlocking provisions of the I. M. F., and the OEEC Code of Liberalisation would make it difficult for any country or group of countries to discriminate against the Association's members by such means. G. A. T. T. allows certain exceptions to the rule of non-discrimination, but the cases in which such exceptions are permissible are carefully limited, and it would hardly be possible for any Contracting Party to wage a trade war, for any length of time, on this basis.

42. A trade war could also be fought directly by commercial interests using dual pricing systems or dumping and possibly by governments' regulating access to capital markets. But the climate of governments' policies as regards international trade is now such (see the account given of the position in G. A. T. T., Section B (v) above) that if the present trend continues, there may well be in due course a substantial general reduction of quantitative restrictions and tariffs. If this happens, the resulting reduction of trade barriers throughout the GATT area will make discrimination between, for example, the European Economic Community and the European Free Trade Association proportionately less acute. We may fairly conclude from this that the benefits of facilitated economic expansion in the Association area will not be offset by any immediate danger of a trade war between the Association and any other country or group of countries.

43. Finally, it is worth while to mention a second advantage, and a very important one, which the Association will bring. The setting up of the European Economic Community and, with it, a preferential trading system in the area of the Six, may mean that some exporters in OEEC countries outside the Six may lose business to competitors in the six countries as the customs union develops over the transitional period. The Association will enable those exporters in its member countries likely to suffer such losses of business to compensate in some cases by capturing from Community producers some of the latter's earlier markets in countries of the Association.

44. On the other hand, it must be remembered that all this is true only in the present situation; and it is impossible to state with any confidence that this situation is going to be maintained indefinitely. In a more unfavourable climate, resulting for instance from possible dissensions within G. A. T. T. or from a serious international depression, the two European groupings might conceivably be tempted to apply policies quite different from the present ones. Thus, while we may assert that there is no "immediate and present danger" of trade war within Western Europe, this does not mean that the situation is without dangers in so far as the future is concerned.

1.3.2. (ii) What will happen if the E. E. C. and the E. F. T. A. are not linked in a multilateral Association?

45. If the E. F. T. A., through opening up greater possibilities for economic expansion among its member countries, is in any case worth setting up, as an end in itself, and if there is no immediate likelihood of a large-scale trade war between, say, the E. F. T. A. and the E. E. C., what serious inconveniences or difficulties would arise if no link were established between the E. E. C. and the E. F. T. A.?

46. The first danger which comes to mind is the fact that commerce and industry in both the Association and the Community, once they come to feel that the two groups are going to pursue an entirely independent existence, will plan their operations, long-term investments, and general development accordingly. And if this process continues over a period of some years, the changes which industry and agriculture will have made inside each group to meet the new preferential situation will be exceedingly difficult to readjust if, subsequently, OEEC Governments decide after all to try to set up a multilateral association covering all member countries.

47. On the other hand, while both the E. E. C. and the E. F. T. A. represent important steps forward in comparison with previous autarchic conceptions of national economies, it is highly dubious whether either of them is a unit of sufficient size to compete successfully, in the long run, with economic units such as the U. S. A. and the U. S. S. R. Especially if the general economic climate of the free world should show signs of deteriorating?which, fortunately, is not the case at present?it may well be that Western Europe would find itself lagging behind because of insufficient economic integration. All this depends on technological and economic developments which are as yet unpredictable, but we ought to beware of facile optimism in these respects. And, in any case, if time is allowed to pass without arrangements being made for such a multilateral association, an opportunity would be lost, perhaps irretrievably and in any case for a very considerable number of years to come, to reorganise the pattern of the economy of the OEEC area and obtain for its 250 million inhabitants the advantages of the most rational exploitation of its resources.

48. A second difficulty will arise for the export trade of particular countries in each group. It is clear from the Secretariat study of the effects of the E. F. T. A., and as has been noted already, that there will be a strong inducement in some cases for importers in Association countries to place business in other countries of the Association rather than with traditional suppliers (Fed. Rep. of Germany, the Netherlands, for example, who will find their prices, duty paid, increasingly less competitive.)

49. By the same token, difficulties will arise for exporters in the seven countries, who in some cases may not be able to compete across the barrier of the new common external customs tariff of the E. E. C. with suppliers inside the Community. Denmark is one of the most striking examples of this case : though she sells 321 million dollars' worth of goods to the U. K., she sells over 200 million dollars' worth to Germany too, out of a total of 840 million dollars' worth of sales to OEEC countries as a whole. As another example, E. F. T. A. total imports from the E. E. C. in 1957 totalled over five billion dollars, nearly half of which came from the Federal Republic of Germany. E. E. C. imports from the E. F. T. A., on the other hand, totalled three and three-quarter billion dollars, of which one and a quarter billions came from the United Kingdom.

50. Thirdly, there is the difficult position of countries which belong neither to the E. F. T. A. nor to the E. E. C. Although Greece and Turkey have applied for associate membership of the European Economic Community, and Ireland is seeking a means of maintaining her access to the markets in both groups, the interests of such countries clearly require that they should not suffer discrimination in what are some of their principal export markets.

51. In short, though the Community and the Association can certainly be expected to bring about a greater and more rapidly increasing prosperity for their Members as a whole, individual countries may face serious difficulties through being shut out from one or other of them, or both.

52. The independent existence of the E. F. T. A. and the E. E. C. may give rise to a fourth major difficulty?that of the confrontation and co-ordination by Member Governments of their general economic policies. Both the Rome Treaty, more specifically, and the draft Plan, in somewhat looser terms, provide for some degree of co-ordination of these policies. It is impossible not to believe that serious problems may arise if this process of co-ordination is carried out entirely separately; and it is equally difficult to see that the existence of O. E. E. C. where the two sets of inter governmental consultations will be repeated on an 18-Power basis to include Governments which are members of neither group, will easily solve such problems. In fact, the future effectiveness of O. E. E. C. is at present subject to doubts in several quarters. Unless something fairly decisive takes place within a not too distant future, it seems unlikely that the organisation can maintain for any length of time the great importance it has held during the past decade.

1.3.3. (iii) How can the interests of those Member States which belong neither to the E. E. C. nor to the E. F. T. A. best be promoted?

53. The position of these countries (Iceland, Ireland, Greece, Turkey) was made quite clear during the negotiations for a Free Trade Area in the Intergovernmental Committee. It was then agreed that, though membership of such an area would be beneficial to them and to other participating countries, they could not assume, at least to begin with, the full obligations of membership as regards the schedule for abolishing trade

barriers, especially tariff restrictions. In order to meet the special position of these countries it had there fore been agreed in principle, by the time the negotiations were suspended in December 1958, that they would require a longer transitional period than more fully developed countries ?a period of 30 years was envisaged for them to complete elimination of customs duties. And the possibility was left open of their enjoying certain derogations from the provisions relating to elimination of quantitative restrictions on trade in the area. (We have seen that Portugal, in the negotiations for an E. F. T. A., has already made it clear that she will need special treatment in the programme for abolishing customs duties in the Association, and we can perhaps expect that one at least of the features of such special treatment will be an extended transitional period.)

54. At the level of the Six also (see the First Memorandum of the Commission of the European Economic Community quoted above, para. 25) it has been recognised that a special regime in the field of customs duties and quotas will be required when these countries come to be included in a multilateral association.

55. Moreover, both the OEEC Governments which took part in the Free Trade Area negotiations, and the Commission of the E. E. C. in the Hallstein Memorandum, agreed that financial aid in one form or another would be necessary if the economies of the countries in question are to b e diversified and developed to a level which will enable them at the end of an extended transitional period to meet the full responsibilities of membership in the kind of Association envisaged.

56. Finally both the Seventeen and the Six recognise that, since it is with a predominantly agricultural economy that the countries concerned have to carry out their development programmes in the early stages, ways and means must be found to enable them to establish themselves in the markets provided by other countries in the OEEC area for agricultural products.

57. The growth of the European Economic Community, and the setting up now of a European Free Trade Association, in no way alters the terms of the problems, as described above, for Greece, Iceland, Ireland and Turkey ?and perhaps Spain, too, if the time should come when her membership in a multilateral Association is considered. On the contrary, the setting up of the two systems makes the solution of that problem more urgent than ever. Not merely have the countries of O. E. E. C. failed after two years of effort to provide a multilateral trading system which will enable (assuming that the special arrangements described above are made available to them) the countries in process of economic development to develop their economies more speedily, to the mutual benefit of all Members of t he Association. In addition, these countries are now faced with two preferential systems which may in some cases mean the loss of export outlets they already hold.

58. The produce which Greece and Turkey have sold so far to customers in the European Economic Community may be offered on more advantageous terms from other sources within the Community, as the transitional period draws on and a common agricultural policy is worked out among the Six. And, as we saw above, Irish markets for certain of her agricultural produce may be endangered in the United Kingdom when the arrangements made by the U. K. to meet Denmark's special needs in the E. F. T. A. are applied. The course for such countries seems clear.

59. It is right that they should take immediate steps to safeguard the markets they already have?Greece and Turkey have thus applied for associate membership of the Common Market. But such countries will find it difficult to solve their problems unless a full multilateral Association is set up, and set up very soon. Greek and Turkish exports to the E. F. T. A., to give an example, are not far short of half their exports to the E. E. C.²⁰. And Portugal, though she is a member of the E. F. T. A., exports to the E. E. C. just as much as she does to other EFTA countries ²¹. While it is right, therefore, that such countries should take short-term measures to keep their present export markets, it is also clear that they must make every effort to ensure that negotiations for the wider multilateral system are resumed as soon as ever possible.

60. In the interval, it is clearly important that, in addition to the approaches made by some of the countries to the E. E. C., the more developed Members of the E. F. T. A. should recognise a moral responsibility towards those who are members of neither group. The latter must therefore ask (and the point is made in the draft Recommendation proposed in this report) that the official committee appointed by the EFTA countries should give special consideration to their problems; talks should be held at expert level to bring out those areas of trade where the exports of the Five are most i n danger; and proposals for dealing with those dangers in the short term should be examined at an early date by the Council of the Association.

20. Sec Secretariat study, Doc. AS/Ec (11) 26, attached table 1.

21. 2. Loc. cit.

1.3.4. (iv) What are the present prospects of a European Economic Association?

61. The description given of developments since the spring in the first part of this report, and the discussion of the implications of creating a European Free Trade Association in the second part, seem to indicate that, though the Seven have, through the E. F. T. A., provided themselves with some means of compensation for losses in the markets of the Six, the latter may now find some of their own export outlets endangered. And the situation of the Five has deteriorated still further. In this sense, our problem shows signs of becoming more serious. We have to find ways and means of combining the European Economic Community and the European Free Trade Association in a multilateral system covering the whole of O. E. E. C., so as to avoid an artificial division of the OEEC area, to ensure that the most rational use is made of the economic resources of the OEEC area as a whole, and so that the benefits of a free market may also be made available to countries which so far belong to neither group.

62. As regards the situation of the European Economic Community, we have seen that, though opinion in the six countries which is in favour of a multilateral association has been appreciably strengthened, there is as yet no sign of any powerful initiative from the Community towards the actual setting up of an Association. On the other hand, the increasingly firm establishment of the Community as an individual entity, and the new situation arising from the proposed creation of the E. F. T. A., should enable support for the Association to gather momentum in the Six.

63. We have also seen that the members of the European Free Trade Association are setting up their system consciously and deliberately as a step towards a multilateral association, which they will facilitate by carrying out among themselves the process of eliminating trade barriers which a multilateral association of OEEC countries must in any case involve.

64. Thirdly, we have seen that while OEEC countries belonging to neither group are doing what they can to protect their shortterm interests, their long-term interests can only be fully safeguarded in a multilateral association, the arrangements for which, as far as their participation is concerned, are already largely agreed between the countries involved. Moreover, the special arrangements which these countries make with the E. E. C. and, as proposed in para. 58, with the E. F. T. A., could be fitted into a larger plan for multilateral association without difficulty.

65. Does not, therefore, the proposal, which the Assembly made in April, for a Declaration of Intent now, to set up an Association at a date still to be specified, but indicating the broad principles of an Association Agreement, remain valid? Members will remember that we felt that the Agreement could perhaps come into force at the end of the first stage of the transitional period of the European Economic Community. Developments in the last few months give us, as we have seen, still greater ground for believing that by 31st December 1961 the Common Market will be operating smoothly, the institutions of the Community will be fully run in, and the need to harmonise the trading systems of the E. E. C. and E. F. T. A. will appear sufficiently clear for the Six to wish to see the elimination of trade barriers, in the form of tariff and quota discrimination, between them and their OEEC partners. And the Seven, for their part, will have been preparing the way for their participation in that Association through the operation of their own arrangements beginning on 1st July next year.

66. The support which we remember was given by the Minister representing the views of the Governments of the Benelux countries should encourage the Assembly to stick by its original proposal. We said then that the Declaration of Intent would constitute a binding undertaking by Governments and would enable business in Europe, and the world at large, to plan for the future in the knowledge that they are to cater for the market of the whole OEEC area. And this Declaration can perhaps be signed in a relatively short time, conceivably even by the end of this year.

67. The new negotiations which we suggested be opened "at a political level which will permit final decisions to be made rapidly" will now have to include the European Economic Community, on the one hand, and the European Free Trade Association, on the other, but this does not mean that the O. E. E. C. as such should be excluded from them. On the contrary, the interests of those of its member countries in process of economic development make it imperative that they should be able to negotiate as members of the O. E. E. C. and on an equal footing, therefore, with members of the two trading groups. The negotiations should therefore be resumed within the framework of the O. E. E. C.

68. On the other hand, it is obvious that no such recommendation is of any use unless we are able at least to make some concrete suggestions as to the meaning of an Association. It is true that others can be presumed to be investigating the possibilities. We suggested in April that these new negotiations should take as far as possible as a basis the report of the Special Committee of the E. E. C. We may now expect additional proposals, when the governments which set up the E. F. T. A. have approved them, from the official

committee of senior officials drafting the EFTA Convention, which has been constituted also to advise governments "on questions regarding other countries, and in particular on problems of future negotiations for a wider association". We should therefore have available two reports, or two sets of proposals, which could be the basis, first, of preliminary talks to establish the "broad principles of an Association Agreement", for incorporation in the Declaration of Intent we propose, and subsequently of fuller negotiations, extending over a period of many months, if necessary, to determine the text of the Association Agreement itself. But past experiences should warn us against relying entirely on such reports. Obviously, as long as both the E. E. C. and the E. F. T. A. are occupied in mapping out their own development, their organs will be tempted to take a short-range view and concentrate on this task, leaving aside the greater and more difficult problem of a wider Association.

69. One of the principles to be included in the Declaration of Intent, according to the formulation approved by the Assembly in April, was a definition "of the extent of differential trade treatment which would continue during a transitional period". I have mentioned in this paper, and the facts and figures are set out very fully in the Secretariat study of the economic consequences of the European Free Trade Association, that the "differential trade treatment", or "discrimination", or "preference systems", brought about by the two groups, will create real problems for business in all countries concerned. To limit the extent of differential trade treatment between the time of signing the Declaration of Intent and the coming into operation of the Association Agreement itself would amount to an anticipation, to some extent, of the implementation of the tariff and quota provisions of that Agreement? in the same way as the Six, in applying to other OEEC and GATT countries the 10 % tariff reduction? down to the level of the common external tariff? which they applied among themselves at the beginning of this year, merely anticipated in part the arrangements the Rome Treaty would in any case have brought about later. I hope therefore that the Assembly will agree to stipulate again that the Declaration of Intent should include some delimitation of the discrimination which is now gradually being created.

70. It may be difficult to embody, in a recommendation to be adopted by the Assembly, any thing more definite than what has just been stated. At the same time, we should be quite clear at least in our own minds as to the kind of sacrifices and concessions which will be required from different sides in order to achieve positive results. A European Economic Association is not likely to be accepted by members of the E. E. C.? at least not by all members? if it does not go beyond the free trade area concept as discussed in the Maudling Committee and embodied in the Stockholm Plan. On the other hand, it is equally obvious that EFTA members will not agree to be bound by anything nearly so strict as the Rome Treaty. A compromise between these two extremes has to be reached, and at least provisionally it will be necessary to examine the possibility of an Association accepting a considerable degree of co-ordination of commercial policies, while drawing the line at the intimate partnership adopted in other respects for members of the E. E. C. Equally the supranational element will have to be rigorously limited, while even co-ordination of commercial policies alone seems to be difficult to achieve if Members insist on absolute national sovereignty in all matters. The idea of a modified European customs union has so far never been seriously examined, and your Rapporteur submits that this is at least one of the possibilities which must be considered in order to clarify the possibilities of mutual concessions.

71. Moreover, it should be remembered that the association of Canada and the United States with the O. E. E. C. has so far proved extremely valuable. Some of the problems of a European Economic Association may conceivably prove less difficult to resolve if we investigate the possibilities of including not only the Six, the Seven and the Five Western European countries, but also both or either of the great economic units of North America in an Association. It is true that such an arrangement would go beyond the strict idea of European economic integration, but in viewing the problems practically it is impossible to neglect the fact that the Western world as a whole has common interests in this field as in so many others. Moreover, the further advancement of countries in process of economic development inside as well as outside Western Europe requires a common effort, which must not be reduced by adherence to strict geographical limitations.

1.4. D. Conclusion

72. I thus come to the conclusion that we must renew, most urgently, our recommendation that Member Governments subscribe, if possible within the next four months, and after confronting proposals emanating from the Community and the Association, to a Declaration of Intent which will, first, put an end to the doubts and hesitations in Governments and business alike regarding the future structure of the European economy and will, secondly, set out the principles of a multilateral Association which, through the free market it will establish in the OEEC area, could guarantee to the inhabitants of all our countries that the economic development of this continent will, at last, be organised efficiently in the best interests of all.

73. We have not, unfortunately, had much response to the Recommendation which we made to Governments at our last Session. This, perhaps, was only to be expected : the Assembly is becoming used to such neglect of its suggestions. On the other hand, it is as yet too early to be entirely disheartened in this respect. We must use all new opportunities of pressing Ministers, by t h e means at our disposal, to lose no effort in finding a clear and realistic solution to the problem on which the economic and possibly also the political future of Europe now depends. If, as has been intimated, one or two Ministers are to attend our debate in September, this will provide one such opportunity, which should be used to full advantage. In addition, all our Governments will need our parliamentary support in developing the commercial and other economic arrangements now in process of realisation. We must make it clear to them that we offer this support on the understanding that our countries are not going to be satisfied with the amount of co-operation already achieved or envisaged, but will make decisive and rapid steps to continue along the path of Europe an economic integration.