It is my privilege today to be associated for the first time in a direct way in the work of this Organization. As a newcomer to the deliberations of the Contracting Parties, I do not profess to know any of the answers to the varied problems confronting international trade and which sometimes confound even the most experienced minds. I have come to learn more about these problems and their solution, and I have no doubt that, in the course of our discussions, we shall gain a clearer appreciation of the problems and anxieties exercising the minds of policy makers in the various parts of the globe.

I propose confining my remarks today to the situation which is likely to develop as a result of the decision of the six Western European countries to embark on a course leading towards economic integration.

The treaty for the establishment of a European Economic Community has profound implications for the future of world trade. Indeed, its implications extend far beyond the economic sphere, and in an evaluation of its aims and the ways by which its objects will be pursued, it is imperative that the wider considerations in which this bold project was conceived, be constantly borne in mind.

In the exercise of their functions under the General Agreement, the Contracting Parties have been called upon to deliberate and pronounce on several matters of great importance, but none so momentous as the Rome Treaty. The signatories to this Treaty are all leading members of this Organization and, collectively, they play a very prominent part in world trade. From all points of view the situation demands that we should address ourselves to the task before us in a spirit of constructive analysis and with a determination to make a positive contribution to the attainment of the ideals which are enshrined in our charter.

My country has a material interest in the successful outcome of the project which is being embarked upon. Quite apart from the fact that we have inherited the social and political values and beliefs on which Western European society is based, the signatory countries are the traditional suppliers of a substantial proportion of South Africa's import requirements whilst also providing a market for a wide variety of our export commodities. Currently, they account for approximately 14 per cent of our imports and 22 per cent of our non-gold exports.

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Obviously, from our own economic point of view, therefore, we should strive to ensure that the Treaty proposals are implemented in such a way as to bring about higher production at a lower cost, increased consumption and, thus, greater general prosperity. These, however, are also the conditions which require to be met if the movement for European economic integration is to make a contribution to the expansion of world trade. Consequently, I can claim no virtue for my approach to the proposals, which is going to be from the wider international angles: it merely so happens that our own individual interest and the wider general interest run parallel.

The objective of a European Economic Community is one which my Government supports wholeheartedly, and we view with admiration the courage and determination with which the Member States have pursued their task of formulating an agreed set of provisions which, they believe, will in due course lead to the attainment of the goal aspired to. Our admiration stems from the realization that, in several respects, the experiment is of unprecedented magnitude and that in the negotiation of the Treaty provisions, many conflicting interests had to be resolved and diverse national interests reconciled. Our support derives from the fact that customs unions are recognized in the GATT as an aim, the pursuit of which is to be encouraged, having regard to their probable expansionary effect on world trade. I say probable, because customs or economic unions do not necessarily lead to a more rational international allocation of resources. On balance, they may merely lead to trade diversion without any net trade creation.

I propose to deal separately with the three requirements laid down in Article XXIV of GATT, but before doing so I wish to refer briefly to the view, which has been expressed in quarters outside this forum, that the relative GATT provisions were not intended for a project of such magnitude and complexity as that forming the subject of the Treaty before us, and that, consequently, it would be unrealistic if not impracticable, to insist on strict compliance with the GATT provisions.

Admittedly, the present venture into European economic integration is unprecedented in scope, and it may be true that an experiment of such dimensions could not have been anticipated when Article XXIV was written into the GATT. On the other hand, it should be borne in mind that the criteria embodied in Article XXIV merely constitute broad guiding principles, based on widely accepted economic tenets, which remain valid irrespective of whether they are applied to relatively small areas in the economic sense, or to large and important economic units. Unless they comply with the criteria referred to, there can be no assurance that customs unions will not diminish, rather than enhance, the benefits from international trade.
Coming now to the three GATT requirements enumerated in Article XXIV, the Member States contend that the Treaty covers substantially all the trade between them. It is, nevertheless, a fact that for an important economic sector, namely agriculture, we are very much in the dark about the pattern which is likely to emerge from the implementation of the Treaty proposals. I shall presently revert to this matter in another context.

The actual time schedule for the consummation of the Community is a matter involving conflicting considerations. We realize that one of the principal dangers to be guarded against is the possibility of the project getting stuck half-way and degenerating into an exclusive preferential area, large enough and varied enough to have no incentive to reduce discrimination against outside countries. The danger of this happening, it might be argued, becomes greater the longer the transitional period, and the more time there consequently is for enthusiasm to fade and the propelling forces to peter out. On the other hand, the execution of the project will undoubtedly entail fundamental and far-reaching changes and adaptations on the part of Member countries, and it would be courting failure to try and push forward too rapidly.

This brings me to the third and most important GATT criterion, namely, that the customs duties and other regulations of commerce applicable in the Union shall not, on the whole, be higher or more restrictive than their "general incidence" in the constituent territories prior to the formation of the Union. First, some thoughts about the common external tariff.

The concept of "general incidence" does not lend itself to exact determination. Moreover, because a customs union leads to a modified pattern of trade with third countries, the general incidence of any tariff in a customs union area, interpreted in the sense of the degree in which it impedes imports into the area, can only be established after it has been in operation for some time. It is accordingly extremely difficult to arrive at any firm conclusion in advance whether or not the general incidence of the proposed common tariff will be more restrictive than the individual tariffs it supersedes. I would, however, refer to certain features and factors which could assist us in establishing a presumption one way or the other.

First, I would remark that the method employed for arriving at a common tariff, namely, a straight arithmetic mean, whilst commending itself for its simplicity, can hardly claim any scientific basis, and it would be pure coincidence if this method yielded an accurate and equitable result. It may be argued that under this method there is likely to come about a balancing of advantages and disadvantages, but this argument does not take account of the fact that the import figures of the Member States show that the total imports from third countries of those members with relatively low tariffs are substantially higher than the corresponding imports of the members with relatively high tariffs. Unless, therefore, account is taken in the termination of the uniform tariff of the volume of trade moving across the existing national frontiers, a reasonably satisfactory result cannot be achieved.
On the whole, the available evidence leads us to believe that the incidence of the common tariff will be higher than the general incidence of the tariffs of the Member States, and that the trade creating effects would consequently be more restricted and slower in materialising than they should have been. We expect that the Member States will explain more fully than they have done hitherto on what grounds they consider that their proposed common tariff will be in consonance with the relative requirement in Article XXIV of GATT.

The long-term effects on world trade of the Economic Community are intimately bound up, *inter alia*, with the fate of the common tariff after the transitional period. Whilst this is a matter on which it would be futile to speculate at the present juncture, we cannot ignore the existence within the proposed Community of strong protective elements which are bound to exert themselves towards promoting the ends which they profess. From this point of view - as well as several others - we see great merit in the companion exercise now in progress and which aims at a considerable broadening of the basis for European economic integration.

The arrangements proposed for the elimination of quantitative restrictions amongst Member States may likewise lead to an intensification of restrictions towards third countries. Indeed, the replies given by the Interim Committee to the questions submitted by contracting parties tend to strengthen the apprehensions we harbour in this respect. Contracting parties are expected to be consoled by the long-term benefits which the Community project, if consummated, will bestow on international trade; but before those benefits can be enjoyed, serious injury may have been occasioned to the interests of third parties due to the application of the arrangements agreed upon for the transitional period. Patterns of trade, once disturbed, cannot easily be restored, and changes brought about by the needs of the moment may be far more enduring than anticipated. The interests of third countries can only be safeguarded by not denying them a reasonable measure of access to the Community market on terms substantially the same as those applying to domestic producers. We sincerely hope that the Community Members would be willing to explore, in co-operation with other contracting parties, ways and means towards this end.
The agricultural provisions of the Treaty are properly attracting widespread interest and attention. This is, no doubt, due to the fact that the probable future course of events in this sector is still obscure, and that contracting parties dependent for their export earnings on agricultural products do not know what to expect of the agricultural regime to be established. The knowledge that in respect of this sector, more so than in any other, strong protectionist beliefs prevail in the Community countries, tends to strengthen the fear that the practices and policies to be pursued by the Community Institutions might act as a further limitation on entry to the European market by outside supplying countries.

It has to be assumed that for social, economic and political reasons no country is prepared to let its dependence on imported food grow unduly, nor to let its agricultural population diminish beyond certain limits. Secondly, there appears to be a general belief that European agriculture is in need of rationalization, and it might well be that such rationalization can only be accomplished by means of planned co-ordination under the direction of a supranational agency. On the other hand, rationalization measures cannot provide a remedy as long as they operate under the shelter of complete protection and, therefore, without the incentive towards cost reduction, which can best be provided by wholesome competition from outside. Rationalization, to have any meaning, should primarily aim at a reduction in costs of production in areas where such costs are relatively high; but nowhere in the Treaty is there a positive provision in this direction.

Without much fuller information about the operational and organizational methods to be employed in pursuit of the agreed objectives of the special agricultural regime, it is not feasible to evaluate the implications of the proposals for international trade. Whilst the Treaty merely contains a declaration of intentions within a broad framework, it is the details which still require to be filled in, and the method of implementation, which will be of decisive importance. There are, however, grounds for fearing that high-cost agricultural production in Europe will be perpetuated, or even expanded, and the danger of further doors being closed to outside suppliers cannot be discounted. There is also the possibility of the common agricultural policy giving rise to increased state intervention by means of the introduction of State trading in respect of commodities at present in the hands of private enterprise. Should this happen, outside suppliers may have to face the prospect of increased restrictionism, rather than liberalization, of the trade in these commodities.

Article 44 provides for the introduction of a system of minimum prices as customs duties and quantitative restrictions are progressively reduced within the customs union area in respect of agricultural products. From the replies received from the Interim Committee, it must be inferred that this system will not apply to the trade with third countries, and it can reasonably be assumed, therefore, that the Member States are not contemplating the possibility of an early relaxation of the restrictions applicable to imports of the agricultural products concerned from third countries.
Even over the longer term period the implications of the system for the trade with third countries give cause for concern, for I think it would be most difficult to instance a case where such a system has not tended to exercise a restrictionist effect on trade. The system of minimum prices, it should be noted, may, in terms of Article 44:6, even be extended beyond the transitional period on a majority decision by the Council.

Coming now to the long-term contracts provided for in Article 45, these would seem to be essentially discriminatory towards outside countries and destined to encourage uneconomic production in the Community area at the expense of lower-cost outside suppliers. The object of these contracts, we are told, is to render effective the gradual expansion of quotas between Member States, but we wonder whether their real purpose is not to assist Member States to dispose of surpluses which they cannot sell at competitive prices. The only consolation to third countries is that raw material supplies, required for the production of goods for export, may be imported, and that due regard will be had to traditional trade currents in the conclusion of these contracts. Despite this assurance, there can be little doubt that these contracts will tend further to draw trade away from the channels indicated by comparative costs.

If our fears that the Community's agricultural policy might result in increased restrictionism should prove to be well-founded, the implications for international trade are discouraging. It is inevitable that an upward pressure will be exercised in the Community on production costs in general, resulting in a diminution of the long-term benefits to be expected from integration. Similarly, outside supplying countries would have to reckon with the prospect of declining export earnings and an enforced contraction of their capacity to import.
I wish to emphasize, however, that we realize the need for special treatment of agriculture in the Treaty. At the present junction, however, we find it difficult to evaluate the relative Treaty provisions, because we do not know what the future regime will look like. We therefore feel sympathetically disposed towards the Australian proposal that a Committee be set up to consult with the Six on their developing plans, and that the Contracting Parties be called upon to pronounce on these plans only after they have been formulated in detail.

The Treaty provisions relating to the commercial policy aspects of the association with the Community of certain "overseas countries and territories", raise several important questions. We realize that, having regard to the special relations existing between the overseas territories and the metropolitan countries, serious policy problems would have ensued if the territories had been excluded from the Common Market. At the same time, in our view, the arrangements agreed upon are not likely to lead to an end-result consistent with the provisions of Article XXIV. Indeed, it would seem that the implementation of the Treaty proposals would lead to the establishment of a new preferential regime in conflict with the provisions of Article I of the GATT.

It has been stated on behalf of the Member States that the ultimate aim of the general objectives concerning the abolition of restrictions on exchanges between Member States and the overseas countries and territories, is the establishment of a free-trade area which will be complete. We find it difficult, however, to reconcile this aim with the proposals set forth in the Treaty.

The Member States have argued further that the association has as its object to promote the interests of the overseas territories so as to bring them to the economic, social and cultural development which they expect. This is a laudable aim, deserving sympathy and support; but we would recall that the Member States have assumed commitments by virtue of their membership of the GATT, and it is incumbent upon them to pursue their objectives in a way which will be consistent with these prior commitments.

We note with approval that, with regard to the association of overseas countries and territories, the Member States have undertaken that their obligations resulting from agreements made before the entry into force of the present Treaty, will not be affected. Viewing the association proposals as a whole, however, we consider them incompatible with the provisions of Articles I and XXIV of the GATT and to constitute a matter to be dealt with in accordance with Article XXV.

The question of exchange rates and currency restrictions falls outside the strict purview of the GATT. Nevertheless, it may be of vital significance to the commercial relations of the Member States with each other and with the outside world, as recent events in one of the Member States have shown. We naturally expect that Member States, mindful of their obligations as members of the International Monetary Fund, will refrain from using currency restrictions in a manner contrary to the spirit of the GATT.
I wish to conclude by reiterating that the plan for the establishment of a European Economic Community has the support of my Government. The task which the Member States have undertaken is a formidable one but we should bear in mind the old adage: "I can't do it, never achieved anything; I'll try to do it, worked wonders; but I will do it, wrought miracles". We appreciate, too, that a cold economic evaluation of the Treaty provisions would ignore weighty considerations of a different nature which make it imperative that the experiment should not fail. We have, however, doubts and misgivings about certain of the economic aspects and implications of the Treaty provisions and, if our views are shared by the majority of the contracting parties, we would hope that the Member States will show their readiness to try and accommodate those views. In any such exercise we can assure the Member States of our sympathetic co-operation. I am sure the Member States need not be reminded that the outcome of the present proceedings will become part of the case law of the Contracting Parties. In other words, their actions and responses will establish precedents and become a model for the future. I am sure the Member States will want to show in word as well as in deed that they desire to see the authority of the Contracting Parties upheld, and that there is no reason for harbouring any fear that the Community project might exert an influence towards regionalism. I would, nevertheless, suggest that, during the current Session, machinery be established for the maintenance of harmonious relations and the closest possible liaison between the Contracting Parties and the Community Organs.