This Report submitted to the Intersessional Committee for consideration at the meeting commencing on 14 April 1958 contains the following Chapters and Annexes:

I. INTRODUCTION
II. LEGAL ISSUES
III. ECONOMIC ISSUES
IV. GENERAL ISSUES RELATING TO THE TREATY OF ROME

ANNEX A - 1. Summary of Views of most Members of the Working Party
   - 2. Summary of Views of the Representatives of the Member States

ANNEX B - Notes and Lists of Abbreviations used in Table A relating to Customs Duties, etc., appended to each Commodity Annex

Reports on the commodity trade studies completed by the Working Party will be distributed in addenda to this document:

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<thead>
<tr>
<th>Commodity</th>
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<td>Cocoa</td>
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<td>Cotton</td>
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<td>Bananas</td>
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<td>Wood and Timber</td>
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<td>Sugar</td>
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<td>Add. 5</td>
<td>Bauxite and Aluminium</td>
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<td>Tobacco</td>
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I. INTRODUCTION

1. The Working Party was appointed by the Intersessional Committee at its meeting on 30 November 1957 (IC/SR.36) to examine the problems which the association of overseas territories with the European Economic Community raises for the trade of other contracting parties to the General Agreement. These problems were among those examined by Sub-Group D of the Committee on the Rome Treaty, appointed by the CONTRACTING PARTIES at their Twelfth Session in October/November 1957, and on which the Sub-Group reported in Section C of its Report to the CONTRACTING PARTIES (L/778, pages 31 to 33).

2. The Working Party has the same Chairman (Mr. Hagen of Sweden) and the same membership as Sub-Group D, viz:
   - Brazil
   - Ceylon
   - Chile
   - Dominican Republic
   - France
   - Ghana
   - Greece
   - India
   - Indonesia
   - Netherlands
   - Pakistan
   - Federation of Rhodesia and Nyasaland
   - United Kingdom
   - United States

3. As recommended by the Sub-Group, the CONTRACTING PARTIES decided, in establishing intersessional machinery for the further examination of those aspects of the Treaty which relate to the association of overseas territories, that priority should be given to the issues raised in Section C of the Sub-Group's Report and, in particular, to the examination of the effects of such association on the trade in selected products of other contracting parties. It was also recommended by the Sub-Group that priority should be given to an examination of the trade in products exported to the markets of the Community by the overseas territories.

4. Accordingly the Working Party accepted as its first task an examination of trade and production of the commodities mentioned by Sub-Group D as being of special concern to contracting parties,
namely, cocoa, coffee, tea, bananas, sugar, tobacco, oilseeds, hard fibres and wood. In the short time available the Working Party has also been able to examine trade and production of cotton, aluminium and lead. The trade in the twelve products was examined by the Working Party at three meetings: from 5 to 19 February, from 26 February to 7 March, and from 17 to 23 March.

5. As of 23 March, which is the date on which this general part of the Report has been completed, the Working Party has approved its Reports on Cocoa, Coffee, Tea, Bananas and £

These will be distributed forthwith to members of the Inter- sessional Committee as addenda to this document. The Working Party will meet again on 10 to 12 April in order to finalize its reports on the other commodities.

6. The Working Party divided its consideration of each commodity into three parts:

(a) an examination of the factual position of the commodity under the Treaty;
(b) an analysis of the pattern of world trade; and
(c) a discussion of short-term and probable long-term effects of the provisions of the Treaty.

The report on each commodity, therefore, is divided similarly into three parts.

7. Under (a) the Member States provided very detailed information in respect of each commodity and the Working Party wish to record their thanks for the very great efforts made to supply this information at short notice and for the further explanations given by the representatives of the Six during the discussions. Under (b) the secretariat collected very full statistics of the trade in the commodity concerned both on a world basis and, in particular, with relation to the trade of the A.O.T's and the Six.

For the sake of brevity the Associated Overseas Territories will be referred to in this Report as "the A.O.T's" and the Member States of the European Economic Community as "the Six".
This detailed statistical information had never been brought together before and it was a great help to the Working Party to have this information available during its deliberations.

8. The studies thus far undertaken relate only to exports from the A.O.T's to the Six. Sub-Group D recommended that the effects of imports into the A.O.T's from the Six and of trade between the A.O.T's themselves should also be examined, but time has not permitted this to be done.

9. Further, it was the intention of the Intersessional Committee that the studies of the Working Party should not be limited to the products mentioned by Sub-Group D, and that all contracting parties should be free to propose other products for examination. Contracting parties were invited to name the products of special interest to them and to submit relevant data. In accordance with this procedure a great number of products have been suggested, of which the following have been selected by the Working Party for priority treatment when the opportunity arises:

<table>
<thead>
<tr>
<th>Products proposed for Study</th>
<th>Supporting Documents submitted</th>
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<tbody>
<tr>
<td>Vegetable tanning materials and extracts (South Africa)</td>
<td>IC/WPl/25</td>
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<tr>
<td>Rubber (Ceylon)</td>
<td>/24</td>
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<tr>
<td>Hides and skins (United Kingdom)</td>
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<td>Pyrethrum (United Kingdom)</td>
<td>/30</td>
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<td>Spices (United Kingdom)</td>
<td>/21, 22 and 27</td>
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<tr>
<td>Pineapples (South Africa and United Kingdom)</td>
<td>/26 and 29</td>
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<tr>
<td>Peas and beans (United Kingdom)</td>
<td>/28</td>
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<tr>
<td>Cassava (United Kingdom)</td>
<td>/23</td>
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<td>Copper (Chile)</td>
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10. The Working Party recommends that it be instructed to convene again to study the effects on a further group of products and to consider the other trade questions referred to in paragraph 8 above.
II. LEGAL ISSUES

1. During the course of the discussions reference was made to certain points of a legal nature which the Working Party recognized as being outside its terms of reference and which would have to be resolved by the CONTRACTING PARTIES themselves. The following sets out these legal issues together with relevant views advanced by the representatives of the Six and by other members in the course of the discussions.

(i) The Treaty of Rome and the General Agreement on Tariffs and Trade

2. The representatives of the Six reiterated the reservations made by their Governments at the Twelfth Session: The fact that they had agreed to the studies undertaken by the Working Party could not involve for the Six any obligations additional to those under the General Agreement; in other words, they did not consider themselves in any way bound by the conclusions which might be drawn from those studies; in the event that the studies might bring to light any disadvantages resulting for any contracting party from the association of the overseas countries and territories, the Six could not agree that there was any obligation on their part to grant compensatory concessions.

3. Most members of the Working Party, however, did not consider that the association of overseas territories, in the manner proposed would constitute a free trade area in conformity with Article XXIV of the General Agreement. In their view a new preferential area, contrary to Article I of GATT, was being created.

(ii) The Territories the Association of which is under consideration

4. Most members of the Working Party considered that the production in the French Overseas Departments in the Indian

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1 The expression "most members of the Working Party", as used in this Report includes the representatives of Brazil, Ceylon, Chile, Dominican Republic, Ghana, Greece, India, Indonesia, Pakistan, Rhodesia and Nyasaland, and the United Kingdom, and signifies that they adhere to the views expressed.
Ocean (Réunion) and in the West Indies (Guadeloupe and Martinique) should be taken into account in examining the trade in sugar and bananas. There were legal arguments (Article I and Annex B of the General Agreement) for doing so. In any case this was necessary in order to arrive at a fair assessment of the overall economic effects which the association of overseas countries and territories with the EEC will have on third countries.

5. The representatives of the Six could not agree that the French Overseas Departments should be included in an examination concerning overseas territories. They pointed out that the Overseas Departments do not come under Article 227 which governs the association of the countries and territories listed in the relevant annex to the Treaty. Further, they could not agree that there was any valid argument under GATT for not treating the Overseas Departments as part of the Community.

6. There was also a difference of opinion as to whether the bauxite production of Surinam and the lead production of Morocco and Tunisia should have been considered. This, too, was regarded as involving legal issues.
III. ECONOMIC ISSUES

1. During the examination of the effects of the association of overseas territories on the trade of other contracting parties in particular commodities, and also in discussions of a general character relating to that examination, the Working Party discussed a number of issues which, in the opinion of various members, should be elaborated in this general part of the Working Party's Report.

2. Most members of the Working Party, other than the representatives of the Six, felt that the examination of repercussions on trade of third countries should be limited to effects which are clearly consequential upon the association of the overseas territories and that possible increases in demand due to other causes were not strictly relevant to the task assigned to the Working Party. Accordingly, these members submitted statements which are incorporated together with the views of the representatives of the Six, in section (a) below under the title "The Scope of the Discussions". These members also considered that this general part of the Working Party's Report should set out in abstract terms, and without repeating the arguments contained in the Reports on particular commodities, the effects, as they see them, of the new tariff regime applicable to the trade of the Associated Overseas Territories. Accordingly sections (b), (c) and (d) below on the effects on prices, demand, production and world trade are also based upon statements submitted by them. The representatives of the Six, on the other hand, could not altogether agree with the views put forward by other members of the Working Party and, therefore, submitted replies to some of the views set out in sections (b) to (d); these replies are incorporated in section (e).

3. In addition, the representatives of the Six submitted for inclusion in this chapter of the Report a statement of their disagreement with some of the methods followed by the Working Party in its analysis of the effects on trade in the various commodities; this will be found in section (f).
(a) The Scope of the Discussions

4. Most members of the Working Party, while agreeing that the present and future trend of world trade in each commodity should be noted as relevant background data, considered that the Working Party should concentrate its attention on the effects of the association of the overseas territories. They considered that it was possible, in carrying out the task of economic analysis assigned to the Working Party, to isolate the influence of such association on the trade of each commodity from other factors influencing market trends and that, in fact, these other factors were not really relevant to the studies undertaken, as such factors would exert their influence independently of the decision to associate the overseas territories with the Economic Community. The association of overseas territories had been presented to the CONTRACTING PARTIES as complying with the definition of a free-trade area under Article XXIV and as separate from the common market of the Six. It could, therefore, only be such increases in consumption as might arise from the association of the overseas territories that could be taken into account during any consideration, whether legal or economic, of this question in the GATT. Such increases did not in fact seem likely for most of the commodities under consideration, owing to the price rises which would be caused by the new tariff levels and fiscal duties on these commodities.

5. Similarly, they did not consider that the possibility of increases in consumption in the rest of the world could be regarded as a factor helping to solve the problems created for the trade of third countries by the association of the overseas territories. These increases in consumption, if and when they occurred, would arise irrespective of the signature of the Treaty of Rome. In any case all producers wherever located, including the producers in the A.O.T's themselves, would have their share in the resulting increase in world markets. Hence, in their opinion, the question of expansion in consumption in other parts of the world was completely separate from the specific problems created for third countries.
by the association of the overseas territories with the Community and could not be regarded as a solution of the problems which had their origin in the formation of this association. Moreover, the steady increase of world population which should bring about increased world consumption was a factor operating in producing countries as well and required them to expand their own exports progressively in order to maintain, let alone increase, their standards of living.

6. On the other hand, in the long term, a great part of the rising consumption was expected to occur in the USSR, China and other countries whose trading methods were not bound by the rules of the GATT. Sales in such markets would in any case be uncertain since they would be dependent from day to day on the whims of monopoly buyers. World producers had already based their production plans on the assumption that there would be such increases in world consumption so that a fall in their share of the demand for their export products in the Community must force a cutback on such production plans.

7. While, therefore, most members of the Working Party did not object to consumption changes in the rest of the world, or in the Community, being mentioned in the reports on individual commodities, they considered that such references should not be taken as any acceptance by them of the arguments of the Six that these facts were of any real relevance to the discussion or could be regarded as helping to solve the problems created for their trade by the association of the overseas territories.

8. Further, they said that they could not accept the general proposition that third countries had no cause for concern if the fall in the sales of their products in the Six resulting from the association of the overseas territories were offset by increased demand consequent on the establishment of the common market. It was fundamental to the whole philosophy of GATT that all countries should be allowed to participate in any growth there might be in world trade. To allow third countries merely to maintain their existing absolute level of sales to the Six
while denying them opportunities to participate in any growth there might be in demand, would clearly be contrary to that philosophy. In any case it was their view that there would not be, purely as a result of the establishment of the common market, such an increase in demand in the Community for the commodities examined by the Working Party as to offset appreciably the increased production in the A.O.T's. Consequently, the absolute level of third countries' exports of these commodities to the Six would tend to fall and their proportionate share of the market would be reduced sharply.

9. The representatives of the Six, on the other hand, interpreted the terms of reference to mean that the Working Party was under an obligation to take into account developments in world production and consumption, if only from the point of view of their long-term effects. They noted that the United Kingdom delegation, which did not deny this, had observed that the English text of the terms of reference clearly indicated that due account was to be taken of such factors and that they had accepted this wording at the Twelfth Session only because they felt that by considering the influence of these factors to be nil the Working Party would be attributing to them their due influence. Further, they pointed out that the examination of the effects of the association of overseas territories should cover the effects likely to be felt by all contracting parties to GATT and not only by the underdeveloped countries.

10. They also noted that the terms of reference of the Working Party had been interpreted as involving a study on an individual commodity basis, the commodities to be examined being selected both for the importance of the trade and for the degree of probability that the Treaty of Rome would have repercussions on this trade. Finally, they recalled that the terms of reference involved only an analysis of the facts and not an attempt to seek solutions to any problems which might be found to exist.
(b) Effects of Differential Tariffs on Prices and Demand

11. Most members of the Working Party considered that one of the important tasks to be undertaken was to assess the effects of the elimination of duties by the Member States for imports from the A.O.T's on trade and prices within the Community and the A.O.T's. They considered that this issue should be examined in the light of the fact that by the end of the transitional period the Community will have established substantial tariffs for many of the products examined on imports from third countries while admitting the products of the A.O.T's duty-free, thus creating substantial preferential margins in favour of those territories. This issue should also be considered in the light of the fact that, for most of the commodities examined the A.O.T's are able to supply a considerable part of the markets of the Six, though in no case does the production of the A.O.T's fully meet the market requirements of the Six as a whole.

12. Most members of the Working Party considered that the effect of these preferential arrangements would be, firstly, to divert purchases by the Community from third countries to the A.O.T's; secondly, to raise the price level in the Community above the world price by the amount of the common tariff; thirdly, to increase the returns to producers in the A.O.T's above those to producers in non-preferential markets by the amount of the preference. Under conditions of free competition these results were inevitable, since the importers in the Six would be faced by a choice of supplies, part of which would pay the tariff and part of which would not, and competition would quickly bring the prices of these two sources to the importers into line. They considered that existing trade channels would not long withstand the price attractiveness
of supplies from the preferential market and that in the case of some commodities where the difference in duty is substantial the switch to A.O.T. supplies might be completed by the end of the first stage.

13. In the opinion of most members of the Working Party a new preferential régime created for the A.O.T.'s throughout the total market of the Six - having in mind that for all the commodities considered the combined market of the Six is at present substantially less than A.O.T. production - would ensure that prices in the Community would be the full common market tariff above world market prices. Similarly, the exporters selling to the Community on behalf of the producers in the A.O.T.'s would receive the same percentage premium above the prices payable to producers in non-preferential markets for those commodities. These price differentials would be gradually established during the transitional period and would be in full operation once the provisions of the Treaty of Rome in relation to that product had been fully applied, which could be sooner than the end of the transitional period.

14. For those commodities in which duty-free quotas have already been established (bananas and coffee), or in which quotas may be established by the Commission in the future, most members of the Working Party felt that the analysis was more complicated as only actual experience of the quotas would show whether they would prevent the price premiums referred to above being fully established. In any case, the tariff quotas so far fixed are small in relation to the whole import trade of the Community, are on a decreasing scale and might not continue after the end of the transition period. Their ultimate effect on price and trade could, therefore, only be marginal unless they were substantially increased and made permanent.
15. Members expressed concern that so important a matter as duty-free quotas had been included in the Treaty without precise indications of the manner in which they would operate. Bearing in mind the many difficulties and the generally unsatisfactory nature of quota systems introduced in recent years, they hoped the Governments of the Six would be able to supply information on the principles under which they would grant duty-free quotas and the methods of administration to be adopted. They considered that when this information is available the whole important question of duty-free quotas should be further examined.

16. For reasons already stated, most members of the Working Party considered that, in the Community, the prices of most of the commodities examined would be higher than world prices, which must tend to reduce consumption. The increase in prices of some commodities might be substantial. Moreover, where the new common market tariffs exceeded existing tariffs, there would be a strong temptation for Member States to implement those provisions of the Treaty (Article 17(3)) that permit the application of compensatory internal taxes. These taxes might well offset the differences in import tariffs and the consequent stimulus to consumption that might be expected.
17. Most members of the Working Party held the view that the duty differentials would stimulate production in the A.O.T's. They noted that production in these territories of the commodities examined had risen considerably during the past decade and that for some commodities, at least, this strong upward trend was continuing. It appeared to them inevitable that the additional production which was to be expected in the next few years would accentuate the dislocation of trade arising from the differential tariffs.

18. In many commodities the French A.O.T's were already producing or were on the point of producing more than France could consume. Benelux had always been a small market for the Belgian A.O.T's. Access to the whole Common Market on preferential items would, however, radically alter the situation and would act as a powerful new stimulus towards increased production in the A.O.T's. A guarantee of a large market is always the greatest stimulus of all towards increased production. It will have its effect, not only on the farmers themselves, but also on the officials and others whose responsibility it is to guide and promote agricultural activities, encourage disease control, develop new varieties, organize the opening up of new areas of production and advise on the choice of crops. Under their guidance the expansion of production could be very rapid indeed. This would still happen even if producers only received the world price for their products.
19. As to labour, evidence from the British territories in Africa showed that there was considerable under-employment of Africans at present and that appropriate stimuli could bring forward substantial additions to the labour force. There were also large movements of labour from the A.O.T's into British East Africa which in time might stop or even be reversed. Moreover, population was growing steadily in the A.O.T's and the death rate should decline as conditions improved so that the labour force should be substantially greater in fifteen to twenty years' time than it is today.

20. As to capital, there have in recent years been very heavy French investments in Africa which it is understood will be continued and even be increased in the future. Efforts were being made to attract private capital from Germany and Benelux into the French overseas territories and such capital would in future have full rights of establishment there. These countries had considerable experience of tropical agricultural development and the new preferential arrangements would attract that experience and the necessary capital into the A.O.T's. The Investment Fund set up by the Treaty, which had been fixed for the first five years at $500 million would contribute to the construction of those basic services, including transport, which were a prior condition for the opening up of African territories.
(d) **Effects of the New Tariff Regime on World Markets**

21. **Most members of the Working Party** considered that the new tariff preferences would force third countries to seek markets elsewhere for a considerable part of their present exports to the Six. This accretion of supplies in markets outside the Six would tend to create an imbalance between supply and demand in such markets with a consequent downward pressure on world prices. In a large number of the commodities considered wide fluctuations in price can be caused by relatively small excesses of supply or demand. At the present moment, moreover, world markets for many of these commodities are either in a sensitive state of balance or actually depressed. In such a situation the anticipated additional production of the A.O.T's could have an effect on world prices proportionately much greater than the percentage increase in world production they would represent. This depression of world prices would affect all third country exporters whether or not they sold to the Six.

22. Whether the world market moved up or down, due to other factors, this depressing influence would appreciably reduce the returns of third countries. Since many countries and territories represented in the GATT are heavily dependent on exports of either a single one or a limited range of these commodities, the adverse effects on their economies of an appreciable decline in world prices would be most serious. Increases in consumption in other parts of the world, such as Eastern Europe, could not be regarded as any solution to the problems thus created for their trade.

23. Moreover, since trade in these commodities forms an appreciable part of the total of world trade in primary products the cumulative effect of such declines in price and/or sale of the individual commodities would have a significant effect on world trade as a whole, leading to substantial reductions in demand for other primary products not produced in the A.O.T's and for manufactured products. This would, in turn, affect the exports of industrialized countries, including the Six themselves.
(e) Replies by the Representatives of the Member States to some of the Arguments in (b) to (d) above

24. ..............

["Text to be provided by the Six"]
Comments by the Member States on the analytical Methods followed by the Working Party

25. The representatives of the Six considered that the attempt to assess at the present time, i.e. in February - March 1958, the effects of the association of overseas territories with the economic community, was an extremely complex task involving forecasts of such a highly hypothetical nature that they have to be formulated with the greatest caution. Indeed, depending upon whether one deals with the short or long-term effects of measures taken gradually during a period beginning on 1 January 1958 and extending over a period of twelve or fifteen years, the task involves a whole series of assumptions such as the short and long-term effects of measures at present expected to be taken and the long-term effects of measures to be taken fifteen years from now, including hypotheses relating to the situation existing in 1983 (1958+15+10).

26. In dealing with these various assumptions, an estimate must be made of the influence of the tariffs and quotas among other things, and of the various measures which the Community may institute within the framework of its common commercial or economic policy. It is hardly necessary to stress that for a number of the commodities under examination, the common tariff rates have not been fixed, not to mention the treatment which may be accorded to such products as a result of action to be taken by the Community institutions under the various provisions of the Treaty.

27. Furthermore, in order to be in a position to attribute to the specific influence of the Treaty of Rome, and more particularly to the association of the overseas territories, certain developments in external trade in the commodities concerned, it would normally be necessary to forecast the evolution of the trade concerned and also to isolate from such evolution those aspects which seem to be attributable specifically to the association of the overseas territories.
28. The Working Party has not adopted this process of investigation although it is a scientific sine qua non. It is obvious that, notwithstanding the need to use this method and the obligation arising from its terms of reference, the Committee has very rarely attempted to forecast the evolution of world trade between now and 1983. Obviously, such an attempt would have been difficult, but if the intention was to ignore this prerequisite as regards the method to be followed, then by the same token it became impossible to conduct a scientific analysis of the specific influence of the Treaty of Rome on commercial exchanges whose development the Working Party did not attempt to trace.

29. The representatives of the Six, therefore, wish to emphasize that, in view of the fact that the complexity of the factors on which actual developments depend have not been given their due weight, the study which the working Party was to make has become merely an assertion that certain provisions of the Treaty of Rome, considered in isolation from their economic context, "will inevitably" have certain effects, etc. Thus, no attempt has been made to analyse the scientifically probable effects, and it has only been reaffirmed that certain provisions of the Treaty of Rome (relating to tariffs and quotas) are considered to be discriminatory, without there being any real effort to assess their specific effect, and thus without any contribution being made to the study of the problem.

30. The fact that economic analysis has been replaced as far as possible by a set of assumptions (there is a "preference", therefore competition will be affected, etc.,) is made even more apparent by the efforts of several representatives to take no account of the economic realities which affect the scope of the association of the overseas territories; these representatives have tried to picture this association operating in a mechanical and sovereign manner in a world from which many other economic influences would in some strange way be eliminated, or in which their effects would be minimized, for the purposes of this exercise, despite the irrefutable fact that all such influences are inter-related.
31. The first instance of this was the attempt to isolate the association of the overseas territories from the rest of the Treaty of Rome, and in particular from the European Common Market. Although many references were made to provisions of the Treaty of Rome which are not included in Part Four of that instrument, some representatives wanted to consider this association independently from the rest of the Treaty in order to forestall or refute the argument that the increased demand which would result from the establishment of the Common Market would have beneficial effects on the export trade of third countries. In actual fact it is clear that the Treaty of Rome is a single legal instrument; no part of it can be dissociated from the rest, and it can only be judged as a whole. Any such approach, based on the assumption that the two institutions (the Common Market and the association of the overseas countries and territories) could exist in isolation, is a clear indication of the abstract and unrealistic spirit in which this study has been made and which has vitiated its scope.

32. Similarly, the outlook for world consumption and production has been largely omitted from the study. Only the representatives of the Six supplied information concerning their production plans, although the terms of reference as well as the obvious requirements of analysis require that the various production plans for the whole world should be considered before an attempt is made to judge either the evolution of trade or, a fortiori, the possible effects on it of the association of overseas territories.

33. Furthermore, the representatives of the Six wish to stress that the forecasts made are thrown out of balance by the fact that during the discussions the influence of certain important factors was minimized by some representatives. The most important of these factors are the following:

(a) The influence of traditional factors in the orientation of trade patterns, which prevents any automatic, immediate and mechanical re-orientation of trade patterns as a direct result of purely tariff or quota considerations.
(b) The increase in consumption in the territories of the Common Market countries. Some representatives, doubting whether they had succeeded in their attempt to have these considerations set aside as being irrelevant to the discussion, asserted that it was in any case doubtful whether the creation of the Common Market would result in an increase in the standard of living of the peoples concerned and hence in an increase in demand in the Member countries.

To ensure the economic development and to improve the standards of living of the peoples concerned is a basic concept of the European Common Market, and this same aim has inspired other similar attempts in various parts of the world, and in Latin America in particular. The prospects for development which result from the various advantages offered by large economic units seem to economists so clearly established that there is no need to undertake to prove them here. It will suffice to say that those who doubt the benefits to be gained from integrated economic units are expressing views which are original and paradoxical, but which are contrary to the conclusions generally accepted by science, and moreover, contrary to the philosophy of GATT, for it is only in this light that Article XXIV has any significance.

(c) As regards the increase in consumption in the rest of the world (a factor which the Working Party is obliged to take into account, both by its terms of reference and by the method of economic analysis), the representatives of the Six consider that some delegations have systematically given estimates which are too low in order to bolster up a deliberately pessimistic description of the trade of third countries.
(d) **Uncertainty of estimates due to interdependence of trade in different commodities which may in certain circumstances be substituted for each other.** The Working Party has scarcely touched on the interplay of measures dealing with groups of commodities which have certain common characteristics which make them comparable, e.g. oils and fats, the tea-coffee-cocoa group, fruit (bananas, apples, oranges, etc.). In point of fact the treatment of these commodities under the Treaty of Rome (tariff rates, etc.) may not be fully known in each and every case, and the complexity of the problem is a challenge to the resources of science. Here again, however, the representatives of the Six feel that the simplification of the work was obtained in an arbitrary manner as a result of which the examination does not have the value of an objective and scientific assessment.

(e) **Action to be taken by the BEC with the object of stabilizing the prices of primary products and in general the organization of their international trade.** The representatives of the Six feel, as some other representatives have also pointed out, that the A.O.T’s have no reason to bring about a fall in prices and a collapse of the market by excessive increases in their production of primary commodities, since this would be ruinous for them as well as for third countries. It is therefore evident that the European Community will contribute to the organization of world trade in these commodities. If efforts in this direction were crowned with success, as a result of the Community supporting the countries which are seeking to organize trade in primary products, it is clear the implementation of the Treaty of Rome (and in particular of the provisions which govern the association of the overseas territories) would have brought to third countries major benefits which would
more than offset every prejudice which they have said they apprehend as a result of the implementation of the Treaty (though there is no evidence as to what the prejudice to be suffered would consist of).

The representatives of the Six consider that this aspect of the effects of the association of the O.T.'s has not been fully appreciated by the Working Party. They wish to stress that the influence exercised by one country, or one group of countries, on trade in a given commodity does not depend solely on the use of tariffs and quotas; it depends just as much on willingness, or unwillingness, to co-operate in international efforts at organizing trade in the commodity. It is therefore not possible to omit the effects of the association of the O.T.'s from this point of view.

(f) The physical, climatic and financial problems which affect the development of production in the A.O.T.'s have been considerably under-estimated by some representatives. In their view, the mere existence in the Treaty of provisions applicable to overseas territories automatically resolves the difficulties arising from availability of suitable land, of capital for investment, etc. This is one more example of the unrealistic, theoretical and a priori approach of these representatives.

34. The representatives of the Six are prepared to admit that an accurate assessment of the impact of these various factors would be an extremely difficult task for the Working Party, would not allow any hasty over-simplification and would call for restraint and caution in drawing conclusions. They maintain none-the-less that certain efforts such as those made by FAO show that this method is not altogether impracticable for an international organization, and they fail to see why a group of government representatives analysing an economic problem should feel they can do without a scientific, strict and objective method of analysis.
IV. GENERAL ISSUES RELATING TO THE TREATY OF ROME

(a) The Calculation of the Arithmetical Average

Most members of the Working Party noted that in a number of cases, e.g. tea, the calculation of an arithmetical average did not take account of the size of the respective imports of the various members of the Six from third countries. It was generally true that the largest importers of the Six had the lowest tariffs so that an unweighted average had produced a significantly higher common tariff and hence a higher preference for the A.O.T.'s than would have been produced by the calculation of a weighted average. Similarly, the theoretical duties given in List A, which were to be used in the arithmetical average calculation, appeared to be inserted in some cases (e.g. yarn of coconut, tapioca and sago) specifically to ensure a higher preference for the A.O.T. production of these commodities.

The representatives of the Six argued that, under the provisions of the General Agreement, countries were at liberty to choose between the simple arithmetical average and the weighted average for the purpose of establishing a common tariff. Furthermore, the studies which had been conducted indicated that the weighted average method could, in the case of certain products, result in common rates higher than those which the arithmetic average produce.
(b) Fiscal Duties

Articles 17 and 22 of the Treaty of Rome relate to customs duties of a fiscal nature. It was explained by a representative of the Six that under these Articles Member States may inform the Commission which of their customs duties are of a fiscal nature and that the Commission will decide to what extent such duties shall be taken into account in determining the arithmetical average for arriving at the Common Tariff on items not in Lists F and G. This could lower the duty on certain products considered by the Working Party, e.g. tea.

It was pointed out that the Commission could not make allowance for the fiscal nature of a particular duty in calculating the average, unless it were so notified by a Member State. The Commission could take no initiative in this respect. Moreover, it was entirely within the competence of the Commission to decide what part of such duties should be included in the calculation of the average. The Commission was required to "take due account of the protective aspect of such duties", but it was not known how the Commission would interpret this instruction. It was also noted that, under Article 22, a Member State could challenge the decision of the Commission and have the rate fixed by negotiation. The representative of the Six stated that, as far as he knew this could only mean that, at worst, the duty would be restored to the arithmetical average level.

In view of all these uncertainties, most members of the Working Party did not feel able to assume that certain tariffs would be reduced below the arithmetical average under this procedure. Furthermore, whether or not the Commission should decide, under Article 22, to lower the arithmetical average of a duty it would still be open to each Member State to introduce internal taxes to compensate itself for any loss of revenue arising from the introduction of the Common Tariff. In some cases there might well be a loss of revenue due to the reduction of duty on A.O.T. production, so that internal compensatory tax might have to be greater than the reduction in the duty level. In such cases the total rate of levy on the product would be greater than before and prices to consumers correspondingly increased.
In any case it was made clear by the representatives of the Six that there was no possibility of the rates on items in List F being reduced by the above procedure since the rates were fixed. Nevertheless, it was still open to Member States to notify the Commission that the duties levied on an item in List F were of a fiscal nature and to convert such duties into internal taxes in accordance with Article 17(3). In such a case the Member State concerned would levy both the Common Market tariff on the item and an internal fiscal tax. Members of the Working Party were apprehensive that this offered considerable scope for increasing the overall incidence of duty on List F items, even to a point well above the 1957 incidence.

The representatives of the Six observed that as far as internal taxes were concerned each Member State had to take into account not only budget or revenue considerations but also economic and social factors. These latter factors made it impossible to go beyond certain limits in order to avoid prejudicial price increases. Furthermore, if one considered that the establishment of a customs union involved the elimination of customs duties, then the necessary corollary was a loss of revenue which should in principle be offset through the fiscal and budget policy of the Member States taken as a whole. There was no reason to presume that such compensation would be sought more specifically through an increase in charges levied on tropical products. Lastly, the representatives of the Six observed that under Article IV (revised) of the General Agreement the Member States of the Community enjoyed the same freedom of action as other contracting parties in the field of internal taxes. There was no prohibition against such taxes to the extent that they applied in a non-discriminatory way to both imported and domestic products.
(c) The Use of Applied or Legal Rates in the Tariff Calculations

Members of the Working Party pointed out that for certain List F items, e.g. cocoa, tobacco and sugar, the common tariff was well above the average of the tariff rates in effect on 1 January 1957. The representatives of the Six stressed that in general the common tariff rates were lower than the rates which would have been arrived at if the arithmetical average of the legal rates had been taken as a basis for the computation. The legal rates were the only ones that were to be taken into account, considering, on the one hand, that any suspension or reduction was of a provisional nature and might therefore be rescinded at any time by unilateral action and, on the other hand, that GATT tariff negotiations were conducted on the basis of the legal rates. Other Members of the Working Party said, however, that the effective rates had been in operation during the whole post-war period and definite patterns of trade had grown up on that basis.

So far as the calculation of the arithmetical average was concerned, representatives of the Six argued that they would have been justified in using legal rates throughout in calculating the common tariff so that they had gone beyond their obligations under the GATT in using the applied rates under the terms of Article 19 of the Treaty in arriving at the arithmetical average. Other members of the Working Party said that whether effective or legal rates should be used for determining the common tariff was a legal issue under the GATT which was still unresolved. However, apart from this, it seemed to them that the use of legal rates in determining the duties on items such as cocoa, tobacco, etc., could only have been either to raise revenue or to give an even greater margin of preference for the protection of the A.O.T's. Since revenue could always be safeguarded by introducing internal taxes it was clear to them that the object was to increase the preferential margin.
The representatives of the Six further observed that temporary suspensions or reductions of duty had been introduced on an individual basis, in each of the Member States, on economic or social grounds. Any government might take similar action and it was not to be excluded that the Community itself might be led to take such measures within the framework of its common policy.
(d) **Duty-free quotas**

Attention was drawn by members of the Working Party to the possibilities inherent in Article 25 of the Treaty for creating new duty-free or reduced-duty quotas. Representatives of the Six explained that this Article was intended to permit Member States access to customary sources of supply from third countries and thus to avoid undue disturbance to existing patterns of trade. Most of the commodities discussed by the Working Party were covered by paragraph 3 of Article 25 which reserved wholly to the Commission the power to authorize Member States to suspend duties. They could not say precisely to what extent the Commission would use this power, but they considered that it would be used to prevent much of the disturbance to trade which other members of the Working Party feared might arise.

Most members of the Working Party considered, however, that even if it were to be very much in the interest of a particular Member State to have a duty-free quota on a particular commodity in Annex II, there was no guarantee that the Commission would grant it. Moreover, the proviso to the Article "that no serious disturbance in the market of the products concerned may result therefrom" might well be used as an argument against granting special tariff quotas once the A.O.T's had built up their trade with the Community. A substantial use of such quotas would, if effective, destroy the value of the preferential margin granted to the A.O.T's in which case there would have been no point in having introduced a preferential margin on behalf of the A.O.T's in the first place. In their view, therefore, it was by no means certain that duty-free quotas would be introduced and maintained on a sufficient scale to preserve present patterns of trade indefinitely.

Members of the Working Party noted the undertaking of the Six that they would conform to Article XIII of the GATT in their administration of any duty-free quotas. This was a matter to which they attached considerable importance.
The representatives of the Six said that they were at present unable to give detailed information on the way in which the quotas would be administered by the Member States. They stated that the quotas provided for in the Protocols annexed to the Treaty served the dual purpose of keeping down prices on the domestic market of the countries granting such quotas and of maintaining existing trade channels as far as possible, taking into account the common interests of exporters and importers.

They stressed that under Article 25 of the Treaty of Rome the institutions of the Community were empowered to grant tariff quotas at a reduced rate of duty or duty-free for products contained in certain lists annexed to the Treaty. Such quotas were to be granted where a shortage of supplies within the Community or a change in sources of supply was of such a nature as to entail harmful consequences for the processing industries of a Member State. This was an indication that traditional channels of supplies would be largely maintained.

In respect of the products listed in Annex II, tariff quotas at a reduced rate of duty or duty-free might also be authorized, so that no serious disturbance in the market of the products concerned might result therefrom. The Commission was empowered to make the relevant determinations in this respect.
(c) **Tropical Items appearing in Lists F and G**

Members of the Working Party drew attention to the fact that a substantial number of tropical products was included in Lists F and G.

So far as List F was concerned, most members felt that the fact that the drafters of the Treaty had spent time deciding on the level of the common tariff for these tropical items, not produced within the Community, could only be explained by the assumption that it was intended to create a substantial preference in these items on behalf of the A.O.T's. The same point arose in connexion with the inclusion of tropical commodities in Annex II of the Treaty (see paragraph below).

So far as List G was concerned it seemed to them possible that in certain cases some Member States were apparently not satisfied with the duty which would arise by calculating the arithmetical average. This again implied that those Member States desired a higher duty in order to provide an effective preference for the A.O.T's. There was also the possibility of adding further items to List G, the implications of which could not be assessed.

Members of the Working Party also pointed out that List G contained references to a number of semi-manufactured products from tropical items, e.g. cocoa butter, cocoa paste, chocolate, coffee extracts, vegetable oils, etc. In general, these semi-manufactured items could be produced in due course in the A.O.T's. Their inclusion in List G indicated, therefore, that Member States had in mind the possibility that a preference might be introduced for these items which would stimulate the development of processing industries in the A.O.T's and thus would be even more effective in its incidence than the duty on the raw materials themselves. The general trend towards the local processing of primary products would thus be slowed down in third countries, but encouraged in the A.O.T's, and existing trade patterns would be further dislocated.
Furthermore, the economic effects of the duties so far fixed for the raw products could not be evaluated fully until the duties to be levied on their semi-processed derivatives in List G were determined.

Referring to those commodities under consideration and for which rates of duty were given in List F, the representatives of the Six pointed out that these rates had been fixed at a level below that which would have been produced by the arithmetical average of the legal tariffs. The reasons which had led to the inclusion of certain products in List G were of an economic nature. There were no grounds for presuming that the duties which would emerge from the negotiations provided for in Article 20 of the Treaty would, on the whole, be higher than the rates which would have been produced by an arithmetical average.
(f) **Harmonization of Tariffs**

Attention was drawn to Article 21(2) of the Treaty which authorized the Council to make adjustments in the common tariff with a view to ensuring internal harmony within it. Most members of the Working Party considered that this provision of the Treaty might be used to raise the duty on certain tropical products in order to bring them in line with duties on competing products, e.g. the duty on cocoa might be raised to bring it in line with, say, coffee. Similarly, the duty on a raw product, e.g. cocoa, might be raised to harmonize with the duty level on a semi-manufactured product, e.g. those to be determined under List G.

The representatives of the Six pointed out that the four tariffs of the Member States, when brought together, might lead to an unreasonable expansion of the common nomenclature or to rates which would call for some degree of harmonization. It was for the purpose of dealing with such difficulties that Article 21 provided the opportunity of making certain adjustments. Article 21, did not, however, permit changes to be made in the general incidence of the tariff arrived at under those provisions of the Treaty relating to the establishment of the common customs tariff.
(g) **Accelerated Introduction of the Preferential Margins**

Members of the Working Party pointed out that, by virtue of Article 24 of the Treaty, it would be possible for Member States to raise their duties against the products of third countries more rapidly than the stage-by-stage procedure laid down in Article 23 of the Treaty. Similarly, Article 15(2) declared a willingness of each Member State to carry out the reduction of duties on the products of other members of the Community, including the A.O.T's, more rapidly than the normal stage-by-stage procedure "if the general economic situation of Member States and the situation of the sector concerned so permitted". Most members of the Working Party considered that these provisions of the Treaty might well be used to make the full preferential margin on the products of the A.O.T's effective well before the end of the transitional period. In the absence of any assurance from the Six that such an accelerated procedure would not be adopted, they felt that due account should be taken of this possibility in the deliberations of the Working Party.

The representatives of the Six argued that the general rules relating to the elimination of customs duties between the Member States and the establishment of the common external tariff were laid down in a detailed and precise manner in Articles 14 and 19 to 23 of the Treaty. Articles 15 and 24 constituted only exceptions from the above-mentioned general rules.
(h) **Quantitative Restrictions**

Members of the Working Party recalled that at the Twelfth Session representatives of the Six had claimed that "they were entitled to deviate from ... Articles XI to XIV insofar as the application of these provisions would constitute obstacles to the formation of the customs union and to the achievement of its objective". In particular, they had claimed that they were obligated "to eliminate insofar as possible - but only to that extent - quantitative restrictions existing between them, without necessarily extending such elimination to countries which are not members of the union". They had also claimed that the corollary of this obligation "implied that the Member States may maintain or impose restrictions applying to non-member countries only". They had further claimed that they were required to apply "substantially the same duties and other regulations of commerce". They had elaborated that the words "other regulations of commerce" included quantitative import restrictions, and had added that "by implication" this rule gives them "the right to apply restrictive measures other than those they had been able to apply if the union had not been established". And they had gone on to say that "these additional measures may ... affect commodities which are not produced in the country or countries which take these measures, in which case they cannot be considered as 'protective' measures ...".

Several members of the Working Party said that quantitative restrictions were among the most effective methods that had been devised for the purpose of restricting trade. Among other things they imposed rigid limits on the volume of trade. They could be used to insulate domestic prices and production against the changing requirements of the world economy, and were likely
to arbitrary in application and discriminatory in purpose and effect. For these and other reasons the contracting parties to GATT had completely renounced the use of quantitative restrictions as an instrument of protection.

Most members of the Working Party considered that if the Six exercised their claim to maintain or impose quantitative restrictions contrary to the provisions of Articles XI to XIV, they would establish protective and possibly discriminatory preferences for internal producers. These quota preferences could become a formidable bar to imports from third countries. Added to a protective common tariff, they could form an absolute bar to imports from third countries.

The representatives of the Six pointed out that the problem of quantitative restrictions did not arise only in respect of trade with the A.O.T's, but within the whole complex of commercial relations between the Community and third countries. In this connexion the Working Party should refer to paragraph 10 of the Report of Sub-Group B, which included the following statement:

"Following an exchange of views on the provisions of the Rome Treaty in the field of quantitative restrictions, the Sub-Group noted that these provisions were not mandatory and imposed on the members of the Community no obligation to take action which would be inconsistent with the General Agreement. ...."

The representatives of the Six stated further that under paragraph 5 of Article 111 Member States had agreed that they should aim at securing uniformity between themselves at as high a level as possible of their lists of liberalization in regard to third countries.
(1) **Agricultural Provisions of the Treaty of Rome**

Most of the products considered by the Working Party are tropical agricultural products listed in Annex II to the Treaty of Rome and, therefore, subject to the agricultural provisions of the Treaty. Most members of the Working Party considered that the only reason for including such a large number of tropical items in the Annex could have been that Member States intended to apply the agricultural provisions to create non-tariff preferences for the products of the A.O.T's. They pointed out, moreover, that for many products France already operated a form of managed market for the products from its own overseas territories. Since France could not dismantle these arrangements of its overseas territories, the only alternative would be to extend them throughout the Six. Similarly, in tobacco, bananas and oilseeds, monopolies were already in existence in Member States and there would be a tendency to extend them.

The representatives of the Six pointed out that nothing in the agricultural provisions justified the view that they were intended to create new tariff preferences. They were intended to invest powers upon the institutions of the Community to carry out a common agricultural policy. The aims of such a policy were clearly set out in Article 39 paragraph 1 of the Rome Treaty and they were basically the same as those underlyng the agricultural policies of every other country in the world. Furthermore, they explained that some of these provisions were intended to facilitate the abolition of internal trade barriers by means which took into account the special conditions prevailing in the agricultural field (minimum prices) or to make possible a development towards freeing internal trade in certain products for which the provisions of the Rome Treaty relating to the abolition of quantitative restrictions and import duties were not adequate because of the existence of certain national regulations (long-term contracts) and thus to comply fully with the provisions of Article XXIV of the General Agreement.
In the absence of any undertaking by the Six that the agricultural provisions of the Treaty would not be applied to tropical products, most members of the Working Party considered that, in their analysis of the economic effects of the Treaty, they must take into account the possibility that these provisions might be so applied, in ways which would create substantial additional preferences for the A.O.T's. They considered that such action by the Community was particularly likely at a time of declining demand when it could be used to ensure a market, within the Six, at maintained prices for the production of the A.O.T's.

The representatives of the Six explained that the aim of the agricultural provisions was to invest powers in the institutions of the Community and that in this early stage it was not possible to indicate in which way and to what extent use would be made of these powers. They saw, therefore, no justification for the assumptions of other representatives as stated above.

Most members of the Working Party considered that under Article 44 of the Treaty during the transition period, minimum prices might be fixed by each Member State for the tropical agricultural products from the A.O.T's, suspending or reducing exports from third countries to preserve the minimum prices, or requiring the exports of third countries to be offered at prices exceeding the minimum. This would ensure for the A.O.T's, not only a market in the Six for the whole of their production, whatever it might become, but also give them the minimum prices laid down, no matter how much out of line with world prices the former might be. The resort to these minimum price provisions, was especially likely in the case of those products which were produced in the A.O.T's at uncompetitive high costs and consequently could not adequately be protected by reasonable margins of tariff preferences.
The representatives of the Six pointed out that it appears clearly from the text of paragraph 1 of Article 44 that the system of minimum prices could not be used for all products but only in cases where the progressive abolition of customs duties and quantitative restrictions between Member States might result in prices likely to jeopardize the achievement of the objectives with regard to the common agricultural policy, as set out in Article 39 of the Rome Treaty. The system of minimum prices was designed to regulate the intra-trade and to prevent a too great reduction of the prices of some commodities within the markets of one or more of the Member States resulting from the enlarged competition following the liberalization of intra-trade. Furthermore, in Article 44 a rather strict procedure was laid down for the gradual control of minimum prices, in which account is taken of the "need for promoting both the progressive improvement of agricultural operations and the adjustments and specializations necessary within the Common Market". It followed clearly from the text of Article 44, therefore, that the system of minimum prices was not designed to afford undue protection to agricultural production within the Six. Moreover, they could not see how the liberalization of the intra-trade in most products produced in the A.O.T's, which were discussed, could lead to prices likely to jeopardize the achievement of the objectives ruling the common agricultural policy. They could therefore not see why the system would necessarily have harmful effects on the trading interests of third countries.

Other members of the Working Party said that, alternatively, under Article 45 of the Treaty, Member States individually or collectively could enter into long-term contracts to purchase the total output of the A.O.T's in these tropical agricultural products. The quantities purchased could, under the terms of
the Treaty, as production rose, be increased up to the total requirements of the market. The prices paid under these contracts would not necessarily bear any relation to world prices and, in that connexion, it was noted that paragraph 3 of Article 45 permitted payments to Member States to compensate them for any excess prices paid to the A.O.T's, compared with world market prices. To ensure a market in their territories for the products thus bought, Member States would have to apply restrictions to their imports from third countries. It was even conceivable that products thus purchased and not required internally would be resold on third markets at a loss, thus further damaging the trade of third countries.

The representatives of the Six observed that Article 45 paragraph 1 contained two cumulative provisos which had to be fulfilled simultaneously before a long-term contract could be concluded, viz. "there exist...

- provisions designed to guarantee to national producers a sale of their production, and
- a need of import".

It was difficult to see how these provisos could be met for the great majority of products produced in the A.O.T's since, for almost all products discussed, there existed in the importing countries no substantial production and therefore no provisions designed to guarantee to national producers a sale of their production. It followed that the system of long-term contract could be used only for a limited number of tropical products. As to the products for which the system could be used it was envisaged in Article 45 that due account would be taken of traditional trade currents. Furthermore, there was provision for the reduction of prices mentioned in the contracts, as they had to approximate "those paid to national producers in the home market of the
purchasing country." With regard to paragraph 3 of Article 45, it was pointed out that this article stated clearly that long-term contracts "shall not be an obstacle to imports of raw materials ... for the production of goods destined for export outside the Community ... (and) coming from third countries".

They were therefore of the opinion that due account was taken of the trading interests of third countries. They admitted that the last sentence of paragraph 3 contained an escape clause to this general rule, but they stressed the fact that this clause could be invoked only if the Council - i.e. the body composed of representatives of national governments - passed a unanimous vote to grant the payments necessary for compensation. As the long-term contracts - by their nature and by the wording of Article 45 - could be used only with respect to a limited number of tropical products and on that limited number the escape clause could be invoked only under special circumstances, the representatives of the Six were not able to see how the combination of these provisions could be used in such a way as to cause serious harm to the trading interests of third countries.

Other members of the Working Party then referred to Article 40(2) whereunder a common marketing organization for the products concerned could be set up to operate as an import monopoly, buying the total import requirements of the Six and reselling them internally. Even products not listed in Annex II could be controlled in this way since such monopoly organizations were not prohibited by the Treaty. The only provision in the Treaty relating to monopolies (Article 37) merely provided that such monopolies should not discriminate against the products of other Member States. Such monopoly buying organizations could, and naturally would, take up first the total output of the A,0,T's at good prices to producers and would only then turn to other
sources for residual supplies. A monopoly could average out the prices from the two sources of supply to sell at an average price to consumers, or it might even sell the products of the A.O.T's at a discount in order to stimulate demand for the particular qualities and varieties produced in those A.O.T's.

The representatives of the Six observed that in the agricultural provisions monopolies were not mentioned at all and that the "European market organization", mentioned in Article 45(2c) did not necessarily mean that a body would have to be set up if this type of common organization were chosen. It was also possible that a set of common rules would be established. They did not deny that the wording was such that the establishment of a monopoly was not prohibited. But this fact was not peculiar to the Community as almost every country had powers to organize a monopoly-organization if there were need to do so. The representatives of the Six did not see at this juncture any reason why a common monopoly need be established. But even if it were presumed that a monopoly buying organization would be established it was not made clear why such an organization "naturally would take up first the total output of the A.O.T's" ... and perhaps "average out the prices from the two sources of supply".

Most members of the Working Party considered that the creation of non-tariff preferences on behalf of the A.O.T's in any of the above ways would be particularly injurious to the trade of third countries, since no matter how efficient their producers might be they could never compete against the preferred supplies from the A.O.T's. As prices paid to the A.O.T's could be kept above world prices their products could be completely isolated from the play of market forces. Production in the A.O.T's would be artificially stimulated and third countries would be steadily forced out of the market of the Six until they had no share in
it whatever, however much consumers in the Six might prefer their products. This was of particular concern to producers of such products as coffee and tobacco in which major changes of taste could be enforced by the gradual changing of blends.

There was also the possibility under Article 38 of the Treaty to add new agricultural products to Annex II, thus extending the range of the items on which non-tariff preferences for the A.C.T.'s could be provided.

In the light of their statements above, the representatives of the Six were of the opinion that the general conclusions of the representatives of other members were based on the most pessimistic view possible and did not sufficiently take into account the real needs and interests of the Community with respect to agriculture and food supply, and, therefore, that these conclusions were not justified.

It was also pointed out by members of the Working Party that in the discussion of this problem in Sub-Group C of the Committee on the Rome Treaty at the Twelfth Session, great stress had been laid on the effects that these provisions could have on countries the economies of which depend mainly on the exports of one or a few agricultural products. To be excluded completely from the markets of the Six on the lines indicated above would be more disastrous for their economies than the exclusion of one or two products of more highly developed countries which had many lines of production to fall back on.

The representatives of the Six said they could not see any reason why a country would be excluded completely from the markets of the Community. They argued that, as the Community as a whole was and would remain a great net exporter, particularly in industrial products and capital goods, it was in their interest to maintain and even to intensify their trade relations with the outside world in general and in particular with countries in the process of development, as these countries could be regarded as important customers for the future.
ANNEX A

SUMMARIES OF VIEWS

1. Summary of Views of Most Members of the Working Party

(The text of this summary will be distributed separately.)

2. Summary of Views of the Member States

(The text of this summary is being prepared.)

ANNEX B

NOTES AND LIST OF ABBREVIATIONS USED IN TABLE A RELATING TO CUSTOMS DUTIES ETC., APPENDED TO EACH COMMODITY ANNEX

(These notes, as submitted by the Six, will be annexed to this main part of the report in order to avoid the necessity of attaching them to each of the commodity reports.)