WORKING PARTY ON THE ASSOCIATION OF OVERSEAS TERRITORIES WITH THE EUROPEAN ECONOMIC COMMUNITY

Additions and Modifications to the Text of the Working Party’s Report (L/805) proposed by the Representatives of the Six

Pages 11-15

Replace Section (e) and paragraphs 36-45 of Section (f) by the following:

(e) Comments by Representatives of the Six

A. Replies to some of the arguments in (b) to (d) above

35. With regard to the effects of the new tariff system on prices and on demand, the representatives of the Member States pointed out that:

(i) Prices on the home market of the Community were influenced by very varied and complex factors, of which customs duties were but one element. The application of a customs duty would not therefore automatically mean that the price on the home market would be the sum of the world price plus the duty. What had happened to prices on the French and British markets, for example, afforded proof that prices paid to producers in a preferential area were not always higher than those paid to producers in third countries.

(ii) The influence of customs tariffs in channelling demand to one market rather than another should not be overestimated. It was too easy just to state that the pattern of trade was founded entirely on the mechanical interplay of prices, upon which it continued to rest. The network of long-established trading relations, the requirements of certain sectors of industry, the habits of consumers who were accustomed to certain grades of products rather than others, all these were relevant factors in this field.

1 These statements bring together under (e), paragraph 35 which had been left blank in the draft report distributed on 3 April 1958, and paragraphs 36-45 inclusive.

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(iii) Finally, it should be noted that the establishment of a customs union or a free trade area was always liable to produce some measure of trade diversion, as well as to bring new trade links into being. Such effects were inherent in this form of economic integration and were not peculiar to the case under review by the Working Party. By accepting that it was fully permissible to suspend the most-favoured-nation clause in favour of customs unions and free trade areas the GATT implicitly accepted the consequences referred to above.

35(a) As for the influence on production in the overseas territories which might be exerted by the new tariff system, the representatives of the Six stated that they could not be blamed for looking forward to a general increase of production in the overseas territories. Such an increase was in fact one of the means of facilitating the economic development of these territories and of raising the living standard of their inhabitants - and that was an objective which was fully in accord with the spirit of GATT and of the Charter of the United Nations.

The Working Party should also remember that the Community proposed, by means of the help it would give to the associated countries and territories, to encourage their development not only in the agricultural field but in all sectors of their economy.

Furthermore, there was nothing to support the view that the supply of tropical products for the Community would come exclusively from the overseas territories, even if production in these territories did expand. A tendency to autarchy in the development of the Community was neither one of the objectives of the Treaty of Rome nor was it in the interests of the Member States.

In fact, the rise in consumption within the Member States of the Community and in the associated countries and territories, combined with the need for the Six to maintain and expand their trade with third countries, led one to think that, despite increased production by the overseas territories, the Community would have to make imports from third countries on a large scale.
Finally, it was the duty of the Member States to let the associated countries and territories share in the expansion that would follow the establishment of the Common Market, and so to help these countries and territories as rapidly as possible to the progress to which they were looking forward; but this duty certainly did not mean that Member States were going to exclude third countries from their expansion.

35(b) On the question of the effects which the new tariff would have on world markets, the representatives of the Six pointed out that for the commodities under review the level of world prices was bound up with the general trade cycle, and these prices were therefore affected by many and complex factors, such as capital investment and economic expansion plans, factors which applied in all countries.

Certain members of the Working Party considered that the prices of many of the commodities under review would fluctuate sharply in consequence of a relatively small excess of supply over demand, and that the production increases envisaged in the associated countries and territories might therefore produce effects on the world markets that would be out of all proportion to the percentage of world output which they represented.

The representatives of the Member States pointed out that this argument could only be sustained if some evidence were given of the degree of elasticity in the demand for the particular commodities, and if the review were carried out on a more scientific plane. As things were, there was nothing to show that a given increase in production in the associated countries and territories, or even the diversion of some trade links, would be likely to lead to a world crisis in the commodities concerned.

Furthermore, several of the countries represented in the Working Party had on other occasions agreed that stabilization of the prices of the commodities concerned could only be attained through some form of international cooperation. In this connexion Member States of the EEC had always
been ready to collaborate with other countries in seeking ways and means that could be used in attaining this objective. The representatives of the Six pointed out that the associated countries and territories had nothing to gain by bringing about in any manner whatsoever a fall in prices and a collapse in the market, which could only harm them as well as other countries. The Community, in watching over the interests of the associated countries and territories, would inevitably find that it must act as a stabilizing factor in world trade in these commodities.

The representatives of the Six considered that this aspect of the association had not been fully appreciated by the Working Party. They wished to stress that the influence exercised by one country, or one group of countries, on trade in a given commodity did not depend solely on the use of tariffs or quotas; it depended just as much on willingness or unwillingness, to collaborate in international efforts at organizing trade in the commodity.

B. The analytical methods followed by the Working Party

36. 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 should be formulated with the greatest caution. Indeed, depending upon whether one dealt 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 involved 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, say, 1980.
37. 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 might institute within the framework of its common commercial or economic policy. It was hardly necessary to stress that for a number of the commodities under examination, the common tariff rates had not been fixed, not to mention the treatment which might be accorded to such products as a result of action to be taken by the Community institutions under the various provisions of the Treaty.

38. 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 seemed to be attributable specifically to the association of the overseas territories.

39. The Working Party had not adopted this process of investigation although it was a scientific sine qua non. It was obvious that, notwithstanding the need to use this method and the obligation arising from its terms of reference, the Committee had very rarely attempted to forecast the evolution of world trade between now and 1980. 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.

40. The representatives of the Six, therefore, wished to emphasize that, in view of the fact that the complexity of the factors on which actual developments depended had not been given their due weight, the study which the Working Party was to make had become merely an assertion that certain provisions of the Treaty of Rome, considered in isolation from their economic context, "would inevitably" have certain effects, etc. Thus, no attempt had been made to analyse the scientifically probable effects, and
it had only been reaffirmed that certain provisions of the Treaty of Rome (relating to tariffs and quotas) must inevitably produce effects that would be harmful to others, without any real effort having been made to assess their specific effect.

41. In fact, economic analysis had very often been replaced by academic arguments (there was a "preference", therefore competition would be affected, etc.,) while no account had been taken of the economic realities underlying the scope of the provisions of the Treaty of Rome covering the association of the overseas territories. Those who looked at the problem in this way were in fact arguing as if these provisions operated in a mechanical and sovereign fashion in a world from which many other economic influences had in some strange manner been eliminated, or in which their effects had been minimized.

42. 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 had been made to provisions of the Treaty of Rome which were not included in Part Four of that instrument, the association of the overseas countries and territories had been considered quite independently of 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 was clear that the Treaty of Rome was a single legal instrument; no part of it could be dissociated from the rest, and it could only be judged as a whole. Any other approach, which assumed that the two institutions (the Common Market and the association of the overseas countries and territories) could exist in isolation, was academic and unrealistic.

43. Similarly, the outlook for world consumption and production had 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 required that the various production plans for the whole world should be considered before an attempt was made to judge either the evolution of trade or, a fortiori, the possible effects on it of the association of overseas territories.
44. Furthermore, the representatives of the Six wished to stress that the forecasts made had been distorted by the fact that during the discussions the influence of certain important factors had been minimized. The most important of these factors were the following:

(i) The influence of traditional factors in the shaping of trade patterns, which prevented any automatic, immediate and mechanical reshaping of the patterns as a direct result of purely tariff or quota considerations.

(ii) The increase in consumption in the territories of the Common Market countries. Some representatives, who feared that these considerations might be set aside as irrelevant to the discussion, had 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 was a basic concept of the European Common Market, and this same aim had inspired other similar attempts in various parts of the world, and in Latin America, in particular. The prospects for development which resulted from the various advantages offered by large economic units seemed to economists so clearly established that there was no need to undertake to prove them here. It would suffice to say that those who doubted the benefits to be gained from integrated economic units were expressing views which were original and paradoxical, but which were contrary to the conclusions generally accepted by science, and moreover, contrary to the philosophy of GATT, for it was only in that light that Article XXIV had any significance.

(iii) As regards the increase in consumption in the rest of the world (a factor which the Working Party was obliged to take into account, both by its terms of reference and by the method of economic analysis), the representatives of the Six considered that somo
delegations had given estimates which were too low and had thus further darkened a picture of the trade of third countries which was much too pessimistic.

(iv) Uncertainty of estimates due to inter-dependence of trade in different commodities which might 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 had certain common characteristics which made 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.) might not be fully known in each and every case, and the complexity of the problem was a challenge to the resources of science. Here again, however, the representatives of the Six felt that the work had been simplified in such a manner that the examination no longer had the value of an objective and scientific assessment.

(v) The physical, climatic and financial problems which affected the development of production in the O.T's had been considerably underestimated by some representatives. In their view, the mere existence in the Treaty of provisions applicable to overseas territories automatically resolved the difficulties arising from availability of suitable land, of capital for investment, etc. It was the view of the Six that this had been one cause of the unrealistic and academic approach, to which reference had already been made.

45. The representatives of the Six were 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 oversimplification and would call for caution in drawing conclusions. They maintained nonetheless that certain efforts, such as those made by the FAO, showed that this method was not altogether impracticable.
II

FURTHER AMENDMENTS PROPOSED

Page 1 - tenth and eleventh lines
Delete "ANNEX B ........ Member States".

Page 1 - second paragraph
The text should read as follows:
"V. Commodity reports
The reports on the commodity trade studies by the Working Party are being distributed as addenda to this document. Once they have been finally approved, they will form an integral part of the present report."

Page 1 - Note 1
The second sentence should read:
"The representatives of the Six, however, have only given their agreement with certain reservations, and they have also reserved the right to submit amendments to their own statements as at present included in this report."

Page 2 - paragraph 3
In the first line, after "Sub-Group," insert: "and taking into account the reservations made by the Member States, referred to in Section II, paragraph 11 below,"

Page 2 - paragraph 4
In the ninth line, place the words "and Sugar" between square brackets.

1 Amendments marked with an asterisk (*) refer to passages which record the views either of the Working Party as a whole or of "most members of the Working Party".
*Page 3 - Footnote*

The first line should read as follows:

"For the sake of brevity the Associated Overseas Territories, listed in Annex IV to the Treaty of Rome, will be referred to ......".

*Page 4 - paragraph 8*

The first sentence should read as follows:

"Further the Intersessional Committee had agreed that the studies of the Working Party should not be limited to the products mentioned by Sub-Group D, and that all contracting parties .......".

*Page 5 - paragraph 14*

This paragraph should read as follows:

"The representatives of the Six pointed out that the Overseas Departments were not covered by Article 227 which governed the association of the countries and territories listed in Annex IV to the Treaty."

(Delete the last sentence in the paragraph.)

*Page 6 - paragraph 16*

The last sentence should read as follows:

"The representatives of the Six could not altogether agree with the views put forward by other members of the Working Party and they submitted replies to some of the views ..........."

*Page 6 - paragraph 17*

Replace "some of the methods" by "the method".

In the last line "section (f)" should read "section (a)".

*Page 8 - paragraph 23*

In the ninth line, the words "nil" and "due" should be placed between inverted commas.
Page 8 - paragraph 24

In the fifth line delete the word "Finally".

Add the following sentence:

"Finally they stated that they did not see how a study of a few products could enable general conclusions to be drawn concerning all the problems which might confront international trade as a result of those provisions of the Treaty of Rome which dealt with the association of overseas countries and territories. Furthermore, the representatives of the Six considered that such a general assessment was outside the terms of reference of the Working Party."

Page 16 - paragraph 48

Add the following sentence:

"Moreover, in taking into account the duties given in List A, the intention was certainly not to grant increased protection to the A.O.T's."

*Page 16 - paragraph 49

In the seventeenth line, after "negotiation", the text should read as follows:

"Under this procedure there was no possibility of altering the rates on items in List F, since the rates were already fixed. The representatives of the Six stated that even in the least favourable case, i.e. if the duty under consideration were not recognized to be of a fiscal nature, the general rules laid down for the establishment of the common tariff would still be applicable."

Page 18 - paragraph (3)

The heading should read "Tariff Quotas".

*Page 18 - paragraph 56

The text should read as follows:

"The Working Party noted the statement by the Six that in administering tariff quotas they would respect the provisions of the General Agreement and in particular the provisions of Article XIII. This was a matter ...."
Page 22 - paragraph 57

Delete the second sentence.

The first sentence, after the words "so that", should read:
"(so that) when, under Article 19 of the Treaty, they used the rates effectively applied on 1 January 1957 in order to calculate the arithmetical average, they had gone even beyond their obligations under the GATT".

Page 23 - paragraph 57

The last sentence should read:
"This was an indication that traditional channels of supplies as well as the common interests of importers and exporters would be largely respected. The tariff quotas established by the Protocols annexed to the Treaty of Rome had been provided with that end in view."

Page 19 - paragraph 58

The first line should read:
"Moreover, Article 25,...."

In the third line delete the word "also".

Page 20 - paragraph 61

The last sentence should read as follows:
"There were no grounds for presuming that the general incidence of the tariff which would emerge from the negotiations provided for in Article 20 of the Treaty would be higher than that which would have resulted if the method of the arithmetical average had been used."

Page 21 - paragraph 65

At the end of the last sentence add the following:
"and if those exceptions were put into effect, that would not run counter to the provisions of the General Agreement."

Page 22 - paragraph 69

Add the following words at the end of the paragraph:
"Stress had therefore been laid on the desire of the Six to liberalize trade."
The second sentence should read as follows:

"They were in fact intended, by vesting the institutions of the Community with the necessary powers, to enable a common agricultural policy to be implemented."

Delete the words between brackets in the text.

The first sentence should read as follows:

"The representatives of the Six explained that the powers with which the institutions of the Community were vested in regard to agriculture were necessarily of a general nature and that at this early stage ......"

In the sixth line replace "too-great reduction of" by "slump in".
Place the fourth sentence ("It followed .....") before the third sentence ("Furthermore .....")
In the thirteenth line delete the words "from the text of Article 44".