PROPOSALS FOR CLOSER ECONOMIC INTEGRATION IN EUROPE

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In June 1955, six European countries, namely Belgium, Luxemburg, Netherlands, France, Italy and the Federal Republic of Germany (which are members of the Coal and Steel Community) held a conference at Messina to consider proposals for the creation of a European Common Market or a Customs Union. These proposals were the subject of a further conference in May 1956 at Venice, when the governments concerned decided to pursue and complete these studies with a view to drafting a treaty which would establish a common market among the six countries. Although the report which was considered by the Venice conference does not necessarily represent the proposals for a common market in their final shape, it indicated the main principles which have guided the preparatory work. It envisages the setting up of a customs union among the six countries. The customs union would cover all branches of economic activity, it would be completed after a transitional period of ten to fifteen years.

A somewhat broader proposal is currently under discussion in Paris, where the OEEC is studying the possibility of a close association between the proposed customs union among the six countries, on the one hand, and members of the OEEC not taking part in the customs union, on the other. The Council of OEEC has set up a special working party to undertake that study and to report to the Council not later than 31 December 1956. The working party was instructed to take into account the creation of a free trade area which would include the customs union and the other members of the OEEC. It may be noted that the OEEC Council at ministerial level, in July 1956 "instructed the Council at the official level to ensure that there shall be, at the appropriate time, consultations with the GATT".

During the course of the discussion of this subject, some delegates also took the opportunity to comment on plans for tariff reductions and on liberalization of trade among OEEC member countries.
Mr. J.F. Cahan, First Deputy Secretary-General of the OEEC, said that the only method of closer association now being studied by the working party was that of a free trade area. The working party was making a technical examination as to whether this proposal was in fact workable, and it was also examining what kind of rules might be needed for a transitional period and various related matters of a technical character. The working party would report to the Council as to whether the scheme for a free trade area was practicable and probably early in 1957 the Council would decide whether to go ahead on these lines. No decision had been made by any government regarding participation in such a proposal. Mr. Cahan emphasized that the OEEC was under instruction to bring its work on this subject to the attention of the Contracting Parties at the appropriate time and that at all stages to consider how the proposals would fit in with the GATT. At the moment, however, the work being undertaken in Paris was purely exploratory.

M. P.A. Forthomme, Belgium, speaking as the representative of the six countries which are considering the establishment of a Common Market, said that European countries could see clearly that their progress in the expansion of production was not sufficient to hold their position between the United States, which in practically every sector was responsible for half of total world production, and the countries which under a collectivist regime account for one third of world population and are increasing their production at a rate of from 10 to 15 per cent annually. Europe must escape from this situation, he said. The six governments, meeting in Brussels have recognized that none of them is individually powerful enough to undertake the research and the investment which will be required for the economic revolution which is foreseen in the age of atomic energy. Further, the developments in production that this source of energy and the new techniques involved will make possible will be impeded by the narrow limitations of separate European markets. It was for these reasons that the six Foreign Ministers met at Messina and decided to place the emphasis on two essential developments: the pooling of atomic energy and the creation of a common market. The Ministers established a group of experts to examine these proposals and their report was published in Brussels in April 1956.
This report was adopted at the meeting at Venice in May 1956 as the basis of the negotiations now being undertaken by the six governments. But the governments themselves are in no way committed. M. Forthomme said that the present stage now reached was that of discussions at the governmental level. It was uncertain when this stage would be completed and it was not possible at this point to give a complete picture of the work in progress. M. Forthomme said that the objective of the common market was that of creating a vast economic community, constituting a powerful entity of production, permitting continuous expansion and a steadily improving standard of living, greater stability and the development of harmonious relations among the member states. This, he said, corresponded with the objectives of the GATT. A large economic entity of this character would have a stabilizing influence in world economy. In particular, by increasing consumption of raw materials it would have a good influence on the stability of markets for raw materials. The merging of markets would create outlets large enough to permit the use of the most modern techniques in production, which is not possible in separate economies. But the advantages of a common market could only be obtained if there was close cooperation between the member states. For this reason it was impossible to establish a common market without common rules, common undertakings and a system of institutions. A common market must have a regional basis so as to ensure the necessary solidarity, a close coordination between the governments and the elimination of forms of protection which are the obstacle to the unification of Europe. The common action of the governments should assure the harmonious development of their economies as a whole, in particular through rules and procedures intended to limit the possibilities of state interference and monopoly practices. M. Forthomme emphasized that these regional arrangements were not in opposition to the rest of the world nor to the international division of labour. On the contrary, the economies grouped as a whole would have the necessary force to reduce the protection of the common market vis-à-vis exterior markets. They would contribute to the general lowering of customs barriers and would establish closer relations with third countries than was hitherto feasible for each separate country.
The achievement of the common market would need a transitional period. M. Forthomme said that three stages of four years each followed, possibly by a further period of three years were envisaged. The procedures envisaged would take account of the international obligations of the member countries, including their GATT obligations. The common market would be established in the form of a customs union, covered by Article XXIV of GATT. The common market would be fortified against the risk of constituting a high protective zone tending to isolate itself against the rest of the world or to upset the pattern of trade. High protection, he said, was excluded a priori. The common market did not exclude the possibility of entering into a free-trade area with any other country, which could preserve its own distinct customs tariff towards third countries.

After giving details of the proposed institutions of the Common Market—Council of Ministers, European Commission, Court, and Assembly—and after outlining their functions, M. Forthomme examined various aspects of the Brussels report concerning the customs union, quotas, services and agriculture. In conclusion he emphasized that the governments which are studying the report have done nothing definitive and have taken no commitments. It would not be until the time when the treaty has been completed that one could speak of anything firmly decided. It would be at that moment that the Contracting Parties would be called to consider the work accomplished. M. Forthomme said that, on this point, it was the intention of the Belgian Government to submit the Treaty to the Contracting Parties after it had been signed but before it took steps towards ratifying it. He believed that the other governments with which they were associated had the same intention. He was convinced that when the Contracting Parties received the treaty, they would study it with the knowledge of its importance for the whole world; as an attempt without precedent in economic unification, reached through mutual accord among countries which have a long tradition of total sovereignty. The success of such an enterprise would be a happy augury for the future of human relations.
Dr. Z. Auganthaler, Czechoslovakia, said that the matter under discussion was of interest to the whole world. He said that three alarming trends were evident in the development of world trade, (a) the decline of trade between developed and under-developed countries, (b) decline of trade in primary commodities in relation to world production and trade, and (c) dividing up of the world market into compartments of varying degrees of exclusiveness and decline of trade between various groups of countries. On the latter point (c) he said that in 1953 about three-fifths of world exports consisted of exchanges within the main trading areas and less than one-fifth consisted of the trade of the main areas with one another. Turning to the proposed European free trade area, Dr. Auganthaler said it would necessarily mean very profound changes in the pattern of world trade. He wondered whether the establishing of such an area would help to remedy the three alarming trends in world trade (referred to above). He said that the experience of several contracting parties with the European Coal and Steel Community was not very encouraging. Before proceeding further the GATT secretariat should make a detailed analysis of the possible effects of the customs union and free trade area proposals on the foreign trade of other contracting parties so as to see more clearly in which direction they were moving and whether it was in the direction of attaining the objectives of the GATT.

Mr. E. Peroz-Cisneros, Cuba, said that the establishment of a customs union or free trade area had great implications for the interests of third parties and that Article XXIV of the GATT specifically emphasizes that "the purpose of a customs union or free trade area should be to facilitate trade between the parties (to the union) and not to raise barriers to the trade of other contracting parties". Accordingly, the provisions of that Article stipulate that the duties and other barriers to trade with the outside world, imposed when the union is established, shall not be higher or more restricted than those applied previously. Further, the Article indicates that the formation of the union shall take place according to a pre-conceived plan "within a reasonable length of time". Mr. Peroz-Cisneros pointed out that while the economic position of some countries may be strengthened by economic integration, the objectives of GATT will not be served if the arrangements only lead to a highly
protectionist area disrupting both the international division of labour and the international pattern of trade. Therefore, the Contracting Parties must be fully satisfied that the proposed arrangements for a customs union or free trade area will actually promote the progressive development of the economies of all the contracting parties. For non-industrial countries the formation of a customs union or free trade area between industrial states had to be viewed with particular preoccupation. He said that while it was true that international trade had reached an unprecedented level, the proportion of trade carried between the industrial and non-industrial areas had actually declined. Today the under-developed countries were following with great anxiety the unfavourable trends of their production, exports and terms of trade and they must of necessity give very careful consideration to any plan which could either open wholly new perspectives or bring about a further deterioration of their European markets. For the non-industrial contracting parties the internal and external agricultural policy to be adopted by the common market would be of particular interest as well as the relations to be established between the members of the area and their dependent territories. Mr. Perez-Cisneros concluded that the present drive towards European unity might open a new era in the Continent's economic and political history and that European integration might contribute effectively to the objectives of GATT. He hoped sincerely that the questions he had raised would be answered satisfactorily and that there would be no grounds for the doubts and apprehensions which some contracting parties were today entertaining.

Dr. C.M. Isbister, Canada, said that although he did not intend to comment on the proposals in detail, his Government was closely concerned with the possible results of European integration, since Canada would be as much affected as any non-European country. At a later stage the Contracting Parties would have important problems to consider and it would be essential that the secretariat to be familiar with all the issues involved. It was gratifying to note the intention of the six countries and the OEEC to proceed in close consultation with the Contracting Parties.

Mr. K. Tatsuko, Japan, said that the proposals for a customs union and a free trade area affected not only the interests of individual contracting parties but also the structure of the GATT. It was essential that they should
not create new trade barriers and Japan was concerned at the risk that they might stop halfway towards achievement, thus creating new preferential areas. If the proposals were designed to create a third world economic bloc he doubted if they were in accord with GATT principles. He said that if agricultural products were excluded from the scope of the free trade area this was equivalent to creating a preferential area for industry and it would be a serious disadvantage for the under-developed countries. On the subject of European trade liberalization, he recognized how much this had contributed to the trade of OEEC countries, but this had worked to the detriment of their trade with non-members. There were many restrictions against imports into OEEC countries from Japan and he doubted if the discrimination against non-dollar non-OEEC countries was justified by balance of payments difficulties.

Mr. Osman Ali, Pakistan, said he was glad to have the assurance of representatives of the OEEC and of the six countries that the Contracting Parties would have a full opportunity to discuss the proposals for the creation of a customs union and a free trade area before those arrangements come into force. He hoped that these measures would not only result in strengthening the European economy but also directly or indirectly prove of benefit to all the contracting parties by stimulating world trade. His Government would like to see that the proposed schemes had the possibility of extending, in due course, liberalization measures to countries outside Europe. If, however, the proposed schemes led merely to the creation of a new preferential area for a group of countries, this would result in a restricted regional arrangement contrary to the spirit and objectives of GATT. Mr. Osman Ali said that in view of the declining share of the under-developed countries in world trade he was particularly glad to hear the assurance given by the Belgian delegate that the common market is expected to result in increased use of raw materials, stability of commodity markets and lowering of tariffs against non-participating countries. In conclusion, he said that his Government would follow developments with the closest interest and he hoped that the OEEC and the Messina powers would continue to give full cooperation by establishing a close liaison.
Mr. C. Corse, United States, said that the United States had consistently supported genuine European economic projects. The proposals for a customs union and a free-trade area were of great concern for the Contracting Parties, but it was too early to discuss them in detail. It was important to work out liaison arrangements which would become effective at the appropriate time.

Mr. J. Cappelen, Norway, said that on the one hand the European countries needed the advice of GATT and on the other, GATT members wanted to follow the work in progress. It was therefore most important to establish permanent liaison with the bodies concerned.

Shri T. Swaminathan, India, said that in his view they should do everything in their power to help and not obstruct the formation of a union leading towards closer economic integration, provided there was no attempt to reduce the trade of other contracting parties. He referred to the views expressed by the Czechoslovak and Cuban delegates in relation to under-developed countries. India, he said, was in the process of economic development and required foreign exchange to pay for imports of capital equipment from industrial countries. It was essential that India's trade with Europe should not be reduced and, therefore, his Government would study the customs union and free-trade area proposals with extreme care.

On the subject of the extension of OEEC liberalization measures to EPU and sterling area countries, Shri Swaminathan said that progress was not so rapid as was desired. He appealed to the contracting parties concerned to expedite the necessary measures.

Mr. F.G. Oldini, Chile, said he doubted if the drafters of Article XXIV of GATT contemplated that it would be applied to such a large area as Europe and he wondered if in the plans for integration there might be some element of danger to the general interests of international trade. He pointed out that the under-developed countries depend on stability for their exports of primary commodities. If there was world-wide responsibility for the application of the European integration plans, there was nothing to be feared; but as the responsibility would be undertaken by the European countries, there was a risk that they might not take into consideration the problems faced by other countries. Already there were complaints that the Coal-Steel Pool had created difficulties for non-member countries. It was therefore essential to study the relations of the proposed European free-trade area with non-member countries. The matter was of great importance and the Executive Secretary should keep in permanent contact with developments.
Mr. G.A. Jockel, Australia, said it was appropriate at this stage for the representatives of the six countries and of the OEEC to give information of a general character and later on to present their proposals in detail. It would also be useful for non-European countries to give their views at an early stage. GATT, he said, must be kept closely in touch with the European integration programmes, at all stages. Mr. Jockel pointed out that the suggested twelve to fifteen years for the transitional period was a long one in terms of today's economic progress. It was essential that the schemes for integration should not be halted before completion, because in the intermediate stages, they had the character of a preferential system. From the point of view of imports from third countries the proposed free trade area seemed more satisfactory than a customs union. But in either event outside countries would be asked to accept a scheme which was bound to create some impediments to their trade. Nevertheless the Australian Government fully recognized the economic benefits which could flow from schemes of European integration. It was most important that the Contracting Parties should be informed of developments through the Executive Secretary. On the subject of OEEC liberalization, Mr. Jockel pointed out that one third of imports of agricultural products into the OEEC area still remain subject to import controls.

Mr. I. Portocarrero, Nicaragua, said that the Central American Governments would follow closely the progress towards a European free trade area. He hoped that the experiences gained from these developments in Europe would provide a useful guidance in the development of the free trade area in Central America.

Mr. F. Gundelach, Denmark, said that in the view of his Government there was close interrelation between the proposals for a free trade area and future plans for tariff reductions. A European approach to tariff reduction should be regarded as a supplement to the GATT approach. The Danish Government considered that a further general reduction in tariff rates, in particular of high tariffs, was one of the main objectives of the GATT. In the tariff field, although progress had been limited to the bilateral approach, the four GATT conferences had been useful. Denmark, he said, favoured the abolition of quota restrictions maintained for balance of payment reasons but there must be a
reasonable balance between the elimination of quotas and the maintenance of high tariffs. The substitution of high tariffs for quotas must be prevented. Although the GATT plan for tariff reduction was not acceptable to some trading nations when it was last considered, he felt that the bilateral techniques used hitherto must be replaced and that further efforts should be made to set up new machinery for tariff reduction along the lines of the GATT plan.

Mr. A.T. Valladaes, Brazil, said that the plans for European integration had many important aspects and presented problems which affected all contracting parties, in particular the non-European parties. His Government was in favour of this type of integration; but particular care would have to be taken at the time when the participating countries might ask for a waiver of certain GATT obligations. His Government would examine the problems presented and, while in principle in favour of the scheme, would be in a position to offer more detailed comments at a later date.

Mr. H. de Boscho, Sweden, agreed with the Danish delegate that work on the GATT plan for tariff reduction should be continued and re-examined at a later date in the light of developments in European economic integration. On the subject of the proposed free trade area he felt that if the result was an expansion of trade and of the economies of the countries concerned, then the efforts of Europe might have positive results on the whole world. As to liaison he suggested that the countries concerned should keep in touch with the GATT intersessional committee. Mr. de Boscho added that the Scandinavian countries would bring the proposals for a Nordic Customs Union before the Contracting Parties, when they were finalized.

Mr. C.W. Sanders, United Kingdom, said that the United Kingdom was fortified by the understanding shown by delegates of the big issues at stake. The discussion had shown the interest which the contracting parties have in the studies for European integration both from the point of view of GATT provisions and of their trading interests. In his view there was no reason why these schemes should cut across GATT obligations. But probably there would be some considerable time before the discussions in Paris arrive at a point where decisions were reached and could be put before the Contracting Parties. In the meantime steps should be taken to keep the Contracting Parties informed of developments.
At the conclusion, the Chairman, Sir Claude Corea, said that, even if the proposals for European integration were in an early stage, the discussion had been very useful. He expressed satisfaction at the assurance given by the delegate of Belgium that the governments of the six countries were intending to submit the Treaty to the Contracting Parties before it was submitted to their parliaments for ratification. Arrangements would be made for maintaining close liaison with the studies now in progress. The subject of plans for further tariff reduction would be put on the agenda of the next Session.