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THE PROPOSED COMMON MARKET IN EUROPE

Statement by Mr. P.A. Forthomme, representative of Belgium, at the meeting of the CONTRACTING PARTIES on 8 November 1956

The rapid increase in production which has occurred in Europe in the last few years does not create any illusions for the Europeans. They see quite clearly that the progress which they have achieved is not enough in itself to maintain their present position between the United States, which in practically every field, accounts for one-half of world production, and those countries which, under a collectivist regime which includes one-third of the world population, are increasing production at the rate of 10 or 15 per cent a year. Europe is anxious to escape from this position.

The six governments that are participating in the discussions in Brussels have recognized that none of their countries is large enough to undertake the immense amount of research and the volume of basic investment needed to launch the economic revolution heralded by the advance of the atomic age. Furthermore, the development of production which this source of energy and its new techniques makes possible will be hampered by the unduly narrow limits of the separate European markets.

These are the reasons which led the six Ministers for Foreign Affairs who met in Messina, after they had decided to initiate the unification of Europe in the economic field to stress two essential objectives: the pooling of atomic energy and the establishment of a general common market.

In order to proceed steadily along these lines, the Ministers requested a group of experts, meeting under the leadership of national delegates, to outline the methods by which the objectives proposed could most easily be achieved.

The report which was published in Brussels on 21 April 1956 is the result of the work of these experts. It conveys the common answer which resulted from their discussions. The work was performed in contact and in consultation with the governments and national administrations, but the report was submitted on the sole responsibility of the Heads of delegations meeting under the chairmanship of the political coordinator. The governments were not and are not yet committed. By joint decision taken in Venice on 29 May 1956, they have merely conferred upon the report the status of a recognized basis for further negotiations.

That is how we reached the present stage - the stage of talks at the governmental level. The moment when these talks will be concluded is unknown. A number of points are under slow and thorough consideration by the governments, whereas in respect of others the need for supplementary detailed study has appeared in the course of the exchange of views. It is therefore impossible at present to give a valid picture of the work that is going on.

The report submitted by the Heads of delegations first laid down as a principle that "The purpose of a European common market should be to create a large area committed to a common economic policy, constituting a powerful production unit and ensuring continual expansion, increased stability, a speedier rise in living standards and the development of harmonious relations between the component States".

It is hardly necessary to point out the similarity between these objectives and those of the General Agreement. A great economic unit, as is provided for here, will play a stabilizing rôle in world economy. In particular, its increased consumption of raw materials will exert a favourable influence on the trends of international commodity markets.

In order to achieve these objectives, the report recommends that there should be a merging of markets. This will ensure a more extensive division of labour, and will make it possible to avoid wastage of resources, and to dispense with production at uneconomic costs. A common market of this kind will give full play to the efficiency of management and men. The pooling of resources will ensure equal opportunities to all competitors and create large outlets which will permit the use of the most up-to-date production techniques. This is essential, because in many branches of industry, present domestic markets offer only to enterprises with a virtual monopoly the opportunity to reach the size necessary for the adoption of recent techniques. The advantage of a wide market is that it makes possible mass production without this leading to the creation of monopolies.

The benefits accruing from a common market cannot, however, be achieved without close co-operation between the participating States in order to secure the necessary readjustment of national economies within the time-limits desired.

That is not all. We must also bear in mind that government intervention has an enormous influence on the conditions and levels of production; that disparity in national legislation can deeply affect relations between industries; and lastly, that any divergences in monetary trends or in the tempo of industry may cause sudden serious disturbances in price relations or in trade.

It is for these reasons that a common market is inconceivable without common rules, common action and an appropriate institutional system. This means that a true common market is in fact achievable at the present stage of development only between a definite group of States which one would wish to be as large as possible.

Consequently, the common market can only have a regional basis. It can be established only between States with a sufficiently common outlook to make the appropriate adjustment in their national legislation and show the necessary solidarity in their policies. Through very close co-ordination between States, normal conditions of competition can be established which would make it possible to eliminate protection which now stands in the way of European economic unity. Their common action should ensure the harmonious development of the economies of the participating States, in particular as a result of rules and procedures aimed at remedying the consequences of government intervention or monopolistic practices. The struggle against balance-of-payments difficulties, the creation of new resources through the development of underdeveloped areas and the utilization of unused labour forces, assistance towards the productive reconversion of enterprise and the retraining of the labour force - these too are tasks which will have to be undertaken jointly.

This being said, it should also be indicated quite clearly that regionalism thus conceived is not opposed to the rest of the world, and is not directed against the international division of labour. The economies which are to be grouped will, on the contrary, have sufficient strength to reduce the protection of the common market vis-à-vis other countries. They can contribute towards the general lowering of tariff barriers throughout the world and establish with other countries closer relationships than those that existed previously between those countries and each of these component States.

The basic transformations necessary for economic unification will take some time. The full achievement of the common market is possible only at the end of a transition period composed of successive stages. In this manner three requirements can be reconciled:

1. The evolution should be a continuing harmonious process; each stage is only one specific fraction of the ground which has to be covered in full.
2. Each stage, however, should be endowed with some internal unity and provide for a number of actions to be undertaken concurrently because they are complementary and facilitate one another.
3. While the final objective and general principles can easily be laid down, one must be able to take into account the experience gained in the course of the process of amalgamation as well as the problems and unforeseen circumstances that may arise.

It is proposed to complete the establishment of the common market in three four-year stages, followed, if need be, by a supplementary period of three years at the maximum. The extreme time-limit must in any event be the same for all the objectives to be achieved within the common market. Any waivers which may have been granted to any country should have the same time limit except, of course, when there are special cases with difficulties which cannot easily be resolved within the time limit.

The procedure envisaged will enable participating countries to fulfil their other commitments, for instance those undertaken by them within the framework of the General Agreement on Tariffs and Trade.

The report recommends that the common market should be set up in the form of a customs union, as provided for under Article XXIV of the GATT. In fact the requirements of the GATT would be more than widely met. The proposals contained in the report in fact go further than what is strictly necessary. They recommend that:

1. The common market should cover all branches of economic activity;

2. The customs union should be set up within the reasonable space of time already indicated;

3. The common tariff should be set up progressively in accordance with rules which would ensure that its overall incidence would not be higher than that of the separate tariffs it replaces.

In this way, the common market will be safe from the danger of constituting a highly protectionist area, tending to cut itself off from the rest of the world or to distort the pattern of trade. A high level of protection is excluded a priori. Further the choice of the customs union method does not exclude the possibility of superimposing on it a free-trade area with any other country which would be able, because of special circumstances, to maintain a separate tariff in respect of third countries, without risk of trade being diverted.

The common market should not be an exclusive organization. It should be open to any country prepared to accept its rules and obligations.

Lastly, it will be necessary to define the exact relationship between the common market and the international organizations with wider spheres of authority in larger membership. The two types of organizations, far from being incompatible, usefully complement one another and the smaller group of countries forming the customs union would have no difficulty in fitting in with the international organizations which develop co-operation between independent economic units.

The main tasks of the common market organization will be:

- to ensure the observance of the obligations assumed by the States;
- to ensure that commercial undertakings observe the rules of competition;
- to determine conditions for the maintenance or abolition of subsidies or other practices with similar effects;

- to remedy distortions and to pave the way for harmonization of legislation insofar as this is necessary or desirable;
- to administer the provisions concerning readjustment and the development of investment;
- to supervise waivers and escape clauses;
- to promote a common policy in relations with third countries;
- to secure a concerted effort to maintain monetary stability and a high level of employment and activity.

It would be inconceivable to provide for the fulfilment of these tasks by including detailed stipulations in the treaty establishing the common market. It is necessary to retain great flexibility of operation, and this can only be achieved by establishing institutions with clearly defined powers and by setting up procedures adequate to cover the various problems that may arise.

The Brussels report suggests that the common market should have four separate institutions:

1. A Council of Ministers, which will be the instrument of consultation between the governments and the body in which the decisions of the governments will be taken in common;

2. A European Commission, whose chairman and members will be appointed jointly by the governments, and which will be responsible for administering the treaty and for ensuring the operation and development of the common market;

3. The Court, which will have jurisdiction over complaints concerning infringement of the treaty by the member States or by individual firms and over appeals for the annulment of decisions of the European Commission;

4. Parliamentary control will be exercised by a Common Assembly.

Furthermore, an investment fund to facilitate the implmentation of projects of European interest, regional development programmes and the conversion of industries will be set up as an autonomous body administered on essentially financial lines.

Now we have to consider how it is proposed to arrive at the common market, that is, to consider what will be achieved in the course of the successive stages.

The Brussels report deals with four points in this respect:

- the customs union,
- quotas,
- services,
- agriculture.

The customs union will be achieved through the abolition of customs duties inside the common market, and the establishment of a common external tariff. These two aspects are of considerable importance for the contracting parties.

The abolition of customs duties within the common market must proceed simultaneously over the whole range of production. The simplest method would have been to reduce at regular intervals by an equal percentage each of the duties applicable in each country. This procedure is not practicable, for it makes no allowance for the sensitivity of certain products and might therefore result in frequent reliance on escape clauses. That is why there will only be one uniform reduction for all duty rates, and it will be the first reduction.

Subsequently more flexibility will be given to the machinery of duty reduction. The amount of each succeeding reduction will be applied not to each individual product, but as an average over groups of products.

In the absence of a nomenclature common to the existing tariffs, products in each country will have to be classified according to the rate of duty applicable to them at importation. They will be classified in blocks of five points each up to 10 per cent (i.e. two blocks), blocks of two and a half points from 10 to 50 per cent (i.e. sixteen blocks), and again in blocks of five points for rates in excess of 50 per cent. The blocks between 10 and 50 per cent would be smaller because the bulk of all current duties fall between these limits.

There are two more dangers to be avoided. First, if the average rate of reduction is to be applied uniformly to each block at each stage, even the lowest rate of duty would have to be reduced, while higher duties on the same products in another country would continue provisionally at a clearly protective level. Secondly, there would be no inducement to governments to make greater reductions of the duties in the higher brackets so as to achieve the average reduction required without at the same time reducing lower duty rates on sensitive products. It is, therefore, proposed to allow each government in its computation of the average reduction to bracket the blocks in pairs at its own discretion.

The average reduction effected by each country in successive reductions of duty will be computed by weighting the percentage reduction of duties on each product by a factor representing the value of imports of that product from other member countries of the common market during the most recent three-year period for which statistics are available.

Duties of a prohibitive character are not adequately reflected in calculating the average, as the weighting factor is very small or non-existent. Means must therefore be found of bringing them into the general reduction scheme. It is proposed that duties higher than 30 per cent should be lowered at each stage by at least half of the percentage reduction to be applied as an average over each group.

To start with, the uniform reduction will apply not to the duties in the tariffs, but to the average duties actually levied in 1953, 1954 and 1955. This average would be ignored if the duty most recently included in the tariff as a result of international negotiation was lower than it.

It is also proposed in the report that the so-called fiscal duties should also come into the general scheme for the lowering and abolition of duties. Governments are free to compensate for this by introducing or raising excise duties or duties on consumption. Pending the gradual harmonization of fiscal legislation, the rules of exemption for outgoing and compensation for incoming traffic will apply within the common market.

At what rate will customs duties be reduced and abolished?

For the first four-year stage after the Treaty has come into force, there would be a reduction of 10 per cent at the end of the first year, followed by two reductions of 10 per cent every eighteen months, amounting in all to 30 per cent in four years.

During the second stage, the first two reductions of 10 per cent would take place at the end of successive periods of eighteen months, and the third at the end of the eighth year, leaving 40 per cent to be eliminated in the third stage.

It should be noted that the last stage could be either shortened by unanimous consent, or extended to a maximum of an extra three years, if there were strong reasons to do so.

As regards the establishment of a common external tariff in respect of third countries, the report notes that:

> "GATT stipulates that the common tariff in a customs union must not have a greater incidence than the tariffs it replaces. This formula does not prescribe any particular method of calculation; it merely requires that the overall total of duties payable under a common tariff shall not represent a higher percentage of the value of imports into the union than the total of the duties formerly imposed by the member States compared with their total imports. The rule carries no obligation, in calculating the new tariff to apply a weighting factor based on the imports of past years. There is in fact no reason why, when the common tariff has been introduced and trade agreements have been concluded on a common basis, imports into the member countries should show the same pattern as under divergent trade policies and separate customs tariffs. A comparison of the overall consumption of the individual countries would perhaps be a better criterion of the import potentials of each country."

In view of the difficulties inherent in any attempt to weight duties, the report envisages the adoption of some simple method of establishing the common tariff while at the same time ensuring the internal harmony of the tariff and its conformity with the GATT rules.

As a first step maximum rates must be fixed at different levels for raw materials, semi-finished and finished goods. Then for each product the arithmetical mean between the existing duties must be calculated. Whenever an existing duty exceeds the maximum rate fixed it will be replaced by that rate in the calculation of the average. In cases where the method fails to produce a satisfactory result, a solution must be sought by negotiation between the member States.

For the purpose of working out the external tariff, the external duties will be the average of the rates actually applied in 1953, 1954 and 1955, or the present tariff if this is lower than this average. This is the same basis as for the reduction and elimination of duties within the common market.

The evolution of the individual tariffs of member States towards the common tariff will take place step by step:

1. In categories of goods where the existing unadjusted tariffs do not differ by more than 15 per cent either way, or where they are within 3 per cent of their arithmetical average, this average figure shall be applied as the duty from the time when the first 10 per cent reduction takes place in customs duties within the common market.

2. For other items, it will be at the end of the first four-year period that each country will narrow by 30 per cent the gap between its own tariffs and the common tariff, repeating the process at the end of the second stage, finally adopting the common tariff from the time when customs duties will be completely eliminated within the common market.
   The first four year period should allow ample time to introduce the common nomenclature essential for the establishment of a common tariff.

3. The alignment of tariffs must, however, be effected in anticipation in cases where the reduction of internal duties might lead to a diversion of trade by reason of the disparity between external tariffs.

4. A safeguard clause must be provided to enable certain countries, in particularly difficult cases, to postpone raising or lowering their tariffs. Such a waiver will be granted only for a limited period and for items totalling not more than 5 per cent of the value of imports from third countries of the country concerned. Precautions must then be taken to avoid diversion of trade.

The common tariff may be the object of negotiations with third countries with a view to its binding or lowering, provided, of course, that mutually advantageous concession are exchanged. The European Commission would be entrusted with the negotiations upon instructions from the Council of Ministers.

One of the purposes of the common market would also be the elimination of internal quotas.

It is proposed to rely on the OEEC system of trade liberalization up to the time of the first reduction of customs duties under the treaty. Any liberalization already effected under the OEEC Code cannot be called into question between the member countries, apart from cases of application of an escape clause under the Treaty.

Subsequently, in order to proceed further than the OEEC achievements, quotas will be increased annually by a percentage which it is proposed should be 20 per cent. Successive increases will tend to make quotas inoperative so that they can be abolished without difficulty. In the case of initially non-existent or very small quotas, the gradual increases would take place on the basis of a minimum figure which might be either a percentage of the national production concerned or a volume of imports corresponding to the average figure in the common market countries.

From the outset all existing bilateral quotas will be merged into global quotas open to all producers within the common market alike.

The abolition of export restrictions or export dues within the common market will be one of the obvious consequences of the elimination of import barriers.

As regards relations with third countries, export restrictions will be subject to the terms of current international agreements, in particular the General Agreement on Tariffs and Trade. During the transition period, if export restrictions are imposed by any member country, recourse will be had to a procedure for mutual assistance in order to avoid diversion of trade. Once the common market is fully established, export restrictions in conformity with international agreements will be applied only by the community as a whole in its relations with third countries.

Let us now turn to the position in respect of agriculture.

The report deals with the specific conditions inherent in the field of agricultural production and trade and with the special problems that arise in connexion therewith. I shall not here dwell unduly on considerations with which we are fully conversant.

The report comes to the conclusion that a common agricultural policy for the common market should be established.

This policy cannot result from a mere confrontation of the divergent domestic policies which correspond to situations and aims which differ from those of the common market. Unity of conception is not incompatible however with flexibility in the methods applied or with specialization of particular regions within the Community. On the contrary, this specialization must be one of the aims of agricultural policy. The other objectives of agricultural policy must be the stabilization of markets, the ensuring of regular supplies, the maintenance of sufficiently high earnings for undertakings of average productivity, and gradual adjustments to the agricultural structure and farming methods.

The gradual establishment of the agricultural common market will be effected as follows:

1. Customs duties will be eliminated within the common market in the same way as in respect of other items. At the same time, internal consumption taxes which might have any discriminatory effect on products from other member States will be abolished.

2. Quotas for agricultural products will also be eliminated as will be done in respect of other items. For certain products, however, the market is at times too sensitive that recourse will also have to be had to the special method of stopping imports when selling prices fall below a given level. Some device will also have to be found whereby this form of restriction can be gradually eliminated.

3. In the case of products whose marketing is presently organized on a national basis, trade can be expended only by contractual obligations ensuring its gradual development, until a unified market is set up by a common organization.

4. In relations with foreign countries, the general method of establishing a common external tariff will be applied to agriculture. By making certain quotas within the Community more flexible, it will be possible gradually to harmonize quotas in respect of third countries until a unified trade policy is established.

5. Controls on domestic and foreign trade will have to be scrutinized to determine whether they are not more restrictive than is necessary to achieve the admittedly proper objectives. Endeavours will be made to establish a common organization and to adopt new common rules.

The arrangements finally adopted for agriculture will not be identical for all products. During the transition period it will be necessary to single out a small number of products which, because of the special problems they present and their importance as sources of income for farmers, require market organization. This market organization will involve the establishment of stabilizing machinery.

In the case of other products efforts will be made to allow a free market to operate within the common market and to limit the protection given against other countries to customs duties, accompanied by anti-dumping measures in preference to protection by quotas. Insofar as they are compatible with international obligations, such quotas will as far as possible be seasonal rather than permanent.

This protection will not be excessive. It will, however, take account of the need to remedy the difficulties inherent in certain markets which are distorted by the policies of certain large-scale producers who have to market their surpluses at low prices because they maintain higher prices on their own market, and can thus keep up a higher level of output.

The report also deals with many aspects and many problems which arise in connexion with the common market. But I do not believe that I need to make a long statement in this respect.

Briefly, five points may be called to your attention:

1. Problems relating to the exchange of services in the common market will be referred to institutional bodies for study once the customs union has been set up.

2. The policy of the common market will be aimed at establishing rules of fair competition, i.e. it will bear on questions which arise from discrimination between undertakings and from monopolies, from government assistance to certain industries, from economic distortions, and will also be concerned with the necessary harmonization of national legislations. The European Commission will have an important part to play in this respect.

3. The policy to be adopted with regard to transport will be aimed at the abolition of discrimination based on the origin or destination of goods, and also aimed at the better utilization of available transport facilities and finally at the development of the infrastructure for international relationship.

4. The equilibrium of balance of payments as between the member States will be assured by mutual assistance. Escape clauses, which will have to be in full conformity with the rules of the General Agreement and OEEC, will only be the last resort should difficulties arise which could not otherwise be solved. In the long term, the common commercial policy will result in common monetary policies between the member States towards third countries. To the extent that this will depend upon them, they must try to ensure full convertibility of their currencies.

5. The investment fund will make it possible to achieve tasks of European importance, particularly having regard to the need to assist the reconversion of industry, to retrain displaced labour and to aid the development of underdeveloped areas. Thus, free movement of manpower can be facilitated, and at the same time, a harmonious economic expansion will be assured for all sectors of the common market.

Having now reached the final stage in this statement, I only wish to remind you that everything I have just said appears in the report itself. Therefore, nothing should be regarded as final or as constituting in any way a commitment on the part of the governments who have taken the report as a basis for the current discussions.

It is only after a treaty has been drawn up that it will be possible to speak of firm decisions. It is then, of course, that the CONTRACTING PARTIES will be called upon to consider the task which will then have been achieved.

In this connexion, I have been instructed to say that the intention of my Government is to submit the treaty to the CONTRACTING PARTIES after its signature but before its ratification. The other governments with which we have been associated in these negotiations have the same intention.

I am convinced that the CONTRACTING PARTIES, when they consider the treaty, will examine it in full awareness of the importance for the world as a whole of this unprecedented attempt at economic unification, by mutual agreement and solely by mutual agreement, on the part of several countries which all have a long tradition of total and exclusive sovereignty. The success of such an undertaking would be a good omen for the future of human relations.