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EUROPEAN FREE-TRADE AREA

Statement by the Representative of the Organisation for European Economic Co-operation to the Intersessional Committee on 28 April 1958

Just a year ago, in April 1957, Mr. Cahan, Deputy Secretary-General of the OEEC, made a statement to the Intersessional Committee on the progress of the negotiations for the establishment of a Free-Trade Area associating the European Economic Community with the other OEEC member countries on a multilateral basis. In November 1957, our Organisation transmitted for the information of the CONTRACTING PARTIES the resolutions adopted by the OEEC Council on 17 October 1957 concerning the results of those negotiations. These resolutions were distributed to contracting parties in document L/745. They were important, because they declared the determination of the OEEC member countries to secure the establishment of a Free-Trade Area, and because they created an Inter-Governmental Committee at Ministerial level to pursue the requisite negotiations. The Chairman of the Committee is a member of the British Cabinet, Mr. R. Maudling.

Today I should like to speak to you about the work of this Inter-Governmental Committee. In doing so, the OEEC Secretariat is very pleased to meet the wish expressed by the CONTRACTING PARTIES at their Twelfth Session, when they urged the OEEC countries to co-operate with the Intersessional Committee by providing all relevant information. However, our pleasure is tempered by a certain feeling of regret because the negotiations within OEEC for the formation of the Free-Trade Area are far from concluded, and it is therefore very difficult for me to supply the Intersessional Committee with information which is sufficiently precise and which is final. I therefore apologise, Mr. Chairman, if I am to some extent obliged to leave the CONTRACTING PARTIES unsatisfied. Our negotiations are obviously complex. It is equally obvious that the final text of the Convention which we are endeavouring to draw up will only be known in detail by the negotiators themselves on the day when the Convention is signed. The information which I shall give you will therefore only describe the situation as it stands at present, and I cannot guarantee that some of that information will not be contradicted by the subsequent development of the discussions. I must emphasize this point, which in fact conforms to one of the basic rules of the Inter-Governmental Committee itself. Immediately after it was set up, this Committee realized that it could not consider all the problems simultaneously, and that it would therefore have to divide the negotiations under various headings and examine one by one the questions pertaining thereto. And the Committee recognized that, if it agreed on a solution to a given problem, that solution would in any case have to be reviewed in the light of the solutions subsequently found for other problems connected with the negotiations.

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The Inter-Governmental Committee held its first meeting in October 1957, and it has met half a dozen times since then. As a basis for its work, it took the Rome Treaty establishing the European Economic Community, as was normal since the Committee has to formulate a Convention associating the other OEEC countries with the Community. The resolution adopted by the OEEC Council on 17 October 1957 provides that the Free-Trade Area would "take effect parallel with the Treaty of Rome". The Maudling Committee has agreed in principle that, as in the case of the Common Market, the transitional period for the formation of the Free-Trade Area will be divided into three four-year stages. It remains to be seen how this period could be synchronized with that of the Community, particularly with regard to its commencement and the transition from one stage to the next. The majority of member countries favour indentical dates; Some countries, however, have suggested that the dates should be "staggered". This question has not yet been settled.

With regard to the elimination of customs duties in the Free-Trade Area, there is almost general agreement that a method identical to that described in the Rome Treaty should be applied, that is to say, an initial reduction equal to 10 per cent of the basic duty, with subsequent reductions so as to reduce by 10 per cent the total customs receipts, the reduction in the case of each product being equal to at least 5 per cent of the basic duty. The basic duty will, however, have to be determined. The Rome Treaty has taken the duty applied on 1 January 1957. Some countries in the Area find that date inconvenient, and the matter is under consideration. The total customs receipts will also have to be determined. One will have to know whether the Six will compute this figure on the basis of their inter-trade, as stated in the Treaty of Rome, or on the basis of trade between the seventeen countries.

With regard to quantitative import restrictions, the Inter-Governmental Committee has also agreed in principle to a method identical to that specified in the Rome Treaty, i.e. that they should be progressively eliminated by enlarging gradually all outstanding quotas, and that such quotas should be global quotas. A number of questions, however, remain unanswered:

- for instance, will global quotas among the Six continue to exist separately from global quotas among the seventeen, or will the system specified in the Rome Treaty simply be replaced by a system of global quotas among the seventeen countries?

- another example: at what rate will quotas be enlarged and what will be the basic level in respect of products for which the quotas are small or non-existent?

With regard to the rules governing competition, the tendency is to adopt the same rules as are laid down in the Rome Treaty, at least as far as action by the public authorities is concerned:

- quantitative restrictions on exports should be eliminated within a period comparable to that laid down by the Rome Treaty, with perhaps some exceptions to take account of the special difficulties of some countries.

- State aids would in principle be prohibited with certain exceptions similar to those specified in Article 92 of the Rome Treaty.

- State trading would be subject to rules similar to those specified in Articles 37 and 90 of the Rome Treaty.

Discussions are taking place with regard to action in the private sector, that is to say in the field of restrictive business practices. There is general agreement on the principle that such practices can nullify the advantages which result from the elimination of barriers to trade, and that they are therefore incompatible with the Free-Trade Area. I am not at present in a position to state whether this principle will be reflected in the Area Convention in a set of basic provisions and procedures as detailed as that which is contained in the Rome Treaty. It is possible that, in the case of the Free-Trade Area, the tendency will be towards a simpler statement, providing for a complaints procedure, at least for an initial period of four to five years. At the end of that time, the situation could be reviewed in order to determine whether, in the light of experience, it would be possible and necessary to spell out the rules in greater detail.

So far, I have been able to give you fairly detailed information concerning the trade rules in the Area, mainly because we are moving towards systems which are very similar to, if not identical with, those specified in the Rome Treaty, and because, on these matters, the Treaty is drafted in very precise terms.

This brings me, however, to a field which is hardly covered at all by the Rome Treaty - the definition of origin. Experts have been working on this question for months in OEEC and I can assure you that the volume of documentation which they have produced or studied is very considerable. Nevertheless we have not yet succeeded in reaching solutions which might prove acceptable to all the member countries; and on this point I must therefore be even more reserved than on the others.

As a first step, the experts studied the application of what we in OEEC now call the "conventional system" of definition of origin, that is to say a system based in the main on that which is used in the Commonwealth in applying the preferential régime which exists there; the Commonwealth system is based on the percentage of added value, but the OEEC experts have improved it by attempting to add to it a list of basic materials which, whatever their actual origin (whether from within or without the Free-Trade Area) should be counted as if they were of Free-Trade Area origin for purposes of computing the added value. The experts have also tried to improve - or simplify - this system by providing a list of manufacturing processes, in such a way that it would be the manufacturing processes which, when performed in a member country, would determine the origin in the Area of the end product.

There is no need for me to tell you, Mr. Chairman, that endless negotiations between seventeen countries may be necessary before such a system is finalized, concerning the percentage or percentages of added value to be adopted, the contents of the list of basic materials, and the list of manufacturing processes. We have not yet really started negotiations on these points. Of course, each country has stated its case and we know more or less, in regard to each sector of production and trade, the percentage which each country would like to be adopted and the basic materials and manufacturing processes which it would like to be included in the relevant lists. But we have not yet made a real attempt to reconcile all these views.

Although the majority of member countries stated that they supported the conventional system of definition of origin, some countries had quite strong objections to it. The experts realized, in fact, that under this system it was not always possible to solve the problem of diversion of trade and of action resulting from external tariff differences of the members of a Free-Trade Area, unless very strict criteria of origin were adopted (for instance by requiring that the percentage of value added within the Area should be very high), and the OEEC countries do not want this. In addition, we have run into difficulties in connexion with List G of the Rome Treaty, which I believe has already caused considerable concern in GATT. Lastly, a number of countries are alarmed at the machinery of certification and confirmation of origin which would be necessary under a system of that kind. Of course, no one in OEEC wants to replace the customs tariff and import restrictions by administrative formalities which, at least in the opinion of some people, might constitute barriers to trade which would be just as serious.

The OEEC has, of course, not abandoned its study of the conventional system of definition of origin, and I want to stress this point. But a few weeks ago we began to study another system, about which much has already been written, which was proposed by the Italian Minister for Foreign Trade, Mr. Carli, and which is known as the Carli plan. Its principal objective is to eliminate or reduce to the minimum all administrative formalities within the Area. It guarantees the free movement of goods inside the Area so long as the external duties levied by the various countries on those goods are within a certain range. The countries would be free to apply duties outside that range, but a compensating charge would be levied on trade between two countries if their external tariffs had not been sufficiently harmonized. That is the principle of the plan. It has already become apparent in the negotiations, however, that this plan could be implemented in various ways. Negotiations are taking place on this matter. A number of difficult questions also arise: what would the range of duties be? At what tariff level would it be? How would the compensating charge be computed? When and how would this charge be levied? Would it be automatic or not? At the present stage I cannot tell what the reply to these questions will be. Nor am I in a position to state whether in the end the conventional system, or the Carli plan, or a compromise between the two will be adopted. But I can state, Mr. Chairman, that what is most striking in these negotiations is the determination of the OEEC countries, including the Six, to seek methods which are as liberal as possible and which are in conformity with the GATT rules. For a disinterested observer like the OEEC Secretariat, it is reassuring to see that solutions to the very difficult problem of definition of origin are constantly being sought in keeping with the very real desire of the member countries to make the Free-Trade Area an element of a liberal world trade policy.

I now come to another difficult problem, that of agriculture. I will say right away that we have gone beyond the controversy over the inclusion or non-inclusion of agriculture in the scope of the Area, and we are now looking for a system for agricultural products which could be adopted inside the Area. This system must take account of the special features of trade in agricultural products. It must also permit a more rational exploitation of European resources and an expansion of trade. Lastly, it must reconcile the interests of the importing and exporting countries, while at the same time safeguarding the implementation of the arrangements to which the Six have agreed within the framework of the European Economic Community, as well as the special arrangements existing between certain European and non-European countries and, in general, the interests of the CONTRACTING PARTIES. All this is obviously rather complex, but I am not at present in a position to enlarge on these general concepts. No conclusions have yet been reached in the negotiations on this matter. These negotiations are delicate, all the more so because, as you know better than I do, the Six have not yet drawn up final arrangements in this field. I would not want to perturb the sometimes perilous course of the discussions in the Maudling Committee by giving you information which would inevitably, at the present stage, be imprecise or even inaccurate.

Another problem is that of the European countries which are in the process of economic development. An ad hoc Working Party is studying their position under the aegis of the Inter-Governmental Committee. The problem is to decide whether the general Area rules can be applied to them without modification, or whether they should be granted a longer period within which to eliminate barriers to trade, it being understood that they would have to give a firm commitment regarding the date and method of elimination of such barriers. We are considering this question in the light of the special features of each of these countries and their development needs, because the reply to the question depends on their present situation and their prospects for economic development. Of course, development is not possible unless the necessary capital is available, and the problem of financing such development in these countries is also being studied.

It has been proposed that the overseas territories should be excluded from the scope of the Area. No proposal for including them has been made, but the Maudling Committee considered that it could not take a final decision on this matter until a detailed study had been made of the possible repercussions of a decision one way or the other.

I think this brings me to the end of the points which are of most direct interest to the CONTRACTING PARTIES. Before concluding, however, I would like to point out that the discussions of the Maudling Committee go far beyond a study of purely trade problems. These discussions are taking place under the auspices of the OEEC whose responsibility, as you know, is of a much more general nature. Moreover, the discussions are aimed at associating the Six with the other OEEC countries. The Rome Treaty covers the whole economic activity of the Six countries. Last but not least, as our studies proceed it is becoming increasingly apparent that it is impossible to establish a wide market without at the same time giving attention to several other sectors which must be co-ordinated if this market is to be established smoothly and to allow for

fair and free competition. I believe, Mr. Chairman, that the history of the negotiations concerning the Rome Treaty and those concerning the Free-Trade Area has given us invaluable pointers in this regard. That is why the Maudling Committee has perforce to consider questions such as the free movement of capital, invisibles, the free movement of workers, the right of establishment, transport policy, the co-ordination of economic, social, financial and even monetary policies, the harmonization of laws, etc. At the same time the Steering Board of the EPU is examining the payments system and considering how it should be improved in order to meet the new requirements which will result from the formation of the Area. I have not mentioned escape clauses because the Maudling Committee has not yet discussed this matter, but it is obvious that the clause relating to balance-of-payments difficulties as well as that referring to particular difficulties in a certain sector will be directly linked to any machinery which is set up for the co-ordination of policies.

In conclusion, Mr. Chairman, I should like to thank the Intersessional Committee for listening to this rather long statement which still lacks precision on points of fundamental importance. I would add that the OEEC Secretariat will continue to keep the CONTRACTING PARTIES informed of the progress of negotiations. It is difficult to predict what the future timetable for these negotiations may be. Our objective is still to reach the broad lines of an agreement by the end of July 1958, it being understood that several more months might be required for their detailed formulation. We can hope, however, that, at the next session of the CONTRACTING PARTIES, we shall be able to supply more detailed and more final information.