

OPINION
on the Applications for Membership
received from
the United Kingdom,
Ireland, Denmark and Norway

For Submission to the Council
under Articles 237 of the EEC Treaty,
205 of the Euratom Treaty,
and 98 of the ECSC Treaty

THIS TRANSLATION HAS BEEN PREPARED
BY THE COMMISSION'S STAFF, BUT ONLY
THE TEXTS IN THE LANGUAGES OF THE
COMMUNITY ARE AUTHENTIC

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INTRODUCTION

1. At its session of 10 July 1967 the Council of the Communities made a preliminary examination of the applications for membership presented by the United Kingdom, Ireland and Denmark; there was also an exchange of views on the application that Norway had announced it would be making. It was decided that the procedure laid down in Article 237 of the EEC Treaty, Article 205 of the Euratom Treaty and Article 98 of the ECSC Treaty should be engaged. These Articles require the Council to obtain the Commission's Opinion, which the Commission was accordingly requested to submit.

2. The Commission, working from the point of view of the Community interest, has made a study of the problems raised by the applications under consideration. In accordance with the intentions expressed in the Council, the study deals in particular with the economic and institutional consequences that could be expected to ensue from any extension of the Communities.

The Commission has, however, had to limit its observations in part to considerations of a general nature and to assumptions. There will still be a number of open questions of considerable importance for any assessment of the advantages and drawbacks for the Communities, as long as no one knows just what will be the position of each of the States concerned at the end of any negotiations undertaken. The Commission — like the Council — is not at present in possession of all the information that is required if it is to express the Opinion called for by the Treaties. It would be pointless, indeed dangerous, for the Community institutions to give a theoretical opinion without knowing the possible conditions and arrangements for accession. The scale of the problems raised in different quarters is such that it is not at present possible to discern, as things stand, what these conditions and arrangements may in fact prove to be.

3. The Commission must therefore stress the preliminary character of the present Opinion. It considers that if negotiations are undertaken it will, under the Treaties, be entitled and in duty bound to develop its Opinion as the negotiations progress.

Consequently it is only once the concrete solutions that could be adopted are known that it will be possible to work out the overall conclusions on the basis of which the Commission can give, in full knowledge of the facts, the definitive Opinion called for by the Treaty.

4. The Commission is aware that in the document it has prepared it does not cover all the problems entailed by extension of the Community. Had it wished to do so, it would have had to open conversations with the Governments of those States that are candidates for membership.

The Commission has deemed it preferable to accept the risk of neglecting certain minor problems on which the position of the candidates is either not exactly known or is apparently analogous to that of the present Member States, and to give the Council all the available information and elements of appreciation as regards both the general problems raised by extension of the Communities and the main questions that would be entailed in the various sectors of Community activity by the accession of the four States which have so far applied for membership.

TITLE I

GENERAL PROBLEMS RAISED BY EXTENSION OF THE COMMUNITY

5. Four European countries, the United Kingdom, Ireland, Denmark and Norway, have submitted fresh applications for membership. The United Kingdom's application cannot be considered in isolation from that of the other three. Because of their economic links with the United Kingdom, it would be difficult for these countries to contemplate joining the Community unless the United Kingdom also joins. But it would be equally difficult for them to remain outside a Community enlarged to include the United Kingdom.

6. The Community, for its part, cannot make an *a priori* selection from among the applications from European countries that have free institutions, have reached a level of development comparable to that of the present members and are willing to accept unreservedly the aims of the Six in regard to political union.

7. Several other European countries, in particular certain EFTA members, have expressed their desire to open negotiations with the Community in order to establish special relations with it.

In view of the association agreements already concluded by the Community and of the negotiations already in progress, it must be pointed out that the applications for membership in fact raise the problem of the economic organization of a large part of Europe.

8. The Community is thus faced with a choice of major importance on which the future of the economic and — in the longer term — the political relations between European States depends; the success of such an undertaking would constitute a decisive step forward towards completion of the work for European unification that has been going on since the end of the second World War.

This move would not, to be sure, be free from risks, particularly the risk of weakening the cohesion of the Community. But unquestionably the Community must accept certain risks where an undertaking of this importance, i.e. the achievement of European unification, is to be attempted.

Of course its actions ought to be hedged around with every safeguard that can minimize the risks. For this reason, the Communities ought, at the right moment, to decide upon the guidelines to be followed in order that their extension may take place in favourable conditions and in order to maintain a satisfactory degree of economic co-operation with any countries of western Europe that do not join the enlarged Community.

a) Scope of obligations of new members

9. Today, belonging to the Communities necessarily means accepting not only their original charters — the Treaties — but also the objectives of political unification affirmed in the Preambles to the Treaties of Paris and Rome (and recalled in the conferences of the Heads of State or Government of the Member States held in Bonn in July 1961 and in Rome in May 1967).

Similarly, new members will have to accept the decisions¹ taken since the Treaties were adopted. These decisions are the fruit of an often hard-won compromise between

¹ The word "decisions" is used here in a general sense and does not refer to the character of the acts taken by the Community institutions. It also covers the agreements concluded with non-member countries.

the Six, and they have also established an incontestable *de facto* solidarity between them. It would be impossible and illusory to attempt to call them into question. Consequently, as a general rule, a solution to the concrete problems will have to be sought by working out transitional measures and not by amending the existing rules.

10. Where economic union is concerned, the work of implementing the EEC Treaty is less advanced than as regards the common agricultural and industrial markets. For this reason, the first condition for entry — i.e. acceptance by new members of the rules and objectives already decided upon by the Community, subject to minor adjustments that might have to be made — is not sufficient to ensure that the tasks remaining to be accomplished will be carried to a successful conclusion. It therefore remains to be seen whether the commitments provided for in the Treaties or already undertaken by the present members are sufficient to guarantee the efficiency of the enlarged Communities or whether, on the contrary, more precise commitments are necessary, at least in certain sectors, as regards the aims to be achieved.

11. In certain fields measures have been envisaged or taken even when the texts were limited to mere statements of principle and embodied no detailed commitments. This is the case, for example, as regards the arrangements for aid to coal-mining, for medium-term policy, the international aspects of monetary policy, industrial policy, etc.

In each case, the further commitments accepted by the Member States arise out of their general undertaking to establish an economic union among themselves. In this, they were responding to a real need born of the experience gained in implementing the Treaties, without there having been any need to expand them in formal fashion. In the normal way this should also happen in the enlarged Communities, particularly as the applicant countries state that they are aware that they will be joining Communities in process of development.

However, it would appear preferable to make sure — at least in certain essential fields — that these countries are willing, during the negotiations with the present members of the Community, to define the objectives to be attained and, in broad outline, the methods to be used. Foremost among such matters should be the questions which would become more crucial and urgent if the Communities were enlarged.

12. In certain cases, the States wishing to join the Community should be willing to join the present members in accepting certain additional commitments so that the Community may in fact be able to benefit from the "assets" which they — quite legitimately — do not fail to mention in support of their applications for membership. In the absence of such commitments, these assets would be of no interest to the Community. This latter consideration applies particularly to the United Kingdom's lead in certain fields of science and technology and to the positive contribution in this field which this country could make to the Community once it was a member.

b) Working of the institutions in an enlarged Community

13. Any increase in the number of Member States necessarily means that the institutional machinery of the Communities may become more cumbersome. That is why the essential adaptation — which is, moreover, provided for in Article 237 — must be brought about in such a way as to maintain the efficacy of the system and thus offset the mechanical effect of extension.

The need to maintain and if possible to increase the efficiency and the role of the institutional machinery in an enlarged Community is all the more obvious because it is more difficult to build an economic union than to eliminate obstacles to trade in accordance with hard and fast rules fixed in advance. On the contrary, economic union calls for a host of harmonization operations, adjustments and decisions that must be spaced out over a period of time and could hardly be brought about without adequate institutional machinery.

Unless due care were taken, an increase in the number and — in certain respects — in the diversity of Member States could, by increasing the risk of conflicts of interest make it more difficult to work out, adopt and implement decisions. If this were to happen, the political and economic advantages of extension would prove illusory.

14. The first conclusion to be drawn from these general remarks is that in an enlarged Community it would become even more necessary than in the present Community for the institutional rules of the Treaties to be applied without being weakened in any way.

Thus the balance which has grown up between the Community institutions and which entrusts the Commission, in addition to its essential power of initiative, with responsibility for supervisory and administration tasks in close liaison with the Council and the Member States, would have to be fully safeguarded.

15. Where decisions¹ are taken by the Council on a proposal from the Commission, the difficulties should not be unduly great if, on the one hand, the level of the qualified majority is so fixed that it loses none of its power of dissuasion should a member be tempted to prolong a debate indefinitely and if, on the other, the Commission is able to play its full part in reconciling national interests at the stage when proposals are being drawn up.

16. The decisions that require unanimity pose a more difficult problem. They concern, in particular, the entry and association of non-member countries, the creation of the Community's own resources, election of the Parliament by universal suffrage, amendment of the scales by which Member States contribute to budgetary expenditure, harmonization of legislation, and new joint measures or common policies that need to be initiated.

17. In many cases, it certainly seems that the conditions under which the Community institutions operate will not be substantially altered by its extension. However, additional difficulties might arise when decisions have to be taken concerning the harmonization of legislation or the elaboration of new measures or common policies.

In these fields, which will become increasingly important as economic unification progresses, the greater diversity of interests between the members of the enlarged Community might impair the efficacy of the institutions.

This danger could be reduced if during the negotiations for membership it were possible to achieve a fairly broad consensus on the new measures, whether provided for in the Treaties or not, which would be urgently needed in order that extension might from the outset occur in the best possible conditions and the *de facto* solidarity necessary for the smooth working of the enlarged Community be established among its members as rapidly as possible.

¹ In what follows, the various types of decision are examined on the basis of the EEC Treaty.

18. In a Community consisting of a larger number of States, the Community's dynamism would be more menaced by the tendency of the Member States to refuse assent to the majority point of view, even when their own interests were not seriously involved, or to make their acquiescence in decisions which did not affect their interests conditional on their obtaining concessions in other fields. This is a serious problem which would have to be solved during negotiations.

Furthermore, an improvement in the Council's practices, procedures and working methods would be necessary if the efficiency of the institutions is to be maintained at a sufficiently high level in an enlarged Community.

c) Problems raised by applications to negotiate made or likely to be made by other European countries

19. If three EFTA member countries, including the United Kingdom, were to join the Community, this would inevitably have repercussions on the situation of several other European countries, in particular the remaining members of EFTA. (See Table below.)

In fact the applications for membership were followed by démarches on the part of Sweden and Malta. The object of these has not been spelled out, but the Swedish approach was accompanied by certain political reservations. The Swiss Government, too, has let it be known that it looked on its request of December 1961 as still "pending". It must also be expected that if negotiations with the candidates for membership do in fact begin, Portugal and Cyprus, which had submitted applications for negotiations in 1962, and possibly Finland also, would in their turn express the wish to conclude special agreements with the Community.

The opening of negotiations for membership would be sure to strengthen the determination of Austria and Spain to press forward their current negotiations with the Community till they reached extensive preferential agreements.

20. Extension of the Community, and more particularly British membership, would also have considerable repercussions on the Community's relations with many countries in other continents, in particular the Commonwealth countries. In the light of the association agreements already concluded or being negotiated by the Community with non-European countries, these problems are also of great importance, particularly where the developing countries are concerned; they will be dealt with in Title III.

*Effects of extending the Community on the exports of Western European countries
that are not expressly candidates for membership*

Basis: average exports 1963-65

(Units: \$ '000 000)

Exports to Exports from	Six + Greece	UK Ireland Denmark Norway	Ten + Greece	Austria Finland Iceland Sweden Switzerland	Southern Europe ¹	Total Western Europe	Eastern Europe ²	USA Canada Japan	Australia New Zealand South Africa	Rest of world (developing countries)	Total
VALUE											
<i>Central and Northern Europe</i>											
Austria	714.0	95.4	809.4	173.4	27.7	1 010.5	255.8	72.7	21.1	97.0	1 457.1
Finland	389.4	343.9	733.2	93.5	16.5	843.2	253.2	78.2	24.9	89.7	1 289.2
Iceland	22.1	33.7	55.8	11.5	4.7	72.0	15.7	18.1	—	5.6	111.4
Sweden	1 167.0	1 215.9	2 382.9	285.6	83.3	2 751.8	161.6	272.1	97.0	331.2	3 613.7
Switzerland	1 094.9	263.5	1 358.4	223.6	111.9	1 693.9	91.1	351.4	80.1	441.0	2 657.5
<i>Southern Europe³</i>											
Portugal	108.6	96.4	205.0	33.4	15.8	254.2	6.6	67.5	8.1	166.9	503.4
Spain	336.9	157.9	494.9	54.7	22.7	572.3	24.6	115.7	8.1	164.8	885.5
Turkey	148.7	54.1	202.8	31.3	16.0	250.1	50.4	72.2	0.4	39.5	412.6
PERCENTAGES											
<i>Central and Northern Europe</i>											
Austria	49.0	6.5	55.5	11.9	1.9	69.3	17.6	5.0	1.4	6.7	100
Finland	30.2	26.7	56.9	7.3	1.3	65.4	19.6	6.1	1.9	7.0	100
Iceland	19.8	30.3	50.1	10.3	4.2	64.6	14.1	16.2	—	5.1	100
Sweden	32.3	33.6	65.9	7.9	2.3	76.1	4.5	7.5	2.7	9.2	100
Switzerland	41.3	9.9	51.2	8.4	4.2	63.8	3.4	13.2	3.0	16.6	100
<i>Southern Europe³</i>											
Portugal	21.6	19.1	40.7	6.6	3.1	50.5	1.3	13.4	1.6	33.2	100
Spain	38.0	17.8	55.9	6.2	2.6	64.6	2.8	13.1	0.9	18.6	100
Turkey	36.0	13.1	49.2	7.6	3.9	60.6	12.2	17.5	0.1	9.6	100

Sources: Foreign Trade Statistics OECD - UNO.

¹ Excl. Cyprus.

² Incl. Yugoslavia.

³ Export statistics of Cyprus and Malta not available.

21. As regards Europe, the Community has always believed that membership was the solution most in conformity with the aims of the Treaties for those democratic countries which have attained a sufficient degree of economic development.

22. On the other hand the southern European countries, whose level of development precludes immediate membership, should be able to establish with the enlarged Community preferential relations so conceived that their development would benefit. However, it should be possible for these relations to take the form of an association in the strict sense only where the countries concerned have free institutions; others could be offered agreements in a number of stages, so that the Community could take account of their subsequent evolution.

23. Other countries in central or northern Europe are also thinking of concluding association or preferential agreements with the Community. The drawbacks of such agreements are well known, particularly in the case of advanced countries whose prospects of later membership are nil or uncertain. Not only might these countries have in certain cases to conform with decisions in the taking of which they had no part, but also commitments on consultation and the many special systems would cause inextricable complications for the Community.

The Commission consequently considers that the Community should in principle envisage such agreements only in cases where the road to membership is blocked because of the international situation of the country concerned; and even this it should do only subject to every possible precaution in order to safeguard the complete independence of its decisions and to avoid unduly complicating the harmonious working of its customs union.

d) Problems involved in the actual entry of new members

24. Taking into account the progress made in implementing the agricultural and industrial common market and the problems of adaptation which arise, there can no longer be any question of the new members "catching up" in all fields on the stages completed by the Six since 1 January 1958 so as to achieve "perfect" membership of the Community by the end of the transitional period laid down in Article 8 of the Rome Treaty. It would seem logical that there should be a transitional period of a few years.

25. Three remarks are essential on this point:

i) The aim of the transitional period will be to spread over a certain time the economic consequences that will inevitably follow when new members apply the Community rules. Such an aim is not incompatible with the earliest possible adoption by these members of the legal framework and of the instruments established by these rules, for the transitional adjustments will bear only on the economic content, and they will have to disappear in accordance with a timetable fixed in advance.

It seems, however, that the legal framework and the implementing machinery for the agricultural market organizations and the essential rules of the customs union would have to be taken over immediately.

ii) Another question is whether it is possible and desirable to envisage different transitional periods for industry and agriculture. The Community has always

endeavoured to advance *pari passu* with the free movement of industrial goods and the implementation of the common agricultural market. This principle should be maintained when new members join.

iii) Finally, if the starting date and duration of the transitional period and the pace of progress within it had to be adapted to the individual problems of every State which is at present a candidate for membership or association, or were to differ from one product to another, the Community would encounter very serious difficulties.¹

The best way to maintain a certain unity of the internal market in the enlarged Community would be for the starting date, duration and pace of progress of the transitional period to be the same for all the countries joining and for exceptional arrangements to be kept to a minimum. It is particularly necessary to observe this principle when considering agricultural products, since it would be difficult for the Community to make its market accessible, without transition, to Danish and Irish products if the United Kingdom market were not being opened on the same terms to the Community's products.

26. Since the establishment of a transitional period creates a timelag in application of the Community regulations to new members, it must be asked whether or not these new members should nevertheless be fully entitled to participate in the adoption of decisions which would not be immediately applicable to them because of the transitional arrangements from which they benefit.

This is a particularly difficult problem for which there is no point in seeking a solution until we know how long the transitional period will be and what the obligations of new members will be during that period.

e) Problems which would arise if new members did not join simultaneously

27. The preceding considerations were based on the assumption of the simultaneous entry of the four States that have applied for membership.

Apart from the difficulty there would be in establishing different transitional periods for each new Member State, spacing out of accession would lead to institutional complications out of proportion to the advantages it could have in other respects, for the prospect of further States entering could not be disregarded at the time of the first negotiations. It would therefore be necessary to work out both a temporary system — suited to seven or eight Member States for example — and a final system applicable after the last accession. Even then it would be necessary to ensure that this final system would suit any member countries whose entry was held up.

28. There might be a temptation to overcome this difficulty by devising institutional formulas that could fit a variable number of Member States by linking the number of votes in the Council or the number of nationals of a member country in the Commission with the number of inhabitants. Such a solution, of course, would have the advantage of avoiding inevitably delicate negotiations with the new members, who would have to accept these rules as they stood. But it would present the grave disadvantage, on account of its rigidity, of not allowing sufficiently exact

¹ Deflection of trade, administrative complications (particularly in connection with the control of origin), risks of error or dispute, etc.

adjustment of the weighting arrangements to the relative numbers of big and small States in the Community and to their actual dimensions.

29. For these reasons, a spacing out of negotiations rather than of entries should be contemplated. The negotiations on institutional matters should nevertheless be held simultaneously with all four States.

The principle should therefore be that the different accession treaties, which will necessarily be concluded and ratified at different dates, take effect simultaneously, for example after ratification by the last of the parliaments concerned.

There would of course, have to be provisions to ensure that, if in the case of one or more candidates the negotiations or ratifications were to be delayed appreciably, the accession of the other candidates was not held up.

f) Pursuit of the Community's normal activities

30. Lastly, the Communities cannot contemplate ceasing or even slowing down their activities during the period of negotiations. In this respect it must be recalled that important decisions were taken during the previous accession negotiations in 1961-1963. The new members will therefore also have to accept measures adopted during the negotiating period, measures which will concern both the completion of the agricultural and industrial common markets and the establishment of the economic union (e.g. implementation of commercial policy outside the tariff field, transport policy, fiscal policy, the decisions taken in the field of external relations, etc.). It is clear, however, that the conduct of membership negotiations parallel with the pursuit of normal Community activities presents certain drawbacks; this consideration argues in favour of the most rapid negotiations possible. In its study of what may have to be added to the Treaties or subsequent decisions in the course of the negotiations, the Commission has therefore confined itself to what appears indispensable.

g) Problems arising from the merger of the Treaties

31. During the talks concerning the merger of the institutions of the Communities, it was laid down that the negotiations for unification of the three Communities would begin once the Treaty establishing a single Council and Commission had come into force.

It follows from this that these negotiations might coincide, at least partially, with the accession negotiations.

Although there may be advantages in carrying out the two operations at the same time, the Commission is of the opinion that one should not hold up the other.

32. The Treaties of Paris and Rome provide specifically for the possibility of any European State joining the Community after its establishment.

Moreover, in the Preamble to the Treaty of Rome, the Founder States declared themselves:

"Determined to establish the foundations of an ever close union among the European peoples," and

“Resolved to strengthen the safeguards of peace and liberty by establishing this combination of resources and calling upon the other peoples of Europe who share their ideal to join in their efforts”.

It is in this spirit that the Community owes it to itself to examine the application for membership of any European country which subscribes to its principles and objectives.

33. From the political angle, the accession of States whose political traditions of stability and democracy are so long-standing and so deeply rooted would be of great value for the Communities both as regards their internal development and in connection with the wider responsibilities they will have to bear in international life.

34. In the matter of political objectives, the events of recent years have speeded the change in the British attitude. Whereas in the past the United Kingdom Government stressed the mainly, if not exclusively, economic nature of its interest in the Communities, it not only declared today that it accepts the political objectives of the Treaties of Paris and Rome, but in its recent declarations it has also shown a particular interest in this fundamental aspect of the Communities.

The other candidates declare that they are also ready to accept the political objectives of the Treaty.

35. Sweden, on the other hand, in its application of 26 July maintains the familiar reservations concerning its policy of neutrality. This being so, the Commission considers that membership for Sweden should be considered only if the negotiations with that country showed that it was able to accept the Community's political aims without reservation. The Commission is, however, aware of the fact that, should this not be possible, the unity of the Nordic market established in the framework of EFTA could be jeopardized. (In 1966, 20%¹ of Sweden's total exports went to Denmark and Norway, as against 16% in 1960).

36. Extension of the common market to include countries whose level of development is comparable with that of the Six would permit a better division of labour, greater economies of scale and further possibilities of mass production. It would also have the effect of increasing the extent to which the national economies depended on the Community as a whole.

The actual value of these advantages can, however, be assessed only when it is known how far the Community's dynamism can be maintained once it is enlarged. The stimulating effect produced by the removal of obstacles to trade finds its limits quite rapidly if it is not coupled with and carried further by the construction of a genuine economic union which allows firms to adapt their organization and activities to the new dimension of the market and consequently to derive maximum benefit from it. If this complementary factor is lacking, even the elimination of obstacles to trade remains precarious. Consequently, the Commission must stress once again the need to maintain and, if possible, strengthen the effectiveness of the institutions in the expanded Community.

37. As a result of the extension, the Community's economic potential would, moreover, be close to that of the world's leading economic power. The aggregate gross national product¹ of the United Kingdom, Ireland, Denmark and Norway for

¹ Half these exports consisted of industrial finished products.

² i.e. total goods and services available.

1965 is equal to about 40% of the Community's GNP.¹ The entry of these four countries would have the effect of bringing the Common Market's GNP up to about 60% of that of the United States. The consequences that would inevitably arise in relations with the various trade partners of the expanded Community are examined in Title II (chapter dealing with customs union) and Title III, (external relations).

38. At the present stage it is still very difficult for the Commission to make an overall assessment of the problems arising from the accession of other States.

Only during the negotiations and on their conclusion will the Commission be able to judge whether it will be possible in an enlarged Community to maintain the indispensable cohesion and dynamism. The Commission is aware that these are qualities which are also dependent on other factors not directly related to extension of the Community: convergence or divergence of the Member States' national policies and in particular, but not exclusively, their foreign and defence policies, and again the resemblance or difference between their ideas on the basic aim or institutional development of the Community. These considerations lead the Commission to stress once more the preliminary nature of the opinion which it is in a position to give the Council today.

¹ The comparison (see following table) is based on national accounting data converted into dollars at current rates of exchange. The results must therefore be considered simply as orders of magnitude. Likewise this comparison based on a single year may reflect economic trends which vary from one country to another.

	a) Totals in \$'000 m.			b) in \$ per head of population		
	EEC	EEC + UK Denmark Norway Ireland	USA	EEC	EEC + UK Denmark Norway Ireland	USA
Expenditure generating national product — 1965						
1. <i>Private consumption</i>	181.8	257.3	433.3	1 001	1 039	2 227
2. <i>Public consumption</i>	43.5	63.2	125.2	240	255	644
a) <i>military</i>	11.3	17.7	52.3	62	71	269
b) <i>civilian</i>	32.2	45.5	72.9	178	184	375
3. <i>Gross fixed asset formation</i>	69.4	91.7	118.7	382	371	610
of which :						
<i>plant and machinery</i>	30.1	40.7	44.8	166	165	230
4. <i>Change in stocks</i>	2.3	3.8	8.1	13	15	42
5. <i>Trade in goods and services</i>	2.8	2.9	7.0	15	12	36
a) <i>export</i> ¹	64.0	92.5	39.0	352	374	200
b) <i>import</i> ¹	61.2	89.6	32.0	337	362	164
6. <i>GNP at market prices</i>	299.9	418.8	692.3	1 651	1 692	3 558
Net investment — 1965						
1. <i>Gross fixed asset formation</i>	69.4	91.7	118.7	382	371	610
2. <i>Depreciation</i>	28.9	38.1	67.5	159	154	347
3. <i>Net investment</i>	40.5	53.6	51.2	223	217	263
	a) Totals \$'000 m.			b) in \$ per person employed		
	Gross national product — 1965					
<i>Agriculture</i>	21.3	26.2	22.5	1 760	1 873	4 917
<i>Industry</i>	115.2	162.8	244.2	3 563	3 533	10 325
<i>Services</i>	123.4	173.5	359.4	4 255	3 985	8 180
<i>Total</i>	259.9	362.5	626.1	3 539	3 499	8 676

Sources: SOEC - Basic Statistics of the Community, 1966. OECD - National Accounts Statistics, 1956-1965.

¹ Including factor income to or from rest of world.

TITLE II

CUSTOMS UNION AND ECONOMIC UNION

Chapter 1

The customs union

39. According to Article 9 of the EEC Treaty, the Community is based upon a customs union. It is on this foundation that the general objectives set out in Article 2 are gradually being achieved, largely by means of the common policies.

The experience gained in the last few years of Community activities confirms that the customs union is the key to the establishment and the development of the Community.

Every precaution must therefore be taken to make sure that the accession of new States interferes neither with the component parts nor with the working of the customs union, and that the negotiations and later the unavoidable transitional arrangements do not result in the postponement of the decisions which the Community still has to take before the customs union is fully established. (See the introduction to the Tenth General Report on the Activities of the Community).

a) New dimensions of the customs union

40. The accession of four new members would lead to a considerable expansion of the volume of trade within the common market and with non-member countries.

On the basis of the figures for 1965, intra-Community trade (exports fob from each Member State to every other Member State) would rise from \$20 500 million for the Six to \$32 000 million for the enlarged Community.

For the same year, exports fob to non-member countries would rise from \$27 000 million for the present Community to \$34 000 million for the enlarged Community, and imports cif from non-member countries would rise from \$29 000 million to \$40 000 million. These figures show that extension of the Community would considerably enhance its position as a major world importer (+ 39%). The expansion in the volume of its exports would be less (+ 27%).

41. These figures do not of course make allowance for the expansion of preferential trade which would result from the gradual elimination of customs duties and other obstacles to trade within the enlarged customs union. Although it cannot be expected that this expansion would be as rapid as that experienced in the EEC between 1958 and 1965 (from \$7 000 million to \$21 000 million), the obstacles to trade having already been eliminated inside the EEC on the one hand and inside EFTA on the other, it can be assumed that extension of the customs union would contribute to economic expansion in western Europe.

b) Elimination of obstacles to intra-Community trade

42. Obstacles to trade already eliminated in the Community at the date of accession would have to be eliminated from trade between the old and the new members during a transitional period. This applies of course not only to customs duties and quantitative restrictions but also to taxes or other measures with effect equivalent to these duties and restrictions.

In the accession treaties, the new members would have to assume specific obligations regarding the abolition of any measures of this type at present known and in force on their respective territories. Unilateral measures of the type adopted by the United Kingdom in 1964 with a view to restoring equilibrium in its balance of payments¹ would, of course, be ruled out.

State monopolies of a commercial nature² would also have to be adjusted as provided for by the Treaty of Rome.

43. The problem of manufactures based on certain agricultural products, which is dealt with in Regulation 160/67, also calls for special attention: the system at present used in the Community should be applied in dealings with the new members as long as these do not fully apply the provisions of the common agricultural policy for the products used as raw materials. This problem is of special importance in view of the very appreciable extent to which the processing industries of certain candidates are likely to compete with the food industry of the Six.

44. The membership agreements cannot rule out the use of safeguard measures, which allow of exceptions to the rule of free movement of goods where there are economic difficulties or deflection of trade. These measures, similar to those in Articles 115 and 226 of the EEC Treaty, would be laid down for the transitional period by the accession treaties. The present members of the Community would of course have to constitute one unit for the application of these measures after the expiry of the present Community's own period of transition.

The increase in the number of member countries and the greater diversity of their economies could mean more frequent resort to safeguard measures unless it were possible to avoid these by the co-ordination of commercial and industrial policies which will have to be undertaken.

45. The elimination — even if it were gradual — of the obstacles to trade in an enlarged Community could give rise to certain difficulties in some "sensitive sectors" which were singled out for special treatment in the Kennedy Round.

The enlargement of the market should help to step up productivity and encourage necessary adaptation, but the conditions of competition must not be distorted. Difficulties can be foreseen, for instance, in the paper and paperboard industry, because of the privileged access of the Nordic countries to the raw material and the cartelization of the Scandinavian paper industry. The very considerable divergences of commercial and industrial policy between the United Kingdom and the Community in an industry such as textiles could also raise delicate problems for the Community's industry, which will in any case, as a consequence of agreements recently concluded in Geneva, have to leave a growing part of the market to imports from the developing countries. Excessive differences in energy costs would prevent the Community's ferro-alloy industry from coping with Scandinavian competition. Lastly, particular attention will have to be paid to the problems arising from the extent of American investment in certain areas of British industry, such as the motor and agricultural tractor industries.

In order to remedy the foreseeable difficulties in sensitive sectors such as those of which examples have been given above, measures of industrial policy will have to

¹ 15% surcharge applied even to imports from its EFTA partner countries.

² This would seem to be applicable to the United Kingdom coal importing arrangements.

be taken to facilitate indispensable adaptation. If in exceptional cases co-ordination of policies should not permit the causes of distortion to be eliminated, special transitional or adaptation measures might prove to be necessary.

c) Application of the common customs tariff (CCT)

46. The present candidates for membership appear to be willing to adopt the common customs tariff as well as the rules in this field contained in the Treaty of Paris. It is equally indispensable that they should accept the provisions for its uniform application which will meanwhile have been adopted.

47. During the transitional period which they will be granted, the special position of the new members in relation to the present members of the Community will inevitably pose delicate problems. These difficulties would be greatly reduced if the pace at which the CCT is introduced and that at which the mutual reduction of customs duties is implemented are fixed in such a way as to limit the possibilities of deflection of trade.

48. At the same time and for the same period, the conditions under which the new members would relinquish the EFTA tariff arrangements would have to be determined from the point of view of the Community's interests.

49. The application of the CCT by the United Kingdom would mean a fundamental change in trading conditions between the United Kingdom and the Commonwealth, Commonwealth preferences being replaced by Community preferences. For this reason the British decision to accept the CCT is qualified by a reference to the provisional agreements reached in the course of the 1961-63 negotiations (association of certain Commonwealth countries and territories in Africa and the Caribbean, far-reaching commercial agreements with India, Pakistan and Ceylon).

The problems raised by the relations of an enlarged Community with the countries of the Commonwealth are dealt with in Title III. In this context reference should, however, be made to the delicate problems these relations might raise for certain sectors.

50. Lastly, by declaring its willingness to accept the CCT as it emerges from the Kennedy Round, the United Kingdom appears to be prepared to drop its demand for nil duties for various products which had given rise to difficulties in the previous negotiations. The question arises, however, of the pace at which the United Kingdom would be prepared to bring its tariff closer to the CCT for the products concerned.

In this respect it should be remembered that the free movement of goods within the Community calls for the removal of national tariff quotas or their replacement by Community measures.

51. To sum up, in order that the extension of the Community should not jeopardize the establishment of the customs union, the arrangements involved and in particular the proposed transitional period will have to be re-examined once the intentions of the countries applying for membership are better known.

When the exact import to be attached to their acceptance of the common customs tariff comes to be examined, it would also be advisable to study the situation with regard to certain products or particularly important sectors where acceptance of the CCT cannot assume its full significance unless coupled with acceptance of a certain number of basic options in commercial or industrial policy.

*d) Problems of commercial policy*¹

52. Independently of the acceptance by the new members of the elements of a common commercial policy already adopted by the Six in connection with the establishment of other common policies, particularly the agricultural policy, the negotiations on membership — as already indicated in Title I — should not be allowed to delay adoption of the regulations already submitted to the Council under the action programme it adopted on 25 September 1962.

It may be noted that the system governing imports has in any case been liberalized all over Europe, except in respect of a very small number of sensitive products still subject to quantitative restrictions and of dealings with State-trading countries, for which the western countries are still seeking suitable methods of economic and commercial co-operation.

Lastly, neither the participation of the enlarged Community in certain multilateral agreements nor the working out and implementation of the common commercial policy should on the whole cause major problems for the new members.²

¹ Tariff policy questions are dealt with in Title I and Title II.

² See White Paper "Legal and Constitutional Implications of United Kingdom Membership of the European Communities", secs, 38 to 40. Cmnd. Paper No. 3301, HMSO.

Agricultural policy

53. Agriculture is the Community sphere in which integration has made the greatest progress. The common agricultural policy is now very largely complete, especially with regard to price policy and the organization of agricultural markets; co-ordination of domestic policies on structure has begun; the system of State aids is now at the final stage of discussion in the Council.

This policy is the result of long and difficult negotiations. Its effect is to strengthen the *de facto* solidarity uniting the Six and its success ensures that progress will be achieved in other Community sectors as well.

Any calling into question of the essential features of this policy upon the accession of new members is therefore ruled out. In the course of the future implementation and further development of the agricultural policy, the Community might, however, consider certain adjustments which might have to be made in order to allow both for the new factual situation resulting from enlargement and for a number of interests or specific problems peculiar to the new Member States for which there was agreement that Community solutions were necessary.

a) Quantitative and qualitative changes in the basic data concerning agriculture in an enlarged Community

54. Compared with the natural and structural output potential of the present Member States, that of the "Four" is relatively small.

The agricultural area exploited would be about 30% greater in the "Ten" than in the "Six". As average farm holdings in Great Britain and Denmark are larger than in the "Six", the increase in the number of farms (of one hectare or more) would be only some 20%. The increase in the number of farm workers would be even less (16%).

Farms, more especially in Denmark but in the United Kingdom and Ireland too, are run on relatively rational lines and noted for high productivity. This comes out also in the figures for the value of production and value added in these countries; whereas the value of agricultural production in the "Four" is 26% of that of the "Six", the value added per person employed in the "Four" (2 880 u.a.) is over 1 000 u.a. higher than in the "Six" (1 770 u.a.).

Consequently, agriculture's contribution to the aggregate national product of the "Four" (nearly 6%) is relatively high when compared with the proportion of farm labour in the total labour force (6%), while in the "Six" its contribution (8%) is much lower when compared with the percentage of the labour force employed (16%). This shows that the level of agricultura incomes in the "Four" is higher than in the "Six".

55. With regard to the supply of agricultural products, the situation of the "Six" should not be appreciably altered by accession of the "Four", if one may judge from the supply situation of 1965/66.¹

¹ See table appended to this Chapter.

Whereas among the "Six" the average self-sufficiency rate just reaches 90%, it would be about 85% in the "Ten". This slight difference arises from the fact that in the "Four" there are two small countries with agricultural surpluses (Denmark and Ireland) and one large importing country (the United Kingdom).

56. The following would be the biggest changes in the rate of self-sufficiency in the various products (taking the 1965-1966 statistics as a basis):

(in %)

Decreases	Six	Ten
<i>Decreases</i>		
Wheat	110	94
Rice	60	52
Sugar	97	76
Fresh fruit	88	80
Citrus fruit	47	40
Fresh vegetables	102	98
Mutton and lamb	87	60
Butter	102	84 ¹
Cheese	99	96
		38
<i>Increases</i>		
Coarse grains	71	73
Beef	84	90
Poultrymeat	95	99
Pigmeat	98	103

¹ Allowance has not of course been made for the United Kingdom's commitments to the Commonwealth (See secs. 65 and 66 below).

It is therefore mainly in cereals-based livestock products that the self-sufficiency rate of the "Ten" would be higher.

These self-sufficiency rates may in future undergo certain changes to the extent that implementation of the common agricultural policy has repercussions on the volume of production in the enlarged Community.

57. In the matter of prices and price ratios at producer level, the prices ruling in the United Kingdom, Ireland and Denmark are fairly low compared with the common prices of the "Six" — leaving aside the basically different support system for British agriculture. On the other hand, producer prices in Norway are relatively high.

Price relationship at producer level among the "Four" are also different from those found in the "Six".

58. The following conclusions may be drawn from this analysis of changes in the basic data:

- i) Those rules (especially those relating to organization of the market and policy on prices and financing) which are mainly determined by the supply position, will not come up against a fundamentally changed situation once the Community has been enlarged, even if some adjustment might be advisable for a few products.
- ii) Adoption of the common agricultural policy and the price ratios now laid down for the "Six" could produce changes in the pattern of production in the new member countries because of their different price ratios. Assessment of the possible consequences of any such changes could be profitably attempted only in co-operation with the countries concerned.

59. In short, although extension of the Community would affect the orders of magnitude of the basic data, it would be unlikely to change the situation fundamentally, or, by itself, to make a revision of the common agricultural policy inevitable. Such changes as might be necessary could be introduced in the course of the future implementation and further development of this policy.

However, certain natural, structural or social difficulties which may exist in some border areas of the new member countries of the enlarged Community will make it more urgent to complete the structural side of the common agricultural policy.

b) Specific problems of countries applying for membership

60. Application of the common agricultural policy, as worked out by the Community, to countries whose agricultural policies have been different in many respects may confront these countries with certain specific problems, quite apart from the financial question.

1. United Kingdom

61. A comparison of agricultural prices in the EEC with producer prices in the United Kingdom shows that prices are sometimes higher, sometimes lower, and that for certain products these differences are considerable.

Since the United Kingdom will have to fall into line with the generally higher Community prices and different price pattern there will, as pointed out above, be problems of adjustment.

Furthermore, the United Kingdom has price guarantees for some products for which no such provision is made under the common agricultural policy (eggs, mutton, potatoes, wool).

62. The application of the EEC agricultural price system and price level (involving the abandonment of the deficiency payments system), the application of levies to products imported from non-member countries, and payment for products from the EEC at the internal market price are bound to cause a rise in the consumer prices of a number of important foods. The prices of other foods, notably liquid milk, fruit, vegetables, and mutton and lamb, appear unlikely to change appreciably. For certain products (eggs and potatoes) there may even be a fall.

Various studies made on the subject indicate that in general the rise in living costs can be put at some 3%.

63. The British farmer seems to attach great importance to the annual price review, which is based on an analysis of the agricultural situation made by the Government in consultation with representatives of farming interests.

Apart from certain differences between the methods of compiling data on the agricultural situation in the United Kingdom and the Community, there is an important difference in the consultation procedure prior to the annual price fixing:

i) In the United Kingdom, official consultation takes place with farmers' organizations, while in the Community the contacts are only informal. The Community procedure, on the other hand, includes consultation of the European Parliament on the price proposals submitted by the Commission to the Council;

ii) In the United Kingdom the object of the procedure is to fix guaranteed producer prices, usually ensured by means of deficiency payments, so that market prices are not affected, while the Community fixes target prices for the market, directly affecting the economy in general. Therefore any official consultation of the social groups concerned could not be restricted to farmers' organizations.

64. As regards the United Kingdom's relations with the Commonwealth countries in the agricultural sector, two problems appear to need particular attention: the Commonwealth Sugar Agreement and, essentially, butter from New Zealand.

65. The United Kingdom is bound by its obligations under the Commonwealth Sugar Agreement to buy a specified amount of sugar at a negotiated price. The current commitment is for approximately 1.8 million tons and the price is about 120 u.a. per ton, or double the world market price. In addition to this quantity at a negotiated price, the British market absorbs a further 0.4 million tons of Commonwealth sugar at the world price. This sugar benefits from a preferential rate of duty on imports into the United Kingdom.

Commonwealth imports cover more than two-thirds of the United Kingdom's sugar requirements. The output of beet sugar, which is strictly controlled by a system of production licences, is approximately 0.9 million tons.

It may be mentioned in this connection that the supply position of the Six is already in surplus. This surplus, which has a tendency to increase will be 800 000 tons towards 1970, and it would be possible to use only about half of it for purposes other than human consumption. Moreover, it is estimated that in a few years the Yaoundé countries and overseas countries and territories will be in a position to export some 100 000 tons.

The term of validity of the Commonwealth Sugar Agreement (until the end of 1974) coincides approximately with the period during which the common organization of sugar markets still provides that the quotas limiting price and marketing guarantees be allocated among the several Member States. The arrangements that will apply in the Community at the final stage will thus come into force after the expiry of the Commonwealth Sugar Agreement.

66. The British market represents virtually the only outlet for butter from New Zealand, some 85% of whose butter exports go to the United Kingdom. The trade agreement at present in force is valid until 30 September 1972 and stipulates a minimum quantity of 172 700 tons of butter to be imported from New Zealand under quota arrangements. These imports cover more than a third of the United Kingdom's requirements, which amount to approximately 470 000 tons. Three Member States (France, Belgium and the Netherlands) benefit from quotas totalling 20 000 tons. Norway, Ireland and Denmark have been authorized to supply 132 000 tons, while the quotas of "third parties" amount to 120 000 tons (Australia accounting for 68 000 tons). Home production supplies about 30 000 tons.

The situation in the Six is that the present Community has structural surpluses which, according to the forecasts, will amount to between 150 000 and 160 000 tons by the end of the 1967-1968 marketing year. The butter problem is complicated by the fact that extension of the common agricultural policy to the United Kingdom will cause a rise in consumer prices and possibly an increase in that country's own production of butter.

The real difficulties connected with Commonwealth sugar and New Zealand butter will have to be solved in the course of the negotiations.

2. *Ireland*

67. Agriculture holds a very special place in the Irish economy. It gives employment to almost one third of the labour force and accounts for more than 20% of the GNP. Farm products alone — beef and cattle being the most important — account for almost two thirds of the total value of goods exported. The main importer is the United Kingdom. The adaptation of agriculture is complicated by the pattern of farming based on small holdings and the relative over-population of the western part of the country.

68. For most products the alignment of Irish producer prices on Community price levels will result in rises of varying extent both at producer and consumer level. A slight reduction in sugar-beet prices might, however, be expected while prices for potatoes and eggs could remain unchanged.

3. *Denmark*

69. Denmark has one of the most advanced and productive agricultural economies in the world. A large proportion of its production is exported.

70. Generally speaking, agricultural prices are considerably lower in Denmark than in the EEC (1967/68). Their alignment on EEC prices will result in considerably increased earnings for Danish agriculture, even allowing for higher feed-grain prices and the suppression of certain aids.

The application of the common agricultural policy will also mean an increase in consumer prices.

4. Norway

71. In Norway the fishing industry and forestry are of importance as well as farming (contribution to GNP: farming 5%, forestry 2.4%, fisheries 1.7%). Norwegian agriculture is carried on under particularly unfavourable natural and structural conditions (the area of the average farm is 5 ha); it could not survive in the northern part of the country without substantial support from the State. In its efforts to maintain a minimum of population in these areas, Norway has not as yet been able to dispense with aid of this kind. Livestock products are the major item in agricultural production (80% of total income, 50% of which is accounted for by milk products).

72. The alignment of Norwegian producer prices on Community prices could lead to a reduction in the earnings of Norwegian agriculture.

73. However, the lowering of producer prices in Norway would not mean a reduction in consumers' expenditure. On the contrary, the removal of consumer subsidies and the rise in prices for imported goods would lead to a certain increase in consumer prices.

74. The problems which must be faced by the new members (changes in prices levels, structure of price ratios, revision of aid arrangements) rule out any possibility of the common agricultural policy being adopted by these countries immediately membership becomes effective.

Apart, then, from the need for administrative adjustment, a transitional period must be envisaged for reasons connected with economic adaptation.

c) Financial problems

75. As in the other spheres of agricultural policy, extension of the Community must not interfere with the principles on which the financing of the common agricultural policy is based, i.e.

i) The Community's financial responsibility for the guarantees on prices and markets offered by the market policy;

ii) Providing the Community with funds to finance measures to improve the structure of agriculture.

76. The extension of the Community will result in heavier spending by the EAGGF. This increase will be due, in particular, to the larger sums needed to cover refunds, intervention measures and direct aid to agricultural production in the new member countries, as well as for the increase in activity under the Guidance Section of the Fund. Some of this increase will be offset by savings on refunds now payable on exports from the Six to the future member countries.

Subject to all the reservations required in such calculations, a preliminary estimate of the order of magnitude of the sums which the EAGGF will have to administer in 1970¹ gives the following figures:

¹ In this study 1970 is taken as the year when, hypothetically, the single market for agricultural products would be in operation not only for the Six (the existing Community) but also for the Ten (the existing Community plus the United Kingdom, Denmark, Ireland and Norway). The estimates make no allowance for possible changes in the volume of production and of net imports that might occur in an enlarged Community, as these cannot at present be forecast.

Estimate for 1970

(in million u.a.)

Expenditure EAGGF	Six	Ten	Difference between Six and Ten
			86
Guarantee Section	1 355	1 480	+ 125
Guidance Section	285	(350)	+ (65)
Total	1 640	1 830	+ 190

These estimates are essentially static and are based, as far as quantities and prices are concerned, on the situation in the years 1965 to 1967. Allowance has, however, been made for certain changes in the pattern of imports in the direction of an expansion of the present volume of intra-Community trade.

77. A preliminary estimate of EAGGF revenue, again for 1970 and again with all due reservations, gives the following figures:

Estimate for 1970

(in million u.a.)

Receipt EAGGF	Six	Ten	Difference between Six and Ten
Levies	600	1 400	+ 800
Other receipts	1 040	430	— 610
Total	1 640	1 830	+ 190

Virtually the entire increase in revenue from levies will come from the United Kingdom which, because of its extensive imports of agricultural products, would raise about 770 million u.a. under this heading. This then would give rise to a problem of balance in the sharing of financial burdens. The search for this balance cannot, however, be allowed to interfere with the principle of at least 90% of the total amount of levies charged on imports of agricultural produce being appropriated by each Member State for Community uses. If this principle were allowed to go by the board, the enlarged Community would be forced to introduce a system of checking of the final destinations of imported agricultural products, a step which would mean that the free movement of these goods was rendered meaningless. In addition to this, the importing States, and the United Kingdom in particular, would retain a financial interest in obtaining their supplies outside rather than inside the Community.

It will therefore be necessary for old and new members to come to an agreement on this point in the negotiations.

Should such an agreement do no more than set up a temporary system, this system must not be fragile and must be maintained in force till a permanent system is introduced.

The search for a suitable balance between the financial burdens borne by old and new members must not, of course, be limited to the agricultural sector.

*Self-sufficiency in principal agricultural and food products in the Six and in the Ten
(EEC + United Kingdom, Denmark, Ireland and Norway)*

(in %)

Agricultural and food products	EEC					Ten				
	Av. 1959/60 1961/62	1962/63	1963/64	1964/65	1965/66	Av. 1959/60 1961/62	1962/63	1963/64	1964/65	1965/66
	Wheat	89.6	107.8	91.2	105.7	110.0	77.9	94.1	79.2	91.3
Other cereals (excl. wheat and rice)	77.2	75.0	79.1	74.6	70.9	74.0	74.7	77.4	75.3	73.4
Total cereals (excl. rice)	82.5	88.8	83.9	87.2	86.4	75.6	82.2	78.1	81.3	80.9
Rice (husked)	82.0	83.4	74.7	79.0	59.9	71.4	71.0	65.2	68.3	51.6
White sugar	104.1	86.0	95.9	112.1	97.1	77.6	64.5	75.0	86.7	75.7
Fruit (incl. citrus) of which :	83.5	80.9	83.4	81.5	78.8	74.8	73.6	75.8	74.2	71.4
Fresh fruit	93.6	90.4	92.2	90.8	87.8	84.5	82.6	84.5	82.8	79.9
Citrus fruit	44.4	40.6	47.2	47.6	46.5	36.7	34.2	39.9	41.0	39.8
Vegetables ¹	104.5	103.6	101.3	102.0	101.6	100.4	99.5	97.7	98.7	98.0
Meat (all types, incl. offal) of which :	95.7	94.9	91.3	92.4	90.6	93.9	94.4	92.6	93.6	92.6
Beef and veal	94.6	93.5	87.1	86.4	84.4	97.1	96.0	92.7	91.6	90.2
Pigmeat ²	100.5	100.6	97.7	100.6	97.8	102.1	102.9	101.7	104.8	103.0
Mutton and lamb, meat of goats and kids	98.5	94.8	89.9	88.9	86.5	58.8	61.6	61.3	60.5	60.1
Poultrymeat	89.2	90.2	92.6	94.0	95.0	94.5	96.8	97.7	98.1	98.5
Other ³	87.6	86.9	85.0	84.2	84.1	77.7	79.0	76.2	76.6	77.0
Eggs ⁴	88.2	92.2	96.6	95.5	n.a.	94.0	96.1	98.9	98.0	n.a.
Cheese	99.4	98.5	97.4	98.4	98.5 ⁶	97.3	96.2	95.3	96.5	96.4
Butter	140.0	99.1	99.9	102.0	101.7 ⁶	85.4	83.3	82.2	84.7	84.4
Fats and oils (incl. butter)	36.7	36.1	40.8	37.2	36.8	33.0	33.0	36.1	33.6	32.9

Sources : For EEC : SOEC - Agricultural Statistics. For United Kingdom, Denmark, Ireland and Norway : OECD.

¹ For Ireland, vegetables include only those likely to have been grown for human consumption.

² Including bacon and ham. For the United Kingdom, figures for production and supply of bacon and ham are taken from the Annual Abstract of Statistics No. 103, 1966.

³ Horsemeat, rabbit, game and edible offal.

⁴ Excluding France, for which no figures are available.

⁵ Since the balance-sheets for the United Kingdom, Denmark, Ireland and Norway are provisional, the degree of self-sufficiency for the Ten must be regarded as provisional.

⁶ Provisional figures.

CHAPTER 3

Economic and financial problems

78. The economic and financial problems raised by extension of the Community differ from one candidate for membership to another.

For three of them (Denmark, Ireland and Norway), the pursuit of basic economic policy aims of the type set out in Articles 2 and 104 of the Treaty of Rome has not so far brought up problems differing very much from those which the present members of the Community have had to face. Growth rates in these three countries have in the past few years been comparable with those of industrialized countries in general and there have not been any serious balance-of-payments difficulties.

79. Given the opportunities for adaptation offered by transitional arrangements, there would probably be no appreciable change in the situation of these three countries if they joined the Community. Moreover, the scale of their economies is such that such difficulties as might arise could have no more than a marginal effect on the Community as a whole. Hence, without prejudice to the fuller investigation that would have to be made later on in respect of each of the candidates, the problems raised by their membership do not call for individual analysis in this chapter.

80. On the other hand, the difficulties that have beset the United Kingdom economy over the last twenty years make it imperative to study the problems that would have to be resolved before that country could, where economic policy and the balance of payments are concerned, effectively pursue the objectives laid down by the Treaty of Rome.

A. Economic situation of the United Kingdom

81. Experience has shown time and again that in the United Kingdom there is a recurrent conflict — much more serious than elsewhere — between achievement of a growth rate comparable to the annual average attained over a period of several years in most other industrialized countries and the need to balance external payments — also over a period of several years.

On several occasions the British economy, as soon as its growth rate drew close to that of other industrialized countries, began to show signs of a payments crisis. Sooner or later the authorities, threatened with exhaustion of international monetary resources, and having made heavy calls on international monetary co-operation, were forced not only to adopt a deflationary policy so severe that it virtually brought economic growth to a standstill but also to take action to restrict international transaction in goods, services and capital.

It is not possible in this chapter to analyse in detail the causes of the economic disequilibrium that has affected the United Kingdom in recent years. Many studies of the problem, in the United Kingdom and elsewhere, suggest that the difficulties stem not only from cyclical swings in economic activity — which could be eliminated by following a more effective policy for the establishment of equilibrium. The difficulties in fact seem to be mainly structural in origin, and stem either from defects in the distribution of productive resources (inadequate and misdirected investment, numerous obstacles to improvement of productivity, the pattern of employment,

the tax system) or from the economic, monetary and financial burdens inherited from the country's past, the second world war and the country's international position in the postwar world. It would be difficult, however, to say which of all these factors are mainly responsible for the present situation .

Generally speaking, it may be said that although the British economy recently emerged from the strained situation in which it had been since 1963/64, its basic situation is much the same as in similar phases in the past.

82. At home, measures to curb demand caused productive industrial investment to stagnate in 1966, and even to register an appreciable decline in 1967. Thus a familiar and ominous pattern is being reproduced: payments difficulties due at least in part to inadequate expansion of productive capacity have again forced the authorities to pursue a policy, one effect of which has been to jeopardize expansion in the longer term and so to strengthen the propensity to import. Unless means of resolving the dilemma are found, this cause-and-effect sequence harbours in itself the seed of future crises. Furthermore, wage restraint and the current and foreseeable extent of unemployment are creating a social situation that makes it considerably more difficult to apply the right economic policy mix: the situation may call for measures to stimulate the economy, but action to this end is hampered by the United Kingdom's delicate external payments situation.

83. Between 1964 and 1966 the United Kingdom's "basic deficit" (i.e. aggregate deficit on current and long-term capital transactions) was reduced considerably.¹ This reflects the combined impact of the deflationary policy imposed on the economy and of the restrictions to which transactions with abroad were subjected (the special import surcharge — now abolished — restrictions on allowances for holidays abroad, controls on exports of capital, etc.).

The improvement in the external situation as shown in the accounts was particularly marked during the last quarter of 1966, when the basic balance showed a surplus of no less than \$381 million. However, this was due — partly, at least — to seasonal and fortuitous factors.

Recent official information² shows that this improvement has not been maintained and that the United Kingdom's payments situation deteriorated in the first and second quarters of 1967, with a basic deficit of the order of \$39 million in the first quarter and of \$120 million in the second.

¹ *United Kingdom basic balance of payments*

(in \$ million)

	1964	1965	1966
Current balance	— 1 126	— 308	— 165
Balance of long-term capital	— 1 047	— 650	— 325
Basic deficit (1+2)	— 2 173	— 958	— 490

² Source: HM Treasury, press release of 13 September 1967.

84. The balance of short-term capital (not included in the figures given above) showed a trend similar to that of the basic balance. Towards the end of last year and at the beginning of this year, substantial net receipts were recorded as a result of a heavy influx of funds returning to London; these provided the authorities with a large part of the funds needed to pay off some of the debts contracted since the latest series of exchange crises began in the autumn of 1964.¹

During the second quarter of this year there were net outflows of funds, particularly after the conflict in the Middle East broke out. Once again, the Bank of England sought assistance from the central banks of various countries.

85. The information that has been available on developments in the last few months suggests that there is again a tendency for the payments situation to deteriorate. Current forecasts are that for the full year 1967 the payments balance will again show a deficit. These prospects will tend to mean that the United Kingdom will have more difficulty in repaying its debts than appeared likely at the beginning of the year.

86. Fluctuations that may occur in the sterling balances are another source of concern. The sterling balances are all the liquid sterling assets held in London by public authorities, firms and private persons resident outside the United Kingdom, whether as reserves, as working balances or as a means of financing transactions of various kinds. Considered as a whole, these claims have fluctuated relatively little since the war. At the end of June 1967 the gross amount (excluding balances held by international organizations) was some £4 600 million (\$12 800 million). Sixty-seven percent of this (£3 100 million, or \$8 600 million) is held by creditors in the sterling area — more than half being “official” holdings. The remaining 33% (£1 500 million, or \$4 200 million) is held by creditors resident in other countries — the bulk being usually on private account.

The United Kingdom’s official liquid assets are of the order of £1 000 million (\$2 800 million). This is more than the UK’s current liabilities to the IMF (\$1 700 million) but is only a fraction of the total liabilities represented by the sterling balances.

It should be noted here that the Bank of England has again sought assistance from the central banks of various countries. The figures have not been disclosed.²

¹ The United Kingdom has on several occasions had recourse to bilateral aid from various central banks and to the IMF. The debts to the central banks were paid off early in 1967. Some of the debts to the IMF have also been discharged. The latter were made up of two drawings — one of \$1 000 million in December 1964, the other of \$1 400 million in May 1965. An advance repayment of some \$400 million on the first drawing was made in May 1967. The balance of the first drawing is due to be repaid in December 1967. The amount to be settled will depend on sterling drawings on the IMF by other borrowers in the meantime; at end-July 1967, the figure stood at \$341 million. The second drawing is to be repaid by 1970.

² The figures given above relate to monetary claims and liabilities only. Details of the UK’s long-term external assets and liabilities are now published regularly. The September 1967 issue of the Bank of England Quarterly Bulletin gives the latest figures (for end-1966):

(in \$ million)

	Assets	Liabilities	Net position
Official	5 191	11 449	— 6 258
Private	28 488	12 334	+ 16 114
Total	33 639	23 783	+ 9 856

N.B. These figures are official but are described in British sources as “precarious estimates and/or known to be incomplete”.

87. The maintenance of the nominal value of the sterling balances marks a considerable reduction in their economic weight.

Towards the end of the 1940s the balances represented 24% of the United Kingdom's national product, but now only 12-13%; they were 40% higher than the United Kingdom's annual exports twenty years ago; today they are a little below these annual exports. In 1950/51 the value of liquid sterling claims held by foreigners was about the same as the value of liquid dollar claims; in 1966, about one third of such claims were held in sterling and two thirds in dollars. Various reasons suggest that the changes in the international role of the pound will continue, but the main question at present, in view of the possibility that the United Kingdom may join the Community, is whether the pound may not in coming years be exposed, as in the past decade, to sharp fluctuations.

88. This possibility cannot be ruled out because the stability of the sterling balances has hitherto depended mainly on a process of substitution of claims within the sterling area. Certain Far Eastern and other countries have taken over from countries like Egypt (which left the sterling area after the war), India, Pakistan and Ceylon. The present distribution of sterling balances is such as might give rise to net — and perhaps substantial — withdrawals in the future. In the last few years the African countries have already been reducing their net sterling balances at a fairly high rate.

The balance of non-sterling-area holders have sometimes fluctuated very widely.

This being so, it is not impossible that the sterling balances might — if the withdrawals were stepped up — constitute a factor of disequilibrium in the position of the United Kingdom and a source of difficulty for the Community if Britain were to join.

89. The difficulties encountered by the British economy, both internally and externally, have led a number of observers — including British commentators themselves¹ to believe that even a modest 3% annual growth rate between now and 1970 might under certain circumstances prove beyond the potential of the British economy and might lead to further payments difficulties.

In view of these considerations, it is clear that the accession of the United Kingdom to the Community would raise economic and financial problems which will have to be examined in depth.

B. Problems raised by United Kingdom membership

90. It will be appropriate to examine first of all the effects of accession on the economy of the United Kingdom, as it could derive definite advantages from membership.

They would consist in the first place in gains resulting from economic integration with a neighbouring area whose long-term growth rate has been higher than that of any other part of the world — except Japan. These gains will tend (particularly

¹ See e.g. National Institute Economic Review (NIESR), February 1967 and later issues.

this growth rate is maintained at a high average) to be much higher than the rate the United Kingdom is likely to obtain if it seeks to retain its economic links with more distant countries, especially those belonging to the Commonwealth preference area. For this area includes countries whose staple products are raw materials, with low growth rates and not much likelihood of becoming really profitable markets in the foreseeable future. Moreover, some other countries in this area — such as Australia and Canada — are countries whose international economic links are coming more and more to depend on regional considerations rather than on the need to maintain their traditional economic ties with Britain.

. The benefits that the United Kingdom can expect to draw from membership of the Community are not confined to those due to the wider markets it would gain in the Community.

Modernization of the economy should be greatly facilitated. Joining the Community would give the United Kingdom the stimulus it needs to push through vital structural reforms and provide the economic environment most conducive to their success. It would give the British Government the opportunity to shape its development policy not only with reference to considerations of domestic equilibrium but also in the context of a vast, single market, just as the six present members of the Community did in 1957.

Public opinion and the authorities in Britain are becoming increasingly aware of the vicious circle in which the economy seems to be caught. The adaptability of British businessmen, who for the most part are in favour of joining the Common Market, is an essential factor here.

2. While there can be no doubt about the economic and psychological advantages that would derive from the changes brought about by membership of the Community, it must be recognized that they will not immediately be felt in full. In this connection it must be stressed that the fillip — the stimulus which, it is argued, will be provided by membership of the Community — will not be as beneficial as it could be unless the United Kingdom takes in good time the steps which will make it possible for stability to be restored and maintained.

3. These steps will be even more necessary in view of the fact that membership of the Community would at first impose additional burdens on Britain. These include:

a) Those that will affect prices and costs in the United Kingdom and its balance of payments because of the changes in the sources and conditions of supply necessitated by adoption of the common agricultural policy and the unavoidable changes in trade relations with Commonwealth and other countries;

b) Those that would stem from such liberalization of services and capital as would bring Britain into line with the average level of liberalization already achieved in the Common Market countries;

c) Those that would be raised by opening the British market to much keener competition from foreign manufactures.

4. In view of the time-lag that might occur in certain cases or in certain fields of integration between the economic advantages that the United Kingdom would

draw from joining the Common Market and the disadvantages that would be entailed for that country's competitive position as it is today, adaptation by this country would be required.

How long this took would depend chiefly on what measures the British Government adopted and how effective they were; sufficiently detailed information about the restoration of lasting economic equilibrium in the United Kingdom must be available in order to decide during the negotiations just what should be done in the transitional period. This basic problem should therefore be examined at the outset of the negotiations.

95. While it would be for the British Government to decide what measures of adaptation were needed, it is nevertheless essential that the parties concerned should consult together on the question of timing and the scale of the action to be undertaken. It should be pointed out that the British authorities, in their efforts to prepare the economy for integration, might unilaterally adopt certain measures which could have major repercussions for the Community. It is therefore important that these measures should be concerted before they are put into effect.

96. Action on these lines would also serve the useful purpose of making clear the interpretation that the Community has gradually worked out for certain clauses in the Treaty (Articles 2 and 104 in particular) which deal with the objectives of economic policy. For in this field, where the relevant texts do no more than give a broad outline, it would not be enough if the countries applying for membership merely stated their agreement with general objectives: they should also accept the priorities that advancing Community co-ordination has made it possible to establish both internally and at international level.

97. There is one field where this point is of exceptional importance — monetary matters. For this is where the process of adjustment required of the British economy would be most necessary and most difficult, and where the present members of the Community would be exposed to the greatest risks. Evidently, the scale of this adjustment, which the British authorities will have to make whatever happens, could depend to a great extent on action involving all those affected by the extension of the Community.

98. The statements made so far by the British Government indicate that it would not be disposed to take the initiative in bringing up the sterling problem in the proposed negotiations with the Community. Nevertheless, it has declared that it is prepared to abstain from invoking Article 108 of the Treaty in the event of difficulties arising from factors bound up with the international role of sterling. In general, it would seem that the British Government prefers to seek a solution to the problem of sterling as an international currency in a framework wider than that offered by the Community.

A mere undertaking not to invoke Article 108 does not settle the matter as far as the Community is concerned. For lack of adequate elucidation it is not at present possible to assess the exact scope of such an undertaking. It should, however, be recalled that Article 108 deals not only with the possibility of mutual assistance in the financial field but also with a range of procedures and instruments that might if necessary be employed to forestall what would be the most serious danger to which a developing economic union could be exposed — the isolation of one of the national economies involved because of balance-of-payments difficulties. Whatever the origin

of the difficulties, the damage that might be done to the Community is such that it could not forgo the means of action provided by the Treaty.

The present prospects for an overall solution to the problems raised by the functioning of the reserve-currencies system do not seem to be such that they will encourage the present members of the Community to accept the British preferences on this point.

99. Moreover, the arrangements now in force between certain central banks and the Bank of England, providing for certain measures of co-operation in the event of withdrawal under specified conditions of part of the sterling balances, do not seem to offer an alternative to Community action because the sums covered by the arrangements are too small and because the assistance involved may not be available for long enough. Although in present circumstances such arrangements make a useful contribution to reducing the possible threats to sterling, they do not seem to constitute a solid enough base upon which to build up the monetary relations that seem to be required by an enlarged Community in which one of the members had a currency with the present characteristics of the pound sterling and a financial centre such as London.

100. All this points to the need for action of a wider scope, but it would not be possible to settle the details unless there were consultation between all the interested parties, who would have to establish very close co-operation.

From the Community's point of view, action of this kind should not be designed simply to settle the situation arising from the complex of claims and liabilities constituted in the past between the United Kingdom and countries of the sterling area. Financial traditions, the ties of various kinds that would continue to exist between the United Kingdom and certain other countries, the characteristics of the London market — these are all factors tending to give London a privileged role. Although an enlarged Community could as a unit benefit considerably from the technical machinery which is more sophisticated in London than anywhere else in Europe, it is evident that extension of the Community could have implications that go far beyond mere questions of financial technique and the practical ability of the City to fulfil the role of major intermediary in banking services.

If the role of the pound as a trading currency cannot be challenged, it is none the less hard to see how this currency could continue after Britain joined the Community to occupy a position in the international monetary system different from that of the currencies of the other member countries.

Furthermore, management by the United Kingdom of a reserve currency would require an economic and financial policy geared at one and the same time to the Community's own objectives and to others extraneous to the Community.

Finally, no national currency could possibly assume the role of a Community monetary system, which would have to result from gradual co-ordination of Member States policies and strengthening of the common economic, monetary and financial policies.

101. The disequilibria affecting the United Kingdom's economy are such as to put serious difficulties in the way of fulfilment of the normal obligations that would be entailed by joining the Community and complying with the Treaties and the decisions subsequently taken in execution of the Treaties. Examination of these difficulties together with the United Kingdom Government would provide an opportunity for seeking ways and means of overcoming them.

In any case adaptation appears to be necessary. It would be difficult to settle the arrangements for the transitional period unless there were a clear enough picture of how lasting equilibrium was to be restored in the British economy.

It is for the British authorities to decide on the steps they have to take. From the beginning of the negotiations, however, there should be close consultation between all the parties concerned because certain of the steps taken might have major and immediate repercussions on the present Member States and on the Community as a whole.

Finally, if the extension of the Community is to have the best chances of success, an endeavour should be made to establish closer co-ordination among the members of the Community of their economic, monetary and financial policies.

Chapter 4

Other problems relating to economic union

102. The problems to which the extension of the Community gives rise in connection with the Treaties concern either the risk of distortion of competition resulting from the special situation of the new members or the need to ensure a satisfactory organization of the Community's new economic area.

The importance for the development of the Community, at the present stage, of the completion of the economic union must be stressed. The following points should be mentioned:

a) Free movement of capital

103. Establishment of an economic union calls for the gradual introduction of arrangements under which capital has a high degree of freedom to move between the countries in the union.

Under the two directives adopted by the Council to implement Article 67 of the Treaty, various types of capital movement are entirely exempt from exchange control, especially those relating to direct investments, transactions in securities which are quoted on stock exchanges, export credits, real estate transactions and "personal" transfers.

In conformity with the principle stated in Section 9, second paragraph, and Section 10 of the present document, accession to the Community entails acceptance by the new members not only of the articles of the Treaty regarding capital movements but also of the directives adopted to implement those articles. In particular, since the end of the war, the United Kingdom has maintained permanent restrictions on capital movements with countries outside the sterling area.

During the last series of crises, from October 1964 onwards, these restrictions were tightened up. The British authorities have also instituted new arrangements to restrict freedom of capital movements vis-à-vis sterling-area countries as well.

The implementation of the commitments stemming from the Treaty and from Council directives would require the new members to change their present regulations. For the United Kingdom, this question should be considered as part of the general study of the economic, financial and monetary situation of this country.

b) Fiscal harmonization

104. The establishment of a common market comparable to a domestic market calls for a great amount of fiscal harmonization. The new members would not merely have to accept the directives on turnover tax already adopted but also current commitments to new directives in this field. It would have to be ascertained during the negotiations whether the new members were prepared to join the present members in their efforts to achieve harmonization in other fiscal fields, such as excise duties and the tax systems applicable to capital movements, industrial combination or company profits, with a view to enabling tax frontiers and frontier controls to be eliminated.

c) Restrictive agreements and dominant positions

105. Any extension of the Common Market may have the advantage that a greater degree of concentration would still be compatible with maintenance of effective competition. From this angle the accession of Great Britain and the other three countries would make it easier to define and implement a competition policy compatible with the development of large-scale enterprises.

As the new members have no difficulty in accepting the aims and procedures of Community policy in this sphere, the only problems which arise are those concerning transition (for example, time-limits for notifying restrictive agreements).

d) Patents

106. British membership would probably help towards adoption of the draft convention for a European patent law. The current discussions on this matter in the Council have been held up by political difficulties.

e) Technical obstacles to trade: industrial standards

107. Owing to the divergences between British standards or those of certain other candidates and the standards at present in force in the Member States, one effect of the extension of the Community would be an appreciable increase in the extent to which technical obstacles hamper intra-Community trade. In view, however, of the interest shown by the United Kingdom in this field, it may be considered that an extension of the market will encourage all concerned to find ways of overcoming the present difficulties.

Moreover, the British should not lose sight of the advantages of adopting the decimal system in the United Kingdom.

f) Companies

108. Work on the co-ordination of company law would be further complicated if the United Kingdom joined. The British system of company law is based on a concept of the company which is not familiar on the Continent. The types of company do not correspond to those on the Continent, capital has not the same guarantee function, and the system of boards and general meetings contains peculiarities which it would be very difficult to iron out.

On the other hand, the obvious economic advantage of setting up a European company in the enlarged Community justifies the hope that English law will not represent a further obstacle, since the Government of the United Kingdom has already declared its readiness to modify its legislation to this end.¹

¹ "Legal and Constitutional Implications of United Kingdom Membership of the European Communities" (Cmnd. 3301), § 36, "Considerable amendment of our national law might eventually be involved...".

g) Investment by non-member countries

109. In view of long-established links between the United States and the United Kingdom, a substantial proportion of American investment goes to the latter country. The position of Great Britain would doubtless be strengthened by membership of the Community.

There would therefore be a particularly strong case for co-ordinating the attitudes of the Member States in an enlarged Community. This problem should be examined during the negotiations.

b) Regional policy

110. Regional problems are very important in two of the countries applying for membership: Norway and the United Kingdom.

In Norway the problem is that of the gap between incomes in the more developed regions and those in the outlying regions, particularly northern Norway; special measures have been taken to aid agriculture in these outlying regions.

In certain areas of the United Kingdom, especially in the south around London, there is excessive concentration, while other areas are insufficiently developed or are suffering from the decline of their long-established industries. However, the United Kingdom has long experience of regional policy; it uses certain techniques which could be considered for adoption by the Community (restrictions on investment in overdeveloped regions, construction of industrial buildings by the public authorities, adaptation of short-term economic policy to regional needs).

If the Community were enlarged, it might be feared that the difficulties of the peripheral regions would increase, especially in Great Britain. It does not, however, seem that in an enlarged Community the problem would be any other than in the Community of the Six.

The Commission stresses the need to arrive at a Community concept of regional policy (including investment incentives for investors from non-member countries as well). The sole effect of extension would be to add to the need for a Community approach to regional policy: it would not entail arrangements differing from those already required in the Six.

111. Ireland has embarked upon a policy of encouraging industrialization. The object of this policy is to promote the economic development of the country as a whole rather than redress the differences in economic development between the various regions. Gross national product per head is approximately the same in Ireland as in Italy, but differences between regions are not so great as in the latter country.

i) Financing of social security

112. In the United Kingdom about one half of social security expenditure is financed by the public authorities, and flat rate contributions make up the other half. In the Six at least three quarters is financed out of wage-related contributions from workers

and employers, the balance being found by the authorities. The British system might favour British firms, especially in those industries where wages represent a large share of added value, if this advantage is not offset by higher taxation.

However, this conclusion follows from a theoretical approach. If the conditions were in fact such that specific distortions could ensue, it would still have to be shown, industry by industry, that the distortions were such that they must be eliminated (Art. 101 of the EEC Treaty).

The same problem will also have to be examined in the case of the Scandinavian countries.

j) Nordic labour market

113. The existence of a single labour market among the Scandinavian countries will make it necessary to check how far Community priority in access to employment would be affected by the *de jure* and *de facto* situation in Scandinavia. Difficulties could arise if, for instance, one or other of the Nordic countries remained outside the enlarged Community or if no special agreements on the point were made with those Scandinavian countries which did not become members.

k) Commonwealth Immigrants Act

114. The Commonwealth Immigrants Act governs access to employment and establishment in the United Kingdom for citizens of the Commonwealth countries. It is based on the principle of United Kingdom law whereby citizens both of the United Kingdom and Colonies and of Commonwealth countries rank as British subjects. One application of this principle is the possibility for Commonwealth citizens to acquire United Kingdom citizenship after five years' residence.

According to Mr Wilson's statement in the Commons on 8 May 1967, the British Government considers that, except as otherwise provided — in association agreements, for instance — the facilities granted Commonwealth immigrants in the United Kingdom after accession should not necessarily give them rights to enter the labour markets of other countries in the wider Community. On the other hand the British Government does recognize that a problem exists regarding priority in access to employment.

l) Transport

115. Extension should not cause any difficulties beyond those already encountered by the Six in building up a common policy for road, rail and inland waterway transport. It would, however, create a new situation for sea and air transport, in view of the part played by these modes of transport not only in trade with non-member countries but also in the internal trade of the enlarged Community.¹ The possibility of Community action in these fields is provided for in the Treaty of Rome, and it would be useful if during the negotiations this point too could be examined.

¹ See sec. 122 in the Chapter on ECSC problems.

m) Energy¹

116. A study of the implications of a wider Community for energy policy must be prefaced by a brief reminder of where the Communities stand with regard to working out a common policy in this field.

After postponing the formulation of an overall energy policy, the Council adopted on 21 April 1964 a protocol fixing the objectives to be attained, i.e. assured and cheap supplies and the avoidance of abrupt shifts from one form of power to another, without depriving the consumer of his right of free choice. At the same time the Governments put off the task of elaborating a common energy policy until after the merger of the institutions.

This protocol has not prevented Member States from pursuing national energy policies, particularly because of the economic and social problems created by the decline in outlets for coal, a development which has very different implications from one member country to another.

The multiplicity of national measures has led to distortions which have affected the competitiveness of the Member States' economies.

The availability of energy in the several Member States varies so much that it is the principal stumbling-block in reaching a common policy; this situation would not be substantially modified by the accession of one country which is a large coal producer and of three others whose national resources are small (except for Norway's water power).

117. As regards coal, all the countries applying for membership should participate to the same extent as the present members in any actions and arrangements jointly decided on or planned for the purpose of resolving the coal problem (see ECSC Chapter).

As regards nuclear energy, the accession of Great Britain, a country where greater advances have been made in substituting this source of energy for the traditional ones, would doubtless make it even more imperative to work out a common energy policy and to co-ordinate reactor development programmes (see Euratom Chapter).

The nature of the difficult problems with which the Six have to grapple in the petroleum and natural gas sector is hardly to be modified by the accession of new members. The problems would however, become greater, and the need to solve them correspondingly more pressing.

Free movement of refined petroleum products between Great Britain and the Community countries would stimulate trade between the two areas, but probably only to a small extent since integration of the market at company level is already largely an accomplished fact.

¹ Implications for the ECSC and Euratom are dealt with in special Chapters.

Chapter 5

Problems peculiar to ECSC

a) The coal and steel industries in the four countries applying for membership

118. From the angle of the Treaty of Paris, the general characteristics of the countries applying for membership of the European Coal and Steel Community are the following:

	<i>(in '000 t)</i>				
	United Kingdom (1966)	Norway (1965)	Denmark (1965)	Ireland (1965)	ECSC (1965)
<i>Coal and coke</i>					
Production (coal only)	177 400	434	—	—	204 272
Imports	87	1 047	4 324	.	24 610
of which from ECSC	10	176	509	186	.
Exports	3 079	237	—	—	4 701
of which to ECSC	2 033	148	—	—	.
<i>Pig iron</i>					
Production of pig iron	15 962	526	82	.	61 083
Imports	391	12	94	21	897
of which from ECSC	12	3	16	0	.
Exports	41	138	—	—	267
of which to ECSC	24	94	—	—	.
<i>Steel</i>					
Production of crude steel	24 705	686	404 ¹	.	85 118
of which special steels	1 789	.	.	.	6 771
Imports	816	772	886 ¹	190	2 294
of which from ECSC	350	436	537 ¹	49	.
Exports	2 967	305	139 ²	59	12 383
of which to ECSC	289	85	32 ²	—	.
<i>Iron and manganese ore</i>					
Production	13 877	2 747	41	.	73 030
Imports	16 217	—	3	.	52 538
of which from ECSC	65	—	1	.	.
Exports	—	1 386	.	3	363
of which to ECSC	—	700	16	.	.

¹ 1966.

² 1964.

These figures show that most of the problems relate to the United Kingdom; some of the observations made are also valid for the other candidates.

119. The United Kingdom's membership would mean the advent, in an enlarged Coal and Steel Community, of two major industries, for British coal output is as high as that of the present Community, and its iron and steel output is just under one third of the Community's. The fundamental issue arising from the applications for membership is therefore whether and on what conditions these industries can be integrated in the system set up under the Treaty of Paris.

b) Acceptance of the Treaty of Paris

120. Statements made by the United Kingdom Government show that it is ready to accept the Treaty and all the rules adopted so far to ensure its implementation. On this point it must be made clear that acceptance of the Treaty means not only the Treaty document itself and its annexes in their present form, but also measures taken in pursuance of the Treaty by the Community institutions, a number of agreements between the Governments of the Member States which relate to the implementation of the Treaty, and also a number of agreements concluded with non-member countries.

Furthermore, experience shows that the specific provisions of the Treaty do not cover all situations produced by changes in the structure of the industries governed by the Treaty of Paris, in particular the coal industry. Through application of Article 95, covering situations not provided for in the Treaty, the Community's operating rules have already evolved considerably (e.g. the system of aids for collieries). This evolution will certainly continue. The countries seeking membership would have to accept the principle of this dynamic process, which will lead to means of action supplementing those specifically provided by the Treaty.

c) Special problems of adaptation

121. As regards both steel and coal, acceptance of the price rules (Art. 60 and implementing provisions) will mean a change in the British systems (delivered and area prices). Details of such changes should be worked out during the negotiations.

122. In transport, the Treaty rules aim mainly at non-discrimination, sufficient information on transport charges for implementation of Article 60 (price lists, price calculation and alignment), establishment of international through rates and harmonization of transport conditions. Here again, the way the rules will have to be applied by the United Kingdom will need to be spelled out, on account chiefly of the present organization of transport in that country.

Furthermore, the existence of a sea passage affecting all transactions between the United Kingdom and the Community as it is today adds a new dimension to the present difficulties of applying the rules on transport and on the price of the products concerned.

Particular attention must therefore be paid to information on and publication of sea freight rates, and this involves serious technical difficulties.

d) How the common market would work in an enlarged Community

123. If the United Kingdom's coal and steel industries are integrated in the common market, the effects on its working will be considerable and will be marked by the following characteristics.

The 1946 law nationalizing the coal industry places central responsibility for all production and sales in the hands of the National Coal Board (NCB), which is subject to the authority of the Minister of Power.

The arrangements for implementing the 1967 law nationalizing the iron and steel industry will place full responsibility for the industry in the hands of the British Steel Corporation (BSC), which will also come under the Minister of Power. Only a small percentage of the steel industry will remain private.

Ownership arrangements in these industries would not be affected (Art. 83 of the ECSC Treaty). However, the economic importance of the iron and steel industry and of coalmining in Great Britain compared with the scale of the corresponding industries in the European Coal and Steel Community, their internal structures and especially the responsibilities entrusted to the NCB for supply could well engender problems of balance in the field of competition.

124. It must furthermore be noted that during the last few years the situation of the Community's coal industry has depended more and more on the concerted action of the national and Community authorities intended, in particular, to safeguard continuity of employment and avoid disturbances in the Member States' economies. Account must be taken, however, in view of the economic situation of the coal mining industry both in the Community and in the United Kingdom, of having in the common energy market two coal industries which are of the same size and both have surplus output.

125. Independently of the specific problems that may be caused by the size, internal structure and working of public enterprises in the United Kingdom, it must be recalled that Article 66(7) of the ECSC Treaty contains provisions which make it possible to ensure that the dominant position of public or private enterprises in the common market is not used for purposes which conflict with those of the Treaty.

126. Accordingly a set of transitional measures would be needed, making it possible to ensure that the process of integrating the two markets takes place progressively and smoothly. Consequently it does not seem that the British wish for a shortened transitional period for coal and steel should be granted.

127. Where the membership of Norway, Denmark and Ireland is concerned, there would be virtually no problems from the Community angle if these countries were prepared to accept the ECSC Treaty, any implementing regulations, etc., in force and the principles already accepted for its further development. As in the case of the United Kingdom, the solution of certain problems, such as transport by sea or the possible effects of Decision No. 1/67 on the marketing of coke, would have to be found at technical level.

128. Once these countries were members, the Community's not inconsiderable exports of steel to them would benefit from the advantages already by the United Kingdom as their partner in EFTA, but the tariff preference is so slight that its removal will probably change the competitive situation but little.

129. To sum up, the problems that arise in the ECSC sphere concern mainly the establishment of arrangements under which a few very large undertakings could be integrated into the common market in an orderly fashion.

Chapter 6

Specific problems of the European Atomic Energy Community

A. United Kingdom

I. British nuclear potential

130. Since the second world war the United Kingdom's drive to develop its nuclear potential has been sustained and vigorous.

The country's basic facilities — one isotope separation plant, eight plutonium production reactors, four prototype reactors, three marine propulsion reactors, 23 research reactors, an installed capacity of 4 000 MW at the end of 1966 (as against 2 000 in the Community) and its fuel element reprocessing plants — give it a power which is still as great as that of the whole European Community.

This is supplementary by facilities for obtaining uranium, in the shape of supply contracts and financial partnerships linking it with the United States, Canada, South Africa and Australia.

The United Kingdom also has at its disposal a real surplus of nuclear scientists and engineers, especially since the staff cutbacks carried out by the United Kingdom Atomic Energy Authority (33 000 employees in 1966, compared with 40 000 in 1961). But for a long time past British scientists and engineers have been playing a leading role in the atomic development of various other countries.

II. The problems

131. Uncertainty regarding certain fields of Euratom activity, such as supply and the third research programme, makes it impossible at present to get a complete picture of what the Community negotiating position would be.

However, certain questions present themselves in any case:

a) *The British contribution in the field of nuclear research and know-how*

132. It should be pointed out first of all that the Euratom Treaty contains no clause binding any member country to place its knowledge at the disposal of the others. The United Kingdom could therefore in theory sign the Treaty as it stood and give no information whatever to its new partners. However, a problem arises here which was already touched upon at the previous negotiations: on joining the EAEC, the United Kingdom would have access not only to the Community's installations and know-how but also to those of the individual member countries, made available to the Community as a result of contracts of participation and association (the national share in which is over 60%). So it would be no more than fair if the new member were to make a contribution the nature of which, as well as the way in which it should be made, could be negotiated, and which would represent what was called in the previous talks the United Kingdom's "entrance fee" to a Community with something of its own to offer.

133. United Kingdom participation in the Community's future research and development programme (after 31 December 1967, when the present programme ends) obviously depends on the general nature of that programme.

If the negotiations for joining Euratom coincide with formulation of the programme, it is to be expected that the United Kingdom would want to play a fitting part in determining the future of Euratom.

One of the aims of this future programme will be to determine whether the Community is to continue to participate in Dragon, an international project based in Britain which constitutes an example of successful technical co-operation between the Community, Great Britain and the other countries of the European Nuclear Energy Agency.

134. Moreover, if the United Kingdom intends to offset the exceptions or adjustments it is asking for in certain sectors of the overall negotiations by its lead in some other growth industry, notably the nuclear field, this contribution should be given concrete form through special arrangements in specific domains.

b) *Industrial structure*

135. The fact that production of electricity has been nationalized in Britain could of course give rise to certain internal market problems. But these problems are no different from those already encountered in the Community, since electricity is also nationalized in France and Italy.

Note should, however, be taken of the special part played by the United Kingdom Atomic Energy Authority in industry. Its prices for all the elements of the fuel cycle (natural uranium, fuel elements, reprocessing) are such that one may legitimately ask whether they are not subsidized; if so, this might raise problems in the sphere of competition.

c) *External relations*

136. During the 1962/63 negotiations the British delegation put before the Community a list of 22 agreements regarding which it recommended application of the principle embodied in Article 105 of the Euratom Treaty, that prior agreements may be invoked as grounds for a derogation.

Some of these agreements have since expired, and others have been added to the list.

Before a decision is taken it would be advisable to examine, together with the British delegation, the importance and duration of the derogations from the Treaty resulting from recognition of the fact that these agreements may be invoked as grounds for a derogation.

d) *Supplies*

137. Chapter VI of the Euratom Treaty, which deals with supplies, must under Article 76 of that Treaty be either confirmed or revised. This would appear to be necessary before such matters are broached in negotiations with the British, who have substantial assets in this field:

i) Financial interests in development of the uranium industry in Canada, South Africa and Australia;

- ii) Long-term supply contracts with the USA and Canada (these agreements do not always make a clear distinction between military and civil applications);
- iii) Isotope separation plant at Capenhurst.

e) *Safeguards and controls*

138. During the previous negotiations, in 1962, there were discussions on the interpretation of the Treaty Article regarding the application of Euratom safeguards and controls to the British installations connected with the military programme. There is an arrangement between the Community and the French Government on this head which might constitute a useful precedent.

139. Acceptance by the British Government of IAEA safeguards and controls with regard to certain British installations or imports raises difficulties similar to those met during the current negotiations on the non-proliferation treaty. These difficulties do not seem to be insurmountable.

B. Other countries

140. *Norway* has a limited nuclear potential comprising, in particular, a reactor (Halden), operation of which is being shared by certain Community countries. Norway is likewise linked to the IAEA by various agreements, and the agreement between Norway and the USA has been transferred to the IAEA for the implementation of safeguards and controls.

141. *Denmark* has a celebrated institute of theoretical physics and a small atomic centre at Risö. The agreement between Denmark and the United Kingdom has also been transferred to the IAEA for the implementation of safeguards and controls.

142. *Ireland* has no nuclear programme.

143. This summary examination of the problems arising from enlargement of the European Atomic Energy Community prompts the following conclusions:

- i) Britain would contribute an atomic potential (scientific and industrial) as large as the rest of the Community put together;
and
- ii) If this contribution is to improve the Community's ability to compete with non-member countries, the Member States of the enlarged Community would have to exchange scientific information, pool their efforts, and pursue a coherent common policy in this field.

Chapter 7

Technological and scientific aspects

144. The study of the problem raised in the technological and scientific fields by the British¹ application for membership of the Community is inevitably dominated by three essential factors:

- i) The Community has not yet worked out the basis for a common technological development policy. In October the Council will for the first time, on the basis of a report by experts of the Member States and the Commission, be dealing with the problems which face the Community in the scientific and technological fields.
- ii) The main feature of the technological development of Europe is the growing importance of the instances of co-operation and of the bilateral or multilateral projects in which the Member States often work side by side with the United Kingdom (space research, aeronautics).
- iii) The British Government is particularly interested in the progress of European integration in this field, not only through bilateral or multilateral co-operation in the sectors where governments have special means of action at their disposal but even more through the creation of the basic conditions that will enable enterprises to step up their efforts; the British Government has put forward this point of view in a whole series of statements, going as far as to contemplate the establishment of a European technological Community which, according to the interpretation put on it by its British advocates, should not be considered as being distinct from the three Communities which are now being merged and which the United Kingdom wants to join.

145. The present chapter deals with:

- i) The prospects opened up by British membership
- ii) The problems which this would raise for a policy of technological development in the Community.

I. The prospects opened up by extension of the Community

146. These prospects must be assessed not just from the angle of the physical contribution in terms of human and financial resources which the United Kingdom might make to the total resources of the Community, but primarily from the point of view of how far the wider membership would improve the outlook for co-ordinated action in the Community. In view of the widespread duplication of effort in the activities undertaken in the different European countries, it is pointless merely to aggregate national expenditure or resources.

a) *The scientific and technical potential in the United Kingdom and the Community*

147. For roughly twenty years the United Kingdom has been engaged in development work of an importance such that its overall potential is today unequalled in Western Europe.

¹ This chapter does not deal with Denmark, Ireland or Norway.

This potential can be summed up in a few figures:

Research and development budgets 1963 (OECD figures,¹ in \$ million)

United Kingdom: 2 160	EEC: 3 440	
	of which:	
	France ²	1 299
	Germany	1 436
	Italy	238
	Netherlands	330
	Belgium	137

Staff employed in 1963 (scientists in terms of full-time employment)

United Kingdom: 59 400	EEC: 100 000	
	of which:	
	France	32 500
	Germany	33 000
	Italy	19 400
	Netherlands	9 200
	Belgium	5 500

In 1963 the United Kingdom thus spent what corresponds to 63% of the total expenditure of the Community countries while in the same year the number of scientists it employed was 59% of the number employed in the whole of the Community.

If the enlarged Community is taken as a basis, the potentials would therefore rank as follows (on the basis of statistics on expenditure):

Enlarged Community:		in %
	United Kingdom	39
	Germany	25
	France	24
	Netherlands	5.4
	Italy	4.2
	Belgium	2.4

148. However, it is not on the basis of these overall figures alone that the scientific and technological contribution which the United Kingdom might make to the Community can be assessed. Large numbers of scientists and a high level of expenditure do not necessarily guarantee quality, originality or efficiency.

¹ The statistics shown are taken from the latest documents, published by OECD in January 1967, which include the results of the International Statistical Year on Research and Development. More recent data which are also comparable are not available.

² France 1964: \$1 650 million.

The estimate of expenditure for 1963 seems to be too low.

It has often been stressed by experts¹ that reservations of this kind are particularly applicable in the United Kingdom and that, for instance,

- i) The United Kingdom has on several occasions during the last 15 years undertaken some very costly, but unprofitable, if not actually fruitless projects (e.g. Comet, Blue Streak ...);
- ii) The programme pursued by the technical Ministries (Ministry of Technology, Ministry of Aviation, General Post Office) have suffered from a certain lack of co-ordination;
- iii) In many sectors British industry seems to have sacrificed long-term considerations to short-term benefits, their research teams concentrating on conversion programmes rather than innovation (electrical engineering, telecommunications ...);
- iv) The "brain drain" has affected the United Kingdom more than most other countries.

149. Without prejudice to the analysis in depth which these remarks will inevitably call for, particularly with regard to their implications for the United Kingdom's technological potential, it is true that in several spheres this has assumed dimensions and reached a level which give it pride of place on the international level.

With regard to basic research, mention must be made of

- i) Theoretical physics, nuclear physics and solid state physics
- ii) Chemistry
- iii) Biology (and more particularly molecular biology)

In the technological field,

- i) Aeronautics and engines
- ii) Electronics and computers (For the most part, these firms are less dependent on US industries than continental firms are)
- iii) Atomic energy — (14% of Britain's electric power is of nuclear origin)
- iv) Chemistry.

b) *The implications of British membership*

150. Unquestionably, pooling the resources of the Community and United Kingdom would give the Six a more solid basis on which to map out a technological development policy.

This point should not, however, be overestimated. A comparison between the human and financial resources mobilized for research and development purposes in the United States gives some idea of the relative importance of the Community even if it is enlarged.

Research expenditure 1963 (in \$ million)

EEC + UK: 5 600

USA: 21 075

¹ Particularly as a result of the survey of Britain's scientific policy carried out by the OECD Committee for Science Policy (March 1966).

This means that, at current exchange rates, the United States was in 1963 spending six times as much as the countries of the present Community and almost four times as much as the countries of the enlarged Community. It must also be borne in mind, when considering these figures, that there is far more duplication in the scientific and technical programmes of the seven European countries than in the United States.

Scientific and technical staff 1963

EEC + UK : 159 400 trained scientists
 USA : 496 500 trained scientists

In the matter of trained scientists, then, the ratio between the United States and the enlarged Community is 3.1:1.

A quick glance at the overall statistics on research and development shows, furthermore, that in the US the ratio between expenditure authorized for development and that earmarked for applied research is 3:1 whereas the corresponding ratio for the enlarged Community is only 2:1.

Similarly, if research and development expenditure by the enlarged Community in various branches of industry is compared with that of the United States (shown in each case as 1 000), the following picture emerges:

Country	Aeronautics	Electrical engineering (incl. electronics)	Chemicals	Manufacturing industries
United States	1 000	1 000	1 000	1 000
United Kingdom	76	103	112	96
Germany	..	94	175	62
France	28	63	80	44
Italy	..	6	29	11
Netherlands	..	26	33	14
Belgium	..	6	24	7

Source: Statistical Year, OECD - More recent statistics, which are incomplete or not really comparable, do not allow of strict international comparisons. However, the most recent general data available indicate that the gap between the human and financial resources employed in research in the United States and in the European countries has widened slightly.

As an illustration of this, it can be recalled that five private American firms spend as much on research each year as the seven countries put together and that one American company specializing in space electronics spends three times the combined space research budgets of these countries.

151. These statistics for research expenditure demonstrate that the effort of the Six plus the United Kingdom is still far below that of the United States. It should also be mentioned that aggregating expenditure by the Six and by the United Kingdom tends to overstate the real value of the Community effort, because of the many duplications of national programmes.

Nevertheless, the United Kingdom's accession would have the advantage of making it easier to establish strong points and pioneering units. In some key industries, indeed (electronics, for instance), the most advanced British firms often appear to be more independent of American industry than similar Continental firms. Moreover, since they are well off from the angle of organization, size and management (modern management and forecasting techniques are often more widely applied than on the Continent¹) to meet the need for continuous innovation, these firms could appreciably bolster the Community's ability to compete.

152. Furthermore, in terms of co-operation proper, the British contribution often appears necessary to bring to a successful conclusion ambitious scientific and technological programmes in Europe, such as in molecular biology, solid state physics, electronics, aeronautics and space technology.

It would provide a better foundation for existing agreements or ties between Community States, for the United Kingdom is already associated with the Community countries in various joint programmes and agreements, such as the multilateral inter-governmental agreements which led to the creation of ESRO, ELDO and CERN, bilateral agreements with France, Germany and the Netherlands in aeronautics, multilateral inter-industry agreements made in reply to calls for bids by European technological organizations, and bilateral inter-industry agreements.

153. The prospects opened up by this theoretical regrouping of forces, however, are not yet fact. Whether enlarged or not, the Community will not be able to benefit from them unless it can be assured of agreement on objectives and a determination to develop jointly. The conditions under which this could occur have only just been studied,² and no policy has been adopted on them as yet; the conditions include gradual reduction of the duplication of effort and the overlapping of programmes, the training and retraining of staff in the light of the needs and objectives of the Community (and this means that the Community must *have* objectives), the gradual dovetailing of programmes by mapping out and following up the lines on which the various national centres are to specialize (i.e. that the directions to be taken by the national centres with regard to specialization be mapped out and followed), association of the industries of member countries in the task of drawing up and carrying out national and Community technological programmes, and so on.

154. The accession of the United Kingdom would alter neither the nature of this problem nor, apparently, the difficulties in the way of its solution. Even if it added to their complexity by the mere fact of increasing the number of members, it might reduce the difficulties because the will and capacity for independent European action appear to be at least as strong, where science and technology are concerned, in the United Kingdom as in the Community countries.

On the other hand, if the problem could in fact be solved by merging national fields of technology and implementing joint projects and programmes, the accession of the United Kingdom would considerably alter the Community's scope for action, for the enlarged Community, by virtue of its very size, would constitute a better basis for the implementation of its own research and development policy on an international scale.

¹ Though this is true only of the most advanced firms.

² In the Medium-term Economic Policy Committee.

The idea of a "technological Community" has not been drafted in any great detail by the British authorities.

II. The problems that entry would raise

155. The problems that UK entry would raise in science and technology should be examined in conjunction with Community work planned. This work should decide, among other points, how far action can be undertaken at Community level:

- i) For the rapid achievement of economic union in fields of concern to research and innovation (European patent, European type of company, harmonization of taxation, technical standardization);
- ii) To ensure effective co-operation within the Community. Such co-operation implies, in particular:
 - a) Compatibility of the bilateral or multilateral scientific and technological agreements concluded by States with the unity and interests of the Community;
 - b) Harmonization of the existing conditions under which the State collaborates with industry in research and technology in the various countries (means of providing assistance — contracts, associations between the State and industry, etc.);
 - c) Dovetailing of the Member States' procurement policies;
 - d) The concerting of scientific programmes, and the allocation of technological tasks.

156. The only field in which the United Kingdom might have special problems where these general objectives are concerned is that of bilateral agreements. The United Kingdom has special ties with the United States in certain fields of military and nuclear research. It would be necessary to know how much is covered by these agreements.

III. Conclusions

157. Where scientific and technological matters are concerned, the United Kingdom and the Community would seem, at first sight, to be mutually complementary to some extent. The United Kingdom's industrial resources and internal market are not sufficient to enable it to exploit its scientific and technological assets to the full. In the Community, scientific and technological investment is, in relation to the resources available, less developed than in the United Kingdom.

The enlargement of the market resulting from the new accessions would create conditions more advantageous for scientific and technological progress. But it would be illusory to think that the broadly complementary characters of the United Kingdom and the Community noted above could automatically result in a division of labour that would be both economically and politically satisfactory.

The Communities will be able to benefit from Britain's contribution in these fields only if they are able to establish a common policy in the field of science and advanced technologies. Conversely, it would no doubt be easier and more useful to establish a common policy of this kind for the Seven than for the Six, as in certain fields the Six would have difficulty in achieving international dimensions without the British contribution.

In conclusion, the Community's chance, not indeed, of catching up with the United States in the field of scientific and technological research (including nuclear research),

but of reversing the process by which Europe has more and more leeway to make up, would be improved by United Kingdom membership. The hope of this process being reversed will, however, remain a hope unless the Member States of the enlarged Community are willing to pool their efforts unreservedly).

158. In view of this, the talks with the United Kingdom could aim at achieving:

- i) Acceptance of the principle of the exchange of scientific and technological knowledge and of a common research and development policy;
- ii) More specific information as to the possible content of a "technological Community" which would in fact be an extension of the present Communities into the technological field.

TITLE III

ENLARGED COMMUNITY AND NON-MEMBER COUNTRIES

159. Extension of the Community by the accession of four countries including the United Kingdom would have important repercussions on relations with non-member countries. The enlarged Community would be by far the biggest importer in the world, and its responsibilities, both inside and outside Europe, would be substantially increased. Moreover, provided the Community's cohesion and momentum were not adversely affected, its greater weight would be likely to expand considerably its ability to take action at international level.

The most immediate problems concern relations with those member countries of EFTA which cannot or do not wish to join the Community (see Title I) and also relations with the Commonwealth countries, given the special links between them and the United Kingdom and the existence of an association with African countries and Madagascar. The problem of the Commonwealth cannot be isolated from those raised by relations with the other industrialized or less developed non-member countries.

The present Title, then, after a brief review of the broad consequences that extension of the Community will have on its relations with non-member countries, is devoted to an examination of the future relations between an enlarged Community and the various classes of less developed countries and also between the enlarged Community and those industrialized countries which do not form part of Western Europe.

General effects on relations with non-member countries

60. Accession of the four countries seeking membership could turn the Community, whose volume of external trade already exceeds that of the United States, into the foremost commercial power in the world, accounting for 22% of all international trade, as against 16% for the Six. Consequently the Community would play a vital part in the evolution of international trade.

The Community's chief suppliers would experience a considerable increase in their percentage of exports to the Community as a result of accession of the new members (see table below).

However, the consequences to non-member countries must be assessed with due regard to the stimulating effect which extension of the Community might have on economic expansion in Europe. In this connection the experience of the Six shows that the impact of the intra-Community preference implicit in the customs union may in quite large part be offset by economic expansion.

161. Nevertheless, urgent appeals are to be expected from non-members, especially but not exclusively the Commonwealth countries; they will be seeking either a further general reduction of tariffs or preferential concessions or concessions on certain products.

162. If account is taken not only of the fact that the tariffs of the new member countries and of the United Kingdom in particular are generally higher than the CCT, but also of the outcome of the recent negotiations in Geneva, the Community should be able to resist all demands for a new overall reduction in tariffs, at least until completion of its economic union puts it into a better position to meet international competition.

Nevertheless, the requests of the Commonwealth developing countries are sure to constitute an urgent problem if the Community is enlarged.

*Share of the Community in the external trade of a selection of
non-member countries or areas in 1965 and 1966*

Countries or areas	Imports				Exports			
	1965		1966		1965		1966	
	in \$ m.	in %	in \$ m.	in %	in \$ m.	in %	in \$ m.	in %
1. United States								
Total	21 290		25 408		27 006		29 912	
Present Community	3 327	15.6	4 100	16.1	4 906	18.2	5 268	17.6
Extended Community ¹	5 024	23.6	6 290	24.8	6 757	25.0	7 261	24.3
2. Canada								
Total	7 987		9 130		8 091		9 513	
Present Community	476	6.0	510	5.6	588	7.3	596	6.3
Extended Community	1 105	13.8	1 160	12.7	1 786	22.1	1 766	18.6
3. Australia								
Total	3 324		3 245		3 014		3 172	
Present Community	414	12.5	404	12.5	430	14.3	464	14.6
Extended Community	1 326	39.9	1 228	37.8	968	32.1	968	30.5
4. New Zealand								
Total	968		1 006		1 002		1 077	
Present Community	65	6.7	68	6.8	156	15.6	159	14.8
Extended Community	426	44.0	442	43.9	650	64.9	621	57.7
5. South Africa								
Total	2 461		2 307		1 475		1 668	
Present Community	521	21.2	460	19.9	275	18.6	312	18.7
Extended Community	1 234	50.1	1 107	48.0	824	55.9	911	54.6
6. Japan								
Total	8 169		9 522		8 452		9 779	
Present Community	392	4.8	448	4.7	485	5.7	595	6.1
Extended Community	581	7.1	701	7.4	822	9.7	991	10.1
7. Eastern Europe								
Total	18 990		not yet available		19 710		not yet available	
Present Community	1 415	7.5			1 571	8.0		
Extended Community	1 891	10.0			2 386	12.1		
8. Developing countries								
Total	37 408		—		127 960		—	
Present Community	7 460	19.9			36 090	28.2		
Extended Community	11 371	30.3			41 176	32.2		

*Share of the Community in the external trade of a selection of
non-member countries or areas in 1965 and 1966 (cont.)*

Countries or areas	Imports				Exports			
	1965		1966		1965		1966	
	in \$ m.	in %	in \$ m.	in %	in \$ m.	in %	in \$ m.	in %
<i>9. Latin America</i>								
Total	9 340		—		11 100		—	
Present Community	1 893	20.3			2 769	24.9		
Extended Community	2 730	29.2			4 107	37.0		
<i>10. Far East</i>								
Total	12 850		—		9 310		—	
Present Community	1 461	11.4			1 152	12.4		
Extended Community	2 640	20.5			2 241	24.1		
<i>11. Middle East</i>								
Total	4 430		—		6 490		—	
Present Community	1 089	24.6			2 522	38.9		
Extended Community	1 774	40.0			3 479	53.6		

(¹) Extended Community : Six, United Kingdom, Ireland, Denmark, Norway.

Note: The data concerning the areas or groups of countries from 7 (Eastern Europe) to 11 (Middle East) inclusive have been computed as "derived figures" in respect of the Community share (both Six and Ten countries), i.e. Community imports = exports of these areas or groups of countries and vice versa.

Relations with the developing countries

a) General

163. The Community of the Six already bears heavy responsibilities in the field of development aid through its association arrangements with a large number of less developed countries, most of them in Africa.

Extension would cause the Community to expand its activities in the sphere of development aid either within or outside the association framework. The wider responsibilities would be due not only to the accession of new members with high living standards but also to the fact that one of them, the United Kingdom, has in the Commonwealth complex and often historic links with a large number of less developed countries.

164. The Commonwealth problems were examined in detail during the negotiations that were interrupted in 1963. The Commission considers that the arrangements envisaged at that time may retain some validity and should be examined case by case. The closer links established between the EEC and certain Commonwealth countries, the tariff cuts agreed in the Kennedy Round and the autonomous suspensions of duty applied by agreement between the EEC and the United Kingdom also help to simplify the problem.

b) Extension and the links with associates (Yaoundé and Commonwealth countries with comparable economic structure and comparable production)

165. The Community's association arrangements concern at the present time seventeen African States and Madagascar, all associated under the Yaoundé Convention, Nigeria, which has signed the separate Lagos Agreement with the Community, and several countries or territories outside Europe which are not independent.

A new member of the Community would be required to maintain with the developing countries relations identical with those now maintained by the Six. Conversely, the associated developing countries would have to accord any new member the same treatment as they already accord the Six.

In 1962 it was envisaged that the non-independent Commonwealth overseas countries should be associated on the same terms as the non-independent associated overseas countries or territories. Correspondingly, those independent Commonwealth countries whose structure and production are comparable with those of the Yaoundé countries (States in Africa south of the Sahara and in the Caribbean area) would qualify for association with the enlarged Community.

In this connection it should be remembered that alongside the trade clauses, financial and technical co-operation are a key element in the arrangements for the association of overseas States, countries and territories with the EEC. The aid given through the Community represents an appreciable part of the total official aid (multilateral and bilateral combined) which the Yaoundé countries receive from the Six. As an enlarged

Community could not cease to give some measure of Community aid in addition to the bilateral aid provided by the Member States, new members would have to make their contribution. This aid would be available to all the associates, for manifestly it would not be possible, among countries of comparable structure and comparable production, that one group should benefit from technical and financial assistance while another did not.

Such aid would moreover help to stimulate economic co-ordination between associated countries, particularly for those countries that have special links with various Member States.

However, it should be made clear from the outset that arrangements on trade and financial and technical assistance could, apart from their application to the Yaoundé countries, be applied only to those Commonwealth developing countries which accepted the reciprocal rights and obligations entailed in association arrangements with the EEC: if any of them were unwilling to accept these terms, they could have nothing beyond a trade agreement with the Community. The benefits they could enjoy under such agreements could not be equivalent to those deriving from association agreements.

166. A word should be said in conclusion on the way in which wider association arrangements might affect the interests of the present associates. Efforts would be made to attenuate any ill effects by appropriate measures, with due regard to what the Yaoundé countries and the new overseas associates really do export to the enlarged Community, and also to any new arrangements made at world level, for example under commodity agreements.

It is already clear that anything which is a sensitive commodity for the economy of some present or future associate will require special examination during the negotiations.

167. A last point is that a timing factor is relevant to the solutions to be envisaged for the Commonwealth countries in Africa and in the West Indies. It is evident that the situation for these countries will differ according to whether examination of what is to follow the expiry of the Yaoundé Convention precedes, runs parallel to or follows the negotiations with the United Kingdom. This question of timing could affect not only problems such as preferences or the scale of and methods used for granting financial aid, but also the actual procedure to be followed in examining these arrangements.

c) Relations with the Maghreb countries

168. The need to establish homogeneous community arrangements for trade with Tunisia, Morocco and Algeria would become greater should new countries — particularly the United Kingdom — join the Six.

The difficulties which now beset the Community of the Six — in current or planned negotiations — in its efforts to grant preferences to agricultural produce from the Mediterranean area would be eased if the Community consumer market were widened by the accession of Northern European countries.

d) Relations with the other less developed countries

169. Extension of the Community, and a larger number of associates would also raise problems in connection with the other less developed countries for which association cannot be contemplated.

The impact of any extension of the preferences enjoyed by the associated countries on the position of the other developing countries, especially those in Latin America, on the markets of the enlarged Community, will need to be carefully considered. The remarks made above concerning the implication of an enlarged Community for the Yaoundé countries also apply here.

170. With reference more especially to the Commonwealth countries of Asia, the agreement contemplated in 1962 could be re-examined by the enlarged Community. It should however be noted that these countries have already been granted certain concessions — autonomous or contractual — by the Community in recent years. These concessions have solved a number of the problems which had been raised in the 1962 negotiations. The granting by the industrialized countries — as planned under UNCTAD — of preferences for manufactures and semi-manufactures from all the developing countries could also help to solve the latter's problems.

Imports from Hong Kong pose a special problem.

171. The enlarged Community should consider what scope there would be for Community action in the field of financial and technical co-operation for all the developing countries, particularly these in Latin America.

Relations with other non-member countries

172. The relations between an enlarged Community and the developed Commonwealth countries, the United States, Japan, the USSR and the countries of Eastern Europe are discussed below.

a) Canada, Australia, New Zealand

173. The British Government has not stated that special arrangements are required for the developed Commonwealth countries, with the exception of New Zealand and its milk products.¹ This may be explained first of all by the fact that the relative importance of exports from these countries to the United Kingdom is diminishing, as the table below shows:

*Exports from developed Commonwealth countries to the United Kingdom**(as % of exports to all countries)*

Country	1938	1953	1960	1963
Canada	37.2	16.2	17.3	13.8
Australia	54.7	37.9	26.0	17.4
New Zealand	83.4	67.1	53.0	48.4

Moreover, the elimination of Commonwealth preferences once the United Kingdom applies the CCT will be made easier by the results of the Kennedy Round.

In these circumstances, the removal of Commonwealth preferences should not present insurmountable difficulties if it takes place progressively over a transitional period and so enables the necessary adjustments to be made.

The long-term solutions to the problems of the main agricultural commodities can be found only in a world context. If necessary the Community could take further steps to bring to a successful conclusion the efforts it was making in the Kennedy Round to establish world agreements on trade in certain agricultural commodities.

b) The United States

174. Where the United States is concerned, an examination of commercial problems alone would not be enough. For the Community, whether it has six members or more, the United States will be a partner which, because of its size, will be of exceptional importance. The accession of several States, and of the United Kingdom in particular, would mean that the Community could hope, as a result of its increased dimensions,

¹ See Chapter on agriculture.

to have one day a potential comparable with that of the United States or, at least, that the gap between Europe and the United States would not grow wider. The Community would then have better chances of putting the relations between Europe and America on a footing of equality.

These chances would, however, come to nought if extension of the Community meant that it could not fully safeguard or indeed reinforce its cohesion and its readiness to take decisions and act upon them.

c) Japan

175. On the basis of 1966 figures, exports from Japan to the Community would rise from \$595 million to \$991 million (or from 6% to 10% of Japan's total exports); imports from the Community would go up from \$448 million to \$701 million (or from 4.7% to 7.4% of Japan's total imports).

The greater importance of relations with Japan would make it even more necessary than before for the old and the new members of the Community to agree on a common commercial policy towards this country (See Title II, Chapter 1 (d)).

d) USSR and the Eastern European countries

176. The tendency to establish closer economic links between the Community and the countries of Eastern Europe might be strengthened by the extension of the Community: the enhanced importance of the wider Community as a trading partner could well induce the USSR and the other Eastern European countries to take an objective look at the advantages that would stem from contact with the Community.

Care would nevertheless have to be taken that the development of trading relations with these countries did not take place in extended order; if each of the old or new Member States tried to obtain individual advantages, the consequences could be damaging for the Community. For this reason, the elaboration of a common commercial policy towards Eastern Europe should not be postponed during the period of accession negotiations and should be accepted by the new members. It does not, however, seem that extension is likely to cause additional difficulties in this sphere. Harmonization of the Member States' policies towards the Eastern European countries was begun a few years ago and the lines followed have been much the same as those previously adopted by the United Kingdom.

TITLE IV

INSTITUTIONAL PROBLEMS

177. In the Commission's view the need to maintain and if possible to strengthen in the enlarged Community the efficacy and the role of the institutional machinery set up by the Treaties is of prime importance. This matter has been discussed in Title I, which deals with the general problems that would be raised by extension of the Community.

The purpose of the present Title is therefore essentially confined to examining such institutional adjustments as would necessarily be involved in the accession of other States. These questions cannot be studied in detail until an advanced stage of the negotiations; the solutions to be envisaged depend on the number and relative importance of the States which join the Communities and on whether the various accession Treaties come into force simultaneously or one at a time.

For these reasons the Commission must confine itself in the present Title to a preliminary outline of the problems raised. The possibility that the new members might join the Community one at a time has been provisionally disregarded for the reasons indicated in Title I.

The specific legal and constitutional implications of United Kingdom membership are also examined at the end of the present Title.

a) The Parliament

178. The extension of the Community would lead to an increase in the number of members in the European Parliament.

The distribution of seats among the representatives of the peoples of the Member States that compose the Community should be re-examined at that time.

b) The Council

179. Extension raises two main adjustment problems: the size of the qualified majority and the weighting of Members' votes.

With regard to the size of the qualified majority, there is no reason to depart from the principle of the two-thirds majority required in practice by the present Treaties. There is however a problem concerning decisions which, under the Treaties, do not have to be taken on a proposal from the Commission. Article 148(2) of the EEC Treaty specifies that the two-thirds majority necessary for such decisions must include the votes of at least four member countries. In a Community of 10 member countries this provision would have to be adapted in such a way as to preserve the wider Community's ability to act.

180. The accession of new States raises a further problem which, although not directly related to the efficacy of the institutions, would stem from the accession of four new States of greatly differing population — that of balance in the representation of the different Member States. Account should be taken of the accession of three States whose populations each represent at most half of those of the Netherlands or of Belgium; the weighting of votes in the enlarged Community should therefore be reviewed.

c) The Commission

181. An increase of the number of members in the Commission after extension of the Community would raise not only the question of the need to maintain the efficiency of the Community's machinery, but a problem of balance which should be dealt with during the negotiations.

d) The Court of Justice

182. The accession of new members raises virtually no problems for this institution. When, however, changes are made care should be taken to ensure that, in accordance with the Protocol of the Statute of the Court, the number of judges is kept uneven.

e) Budgetary contributions and special weightings

183. Since this problem is linked with that of the fair distribution of financial burdens in the enlarged Community, it is probably too early to envisage possible solutions at the present stage. The questions raised by the weightings connected with Member States' budget contributions will have to be solved in the course of the negotiations, with due regard to the individual situations of the new members. In view of the European Coal and Steel Community's levy system and of its funds for special purposes, arrangements to cover this field will have to be worked out during the negotiations.

f) Legal and constitutional implications of United Kingdom accession

184. The differences between the United Kingdom legal system and the systems of the Six justify raising the question of how Community law can be applied in the United Kingdom, even though the British Government has recognized that accession involves the acceptance by the new Member State of Community law (Treaty and existing and future Community acts).

185. The general principles of its criminal law and the system of common law are the two main peculiarities which distinguish law in the United Kingdom from law in the Community. These would, however, be virtually unaffected by Community law. In those matters where Community law applies, the situation in the United Kingdom does not appear to differ essentially from that of the Member States. Membership of the Community would no doubt mean that United Kingdom law had to be adapted in certain respects to Community law, and that the Community would in future have to keep certain peculiarities of United Kingdom law in mind, particularly in connection with harmonization of the law in certain fields such as recognition and execution of judgments, company law, etc.

186. The problems involved in establishing the conditions under which Community law will have its full legal effect in the United Kingdom do not in fact differ in character from those already encountered by the present Member States.

187. In addition, the transfer to the Community of certain legislative powers, as is required by the Treaty, can be validly effected in the Act of Parliament ratifying the

Treaty, with the consequences this entails for the legislative activity of Parliament (adoption of measures required by Community law, present and future; avoidance of measures incompatible with Community law). The United Kingdom Government, while recognizing that subordination of municipal law to Community law which is directly enforceable constitutes an unprecedented innovation in United Kingdom constitutional law, considers that this can be accepted as a consequence of ratification of the Treaty by Parliament.

188. With regard to the prerogatives of the Court of Justice of the Communities, notably in the matter of control over the interpretation and implementation of Community law, the United Kingdom Government has emphasized the importance of the right to call for preliminary rulings (under Art. 177) from the Court of Justice as an aid to the implementation of Community law by the United Kingdom legal authorities.

189. In conclusion, the United Kingdom Government is aware that legislative action on a large scale would be necessary to give effect in the United Kingdom to the Community law already in force at the time of accession.

TITLE V

CONCLUSIONS

countries, particularly the Commonwealth countries (these are urgent problems which would assume new forms through the very fact of extension of the Community).

193. To sum up, the new membership applications are impelling the Community to tackle at one and the same time the problems involved in its development and those involved in its extension. Opinions differ as to the priority to be given to the one or the other of these objectives. The best way of overcoming the difficulty would be to try to attain them both simultaneously. But, if this difficult operation is to be successfully concluded, it is essential that extension should not hamper the pursuit of the normal activities of the Communities and should not subsequently entail weakening of their cohesion or their dynamism, especially where the establishment of economic union, the requisite measures of harmonization and the functioning of the institutional machinery are concerned.

The Commission is well aware that the cohesion and dynamism of the Communities depend to a great extent on the convergence of national policies in the essential fields. If full advantage is to be taken of the opportunities which extension opens up for the Community, it is apparent that Member States should within a reasonable period be in a position to make progress along the road to political union.

194. It follows from all the considerations set forth in this document that the Commission is not at present in possession of all the information needed to give in final form the Opinion requested by the Council under Article 98 of the Treaty of Paris and under Articles 237 and 205 of the Treaties of Rome. Choices of considerable importance for any appraisal of the impact which the new members would have on the Community are still to be made. The general conclusions which would enable the Commission to give a final Opinion cannot be drawn until it knows the position of the candidate States on a number of essential problems, the attitudes which will in consequence be adopted by the present Member States, and the solutions which may be adopted to the main problems discussed in this document.

It is the Commission's Opinion that, in order to dispel the uncertainty which still attaches in particular to certain fundamental points, negotiations should be opened in the most appropriate forms with the States which have applied for membership, in order to examine in more detail, as is indeed necessary, the problems brought out in this document and to see whether arrangements can be made under which the indispensable cohesion and dynamism will be maintained in an enlarged Community.

190. Analysis of the chief problems involved in the extension of the Community reveals that the accession of new members such as Great Britain, Ireland, Denmark and Norway,¹ whose political and economic structures and level of development are very close to those of the present Member States, could both strengthen the Community and afford it an opportunity for further progress, provided the new members accept the provisions of the Treaties and the decisions taken subsequently — and this they have said they are disposed to do. Their accession, although it would bring great changes with it, would not then be likely to modify the fundamental objectives and individual features of the European Communities or the methods they use.

191. The Commission wishes to restate the conditions which would have to be fulfilled if extension is to take place in a satisfactory manner.

First, the new members would, as a general rule have to accept the arrangements adopted by the founder members before extension, subject to any exceptional adjustments that may be made. In particular, they would have to accept:

i) The Community customs tariffs as they emerge from the recent multilateral negotiations in GATT, and their gradual application to all non-member countries, along with all the rules necessary for the proper functioning of the customs union.

ii) The basic principles of the common policies with the provisions for their implementation, particularly in the economic, financial, social and agricultural fields, and their gradual application.

iii) The contractual obligations of the Communities towards non-member countries (association agreements, trade agreements, etc.).

iv) The institutional machinery of the Communities as established by the Treaties and the decisions taken in application of the Treaties, subject only to those adjustments rendered necessary by the accession of new States; these adjustments will have to be designed so that the institutions shall continue to be sufficiently effective and that a suitable balance is maintained in the representation of the various Member States.

192. In addition, the new members, especially the main one, the United Kingdom, would have to agree with the founder members on the solution of a number of problems which would be of vital importance for the harmonious development of an enlarged Community:

i) Restoration of lasting equilibrium in the British economy and its balance of payments, entailing concerted action between Great Britain and the member countries of the Community, and examination of ways and means of adjusting the present international role of sterling so that the pound could be fitted, together with the currencies of the other member countries, into a Community monetary system.

ii) The principle of a common policy in the field of research and technology, including atomic energy, and the general lines such a policy should follow;

iii) Financing of the Community's overall activities, including the agricultural policy;

iv) The relations to be established with those European countries — notably any EFTA countries which do not join the Community — and with the less developed

¹ As regards Sweden, see sec. 35 of Title I.