

European Economic Community - Commission

Memorandum
of the
Commission
on the

action

programme

of the Community

for the

second

stage

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Introduction

1. What we call the economic integration of Europe is in essence a political phenomenon. Together with the European Coal and Steel Community and Euratom, the European Economic Community forms a political union embracing the economic and social spheres.

2. The Treaty of Rome, interpreting as it does the intention of its Contracting Parties to embark on full integration, and taking into account the economic conditions which govern the establishment of a unified economic area, provides for the economies of the Six to be welded into a real economic union. Within this general framework a distinction should be drawn between the customs union and the economic union (in the narrower sense of the term), which are complementary and interdependent.

Following successive tariff cuts and two speed-ups, customs disarmament among Member States amounted to 50 % on 1 July 1962. Quantitative restrictions on industrial goods and on a substantial proportion of agricultural products have been abolished among the Six. The first approximation to the Common External Tariff came into effect on 1 January 1961 and it has been decided that the next shall take place on 1 July 1963.

The rapid progress made by the Community towards a free internal market has been made possible by the amazing speed with which the free flow of commodities has developed among the Member States, and by the boldness and enterprise with which industry and commerce have risen to meet the challenge of the Community's foundation. The impetus supplied by production and consumption in the Community countries has been so great that this first vigorous opening up of markets has occurred without upsetting the Community's internal equilibrium. The customs union has proved to be the right take-off point for a vigorous advance towards a unified economy. At the same time as it has provided a foundation for the Community's economic power, it has acted as a unifying factor among the Member States. But this swift demolition of trade barriers has also confirmed that the Treaty was rightly heedful of economic requirements in

prescribing that the establishment of economic union proper should proceed in parallel with the customs union, and not lag behind.

Nothing has shown this more clearly than the story of the Community's agricultural policy over the past four years and more. After two years spent on endeavours to abolish the obstacles to trade, which, in this particular sector, are so complex and tenacious, it was realized by everyone that the task could only be successfully accomplished once the stage of a common policy had been reached. This has now been achieved, and so successfully that we have already here a clear outline of a unified economic area which presents the characteristics of a domestic market and is to be achieved by clearly defined stages. It is a good augury that the transition to the second stage by the prescribed date should have coincided with this breakthrough towards a common policy in one of the most sensitive and important sectors of the economy.

In order to grasp fully the true nature of the Community's task in settling the final shape of the common policies, and so of economic union, it must be remembered that an economic order based on freedom can only exist in the world of today at the price of constant State intervention in economic life.

Such intervention takes a twofold form : in the first place, the State sets up a framework of controls covering every branch of the economy as well as every adjacent field; secondly, it is constantly altering the factors called into play, through the innumerable adjustments involved in its day-to-day economic activity : in short, by pursuing a "policy" in the proper sense of the term.

In speaking of economic union we refer specifically to both these aspects of State intervention. What is required is to harmonize and unify the influence exerted by the six Member States on the economy in such a way that the six countries find they are sharing a single new economic area within which their Governments will have a common set of economic regulations and pursue a common policy.

The agricultural policy and the policy on competition represent the first step towards the accomplishment of this task; but the greater part of it still lies ahead and will provide the basic content of the

second and third stages. This is not to say that we should not press on rapidly with the final completion of the customs union and all that goes with it. Henceforward, however, there will also be a further and complementary field for Community action. Here the main emphasis will no longer be, as with the customs union, on the negative purpose of abolishing systems and regulations impeding progress, but on a positive goal, public responsibility in economic affairs. What remains to be done is gradually to forge national economic policies into a common short-term and long-term policy designed to secure the fastest expansion possible, economic stability and a smoothing out of cyclical swings and national or regional disequilibria. This necessarily involves setting long-term targets for the Community.

The merging and harmonization of the statutory framework for economic policy-making and of the individual measures in the Member States are inherent in the logic of our undertaking. While the dismantling of trade barriers between the Member States leads on to integration of the separate economies within a wider European area, the domestic economic policies of the six States must also be integrated in this wider unit. A customs union that was not geared to a broader economic union would scarcely be viable.

3. This is the first of the reasons for which we are constrained to press onwards from a pooling of markets to the sharing of public responsibility for economic affairs within a Community system. There is another reason too. Integration of the economic and social aspects of national policies is aimed at in the Treaty of Rome as a means of achieving political unity in Europe; for what is being brought together, what is here being welded into a community, is the policies of the individual States. What we are building is a union of Member States in the eminently political sphere of economics, or more precisely of the influence exercised by the State on economic affairs, i. e. economic policy. It is a union which affects an essential part of the internal policies of Member States, and part of their external policy, namely, trade policy. It would therefore be unrealistic to see a distinction between "economic affairs", which would be dealt with jointly in the economic community, and "political affairs", the joint handling of which remained in large part to be

dealt with by a “political union”. Such a dichotomy between the economic and the political dating from a time when the relationship between politics and economics was altogether different, can only cause confusion now. The EEC is in no way a purely economic venture now requiring to be duplicated by a political venture. On the contrary, it can be safely asserted that with the Community political integration has already begun in one essential field, whereas others — cultural policy, the other sectors of foreign policy, and defence policy — are left in the hands of the Member States.

4. Therefore the course on which we have embarked in establishing the EEC is the right one from more than one standpoint. First, because it will only be possible to create one big internal European market if integration extends to those aspects of policy and of State control which affect the economy. Second, because such integration is the required instrument for achieving here and now the political union of Europe within a limited sphere, that of economics. In other words, the object has been to achieve European integration, or union on the economic plane, by way of the customs union, which itself demands the achievement of such a wider union.

5. Whereas action on the customs union is taken automatically in accordance with a time-table which was fixed in advance, such a procedure is not practicable in the wider and more complex fields of the economic union. The establishment of a body of European law and the approximation of domestic legislations, the organization on a Community basis of national policies and co-ordination of action in the various States, are not operations which can be conducted according to a precise and detailed plan laid down beforehand.

Consequently, the drafters of the Treaty drew up the chapters on the economic union in the form of enabling legislation or outline laws to be filled in, usually during the transition period, by the specific enactments of the Community institutions and appropriate political measures.

For this legislative work, the function assigned to the Commission by the Treaty is characterized by the fact that the Council, as the

Community's chief decision-making body, acts as a rule only on proposals by the Commission.

Thus is the progressive establishment of the economic union the Commission is primarily responsible for the timing of projects and their fundamental planning.

This responsibility is conferred upon it case by case in the various chapters of the Treaty, together with rules and conditions for its exercise. But the similarity of all these particular provisions and regulations demonstrates that here we have to do with a principle built into the very structure of the Treaty. In conjunction with the fact that the establishment of the economic union must be regarded and conceived as a single process, this signifies that the Commission has not only the right but the duty to ensure that all the measures it takes fit duly into a single comprehensive framework.

The action programme which follows is that framework; through it, the Commission means to lay down a guiding line for its own action over the coming years and a pattern for the continued growth of the Community, a pattern which must not be restrictive. The establishment of such a programme now has been made possible by the experience gained over nearly five years.

6. In preparing and presenting this programme, the Commission is fulfilling an obligation towards the Community and the Member States which was laid upon it by the Treaty. The Commission is also conscious that it is putting forward this programme at a time when other countries too, wishing to share in the common undertaking or at any rate link themselves organically with it, may legitimately ask what the economic union which the Treaty calls for is going to mean in practice, what forms it is going to assume and how long this may take if the Treaty is to be correctly applied in the letter and the spirit. The Commission also feels bound to point out that both internally and externally the Community has to face new tasks which can only be carried through if it presses on with its own consolidation at a faster rate. These new tasks will arise more especially within the framework of the Atlantic partnership, which the passing of the Trade Expansion Act by the United States Congress has translated from a

blueprint to a political reality. Similar tasks have already arisen in relations with the developing countries, and are in fact constantly growing in number and magnitude. In this respect the Community is already shouldering special responsibilities for the associated countries. Lastly, the Commission is also presenting its programme at a time when the Governments of Member States are debating the extension of integration to other political fields. This debate, of a length which bears witness to its high political import, can only derive benefit from anything the Executive of the EEC does to provide a detailed and comprehensive picture of foreseeable developments in integration under the Treaty of Rome in the sector of economic and social policy.

From what has just been said of the political nature of the European Economic Community, it follows that the Commission is bound to adopt an unreservedly positive attitude towards any extension of European unification to other fields than that of economic and social policy, notably defence, the non-economic aspects of foreign affairs and cultural policy, in short to whatever comes under the heading of "political union". While it can legitimately be felt that such an extension ought to take the form of an enlargement and strengthening of the existing Communities, the Commission nevertheless realizes that in the new fields the organizational arrangements adopted should possibly not be entirely identical with those chosen for the Economic Community. To be sure, experience bids it be on its guard against any solution in which there is no component embodying the Community interest as such. It also maintains the view it has always consistently advocated, that no extension of European integration to other fields should be allowed to endanger or weaken the existing Communities in their vital essence, their methods of working and growth potential. Rather, it should make them stronger and more efficient.

The free movement of goods, persons, services and capital

A. THE FREE MOVEMENT OF GOODS

7. The two-pronged advance towards freedom of movement of goods (through the establishment of the customs union and abolition of quantitative restrictions) has proceeded apace with the completion of the time-table laid down by the Treaty and the two speed-up decisions; this rapid progress has determined the speed with which the Community is being set up. The opening of the markets of great neighbouring industrial states, an experiment unique in economic history may now be claimed to have scored a twofold success by proving that the idea was not only feasible but also, as trade returns indicate well worthwhile.

The Community is now faced with two tasks :

- a) The abolition of duties, to which is geared the rate of development of the economic union and of the Community as a whole, must not be allowed to flag : it must at least keep up its present rate;
- b) The Community must give increased attention to other indirect obstacles to the free movement of goods, which are becoming all the more conspicuous and critical as further progress is made in the abolition of customs duties and quotas properly so called.

1. THE CUSTOMS UNION

a) Internal customs duties and the common customs tariff

8. The steady implementation of the Treaty's provision means that between now and the end of the second stage the Community will have lowered its internal duties on industrial products by at least 80 %, irrespective of any possible additional measures adopted in the interim. Cuts to be made in customs duties in the third stage will be the subject of directives proposed by the Commission. If the business situation allows, and if the economic union has developed at the same pace as the customs union, the Commission will propose the

complete abolition of internal customs duties by 1 January 1967. This means that, subject to any minor adjustments which might be deemed necessary following the accession of other States to the Community, the internal customs duties still remaining on 1 July 1962 — representing 50 % of basic duties — are to be fully withdrawn in the space of four and a half years. This is a reasonable pace, since the first 50 % cut also took four and a half years, though no duty was lowered during the first. As the economy will have adapted itself over the years to the tariff cuts and to the final elimination of customs protection, the second round of the exercise should be no more difficult than the first.

9. For industrial products the first alignment on the common customs tariff took place on 1 January 1961. The second is already planned for 1 July 1963. Since freedom of movement for goods will be fully achieved by 1 January 1967 (see above), the third and last alignment will have to be made on 1 January 1967.

b) Tariff quotas

10. The national tariff quotas which may, under the Treaty, be granted to the Member States as part of a Community procedure, are of their very nature transitional measures designed to allow of the progressive adaptation of traditional trade flows to the new conditions created by the customs union. They should be abolished as soon as internal customs duties have been eliminated and the common external tariff brought into force. If this were not done, there would be a danger of deflections of trade, or it might be necessary to impose fresh restrictions on trade between Member States. Any lowering of the common tariff as a result of subsequent negotiations with the United States under the Trade Expansion Act would moreover, greatly facilitate the elimination of quota.

The Commission therefore proposes to work for the abolition of national tariff quotas within the prescribed period for the elimination of internal customs duties, i. e. by 1 January 1967, or the end of the transition period at latest, and to ensure that after the lapse of this period any quotas still required should be Community quotas.

c) Charges of equivalent effect to customs duties

11. To achieve a fully-fledged customs union, as provided for by the Treaty, charges of equivalent effect to customs duties must also be subject to Community supervision and withdrawn at the same time as customs duties. The Commission's studies in this field have made great progress, and in the first half of 1963 the first directives will be issued, as required by the Treaty, for the stage-by-stage abolition among Member States of existing charges of equivalent effect to customs duties.

In this exercise, the Commission will bear in mind that by the middle of next year internal customs duties will have been scaled down by 60 %, and that the abolition of charges of equivalent effect to customs duties must under the Treaty proceed *pari passu* with the lowering of internal customs duties.

d) Other customs arrangements

12. The establishment of an efficient customs union will call for Community legislation over the next few years. For example, the working out and application of common rules on origin and customs value, processing traffic, temporary admission, goods in bond, transit, etc. — a natural corollary of tariff unification — are made even more necessary by the fact of existing systems of customs preference that would be enlarged as further association agreements were made. With this purpose, the Commission will during the first half of 1963 submit a review of the measures it deems advisable, and in association with Government departments draw up a scheme of action by the end of the year. Further recommendations will be made to the Member States as the work proceeds so that the aim will be fully achieved by the time the common tariff is entirely installed.

In addition, the Commission will take steps to organize and promote the adaptation of customs structures and administrations to Common Market needs. In particular frontier controls will have to be gradually relaxed so as to facilitate movements of goods and persons and eliminate any "physical checks" that are not absolutely essential. Despite the difficulties of abolishing such controls, it is a psychological and

practical necessity for bringing home the reality of the Common Market to the man in the street.

2. QUANTITATIVE RESTRICTIONS

13. Pursuant to the Treaty and the speed-up measures, quotas on industrial products have been abolished by the end of the first stage. The existing quotas for agricultural products will also be removed either under the Treaty clauses providing for such a measure where imports have fallen short of the global quotas for two consecutive years, or following the gradual introduction of new common organizations of markets. Therefore, in the case of quantitative restrictions, it is not so much a matter of keeping up the same pace for the remainder of the transition period as of discovering and eliminating other obstacles to the free movement of goods which are tantamount to quantitative restrictions.

The elimination of quantitative restrictions has not necessarily completely dispensed importers and exporters from the obligation of obtaining licences. The administrative procedure for issuing these is often extremely cumbersome, involving prolonged delays or even genuine impediments especially in cases of economic hardship or sensitive products. Hence, even where licences are issued automatically, the licensing system is not in practice always compatible with the free movement of goods in the Common Market and should therefore be abolished. In the first half of 1963, the Commission will propose appropriate measures.

a) Measures of equivalent effect to quotas

14. Apart from customs frontiers, which are being broken down by the elimination of customs duties and charges with equivalent effect, there are also "administrative barriers", consisting of all the administrative checks carried out when frontiers are crossed. They may have a similar effect to that of the charges described as tantamount quotas. For the efficient working of the Common Market and doing away with physical frontier checks within a reasonable period, these administrative obstacles to trade must also be abolished.

The Commission will submit shortly a general review of measures having an equivalent effect to import restrictions, and will issue the necessary directives. In drawing up the time-table for these, allowance will be made for the fact that quotas on industrial goods have already been abolished for a year, so that equivalent obstacles to trade now assume greater importance.

Entrepreneurs and their products, in quite a number of cases concerning the award of public contracts, still have to contend with extra formalities if not actual discrimination in other Member States. Since the public sector takes such a large slice of the national product, these practices constitute no mean obstacle to freedom of trade. During the coming year, the Commission will take steps to suppress these practices and to guarantee, by the end of the second stage at latest, equal access to public contracts for all Community suppliers, particularly in respect of rules concerning publication and impartiality in the award of contracts.

b) Technical regulations

15. For a great many products, their sale in the home market is governed by official regulations issued both in the general interest and for the protection of the consumer.

These often vary very considerably and the difficulties thus caused hinder the movement of goods within the Common Market. Moreover, the regulations may not only give rise to disparities in costs, but may also prevent or hamper mass production under economic conditions, and thus distort competition on the Community markets. Hence the need to harmonize, and even, in many cases, to bring together in a single European system of law, the Member States' regulations in this field. Examples are regulations concerning the quality, composition, packaging, designation and control of foodstuffs or pharmaceuticals, plant health protection, animal health legislation, seeds, etc. ⁽¹⁾.

⁽¹⁾ In agriculture, the main items concerned are the following :

1. Food additives; processed fruit and vegetables, processed products based on cereals; additives incorporated in cattle feeds; wine (especially analysing methods).
2. Meat; a directive on problems of health control in intra-Community trade in pigs and bovines is being drafted. Meat preparations and preserves, poultry; eggs.
3. Seeds of pulses, herbs, cereals and beet, seed potatoes and silvicultural seeds and seedlings.

Because of the complexity of such regulations and the need to obtain the Member State's agreement, the work of approximation will certainly have to be spread out over the entire transition period.

Before the end of 1963, the Commission will present a programme concerning all regulations of this kind which, in its opinion, stand in need of amendment. The programme will include a time-table established on the basis that all such regulations having a major impact on intra-Community trade should be co-ordinated and unified before the end of the second stage, and the remainder by the end of the transition period.

Pending the full implementation of the alignment programmes, the Commission will request the Member States, without prejudice to the application of the Treaty's clauses regarding measures of equivalent effect to quantitative restrictions, to subscribe to a stand-still agreement for prior submission of any proposed technical regulations liable to affect trade, and for a consultation procedure at the Commission's request.

c) National commercial monopolies

16. National commercial monopolies will have to be adjusted to give consumers and suppliers in all Member States equal access to the Market. In a first series of recommendations, the Commission dealt with discriminatory practices which must in all cases be eliminated before the end of the transition period. It will scrutinize very closely the effect of these recommendations to ascertain whether they are conducive to the attainment of the aims of the Treaty, particularly the objectives fixed by the Commission for 1962.

The proposed machinery for dealing with national monopolies will be reviewed where appropriate, in the light of experience.

3. COUNTERVAILING CHARGES

17. Besides administrative and customs barriers, tax frontiers constitute the third chief obstacle to the free movement of goods.

In connection with general turnover tax and some individual taxes, the Member States impose countervailing charges on imports

according to the system of taxation prevailing in the receiving countries and also grant drawbacks on exports.

The Commission's proposals — set out in Chapter II — for the harmonization of indirect taxes are designed to secure the final dismantling of fiscal barriers.

B. THE FREE MOVEMENT OF WORKERS

18. Freedom of movement for workers in the Common Market aims to allow workers to accept a job where the opportunities or conditions are best and to enable undertakings to recruit manpower beyond the frontiers of the home market. Step by step, it will ensure equal treatment in this connection for all nationals of the member countries and so lead the way to a genuine Community labour market even before the end of the transition period.

The provisions already adopted by the Council will be followed up in the first half of 1963 by others on the same lines. The new Regulation will, the Commission believes, constitute an important step forward : first, it discards the principle of priority for the home market, secondly, it asserts more emphatically the priority of the Community market; it should enable substantial progress to be made towards equal treatment for workers from other Community countries — particularly as regards election to works committees and opportunities for access to other jobs. It should also prevent free movement of persons from being restricted in practice by administrative controls in the shape, for example, of immigration and residence formalities.

C. THE FREE MOVEMENT OF SERVICES

19. Freedom of establishment and freedom to supply services mean that Member States' nationals shall for full fruition of their entrepreneurial function, business acumen and technical skills, be entitled to set up in any Member State, under the same conditions as its own nationals, to pursue their calling or supply their services; another

objective pursued at the same time is to secure, in the interests of the development of the Community's economy as a whole, the best possible utilization of available resources.

The programmes already approved by the Council divide the transition period into four stages, in each of which freedom of establishment or freedom to supply services is to be secured in some specified sectors.

The rapid development of the customs union, which in the Commission's view should be kept up, must go hand in hand with similar progress in all other aspects of the economic union. However, even when parity of treatment between nationals of different Member States has been achieved in each, there will still be statutory differences with regard to trades and professions, and differences of standard between degrees, certificates and other qualifications, which may in practice considerably restrict the enjoyment of the freedom that will have been granted. Studies for co-ordinating these matters at Community level represent another aspect of the steps towards freedom of establishment and freedom to supply services.

During the first six months of 1963, the Commission will submit a report covering both what has already been accomplished and what remains to be done to complete these tasks, which have now become urgent. It will fix time-limits on the basis of the principle that the chief obstacles due to statutory differences with regard to professions and trades, or differing educational standards and qualifications, will broadly speaking, be ironed out in each particular case during the stage in which freedom of establishment for the activity concerned is to be installed.

D. THE FREE MOVEMENT OF CAPITAL

20. Freedom to transfer capital between the Member States has been achieved for the transactions most directly bound up with the process of economic integration. For example, unconditional and complete liberalization has been established for direct investments, personal transfers, short- and medium-term commercial loans and in

practice also all operations concerning marketable securities. For other sorts of transaction, including in particular issues on the stock markets, and medium- and long-term loans and credits not tied to commercial transactions, a system of conditional liberalization has been adopted enabling the Member States to maintain certain reservations.

During the second stage, progress in the co-ordination of monetary and financial policies will allow the Commission to propose that Member States should widen their liberalization measures in the following cases : extension — albeit only gradually — of unconditional liberalization to stock issues by firms in one Member State on the market of another, and to bank loans and medium- and long-term credits for financing growth investments.

21. The Commission will co-operate with the Member States in seeking ways and means of eliminating the remaining legislative and administrative obstacles above and beyond exchange controls governing the floating of loans by foreign firms on domestic capital markets, the introduction of foreign securities on domestic stock exchanges and the placing of foreign securities with savings institutions.

The Commission intends to carry through the work it has undertaken with the co-operation of Governments with a view to harmonizing and bringing into line methods for the collection and assessment of taxes on issues and transfers of securities in order to prevent such taxes from impeding capital movements.

22. On the basis of the progress made in this direction, the Commission expects to propose in 1963 a directive on the harmonization of these fiscal matters.

Competition in the Common Market

23. The Community's objectives could not be attained simply by eliminating the barriers to trade between the member countries. The opening of the domestic markets and the establishment in the Common Market of conditions similar to those of an internal market might be held up or even inhibited by means of economic or fiscal legislation, aids, agreements limiting competition or the improper exploitation of dominant market positions.

The Treaty goes further and provides for the introduction of a system guarding against distortions of competition in the Common Market. Hence, competition is not only an important tool in the building of the Common Market during the transition period but will have an essential role to play in the control of the economic process on the European markets established with its aid.

This provision of the Treaty is based on economic and social considerations.

In economic terms, competition — even imperfect competition — satisfies the needs of purchasers and of consumers to the fullest possible extent. The more intensive the competition, the greater the incentive and need for industry and commerce to seize existing opportunities for production, distribution, rationalization and improvement with a view to optimum consumer satisfaction. In this way competition serves at the same time both technical and economic progress. Furthermore, competition counters the upward pressure of costs and prices; in particular it mitigates the threat that higher costs will be passed on in the form of price increases. Lastly, competition makes for a more even distribution of profits between the various sectors of the economy and reduces the danger of persistent misinvestment.

The system for regulating competition must also guarantee the highest possible degree of personal freedom for all who contribute to economic and social life.

Competition means the possibility of choice for producers, traders and consumers. The object of competition policy is to safeguard this possibility of choice and ensure that freedom to engage in an economic activity is not misused in such a way as to deprive others of it.

For these reasons a constructive competition policy is one of the most important and most effective instruments available to the Community for realizing the aims of the Treaty. In this respect, for securing balanced development within the Common Market, competition policy, development policy, structure policy and monetary policy are mutually complementary.

A. RESTRICTIONS ON COMPETITION OPERATED BY FIRMS

1. AGREEMENTS

24. The competition regulation adopted early in the year by the Council conferred on the Commission the requisite powers for the effective implementation of the ban on agreements, decisions and concerted practices. As a supplementary measure, the Commission will, before the end of the year, adopt a regulation on the right of audience of parties and third parties in the course of proceedings.

The Commission's task will now be to wield as efficiently as possible, through the administrative practice it will develop, this new instrument of European law. The Commission will base its interpretation on the twofold aim laid down in the Treaty : to protect competition and the economic freedom of all who operate on the market. The need for certainty as to the law will be catered for by adopting precise and legally viable criteria, notably with regard to exempting agreements under Article 85(3) of the Treaty.

The Commission will give particular attention to the question as to how certain vertical agreements and licensing contracts — frequently met with in business — come under the cartel regulations and how they can be effectively supervised with as little administrative control as possible. The European system of law against restraint of competition must be applied so as to eliminate first

and foremost those restrictions which have a particularly adverse effect on the development of the Common Market.

2. DOMINANT POSITIONS

25. The Commission will attach the same importance to the ban on improper exploitation of dominant positions as to the ban on agreements in restraint of competition. The aim of its policy is to prevent monopolistic or oligopolistic market positions from causing unduly high prices all round, excess production capacity and consequently misinvestment, inelasticity of prices in the business cycle and automatic price rises following wage increases or other additions to costs.

The Commission will in particular rely on the clauses in the first competition concerning inquiries by economic sector. The application of these clauses involves keeping a careful watch on price trends in individual sectors. During the second stage, the Commission will have to ascertain whether the Treaty provisions concerning the improper exploitation of dominant positions and the competition regulation adequately provide an effective check on the improper use by firms of dominant market positions. Where necessary, it will submit proposals to supplement the rules.

3. CONCENTRATIONS OF FIRMS

26. Nevertheless, the Commission cannot confine itself to keeping a strict watch over the conduct of firms now holding dominant positions. Rather, it is felt to be particularly important to see that concentration having no justification from the standpoint of the economy at large should at least not be artificially encouraged. In practical terms, this means that the first step must be to secure greater neutrality in respect of competition in company law, tax law and the law on industrial property. The Commission will raise this question shortly with the Member States and with the business and professional circles concerned.

come into being on the Common Market, especially when they result in the stifling or elimination of existing competition. The Commission will keep a close watch on such developments and their impact on the working of the Common Market.

B. DISTORTIONS OF COMPETITION DUE TO GOVERNMENT MEASURES

1. AIDS

27. As other obstacles to trade are progressively eliminated competitive advantages granted by the State to certain firms or sectors become all the more appreciable.

The list of existing aids is now practically complete. In the course of 1963 the Commission will conclude its current review of these aid systems from the standpoint of their effect on competition.

In the case of new aids to be notified to the Commission in due course, the difficulty is to evaluate in advance their effects on competition. Moreover, they are mostly arranged to allow the Member States a fairly wide margin for reaching decisions in individual cases, whereas the effect on competition can only be appraised on the basis of such individual decisions. This technical feature may become a serious obstacle to the Commission in its work of supervising the introduction or application of aid systems. Accordingly the Commission will during the coming year — after acquiring sufficient experience — decide on the measures it wishes to adopt or propose.

28. By and large, the Community law concerning aids has the aim of protecting competition and freedom of economic activity against all distortion caused by incentives offered by the public authorities. The Commission pursues the same aim in its interpretation of the Treaty clauses on aids.

29. Regional and structural aids are of particular importance. In this field, the Commission will develop a policy reconciling the

demands of competition policy with those of regional or structural policy. Where the Commission considers that aids are compatible with the Treaty as serving the ends of a sound structural or regional policy, it will in particular take care that such aids are so far as possible selective, degressive and temporary, and that the beneficiaries are not given a decisive advantage over their competitors. Provided they have a rational basis, aid policy as an instrument of competition policy and aid policy as an instrument of structural and regional policy are not opposed but mutually complementary. For it is the function of regional and structural policy to balance out disparities in structural or regional development by levelling up competitive conditions.

30. For shipbuilding and the film industry the Commission will, before the end of the second stage, draw up a common policy, embodying constructive solutions at Community level. The specific problems in these sectors will have to be considered against the background of a more comprehensive structure policy.

31. For export aids to non-member countries, the Commission will issue the requisite directives for the implementation of the action programme on trade policy adopted by this Council (cf. Chapter IX, sec. 156 below).

32. In the case of agriculture, the Member States have agreed to supply the Commission this year, within the time-limits laid down by the Council, with full particulars of all existing aids. On the basis of these data, the Commission will at once prepare a complete list, and will then make a start on examining these aids.

2. TAXES

33. As regards taxation it is advisable, in the Commission's view :

a) To eliminate distortions of competition stemming from disparities in tax laws and administrative practice and to obviate economically unwarranted changes in production factors;

- b) To create within the Common Market during the transition period conditions which will guarantee unimpeded freedom in the supply of goods, capital and services. Once customs barriers are eliminated, the retention of tax barriers would be incompatible with this aim;
- c) To give due consideration in harmonizing taxes to the fact that the future development of the Member States' fiscal systems must be economically rational and socially coherent.

Any amendments or adjustments to Member States' fiscal law which might be deemed necessary should only be introduced by stages and hand in hand with the development of the Common Market, in order to avoid economic disturbances and difficulties in financing Government expenditure ⁽¹⁾.

34. a) With regard to the turnover tax in general, the Commission has adopted the following proposed directive :

i) In a first stage, the "cascade" type of tax on gross turnover would be abolished in the countries where it exists, and so far as possible, replaced by an added-value tax that might be a single tax. In this way distortions of competition due to the present standard-rate system for calculating refunds and countervailing charges could be eliminated.

During this stage the Member States will, in collaboration with the Commission, work out the principles of a Community system for taxing turnover. It will be based on the system of the added-value tax and it might be supplemented at the retail stage by a second tax, the details of which the Member States would be free to fix for themselves.

ii) During a second stage the Member States would introduce the Community system of taxing turnover, and during a third stage it might be necessary to bring the rates so close together that refunds and countervailing charges would no longer be warranted within the Common Market, or consideration might be given to other

⁽¹⁾ A number of preliminary studies have been carried out at the instigation of the Commission. They include research into the effects of differing taxation systems on the integration process. This was carried out by a committee of experts headed by Professor Neumark and the committee's report is to be published shortly.

technical devices which would make it possible to abolish fiscal barriers between the Member States.

35. *b)* In the field of consumer taxes, discrimination and distortion of consumption stemming, in particular, from current systems for tax remission on exports and for taxation of imports should be eliminated without delay. At the same time it must be decided how far it would be possible to abolish certain consumer taxes peculiar to particular Member States and whose yield has very little impact on Government revenue. Again, a further subject of study will have to be the extent to which these taxes, if they cannot be abolished, can at least be harmonized in order to avoid levying refunds and countervailing charges at the frontier.

36. *c)* Differences in direct tax systems and rates can lead to undesirable movements of production factors and distort competition within the Common Market.

The Commission is now studying with experts from the Member States the question as to whether the development of the Common Market requires common or harmonized provisions on valuation, depreciation and other elements of the tax assessment basis affecting — apart from the rates of tax — the amounts actually paid; it is also trying to find out how it will be possible to align the regulations in force in the various countries. The progressive implementation of a Community system for a general turnover tax would, moreover, create a tendency for direct tax rates as well to draw closer together.

When the preparatory work is complete, the Commission will submit to the Council proposals on the various points; these proposals will have to take due account both of the economic coherence of the taxation systems in the various States and of the requirements of Government finance.

37. *d)* The conventions for the elimination of double taxation now applied between the Member States should immediately be adapted to conform with the model convention prepared by the OECD, and then incorporated in a general agreement covering the whole Community.

3. APPROXIMATION OF LEGISLATION

38. Characteristic of finance and company law in the Member States are the disparities in many fields which artificially favour or handicap businesses competing on the market. This is why the Commission considers the approximation of these measures to be an important means of promoting economic union in Europe. A summary of the work entailed is given below :

a) Industrial property

39. In the field of industrial property, one of the factors which affect competition is that industrial property rights are limited to the territory of the Member State which has granted them. This, combined with divergences in the law from one country to another, produces a series of effects which hamper business activities and inhibit trade and competition between the Member States.

The Commission will therefore do all it can to help in the institution of a European system of patents, trade marks, designs and models. Here it will not be enough to approximate Member States' legislation, but a new system of European law will have to be instituted, European conventions will be required. A preliminary draft convention on a system of European patent law was recently completed and has now been published and submitted for discussion. During the second stage, other draft European conventions — on trade marks and designs and models — will be submitted.

At the institutional level, a European patent office will have to be set up and arrangements made for legal control by some form of court. The Commission considers that this might well be the Court of Justice of the European Communities, whose competence would have to be extended accordingly.

b) Unfair competition

40. In order to be able to submit in due course its proposals for directives intended to remove the disparities in national provisions concerning unfair competition, the Commission will pursue the

preparatory work it has undertaken in this field. For example, differences in the rules which Member States apply to publicity engender unequal conditions of competition and hamper trade between the countries. In addition, the problem of unfair practices hampering or stultifying competition deserves special attention.

c) Public contracts

41. See Chapter I, sec. 14 above.

d) Breaches of the law relating to business activities

42. The Commission will endeavour to ensure that by the end of the second stage the bringing to light of breaches of the law relating to business activities within the Community and the instigation of proceedings in respect of them are facilitated by harmonization of the relevant legislation of the various Member States.

e) Technical regulations

43. As has already been mentioned in Chapter I, sec. 15 above, the Commission is pressing forward a comprehensive operation for the harmonization of technical regulations in the Member States.

f) Recognition and execution of judicial decisions, bankruptcy law

44. Steps must be taken to ensure the mutual recognition and execution of judicial decisions so that a creditor can enjoy the benefit in any Member State of any instrument lawfully obtained in another Member State.

Because of the collective nature of bankruptcy the principle of universality must be introduced sufficiently to ensure that whatever the location of the debtor's assets in the various Member States, only one set of proceedings is instituted.

The Commission will do all it can to encourage the conclusion of a convention or conventions by the Community States.

g) Company law

45. In this field the Community has several long-term tasks to cope with. One aim already mentioned is to adjust Member States' company law in such a way that it neither encourages nor discourages any tendency by firms to concentrate, thus making it consonant with the principles of competition. Preparatory work has already been begun. The Commission will intensify and speed it up, so as to reach an interim solution, if possible, during the second stage.

During the same stage, the Commission will press forward its work on the approximation of legislation, undertaken under Article 100, and also work on the recognition of the legal personality of companies, on the transfer of a company's registered office from one State to another, and mergers of companies under the law of different countries.

During the third stage, further steps will be taken towards the harmonization of company law: the Commission will then be able to submit proposals for directives or for the preparation of European conventions.

h) Social legislation

46. Disparities in the social legislation of the Member States can also mean that firms in the Common Market are faced with distortions of competition. Without prejudice to the matters already covered in Chapter VI (Social Policy), and in particular the harmonization of social systems, the Commission proposes to draw up, between the next cut in customs duties and the one following, a list of the main disparities of this nature affecting competition. In addition, while fully safeguarding the progress made so far in the social field and doing nothing to prevent further advances, it will propose suitable measures for the approximation of the terms of competition in so far as they are affected by social legislation.

CHAPTER III

Common agricultural policy

In order to attain its objects in the agricultural sphere, the Community will need to direct its efforts towards the following matters :

A. COMMON ORGANIZATION OF MARKETS

47. The mechanism and the institutional basis for a common organization of the markets have been created by Council Regulations on cereals, pigmeat, poultry, eggs, wine, and fruit and vegetables. The task is now to use this machinery as day-to-day practice and thus gradually to build up the Common Market.

As regards the wine sector, additional provisions will have to be worked out.

As for milk and dairy produce, beef and rice, a common organization of the markets comprising similar mechanisms and institutions is to come into force, in accordance with proposals presented to the Council by the Commission, in the spring of 1963.

As soon as possible the Commission will put forward proposals for a common organization of markets in other products ⁽¹⁾ namely sugar, potatoes, oils and fats, ethyl alcohol, tobacco and non-food horticultural products. The Commission is engaged in framing a common policy for fisheries and a co-ordinated policy for forestry.

When all this has been accomplished, about 90 % of the Member States' agricultural produce will be governed by a common organization of markets.

⁽¹⁾ This lends point to the representations made by the Commission to the Council about staff requirements (see Chapter XI below).

As for the remaining agricultural products, the general provisions of the Treaty will be applicable and will ensure the complete elimination of quota and tariff restrictions.

48. In elaborating and implementing the common agricultural policy, the Community will take account of the interests of the associated African States and Madagascar, whose agricultural products are similar to or in competition with those affected by the common policy.

B. COMMON PRICE POLICY

49. There are disparities between the prices of agricultural products in the Member States, and the realization of a common agricultural market is obstructed by the absence of a common policy in this matter.

As the basis of the Community's future policy on this subject the Commission will make proposals concerning the criteria to be applied in fixing target prices for agricultural products. These criteria are of three kinds :

- a)* Criteria relating to the incomes of farmers and farm-workers;
- b)* Criteria relating to the guidance of production to meet demand;
- c)* Criteria relating to the development of the economy as a whole.

50. As soon as possible the Commission will make proposals for a price policy consonant with the aims set out in Articles 110 and 39 of the Treaty. The Community, by taking measures designed to raise the individual incomes of those engaged in agriculture in the Community and ensuring the rational development of agricultural production, will make its contribution to the harmonious development of world trade comprising a satisfactory level of trade between the EEC and non-member countries.

51. The move towards a common level of agricultural prices must begin with the alignment of prices of basic products, which are now

fixed by the Governments of the individual Member States. Concrete proposals for the alignment of the cereal prices applicable during the 1963-64 harvesting season will be presented by the Commission in time for the Council to give its decision before 1 April 1963.

C. THE GRADUAL ESTABLISHMENT OF UNDISTORTED COMPETITION

52. Such measures for the protection of national markets as are still permitted under the joint market organizations during the transition period will gradually be abolished by the end of 1969. As production and trade within the Community in the single market stage must be allowed to develop under conditions of free competition, the provisions of the Treaty and the regulations issued by the Council for the gradual removal of distortions in competition on markets in agricultural products must be put into effect and if need be supplemented. This applies particularly to :

- a) State aids : for such aids as are not to be eliminated a common policy should be worked out (cf. Chapter II, section 32 above);
- b) Policy on freight rates for agricultural products and means of production;
- c) Taxation on production of and trade in agricultural products and means of production.

D. COMMON FINANCIAL RESPONSIBILITY

53. The gradual development of common financial responsibility is an essential factor for integration. It must be done systematically within the framework of the regulations made by the Council and on the basis of the reports that the Commission presents annually in accordance with Regulation No. 25. So that the European Guidance and Guarantee Fund will be able to take over the common financing of certain measures when the joint market organizations come into force, the Commission will shortly submit proposals to

the Council on the operating conditions for this fund, particularly the terms on which the expenditure in question will be eligible for consideration for common financing, and on institutional machinery for close co-operation between Member States and the Commission.

E. AGRICULTURAL STRUCTURE

54. Vigorous economic expansion has a twofold influence on agriculture : in the first place, with higher incomes consumers buy more readily, particularly livestock products; secondly, the general development of the economy, wage increases and technical progress, together with the widening of the market, oblige farms continually to adapt themselves so that the disparity between the incomes of persons engaged in agriculture and those in comparable occupations can be gradually narrowed. A noteworthy point here is the steady increase in productivity obtained by improving the organization of work and saving labour.

This adaptation is made difficult by a number of obstacles that are typical of agriculture in the Community. The Community should therefore facilitate and carefully direct this process of adaptation by an active policy including specific measures. It is essential to take steps to eliminate the structural defects of farms (particularly family farms) and to help farm workers who find agriculture unrewarding to take up other employment elsewhere; this migration has been going on for many years in all Member States wherever economic development has made it possible.

In order to achieve these aims, measures to improve structure must be reinforced; education, occupational training (agricultural and other) and agricultural advisory services must be promoted; credit policy must be adapted to farm needs; and lastly agricultural co-operatives must be encouraged. Measures taken by the Member States will be co-ordinated according to Community rules.

55. At the same time, the Community will promote — as part of its regional policy — economic and social development in less

favoured rural areas within the Community by carrying out projects in the general interest (e. g. schools at all levels, improvement of communications, establishment of certain industries), in order to provide employment for those who cannot earn a satisfactory living in agriculture. The measures concerning structural improvement, education, occupational training, advisory services, credit facilities and so on referred to above will be given priority by the Community as part of regional development schemes.

The Commission will shortly submit its proposals on the Structure Fund to be set up. The Fund will make grants to stimulate and guide efforts to improve or adapt agricultural structures in the Member States to meet the needs of the common agricultural policy.

The Fund will thus contribute to the attainment of the above aims. It will also be able to intervene where the agricultural situation is backward in a way that may affect the implementation of the common policy, and to facilitate adaptation to the new conditions created by that policy.

56. The process of adaptation in which farms are continually being forced to engage because of economic development and technical progress, and which becomes the more imperative as the market widens, cannot be hastened beyond a certain point (even if it is supplemented by measures taken by the Member States and by the Community), since older people are in many cases unable to make the necessary changes. The Community must therefore take measures of social policy to prevent the transition to the Common Market causing a set-back to the progress of agricultural incomes on certain types of farm or in certain regions.

F. *ANNUAL REPORT*

57. The Community institutions will regularly have to take important decisions on the common policy for agricultural markets, on price policy, on the financing of the common agricultural policy, on trade policy, on structural policy and on social policy. This will

considerably affect the progress of agricultural incomes, on guidance for production and on the development of trade between the Member States and with non-member countries.

The Commission will present each year, beginning in 1964, in addition to the report on structures and the annual reports on Community financing, a detailed study of the situation in agriculture and on agricultural markets and of foreseeable trends, and this survey will form the basis for the Community's decisions in pursuance of the common agricultural policy.

It will present a picture of the general and regional situation in agriculture, a balance sheet of production, external trade and consumption, the trends in agricultural prices and prices of the means of production, and the situation regarding the incomes and the working conditions of farmers and farm workers.

Common transport policy

58. The Commission has presented two documents defining its overall conception of the common transport policy : the "Memorandum on the general lines of the common transport policy" of April 1961, and the "Action programme" of May 1962.

The Council decision of 21 March 1962 set up a procedure for examination and prior consultation on certain statutory or administrative provisions envisaged by Member States and liable to interfere substantially with the execution of the common transport policy. From now on, this procedure enables the Commission to see that national transport policies do not run counter to the aims of the common transport policy being evolved.

A. MEASURES FOR ROAD, RAIL, AND INLAND WATERWAY TRANSPORT

59. The aim is to establish by the end of the transition period a transport market organized under Community rules, able to meet the increased transport needs of the Community and abolishing all discrimination on grounds of nationality. This is the framework within which freedom of movement for transport services within the Community will be managed.

In particular, these rules are to ensure that the regulation of intra-Community transport dovetails with the transport systems obtaining in the Member States.

The main feature of the Commission's action programme is that the measures it contains are to be implemented gradually and along parallel lines. Its aim is gradually to harmonize transport systems and to ensure the progressive adoption of Community procedures, while avoiding the risks of imbalance or disturbances liable to affect the economies of Member States.

60. The most important measures concern access to the market, tariff regulations, the harmonization of competitive conditions and the co-ordination of investment.

61. *a)* As regards access to the market, a set of measures has been proposed, the implementation of which should make it possible to attain an advanced degree of integration and the adaptation of transport capacity to the requirements that will result from the development of trade within the Community. The approximation of the legislative and administrative provisions governing access to the market in the six Member States will have to be carried through at the same time. In the particularly sensitive field of international goods transport by road, the Commission has proposed that existing bilateral quotas should gradually be supplanted by a Community quota open to transport undertakings in the Member States, irrespective of nationality. The bilateral quotas (during the transition period) and the Community quota will constantly be adapted to traffic requirements.

62. *b)* As for policy on transport prices, which is another essential element in the market organization, the Commission proposes to install, for all essential means of transport and types of traffic, a system of tariff brackets subject to prior publication and a check procedure.

The lower limits are to prevent the effects of excessive competition on transport. The upper limits will eliminate the risk of a dominant position being abused and obviate unjustified price increases in boom conditions. Between these limits transport undertakings will be able to fix prices freely. The system should ensure greater stability on the transport market, while encouraging the division of traffic between the various modes of transport according to cost and their respective natural advantages.

The Commission, with the aid of Government experts, is now studying the structure of transport costs. Once this study has been completed, it will be possible to see how the proposed regulation of tariffs can be made more flexible to match the costs of individual enterprises more closely.

63. *c)* The harmonization of competitive conditions is an essential corollary to the enlargement of the market and the institution of the proposed tariff system. The Commission will propose that the general alignment produced by the working of the Common Market must be speeded up and, in the case of transport, supplemented by particular measures in the fiscal, social and technical fields, enumerated in the action programme. Some social measures pending in the field of transport also have a bearing on traffic safety.

64. *d)* The Commission attaches particular importance to the question of co-ordinating investment in transport infrastructure. A common definition of main Community links on the basis of the Community's recommendations should be arrived at on the subject to Governments of Member States in 1960 and 1961. As responsibility for infrastructure projects and their financing rests with Member States, the Commission intends to propose a Community system of notification and consultation for putting them into effect. Similarly, the problem of financing some of the projects can be studied at Community level.

Fitting Community trunk lines into the transport network will also help towards opening up regions that are less favoured in this respect at the moment. These measures will supplement Community action in regional transport policy : transport policy must take account of regional requirements not merely in respect of support rates and protection but all round.

65. *e)* In drawing up its time-table for implementing the action programme, the Commission lays particular stress on the end of the second stage and on the end of the transition period.

The following steps should have been taken by the end of the second stage :

- i) Substantial harmonization of provisions concerning access to the market and the institution of the Community quota;
- ii) The institution of tariff brackets for international road and rail transport and the introduction of that system by Member States in their domestic traffic;

iii) The harmonization of social requirements (working hours), fiscal requirements (tax on vehicles and road tax) and technical requirements (particularly in respect of size and weight of vehicles).

During the third stage, the approximation of systems and establishment of Community procedures will proceed apace. For instance, the Community quota will have completely supplanted bilateral quotas, there will be freedom of establishment for transport undertakings, the system of tariff brackets will be made uniform and the requisite harmonization achieved in the social, fiscal and technical fields.

B. PIPELINES

66. The Commission has already proposed that the Council extend to transport by pipeline its decision on the procedure for prior examination and consultation for all legislative and administrative measures relating to road, rail and inland waterway transport. The impact of pipelines on conventional modes of transport will be investigated at Community level.

The Commission finds that crude oil pipelines do not present problems except at the level of general economic policy; it is only the construction of pipelines for refined products that will come under regulations for the co-ordination of transport. The harmonization of these regulations and of the tax system applicable to this type of pipeline might be envisaged in the near future, and the Commission will also investigate the possibility of harmonizing conditions.

C. AIR AND SEA TRANSPORT

67. In view of the legal status accorded by the Treaty to air and sea transport, the Commission suggested, in its opinion of 16 July 1962, that the Council suspend, under certain conditions, the application thereto of the rules of competition until 31 December 1964.

During this period the Commission will, in consultation with the Member States and interested non-governmental bodies, draw up

special rules for adopting at shipping conferences a common attitude taking account of the needs of the Common Market on the one hand, and on the other of respect for the characteristic features of world shipping. Similarly, the Commission's action will induce airlines and governments to clarify their views so that a Community policy will gradually emerge within the world-wide pattern of organization.

Coastal shipping and air transport within the Community raise problems that will engage the Commission's attention from the standpoint of discriminatory practices, authorization to operate and the co-ordination of inland transport.

D. RELATIONS WITH ECSC

68. In accordance with the provisions of Article 232(1) of the Treaty of Rome, the common transport policy applies to the transport of ECSC products, where the provisions of the Treaty of Paris do not call for particular measures. The tariff system proposed by the Commission is not incompatible with the transport provisions of the Treaty of Paris.

In order to harmonize transport policy in the EEC and in the ECSC, the two Communities collaborate closely, both at executive and at administrative levels, on transport matters, in accordance with the collaboration agreement concluded between the two Executives in 1958.

E. RELATIONS WITH NON-MEMBER COUNTRIES

69. The common transport policy must take into consideration relations with the outside world. Switzerland and Austria in particular, as transit countries between the States of the Community, are of great interest.

The Commission will take particular note of such considerations in respect of road traffic and transport infrastructure. It will collaborate with the European Conference of Ministers of Transport (ECMT), especially for infrastructure and the highway code. The

Commission has established contact with the Central Commission for the Navigation of the Rhine with a view to examining Rhine shipping problems.

In the case of air and sea transport, the Commission intends to follow a policy towards non-member countries that will, by the end of the transition period, enable a common attitude on transport to be defined, particularly as regards trade and shipping treaties and bilateral air agreements for the purpose of eliminating discrimination.

CHAPTER V

Common energy policy

70. The principles and substance of the common energy policy have been set forth jointly by the Executives of the three Communities in a memorandum submitted to the Governments of the Member States in June 1962.

The three Executives propose that there should be a common energy policy covering all regions in the Community and all forms of energy. The aim of this policy would be the gradual establishment of a common energy market in which energy products would circulate freely and where the conditions of competition would be harmonized; this would be coupled with a common commercial policy intended to keep the price of energy as low as possible.

71. For petroleum which is within the purview of the EEC, the aims suggested are as follows :

- i) Free movement of crude oil and of petroleum products within the Community;
- ii) Free importation of crude and petroleum products from non-member countries, subject to the arrangement shown below in connection with Soviet bloc countries;
- iii) A Community quota system for imports from Soviet bloc countries;
- iv) Nil duty on crude in the common external tariff (List F);
- v) Low rates of duty on petroleum products in the common external tariff (List G);
- vi) Excise duties on fuel oil at a common level for the whole Community; this should be as low as budget considerations will permit;
- vii) Harmonization of excise duties on petrol in order that the pattern of refining activities in the Community may develop on satisfactory lines;
- viii) Consideration to be given to the possibility of according facilities to crude from Community and certain other sources in order to broaden the basis of supplies;

- ix) Common stockpiling policy and harmonization of the relevant statutory measures;
- x) Publication of the prices actually charged for petroleum products and application to the market in petroleum products of the rules of competition laid down in the Treaty of Rome;
- xi) Permanent consultation between Governments and the Commission on trends in the petroleum market;
- xii) Permanent consultation between Governments and the Commission, on the basis of information concerning investment plans in the petroleum industry supplied by Governments, and recommendations made by the Commission for balanced development in the refining, transport and distribution of petroleum products.

Wherever applicable, similar steps should be taken in connection with natural gas.

Most of these objectives could be attained during the second stage. The memorandum prepared by the Executives contains suggestions on the transitional measures that may be needed.

Social policy

72. If we consider the ultimate aim of the Treaty, i.e. an ever closer union among the peoples of Europe, there can be no doubt in our minds that pursuit of an advanced social policy must form an indispensable part of the Community's activities, especially if the European edifice is to have a solid foundation in the real support of the workers, who make up the vast majority of the population of our countries. The aims of the Community are as much social as economic, and the former cannot be regarded solely as a consequence of the latter but should also be achieved as the result of action taken for social reasons. Even if some of the rules, principles and instruments that the Treaty lays down in the social field relate in the first place to economic needs and serve economic ends, they are unquestionably to be looked at now, within the general framework of the Treaty, as principles and rules of social policy, and they must be implemented as such. The fact that social questions, though very much to the fore at the national level, might seem to be still ill-defined at Community level, cannot justify a "passive" social attitude on the part of the Community's institutions.

73. The Community must have its own social policy, co-ordinated of course with the other elements of Community policy but not subordinate to them. It would be inconceivable for the Community to be created and to establish itself in an atmosphere from which social preoccupations were artificially excluded while in its six constituent States these preoccupations, in the widest sense, constantly played an important and growing role in their politics and economies.

The Commission's action must continue to make itself felt in those fields where the Treaty contains precise provisions and measures have already been put into effect. In the first place, the Regulation on the free movement of workers must be applied and gradually tightened up (as already indicated in Chapter I, sec. 18 above) and it must be extended to other types of worker. Action must also be taken on the

regulations concerning the social security of migrant workers, in connection with which the various systems of social security must be co-ordinated more promptly and more efficiently; and lastly, the operations of the European Social Fund must be made more effective.

74. But the Community's essential task in the social fields in the years ahead will be concerned with two major problems : that of policy on vocational training and employment, and that of levelling living and working conditions in an upward direction.

A. POLICY ON VOCATIONAL TRAINING AND EMPLOYMENT

75. The Commission attaches fundamental importance to the implementation of a common policy on vocational training which should be based on general principles to be adopted by the Council. Active assistance and co-ordination by the Community must be used to back up the action taken by Member States; such action can increase the exchange of information and experience and produce Community pilot schemes.

76. The implementation of the common policy on vocational training will also enable a common employment policy to be defined and put through. As things are at present, with the various regions of the Community suffering from shortages or surpluses of manpower, especially shortages of skilled manpower, and with so much technological progress and other change, an effective policy on vocational training, co-ordinated with other Community action (Social Fund and freedom of movement), will exercise a decisive influence on the geographical and occupational mobility of labour within the Community. Here co-ordination will not be enough : action will have to conform with the aims of a Community employment policy, which is to make the best use of the manpower available. This employment policy must naturally be co-ordinated with other aspects of Community policy, particularly with regional policy.

77. The Social Fund will be an important instrument in the Community's employment policy. The Commission considers that the experience of its first years of operation has clearly shown that the Fund should not merely be an organization for refunding Member States' expenditure on retraining schemes, but that it should also be in a position to encourage the various countries to initiate schemes and carry out experiments in this field; in this way the Fund could fully achieve its purpose. The Commission expects to submit precise proposals to the Council on this subject during the second stage.

B. THE LEVELLING OF LIVING AND WORKING CONDITIONS IN AN UPWARD DIRECTION

78. The levelling of living and working conditions in an upward direction which will be promoted by the mere fact of the Common Market's functioning will necessitate Community action in the basic form of close co-operation on social matters among Member States, and this it is the Commission's duty to encourage. It is true that the Treaty makes specific provision for equal pay for men and women : the steps to be taken have been outlined in the Council decision laying down the time-table for gradually giving effect to the provision. On the general level, it is more difficult at the present stage to give an exact definition of how social systems are to be brought into line. It may however be said that harmonization cannot mean casting the various countries' legislative and administrative provisions in an identical mould; furthermore, it can be said that the mechanics of harmonizing social systems and the approximation of legislation are distinct in the Treaty and must remain so. Harmonization is more a question of eliminating situations presenting substantial differences that are not warranted by specific occupational or regional needs and of moving towards more advantageous positions. Moreover, it should not be based on authoritarian action but derive mainly from the studies, consultations, opinions and recommendations laid down in the Treaty. Harmonization will thus be the fruit of voluntary co-operation between the Commission, Governments and those working in the various callings. The Commission has already begun

to take action along these lines in a number of fields. All it wishes to do here is to recapitulate briefly the fields in which it considers action to be essential.

79. The Commission considers it necessary to inaugurate a programme to harmonize social security systems : a European conference on social security to be held at the end of the year will produce suggestions on the aims and methods of harmonizing the various systems in force, particularly as regards their field of application, the methods of financing them and the benefits they provide.

80. The Commission also considers that there must be a gradual harmonization of legislation on the length of the working week in force in the Member States. As for labour relations, the Commission wants to see the gradual organization at Community level of joint committees for certain sectors or branches of industry. The Commission also wishes to encourage workers' and employers' organizations to conclude collective agreements in the form of model contracts for use throughout the Community.

81. The investigation of problems of industrial health and safety should lead to the harmonization of existing provisions in this field, particular attention will henceforth be given to legislation in force on protection for women and young people at work.

82. The Commission believes that special attention should be paid to family questions and housing policy. On this last point, in particular, it feels that opinions, recommendations or proposals must be drawn up concerning :

- a) Housing requirements in the Community, particularly low-cost housing;
- b) Housing conditions from the standpoint of quality in general, and particularly housing for migrant workers;
- c) Improvements in rural living conditions;
- d) Financial co-operation among Member States to subsidize housing for workers moving about inside the Community.

83. The application of the Treaty's general social provisions means that special measures will have to be adopted for agriculture and transport.

It is proposed that joint advisory committees should be set up in the agricultural sector and that a round-table conference be called in the near future between interested parties in the transport sector.

84. In agriculture, action will have to be taken on the suggestions made at the conference on the social aspects of the common agricultural policy, particularly as regards the living standards, incomes and working conditions of farm workers and the extension of social security. Furthermore care should be taken, on the one hand, that the agricultural wage-earner be given the consideration he deserves, so that the skilled labour essential to agriculture can be retained and, on the other hand, that it be made easier for young farmers to take over farms by offering adequate material security to older farmers so that, once they have reached retiring age, they will hand over actual control of their farms to younger men.

85. In the transport sector the Commission, in its recently approved General Programme, has decided on the main lines of the social measures to be taken. The consultation agreed upon with the parties concerned will make it possible to draw up a definite programme and a time-table for putting it into effect.

The main problems to be solved for the three means of inland transport are the make-up of crews, the length of working hours and rest periods, and payment of overtime. Education and vocational training constitute specific problems for inland waterway transport. As for social security, the Commission will pay particular attention to finding solutions for certain specific problems which affect transport workers.

86. Lastly, the Commission considers that there can be no full social policy that will enable the whole population of the Six to benefit from the progress to be expected from the customs union and of economic union unless appropriate wage policies are framed either on the national or on the Community scale. These policies will

be the indispensable complement of economic and monetary policy. Their broad outline should be clarified by discussions between both sides of industry and Governments. These discussions would enable various solutions to problems of income and growth policy to be presented and discussed on the basis of the national accounts and of relevant information on prospective developments and future Government policy. If such a procedure were applied, it could lead to agreements on wage policies which would be adapted to circumstances and acceptable to all concerned and which would not put a brake on expansion or encourage price increases.

87. Realization of the aims indicated above would be compromised if, in spite of action by the Commission and member Governments, trade and industry did not in practice lend their support through the normal channels of employers' and workers' organizations. This is why the Commission will continue to seek the co-operation of these organizations, as it has always done in the past.

CHAPTER VII

Economic policy

88. The aims of the economic and financial policy of the Member States and the Community are set out in the Treaty of Rome and its Preamble.

The Community's action in this field falls naturally into two parts : short-term measures covering a year or eighteen months and measures which require several years to take full effect. But even the short-term measures, to be rational and consonant with the longer-term aims, must fall into a pattern extending over a fairly long period. The traditional distinction between business cycle and long-term economic policy is consequently rather an arbitrary one. A more preferable distinction is one according to subject-matter — a distinction between economic development policy and structural policy, the first taking structures as they stand and the second seeking, by their constant improvement, to raise steadily the maximum yield of the economic system.

A. *ECONOMIC DEVELOPMENT POLICY*

89. It is not sufficient simply to distinguish between development policy and structural policy — a distinction which is not entirely logical but useful for practical purposes. Where development policy is concerned, a further distinction must be made between short-term and longer-term objectives.

1. SHORT-TERM OBJECTIVES

90. The Commission already has several important results to its credit where short-term development policy is concerned. These include the following :

a) Annual general forecasts contained in a message to the European Parliament every January; these forecasts are accompanied by recommendations to the governments of the Member countries on

the steps to be taken to avoid impending dangers and, in particular, to increase supply and slow down the price rise;

b) Quarterly economic surveys, verifying the fulfilment of the forecasts and amplifying the recommendations in the course of the year;

c) Recommendations to certain governments, when the Commission feels that far-reaching measures should be taken to preserve equilibrium and general progress in the Community; such recommendations were addressed to the French Government in 1958 and the German Government in 1960;

d) Monthly business surveys, based on answers to identical questions, among firms in all the member countries (except one with which no agreement has yet been reached);

e) Proposal adopted by the Economic Policy Committee to establish every year, on the same lines, an economic forecast for each Community country and to collate these forecasts; this will be done for the first time in the autumn of 1962;

f) Memorandum to the six governments containing precise recommendations on measures to be taken immediately so that the Community may not be caught unprepared by a downturn in economic activity or a prolonged lull in expansion, and recommendations for action in such an event;

g) Study of the various instruments of short-term economic policy in each of the six countries and ways of improving and supplementing them.

91. The Commission has been greatly assisted in its work by the Monetary Committee and the Economic Policy Committee; in some instances (economic forecasts, measures to be taken in the event of a recession, recommendation to the German Government in 1960), the Commission could have taken no effective action without the discussions in these two committees and the support they gave.

92. The action programme for the coming four years includes the continuation and extension of the activities just listed, in particular :

a) The introduction of more detailed business surveys, investment surveys (addressed to businessmen) and consumer surveys;

b) Improvement of the economic forecasts to a point where it will be possible to obtain a single economic forecast for the whole Community.

93. The Commission also proposes to draw up a memorandum, similar to that mentioned above in connection with the possibility of a recession, containing precise recommendations for measures to be taken to avoid undue strain on the labour market in periods of rapid expansion of total demand, amplifying the proposals already made in various documents (messages to the January session of the European Parliament, quarterly surveys, etc.). These two memoranda together will form in broad outline a code of good conduct in economic matters.

94. The Commission intends, with the support of the Monetary Committee and the Economic Policy Committee, to strengthen still further the co-operation between itself and the six governments, with the following ends in view :

- i) To reinforce the instruments of anti-cyclical policy at the disposal of the national authorities;
- ii) To supplement the general economic forecasts, wherever possible, by partial forecasts for the most important branches of economic activity;
- iii) To elaborate a system of economic indicators to permit rapid diagnosis of changes in economic activity, and to progress towards establishing quarterly national accounts;
- iv) To improve existing co-ordination in each country between the various public authorities whose action influences the course of economic activity, whether this concerns collaboration between different bodies of the central government, or collaboration between the latter and local or regional authorities;
- v) To make more expeditious the preparation, approval and implementation of measures of economic policy.

95. The Commission's aim is gradually to create a Community short-term economic policy, into which the national policies will

merge. To attain this it is relying mainly on the economic forecasts, which will be discussed every autumn, with the Commission taking part, by the authorities responsible for economic and financial policy in the six countries. The scope and content of national policies will be examined and consideration given to their expected results and the advisability of adjustments.

The Commission will propose, before the middle of 1963, that comparison of the economic forecasts be followed up by comparison of the national budgets for the following year, including the estimates of revenue and expenditure and loans of regional and local government authorities, and comparison of the budgets of social security bodies and other official or semi-official bodies which play an important part in the course of economic activity. Such a study will probe more deeply into the working of the economic machinery and make it possible if need be to influence it with greater effect; the way for this has been prepared by the detailed work carried out in the first stage to obtain comparability of budget data.

2. LONGER-TERM PERSPECTIVE

96. The Commission is of the opinion that the Community should consider its future development in terms of a period of several years. This would by no means imply an arbitrary plan, imposed on particular firms, and interfering with the freedom of the market, but would constitute a framework for the action of the Community governments and institutions. Taking as a starting point the estimated growth potential of the economy in the period under consideration, on the basis of present economic and financial policies, the object should be to devise ways in which these policies can be improved, aiming at the fullest possible utilization of the Community's productive resources without inflationary pressure. Such a general view could be termed a programme, it being understood that this programme should constantly be revised to take into account unforeseen developments. If economic activity for some substantive period gets too far out of line with the programme, going ahead too fast or too slowly while the bases of the initial forecast remain unchanged, it would be for the economic and financial authorities

to take general measures to stimulate or put a brake on activity as the case may be.

However, such a programme extending over several years is also necessary for other reasons :

97. *a)* It should guide national and Community decisions which will take some time to make their effects felt, as is the case, for example, with measures to develop the economic and social infrastructure to meet needs which will only arise after several years;

98. *b)* It is indispensable for a rational distribution of the limited financial resources of public authorities. Certain demands must be met immediately, whereas others can be left pending for a time; the increase in revenue stemming from economic expansion may be used to increase expenditure or reduce taxes, etc. It will be seen that if higher expenditure and lower taxation depend, during the period covered by the programme, on the average degree of economic expansion considered feasible and desirable, the budget of the central government and other public bodies becomes an effective stabilizer, a powerful instrument of anti-cyclical policy;

99. *c)* A Community programme is a necessary guide for the plans or programmes being drawn up by a growing number of member countries; in the first place it will be the outcome of these national plans and then provide the indispensable framework for them. Here, too, as in business-cycle policy, the realization of the Common Market will make unilateral action more precarious as the national economies are opened up more and more to the outside world.

100. *d)* Without such programming, it would become extremely difficult to implement the common policies for agriculture, energy and transport, unless there is a general plan for the Community economy in which these separate policies will fall into place.

101. *e)* Structural changes, particularly regional development and industrial conversion, can only be carried out effectively, since the processes are necessarily gradual, if they are planned for the longer term.

102. *f)* Such planning is necessary for an incomes policy aimed at keeping the volume of income distributed commensurate with production potential and at securing a fairer sharing of national income, while at the same time ensuring that the ratio of consumer to investment expenditure is such as not to jeopardize economic development;

103. Finally, far from running counter to the competition policy or impeding the full application of the Treaty of Rome to cartel arrangements incompatible with the Common Market and to the abuse of dominant positions, an essential part of this programming should consist in seeking means of restoring active competition between firms, in particular as regards prices, wherever it has disappeared or has been attenuated.

104. Consequently the Commission intends to make proposals on Community programming to the Council before the middle of 1963. Although it would be premature to give any details of the programme or its procedures, the following indications can be given :

105. A Community programme is only possible if based on national forecasts or programmes. A forecast was recently made by a group of experts, under the chairmanship of M. Uri, of the Community's development between now and 1970. This is the first stage of work which will be diligently pressed forward. Such a long-term forecast, which collates the studies made at national level forms the requisite basis for European programming.

106. The first phase of this will therefore be to set side by side the Member States' long-term plans, programmes, projections and forecasts and endeavour to lend cohesion to the long-term national policies and the various courses of Community action, and so to lay the technical and political foundations for a consolidated programme. The aim would be to establish such a programme for the period 1964-68 or for a given period of years agreed on by the representatives of the six governments and those of countries joining the Community in the meantime.

This consolidated programme would set out *inter alia* :

107. *a)* The course that Community economic activity should as far as possible follow in the period under consideration, in terms of gross national product, factor incomes, private and public investment and consumption at constant prices;

108. *b)* Long-term projections of the income and expenditure of Governments and other public authorities, which would be collated in the Community framework; it goes without saying that such projections would only be informative and in no way detract from the sovereign power of the national parliaments to vote credits and taxes every year;

109. *c)* The probable breakdown (or that which is desirable or deemed acceptable) of the gross national product as between the main sectors of activity — agriculture, extraction industries, manufacturing, transport, services; the question whether each of these sectors can be usefully analyzed into provisional figures for the main industries and branches of agriculture and transport will be left until a more advanced stage in the work;

110. *d)* An estimate of labour supply and demand taking into account the probable growth of productivity in the various countries and sectors, the natural growth of the working population and the transfer of labour from certain sectors to others; this is one sphere in which the aims of the Community's agricultural and industrial policies will have to be reconciled;

111. *e)* A forecast of the way in which a volume of private investment commensurate with the Community's requirements for further development can be financed; such a study will be all the more useful because there is every indication that present methods of financing will change substantially in the coming years, at least so far as their relative importance is concerned;

112. *f)* The trend in the Community's external trade, with the outside world in general and with major groups of countries.

113. At the same time the Commission will ask the six governments to join with it in comparing their ideas and plans for an incomes policy, so that conclusions can be reached on how to bring about the fastest possible expansion while maintaining stable prices and how to achieve a fairer distribution of the fruits of this expansion ⁽¹⁾.

A study of this kind is closely linked with a study of price formation in branches of industry in the Community where competition is not entirely free, some firms holding a dominant position. Means should be sought to bring down the prices of the products of some of these industries so as to offset, at least partially, the rising price of services or price increases imposed or encouraged by the public authorities for social or budgetary reasons.

114. The foregoing considerations, though they may not entirely cover this complex subject, suffice to demonstrate how delicate a matter it will be to set up the administrative machinery required to achieve the desired result. From a certain stage onwards, the major economic forces in the Community — industrialists, workers and employees, farmers and other self-employed producers, etc. — will have to be consulted, either through the Economic and Social Committee or by other methods, on the preparation of projects. One of the main advantages to be expected from such a course would be a clearer understanding, by each of the major social groups, of the reasons behind the actions of other groups and of the public authorities, and a concentration of endeavours so as to achieve the best possible result for the Community. The European Parliament will have to be consulted at an early stage on the very principle of programming and its methods.

B. STRUCTURAL POLICY

115. In discussing the general economic policy of the Community one tends to speak of it as a homogeneous entity, or at least to assume

⁽¹⁾ See Chapter VI.

that there is greater fluidity between the factors of production than does in fact exist. But in reality there is no single economy; it comprises a large number of activities and areas, and the transfer of workers, for instance, from one to another is a slow, difficult and painful process.

Even in times of general prosperity there are some activities which are stagnating or going downhill and some areas in a state of depression.

The public authorities are often obliged to assist in making the necessary adaptations, to help firms to switch over to new activities and workers to learn new jobs.

The Treaty provides for a harmonious development of the Community economy by a narrowing of the differences between the various regions. A Community policy on structures is therefore a necessary adjunct to development policy. It has a dual aspect, being concerned with the economic sectors as such and with the siting of industry.

Studies of sectors

116. It has already been mentioned with reference to the establishment of a medium-term Community "programme" that the Commission was not proposing that targets should at this juncture be set for individual industries. For several reasons, however, somewhat detailed studies by sector of activity will nevertheless be necessary.

117. *a)* Medium-term national programmes, like annual economic forecasts, cannot usefully be compared in general terms. A certain minimum of information must be available for the main categories of products for an assessment to be made of the validity of the estimates made in the different countries and of how far the figures for intra-Community trade are comparable.

118. *b)* The strains which offer the greatest threat to economic stability and development are not only of a general nature (recession, inflation, balance-of-payments difficulties) but are often found in particular sectors (decline of certain industries or, by contrast, excessively rapid expansion with a risk of over-investment).

119. c) A sector-by-sector study should also be made of the changes in the Community's external trade which will inevitably ensue if the negotiations to be undertaken with the United States, following the adoption of the Trade Expansion Act, are brought to a successful conclusion. Similarly, the effects which industrial development in new countries will have on certain sectors and the prospect of increased imports of certain products from those countries must also be carefully studied and provided against so that the necessary adjustments can be made without widespread economic disturbance.

Studies have been made or are in progress for the motor industry, building and public works, and paper and board. In a year's time the first results can be expected of studies on shipbuilding, the electronic industry, farm tractors, nitrate fertilizers, and clothing; various branches of the textile industry will also be studied. The Commission will then turn its attention to the remaining branches of industry, in the first place chemicals (other than fertilizers).

This work should lead to certain conclusions which will help, on the one hand, in tailoring the industries in question to fit the estimated future pattern of demand, including foreign demand, and, on the other, in investment policy. In certain cases foreign investments in the Community may raise special problems.

The Commission hopes to enlist the aid of government departments, industrial federations and trade unions in carrying out these studies.

Agriculture

120. This point is dealt with in sections 54 to 56 of Chapter III.

Regional policy

121. The wide disparities between living conditions and levels of economic development in various European regions will not automatically be remedied by a liberal economic policy and free competition. For reasons rooted in history the different regions do not start level; hence there are grounds for fearing that as the Common Market becomes an established fact the existing gaps will at first yawn all the wider.

The task laid down by the Treaty, i.e. to ensure harmonious development of economic life within the Community and a steady and balanced economic expansion, cannot be accomplished without an active regional policy. In this respect the deployment of large reserves of productivity in areas still lagging in economic development can play a special part in stimulating economic growth and increasing the national product as a whole.

The Conference on Regional Economies, which the Commission arranged in Brussels in December 1961, made a general survey of the problem. In this sphere the Commission intends to proceed on the following lines :

122. *a)* Three working parties will be set up, composed of experts from the six countries with experience of regional affairs. They will study respectively :

- i) Methods of hastening the development of the Community's peripheral areas which are lagging far behind the central areas;
- ii) Means of infusing new vigour into certain heavily industrialized areas where some of the main industries are declining;
- iii) Privileged treatment accorded to firms with the object of fostering regional development. One important matter that calls for study is the relationship between aid to development areas and competition policy.

The three groups will start work before the end of 1962. They may hold joint meetings, thus forming an advisory committee on regional economy, possibly co-opting regional representatives.

123. *b)* The Commission has committed the limited funds at its disposal to several studies, which are also experiments, intended to throw light on a number of basic questions :

- i) How can new centres of industrial development be created ? This is a matter of setting up in a given area, at one and the same time, a complex of industries so as to create the economic and social conditions which prevail in large industrial centres and which are a prerequisite for the development of modern industry. A first experiment has been made in Southern Italy.

ii) What forms of co-operation will enable frontier regions to overcome the difficulties under which they have been labouring till now? The first experiment concerns relations between the north of Lorraine and the south of the Belgian province of Luxembourg.

iii) How can certain areas which are not sufficiently industrialized be helped to benefit from the development of surrounding areas? The Eifel-Hunsrück area has been chosen for this study.

iv) How can an area with one single industry, which is threatened by economic developments and by the creation of the Common Market, be helped over its difficulties? A Liaison and Action Committee for the Sicilian sulphur industry has just been set up for this purpose.

124. *c)* In the coming months the Commission will be reaching its first conclusions on suitable courses of common policy (for agriculture, transport, energy, etc.) to encourage regional development, and on the modifications of national policy needed for the same purpose.

125. *d)* New methods of investigation and forms of action, new at least in so far as their field of application is concerned, will have to be used if substantive progress is to be made in harmonious and balanced development of the Community:

i) Estimates of the labour situation should be made so that regional imbalances can be brought to light with sufficient clarity and in time for effective steps to be taken. These estimates will forecast the trend in labour supply and demand in each region (and possibly sub-region);

ii) The programming discussed in the foregoing pages must be designed to meet regional requirements. The Commission will recommend that the governments prepare, if they have not already done so, action programmes for the Community's major socio-economic regions. These programmes will *inter alia* serve as a guide for the operations of the European Investment Bank.

126. The solution to the problems thus brought to light will lie in a combination of vocational training, industrialization and migration within each region or, when there does not appear to be enough scope for this, in migration from one region to another, so organized that workers can adapt themselves to their new environment with the least possible hardship.

Given the necessary means, the Commission proposes to co-operate closely with the six Governments in drawing up such regional estimates and action programmes. This will have the added advantage that it will provide prior knowledge while preventive action is still possible, of the shortcomings in economic and social infrastructure which will emerge in the course of the next few years.

CHAPTER VIII

Monetary policy

127. The two preceding chapters have shown how the Community must move towards the establishment of one single centre for economic policy. Nevertheless, such a co-ordination of national policies, leading to their being eventually merged into one, would be incomplete, and therefore possibly ineffective, if no comparable action were undertaken in the field of monetary policy, that is to say with regard to the rules which govern the creation and movement of money in the member countries. Though monetary policy now no longer plays the same almost exclusive leading part as at various times in the past, it still has an important contribution to make to the general equilibrium — if only to act as a brake on an economy threatened by inflation.

128. But monetary policy is of vital importance to the Common Market from another point of view. From the end of the transition period on, if not even sooner, economic union will involve fixed rates of exchange between Member States with very narrow limits on the variations allowed. Any major modification would so much upset the trade of countries no longer protected by any customs barrier, and, because of the guaranteed Community intervention price for grain and other basic agricultural products, would cause such sudden changes in prices of farm products and therefore in farm incomes also, that the Common Market itself could be imperilled.

These fixed rates of exchange are the very essence of a monetary union for, when they are firmly guaranteed by appropriate institutions and methods, it is a matter of indifference to the citizens of any Member State whether they hold assets in one particular Community currency or another. The progressive merging of the short- and long-term economic policies will certainly help considerably in achieving this, but it would not be sufficient if it were unsupported by specific action in the monetary field.

129. Also, the six Community countries are members of a world-wide monetary system based on gold and on two major reserve currencies. This is not the place to discuss the merits of the system, but it may be said without exaggeration that it makes for a certain fragility calling for constant action if undue strains are to be avoided. The Community will be all the more able to act effectively in this direction as it will function as a single unit; the emergence of a European reserve currency would considerably facilitate international monetary co-operation and a reform of the present system.

130. It will be noted in this context that what is at stake here is not only the stability of the world monetary system but also the cohesion of the Common Market, which would inevitably be deeply affected by serious monetary difficulties even if these primarily concerned countries outside the Community. The Treaty makes provision for a common commercial policy but not for a common monetary policy; this is an obvious gap which needs to be bridged.

131. The programme which the Commission proposes to adopt in this field is set out below. The Commission will formulate the necessary proposals and in so doing it will constantly draw on the advice of the Monetary Committee which, in recent years, has proved itself to be one of the most important Community institutions so much so that the Commission would like to see its terms of reference and authority extended even further. Clearly, the entry of the United Kingdom into the Community will profoundly alter the nature of the monetary problem as it presents itself to the Member States and the institutions of the Community today. The Commission is nevertheless convinced that the ideas expressed above will lose nothing of their cogency and importance.

132. (1) Since the inception of the Community the Commission has derived great benefit from numerous consultations with the Governors of the Central Banks of the Common Market countries who, moreover, regularly meet under the auspices of the Bank for International Settlements. Nevertheless the Commission believes that it would be useful for all concerned if the Community's specific monetary prob-

lems — and general monetary problems as seen from the Community angle — were kept under constant review by a council composed of the Governors of the Banks of Issue of the Community countries, in so far as these matters fall within the competence of the Central Banks. Provision could be made for a Committee of Deputies.

For questions within the ambit of both Central Banks and Governments, meetings would be arranged under the auspices of the EEC Council with the Ministers of Finance or Economics and the Governors of the Central Banks in attendance. Unofficial meetings of the same group of persons would continue to be held, as has been the case since 1959. The Monetary Committee would prepare the decisions of the Ministers and Governors.

133. (2) Important monetary decisions would be discussed in advance in one of the bodies referred to above. This would apply in particular to any major decision affecting the creation of money in one of the Member States; changes in Bank Rate or other short-term rates, minimum reserves, rediscount quotas, open market policy, and so on. Prior consultation would also apply in cases where a Central Bank makes an advance to the State or in case of changes in the rate of exchange between one Community currency and the others, a contingency which cannot be ruled out altogether during the transition period.

The Commission is fully aware of the delicate nature of this proposal, in view of the need to observe the strictest secrecy. It nevertheless believes that such prior consultation would be possible if — in the most important cases — it involved only one person per country, one representative of the Commission and one secretary.

Flexible procedures can be worked out. In cases to be carefully determined it might be sufficient — in order that consultation may be said to have occurred — for one country to discuss with its partners and the Commission the general direction of its monetary policy and the measures it proposes to take within a specified period, provided that the information was precise and the time-limit relatively short. In other cases, where less important decisions are involved,

a procedure of prior information might suffice and an exchange of views would take place only at the request of another country or the Commission.

134. (3) The system of prior consultation, which could be organized by mid-1963, will naturally develop — for the same questions — into a system of recommendations which the countries other than the one taking action would address to it on their own account whenever they deemed necessary. The Monetary Committee has, in fact, already launched out on this road.

135. (4) With regard to external monetary relations the Commission accepts the view of the Monetary Committee that recourse by any Member State to the facilities offered by the International Monetary Fund must necessarily be preceded by consultations within the Community. The Commission feels, generally speaking, that a common position should be worked out on all important decisions in international institutions whether they concern Member States or non-member countries. It also feels that there is need to harmonize the policies of the Central Banks on reserve currencies, on which the present international monetary system largely rests. Lastly, it is of the opinion that the Member States should work out a common position regarding the present monetary system and any reforms that might be contemplated.

Of the recommendations set out in the preceding paragraph the first three could be immediately applied; the discussion of the last, which has already begun in the Monetary Committee, should be terminated before the end of 1963. The policy of the Central Banks with regard to the reserve currencies could be covered by a gradual programme of harmonization which, would also be drawn up in 1963.

136. (5) An intergovernmental agreement should lay down now the extent of the obligations which each country was prepared to accept with regard to mutual aid under the Treaty, without such prior agreement in any way prejudging the question of whether the Member State in difficulty fulfils the conditions under which aid is to be given.

But, if an affirmative decision were given on this latter point, the maximum credits which Member States had committed themselves to make available would be known in advance. These credits should represent a certain proportion of the gold and foreign exchange reserves held by each of the Community Central Banks, so as to take into account changes which might occur in the international liquidity situation of any Member State.

137. (6) As the objectives indicated in this and the preceding chapters are attained, the movements of capital still prohibited or restricted will have to be liberalized as explained in Chapter I.

Monetary policy measures are closely relevant to public finance policy. The confrontation of the budgets of the Member States to which reference is made in the chapter on development will provide an opportunity for a review of problems arising from the volume of public expenditure, possible deficits and methods of financing.

138. This then is the progress which the Commission considers both feasible and necessary in the field of monetary policy during the second stage of the build-up of the Common Market. It will round off the progress already made in budget policy (see above). It will be noted that nothing here proposed detracts from the right of the Member States and of the Banks of Issue to take, after the consultation provided for, any steps they consider best in the national interest. However, the institutions will have been set up and the procedures tested which will make it possible to go further and to advance from the co-ordination to the centralization of decisions.

The establishment of the monetary union could become the objective of the third stage towards the Common Market. The Community Ministers of Finance or of Economics, meeting in the Council, would decide on the conditions to be laid down at the appropriate time : the total volume of the national budgets and of the Community budget, and the general conditions for financing them. The Council of the Governors of the Banks of Issue would become the central organ of a federal type banking system.

CHAPTER IX

External relations

A. *THE COMMUNITY IN THE WORLD*

139. The place that the Community has assumed in the world has been growing steadily in importance, and today the Community looks as though it may become co-terminous with free Europe. More than forty States have established diplomatic relations with it. The African States and Madagascar have decided to continue this association with it and to press on with the renewal of the Association Convention. The United States declare that "partnership" with the Community forms the basis of their commercial policy. In other words, all eyes are on the Community and its relations with other countries have become an essential factor in the life of the free world.

An action programme cannot lay down lines as rigidly for external policy as it can for internal affairs. Allowance has to be made for unforeseen happenings; the results of the present negotiations are still an unknown quantity; the desires of non-member Governments must also be taken into account. It is not therefore possible to prepare a programme in as precise a form as for internal matters — we must confine ourselves to sketching out the general lines and purposes of the action to be undertaken, leaving details of time, place and method to be settled later.

1. THE COMMUNITY'S LIBERAL ACTION

140. The Community's leaders have stated on many occasions and before all international bodies that the Community is not an organization of rich nations bent on taking care of their own selfish interests alone, but that, on the contrary, it is well aware of its duties towards the other European nations and the rest of the world, and is fired by the desire to follow a policy of co-operation with everybody and progress for all.

141. The rest of this Chapter describes how this policy is applied in the following four fields :

- i) Expansion of the Community;
- ii) Partnership with the United States;
- iii) Aid to the developing countries;
- iv) The liberal nature of the Community's commercial policy.

2. EXPANSION OF THE COMMUNITY

142. Since the British Government decided to apply for membership in July 1961 all the Governments of Western Europe have been looking in the same direction and the Community has become a focal point for all the free European States, the core of the future economic and political organization of Europe.

The absence from this programme of an analysis of the negotiations in train or pending need surprise no one. But what is possible is to give below a picture of the line being followed by the Commission.

143. *a)* The authors of the Treaty did not intend the Community to be confined to the six founder States and from the outset they 'called upon the other peoples of Europe who share their ideal to join in their efforts'. They probably did not foresee that this call would be answered at so early a stage, with the transition period still under way and the common policies still being worked out.

None the less the Commission has felt all along that it must work for the success of these negotiations. It has made and will continue to make a useful contribution to them by preparing studies, suggesting solutions and taking part in the discussions.

144. *b)* Here the Community has gone on the principle that any extension of the Community must also add to its strength. In effect this means that nothing must be done which could impair the substantive provisions or the institutional structure of the Treaty of Rome. Any solutions put forward at the current or future negotiations will have to be judged by this criterion. In this connection the Commission has quite rightly decided to concentrate for the time being on pushing

ahead the negotiations with the United Kingdom. Only later will it be possible to give the other negotiations the attention they deserve to study the objective conditions and to arrive at solutions which will conform with the true interests of all concerned.

145. *c)* Although there is no call to study the current negotiations in detail — it has already been pointed out that by their very nature they cannot be covered by an action programme — attention should nevertheless be drawn to the fact that it is already possible to elicit trends which in turn might well be included among the factors which serve to decide the form of important moves made by the Community in its relations with the outside world. If the Community tackles this task in the right spirit, these moves will help to foster the development of a common policy. This means that the Commission :

a) Should be prepared to undertake negotiations for the conclusion of international commodity agreements;

b) Should be prepared to undertake negotiations for the conclusion of broad trade agreements with developing countries of major importance, such as India and Pakistan;

c) Should be prepared to undertake the extension of its system of association with certain African States to other States or territories in Africa and the West Indies.

3. RELATIONS BETWEEN THE COMMUNITY AND THE UNITED STATES OF AMERICA

146. The prosperity of the Community and the adoption by the United States of the new action programme for trade — the Trade Expansion Act — impart greater importance to the relations between these two large communities.

The fact that the Government of the United States feels that Europe, in the form of the Community, is now a partner with whom it can deal on an equal footing, both in mutual relations and in the tasks to be jointly undertaken in the world is an important milestone marking the progress made by the Community in its four years of life.

147. Actual negotiations will probably not get under way until

the end of 1963 or even early in 1964. The Commission intends to make use of the intervening period to do the following work :

- a) It will finish the studies it has been engaged on for some months on the commercial possibilities and general economic implications of the Trade Expansion Act and on the details of the concrete proposals that the American Administration will make under the Act.
- b) It will then submit to the Council proposals on the attitude to be adopted by the Community in these negotiations.
- c) It will, without waiting for the official opening of multilateral negotiations, explore with the United States every opportunity of widening the scope of the negotiations both in substance and procedure.

Special care will have to be taken that the negotiations really do proceed by the across-the-board method, which the Community has preferred to use in the past, and not product by product and that exceptions ("reserved" lists) are kept down to a reasonable minimum.

148. Care will also have to be taken that negotiations cover not only tariffs proper but also obstacles to trade other than tariffs (safeguard clauses, various administrative provisions, restrictive practices in customs methods, etc.).

A study should be made of the consequences for trade of the dismantling of customs protection and to what extent such dismantling should be accompanied by harmonization of the rules of competition.

Finally, the Community's negotiating methods should be re-examined and the Commission should be granted greater freedom to manoeuvre in the future, since it has to do the negotiating.

The Commission's general report on the 1961-62 tariff negotiations is to be published. This will provide an opportunity to analyse the results of the negotiations just finished and, with the Council's assistance, to examine the measures which can be taken, without any modification of the texts or impairment of the terms of reference laid down by the Treaty, to ensure that the coming negotiations proceed more efficiently.

149. The importance of what is at stake in the negotiations renders such an effort all the more imperative. The negotiations will not merely decide what trade relations between the United States and the Community will be, they will also be the greatest effort made for a long time to free world trade in the tariff sphere. The success of these negotiations would go a long way towards solving the problem of the Common Market's relations with non-member countries, both inside and outside Europe, that are not included in its area of preferential tariffs; it would be of great help, commercially, to the developing countries. The Commission will do everything in its power to enable the Community to bring as much energy and political imagination as possible to bear on making a success of this great undertaking.

4. AID TO DEVELOPING COUNTRIES

150. The Community has been aware since it was founded of the responsibilities resting on industrialized countries in connection with aid to the developing countries. The Commission, ever since its first memorandum in March 1959, has been stressing the responsibilities that the Community bears jointly with the United Kingdom and the United States.

A special chapter on aid to the developing countries (cf. above Chapter X) describes the Commission's policy in this field and the general measures for carrying it out.

Here only the specific actions which the Community has undertaken in this field during its negotiations with non-member countries will be mentioned.

151. *a)* The Community has concluded an Association Agreement with Greece which enters into force on 1 November 1962. The general aim of this Agreement is, by means of a number of economic, commercial and financial provisions, to aid Greek economic development and to enable Greece to become a member of the Community as rapidly as possible. Implementation of this Agreement will call for steady effort on the part of all the Community's institutions.

At present an Association Agreement is also being negotiated with Turkey.

152. *b)* As stated in Chapter X, the Community is at the moment working on an agreement by which the association with the African States and Madagascar will be renewed for five years and the economic, commercial and financial links with these countries strengthened.

153. *c)* During these negotiations the Commission made a proposal, which was accepted both by the Member States and the Associated States, for a substantial reduction in tariff protection for the main tropical products. Other countries, particularly those of Latin America, will also benefit directly from this reduction.

154. *d)* In its negotiations with the United Kingdom, the Community has paid special attention to the developing countries in the Commonwealth, by providing for a system through which they could be associated and proposing a group of specific measures designed to give direct support to their economies (particularly in India, Pakistan and Ceylon). These are still being discussed, but it is already quite clear that the Community is making a serious effort to meet the needs of these various countries. Negotiations with these countries are due to begin as soon as the United Kingdom joins the Community.

155. *e)* The Latin American States are faced with a large number of problems, of which tariff protection on tropical products is only one. The Commission has prepared a memorandum in which it analyses the situation and proposes a series of measures for assisting Latin America so that the Community can formulate a general Latin American policy and pursue it systematically.

5. COMMERCIAL POLICY

156. The Community's commercial policy is taking shape. A subsequent chapter gives the measures, proposed by the Commission and recently adopted by the Council, which will ensure that, as

provided for in the Treaty, a gradual advance will be made during the transition period from the initial stage of national policies to the stage in which there will be a common commercial policy.

The liberal trend of this policy can be seen in concrete form in the following measures :

157. *a)* In 1959 the Commission made a proposal which became the subject of a Council decision to offer a 20 % across-the-board reduction in the common customs tariff, which was the central theme of the "Dillon" round of negotiations. It is true that the results obtained were incomplete — and here the fault did not lie with the Community alone — but this should not be allowed in any way to detract from the significance of the work done and from the intentions underlying it.

158. *b)* The Commission proposed to GATT that the across-the-board method should be adopted generally, in order to make future negotiations more effective. This proposal was accepted by the Contracting Parties at the ministerial meeting in November 1961 and will be taken as a basis for the 1963-64 negotiations.

159. *c)* As already stated, the Commission intends to propose to the Council that the Community should take an active part in these negotiations.

160. *d)* In framing the Community's agricultural policy, the Commission has taken the interests of non-member countries into account as much as possible. In particular, it has provided for the abolition of all quota restrictions on products subject to a levy, thus getting rid of arbitrary and unforeseeable restrictions and replacing them with a rational and balanced system of trade with non-member countries.

The Commission has also agreed to confer with exporting countries such as the United States and Canada if certain of their exports show a marked drop and, more generally, has agreed that within GATT there should be discussions with its trading partners on the effects of its agricultural policy.

In its negotiations with the United Kingdom, the Commission has proposed to negotiate world agreements designed to expand trade in agricultural products and to avoid excessive fluctuations.

161. *e)* The Commission has proposed special measures for stepping up the trade of the developing countries (tropical products, settlement of the question of Persian carpets, etc.).

162. *f)* In order to establish a common point of view for the Community, the Commission took an active part in the negotiations for the cotton textile arrangement and, if the arrangement works satisfactorily in practice, intends to propose that the same method be used for other products.

163. *g)* The Commission has done everything in its power to persuade the Member States not to resort individually to Article XXXV of the General Agreement on Tariffs and Trade, but to rely instead on measures negotiated as part of a common commercial policy. It has sought to bring into line the Member States' policies towards such countries as Japan and, under the action programme adopted by the Council, it will submit new proposals to this effect in 1963.

6. THE MEANS AT THE DISPOSAL OF THE COMMUNITY

164. Finally, the Commission must point to the discrepancy between the Community's political and economic position in the world and the means at its disposal; this affects in particular the Commission's relations with non-member countries and would justify action to improve the situation.

It would have been normal — and what the Commission would have wished — for the Community as such to have become a member of OECD. Similarly, the Community should be represented in certain non-member countries with which it has important problems to tackle. Now that partnership is being established between the Community and the United States, it would be very useful to have some form of delegation in Washington. By the same token Community representation on the spot would make the Community's action

more effective in Latin America where twenty nations set great store on their relations with the Community. What has been achieved thanks to the collaboration between the Commission and government services in the African States and Madagascar also shows how useful it would be if questions arising from the Community's efforts to help in the development of these countries could be tackled locally.

B. THE STRUCTURE OF THE COMMERCIAL POLICY

165. The gradual transfer of commercial policy from Member States to the Community is producing the instruments of which the Community is already in need and which will be more and more necessary in the future. It is the Community's intention to use these instruments as a means of liberalizing trade; in doing so it will not only be acting in accordance with its world-wide responsibilities, it will also be taking into account factors which enable the economic structure of the Community to be adapted to the world around it in the manner best calculated to facilitate a better international division of labour.

1. MEASURES

166. The preparation of the common commercial policy must go ahead at the same pace as the customs union. Otherwise the establishment of the common customs tariff would be out of step with the other commercial measures and the Community might even find its freedom of action in this field hampered, and the success of its negotiations jeopardized. Account must also be taken of the fact that much more has been done towards establishing a common policy for agriculture than towards a similar policy in the commercial field. As policy for trade in agricultural products is itself part and parcel of agricultural policy proper, the establishment of a common policy in this limited sector is going ahead faster than in the remaining sectors of commercial policy.

167. The Commission intends to urge, as in the coming months each particular problem approaches the stage of decision, that as

far as possible immediate account be taken of the progress made in establishing a common agricultural policy and that trade policy in the industrial sector be kept in line with this progress. For an economic unit such as the Community, which is the world's foremost importer of agricultural products and one of the main exporters of industrial goods, it is incidentally of vital importance to have a single, coherent commercial policy covering agricultural and industrial products, and so to ensure that its trading interests are duly cared for.

168. There is no need to go fully into the action programme ⁽¹⁾ which covers the work to be done before the end of the transition period on preparing the common commercial policy in accordance with the decision taken by the Council last July. If, as the Commission believes, the rate at which customs duties are being eliminated ought to be maintained in the future and if, in particular, it is intended to end the present division of commercial policy into a Community policy in the agricultural field and a hybrid policy, half national half Community, in the industrial field, the bulk of the work provided for in the Council's programme should be finished before the end of the second stage. The Commission will bear this in mind in deciding when to submit the proposals called for by the programme.

169. The main points of the work that is to be done can be summed up as follows :

170. *a)* In pursuance of its liberal customs policy, the Commission will take an active part in the tariff negotiations which will follow the passing of the Trade Expansion Act. The Commission is all the readier to follow this course because, as stated in Chapter I, it favours the gradual abolition of national tariff quotas.

171. *b)* Before 1 July 1963 the Commission will make proposals for the removal of all remaining discrimination of the dollar area in connection with quantitative restrictions and will at the same time submit a uniform liberalization list.

⁽¹⁾ Details are to be found in the official gazette of the Communities, 5 October 1962.

172. *c)* Measures to liberalize trade in certain sensitive items between the Community and other Contracting Parties to GATT, such as Japan, cannot be automatic because of differences in production costs. The national policies which Member States pursue in their trade with these countries often lead to overlapping between the various bilateral arrangements; they should be merged into a common policy with the following features :

i) Preparation of a common list of products which the Community regards as sensitive;

ii) Adoption of a Community safeguard clause incorporating the various measures already adopted by the Member States. The Community would negotiate on this with the countries concerned.

The Commission will have finished its share of this work, with the assistance of the Member States, by the end of 1963.

173. *d)* Apart from multilateral trade with the Western world, there is also bilateral trade with the Eastern bloc countries. National quotas and liberalization lists for these countries will be replaced by quotas negotiated or fixed according to a Community procedure. The liberalization lists drawn up autonomously by the various countries will be pooled and replaced by a Community list. The Commission will submit its initial proposals on this subject before the end of 1963;

174. *e)* Protective measures such as anti-dumping duties and countervailing duties will be harmonized at national level and ultimately replaced, on a proposal from the Commission, by Community measures.

175. *f)* If trade is distorted or economic difficulties arise owing to disparities in commercial measures, it is the duty of the Commission to rule on the safeguard measures proposed by the Member States affected. In this respect it feels that this kind of difficulty should not be overcome by isolating markets but by measures which form part of the common commercial policy. The Commission intends to act systematically on these lines.

176. g) As soon as the Treaty came into force the Commission began to conduct tariff negotiations on the Community's behalf, but in other commercial dealings a different procedure has been followed, for under existing provisions it is only from the end of the transition period onward that these must perforce be handled by the Commission. This does not, however, mean that the Community as a whole cannot even now conclude trade agreements with non-member States. Negotiations of this kind have already been decided on; they will be conducted in accordance with Community procedures, thus facilitating the move into the final stage provided for in the Treaty.

2. WORLD AGRICULTURAL MARKETS

177. The world markets for agricultural commodities have not proved very effective in their role of establishing a balance between areas of plenty and areas of shortage. The Community did not create this state of affairs, but the development of the Community in general and of the common agricultural policy in particular will help to throw into greater relief the shortcomings of the current system and the need to put them right.

The Community is aware of the fact that its responsibility in this field will increase as the accession of new members alters the structure of world commodity markets. But since it and the United Kingdom are the main buyers on the world's agricultural markets, it can make an active contribution to the solution of the problems which beset them. It will take the initiative in preparing and convening international conferences on world commodity agreements.

CHAPTER X

Aid to the developing countries

178. Under the terms of Part Four of the Treaty of Rome, the Community has assumed special responsibilities towards a number of associated States and countries in process of development, and provided itself with the means of fulfilling them. Under the new Association Convention now being negotiated with the African States and Madagascar, these activities — which take on fresh political significance with the accession to independence of many of the States concerned — are to have increased resources allocated to them and will assume new forms.

The implementation of the Treaty, particularly in its impact on world trade, has also created wider responsibilities for the Community with regard to other developing countries. The Commission considers that the Community must take increasing account of these vaster problems and seek appropriate solutions for them.

179. The Commission's programme consequently comprises :

a) The maintenance and improvement of the Association system considered as a global effort covering a huge area of the developing world and enabling the Community to plan and apply the methods best calculated to help the Associated States without impinging on their sovereignty.

b) Consideration for the interests of developing countries not linked with the Community, and implementation of the solutions appropriate in their case, with due regard at all times to the special situation of the associated countries.

A. THE ASSOCIATION

180. As the new terms of association with the African States and Madagascar are still under negotiation, a general reservation must be made as to what the future Convention will finally contain.

Subject to this proviso the Commission can refer to the main lines of the project, since these have already been agreed in principle by the parties concerned.

In particular it is now established that the Community is to provide considerably more finance for the Associated States. In all 730 million units of account will be placed at their disposal, both for economic and social investments similar to those financed by the first Fund, and for a new type of action known as "Aids to Production".

It is also settled that the draft Convention will provide institutional machinery for permanent discussions between the partners on a footing of equality with a view to ensuring by joint agreement that the Association system produces maximum results. It would be premature at this stage to examine what action the Commission will have to undertake in and for the institutions provided. On the other hand it is possible to indicate the tasks that will be laid on it by the altered terms and scope of the increased financial resources made available.

a) Aids to production

181. The Associated States agree with the Community's view that they should try and improve their chances of taking a bigger share of world trade by making their export prices competitive as soon as possible. It is precisely in order to help them to do so that the Community has agreed to furnish a considerable extra finance over the next five years for the purpose of providing degressive price supports during the change-over and putting in hand programmes for diversifying production to restore the balance of their economies.

There is no doubt that the magnitude of this transformation in the external trade of a great many associated countries, and the procedure for reviewing the system in the light of results after three years, will require the Commission to devote the greatest care to the success of this policy, on which all the more attention will be focussed as it is generally held to constitute the best remedy for the hardships of the associated countries.

Action to diversify production will have to be concentrated particularly on industrialization as the essential factor for securing balanced development, social advancement and progress towards economic independence.

The new possibility of financing projects in the associated countries by loans, will supplement the existing system of grants in a way highly suited to industrial investment.

b) Co-ordination of financing by subsidies and loans

182. The Commission considers it essential to maintain unity of doctrine and action between the various forms of Community financial aid to the associated countries, irrespective of the source of the funds used.

It will organize its co-operation with the European Investment Bank accordingly.

c) The development of technical assistance

183. The new Convention provides for a considerable expansion of technical assistance not merely in the form of scholarships and training periods, but above all in the work of planning, finalizing and carrying out investments financed by the European Development Fund.

The Commission also intends to improve its technical arrangements for supervising the execution of such projects. The aim here will be :

- i) To use the supervisory bodies for on-the-spot training of nationals of the associated countries in various technological subjects;
- ii) To introduce new supervisory methods which will make local action by the Commission in the Associated States more effective and durable.

Finally, the Commission considers that these research and training facilities in the Member States which are more or less specifically aimed at the developing countries can only be made fully effective by systematically co-ordinating and adapting them to actual conditions of underdevelopment, and by opening up certain hitherto neglected avenues of research.

It is for this purpose and in this spirit that the Commission has already joined with the Executives of the other Communities in proposing the establishment of a Joint Development Institute.

It intends to pursue its efforts to have this project put through.

d) Association and the other African countries

184. One of the commonest criticisms made of the Association is that it gets in the way of attempts to achieve one kind of unification in Africa.

The Six gave the best possible reply to these charges during the negotiations with the United Kingdom, when they considered the possibility of extending the association system to some of the Commonwealth developing countries, particularly in Africa.

True, the outlook for this wider Association cannot be exactly appraised at present either by the Community or the States concerned; in any case, however the Association is enlarged, it must not be allowed to injure the States included in the Convention now under negotiation.

In this field, there must be a mutual supply of fully objective information, and the Commission intends to pay particular attention to this point.

Nor does the Commission consider the principle of the Association to be incompatible with the organizations for economic co-operation which some Associated States have already established or planned among themselves or with third parties.

The Commission considers it both feasible and desirable to develop co-operation between the Community and such organizations in a liberal and constructive spirit, provided always that the fundamental rules of the Treaty and Conventions continue to be observed.

185. Such, in broad outline, are the Commission's programme and views regarding the Association.

Naturally they have not been developed and adopted without due

need being given to the conditions for successful action and the general atmosphere which this presupposes.

186. The chief conditions ⁽¹⁾ for success is, in the Commission's view, that the future Convention should be as flexible as possible, especially in its application. To prove the point, it is only necessary to recall, for example, the need to combine in suitable proportions the various forms of financial aid (subsidies and loans) and to trim producer supports to suit the economic situation, particularly in the field of prices and market organizations.

187. The Commission therefore recommends for the present avoiding any over-rigid arrangements in the Convention, and will endeavour to see that it is applied in due course in the same spirit, by virtue of the powers vested in the institutions of the new Association.

As regards the general atmosphere of policy in these matters, certain criticisms or misgivings have been voiced to the effect that the Association is no more than a partial, and in some respects privileged, solution of the problem of underdevelopment.

The Commission has already done justice to these by proposing a sizeable reduction of tariff preferences for tropical products. It has also balanced its proposals for the associated countries by compensating factors elsewhere, notably in the extra financial effort for aids to production.

In the same general context, the Commission has already announced that the Community is not formally required to practise what is called "tied aid", under which allocation from the European Development Fund would be exclusively earmarked for undertakings in Member or Associated States. The Fund's procedures are already multilateral and competition can be extended in favour of non-member countries whenever these are prepared to reciprocate.

On the same grounds the Commission has adopted a liberal attitude on the reciprocity of advantages offered under the trading system

⁽¹⁾ Chapter XI sets out the problems of finding the indispensable resources in men and money to cope with the new tasks.

between the Community and the African States and Madagascar. The partners in the Association must be allowed sufficient time to judge the advisability, and study the details, of any changes some of them might wish to make in their present de facto system of trade. Countries outside the Association obviously stand to gain from this liberal approach.

B. RELATIONS WITH OTHER DEVELOPING COUNTRIES

188. One consequence of the gradual setting up of the customs union of the Six, and even more of the European "economic union" provided for by the Treaty, is that the Community is increasingly called upon to deal with problems peculiar to the developing countries.

In relations between advanced and developing countries it is becoming difficult to draw the line between commercial matters and "financial and technical aid". The wider Community will moreover be called upon to conclude agreements with many of the most important countries of the "third world". As the Commission is responsible for the progressive elaboration of a common policy on trade with these countries, it will necessarily have to propose a common policy of financial aid and technical co-operation.

Community machinery for financial aid and technical assistance will not do away with the existing national arrangements, but will make increasingly close co-ordination between them both easier and more necessary.

The Commission therefore considers that the Community countries should undertake to make available over a lengthy period annual sums in aid which would represent an equivalent burden for each of them having due regard to domestic expenditure of the same nature.

The way these resources are used should be laid down by co-ordinated or joint decisions under a long-term policy of aid to the developing countries. Such aid policy and the financial contribution in question would naturally form part of the Community programme outlined in Chapter VII of this document.

The Commission already considers that the Community should do more to advocate in international bodies the methods it has put to the test within the Association, in particular where the diversification of production, the organized development of the economy and technical co-operation are concerned.

The Commission would wish to see discussions between the Community and the developing countries become a permanent feature. In order that such discussions shall be frank and fruitful, the Commission might, without calling into question the Association system, take its stand on the following principles :

- i) The export income of the countries concerned should be at least maintained and if possible increased by promoting an overall policy essentially based on the organization of large world or regional commodity markets, on the stabilization at higher levels of commodity prices and on the progressive removal of obstacles — particularly of a fiscal nature — to higher consumption of basic commodities in the advanced countries.
- ii) The possibility should be envisaged of adapting the common customs tariff and the import systems for certain products where the progress of the general organization of markets reduces the need for preferential arrangements at regional level. This prospect obviously calls for a concerted effort by the Community and the other leading partners in world trade.
- iii) Sympathetic consideration should be given to any interests of the developing countries liable to be affected on a considerable scale by the common agricultural policy.

189. The Commission for its part is prepared to pursue the application of these principles. But it must be pointed out that it must accordingly be able, at Community level, to use certain means of action, including, though not limited to, the following :

- i) In the field of trade :

The adoption on the basis of Commission proposals of a Community attitude — presented to the outside world as such — towards commodity agreements (coffee, sugar, wheat, tin), draft treaties and international conferences.

ii) In the financial field :

Co-ordination of policies on credit insurance, guarantees and financial credits and participation as a Community in the public and private financing of development plans.

iii) In the matter of technical co-operation :

Co-ordination of the policies of Member States, and possible awards of scholarships to nationals of non-associated countries.

iv) Information and liaison with the countries concerned :

The Commission believes that it would be to the Community's interest in its discussions with the developing countries to speak with one voice whenever a specific position can be formulated. Certain suggestions to this end have already been put forward, and the Commission intends to go into them and apply those most suitable.

190. The Commission is convinced that its efforts on the lines just indicated will contribute to the working out of a coherent common policy on development problems : the Association system is both the first manifestation of such a policy and, in the Commission's view, an example from which there are many lessons to be learned.

CHAPTER XI

Administration and finance

A. *EUROPEAN ADMINISTRATION*

191. With the growth of the Community's activities there has been established a European administration, the staff of which have the status of European civil servants and act entirely in the interests of the Community.

The service regulations introduced in 1962 formally recognize the European status of staff members and lay down their obligations. It is thus possible to be sure that personnel recruited are of the requisite qualifications and integrity. Certain adjustments of these regulations may, however, prove necessary in the light of experience, to make the procedures in question more effective. The Commission will shortly be submitting proposals on this subject.

STAFFING REQUIREMENTS

192. Until 1962 the Commission endeavoured to meet all the demands made upon it with its relatively small staff. On this point a comparison of the size of the establishment of its departments with that of departments doing similar work in Member Governments is revealing.

Since the beginning of 1962, new and far-reaching responsibilities have fallen upon the Commission, more especially the implementation of the common agricultural policy and policy in regard to competition, in pursuance of the agricultural regulations of January 1962 and the regulation concerning cartels and dominant positions. The Commission therefore made a request for the extra staff needed to cope with these new tasks. As its requirements, however, were not fully supplied, the Commission has been unable to carry out some of the work planned, particularly in connection with agricultural policy.

competition, the planning and execution of common policies in the economic and social fields and in transport, the implementation of the new Association Convention with the African States and Madagascar, the widening of the Community's external responsibilities — all these will inevitably create a need for a considerable increase in staff in the near future. The Commission will endeavour as in the past to keep its demands to a minimum. But if such demands, supported by a statement of real needs, cannot be met, the Commission must point out that the consequences for the progress of the Community will be serious.

Apart from these urgent needs, the measures outlined in the action programme cannot be fully put into effect unless the requisite means are placed in due time at the disposal of the Community's institutions.

COMMUNITY FINANCE

193. The Community is at present financed by budget contributions from its Member States, but the Treaty expressly provides for the possibility that the Community may instead be sustained from its own resources.

The common agricultural policy has provided a means of creating one category of such resources : the levies on agricultural imports. But it is not feasible, nor is it desirable, to finance the whole of Community expenditure out of these levies. Imposts on imported goods, be they customs duties or levies, will cease to be national in character by the end of the transition period, if not earlier. It would seem a natural corollary to the system already agreed upon for agricultural levies that the proceeds of duties imposed under the common external tariff should accrue entirely to the Community.

Furthermore, consideration should be given to the question whether provision should not be made for other sources of revenue less dependent on international trade.

The Commission will in the near future submit proposals on these matters.

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