

EUROPEAN ECONOMIC COMMUNITY

Official Spokesman
of the Commission

23, avenue de la Joyeuse Entrée

Brussels 4
Telephone 35.00.40

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INFORMATION MEMO

SUMMARY

OF THE SEVENTH GENERAL REPORT
OF THE COMMISSION
OF THE
EUROPEAN ECONOMIC COMMUNITY

THE ESTABLISHMENT OF THE COMMON MARKETFree movement of goods, persons and capital

The general effect of the reduction of intra-Community customs duties on 1 July 1963 was to bring duties between Member States down to 40% of the basic duty in the case of industrial products and to 55% in the case of agricultural products.

The Commission listed and examined some 350 charges imposed in the various Member States that may be regarded as equivalent in effect to customs duties. About 190 of these charges (54% of the total) have already been abolished, either after proceedings on grounds of infringement or as a consequence of the first agricultural regulations on cereals, pigmeat, eggs and poultry.

The second alignment of national duties on those in the common external tariff on 1 July 1963 put the implementation of the common external tariff for industrial products two and a half years ahead of the time-table laid down by the Treaty.

On 16 April 1963 the Commission put before the Council a proposal to fix the duties in the common external tariff for the petroleum products in List G. This proposal would give moderate protection for the refining industry, varied according to product, while products for certain specific purposes would be allowed in duty free.

No major modification was made in the common external tariff during the period under review. On the other hand, a fair number of duties were suspended or temporarily reduced by the Council, acting under Article 28.

Ninety tariff quotas were granted under Article 25 during 1963, and 77 have been granted so far in 1964. The tariff quotas granted from 1961 to 1964 inclusive may be estimated to represent by value about 3% of total Community imports from non-member countries.

In the past year the Commission has worked out an Action Programme for the Community on customs legislation, which involves:

- (i) Correct and uniform application of the nomenclature of the common external tariff;
- (ii) Fixing common rules for determining the customs valuation of imports;
- (iii) Drawing up a common list of exemptions on economic grounds to be applied by each Member State to imports from non-member countries;
- (iv) Drawing up a definition of origin to serve as an element of Community commercial policy;

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- (v) Preparing anti-dumping legislation to protect the Community from improper commercial practices on the part of exporters in non-member countries.

As imports had for two successive years been below the quotas authorized, quotas for six products were abolished under the terms of Article 33(4) by the Federal Republic of Germany, by France for twelve products and by BLEU for one product.

Pursuing its efforts to eliminate discrimination by obtaining the relaxation of government monopolies, as required by Article 37, the Commission has sent further recommendations to the Member States and has kept watch on how the earlier recommendations are being applied.

Since 1 April 1963 the Commission, in pursuance of the Council's decision of 4 April 1962, which authorizes countervailing charges on imports of certain goods processed from agricultural products, has taken decisions in 29 cases granting or refusing the Member States permission to impose such charges.

At the end of 1963 the Member States were applying protective measures under Article 115 in order to exclude from Community treatment imports of 98 products originating from non-member countries and in free circulation in other Member States. The Commission has therefore laid before the Council proposals for the gradual introduction of a common commercial policy towards these countries; if these proposals are accepted, Member States should gradually be able to appeal less frequently to Article 115.

Since April 1963 there has been no great change in the number of appeals to Article 226 (safeguard measures); most applications were for the extension of measures previously authorized by the Commission for the purpose of putting certain commodity sectors (sulphur, lead and zinc, silk) on a sound footing. The Commission has ensured that measures already adopted were modified as the situation in these sectors evolved, and it took decisions to facilitate or speed up the evolution of this situation to the point where the position was such as would normally be found after the establishment of a common market.

On 25 March 1964 the Council adopted a regulation superseding Regulation No. 15 and a directive to replace that of 15 August 1961 on the free movement of workers. The new regulation marks a great advance on the previous one. It covers all wage-earners, and in particular seasonal and frontier workers. Priority for the home labour market has been abandoned, and workers enjoy, in principle, equal rights of access to employment throughout Community territory. The limits to priority for the home labour market are those which Regulation No. 15 had already set: priority cannot apply to individual offers of employment based on certain criteria. In the new regulation, the period for assimilation of foreign workers to workers in the country of employment is reduced from four to two years. The

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right to election to representative bodies in the firm has been granted to foreign workers who satisfy the same conditions as national workers and have worked in the firm for three years. In addition, the worker now has the right to be accompanied or joined by all dependent relatives in the ascending or descending line.

As regards freedom of establishment and freedom to supply services, two directives (establishment in agriculture) had already been adopted by the Council when the last General Report was presented. Eight more have now been added, regarding payment for services, the film industry, entry and residence (two directives), reinsurance, wholesale trade and intermediaries together with the relevant transitional measures (three directives). Four directives (on agriculture, payments, and the film industry) have already begun to make their effects felt in the Member States.

The Commission also submitted to the Council seven more draft directives concerning industrial and artisan activities, the extractive industries and the relevant transitional measures, public works contracts, the film industry (second directive), supply of services in agriculture and the co-ordination of company law (first directive).

As regards free movement of capital, new proposals have been prepared for a third directive in pursuance of Article 67 of the Treaty. The Commission, after obtaining the opinion of the Monetary Committee, will submit these proposals to the Council in the near future.

Competition

The outstanding feature of the year under review was the growth of competition in trade among the Member States and a corresponding further intensification of competition policy.

The reduction of customs duties and the abolition of quotas created new possibilities for firms to trade across frontiers, and many took advantage of them. As a result the numbers competing on many markets increased and competition became keener. The role of competition as an integrating factor which broadens national markets and gradually welds them together has again become greater.

Meanwhile, practical experience during the year shows that the freer and keener competition due to customs dismantlement is not in itself sufficient to confer on those concerned with the market and on the economies of the Member States the full economic advantages which could flow from this competition, to distribute these advantages fairly, and gradually to bring about conditions like those on a domestic market. In the place of customs and quotas other artificial distortions of competition between states are increasingly making themselves felt.

Removal of these artificial distortions and restrictions is a task for competition policy. The state of undistorted competition

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that would result is not an end in itself but a means of ensuring growth in the economic field, in the social field optimum satisfaction of needs and fair distribution of incomes, and in the business field maintenance of economic freedom for enterprises and consumers.

During the period under review the Commission introduced certain supplementary provisions in the procedure regarding restrictive practices and the examination of individual cases. The most important legislative measure was a regulation on the hearing of parties directly concerned and of third parties prior to decisions called for by Council Regulation No. 17.

The Council regulation dated 8 November 1963 extended for three years - from 31 December 1963 until 31 December 1966 - the time-limit for notifying certain national cartels, resale-price-maintenance arrangements, licence agreements and agreements concerning standards, types and research.

In pursuance of its Action Programme the Commission put in hand in May 1963 a number of investigations into concentration of enterprises in the Common Market. Several studies have already been begun.

By 31 March 1964 the Commission had received about 37 000 notifications, applications and complaints, the latter numbering 48.

Among reciprocal restrictions of competition, 81% of the notifications and applications concern exclusive-agency agreements, 16% licensing contracts and 3% miscellaneous agreements.

The registration of all these agreements, which is done from various standpoints, is almost concluded.

By 31 March 1964 the Commission had initiated the procedure for dealing with 137 individual cases (Article 9(3) of Regulation No. 17). These include 28 complaints, 108 notifications with the aim of obtaining exemption or applications for negative clearance, and one case taken up ex officio. The choice of cases for the institution of proceedings and the handling of these cases is carried out in accordance with the principles decided by the Commission in July 1963. In conformity with these, most of the proceedings instituted by the Commission deal with important horizontal market-sharing, price and quota agreements between manufacturers in various Member States, and priority has been given to the handling of these cases and to the examination of restrictions on competition notified before being put into effect.

The list of existing aids referred to in the Action Programme has been completed. The Commission has nearly completed an initial phase in the examination of these aids, in which they are being studied from the angle of their influence on competition.

Work on the preliminary draft of a convention to establish a European trade-mark law was finalized in April 1964 at a session of

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the working party concerned. The revised text is to be published, as was the draft of the patents convention. As in the field of patent law, the basic principle is that European trade-mark law shall exist alongside the national systems, under which national trade marks will continue to be issued.

Because of the considerable influence exercised on trade within the Community by indirect taxes - in particular turnover taxes, which directly affect prices - the Commission has concentrated its attention on the harmonization of these taxes, while continuing its investigations and taking steps to obtain some harmonization of direct taxes.

On 5 November 1962 the Commission laid before the Council of Ministers the first draft directive to harmonize legislation on turnover taxes, providing for harmonization in three stages. The Economic and Social Committee gave its opinion on the draft in July, the European Parliament in October 1963.

Interpenetration of markets; the Common Market and the consumer

1963 saw a continued and faster expansion of intra-Community trade. The year-to-year growth rate was 17% against 14% in 1962 and 14.5% in 1961. The total increase last year in relation to 1958 reached 130%, and in the same period imports from non-member countries went up by 52.5% and exports to such countries by 36%.

The development of intra-Community trade by main classes of product was much more uniform than in 1962. On the one hand, for instance, the growth rate of trade in machinery and transport equipment has, on account of the quieter investment situation, drawn nearer the average increase reckoned for trade as a whole. Trade in fuels, on the other hand, expanded very appreciably in consequence of the cold weather in early 1963. Likewise the pace of trade in chemical products, which was already higher in 1962, accelerated in 1963. Only in raw materials did trade between the member countries make hesitant progress, especially during the first half of the year, mainly because activity in the iron and steel industry remained stable.

National income rose in the Community between 1959 and 1963, at current prices, in the aggregate by 53% and per capita by 46% (per-capita increase in Germany 42%, France 48%, Italy 60%, Netherlands 33%, Belgium 25%).

Between 1958 and 1963 private consumers' expenditure in the Community rose by 51% in value and by 44% per capita (per-capita increase in Germany 23%, France 21%, Italy 36%, Netherlands 20%, Belgium 17%).

In relation to 1960, intra-Community trade in private consumer goods was up by 46%, whereas the increase for imports from non-member countries was 27% and those from associated overseas countries 8%.

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The degree of unification of markets differs somewhat from one member country to another. For some products a truly unified market seems to be well under way in the six countries; the most significant example is the motor-vehicle sector, but to a lesser degree the same is true of various articles of clothing (knitted and crocheted outer garments, women's outer garments, footwear) and one household appliance (non-electric cookers).

As a whole the Common Market seems to have had less effect on prices than on the volume of supplies made available to consumers.

In all Member States except the Netherlands, prices of agricultural products have risen since 1958 but at different rates. In 1962 and 1963 the rise was pronounced in Belgium and Italy. It was less so in Federal Germany. In the Netherlands agricultural prices (direct subsidies taken into account) remained stable. Since 1958 producers' prices have increased more sharply than consumer prices in Belgium and Italy. In the other Member States the contrary has been the case.

The foreign products offered to consumers at lower prices and the pressure on prices of national products already affect quite a large number of items, including food products (mainly biscuits and chocolate). But the three main classes of products concerned were: in the clothing sector, conventional items but original in style, mainly from Italy (knitted and crocheted goods, footwear, etc.); household electrical appliances (refrigerators, washing machines and radio sets); and motor vehicles, where it has been generally noted that prices of vehicles manufactured in the EEC countries have dropped more sharply than those of vehicles imported from Great Britain, the United States and Sweden.

TOWARDS A COMMON POLICY

Economic policy

The gross product of the Community in 1963 is estimated to have been about 4% greater in volume than in the previous year. In real terms, private consumption per head - one of the main indicators by which to assess the standard of living - was 3% higher than in 1962.

Pursuit of the objective of a high level of employment produced satisfactory results: unemployment remained extremely low in most Community countries. Most member countries failed to achieve price stability; in some, the upward movement of prices even gathered considerable pace. It was only in Germany that they tended to settle down, at least until the autumn of 1963. These inflationary trends within the Community are also reflected in changes in the balance of current payments, which again deteriorated in 1963.

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In respect of the short-term economic policy pursued by the authorities in the various member countries, it is regrettable to note:

- (a) that the selective policy - which initially seemed the most appropriate and which should also in certain member countries have had certain general effects - was not always pursued consistently and energetically enough;
- (b) that the policy designed to slow down the expansion of internal demand in money terms throughout the economy - the need for which became more and more urgent in the course of the year - was not applied with sufficient stringency.

In accordance with the objectives proposed by the Commission in its Memorandum on the Action Programme for the Second Stage, further steps have been taken to improve instruments of analysis and forecasting; in addition, useful work has been done to meet the conditions which must be fulfilled if short-term economic policies are to be properly co-ordinated, and a series of problems in this field have been studied. "Preliminary economic budgets" have been introduced, which are initial, "neutral" forecasts showing the main lines of economic development in a small number of tables and annexed comments that explain the assumptions on which the tables are based. In early July 1963 the Short-term Economic Policy Committee was for the first time able to examine preliminary economic budgets (covering 1964).

Important improvements have also been made in the final economic budgets (for 1964), notably with respect to their comparability. Work on harmonizing, adding to and improving short-term economic indicators has been continued. The Commission's staff is now preparing a recommendation to the Member States setting out a minimum statistics programme.

The emergence or aggravation of inflationary trends in several Community countries, and the danger of contagion, threw into sharp relief, particularly in 1963, the importance of a real co-ordination of the monetary and financial policies of the six countries. Accordingly, the Commission addressed to the Council in June 1963 recommendations designed to strengthen the existing co-operation in these matters which takes place by regular meetings of the Ministers of Finance, the Monetary Committee and the Short-term Economic Policy Committee. The Commission recommends, first, the establishment of a Committee of Governors of Central Banks, which would follow monetary developments in the Community and whose members would consult one another before any change in the orientation of the Central Banks' policies on credit, the money market and exchange rates. Secondly, the Commission recommends that the EEC Council set up a Budget Policy Committee composed of senior officials from the Ministries of Finance of the six countries and Commission representatives which would examine and compare the main lines of budgetary policy in Member States, and in particular the impact of budgetary decisions on internal liquidity and on the monetary situation in general.

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As regards external monetary relations, the Commission recommends that the Member States should consult one another before any change in parity and that consultations should take place within the Monetary Committee before the Member States take any major decision in international monetary relations.

The Commission also laid before the Council a recommendation on a medium-term economic policy for the Community, proposing to co-ordinate economic policies in two stages:

- (a) Economic forecasts: discussions designed to arrive at common future prospects (on the basis of all available information); medium-term economic projections (covering, say, five years) for the Community should be worked out;
- (b) Using the results of these quantitative studies, the formulation of a medium-term economic policy co-ordinating, in accordance with the aims of the Treaty, the decisions of Governments and of European institutions which are of special importance for medium-term economic development, enabling coherent and effective measures to be taken in the fields in which common policies are to be followed.

On 13 April 1964 the Council adopted all the recommendations put forward by the Commission for strengthening monetary and economic co-operation among the Six.

In order to arrive at an overall approach on regional policy in the Community, the Commission decided, by agreement with the national authorities, to set up three working parties with high-level responsibilities for the planning and execution of regional policy in the member countries. Their reports are expected for about the middle of 1964.

The Commission has continued its efforts in co-operation with the other European Executives to bring to fruition the proposals for a common energy policy - now linked with the merger of the Communities after the adoption of a Protocol at the meeting on 21 April of the ECSC Special Council of Ministers - and for the progressive establishment of a common market in petroleum, gas and electricity in accordance with the Treaty of Rome.

The Commission itself continued studying the problems of the petroleum sector. Since nearly 90% of the oil consumed in the Community must be imported, the vital question for the Community will be security of supply at stable prices.

The Commission took the initiative of arranging an exchange of views between the Member States on these questions. A panel of experts was asked to study three fundamental points in petroleum policy: emergency stocks, alternative sources of supply in the event of difficulties, and the long-term diversification of sources.

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The discovery of a large deposit of natural gas in the Netherlands puts this country in the front rank of European gas producers. The Community can also import gas from North Africa, either in tankers specially equipped to carry liquefied gas or by underwater pipelines. The Commission has studied in detail the possible impact of these new supplies on the Community fuel and power situation, more especially in the areas best placed to receive such supplies.

The Commission has decided to study the precise significance and consequences of power costs in economic activity. Independent economists will assess the impact of energy prices on the competitiveness of industry and the possible effects of a variation in such prices on economic expansion.

Common agricultural policy

The Council decisions of 23 December 1963 bore witness to the political resolve of the Member States and the Community Institutions to go ahead with the establishment of the common agricultural policy by setting up further common organizations of markets and instituting Community financing arrangements.

The first six common organizations set up in July 1962 have worked out satisfactorily. The implementation of the regulations concerning them, whether this was a matter of current management or of adjustment or amplification, has called for a large number of supplementary enactments. The Management Committees have made a valuable contribution to the drafting of implementing measures, and there has been close co-operation between them and the Commission. The safeguard clause has been applied on only three occasions in order to suspend imports.

The Commission submitted to the Council several reports and a memorandum, which were also referred to the European Parliament. The Commission's report to the Council on the implementation of the regulations and lessons to be drawn therefrom sums up a year's operation of the market organizations. The report on support measures contains an inventory requested by the Council. The memorandum surveys farm prices and price policy for agricultural products and sets out the possible economic repercussions on the agriculture and economy of the Community countries of the Commission's proposal for a single-stage alignment of cereal prices. Furthermore, a detailed survey has been made of the social and economic situation of farmers in the Member States. Fresh progress has been made in harmonizing legislation in the Member States on agriculture and food.

Trends in the markets for products subject to common organizations have been marked by the following factors: the grain harvest in 1963 was one of the best since the war, despite the severe winter of 1962/63. On the market in livestock products there was a cyclical scarcity of pigmeat. The situation is expected to improve in the autumn and winter of 1964. The raising of poultry, especially

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table-birds (chickens), continued to increase. Egg prices went up at the beginning of 1963, eased off in the autumn and fell sharply in January/February 1964. The production of fruit and vegetables rose increasingly fast, but at different rates according to the product. Application of the regulations confirmed the effectiveness of efforts to improve the quality of products in intra-Community trade and gradually to introduce free circulation. The Council increased by 15% German import quotas for table wines in 1963; the quotas for quality wines to be imported by France and Italy were doubled, but these relate to trade among Member States.

The influence of the common organization of markets on trade in cereals has been negligible, apart from speculative purchases in the first half of 1962, and up to now there has been scarcely any sign of diversion of trade flows in the sense of imports from non-member countries being replaced by imports from Community countries. In contrast, where conversion products are concerned there is a much greater long-term diversion of trade flows in favour of imports from member countries. The increase in production in importing countries, particularly Germany, has lessened the need for imports of eggs and poultry, but of the latter American supplies are the only ones to have fallen off.

As a general rule the development of production, market price trends, trade trends and the situation of imports of products in which the markets are subject to a common organization show that the interpenetration of agricultural markets is still only at an early stage. Any substantial progress in this sphere appears to hinge upon the fixing of a Community price for cereals.

Further market organizations are to take effect on 1 July 1964. These are for milk and milk products, beef and veal, and rice. Before 1 November 1964 the Commission will submit to the Council a proposal for a regulation on the market in vegetable oils and fats. In accordance with the Council decisions of December 1963, this will be based on free imports of oil seeds and oleaginous fruit. It will offer certain advantages to growers in the associated countries overseas and direct aid to Community growers. There will be special provisions to guarantee living standards for Community olive-oil producers. The market organization will be financed from a charge on vegetable or marine oils and fats and from the European Agricultural Guidance and Guarantee Fund (EAGGF).

The regulations concerning the sugar market are to take effect for the year 1964/65 beginning 1 October 1964. The Commission's proposal comprises a price system at a level maintained by import levies, together with export refunds or subsidies.

As regards prices, the Commission proposed, on the basis of an analysis of the Community's political situation at the end of 1963, that the Council speed up the alignment of cereal prices and effect it in a single operation. The Commission justified its proposal on grounds of internal, agricultural and commercial policy.

The proposal is not confined to fixing cereal prices at a common level but makes other recommendations related to price alignment - compensation for farmers in member countries who suffer a loss of income as cereal prices fall, combined with Community plans to improve the living standards of the farming population, and solutions to financing problems.

Following the decision taken by the Council on 30 July 1963 to incorporate the activities of the proposed European Fund for Structural Improvements in Agriculture with those of the Agricultural Guidance and Guarantee Fund, the Commission put before the Council on 27 September 1963 amended proposals for a regulation on the granting of aid by the Fund and a regulation for a financial regulation concerning the Fund.

These two regulations, amended after reference to the Parliament and the Economic and Social Committee, were finally approved by the Council on 5 February 1964 and constitute the basis for Community financing of the common agricultural policy. A Fund Committee will be set up to ensure co-operation between the Member States and the Commission.

The approximation of legislation required in pursuance of the common agricultural policy was continued in close collaboration with experts from the Member States. The Commission submitted eight draft directives to the Council. In November 1963 the Council issued a directive on permitted preservatives for use in food.

The Commission is working out further proposals for 1964 on market organizations for potatoes, ethyl alcohol, tobacco and inedible horticultural products.

During the first half of 1964 the Commission will draw up a report on fisheries in the Member States setting out the broad lines of a common policy in this sector. A report has been drawn up on the co-ordination of national forestry policies.

The Standing Committee on Agricultural Structures held its first three meetings in 1963. It began a study of the principal question - total earnings in agriculture in relation to the number of workers.

The Commission put before the Council a regulation setting up a Community information service on farm accounts and submitted an Action Programme on matters of social policy in agriculture. Consultation of interested circles has now been made easier with the establishment of two advisory committees on the social problems of farmers and paid farm workers. The five advisory committees for the various sectors subject to market organizations enlightened the Commission on a number of points.

Common transport policy

On 21 May 1963 the Commission submitted to the Council a set of proposals for an Action Programme to introduce a common transport policy.

These five proposals are:

- (a) To establish a rate bracket system applicable to the three types of inland transport;
- (b) To introduce a Community quota for road haulage between Member States;
- (c) To harmonize certain provisions affecting competition in the transport sector;
- (d) To organize a survey on infrastructure costs in road, rail and inland-waterway transport;
- (e) To standardize procedures for issuing licences for road haulage between Member States.

The Council's first directive of 23 July 1962 setting out certain common rules for international transport (road haulage for hire or reward), which provides for liberalization of some types of international goods transport and of rail transport, has been given effect in the Member States from the beginning of 1963. Member States have also applied the decision of 21 March 1962 instituting a procedure of prior examination and consultation where Member States contemplate adopting certain legislative or administrative provisions in the transport field.

To seek the opinion of Governments and of both sides of the industry on the social measures to be taken, the Commission in December 1963 organized a Round Table on social policy in transport. This was devoted to discussion of the harmonization and co-ordination of working conditions, vocational training, employment and industrial health and safety.

Lastly, the Commission has put forward, or will submit in the very near future, two new proposed regulations. The first, dated 11 March 1964, is on the abolition of double taxation on motor vehicles - a measure foreshadowed in the proposal on the harmonization of competitive conditions. The second is for the introduction of common rules for international passenger transport by road and is the first measure of common policy to be taken for this category of transport.

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Social policy

Several regulations on social security for frontier and seasonal workers were adopted by the Council on proposals from the Commission. These provide further benefits for the workers concerned.

Repayments decided upon by the Commission in the course of 1963 by agreement with the Committee of the European Social Fund totalled 7 561 477 units of account, and the schemes to which they related enabled 80 328 workers to find alternative employment. The Fund's balance-sheet showed movements of 1 016 408 units of account from Germany, Belgium and Luxembourg to Italy (622 075 units of account), France (182 777 units of account) and the Netherlands (211 556 units of account).

To reduce labour shortages, the Commission urged that further training programmes in certain trades, particularly the building and allied trades, should be drawn up at an early date by agreement among the countries concerned. A draft action programme to establish a common policy for training in agriculture has been worked out. The Commission's new proposals on exchanges of young workers have been approved in principle by the Council.

The Commission has continued to arrange consultations on the harmonization of wages and working conditions.

Wage surveys carried out by the Statistical Office of the European Communities now cover a total of thirty-five branches of industry and have made it possible to clarify the situation by applying directives and uniform definitions for practically the whole of industry with respect to the level and composition of labour costs and wages.

The Commission reviewed the position at 30 June 1963 with regard to the implementation of Article 119 and submitted a further report to the Council. The Commission issued a reminder to the Governments and to both sides of industry that the absolute deadline laid down by the resolution of 30 December 1961 for the full implementation of equal pay for men and women was 31 December 1964.

A working party of government experts and workers' and employers' representatives has concluded a comparative survey of provisions for the protection of young people at work and has begun a similar study on the protection of mothers. The Commission's work on industrial health and safety was intensified. The establishment of an industrial health and safety division in the Commission has made it possible to review the programme of work as desired by the European Parliament.

From 16 to 19 December 1963 the Commission held a symposium on low-cost housing attended by some 130 representatives of the Member Governments, of workers' and employers' associations and of family movements. Among the matters discussed were housing for migrant workers, slum clearance and the possible establishment of a standing advisory committee on low-cost housing.

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Following the European Conference on Social Security in December 1962, the Commission submitted to the Member Governments in July 1963 a draft for the harmonization of social-security systems laying down general guide lines and a short-term programme.

THE COMMUNITY AND THE DEVELOPING COUNTRIES

The associated States and territories

The transitional measures agreed by the representatives of the associated States and the Member States on 19 December 1962 pending the coming into force of the Yaoundé Convention were extended by the Council in December 1963. An interim committee was formed by agreement between the Community and the eighteen associated African States including Madagascar when the Convention was signed on 20 July 1963 to bridge the gap until the institutions provided for in the Convention were set up.

Import and export trade between the Community and the associated States (excluding Congo (Leopoldville) Rwanda and Burundi) totalled US \$1 207 million in 1962, which is an increase of 8% on 1960, the year in which most of the associated States became independent.

Community imports from the associated States totalled in value \$631 million in 1962 - 5% up on 1960. Community exports to these countries rose 11.4% between 1960 and 1962, reaching a value of \$576 million in 1962.

Co-operation continued with the associated States and territories in the matter of training and studies. The scholarship programme was considerably expanded (713 granted in 1963/64 as against 70 at the outset in 1960/61).

The number of scholarship holders placed in the associated States themselves is well up on the previous year (74 as against 32). The Community makes a contribution, by way of scholarships, to the development of the training centres for statisticians recently set up in Abidjan and Yaoundé, and other scholarships are tenable at training establishments in Dakar and Ouagadougou.

In 1963, during the transition period before the new Association Convention comes into force, eighty-five new projects representing a total requirement of about 100 million units of account were submitted to the European Development Fund. Examination of these is proceeding concurrently with that of projects submitted before 1 January 1963 and still awaiting approval.

As the associated countries are finding difficulties in maintaining the pace of capital schemes financed on their behalf, the Commission considerably expanded in 1963 its activities in the way of surveys and general technical co-operation.

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In the course of 1963 it financed 108 survey missions for the finalization of projects and 37 missions to direct or supervise work.

At 31 December 1963 the schemes financed by the European Development Fund were distributed as follows:

Economic infrastructure	45%
Development of production	18%
Education and vocational training	16%
Health and hygiene	9%
Rural water supply	4%
Urban improvement	3%
General surveys and research	5%

General action to foster development

The Commission is continuing the quest for co-ordinated action in fostering development by stepping up trade and stabilizing commodity prices at a remunerative level and in technical and financial aid. With due regard to the views of the associated African States and of numerous developing countries, the Commission has frequently emphasized in GATT, the United Nations and OECD - and especially at the World Conference on Trade and Development - the need to solve the special problems which these countries face in speeding up the development of their economies.

The Commission proposes that the Community should declare its readiness to participate with other advanced countries in the conclusion of international commodity arrangements (seeking an expansion and a more desirable pattern of demand and higher import prices), the adoption of measures to offset short-term fluctuations in export earnings, and higher prices for coffee and cocoa thanks to a counter-vailing levy.

As to measures which could be envisaged by the EEC alone, the Commission suggested the gradual abolition of excise on tea, coffee and cocoa and, for manufactured goods, the application of the most favourable liberalization arrangements in force in each Member State. The Community could also provide for temporary preferential measures in favour of finished and semi-finished goods from these countries. These suggestions were put forward at the World Conference on Trade and Development by M. Brasseur, Belgian Minister for External Trade and then President of the Council, and M. Rey, a member of the Commission. At its session of 18-25 March 1964 the European Parliament adopted, on a report by M. Pedini, a resolution expressing the hope that the Conference on Trade and Development would help to promote the progressive integration of the markets of States which had recently gained independence.

During discussions in the GATT Ministerial Meeting of May 1963 on the expansion of the developing countries' trade, representatives of the EEC and the associated States urged:

- (a) that international action should be directed to a deliberate effort to organize international trade in products of interest to the less developed countries;

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- (b) that an effort should be made to ensure increasing exports at remunerative, equitable and stable prices for the less developed countries producing primary products.

Special relations with other overseas countries

Three countries (Belgium, the Netherlands and France) have deposited instruments of ratification of the Association Convention with the Netherlands Antilles signed on 13 November 1962; the ratification procedure is going ahead satisfactorily in the other countries.

When the Association Convention with the African States was signed in Yaoundé, the representatives of the Community States meeting in the Council declared their readiness to negotiate in a sympathetic spirit agreements with any non-member countries who so requested and whose economic structure and production were comparable with those of the Associated States. Such agreements could take the following forms:

- (a) accession to the Yaoundé Convention according to the procedure laid down in Article 58 thereof, or
- (b) association agreements with mutual rights and obligations, particularly in matters of trade, or
- (c) commercial agreements to facilitate and expand trade between the Community and these countries.

In making this declaration the Member States, having regard to the importance attaching to the development of co-operation and trade among African countries, wished to show their willingness to co-operate on a basis of complete equality and friendly relations in accordance with the principles of the United Nations Charter.

Following a memorandum to the Commission from the Government of Nigeria requesting the opening of negotiations with the Community for an agreement to preserve and strengthen existing relations, exploratory talks were held from 21 to 28 November 1963 between the Commission and a Nigerian delegation. The Nigerian delegation stated that the second formula (association agreement) would enable Nigeria, in the framework of a free-trade area conforming with the obligations of GATT, to conclude an agreement of the same duration as in the case of the associated States and to enjoy similar trade advantages. The Commission submitted a report on these talks to the Council.

The Governments of the three Member States of the East African Common Services Organization - Tanganyika, Uganda and Kenya - sent a joint request in which they also refer to the above-mentioned declaration of intention. Exploratory talks took place from 10 to 14 February 1964. The points raised at these talks pose similar problems to those involved in the Nigerian application. The Commission drew up a report for the Council on these talks.

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On 8 October 1963 the Government of the Tunisian Republic proposed that exploratory talks be held with the Community on future economic relations between Tunisia and the EEC. The Council instructed the Commission to conduct these conversations. The first two meetings have been held and have taken as the basis of discussion a free-trade area. Further meetings have been arranged for the near future. The Commission will then report to the Council.

On 14 December 1963 the Moroccan Government sent to the Community a letter proposing exploratory talks on future economic relations between Morocco and the Community. The Commission, acting on the Council's instructions, arranged the first meeting with a Moroccan delegation on 30 and 31 January 1964. The Moroccan position was that any agreement ought to cover the whole field of economic relations between the two parties and that the basis of discussion should be a free-trade area. Studies with this object in view are being made by both sides, and a further meeting will be held as soon as possible. The Commission will then report to the Council.

On 1 July 1963 an Algerian delegation visited Brussels and handed to the EEC a letter dated 27 June stating the Algerian Government's intention.:

- (a) to establish a three-column customs tariff consisting of a rate for French goods, a higher rate for goods from other EEC countries and a common higher rate for goods from the rest of the world; and
- (b) to open talks with the EEC in the autumn with a view to replacing this system, regarded as provisional, by new arrangements for commercial and economic relations between Algeria and the Community.

The Community approached the Algerian authorities on a number of occasions to fix a date for the beginning of these talks. On 1 November 1963 the Algerian Government put its new tariff into effect and later announced its desire to discuss future relations between Algeria and the EEC, suggesting that talks at expert level might be held in Brussels.

The Council asked the Commission to conduct these talks. The first meeting was held on 25 and 26 February 1964. There will be other meetings, after which the Commission will report to the Council.

EXTERNAL RELATIONS

The EEC-Greece Association Council has proceeded with the implementation of the Agreement signed in Athens on 9 July 1961, which came into force on 1 November 1962. In the course of the six meetings held in Brussels since May 1963 - two of them at ministerial level - a number of decisions were taken, consultations were held between Greece and the Community, and the institutional framework of the association was completed.

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Among the most important decisions were the fixing of the timetable for the reduction and finally abolition of duties on dried grapes, the enlargement of the wine quotas, the liberalization of certain products by Greece, and a further 10% cut in intra-Community duties on tobacco from 1 July 1964.

Another organ of the association was set up on 30 May 1963 - a Customs Co-operation Committee under the direction of the Association Committee. To facilitate co-operation and the necessary contacts between the European Parliament and the Greek Parliament, the Association Council decided to establish a Parliamentary Committee for the Association.

The Association Agreement between Turkey and the Community was signed in Ankara on 12 September 1963. It is at present being ratified by the Parliaments.

The aims of the agreement are to be achieved by stages. The first or preparatory stage is to enable Turkey to pursue its economic recovery and attain a sufficiently stable position to accept its obligations with a view to possible customs union. During this stage the Community will grant commercial and financial aid. Annual tariff quotas will be opened by the Member States for 12 500 metric tons of tobacco, 30 000 tons of dried grapes, 13 000 tons of dried figs and 17 000 tons of hazelnuts. The Community will finance capital projects comprised in the Turkish development plan to the value of 175 million units of account. This will be done through the European Investment Bank.

On 14 October 1963 a trade agreement was signed in Brussels between the Community and the Government of Iran. This is the first agreement of a purely commercial nature with a non-member country. Its main provisions are for temporary reductions of CET duties and a tariff quota - also non-discriminatory - both relating to exports of goods of particular importance to Iran (woollen carpets, dried grapes, dried apricots and caviar). The agreement came into force on 1 December 1963 and is for a period of three years.

Negotiations for a trade agreement with Israel were continued. (The agreement was initialled on 27 April 1964.) The agreement is to last three years and is renewable; a joint committee will be set up to supervise the application of the agreement and observe the development of trade between the EEC and Israel.

In a second memorandum dated 12 December 1963, the Lebanon asked for negotiations to be opened for a trade agreement. The Council acceded to this request.

In addition to the suspension of the duties on tea and tropical woods decided on 18 June 1963, and as a further effort to encourage trade co-operation with the developing countries, the Council decided to suspend or temporarily reduce (from 1 January 1964 to 31 December 1965) certain CET duties on imports from these countries - especially India.

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On 10 July 1963 the Council agreed in principle that quarterly meetings be arranged with the United Kingdom in the Council of Western European Union to study the economic situation in Europe as well as political matters. The British Government announced its acceptance of the Community's proposal on 26 July, and the first two meetings were held in October 1963 and January 1964.

The Irish and Danish Governments each asked for contacts to be established with the Commission at ministerial and expert level. These requests were granted and several meetings have already been held.

In order to finalize its report on the possibilities that might be considered as regards relations between Austria and the EEC, a Commission delegation approached the Austrian mission to the Community. Exploratory talks, at which the Austrians outlined their Government's ideas on the content of a possible association agreement, were held in Brussels in July, November and December 1963. The Commission studied the conclusions to be drawn from these talks and will incorporate them in its report to the Council.

On 14 February 1964 the Spanish Government wrote to the President of the Council renewing its request for talks to settle its future relations with the Community. The reply to this letter is being prepared.

The main feature of the tariff negotiations in GATT was the clash of two divergent ideas on the basic formula for cutting duties. The United States were in favour of an equal across-the-board reduction. Although this had been partly applied by the Community, it feels that a linear cut pure and simple would dangerously aggravate differences in the tariff structure of the chief negotiating parties and would not offer the Community satisfactory reciprocity. The resolution adopted by the Ministers on 23 May 1963 after the first suggestion put forward by the Community had been rejected by the United States represented a compromise. The Community agreed that the general rule should be equal linear reduction but it also obtained agreement that disparities should be a major theme of the negotiations and an assurance that they would be dealt with by rules of automatic and general application of the same value as the general rule of equal linear reduction.

The disparities problem has not yet been tackled. However, progress to date justifies the expectation that a sufficient measure of agreement will be reached on the essentials in time for the trade negotiations to open on 4 May 1964. The key problem is to identify those disparities which are "significant in trade terms". The Community believes that as soon as a disparity above a certain minimum assessed in arithmetic terms is shown to exist, it is significant in trade terms. The problem has been made still more complex because the only method likely to be adopted to remedy disparities may affect the export interests of non-member countries. The 50% taken as a working assumption for tariff cuts according to the general rule coincides with the limits placed by the Trade Expansion Act on the negotiating rights of the US Government, so that

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the disparities can only be removed if the low duties are cut by less than the high duties. The Community recognizes this problem and regrets this consequence, for which it cannot be held responsible. Wishing to accommodate the other negotiating parties as far as possible, it has offered the non-member countries chiefly concerned the opportunity for consultation on this point to work out arrangements acceptable to both sides. It also agreed to reduce the number of disparities arithmetically identified by applying two qualitative criteria, and to discuss - in addition to consultations with the non-member countries - the exclusion in some cases of products imported in large quantities from low-tariff countries. The Commission's proposals on the agricultural negotiations include a completely new method bringing in all the elements of agricultural policy which have a determining effect on trade in farm products. This is the "support-level binding" method, the object of which is to guarantee farmers in the Member States a fair return while ensuring stable world prices at a reasonable level, and by its very operation to create acceptable conditions of access to import markets.

The question of American poultry exports to the Community was settled by agreement after an advisory opinion had been obtained from an ad hoc panel set up by GATT.

On 3 March 1963 the Commission put before the Council a number of proposals to harmonize commercial policy. These come under the programme of work for 1964, providing for all the decisions needed for the systematic harmonization of commercial policy by the end of the transition period. The Commission considers that some decisions must be given priority in three sectors mentioned in the harmonization programme - relations with Japan, relations with state-trading countries and measures in defence of trade.

On 25 September 1962 the Council made a decision requiring an inventory to be made of systems of aid to exports.

After first dealing with problems of intra-Community trade, the Commission went on at the beginning of 1964 to examine aids from the angle of competition on markets outside the Community.

The Group for the co-ordination of policy on credit insurance, guarantees and financial credits thought it desirable to increase the efficacy and widen the scope of the consultation procedure. At the end of 1963 it submitted to the Council a report suggesting that procedure should be tightened up and extended to certain types of operation which hitherto escaped it. The Council has already adopted some of the Group's suggestions.

The number of countries maintaining diplomatic relations with the Community is now fifty-nine, including the associated States.

The most important development in the Community's relations with Latin America was the holding in July 1963 of meetings between the Latin-American missions accredited to the Community and the Commission. There have been five working meetings. After a report

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has been sent to the Council, further meetings will be arranged to begin the detailed examination of specific problems, as desired by all the Latin-American ambassadors.

The state-trading countries seem from the commercial standpoint to be showing an increasing interest in the Community. During the Council meeting of 23 and 24 September 1963 the terms were approved of a memorandum proposed by the Commission concerning possible tariff concessions to the USSR. The Soviet Government has not yet replied to this memorandum.
