

EUROPEAN ECONOMIC COMMUNITY
COMMISSION

Eighth

GENERAL REPORT

on the

Activities of the Community

(1 April 1964 — 31 March 1965)

JUNE 1965

The President
and the Members of the Commission
of the European Economic Community
to the
President of the European Parliament

Mr President,

We have the honour to submit the Eighth General Report on the Activities of the Community, which the Commission is required to publish in pursuance of Article 156 of the Treaty establishing the European Economic Community.

In accordance with Article 122 of the Treaty the Commission also prepares a Report on the Social Situation in the Community, to be included in the General Report. This document will be submitted to you in the near future.

Please accept, Mr President, the expression of our high consideration.

Brussels, 1 June 1965

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INTRODUCTION

I. After the important decisions of December 1963 and April 1964 the Community progressed strongly during the period covered by the Eighth General Report. Even more than other years, 1964 was a period of rapid advance in the building of Europe. In fields where much ground had already been covered, further important successes were recorded: in others, where nothing significant had so far been achieved, a beginning was made.

Ever before the end of the second stage of the transitional period, then, the Community institutions can consider that they have completed the major part of their task as regards abolition of intra-Community duties, the introduction of the common customs tariff and the establishment of common organizations for markets in the various agricultural products.

II. The crucial decision of 15 December 1964 on the common cereals price opened the way for the fixing of common prices for the other agricultural products. On 1 July 1967 cereals will move freely in the Community. This date has been fairly widely accepted for the free movement of all agricultural products. Consequently the Commission intends to make every effort to ensure that the Council will begin as soon as possible its discussion of the common prices provided for in the other agricultural regulations, particularly the common prices of beef and veal, dairy produce and rice.

As regards customs union for industrial products, the Commission had already proposed to the Council in "Initiative 1964" that it be completely established by 1967.

III. The date of 1 July 1967 simply means maintaining the pace of build-up of the customs union that has been set by earlier accelerations.

If the proposal is accepted and applied, the whole transitional period will have been cut by two years and a half. So far no longer-term imbalance has distorted trade between the Member States, nor has there been any

great difficulty jeopardizing the development of an important sector. In point of fact the Member States have all derived substantial benefit from the establishment of the customs union. The increase in trade since 1958 has been spectacular in all Community countries and in all sectors of the economy.

When urging that the customs union and the single market for agricultural products should be completed early, the Commission is aware of the inadequate progress and of the delays noted in certain fields. The right of establishment is a case in point, but here vigorous efforts have made it possible to redress the situation. In transport, although the first decisions of substance have been made, a major political effort will still be necessary to arrive at a common system of rates. The situation of the common commercial policy discussed below is even more unsatisfactory.

The Commission considers that these delays, serious though they may be, should not slow down implementation of the Treaty in the customs field. The overall progress already accomplished is such that the early completion of the common market, both for industrial and for agricultural products, should further stimulate efforts to attain the Treaty objectives in the other fields. Here it must not be forgotten that economic progress in the Community must be matched by social advancement.

IV. The Commission therefore believes that it is already time to aim at more distant targets. The object is to create throughout the Community conditions similar to those of a domestic market, in which goods, services, capital and persons can move across frontiers without let or hindrance of any kind—there must not only be no customs barriers, but no fiscal or technical obstacles either. In its "Initiative 1964" the Commission has proposed this objective to the Community institutions, the Governments and public opinion. This is a long-term task to which the EEC Commission and, tomorrow, the single Executive will have to devote an important part of their labours.

V. Even more than the Community's successes, it was the economic difficulties which most of the six countries experienced in 1963/64 which brought out the degree of economic interdependence already attained. It now became necessary to work out a Community economic policy.

In presenting its Seventh General Report, the Commission emphasized the importance of the recommendation on the restoration of economic balance in the Community adopted by the Council on 14 April 1964. Could the Community, by co-ordinated action and the concerted efforts of its Member States, master the threatening crisis? The Commission can see today that the short-term economic policy jointly agreed on has in the main been effectively applied and that the situation has been put right.

In that crisis, it was borne in upon the Member States that they can no longer in isolation maintain price stability and general economic balance. It is therefore not only at national level but on the Community plane that the action begun by the Governments and the institutions must be carried further in order to consolidate the initial results and to ensure that balance will be maintained in the future. The necessary decisions have been taken and the appropriate bodies have been set up to deal with matters of short-term economic policy and indeed with the elaboration of a Community economic policy proper.

VI. Short-term economic action alone is of course not enough. In face of ever keener international competition, an overall policy is necessary so that the changes called for by the common market can take place smoothly, that the structural problems revealed by the customs union can be better handled, and that the six countries—and even more each of the regions or the Community—obtain full benefit from the new economic order which is coming into being. Such an overall policy cannot be fixed from day to day. The medium-term economic policy programme for the period 1966/70 which the Commission will submit to the Council this year will provide the general framework for the principal measures to be taken in all fields of the economy.

The Community's resources must be developed to the maximum at the same time as optimum use is made of them in furthering economic and social objectives. The need for this is accentuated by the fact that, with considerable investment and consumption requirements to be satisfied, the Community's labour force will grow but little in the coming years. It is therefore vitally necessary to step up the productivity of its economy. To this end the Commission intends to stress the importance of an active

competition policy. Furthermore, by eliminating all forms of restrictive practice, it will help give the European economy the flexibility it still lacks. Joint action in matters of employment, vocational training, regional policy and scientific and technical research will also help to achieve this initial objective.

In the coming five years the medium-term policy programme will also bring out the broad lines of a social policy at Community level. While the Community institutions press ahead with the implementation of the specific measures provided for in the Treaty or foreshadowed in the Community's Action Programme and intensify their efforts to harmonize and improve social legislation in the six countries, they will now have to raise their sights and establish an overall social policy.

Discussion of the first—1966-1970—programme, with which representatives of management and labour will be associated through the Economic and Social Committee and the political forces of the Community in the European Parliament, will therefore mark a new stage in the Community's development. It will show that there exists a genuine Economic Community in which ends and means are decided on by agreement.

VII. During the whole of the past year the institutions have been constantly concerned to ensure that the Community's internal build-up shall be in harmony with the development of its external relations. Here, too, reasons for satisfaction are not lacking. In particular the good progress made in the great trade negotiations opened in Geneva—the Kennedy round—should be mentioned.

By approving, on 15 November 1964, the list of industrial products which the Community wished to be exempted from the linear reduction of customs duties, the Council made a major contribution to the success of the negotiations. The Community list was the indispensable instrument for continuing the discussions. The fact that the list was kept small despite the multiple interests involved, and that consequently the Community is prepared to make a linear reduction of duties for the great majority of the products it imports, proved beyond doubt that it is determined to practise an outward-looking policy in its trade relations.

This decision should be seen in conjunction with the one taken by the Council on 14 May 1965, when it approved the initial plan for a world

cereals agreement. The Community is thus in a position to play its full part in a world organization of the main agricultural markets.

VIII. The Community continued to be very active in its bilateral relationships. On 1 December 1964 the Association Agreement with Turkey came into force; the association with Greece is producing its first results; the signature of the trade agreement with Israel was an initial stage in tightening links between the Community and that country. After persevering efforts, agreements have recently been concluded with Lebanon. Exploratory talks have been opened with Spain.

The Commission attaches great importance to the opening, on 19 March 1965, of negotiations with Austria. These followed particularly detailed exploratory talks and much study in both Commission and Council. The Commission feels certain that these negotiations will lead to an agreement which is consonant with Austria's European vocation and takes account of the country's special situation.

IX. On 1 June 1964 the Yaoundé Convention came into force. This treaty, freely concluded and ratified by 17 African States and Madagascar, extended the Association established in 1957 by the signatories to the Rome Treaty. The lessons learned in implementing the first Convention, particularly as regards the management of the European Development Fund, will enable the Community to ensure rapid and smooth implementation of the new agreement.

The opening of negotiations with Nigeria and the countries of East Africa and the submission of the Commission's report on the request from the Maghreb countries to conclude agreements with EEC reflect the Community's active policy vis-à-vis the developing countries, which is not limited to the circle of the initial associates. The Commission has not failed to stress, particularly in the World Conference on Trade and Development, the importance of association as an effective method of development aid.

Furthermore, being the world's largest importer of products from the developing countries, the Community has already made its contribution towards a general policy in this sphere by marking, for the benefit of countries not associated with it, substantial reductions of duties on tropical

products. In the same spirit, the Community is conducting talks with representatives of the Latin-American countries.

X. The Commission cannot, however, conceal its growing concern at the total lack of progress in commercial policy, where the first essential is to ensure that the Treaty is observed. A common commercial policy must be applied at latest by the end of the transitional period. The change-over to such a situation can only be gradual and this requires that uniformization measures should be taken forth with and common machinery set up.

The coherence of the Community's action is also at stake. The common agricultural policy introduces a solidarity in financial matters which will mean that responsibility must be assumed for expenditure incurred in exporting, on the terms ruling in world markets, certain products of which the Community has a surplus. The Commission considers that the link emerging between Community financial responsibility and commercial obligations in the agricultural field cannot be left out of account. It fears that failure to act on commercial policy may in future jeopardize the Community's development in other fields.

XI. Important institutional developments have accompanied the Community's heightened economic activity. The Commission would first like to point to the increasing place which Community law is taking in the legal systems of the various Member States. Successive rulings handed down by the Court of Justice have confirmed that many provisions of the Treaty, some of which are very important, are directly applicable in the member countries. Furthermore, the framework constituted by those chapters of the Treaty concerning the common policies has now been filled out for several important sectors such as agriculture and restrictive practices. More and more detailed European regulations are being added to or substituted for municipal laws and regulations.

The courts in our countries have to take cognizance of these European regulations in the same way as of municipal laws. Judgments by national courts relating to Community law already published and commented on number well over a hundred. Community law and municipal law can occasionally conflict. In this connection attention is drawn to the highly important decision of 15 July 1964, in which the Court of Justice, as

supreme interpreter of the Treaty of Rome, held that Community law overrules municipal law, even of more recent date.

XII. The application and, consequently, the interpretation of Community rules is a matter for the courts in the six countries, which will have more and more cases of this kind brought before them. There is little need to emphasize how important it is that jurisprudence throughout the Community should be uniform despite the diversity of the member countries' traditions and procedures.

It is the responsibility of the Court of Justice of the European Communities to ensure this uniformity. The Treaty in fact gives it the power to make preliminary rulings on the interpretation of the Treaty and on the validity and interpretation of the acts of Community institutions when such matters are referred to it by national courts. This possibility of reference to the Court of Justice, which becomes an obligation for national courts from whose decisions there is no appeal, has already been used on several occasions and should be used even more in the future. Close co-operation between the national courts and the Court of Justice of the Community, which has had its beginnings in the preliminary ruling procedure, is highly important, both in the interest of the parties directly concerned and of the harmonious development of the Community.

XIII. The discussions on the merger of the institutions led finally to the signing on 8 April 1965 of a treaty setting up a single Council and single Commission for the European Communities. A fair solution was found to the problems of siting institutions and services, these had long been a stumbling block in the negotiations.

The Commission has stated its position on several occasions, and particularly in the introduction to the previous annual report, on the principal constitutional questions involved in the merger and particularly on the composition of the single Commission and the powers of the European Parliament. Certain compromise solutions which do not correspond entirely to what the Commission would have liked to see had to be accepted in order to reach agreement. However, in view of the political importance of the merger of the institutions for the later development of the Communities, the Commission saw its way to approving the arrangements chosen by the Governments. It hopes that the various Parliaments will

ratify the treaty as rapidly as possible so that the single Council and the single Commission may be ready to function at the beginning of 1966.

XIV. In its previous report, when the decision on the merger seemed to be close, the Commission had thought of laying down for the single Commission objectives and general lines of action to cover the remainder of the transitional period. The time-limits then envisaged were not kept, and the Commission found that it had to take responsibility for the major initiatives which it has supposed would be taken by the single Commission.

Two of these moves have already been mentioned here. The first was "Initiative 1964", which aims at the completion in the near future of the common markets in industrial and agricultural products, and the subsequent establishment in the Community of conditions similar to those found in a domestic market. Then comes the preparation of the first medium-term policy programme, which will provide the general framework for the Community's economic policy up to the end of the transitional period.

XV. On 31 March 1965 the Commission submitted to the Council a third set of important proposals, the immediate purpose of which was to lay down the rules for financing the common agricultural policy, but which would also serve the even more important purpose of reshaping the Community's financial structure by ensuring that it should have resources of its own and by organizing parliamentary control of their use.

Under the Commission's proposal, agricultural levies and customs duties proper should be treated as Community revenue once the common customs tariff was introduced—in principle on 1 July 1967. The change-over would be made gradually, so that after a transitional period of five years they would be paid in full to the Community.

The logic of a customs union where duties are levied only at the external frontiers irrespective of the final destination of the goods demands that the relevant receipts be used to meet common expenditure. All earlier experience, whether with ordinary customs unions, federations or confederations, confirms this. Moreover, the Treaty explicitly envisages it.

The Commission's proposal therefore draws the normal conclusions from what the Community has already achieved.

XVI. The Commission has frequently expressed its desire to see the powers of the European Parliament increased, particularly in budgetary matters. At the close of its discussions in December 1965, the Council itself stressed the importance it attached to a widening of the budgetary powers of the Parliament and decided to turn its attention to this matter at an early date. The Commission therefore considers its proposals for amendments to budget procedure and the strengthening of the Parliament's powers as an essential component of the new financial system which it has submitted.

If the Commission proposals are acted upon, the influence of the Parliament in drawing up the Community budget will be considerably increased, but without upsetting the present institutional balance. On the other hand, once the Parliament is elected by universal suffrage, a more thorough revision will have to be undertaken, with a view particularly to transferring to the Parliament a right of decision in the matter of creating Community revenue.

XVII. Before closing this introduction to a report which will probably be the last before the Executives are merged and the newly-formed single Commission takes up its duties, the present Commission would pause for a moment to point to the vast area of ground already covered. In the first two stages of the transitional period due to end in a few months the principal commitments undertaken in the Treaty have been fulfilled.

The results have often gone beyond what was laid down in the letter of the texts and beyond what the sponsors of the Treaty could have hoped for. The road is therefore open for a fresh advance by the Community.

While this progress has been going on, differences have arisen between the Member States in political matters not covered by the Treaty of Rome. Serious and disquieting though they may be, these disagreements have not, however, affected the life and development of the Community. At the same time as our Governments have been—and still are—expressing divergent views on these problems, they have always been able to agree on Community matters. The faster rate of progress towards customs union

has been maintained, and unanimous decisions have been taken on the principal points affecting the elaboration of the common policies.

What is more, the Community has entered the third phase of its development even before the date laid down by the Treaty. The first phase is that in which customs union gradually comes into being, the second is that in which the common policies are worked out, the third that in which these policies begin to operate and in which the Community really comes to life. The outside world makes no mistake about this and regards the Community henceforth as a determining factor in world economy and world economic policy.

The task of building a united Europe is a long way from finished. Much still remains to be done to execute the programme outlined in the Treaty of Rome. Much also remains to be done if all the peoples of Europe are to be brought together into an economically and politically united continent. But the first eight years have already brought to our endeavour such success and dynamism that there can no longer be any doubt that we are on the right road. The Commission will spare no effort to see that we advance along it.

CHAPTER I

THE MERGER OF THE EXECUTIVES

1. On 8 April 1965, the Governments of the Member States signed a Treaty establishing a single Council and a single Commission of the European Communities. Earlier on the same day the Councils had approved the draft of this Treaty and, in accordance with Article 236 of the Treaty (and the corresponding articles of the Euratom Treaty and of the Treaty of Paris), had immediately convened the intergovernmental Conference to conclude it.

The final drafting of these texts had been made possible by the agreement on the questions still outstanding which was reached by the Councils during their session of 2 March 1965.

The Governments have expressed the hope that the Treaty will be ratified by every member country in time for the single Council and the single Commission to come into being on 1 January 1966.

In the Seventh General Report ⁽¹⁾ an account was given of the preliminary work done in connection with the merger. During the period covered by the present report, the Councils spared no effort to reach final agreement.

The merger was discussed at ten sessions of the Councils. The session of 7 July marked an important step forward, in that the Councils were able to settle administrative and budgetary matters and prepare a preliminary draft Treaty. It was decided that the European Communities would in future have a consolidated budget; its content was defined and the procedure for its adoption decided, being modelled on that laid down in the Rome Treaty for the budget of the EEC, which means that the Committee of Presidents, which has hitherto been the budgetary authority of the ECSC, will be dissolved.

In view of the particular purpose for which the ECSC levy is intended, the share of common expenditures that may be covered by that levy was

(1) See Ch. V, sec. 313.

fixed at 18 million units of account; this figure may, however, be adjusted by decision of the Council to changes in the budget total.

It then only remained to settle three matters, which were of a more political nature: the membership of the single Executive, the strengthening of the powers of the European Parliament, and the seat of the Community institutions.

At each subsequent session, progress was made on these points.

At the session of 28-30 July, M. Werner said that Luxembourg was hoping for certain compensations, both political and material, to help overcome the difficulties with which it would be faced when the Executives were merged. The Grand Duchy proposed that the Court of Justice should remain in Luxembourg and that the European Parliament should meet there.

On 18 September 1964 the Council reached agreement as to the composition of the single Commission; it will ultimately have nine members, but there will be a transition period, lasting until the Communities are merged and in any case for not more than three years, during which it will have fourteen.

No agreement was reached, however, on widening the powers of the European Parliament, particularly in budgetary matters; later it became clear, despite the efforts of the Executives and of several delegations, that no change could be made in this important matter at the time of merging the institutions. Nevertheless, at the urgent request of several members of the Council, the matter was kept on the Council's agenda. Several Governments declared that they could not consider allocating to the Community the independent revenues referred to in Article 201 without parliamentary control of the budget.

On 12 October and 11 November 1964 the Councils discussed the European Parliament's request to be consulted as to the place where its plenary sessions would be held and agreed that the President of the Council should go into this matter with the President of the Parliament and the enlarged Bureau. Following these discussions, the European Parliament held a debate at its session of 23-27 November 1964, concluding that, as long as no single seat for all the institutions had been fixed, there was no reason to alter the decision taken by the Governments of the

Member States on 7 January 1958, according to which the European Parliament would meet provisionally in Strasbourg.

The Parliament also adopted two resolutions, one on energy policy considered in the light of the merger of the Executives, and the other on the budgetary and administrative problems arising from the merger.

At the sessions of 30 November to 1 December 1964 and 2 February 1965, the members of the Council, taking note of the position adopted by the European Parliament, felt that a new approach should be adopted in which Luxembourg's problems would be taken into account.

The Commission pressed the Council to reach a decision, stressing the importance of the merger for the future development of the Communities

M. Werner said that he was prepared to suggest a new arrangement in which it would be recognized that Luxembourg had a special part to play as the centre of certain Community activities. On 17 February 1965 the Luxembourg Government handed the Councils and Executives a memorandum setting out the ideas which were to serve as a basis for the General Agreement of 1-2 March 1965.

2. Under this Agreement the cities of Luxembourg, Brussels and Strasbourg will continue to be the provisional seats of the Community institutions. The Council will meet in Luxembourg during the months of April, June and October, the Court of Justice and the Secretariat of the European Parliament will remain there, and the European Investment Bank will be transferred there.

Luxembourg, being the seat of the Court of Justice, will be the judicial centre of the Community. It will therefore also be the seat of any judicial or semi-judicial organs that may be set up later within the framework of the Communities or in consequence of association agreements with non-member countries.

As the seat of the European Investment Bank, Luxembourg will also have an important part to play in financial matters. The finance departments of the High Authority will remain there, the Monetary Committee will hold some of its meetings there, and Community bodies created later, especially those concerned with finance, will also be established there, in so far as this may be conducive to efficient operation.

Finally, certain administrative services of the single Commission will either remain in Luxembourg or be transferred there, as the case may be.

The Commission supported the Luxembourg Government's suggestion that an institute for European law and comparative study of the law of Member States should be set up in Luxembourg.

CHAPTER II

ESTABLISHMENT OF THE COMMON MARKET

Free movement of goods

"INITIATIVE 1964"

3. With a view to establishing between the Member States a single market having the characteristics of a domestic market, the Commission sent a memorandum entitled "Initiative 1964" to the Council and to the Governments of the Member States on 1 October 1964. Following the agricultural policy decisions of 15 December 1964, the Commission amended some of the time-limits suggested in that memorandum and on 16 January 1965 submitted to the Council proposals for measures to accelerate the completion of the customs union and to harmonize customs legislation, applying uniform rules and abolishing fiscal and semi-tariff barriers to intra-Community trade.

In view of the growing interpenetration of markets and the rapid adaptation of the economy to the enlarged market, which has made it not only possible but also imperative to hasten tariff disarmament, the Commission now proposes 1 July 1967 as the date for completion of the customs union.

As regards internal tariff disarmament, the Commission proposes that on 1 January 1966 the Member States bring their customs duties on industrial products down to 20% of the original duties, and that on 1 July 1967 they abolish such duties entirely.

The duties on agricultural products for which there is no common organization of markets will be reduced to 35% of the original duties on 1 January 1966 and to 20% on 1 January 1967, and on 1 July 1967 they will be abolished entirely.

With regard to the common customs tariff, the Commission proposes that, notwithstanding the provisions of Article 23(1 c) of the Treaty (under which any difference was to be further reduced by 30% at the end of

the second stage), the Member States should apply the common customs tariff directly from 1 July 1967.

Finally the Commission proposes that all quantitative restrictions on imports of industrial products from other Member States should be prohibited.

The Commission points out that final establishment of the common customs tariff will give not only European business circles but also the Community's partners in the non-member countries a clear picture of the European customs union which will confront them. This will in particular be a great advantage for the Kennedy round negotiations.

With regard to customs legislation, the Commission will submit, if possible before 1 January 1966, proposals concerning definition of origin; the application of anti-dumping and compensatory duties; valuation for customs purposes; common arrangements for processing traffic; the unification of national provisions concerning free entry on economic grounds, bonded warehouses and free ports; procedure for operating Community tariff quotas, and rules for the uniform application of the common customs tariff.

In order to establish a common market having the same characteristics as a domestic market, the Commission proposes that the Council adopt a resolution abolishing by 1 January 1970 at the latest all frontier controls on trade in goods between Member States, and that it take the further measures necessary for this purpose.

In pursuance of Article 10 of the Treaty, the Commission will relax the formalities applied in trade, simplifying as far as possible the system introduced six years ago for intra-Community trade.

The Commission proposes that fiscal controls should be progressively eliminated after indirect taxation has been harmonized, and again urges that its proposal for a directive on the harmonization of turnover taxes should be adopted.

Finally the Commission requests the Council to introduce, in advance of the complete establishment of customs union, measures of commercial policy that will make it possible to dispense with the procedure provided for in Article 115 ⁽¹⁾.

⁽¹⁾ Ch. III (secs. 134 sqq., 253 and 254) deal with the parts of "Initiative 1964" that concern monetary policy and social policy.

The Council referred to the European Parliament the Commission's proposals contained in "Initiative 1964". The Parliament expects to render its opinion at its session in May 1965.

On 30 October 1964 the Commission referred "Initiative 1964" to the Economic and Social Committee, asking for an early opinion. The Economic and Social Committee expressed itself in favour on 9 December 1964 (2).

These proposals are now under consideration of the Council.

TARIFF DISARMAMENT

4. For the progressive elimination of customs barriers in the Community (Arts 12-17 of the Treaty) the Commission has to take different courses of action according to whether it is customs duties or charges with equivalent effect which are to be removed.

Internal customs duties

5. Since customs duties on exports were abolished (31 December 1961), the Commission has confined itself to examining certain matters connected with the elimination of customs duties on imports, viz.:

- i) Checking that the "stand-still" stipulated by Article 12 of the Treaty is still being observed;
- ii) Checking the reductions in intra-Community customs duties made by the Member States in pursuance of Articles 13 (1), 14 and 17 (1) of the Treaty;
- iii) Working out proposals with a view to determining and, where appropriate, increasing the pace at which intra-Community customs duties are being eliminated.

Since 1 January 1958 whenever a Member State has introduced or increased a customs duty on imports from other Member States or has not fulfilled

(2) See sec. 369.

its obligations regarding the progressive elimination of intra-Community customs duties, the Commission has insisted on the elimination or reduction of the duties in question. So far the Member States have invariably conformed with the Commission's reasoned opinion on these cases. However, on 1 March 1965, there was still one case outstanding that had not been regularized; the Commission intends to proceed against the Member State concerned before the Court of Justice in the very near future.

On 1 January 1965, the Member States applied a new linear reduction of 10% of the duties at 1 January 1957, bringing the intra-Community customs duties on almost all industrial products down to 30% of those duties. (The German Government has independently reduced the duties, as of 1 July 1964, for a large number of industrial products to 20% of the base duties.) For agricultural products (listed in Annex II of the Treaty), the remaining duties amount, at 1 January 1965, to 45% or 50% of the base duties, depending on the product. In addition, levies are now imposed on several agricultural products instead of customs duties, which have therefore been suspended.

At the end of the second stage of the transition period, internal tariff disarmament for industrial products will therefore show a reduction 30% greater than that which the Member States are required to effect by that date under the Treaty (50% of the base duty). For agricultural products, the advance will in general amount to 15%.

Charges equivalent in effect to customs duties

6. To date, the Commission has noted a total of 357 different charges that may be regarded as equivalent in effect to customs duties; of these, 284 are imposed on imports and 73 on exports. The Commission has examined these cases, giving priority to charges that appeared to be having an immediately perceptible effect on intra-Community trade and more particularly to those designed to make up the difference in price between an imported item and a similar item in the country imposing the charge. From the list showing the progress made with the elimination of charges equivalent in effect to customs duties it was clear that, at 1 February 1965, there were 228 charges out of the total of 357 that had been or were

about to be abolished or else could not in fact be regarded as equivalent in effect to customs duties. This leaves the Commission with 129 cases of charges that may be regarded as equivalent in effect to customs duties (63 affecting imports and 66 affecting exports). Since these cases differ greatly from one another, they will have to be examined one by one to see whether or not they call for action under Articles 12, 13 or 16 of the Treaty. They are, moreover, more complex than those examined previously. Examination of them is in progress.

In this connection, the Commission also examined a number of export charges at the beginning of 1965, and decided to have recourse to Article 169 in respect of 17 of them. In the case of some 20 other export charges, the Commission has decided either to declare them not equivalent in effect to customs duties or to defer ruling pending further information. Also it has just taken decisions concerning about 20 import charges.

The Commission will endeavour to reach decisions before the end of 1965 in respect of all the charges noted, but it will still have to see whether there may not perhaps be some charges equivalent in effect to customs duties which have not so far been brought to its knowledge.

COMMON CUSTOMS TARIFF (1)

Implementation

7. No general adjustment of national duties towards those in the common customs tariff has taken place during the period covered by the present report. The time-table below shows the present position; it gives the time-table and rate of progress to date in establishing the customs union, both for the implementation of the common customs tariff and for the elimination of intra-Community duties.

(1) The new edition (1 July 1963) of the "Customs Tariff of the European Communities" has been kept up to date by leaflets produced regularly for that purpose which give the Council decisions amending or suspending duties. The fifth set of leaflets, dated 1 December 1964, includes the amendments that had to be made to the common customs tariff when the duties on petroleum products were fixed; the sixth set deals with the amendments occasioned by the entry into force on 1 January 1965 of three Council recommendations concerning customs co-operation.

8. By its decision of 8 May 1964 ⁽¹⁾ the Council fixed the duties for petroleum products in List G, filling the last gap in the CCT duties ⁽²⁾. This decision, which concludes the action taken by the Commission in pursuance of Article 20 (3) of the Treaty, since the beginning of the second stage, was followed immediately by another Council decision, based on Article 28, suspending or reducing the duties on these petroleum products for an indefinite period. In this way the Community has created more favourable import conditions for industries using mineral oils, while still remaining able to protect its refining industry if necessary, even if only to a limited extent. Both these decisions entered into force on 1 November 1964; on that date the Member States brought these duties into effect for imports from non-member countries and abolished their national duties in respect of other Member States.

9. In pursuance of Article 2 of the Yaoundé Convention, the Member States took similar action on 1 June 1964 for the products listed in the Annex to that Convention (coffee, pineapples, pepper, etc.). Commercial agreements were concluded with Israel and Iran on 1 July 1964 and 1 January 1965 respectively, leading to alignment on or more rapid adjustment towards the common customs tariff. These agreements concern a number of products exported from these countries to the Community and for which the national duties were higher than the CCT (calcium hydrogen phosphate, grapefruit, bathing costumes, etc. in the first case ⁽³⁾, caviar, raisins and dried apricots in the second ⁽⁴⁾). On 31 December 1964 the Member States gave effect to a decision of the Council ⁽⁵⁾ reducing by 15% the difference remaining between the duties of their national tariffs and those of the common customs tariff for raw tobacco.

10. At present, where measures derogating from the progressive implementation of the common customs tariff are concerned, in only one case has authorization to postpone raising national duties been granted under Article 26; this concerns the duties on imports of certain manufactured tobaccos into the Benelux countries ⁽⁶⁾. Of course, certain Member States

⁽¹⁾ See official gazette No. 77, 21 May 1964.

⁽²⁾ See sec. 153.

⁽³⁾ See official gazette No. 95, 13 June 1964.

⁽⁴⁾ *Ibid.*, No. 204, 10 December 1964.

⁽⁵⁾ *Ibid.*, No. 64, 22 April 1964.

⁽⁶⁾ *Ibid.*, No. 123, 10 July 1964.

TABLE 1

Progress towards customs union in the Community

	1st stage			2nd stage			3rd stage		
	1.1.58	1.1.59	1.1.60	1.1.61	1.1.62	1.1.63	1.1.65	1.1.66 ⁽⁶⁾	1.1.70
<i>A. Elimination of intra-Community duties:</i>									
1. Agricultural products (Annex II to the Treaty):									
i) Reduction made (on the basis of national duties on 1 Jan. 1957)	10 %	10 %	10 %	5 % ⁽¹⁾	10 %	5 % ⁽²⁾	10 %	10 %	10 %
ii) Total reduction	10 %	20 %	20 %	25 % ⁽¹⁾	35 %	35 %	45 %	55 %	55 %
2. Industrial products:									
i) Reduction made (on the basis of national duties on 1 Jan. 1957)	10 %	10 %	10 %	10 %	10 %	10 %	10 %	10 %	10 %
ii) Total reduction	10 %	20 %	20 %	30 %	40 %	50 %	60 %	70 %	80 %
<i>B. Institution of CCT:</i>									
1. Agricultural products (Annex II to the Treaty):									
i) Adjustment made ⁽⁴⁾					30 % ⁽⁵⁾				
ii) Total adjustment					30 %			30 %	60 %
2. Industrial products:									
i) Adjustment made ⁽⁴⁾				30 % ⁽⁵⁾		30 % (acceleration)			
ii) Total adjustment				30 %		60 %			100 %

⁽¹⁾ Reduction applicable only to non-liberalized products.

⁽²⁾ Reduction applicable only to liberalized products.

⁽³⁾ Total reduction applicable to certain liberalized products only.

⁽⁴⁾ i.e. narrowing of the gap between national duties at 1 January 1957 and CCT duties.

⁽⁵⁾ The CCT duties were applied immediately where the difference between them and national duties on 1 January 1957 was no more than 15%.

⁽⁶⁾ Figures under 1.1.66, 1.1.67 and 1.1.67 are those proposed by the Commission in its revised 'Initiative 1964'.

have been authorized to suspend duties, either by the Commission in pursuance of Article 25 (3) (see section 15, "tariff quotas") or by the Council on a proposal of the Commission under Article 103, and measures departing from the common customs tariff have also been authorized under Article 226 (see section 31).

Modification of the common customs tariff

11. On 1 January 1965, numerous changes in the common customs tariff were made in pursuance of three recommendations of the Council for Customs Co-operation, dated 6 June 1960, 8 December 1960 and 9 June 1961. The object of these recommendations was to bring the Brussels nomenclature up to date having regard to recent technical progress and the need to include new products that have appeared on the international market. As these amendments had been accepted by the 19 contracting parties (which include the six Common Market countries) to the Brussels Convention on nomenclature, all the customs tariffs using that nomenclature—and in particular the common customs tariff of the EEC—had to be adjusted accordingly. At the same time certain rates were simplified or regrouped, due regard being had to the interests of non-member countries and to the Community's commitments under GATT. These changes were made by Council decision in accordance with Article 28 on 12 December 1964 ⁽¹⁾, and concerned the wording of 53 notes to chapters or sections of the tariff and 126 headings or sub-headings.

Another Council decision of the same date ⁽²⁾, made certain changes for economic and technical reasons in respect of copper and aluminium powders (headings 74.06 and 76.05) and for aluminium waste and scrap (heading 76.01 B).

Suspension or temporary reduction of CCT duties

12. The Council's decision, under Article 28, to suspend the CCT duties on a number of basic products imported into the Community for processing

⁽¹⁾ See official gazette No. 220, 31 December 1964.

⁽²⁾ *Ibid.*

was mentioned in the Seventh General Report ⁽¹⁾. It is more beneficial for the Community as a whole to suspend such duties than to grant national tariff quotas. The applications for suspension made by the Member States for 1964 involved a total of 156 products or classes of products, for 65 of which the Council granted the application ⁽²⁾. For 1965 applications by Member States have concerned only 90 products or classes of products and, on a proposal of the Commission, suspension has been authorized for 61 of these ⁽³⁾.

Other duties suspended concern:

a) Under Article 28 of the Treaty, in addition to the petroleum products already mentioned; uranium depleted in uranium 235 (heading 81.04 M) ⁽³⁾, and mixtures of synthetic rubber with plastic materials (heading 40.02) ⁽⁴⁾;

b) Goods (21 tariff lines) on which the duties have been suspended under the commercial agreement between the EEC and Israel ⁽⁵⁾.

In order to give a general idea of all the cases in which the CCT duties at present applicable have been suspended or temporarily reduced, we would recall that they concern, in addition to the products mentioned above:

i) Certain List G products which were the subject of a Protocol to the Agreement concluded between the Member States on 2 March 1960 (12 tariff lines) ⁽⁶⁾;

ii) Tea, maté and tropical hardwoods, as a result of a tariff arrangement concluded between the Community and the United Kingdom (6 tariff lines) ⁽⁷⁾;

iii) A number of typical products originating in India (20 tariff lines) ⁽⁸⁾;

iv) Coffee and cocoa, in connection with the entry into force of the Convention of Association between the EEC and the AASM (2 tariff lines) ⁽⁹⁾;

⁽¹⁾ See sec. 9.

⁽²⁾ See official gazette No. 54, 2 April 1964, and No. 92, 10 June 1964.

⁽³⁾ *Ibid.*, No. 214, 24 December 1964 and No. 35, 4 March 1965.

⁽⁴⁾ *Ibid.*, No. 214, 24 December 1964.

⁽⁵⁾ *Ibid.*, No. 95, 13 June 1964.

⁽⁶⁾ *Ibid.*, No. 80 G, 20 December 1960.

⁽⁷⁾ *Ibid.*, No. 166, 19 November 1963.

⁽⁸⁾ *Ibid.*, No. 190, 30 December 1963.

⁽⁹⁾ *Ibid.*, No. 93, 11 June 1964.

v) Products from Iran, particularly knotted woollen carpets (4 tariff lines) ⁽¹⁾;

vi) Heavy hydrogen (deuterium) and its derivatives ⁽²⁾; nuclear reactors and their components (4 tariff lines) ⁽³⁾.

Application of the common customs tariff

13. The Commission considers it particularly important that the common customs tariff should be applied correctly and uniformly. When it is fully in effect, any particular item will have to be classified for duty purposes under the same customs heading, and charged on the same basic value, regardless of the country into which it is imported. Such uniformity will place all the importers in the Community on an equal footing and offer all producers the same measure of protection, avoiding any deflection of trade that might otherwise occur when intra-Community duties are removed entirely.

Moreover, it is essential that the tariff nomenclature should be interpreted in exactly the same way if there is to be uniformity in all the fields where this nomenclature is used for purposes other than the collection of customs duties: for example, in foreign trade statistics, tariff concessions included in commercial agreements, internal charges and taxes on imports (excise duties, transmission taxes, etc.), or import or export quotas.

For these reasons, the Commission is drafting with the assistance of experts of the Member States explanatory notes to the sub-headings of the common customs tariff. This is an immense task, which consists in supplementing the explanatory notes to the main headings of the Brussels nomenclature. So far, preliminary drafts of notes to 22 chapters have been examined, out of a total of 99. These notes must be finished before the common customs tariff comes fully into force. Meanwhile, as the new explanatory notes become available, the Member States are already taking them into account in practice when applying their national tariffs; since 1 January 1961 these have been arranged in the same way as the common customs tariff with all its sub-divisions. At the request of the Commission, the

⁽¹⁾ See official gazette No. 152, 23 October 1963.

⁽²⁾ *Ibid.*, No. 204, 20 December 1964.

⁽³⁾ *Ibid.*, No. 41, 28 May 1962.

Member States have also issued instructions on classification that were agreed upon with the Commission with a view to eliminating discrepancies in this matter within the Community.

14. As regards valuation for customs purposes, the Commission is still engaged in preparing a regulation to ensure uniform application of the Brussels Convention and therefore of the common customs tariff.

There is one particular difficulty that has still to be resolved: the Brussels Convention stipulates that the dutiable value of imported goods must include transport costs to the "place of entry" (cif) into the importing country. Under the present national laws, the "place of entry" is generally the place where the goods cross the frontier of the Member State in question. When the customs union is complete, these provisions will have to be replaced by Community regulations, since internal customs barriers will have been eliminated and replaced by a single external customs frontier.

In practice there are also numerous differences in the way in which the Member States apply the Brussels definition. Among other things, the Commission is studying how far authors' royalties, patent rights etc. should be taken into account in valuation for customs purposes.

TARIFF QUOTAS

15. Since 1962 there has been a steady decline in the number of applications for tariff quotas made under Article 25 of the Treaty or the Protocols to the List G agreement ⁽¹⁾. The same tendency is reflected in the quotas authorized for 1965 (see table on following page), so that the Commission's efforts since 1961 to reduce the number of tariff quotas in accordance with the wishes of the European Parliament can on the whole be regarded as successful. In certain cases it only became possible to reduce the number of quotas when Community solutions were adopted, such as amendments to the nomenclature or suspension or temporary reduction of duties.

⁽¹⁾ 1962 showed a considerable increase over 1961, largely owing to the initial adjustment of agricultural duties towards the common customs tariff which led for the first time to applications under Article 25 (3) of the Treaty (see Seventh General Report, sec. 10).

TABLE
Applications for tariff
(under Article 25 (1))

	1961					1962				
	para. 1	para. 2	para. 3	List G	Total	para. 1	para. 2	para. 3	List G	Total
Number of applications	55	58	—	46	159	58	92	85	43	278
Withdrawn:										
<i>a)</i> by the Member State applying	13	21	—	2	36	17	41	22	1	81
<i>b)</i> after a Community solution had been found	12	19	—	9	40	13	32	5	5	55
Total	25	40	—	11	76	30	73	27	6	136
Applications left to be dealt with	30	18	—	35	83	28	19	58	37	142
Refused	4	7	—	1	12	—	9	28	1	38
Granted	26	11	—	34	71	28	10	30	36	104
Applications outstanding										

Any assessment of the proportion of the Community's imports that is brought in under tariff quotas granted can only be approximate. Tariff quotas are applied for and granted in quantity; usually they only concern parts of tariff lines, which cannot be segregated statistically. In previous General Reports, the Commission estimated that some 3% of imports was affected. At the present time this percentage can be put at under 3%, mainly because of the increase in the Community's total imports from non-member countries which has each year reduced the proportion of trade taking place under the tariff quota system.

From 1 July 1963, the Commission and the Council have, wherever possible, refused quotas at nil duties for industrial products and granted

quotas for 1961 to 1965

(2), (3) or List G)

1963						1964					1965				
para. 1	para. 2	para. 3	List G	Total	para. 1	para. 2	para. 3	List G	Total	para. 1	para. 2	para. 3	List G	Total	
29	29	47	36	141	21	7	34	37	99	22	8	31	37	98	
5	20	8	—	33	3	2	3	—	8	—	1	2	—	3	
2	6	6	—	14	8	—	—	—	8	8	1	—	1	10	
7	26	14	—	47	11	2	3	—	16	8	2	2	1	13	
22	3	33	36	94	10	5	31	37	83	14	6	29	36	85	
—	—	4	—	4	—	—	4	—	4	—	—	—	—	—	
22	3	29	36	90	10	5	27	37	79	10	4	21	34	69	
—	—	—	—	—	—	—	—	—	—	4	2	8	2	16	

quotas at duties somewhere between nil duty and that arrived at by the adjustment of the national tariff towards the common customs tariff. The extent of these increases in duty has been determined by examining each case separately in the light of the state of the market for the product in question and of the supply difficulties encountered by the applicant Member State. The quota duties thus increased often amount to half the adjustment towards the common customs tariff.

If, as the Commission hopes, the tariff negotiations in GATT result in an appreciable reduction of the CCT duties, many national tariff quotas will lose much of their significance so that it will probably be easier to abolish them.

The Commission makes a periodical check on the tariff quotas granted. So far, it has never found a case where quotas have been exceeded, nor any other infringement.

As the Commission pointed out in its Action Programme for the second stage, any tariff quotas that are still necessary after the end of the transition period will have to be changed into Community quotas. For the interim period before customs union is complete, the Commission is trying to work out a system that will not merely consist in adding together the national tariff quotas. So far the Member States have expressed no firm intention of reaching this stage. In 1965 the Commission will continue its efforts to arrive at a solution compatible with the Treaty.

CUSTOMS LEGISLATION

16. The Commission has begun to carry out the Action Programme on customs legislation which it submitted to the Council on 2 August 1963 ⁽¹⁾.

The Commission has not been able to achieve the hoped-for results, owing to the magnitude and complexity of the task, the limited means at its disposal and a certain reserve on the part of the Member States.

Therefore, in its "Initiative 1964" (see sect. 3 above), the Commission again stressed that, if customs union is to be completed, it was essential that Community customs legislation should be introduced wherever this was necessary to ensure that all tariff or other measures applicable to trade with non-member countries should be applied correctly and uniformly, and to ensure that progress was made in eliminating the existing obstacles to intra-Community trade.

The Member Governments and Community institutions are desirous of advancing in this direction and the regular meetings being held between the heads of customs departments in the Member States and officials of the Commission are of primary importance in this common task.

Common definition of origin

17. On 29 December 1964 the Commission submitted to the Council a proposal for a regulation relating to a common definition of the origin of

(1) See Seventh General Report, sec. 18.

goods. This regulation, which is based on Article 111, will be an important instrument of common commercial policy. Where necessary, it will enable imports of goods to be treated differently according to the country from which they come, either for customs purposes or where measures of commercial policy in the strict sense are concerned; it will also ensure uniform application in all the Member States. Products exported from the EEC will receive identical treatment on export markets regardless of the Member State from which they come.

18. Community legislation on anti-dumping and compensatory duties is also being worked out as part of the plan to provide the Community with the necessary instruments of common commercial policy ⁽¹⁾.

A proposal for a regulation will be submitted to the Council in the near future.

Free entry on economic grounds

19. The fact that the duties on goods thus exempted have not been aligned on the common customs tariff has caused in many cases a considerable decline in production, and it is also liable to distort competitive conditions. The Commission does not consider that Article 27 regarding customs legislation can properly be invoked to justify the non-fulfilment of obligations under Article 23. It has therefore taken action under Article 169 against various Member States in order to put an end to a situation that it regards as an infringement of the Treaty.

20. Common legislation is also being prepared on temporary admission; this will make it possible to suspend duties and entry charges on products from non-member countries which are to be processed within the Community and then re-exported to a non-member country ("inwards processing traffic"). Common rules and procedures for customs clearance of goods are also being worked out.

Trade in goods between Member States

21. Where administrative co-operation is concerned, the Commission decision of 30 July 1964 ⁽²⁾, taken in pursuance of Article 10 (2),

⁽¹⁾ See sec. 283.

⁽²⁾ See official gazette No. 137, 28 August 1964.

instituted a method of applying the intra-Community system to fish landed by vessels of Member States at the ports of other Member States. A special movement certificate (DD5) showing Community origin must be used.

22. By a decision of 8 January 1965 ⁽¹⁾, the Commission established conditions governing the issue of movement certificates for packaged goods. The purpose was to obviate the difficulties that customs authorities experience in clearing Community goods in non-Community wrappings. In certain cases, non-Community wrappings have benefited improperly from the Community system applicable to be goods they contained. Tariff protection for the Community's packaging producers was therefore considerably impaired.

23. With regard to processing traffic, the Commission has taken a number of decisions to ensure that the system of compensatory levies instituted by the decision of 14 October 1963 functions efficiently ⁽²⁾ ⁽³⁾.

Each quarter it has fixed the arithmetic mean of the agricultural levies, from which the compensatory levy is calculated which is imposed on products obtained by the processing of products subject to the agricultural levy system ⁽⁴⁾.

In order to allow for the new reduction of 10% made in intra-Community customs duties on 1 January 1965, the percentage of the customs duties and of the arithmetic mean of the agricultural levies that must be considered in determining the rate of the compensatory levies has been increased to 65% for all goods from 1 February 1965 ⁽⁵⁾.

24. On 29 June 1964 the Commission recommended that the Member States ⁽⁶⁾ grant temporary admission for material used in teaching or vocational training by public or private bodies, and also that they simplify as far as possible the administrative formalities relating to these goods and reduce the expenses involved.

⁽¹⁾ See official gazette No. 6, 21 January 1965.

⁽²⁾ See Seventh General Report, sec. 15.

⁽³⁾ See official gazette No 172, 28 November 1963.

⁽⁴⁾ *Ibid.*, No. 57, 6 April 1964; *Ibid.*, No. 110, 10 July 1964; *Ibid.*, No 167, 24 October 1964; *Ibid.*, No. 186, 18 November 1964.

⁽⁵⁾ *Ibid.*, No. 25, 11 February 1965.

⁽⁶⁾ *Ibid.*, No. 112, 14 July 1964.

The Commission recommended ⁽¹⁾ that the Member States eliminate from 1 January 1965 onwards the flat-rate customs duty ⁽²⁾ on Community goods sent in small consignments or carried in travellers' personal luggage. This concession, granted only to non-commercial imports worth less than 60 units of account, would have a valuable moral effect by making the general public aware of the existence of the Common Market.

The Commission is confident that the Member States will comply with these two recommendations.

25. More generally, the Commission is taking steps to promote the progressive elimination of customs formalities and controls at internal frontiers, giving priority to ensuring that goods imported from non-member countries can circulate throughout the Community under a common document and with a minimum of formalities at the internal frontiers. At the same time it is studying the possibility of applying this system to Community goods in order to facilitate movement from one Member State to another.

Abolition of frontier controls in trade in goods between the Member States

26. In connection with "Initiative 1964", the Commission is preparing a programme for the complete abolition by 1970 of controls that hinder intra-Community trade. Such controls do not consist only of customs examination; the customs officials of the Member States deal not only with customs matters but also with various fiscal matters, collecting indirect taxes and excise duties. In addition they carry out inspections on behalf of other departments of the administration (e.g. public health, plant health and veterinary inspection, and control of motor vehicles—roadworthiness, insurance, licences and taxation of commercial vehicles—as well as controls affecting individuals).

The review undertaken by the Commission deals with measures justified on grounds of *ordre public*, security and public health; fiscal controls of different kinds; compulsory licensing systems and various administrative procedures affecting imports and exports; provisions of a technical nature

⁽¹⁾ See official gazette No. 7, 22 January 1965.

⁽²⁾ See Fifth General Report, sec. 15.

applying to the production, composition, quality and packaging of certain products; restrictions on imports arising from recourse to Article 115. This work, which concerns customs matters, competition, transport, and problems connected with the common commercial and agricultural policies, and also association policy, will require long and detailed studies and the full co-operation of the Member States and their government departments if the objective proposed by the Commission—i.e. the elimination of all frontier controls by 1970—is to be attained.

*The elimination of quantitative restrictions and measures
with equivalent effect*

27. There are now very few products for which quotas fixed in accordance with Article 33 are still in force in the Member States.

The few remaining quotas (21 for Germany, 30 for France—of which only 18 are really specific quotas—2 for the Netherlands, 1 for Benelux, 5 for Italy, and none for the B.L.E.U.) concern the following sectors: fish, oils and fats, wine, tropical products, and products of the canning industry.

This situation is the result of the entry into force of the common agricultural regulations, or of liberalization effected either autonomously or in accordance with decisions already taken by the Commission in pursuance of Article 33 (4). New decisions of this kind are expected shortly.

In a small number of cases, certain Member States have adopted provisions incompatible with Article 34 of the Treaty. The Commission has initiated the procedure provided for in Article 169 for cases of infringement.

28. Although the elimination of quotas has now reached an advanced stage, the Commission still has much work to do in connection with the elimination of administrative formalities and of measures equivalent in effect to quantitative restrictions on imports.

In accordance with the intention expressed in its Action Programme, the Commission is preparing a proposal for a decision, based on Article 235, for the abolition of all but a few necessary formalities affecting imports and exports, such as licences, visas, permits, etc. This decision will make the procedure governing intra-Community trade very much simpler.

29. The Commission has been working on a definition of the concept of measures equivalent in effect to quantitative restrictions, and has been drafting directives for the abolition of such measures.

A first directive in pursuance of Article 33 (7) has been adopted⁽¹⁾, providing for the gradual elimination by 1967 of the calendar governing imports of potatoes into Germany.

Other directives—for example, to abolish measures tying imports of Community goods either to exports or to the purchase of home-produced goods, or to eliminate measures prohibiting or restricting the use, consumption or processing of Community products—have met with certain difficulties that have prevented their final adoption by the Commission, particularly the need to exclude provisions forming part of a national organization of the market or of a monopoly falling under Article 37. Also, the Commission directive to remove restrictions on the participation of firms in the execution of building work for governments, their local or regional authorities and other public bodies are only to be put into effect at the same time as the Council directive relating to public works contracts and the two directives concerning the co-ordination, under Article 100, of procedures for the conclusion of contracts for supplies or works.

When these last directives are implemented, the interpenetration of markets will have taken a considerable step forward, for the wide market of government contracts will then be open to all firms in the Community.

The Commission is also continuing its review of the various kinds of rules and practices that may be regarded as being equivalent in effect to import quotas. For some of these—price-fixing, for example—general principles must be worked out that will make it possible to judge whether or not such measures are really equivalent in effect. Where technical specifications are concerned, this is not always easy. Harmonization of legislation, particularly, will bring about the removal of many such obstacles, but if measures with equivalent effect come to light while such harmonization is under consideration, they will none the less be made the subject of directives or of the procedure provided for in Article 169. The latter has been adopted in several cases.

⁽¹⁾ See official gazette No. 134, 20 August 1964.

Government monopolies

30. Intra-Community trade in goods subject to government monopolies has continued to develop steadily:

- i) The French tobacco monopoly has increased its imports of manufactured tobaccos from other Member States. Imports totalled FF 14.46 million in 1963 and FF 7.115 million in the first six months of 1964, whereas they were only about FF 2 million in 1959, and FF 10.95 million in 1962;
- ii) In Italy imports of manufactured tobaccos from other Member States have also risen. Imports by the Italian tobacco monopoly, which totalled Lit. 320 million in 1959, 1 160 million in 1960 and 3 769 million in 1962, reached 4 604 million in 1963 and 2 882 million in the first six months of 1964;
- iii) The German Government declared itself ready to follow the Commission's recommendation of 26 November 1963 that it should gradually remove quantitative restrictions on certain spirits and make the issue of import licences progressively more automatic. The Commission is following developments closely, because imports of these products are to be entirely liberalized by the end of the transition period. With regard to its spirits monopoly, the French Government said that it would not be able to abolish the discrimination arising from its tax system within the time suggested in the recommendation of 26 November 1963. Moreover, it believes that other Member States show discrimination in their tax systems and that in order to protect farmers Article 37 (4) of the Treaty should be taken to apply to specific cases. The French note is at present being studied;
- iv) The Italian Government notified the Commission of a law abolishing its monopoly for bananas and introducing a consumption tax on fresh and dried bananas. The Commission is at present examining this law to see whether it guarantees freedom to import bananas without restriction or authorization by the authorities and whether the consumption tax is compatible with the Treaty. Imports in fact exceeded the quota that the Commission had recommended for 1963 (3 600 tons for Member States plus 13 000 tons for the Associated African States and Madagascar excluding Somalia) for in 1964 Italy imported 3 683 tons of bananas from other Member States, and 40 657 tons from the Associated African States and Madagascar excluding Somalia;

v) In accordance with the Commission's recommendation of 1963, the French Government this year opened quotas totalling 1 650 000 metric tons for petroleum products from other Member States. Of these quotas, 1 549 000 metric tons were taken up, or almost 93%;

vi) In 1963 the Italian Government again increased its quotas for imports from other Member States of salt and cigarette papers. These were 138 862 metric tons and 614 962 500 units respectively. Of the salt quota, 1 158 metric tons was taken up, but no use was made of the quota for cigarette papers owing to a lack of interest on the part of manufacturers in the other Member States.

MISCELLANEOUS WAIVERS

Countervailing charges on imports of processed agricultural products

31. Since 1 April 1964 the Commission, in pursuance of the Council decision of 4 April 1962 (taken under Article 235) ⁽¹⁾, has taken 31 decisions granting or refusing permission to levy such charges or varying the amount. Three Member States have been allowed to impose countervailing charges on imports from certain Member States: Germany, for bread, biscuits and waffles, caramels and dextrin; France, for chocolate, glucose (dextrose), sugar confectionary not containing cocoa, and dextrin; Italy, for dextrin. The Commission declined to authorize countervailing charges on imports of biscuits into Italy from the other Member States.

32. Owing to the reduction of intra-Community customs duties on 1 January 1965, it is in some cases more difficult for the Member States, in view of the level of protection remaining, to provide compensation for differences in the prices of raw materials contained in processed goods. For this reason it was necessary for the Commission to take new decisions after that date.

In its reports to the Council of 14 October 1963 ⁽²⁾, the Commission

⁽¹⁾ See Fifth General Report, sec. 25.

⁽²⁾ See Seventh General Report, sec. 28.

mentioned the difficulties it had encountered in giving effect to the decision of 4 April 1962, which affords only a partial and imperfect solution to the problem of trade in processed products not listed in Annex II to the Treaty. On 6 July 1964, in order to meet these difficulties, the Commission submitted proposals to the Council for two regulations, one instituting a system governing trade in certain processed agricultural products, and the other listing the goods to which that regulation would apply.

It is hoped that the proposed system will solve the problems that arise in intra-Community trade and trade with non-member countries owing to the fact that, particularly since the development of the common agricultural policy, price differences have been widening according to whether farm products are exported in the form in which they are mentioned in Annex II or in other forms. The proposed system would thus vary the decision of 4 April 1962 and bring the level of protection for the agricultural raw material into line with that for the same raw material incorporated in goods not listed in Annex II to the Treaty. The basic principle consists in dividing tariff protection into two elements: a fixed *ad valorem* element to provide a moderate level of protection for processing industries, and a variable, specific element designed to equalize raw material costs by a system of levies and refunds.

The Commission's proposal fulfils an immediate need. In principle, it is applicable until the end of the transition period, both in intra-Community trade and in trade with non-member countries. However, once uniform prices for agricultural raw materials have come into force throughout the Community and internal customs duties have been abolished, these provisions will apply only to trade with non-member countries, as there will still be a difference between agricultural raw material prices within the Community and those on the world market.

The Commission's proposals constitute a basic regulation. When it has been adopted by the Council of Ministers, it will have to be supplemented by implementing regulations for different products or groups of products. At its session of 18-22 January 1965, the Parliament adopted a resolution approving the Commission's proposals, and submitted a report on the matter to the Commission.

Safeguard measures (recourse to Article 226)

33. During the period covered by this General Report no new requests for authority to apply Article 226 have been submitted. The Commission has therefore done no more than extend some measures that it had previously authorized in order to put certain commodity sectors on a sound footing (sulphur, lead and zinc, silk). The applications relating to semi-finished products derived from the raw materials mentioned above have been renewed as there has been no appreciable change in the situation regarding these products.

The decisions concerning the silk sector in Italy are being renewed. It is now clear that the difference between the price of Italian silk and that of Asian silk has narrowed, which should make it possible for the protective measures authorized for processed products on the Italian market to be relaxed.

The decisions concerning the Italian market for lead and zinc were extended, on certain conditions governing imports into Italy of lead and zinc waste and scrap, until 1 March 1966, when the period of isolation of the Italian market comes to an end; this was provided for in Protocol XV annexed to the Agreement of 2 March 1960 establishing part of the common customs tariff for List G products. Great efforts have been made to improve the profitability of Italian firms producing lead and zinc, but much of the investment planned under the re-organization programme has still to be carried out. The recent decision will ensure stable market conditions for the enterprises concerned, thus making it easier for them to obtain the necessary finance for these investments.

For imports of certain lead and zinc products from other Member States, the Commission has authorized Italy to maintain until 1 March 1966 the customs duties that were in force before 1 July 1963, on condition that Italian duties on imports from non-member countries are high enough to ensure Community preference as laid down in the Treaty.

Where sulphur and its derivatives are concerned ⁽¹⁾, the Commission, in accordance with the time-limit that it proposed for the final opening of

⁽¹⁾ See sec. 146 "Problems of the sulphur industry in Italy" for a discussion of this question.

the Italian sulphur market, is preparing decisions authorizing Italy to take the safeguard measures required by the new situation which arose in 1964 as a result of the closure of works operating by old-fashioned processes.

The Commission is paying close attention to economic developments in the various branches of industry, particularly those that are most sensitive. It is bringing up to date the studies made in previous years, details of which are given in earlier General Reports. It has also begun new studies concerning shipyards.

Freedom of establishment and freedom to supply services

General

34. The Community's institutions and the Member States alike have shown their determination to advance in this field; despite difficulties in certain important sectors (public works contracts and company law), previously established deadlines have generally not been overstepped to any great extent. Priority has been given, as planned, to industrial and commercial activities. Finally, some work has been done in almost all of the other sectors, and a number of important measures have been taken.

To the ten directives previously issued ⁽¹⁾, the Council has added another four, while three recommendations from the Commission have gone out to the Member States. The Commission followed up its seventeen previous proposals to the Council with a number of others and has completed the drafting of still more.

The Commission has supervised the application by the Member States of previous Council directives, and continued its work on the co-ordination of legislation and the mutual recognition of written qualifications.

With the limited means at its disposal, however, the Commission will probably be unable to take certain measures ahead of schedule as urged by

(¹) Two general directives on movement and residence and one on payment for services; two special directives on agriculture, one on cinematography, three on wholesale trade and intermediaries and one on reinsurance.

the Parliament ⁽¹⁾, and may even find it impossible to complete the full programme laid down for the transition period, particularly as regards the co-ordination of laws, regulations and administrative practices [Article 54 (3 g), Article 57 (2 and 3)] and the mutual recognition of diplomas, certificates and other qualifications [Article 57 (1)].

*Four directives adopted by the Council—three Commission
recommendations*

35. *Industry*: Acting on proposals submitted by the Commission on 9 April 1963 ⁽²⁾, the Council adopted, on 7 July 1964, three directives covering most activities in the manufacturing and craft industries ⁽³⁾.

The first of these aims at freedom of establishment and freedom to supply services in the processing industries (textiles, wood, paper, chemical, metallurgy, electrical, automobile, precision instruments, private building and construction) and arrangements for direct selling either wholesale or retail (the latter subject to certain conditions).

The second directive deals with transitional measures to be taken by Member States pending co-ordination and recognition of diplomas as provided for in Article 57 of the Treaty. It lays down provisional standards for equivalence between the professional diploma required in the host country and the number of years experience which the applicant has had in his home country either in a self-employed capacity or in a paid managerial position. A safeguard clause has been included to protect countries having no regulations in this field against immigration not attributable to purely economic motives.

The third directive relates to mining and quarrying, including the exploitation of oil wells and peat bogs, operations for dressing and beneficiating ores, and, except in the case of petroleum and natural gas ⁽⁴⁾, prospecting and drilling. It contains measures to liberalize direct selling.

⁽¹⁾ Resolution of the European Parliament (7 b) and opinion of the Research and Cultural Affairs Committee on the Seventh General Report.

⁽²⁾ See Seventh General Report, sec. 52.

See Sixth General Report, sec. 35.

⁽³⁾ See official gazette No. 117, 23 July 1964.

⁽⁴⁾ See Ch. III, sec. 153, "Energy policy".

36. *Agriculture*: On 14 December 1964, the Council, acting on a Commission proposal of 3 March 1964 ⁽¹⁾, adopted a directive settling all matters connected with freedom to supply services in agriculture and horticulture ⁽²⁾. The proposal had been endorsed by the European Parliament on 19 June 1964 and by the Economic and Social Committee on 23 June 1964. This directive will facilitate trade, contribute to technical progress and generally promote rationalization in agriculture, the effects of which will make themselves felt not only on the more routine tasks of farming, including stock-raising, but also in such matters as the system of land tenure. Restrictions on the services in question were to be removed in three stages in accordance with a time-table laid down in the General Programme. Two stages have now been completed, the first of them 18 months behind schedule, the second only six months.

Unlike most of its predecessors, this directive is concerned solely with services, which it seeks to define and distinguish from establishment. The definition given is based on Articles 59-66 of the Treaty and will be helpful in the drafting of subsequent directives.

37. All four directives owe much to the comments submitted to the Council by the European Parliament and the Economic and Social Committee.

The Economic and Social Committee supported the three proposed directives on manufacturing and crafts, urging speedy implementation in all three cases.

Discussing these same proposals, the European Parliament pointed out the restrictive nature of the special licences required in France for petroleum imports. The Parliament had a large say in drafting one of the main articles of the directive on transitional measures, this was Article 4, which deals with the proofs of general or professional knowledge and ability required by the Member States; substantially similar proposals on this point had been put forward by the Economic and Social Committee.

Finally, the Parliament requested that the notion of services in the

⁽¹⁾ See Seventh General Report, sec. 55.

⁽²⁾ See official gazette No. 1, 8 January 1965.

agricultural directive be given as wide an interpretation as possible (1). An amendment to this effect was approved by the Council.

38. To ensure uniform implementation of the foregoing directives, the Commission addressed three recommendations (Art. 155) to the Member States (2) calling for the introduction of a standard form for certain certificates provided for in the first directive on cinematography and the two directives on transitional measures in the manufacturing and craft industries and in wholesale trade.

Proposed directives not yet adopted by the Council

39. *Company law*: Reference is made in the Seventh General Report (3) to the first Commission proposal concerning the publication of particulars, the validity of commitments of joint stock companies and limited partnerships and the question of nullity of association [Art. 54 (3 g)].

Rendering an opinion on this proposal on 28 October 1964, the Economic and Social Committee expressed the view that co-ordination should be extended to other forms of company as soon as possible and recommended vigorous measures by the Commission to promote the harmonization of national legislations, particularly in view of the legal reforms which the Member States are currently preparing.

40. *Public works contracts*: Two proposals for directives were submitted to the Council by the Commission on 16 March and 28 July 1964. The first of these (4) seeks to abolish restrictions on firms tendering for contracts awarded by the State, local authorities and other public corporations; the second (5) provides for co-ordination of the procedures governing the award of such contracts.

(1) In response to this request, the Commission's staff have prepared a table listing all the directives proposed by the Commission, adopted by the Parliament and issued by the Council. This table will shortly be submitted to the Internal Market Committee of the European Parliament.

(2) See official gazette No. 63, 18 April 1964 (cinematography); *Ibid.*, No. 24, 11 February 1965 (industry, crafts and the wholesale trade).

(3) See Seventh General Report, sec. 53.

(4) *Ibid.*, sec. 54.

(5) *Ibid.*, sec. 81.

Opinions on these proposals were rendered by the Parliament on 23 March 1965, and by the Economic and Social Committee on 9 December 1964 and 24 February 1965. The amendments suggested refer mainly to the first proposal (abolition of restrictions) and the Commission is planning to submit an amended version as provided for in Article 149 of the Treaty.

41. *Cinematography*: The Parliament and the Economic and Social Committee rendered opinions on the second proposed directive ⁽¹⁾ on 18 January 1965 and 27 May 1964 respectively. The European Parliament hoped that an early solution could be found to the problems facing the Community's film industry, making it possible to lay down an acceptable common policy in this field and to harmonize legislation in the various Member States.

Commission proposals for new directives

42. *Industry and trade*: The Commission has submitted proposals relating to all sectors of activity in which the two General Programmes (Annex II) call for liberalization before 1966. Finally, the list of industrial activities which were to be liberalized by the end of 1963 (Annex I) is now complete, appropriate measures having been taken in the electricity, gas and steam sector where complex problems were encountered in the drafting stage.

43. On 24 September 1964, the Commission submitted to the Council a proposal for a directive concerning self-employed activities in the electricity, gas, water and sanitary services sectors.

The transport of natural gas by pipeline was included in the proposal as part of the general system of gas distribution. Since, however, the supply of natural gas by pipeline is covered in Annex III of the General Programmes along with various other forms of transport, the directive will not be applicable in this sector until 31 January 1966. The Economic and Social Committee rendered an opinion on the proposal on 28 April 1965 and the European Parliament too has already given its approval.

(¹) See Seventh General Report, sec. 49.

44. On 24 July 1964, the Commission submitted to the Council a proposal for a directive concerning real estate dealings and business services (establishment and services).

In its opinion adopted on 28 January 1965, the Economic and Social Committee suggested several emendations, which the Commission will incorporate.

45. Proposals for two directives concerning retail trade were submitted to the Council by the Commission on 13 April and 30 March 1965 respectively. The first deals with the abolition of restrictions, the second with transitional measures for all retail products except pharmaceuticals and plant health preparations for which special directives are to be issued ⁽¹⁾.

46. Two proposals for directives for the abolition of restrictions and transitional measures in respect of hotels, restaurants, bars and the like were submitted by the Commission to the Council on 8 and 9 April 1965.

An important exception has been made in the case of non-profit-making bodies, which are excluded from both proposals.

The transitional measures proposed are similar to those previously adopted by the Council for wholesale trade.

Two further proposals for directives on the food industry and the manufacture of beverages (abolition of restrictions and transitional measures) were submitted to the Council on 15 April 1965.

Neither directive applies to food or beverages produced in the sectors of agriculture, forestry, hunting, fishing and vine growing. Also excluded are processing operations effected aboard fishing vessels and foods or beverages which should properly be regarded as medicinal or pharmaceutical in nature.

(1) Neither of these two directives is applicable to itinerant vendors and pedlars whose activities are listed in Annex IV of the General Programmes and will be liberalized at a later date.

47. *Agriculture* ⁽¹⁾: On 20 January 1965, the Commission submitted to the Council a proposal for a directive to extend existing legislation on farm leases to farmers who are nationals of other Member States. This would give such farmers the right of pre-emption on the sale of the whole or part of the property as well as voting rights in the election of assessors to the Joint Tribunals dealing with farm leases.

48. On 21 January 1965, the Commission submitted to the Council a proposal for a directive to allow farmers from one Member State established in another Member State to transfer from one farm to another. At the present time, this option is not open to such farmers since the permits issued to them by the host country are often limited to a given farm or area of derelict land.

49. *Forestry*: On 8 April 1965, the Commission submitted to the Council a proposal for a directive concerning freedom of establishment and freedom to supply services in the forestry sector. This proposal comes almost two years ahead of the time-table laid down in the General Programmes, the purpose being to avoid any disparity between forestry and agricultural activities proper, in which freedom to supply services was established by a Council directive on 14 December 1964 ⁽²⁾.

50. On 6 July 1964, the Commission submitted to the Council a proposal for a directive concerning freedom of establishment and freedom to supply services in activities connected with the press. The directive applies to self-employment as free-lance journalist or press photographer, in news gathering and reporting agencies, and as publishers of a newspaper or other periodicals and newspaper distributors. Provision is made for an interim measure concerning the professional qualifications required of journalists and press photographers.

Bearing in mind the political and cultural aspects of the press, it will be realized that this directive has more than purely economic significance.

⁽¹⁾ On 2 April 1963 and 14 December 1964, the Council adopted three directives in this field (see official gazette No. 62, 20 April 1963 and No. 1, 8 January 1965).

⁽²⁾ See sec. 36 above.

The Economic and Social Committee endorsed the proposal on 27 January 1965.

51. A fair measure of progress has been made with a number of other draft directives concerning:

a) *The liberal professions* ⁽¹⁾: architects, engineers, general medical practitioners, dentists, lawyers, veterinary surgeons, opticians, accountants, tax consultants, pharmacists (manufacture and distribution);

b) *Other sectors*: insurance (other than life insurance), banks and other financial establishments, transport intermediaries (forwarding agents, travel agencies), and cinematography.

Implementation of directives by the Member States

52. Directives are binding on Member States as regards their objects, but leave open the ways and means (Art. 189). These depend to a large extent on the nature of the official act or regulation to be amended in pursuance of the directive. For instance, discriminatory practices arising from regulations already promulgated in the national official gazette cannot be abolished simply by an instruction to the appropriate government departments.

Measures taken by Member States have taken various forms, from the general delegation of powers by national parliaments to their governments for a limited period and solely in respect of directives concerning freedom of establishment and freedom to supply services, to instructions issued by public bodies (particularly credit institutions), special laws, government decrees, ministerial orders, etc. and, finally, circulars from the central to local authorities, prohibiting discriminatory administrative practices. In most cases, the task of implementing a directive is shared by several government departments (economics, finance, justice, etc.) and requires government consultations with the highest legal authority (Council of State, Federal Court, etc.). Numerous questions of principle having already been settled by this process in each Member State, it can be safely assumed that the six months which the Council generally allows for the implementation of directives will suffice in most cases.

(¹) See Ch. III, sec. 266.

Co-ordination of regulations and recognition of diplomas

53. The Commission has not yet submitted any proposals concerning the co-ordination of laws, regulations and administrative instructions except in the case of movement and residence, company law and public contracts.

After submitting its first proposal on company law ⁽¹⁾, the Commission turned to the task of completing the Community's regulations on joint stock companies; this consisted mainly in co-ordinating the provisions relating to the raising of capital by joint stock companies or associations thereof. Detailed studies were also made of the problems of share issues and company organization. The co-ordination of laws concerning limited liability companies, limited partnerships and the other corporate bodies referred to in Article 58 will embrace all matters not covered in the first directive.

Preparatory work on the co-ordination of laws governing insurance (other than life insurance) is well advanced. A proposal for a directive will be submitted to the Council before the end of 1965. As regards the general programme on "Services", studies have been put in hand with a view to co-ordinating regulations governing insurance contracts.

Furthermore, work has begun on an examination of the various points selected for inclusion in an initial scheme for limited co-ordination of the rules on entry to the banking profession and management of other financial establishments.

Transitional measures have been proposed for a fair number of industrial and commercial activities and for some of the liberal professions.

In much of this work there is a need for accurate definitions and a comparison of the professions concerned, the establishment of comparative lists of the relevant regulations, the selection of appropriate co-ordination measures and, finally, the support of the members of the professions themselves. The key to success in this field lies in close co-operation between the Commission and the competent national government departments [Art. 54 (3 b)]. This is the only way to create a body of Community law on the professions, which is the cornerstone of integration as regards freedom of establishment and freedom to supply services.

(1) See sec. 39 above.

Common competition policy

General

54. In its competition policy the Community is pursuing two objectives: that of building up a common system of competition for intra-Community trade and that of safeguarding this system in the Community's trade with non-member countries. In the year under review the Commission made considerable efforts to move nearer to these objectives.

The establishment of a common market means the creation in the combined territory of the six countries, of conditions similar to those obtaining on a domestic market. Trade across the frontiers between Member States must be transformed into intra-Community trade without frontiers. The task of competition policy therefore is to establish conditions of competition for enterprises similar to those found in a domestic market.

Here, differences in the turnover tax systems of the various Member States are a major obstacle. The Commission has once again devoted considerable attention to the alignment of these systems. With intra-Community quotas abolished and intra-Community customs duties being gradually eliminated, the solution of this problem is becoming a matter of increasing urgency. During the year the Commission published a memorandum on the structure and implementing details of the system it has proposed for a tax on value added and prepared a proposal for a directive on the same subject.

The development of conditions similar to those obtaining on a domestic market is also hindered by the large number of laws and administrative regulations which differ from country to country. The Commission therefore again stepped up its work on approximating legislation. Particular urgency seems to attach to the institution of a European system for protection of industrial rights. A first directive for the harmonization of legislation on pharmaceutical products was published. Work on the harmonization of laws was begun or carried further in many fields; details can be seen in the table on pages 82 sqq.

The Commission is also endeavouring to promote equality of basic conditions of competition by the more stringent application of Articles 101 and 102 to specific cases of distortion of competition resulting from laws

and regulations. The number of laws and drafts examined by its departments during the year grew considerably. The Commission also exercised more vigilance with regard to the application of Articles 95 to 97, which prohibit certain types of import and export tax discrimination between Member States; 59 individual cases were examined and, where necessary, representations were made to the governments concerned.

Distortions of competition can still be caused through State aids, but these aids may also help to improve the balance of the economy, either between regions or over a period of time. In all, 49 individual cases were examined to check their compatibility with Article 92, and the Member States were consulted on many points. The aids concerned are both general aids—such as the steps taken by the French Government to replace the former equipment bounty by an industrial development and adaptation bounty—and aids to certain industries, such as loans intended to promote the German petroleum industry.

A total of five decisions on restraints of competition by enterprises have been published, and one of these is the fundamental Grundig-Consten judgment. A recommendation and three communications pursuant to Article 15(6) of Regulation No. 17 have also been issued. In the year under review, 22 proceedings have been opened, concerning in all 54 cases. The Community's legislation on restrictive agreements was extended by the adoption of Council Regulation No. 19/65/CEE, which clarifies the Commission's powers in connection with the implementation of the provision in the Treaty under which entire classes of exclusive agreements and of licensing contracts may be exempted from the general ban. The Commission is now in a position to carry out its intention of exempting a large number of the exclusive agreements notified.

55. The measures of EEC competition policy sketched out above are designed not only to implement the competition rules of the Treaty within the Community, but also to ensure fair competition between Common Market enterprises and those established in non-member countries.

Where this international competition occurs on Common Market territory, the Commission sees that the same treatment is given to "foreign" enterprises as to those established in the Community. Community legislation on restrictive agreements—as several Commission decisions show—applies

to all restraints of competition having an impact in the Common Market, regardless of the location of the enterprise's headquarters.

Where the international competition occurs on markets outside the Community, application of the Treaty rules is of course not immediately possible. Here too, however, the Commission is endeavouring to establish arrangements ensuring maximum equality of opportunity. An example is provided by the efforts it has been making to promote a common shipbuilding policy, the mainstay of which is to be a common aid system designed to counter the distortion of competition caused by measures taken in non-member countries. Here the aim is the reasonable ordering of international competition. The Commission's wide-ranging efforts—in the Kennedy round—to eliminate non-tariff distortions of international competition serve the same objective. They may be described as a first attempt to make a constructive contribution to the gradual international ordering of competition.

Finally, the Commission looks on concentration of Common Market enterprises as a problem affecting not merely internal, but also international competition. It is now hammering out a realistic approach to this question. Where concentrations are in the light of the enlarged markets economically and technically necessary and where they do not impair effective competition in the Common Market for the product concerned, they will probably be judged favourably. Extensive preliminary work for the adaptation along these lines of competition law, company law and taxation law was carried out in the year under review.

RESTRICTIVE AGREEMENTS AND DOMINANT POSITIONS

Handling of individual cases

56. *Notifications of restraints on competition, applications for negative clearance, complaints:* The number of individual cases recorded was only slightly higher than that for the preceding year. The percentage breakdown by sector given in the Seventh General Report ⁽¹⁾ has therefore hardly changed at all. The withdrawals are mainly due to the termination of agreements.

⁽¹⁾ See Seventh General Report, sec. 65.

TABLE 3

*Notifications of restraints on competition (Form B or B 1)
Applications for negative clearance (Form A)
Complaints (Form C)*

	Individual cases		With- drawals	Situation on 31 March 1965
	Total	Cases submitted during reporting period		
Form B	24 953	471	841	24 694
Form A	192	12		
Forms A + B	390	9		
Form B1	11 916	131	288	11 628
Form C	90	42	12	78
Ex officio proceedings	1			1
Total	37 542	665	1 141	36 401

At the deadline of 31 January 1963 fixed for the notification of bilateral agreements, a large number of wider agreements had also been submitted⁽¹⁾. A preliminary examination of all individual cases notified has shown that 1 034 notifications or applications concern restraints of competition to which more than two enterprises appear to be parties. Of these 1 034 cases, 395 concern horizontal restrictions, 380 licensing contracts, and 259 vertical exclusive agreements. During the period under review, 24 agreements to which more than two enterprises were parties were notified; 8 concern horizontal restraints of competition, 10 are licensing contracts and 6 are vertical exclusive agreements.

(¹) These agreements were not included in the figure given in the Seventh General Report, sec. 65.

TABLE 4
Participants in notified agreements by country

In %

Country	Forms A, B, C	Form 1
Belgium	9.0	11.2
Germany	25.0	24.6
France	18.7	15.2
Italy	9.5	10.3
Luxembourg	1.1	0.8
Netherlands	8.6	10.9
United Kingdom	8.8	10.1
Switzerland	4.4	3.3
Other non-EEC European countries	6.4	6.1
United States and Canada	6.6	5.8
Other non-European countries	1.9	1.7
	100.0	100.0

57. *Initiation of procedure:* The number of individual cases for which the Commission initiated procedure (Article 9 (3) of Regulation No. 17) rose from 137 in the preceding year to 192, an increase of about 50%. The 192 individual cases were grouped into 64 proceedings (compared with 39 in the preceding year).

TABLE 5
Individual cases

	Pro- ceedings	Individual cases covered			
		Appli- cations and notifi- cations	Complaints	Ex officio pro- ceedings	Total
Opened	64	159	32	1	192
Closed	7	10	1	—	11
Situation on 31 March 1965	57	149	31	1	181

Of the seven proceedings closed, five were terminated by the Commission reaching a decision and two by withdrawals.

The principles on which cases are selected have been explained in the Seventh General Report ⁽¹⁾.

With regard to horizontal agreements, the most serious types of restraint on competition, such as agreements on market-sharing, prices, quotas, aggregated rebates, and imports and exports, are all under scrutiny within the framework of the proceedings opened. In a third of the cases, the parties to the agreement belong to only one Member State; in one tenth the agreement covers parties from both member and non-member States, and in the rest of the cases, the parties belong to two or more Member States (see note to table on p. 55).

The four new proceedings concerning exclusive dealing agreements ⁽²⁾ have been so chosen that, taken together with the earlier decisions ⁽³⁾ they will make it possible to assess the legality of exclusive dealing systems. How classes of exclusive dealing agreement are granted block exemption under the new regulation will depend on the experience gained in dealing with these individual cases.

With the opening of ten new proceedings concerning licensing agreements a start has been made on dealing with the difficult questions of fact and law arising in this field.

58. *Recommendations, decisions and communications in accordance with Article 15 (6) of Regulation No. 17.* In the year under review 4 decisions and 3 communications were issued. In 6 other cases the Commission announced its intention of granting negative clearance or exemption from the ban on restrictive agreements. The Consultative Committee on Cartels and Monopolies met 4 times. A summary is given below of the individual cases covered.

59. *Mertens and Straet-Bendix.* Negative clearance under Article 2 of Regulation No. 17 was granted on 1 June 1965 to the Brussels firm of

⁽¹⁾ See Seventh General Report, sec. 66.

⁽²⁾ See official gazette Nos. 165 and 179, 22 October and 7 November 1964.

⁽³⁾ Grosfillex-Fillisdorf decision: official gazette No. 58, 9 April 1964.

Grundig-Consten decision: official gazette No. 161, 20 October 1964.

Mertens and Straet in respect of a distribution agreement with the American Bendix Corporation ⁽¹⁾. Under this agreement, Mertens and Straet sell brakes, servo-brakes and accessories manufactured by Bendix. No limitation of the marketing area has been agreed. Bendix also reserves the right to designate further distributors of its products in Belgium, and also to sell them direct to customers. Mertens and Straet sell Bendix products for their own account, and one of their commitments is to maintain a satisfactory after-sales service and adequate stocks. The firm is not barred from dealing in articles made by competitors of Bendix.

The Commission granted negative clearance because it took the view that the agreement does not restrict competition in the Common Market, especially since no provision is made for either limitation of the marketing area or an exclusive dealing obligation.

60. *Nicholas Frères-Vitapro*: On 30 July 1964 negative clearance was granted to the French company Nicholas Frères S.A. in respect of an agreement with the British company Vitapro Limited ⁽²⁾. Under the agreement Nicholas, which had acquired the French firm of Vitapointe, manufacturers of hairdressing preparations, sold to Vitapro those Vitapointe interests lying outside the territory of the Common Market but retained for its own exploitation the assets of Vitapointe in the Common Market area. The agreement forbids the buyer, Vitapro, to manufacture or sell in the Common Market products with the trade marks acquired through the agreement or, for the first five years, even other hairdressing preparations. The obligation on the British firm neither to use nor to allow use to be made of the acquired trade marks only prevents products manufactured by both Nicholas and Vitapro from being sold in the Common Market area under the same trade marks now that Vitapointe's interests have been shared out; the Common Market itself is not divided into sectional markets.

The further obligation on the British firm not to place any hairdressing preparations it manufactures on the market in the Member States in the first five years expires in January 1966 and in any case does not apply to acquired products or those manufactured under licence. Consequently there was no reason why negative clearance should not be accorded.

⁽¹⁾ See official gazette No. 92, 10 June 1964.

⁽²⁾ *Ibid.* No. 136, 26 August 1964.

TABLE
Restrictive clauses in 164 agreements o
Position o

Industry	Number of agreements	Exclusive dealing			General term and conditions of delivery and payment	Rebates	Pricing	Market sharing
		With export ban	With area allocation	Other (1)				
Chemicals and pharmaceuticals	14				2	1	2	
Fertilizers	28	3	5		2	8	9	
Plastics and rubber	5							
Electrical apparatus	27	21	2		2	2	2	
Precision instruments and optics	10	3	4		2	2		
Non-electrical household apparatus	1	1						
Motor vehicles	3		2	1				
Machine tools and other machines	1							
Tools and parts	1							
Building materials	15		1		6	1	8	
Beverages	5	3	2					
Textiles	3	1			1	1		
Services	15				1	2	4	
Commerce	17						7	
Leather and footwear	1		1					
Paper, paperboard, printing and publishing	10	1	1		4	1	2	
Furniture and toys	1							
Building	7							
Total	164							
Total restrictive clauses		33	18	1	20	2	26	25

(1) Mutual
(2) Except quotas.

which procedure has been initiated

31 March 1965

Quotas	Purchasing groupings	Sales groupings	Specialization, production control (2)	Technical co-operation	Standards, exchange of information, joint research advertising	Import-export	Collective exclusive dealing	Tying clauses	Licences
		4		2	1	6	1		8
7		18		2	6	15			1
		4	4			5			12
									2
									1
7		6	3		2	11	3		1
	1	1				1	1	1	2
3				3	2				1
	16			17	17				9
5		2	1		3	5			3
		7			7				1
22	17	42	8	24	38	43	5	1	42

Note: The disparity between the number of 1962 files and that of 1964 agreements is accounted for by double notifications and by complaints concerned with agreements notified.
The parties to the agreements belong: to a single Member State in 44 cases; to two Member States in 47 cases; to one Member State and one non-member country in 40 cases; to several Member States and/or non-member countries in 33 cases.

61. *Dutch Engineers and Contractors Association (DECA)*: On 22 October 1964 negative clearance was granted to the Dutch Engineers and Contractors Association (DECA) of Zeist in the Netherlands ⁽¹⁾. This was the first Commission decision on an agreement among Common Market firms concerning exports to non-member countries.

DECA is an organization of four Dutch building and construction firms, which also act for their associates and subsidiaries, some of which have their head offices in Belgium, Italy or the Federal Republic of Germany. The firms intend to co-operate on building and construction orders from outside the Common Market in cases where the value of an order exceeds 2 million guilders. They have undertaken to report to the central office on their capacity to undertake contracts and on any intention to submit a tender; where appropriate the firms will co-operate on the submission of tenders and the execution of works.

While the Commission takes the view that Article 85 of the Treaty covers services as well as merchandise, and therefore that building and construction must comply with the competition rules of the Treaty, the facts known to the Commission indicate that neither the purpose nor the effects of the DECA agreement involve the prevention, restriction or distortion of competition within the Common Market. Its purpose and effects are solely the restriction of competition in respect of markets lying outside the Common Market, to which the Treaty rules of competition do not apply. Nor was there evidence that the co-operation of these firms had at the time any effects on competition in the Common Market. Accordingly the Commission granted negative clearance.

62. *Grundig-Consten*: On 23 September 1964, the Commission took its first decision prohibiting a restrictive agreement ⁽²⁾. The decision concerns an agreement between Grundig Verkaufs-GmbH and Consten Company of Paris establishing exclusive distribution with absolute protection of a specific area. The territorial protection arrangement was designed to make Consten the only supplier of Grundig products in France. For this purpose, Grundig had imposed an export ban on all their dealers in other countries, so that French purchasers could buy Grundig products only from Consten. In addition, Grundig and Consten had signed a

⁽¹⁾ See official gazette No. 173, 31 October 1964.

⁽²⁾ *Ibid.*, No 161, 20 October 1964.

supplementary agreement on the use of a special trade mark (GINT) in France, the purpose of which was also to hinder the importation by firms other than Consten of Grundig products into France. Consten had sought to uphold its claim to exclusive dealership by taking action against a rival importer, the plaintiff firm UNEF of Paris, which was importing Grundig products from German wholesalers. This case, referred to the Paris Court of Appeal, was adjourned pending a decision by the Commission on the compatibility of the exclusive distribution agreement with Treaty rules.

The Commission decided that the agreement in this form infringed the ban of Article 85 (1) and was not eligible for special exemption under Article 85 (3). In addition, the Commission prohibited Grundig and Consten from obstructing rival imports into France.

The sales organization in question constituted a restraint of competition. Not only was the freedom of business activity of the parties to the agreement restrained, but that of firms outside the agreement was also impaired. Furthermore, customers were prevented from making their purchases from other suppliers. In trade in the class of goods concerned, competition is important at the retail as well as at other levels.

The distribution system agreed between Grundig and Consten was also deemed "liable to affect trade between the Member States". The agreement had been signed between two firms established in different Member States, and it regulated trade between these Member States in Grundig products in such a way that this trade was wholly in the hands of Grundig and Consten. The contention that there was no impairment of trade, since Franco-German trade in Grundig products had considerably grown during the period the sales organization existed, was rejected. If a restraint of competition, argued the Commission, meant that trade between the Member States developed under different conditions than they otherwise would have done, and that exchanges of goods between the Member States were appreciably influenced, this constituted infringement of Article 85, especially as in this case the area reserved for Consten coincided with the frontiers of one of the Member States. It was an arrangement rendering integration of the national markets in a common market more difficult. Obvious evidence for this was the difference in prices of Grundig instruments in Germany and in France.

The area protection afforded to Consten, and consequently the obstruction of rival imports into France, went beyond the degree of restraint of competition necessary for the improvement of production and distribution. Moreover, the Commission was not convinced that the consumer was obtaining a fair share of the resulting benefit.

Consten and Grundig appealed to the Court of Justice of the European Communities against this decision on 8 December and 11 December respectively ⁽¹⁾.

63. *Building materials*: On 16 September 1964, the Commission issued its first communication under Article 15 (6) of Regulation No. 17. It was addressed to a considerable number of enterprises in the building materials industry in Belgium, the Netherlands and Germany. It stated that the Commission considered, after a preliminary examination, that the restraints of competition notified infringed the Treaty ban on restrictive agreements [Art. 85 (1)] and were not eligible for exemption under Article 85 (3).

As a result of this communication the enterprises concerned lost the immunity from fines which their notification of the agreements had previously afforded them.

The hard core of the agreements was a closed sale system based on reciprocal arrangements for exclusive dealing in the sale and purchase of specific building materials. A number of producers had formed a grouping within which they had undertaken to deliver merchandise exclusively to the members of corresponding groupings of dealers in Belgium and the Netherlands; the dealers had undertaken to obtain their supplies exclusively from these producers. This agreement was supplemented by an arrangement on the territorial division of markets among the groups of dealers, by a provision stipulating that the dealers' vehicles should be used exclusively for the transport of the building materials concerned and that appropriate prices should be charged. The collective system was reinforced by a number of bilateral contracts with enterprises also producing the materials concerned but remaining outside the system. On payment to

⁽¹⁾ See official gazette No. 2, 12 January 1965 (Consten) and No. 3, 14 January 1965 (Grundig).

the manufacturers within the system of a given charge per unit sold, they obtained permission to sell merchandise to dealers who were otherwise committed to procuring their supplies only from manufacturers within the system.

A dealer outside the system had lodged a formal complaint with the Commission against the members of a group of dealers.

Within the time-limit set, the enterprises concerned informed the Commission that they had dissolved the agreements or changed the relevant clauses. This means that the provisions for collective exclusive sales or purchases of the products concerned, the provisions on area protection and market sharing, the restrictions on the utilization of vehicles and the rules on agreed prices have all been withdrawn.

64. *Detergents*: On 26 March 1965 the Commission issued a further communication under Article 15 (6) of Regulation No. 17. This communication was addressed to a number of Dutch and Belgian enterprises and concerned a market-sharing agreement for a detergent. In the agreement notified, the manufacturers concerned had undertaken not to market their product, even indirectly, on the domestic markets of their partners. In addition, they had forbidden their customers any form of resale that could impair this market-sharing arrangement. The agreement included a threat of penalties for any infringement.

A preliminary examination of its material content showed that this agreement infringed the Treaty ban on restrictive agreements, since it was liable to affect trade between two Member States, the Netherlands and Belgium, and since it had as its object or result the restriction of competition within the Community by market-sharing. Conduct such as that provided for in the agreement was incompatible with the Common Market and was prohibited [Art. 85 (1 c)]. Exemption from the ban could not be considered since the agreement did not contribute to the improvement of the production or distribution of the goods with benefits to the consumer.

65. *Sanitary ware*: On 26 March 1965 the Commission issued a third communication under Article 15 (6) of Regulation No. 17. This was addressed to a number of Belgian manufacturers, importers and wholesale

dealers and concerned an agreement on the distribution and sale of certain types of sanitary ware. The rules of the agreement not only limited the number of manufacturers and importers who might take part, but also specified that three fifths of them must possess Belgian nationality and have their main establishment in Belgium. Under the agreement the manufacturers and importers on the one hand and the dealers on the other undertook to conduct business exclusively with each other; the manufacturers were not to deliver merchandise to outsiders in the B.L.E.U. and had to prohibit the reimportation of their products into Belgium or Luxembourg; the dealers were not to procure supplies from outsiders or to export the goods concerned outside Belgium or Luxembourg. Prices were fixed by mutual agreement. The manufacturers had undertaken to maintain the agreed prices and to make only the agreed concessions (e.g. price reductions at the turn of the year). The manufacturers were empowered under the agreement to inflict sanctions going as far as refusal to supply members guilty of infringements.

The object of the agreement was that in Belgium sales of the goods concerned should be confined to Belgian manufacturers. This meant that trade between the Member States in this field was practically eliminated. The manufacturers and importers who were parties to the agreement had it within their power to eliminate competition in the sanitary ware concerned almost completely. A preliminary examination of the material content of the agreement showed that this system of collective reciprocal exclusive agreements was incompatible with the Common Market and fell under the Treaty ban on restrictive agreements. Exemption under Article 85 (3) could not be considered, since the agreement did not contribute to the improvement of the production or the distribution of goods with benefits to the consumer.

66. *Inquiries by economic sectors:* If in any sector of the economy the trend of trade between Member States, price movements, inflexibility of prices or other circumstances suggest that in the economic sector concerned competition is being restricted or distorted within the Common Market, the Commission has power, under Article 12 (1) of Regulation No. 17, to conduct a general inquiry. During the year under review, the conditions obtaining in several sectors were examined to establish whether such inquiries were warranted; work in this field continues.

Measures implementing Articles 85 and 86

67. *Interpretation of Article 85:* The following principles with regard to the interpretation of Article 85 emerge from the decisions described above (secs. 59-65) and from statements of the Commission.

The fact that one of the parties to an agreement has its headquarters outside the Common Market cannot hinder the application of Article 85 (1) where an agreement affects activity within the Common Market ⁽¹⁾.

Contracts between enterprises at differing levels in the stream of production and distribution, e.g. manufacturers and wholesalers ("vertical agreements") are also covered by the provisions of Article 85 (1) ⁽²⁾.

Where a product is handled by dealers at several levels, the fact of competition being prevented or restricted at only one of these levels is sufficient to warrant the assumption that there is a restraint of competition ⁽³⁾.

The restraint of competition must be "appreciable" ⁽⁴⁾. This is the case if the agreement alters appreciably the market situation of enterprises not party to the agreement or of consumers—i.e. affects appreciably their opportunities for procuring supplies and marketing merchandise ⁽⁵⁾. Accordingly, limitation of the freedom of action of the parties to the agreement as purchasers or potential purchasers does not by itself amount to restraint of competition. The measure of the impact of an agreement on the market situation is the extent to which the situation of enterprises not party to the agreement or of consumers is altered by the existence of the agreement. There is, however, no rule defining the extent to which the situation must be affected. Article 85 (1) contains no such quantitative criterion ⁽⁶⁾.

⁽¹⁾ Grosfillex-Fillisdorf decision: official gazette No. 58, 9 April 1964.

Mertens and Straet - Bendix decision: *ibid.* No. 92, 10 June 1964.

Nicholas-Vitapro decision: *ibid.* No. 136, 26 August 1964.

⁽²⁾ Grosfillex-Fillisdorf, Mertens and Straet - Bendix and Nicholas-Vitapro decision; Grundig-Consten decision: official gazette No. 161, 20 October 1964, No. 139, 24 December 1962 and No. 13, 21 February 1962.

⁽³⁾ Grundig-Consten decision.

⁽⁴⁾ Grosfillex-Fillisdorf and Mertens and Straet - Bendix decisions.

⁽⁵⁾ Commission statement to the Court of Justice of the European Communities *in re* 47/64 (Zutphen), a case submitted to the Court under Article 177 of the Treaty.

⁽⁶⁾ Statement, see footnote (3), p. 74.

Trade between the Member States is affected when, as a result of a restraint of competition, it is pursued under conditions other than if this restraint had not existed and when the influence of this restraint on market conditions is of some importance ⁽¹⁾.

Three of the decisions ⁽²⁾ published by the Commission concern exclusive distribution agreements. So far the following guide-lines can be discerned:

Exclusive distribution agreements between a manufacturer established in a Member State and a representative established outside the Common Market may be deemed in general not to have the object of limiting competition within the Common Market. These contracts may, however, infringe Article 85 (1) if they have effects in the Common Market ⁽³⁾.

Where exclusive distribution agreements between enterprises established in various Member States confer absolute territorial protection ⁽³⁾, they are deemed to have the object of restricting or distorting competition within the Common Market. Since absolute territorial protection is not generally indispensable for exclusive distribution and since it is particularly harmful to the establishment of the Common Market, exemption under Article 85 (3) can be granted for these agreements only under special circumstances.

An exclusive distribution agreement between two enterprises established in different Member States is liable to affect trade between the Member States ⁽³⁾.

An agreement on the utilization of a trade mark the main object of which is to protect the exclusive distributor against rival imports is deemed to have the object of restricting and distorting competition within the Common Market ⁽³⁾.

It is not contended that exclusive distribution cannot help to improve production or distribution ⁽³⁾.

68. *Powers of the Commission to grant block exemption:* On a proposal of the Commission the Council adopted on 2 March 1965, after consulting

⁽¹⁾ Grosfillex-Fillisdorf, Mertens and Straet - Bendix and Grundig-Consten decisions.

⁽²⁾ *Ibid.*

⁽³⁾ Grundig-Consten decision.

the European Parliament and the Economic and Social Committee, Regulation No. 19/65/CEE on the application to certain classes of agreement and concerted practice of Article 85 (3) of the Treaty (1). This enactment represents a new and important step on the road to a common European system of competition. It establishes the details of procedures by which certain classes of restrictive agreement may be exempted from the ban of Article 85 (1).

The new regulation empowers the Commission to declare an agreement exempt not only in specific and individual cases but also in the form of block exemptions granted by way of special regulation. The new procedure may be used both for bilateral exclusive distribution agreements and for licensing agreements, provided that these agreements or contracts fulfil the four conditions laid down in Article 85 (3). Agreements belonging to these classes will, once the Commission regulation granting exemption has been adopted, no longer be subject to compulsory notification. The enterprises may, however, still apply for individual clearance under Regulation No. 17.

Because of the need to take account of the economic interests of the enterprises affected by a measure of block exemption, the Council's new regulation stipulates that the essential content of any exemption regulation the Commission intends to adopt must be made public beforehand. This will give enterprises an opportunity to make their comments to the Commission. Should individual agreements have effects incompatible with the four conditions of Article 85 (3), the Commission has power under the Council's regulation to except them from the block exemption by means of an individual decision, or to make their maintenance subject to compliance with specified conditions or stipulations. Block exemption granted for a given period may be altered or withdrawn where the situation has changed to a material extent after such exemption was granted.

The European Parliament and the Economic and Social Committee gave general approval to the Commission's original proposal of 28 February 1964 (2). The Commission had put forward a more comprehensive version of the regulation under which it would have been given power to grant block exemption to other restrictive agreements between enter-

(1) See official gazette No. 36, 6 March 1965.

(2) *Ibid.*, No. 81, 27 May 1964.

prises, provided such agreements fulfilled the exemption requirements of the Treaty. But even in the form in which it has now been adopted by the Council of Ministers, the regulation, confined to exclusive distribution agreements and licensing agreements, will make a notable contribution to simplifying administrative control, as required by the Treaty, and particularly to solving the problem posed by the need to deal with the large number of exclusive distribution agreements notified.

Furthermore the regulation confirms the Commission's practice as reflected in decisions, which has been to avoid refusal of exemption in the case of "pure" exclusive distribution agreements. Taken with the decisions on specific cases already issued or due to be issued in the near future, the block exemptions granted under the new regulation will help to bring out more clearly the line of demarcation between restraints of competition which are permissible and those which are not.

69. *Application of rules of competition to rail, road and inland waterway transport* ⁽¹⁾: On 8 June 1964 the Commission laid before the Council a proposed Council regulation applying rules of competition to rail, road and inland waterway transport. It has thus taken the action required by Article 2 of Regulation No. 141 relating to the non-application to transport of Regulation No. 17.

Under the proposal, the rules adopted for the application of the Treaty provisions to restrictive agreements and dominant positions—notably Council Regulation No. 17—will, from 1 January 1967 onwards, be extended to the internal transport sector in respect of those restraints of competition affecting the supply of transport services. Under Council Regulation No. 141, now in force, the application of Regulation No. 17 is suspended in this field until 31 December 1965. The aim of the proposed new regulation is therefore that the same rules of procedure should apply to restraints of competition in internal transport as to restraints of competition in other sectors, particularly with regard to notification of restrictive agreements and to proceedings. The new regulation affects dominant positions on the transport market and agreements relating to the fixing of transport rates and conditions (rate

⁽¹⁾ See sec. 228.

agreements), to the limitation and control of the supply of transport services and to the sharing of transport markets.

In view of the special aspects of transport and of measures under the common transport policy, a group of technical co-operation and rationalization agreements in the field of transport will be exempted from the Treaty ban. Such agreements will be exempted "only in so far as they do not impair the development of commercial transport to an extent contrary to the interest of the Community or result in a sharing of transport markets".

By 1 January 1966, the Commission is to report to the Council on the present state of competition in internal transport and, if necessary, to make further proposals for the application of rules of competition in this field. A census is to be put in hand for this purpose.

The proposed regulation is designed to create the prerequisites for implementing a system of competition for the three types of internal transport when the exceptional arrangements instituted by Council Regulation No. 141 are discontinued. This system will be adapted to the special structure of transport markets and at the same time dovetail with the Community's overall competition policy.

70. *Action to ensure the execution of verification measures:* Article 14 (6) of Regulation No. 17 states that after consulting the Commission the Member States must take the necessary measures to lend the authorized servants of the Commission the assistance necessary to enable them to carry out their investigations into the affairs of enterprises and associations of enterprises. All the Member States have prepared plans for this purpose and have consulted the Commission on them. The Commission has suggested various amendments and urged that the provisions, with these amendments, be brought into force without delay.

Concentrations of enterprises and international competition

71. The Commission has given attention to the problem of the concentration of enterprises. Three difficulties arise in this connection. In the first place, it is important to establish how technical progress will

affect the scale of enterprises. Secondly, it must be borne in mind that the common market demands much larger units of production if the full benefits of mass production are to be reaped. In the third place, due allowance must be made for the effect which competition from non-EEC enterprises exerts on Community enterprises.

In order to reach a reasoned assessment of these and other points, a number of reports have been commissioned from outside experts ⁽¹⁾, and detailed studies and investigations have been made by the Commission itself. This comprehensive work was practically completed during the period under review. It concerns both the economic points referred to above and the legal problems of concentration in the light of the rules of competition, company law and tax law.

The Commission intends to submit to the European Parliament in the near future the first conclusions it has drawn from this preparatory work. It has already stated before the Parliament that the aim is "to ensure an economic and technical optimum without jeopardizing effective competition".

The Commission also stressed that its competition policy is concerned with what goes on outside the Community as well as within it, and that all enterprises operating in the common market are subject to the rules of the Treaty whether their headquarters are in the Member States or not; in this, the Commission's policy is in line with the Parliament's view that it "should not be concerned solely with the relationships of European enterprises among themselves but also with the effects on Community enterprises of competition from the enterprises of certain non-member countries and with the structural adjustments which have become necessary for EEC enterprises". The Commission is examining these points in connection with its policy on restrictive agreements and concentrations ⁽²⁾, on taxation, on harmonization of company law ⁽³⁾, and on external trade ⁽⁴⁾ as well as in relation to the work it is doing to encourage the economic and technical research ⁽⁵⁾ which is of such fundamental importance for the Community.

⁽¹⁾ See Seventh General Report, sec. 76 sq.

⁽²⁾ See below secs. 76 sqq.

⁽³⁾ See below sec. 91.

⁽⁴⁾ See below secs. 278 sqq.

⁽⁵⁾ See below sec. 270.

Dumping

72. Of the two requests under Article 91 which were still under examination a year ago ⁽¹⁾ one has, after detailed examination by the Commission, been withdrawn by the enterprises concerned. A recommendation was addressed in the other case to the enterprise engaging in dumping; the effect of this recommendation is not yet known. In the year under review, only one new request was received; this was rejected, as the existence of harmful dumping was not proved.

The total number of individual cases of dumping in intra-Community trade so far is 24. (49 enterprises). In 14 cases, the products concerned are chemicals, in 6 cases foodstuffs, in 3 others drugs or medicines and in one case textiles.

Ten of the requests came from Member States, 9 from business or professional organizations and 5 from private enterprises. Of these 24 requests:

- a) 10 were rejected as groundless, as the existence of harmful dumping was not proven;
- b) 8 were dropped, since the enterprises concerned desisted from the practices complained of before the investigations were completed;
- c) 3 were withdrawn by the applicants;
- d) In 3 cases recommendations were made under Article 91 ⁽¹⁾ of the Treaty.

STATE AIDS

73. During the period under review, the Commission issued findings on about 43 cases of aids that fall under the provisions of Article 92 sqq. These cases provided an opportunity to scrutinize aids to the production and marketing of agricultural produce, and to increase its knowledge of the aids granted by Member States to transport.

Principles guiding the Commission

74. A number of fundamental principles have now emerged. Three aspects of the aid problem may be distinguished. First, there are aids

⁽¹⁾ See sec. 68.

which are in fact a heritage from the past, i.e. those which were created by a State solely with the intention of assisting certain industries or enterprises in competition with industries or enterprises abroad; these arrangements have either already disappeared or will have to disappear in the common market, the date being fixed in each case according to the progress made in establishing the common market. Secondly, there are aids which contribute to the building up of a Community policy, some of which are decided or administered by a common body and some of which are in the hands of the Member States but are administered through similar procedures and on similar levels. Examples are the aids to the film industry and to shipbuilding proposed by the Commission. Aids to promote a balanced regional structure in the Community also come into this category.

Thirdly, there are aids which, while retaining a national character, can be exempted from the incompatibility rules of Article 92 (1). It may be useful in this connection to recall the exceptions provided for in Article 92 (2). Although the wording "natural calamities or other extraordinary events" is not wholly specific, the main questions are factual, namely whether there is discrimination based on the origin of the products [Art. 92 (2, a)], and whether the advantage granted more than offsets the damage suffered.

An important task of the Commission is to examine whether and to what extent the following aids qualify for exemption under Article 92 (3), particularly under sub-paragraphs *a)* and *c)*:

a) Aids intended to promote the economic development of regions where the standard of living is abnormally low or where there is serious unemployment;

b) Aids intended to facilitate the development of certain activities or of certain economic regions, provided that such aids do not change trading conditions to such a degree as would be contrary to the common interest. With regard to the first category, the Commission must make sure that the aids in question are appropriate in the light of conditions on the spot, and that they do not harm the industries of other Member States to an extent which bears no relation to the objective in view.

The second group of aids includes those that can be given to regions or to industries. In principle the Commission is prepared to apply these

waivers in connection with aids granted as part of an operation to put the industry in question on a sound footing. As for aids to regions, it considers that the limits of these regions should be defined in advance. Their effect on the conditions of trade must be subjected to careful scrutiny.

In both these fields, the Commission has to reconcile the importance for a given State of developing a particular area or industry with the interests of the Community as a whole; it is endeavouring to harmonize the systems so that their incidence can more easily be compared and that an appropriate ceiling can if necessary be established. For regional aids, the Commission feels that there is a strong case for granting only temporary aids at the initial investment stage rather than aids of operational character—such as tax reductions or subsidies on supplies of power or raw materials. It takes the view that in no circumstances should starting-up or operating aids be granted in industries in which there is already excess capacity in the Community.

General aid systems

75. Experience has confirmed that the compatibility or incompatibility of general aid systems with the Common Market cannot be ascertained simply from examining the outline laws on which the systems are based. The Commission has therefore endeavoured to work out conditions for supervision of the application of these systems.

One example will illustrate the need for such a procedure. Substantial aid was granted to an enterprise by the Belgian Government under the Law of 17 July 1959 for the promotion of economic expansion and the establishment of new industries. The governmental contribution took the form of an interest rebate on a bank loan obtained by the enterprise to finance retooling, etc., at its works in Antwerp. The firm has gone over from motor-vehicle assembly work to the assembly of farm tractors and the manufacture of gear-boxes and differentials for them.

In view of the state of the market and production structure for tractors, the Commission ruled that none of the waiver provisions of the Treaty was applicable to this aid, which could not be declared compatible with the Common Market under Article 92 (3, c). Accordingly, in a decision

of 28 October 1964 ⁽¹⁾ the Commission called on the Belgian Government to withdraw this aid before 31 October 1965.

A number of general plans were notified to the Commission under Article 93 (3), notably the French Government's measures to replace the former special equipment bounty (instituted by Decree No. 55.878 of 30 June 1955) by an industrial development and adaptation bounty. These new aids conform more closely with the Commission's views on how Governments should intervene financially in regional policy ⁽²⁾. The French reform measures were later supplemented by detailed provisions to improve the conditions for according bounties, rationalize the tax reliefs going with them, and strengthen their effects by more generous measures to promote the industrial decentralization of the Paris region. Slightly larger bounties will go to new enterprises—or old ones starting up again—in seven departments in the west of France.

The Commission also stated its views on the aid machinery set up by the German Government to offset the disadvantages caused by the division of Germany.

Export aids

76. In accordance with Article 93 (1), the Commission submitted to the Member States proposals for the progressive abolition of various minor systems of aid which still apply to exports to other Member States. Measures to aid exports to non-member countries are to be progressively harmonized under Article 112 of the Treaty.

Replies from the various Member States are now being studied.

Aids to particular branches

77. With regard to shipbuilding, the Commission feels that the harmonization work in OECD is unlikely to bear fruit in the near future. It has therefore prepared proposals for Community aid.

The Commission would like to see aids distorting competition between the Member States abolished where they cannot be justified by exceptional

⁽¹⁾ See official gazette No. 195, 28 November 1964.

⁽²⁾ See above, sec. 74.

social or regional circumstances. But it also realizes the need for effective measures on the shipbuilding market to offset distortions of competition in non-member countries or to provide a defence against them. Here, due allowance must be made for the fact that shipbuilding is a homogeneous market with no distinction between the internal and the export market.

78. Support for the film industry finds its justification not so much in the conditions of external competition as in the dangers of competition from other forms of recreation.

Fully aware of the importance of films as a means of cultural expression, the Commission believes that national aids should be adjusted to prevent their impairing trade conditions unduly. It has encouraged the Member States to extend the advantages they give their own films to films made in other countries of the Community. France has already done this in the case of twenty "shorts" from other Community countries. The Italian Government has embodied a similar provision in aid schemes which have been notified to the Commission. The Commission has proposed to the Member States principles for the harmonization of existing aid systems, and discussions are now in progress.

79. A draft decree establishing the amount of bounties to be paid to the French paper-pulp industry for 1964 was examined in accordance with the Council's decision of 19 December 1960 ⁽¹⁾. Mainly in view of the current GATT negotiations on the products involved, the Commission raised no objections to the decree.

80. In the fuel and power sector, the German Government notified the Commission of some proposed regulations concerning in particular aid to the German petroleum industry (see sec. 152), to the production of electricity from bituminous coal mined in Bavaria, to rationalization of the brown-coal mines in Hesse, and to the establishment or extension of coal-fired district heating centres. The Commission, after consulting the other Member States, made no objections to the entry into force of these arrangements, subject to a number of amendments.

(¹) See official gazette No. 84, 31 December 1960.

81. *Aids to industries processing agricultural products* ⁽¹⁾: As foreshadowed in the Seventh General Report, the Commission proposed to the Member States that they adjust the aids they grant to their processing industries so that the latter procure supplies under comparable conditions whatever the origin of the raw materials or basic farm products, i.e. whether they come from ordinary domestic sources, nationalized domestic sources, or are imported in processing traffic. The Governments have now given their assent, but the new arrangement can only enter into force when the necessary procedures have been settled.

Without prejudice to this general adjustment, certain specific arrangements have been individually examined. Aid to starch products, and measures to stimulate Dutch exports of albumen and the Belgian brewing industry are concerned. It has also been ascertained that certain aid measures instituted by the Member States under Article 23 (4) of Council Regulation No. 19/22 (cereals) were liable to produce effects exceeding the limits set by Annex II of the Treaty, and consequently to distort competition at the level of the processing industries involved. Since this Article does not confer powers to go beyond the limits set by the Treaty, the Commission has requested the Governments concerned to adjust their systems to set the matter right, though it does not call into question the aim of the aid measures.

APPROXIMATION OF NATIONAL LEGISLATION AND THE CREATION OF EUROPEAN LAW

General

82. The European Parliament has asked to be kept briefly informed, in a special section of the Report, of the progress made in integration of the laws, regulations and administrative provisions of the Member States. A first attempt is made here to give such a summary, in tabular form, of what has been done and what is being done in this field. All the measures taken to approximate legislation have been grouped in eight main divisions, and these are broken down into subdivisions. Like all classifications, the

⁽¹⁾ See Seventh General Report, sec. 75.

one adopted—based as far as possible on the structure of the Treaty—is bound to raise difficulties. Its purpose is merely to provide a general picture of approximation activity; for details of the individual measures listed, the reader is referred to the specific chapters in which these measures are dealt with in context.

The Common Market is a legal community as well as an economic one. Approximation of legislation is essential, not only in order to achieve greater certainty as to the interpretation of the law and to establish complete freedom of movement in the fields of trade and transport, but also to create, in accordance with the task of the Treaty, identical conditions of competition in all the Member States.

Thus, the fields in which approximation or unification of law should have priority are determined by the two main objectives: free movement of persons, goods, services and capital and equal terms of competition within the Community. The fields concerned are mainly those of customs, right of establishment, restrictions on trade stemming from technical rules, public contracts, pharmaceutical products, patents and trade marks, company law, law of enforcement and bankruptcy, taxation, social law, agriculture and transport.

The tables below indicate:

- i) The fields of legislation in which the Commission's departments have worked, in co-operation with government experts, since 1 January 1958;
- ii) The purpose and number of the measures prepared in each of these fields;
- iii) The legal basis of each task undertaken;
- iv) The legal instruments used for approximating legislation;
- v) Progress at 31 March 1965.

The tables show the great extent of the work and the centres of interest.

By 31 March 1965, 3 regulations, 12 directives, 16 recommendations and 1 opinion on approximation had been adopted. Proposals concerning 1 convention, 5 regulations and 22 directives had been laid before the Council. On the same date 10 conventions, 5 regulations, 101 directives,

TABLE 7

Approximation of legislation ⁽¹⁾

Work undertaken between 1 January 1958 and 31 March 1965

Object and legal basis	Legal nature of the approximation measure and state of progress
I. CUSTOMS LEGISLATION—EXTERNAL TRADE	
Progressive establishment of a common procedure for administering quantitative EEC import quotas	(Arts. 28, 111, 113, 114) reg. p.d. cptd. 1965
Establishment of a common list for the liberalization of imports from non-member countries	(Art. 111) reg. p.d. cptd. 1965
Definition of taxable weight	(Arts. 27, 155) rec. 13.3.61
Charges on packages imported filled	(Arts. 27, 155) rec. 13.3.61
Tariff treatment of merchandise reimported after processing	(Arts. 27, 155) rec. 29.11.61
A standard customs tariff for small consignments	(Arts. 27, 155) rec. 23.2.62
Reference date for determining the rate of customs duty chargeable on merchandise when taken out of bond	(Arts. 27, 155) rec. 25.5.62
Customs arrangements for tools imported temporarily from one Member State into another	(Arts. 27, 155) rec. 8.11.62
Definition of "ordinarily resident" for temporary import of private road vehicles from one Member State into another	(Arts. 27, 155) rec. 6.2.63
Refunding or remission of duties and charges on merchandise rejected by the importer as defective	(Arts. 27, 155) rec. 10.12.63
Customs arrangements for teaching aids imported temporarily from one Member State into another	(Arts. 27, 155) rec. 29.6.64

⁽¹⁾ A more detailed table giving references to the official gazette of the European Communities and to the supplement to the EEC Bulletin will be published shortly in the Supplement of Bulletin No. 8/1965.

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Small consignments exempted from customs duty (Arts. 27, 155)	rec. 18.12.64
EEC commercial protection against abnormal practices by non-member countries: principles and procedure (Art. 111)	reg. sub. 25.11.63
Protection against dumping and the payment of bounties or subsidies by non-member countries (Art. 111)	reg. p.d. cptd. 1965
Common definition of the origin of goods (Art. 111)	reg. sub. 29.12.64
Customs clearance (Art. 100)	form und. 1965
Progressive abolition of frontier controls (Community transit trade) (Arts. 10, 100, 155)	form und. 1962
Inwards processing traffic (Art. 111)	form und. 1963
Arrangements for bonded warehouses and free ports (Art. 100)	form und. 1965
II. FREE MOVEMENT OF WORKERS	
Free movement of workers (Art. 48)	Reg. No. 38/64 ad. 25.3.64 Dir. No. 64/240 ad. 25.3.64
III. FREEDOM OF ESTABLISHMENT AND SERVICES	
<i>1. General</i>	
Entry and residence [Art. 56 (2)]	Dir. No. 64/221 ad. 25.2.64
<i>2 Access to and pursuit of economic activities</i>	
Crafts and small industry (Arts. 57 (2), 66)	dir. prep. 1963
Industry proper (e.g. manufacture of pharmaceutical products) (Arts. 57 (2), 66)	p.d. dir. cptd. 1965

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Commerce (wholesale, e.g. pharmaceutical products, retail) (Arts. 57 (2), 66)	p.d. dir. cptd. 1965
Activities serving commerce (Arts. 57 (2), 66)	dir. prep. 1962
Real estate (Arts. 57 (2), 66)	dir. prep. 1964
Services to enterprises (advertising) (Arts. 57 (2), 66)	dir. prep. 1964
Transport auxiliaries, etc. (Arts. 57 (2), 66)	dir. prep. 1962
3. <i>Public works contracts</i> (See also Competition, No. 2)	
Participation of firms in public works contracts (Arts. 54, 63)	dir. sub. 16.3.64
4. <i>Banking and insurance professions: access and pursuit</i>	
i) Banks and other financing establishments [Art. 57 (2)]	dir. prep. 1963
ii) Life insurance [Art. 57 (2)]	dir. prep. 1964
iii) Direct insurance [Art. 57 (2)]	dir. prep. 1962
Insurance contracts [Art. 57 (2)]	dir. prep. 1965
5. <i>Other professions</i>	
Technical professions:	
i) Architecture (Arts. 57 (2), 66)	dir. p.d. cptd. 1965
ii) Engineering (Arts. 57 (2), 66)	dir. p.d. cptd. 1965
iii) Accountancy (Arts. 57 (2), 66)	dir. p.d. cptd. 1965
iv) Surveying (Arts. 57 (2), 66)	dir. p.d. cptd. 1965
v) Agriculture (Arts. 57 (2), 66)	dir. p.d. cptd. 1965

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Cultural professions:	
i) Journalism (Arts. 57 (2), 66)	dir. prep. 1965
ii) Entertainment (Arts. 57 (2), 66)	dir. prep. 1965
Medical professions:	
i) Doctors (Arts. 57 (2), 66)	dir. prep. 1962
ii) Pharmacists (Arts. 57 (2), 66)	dir. prep. 1963
iii) Veterinarians (Arts. 57 (2), 66)	dir. prep. 1965
iv) Dentists (Arts. 57 (2), 66)	dir. prep. 1965
v) Opticians (Arts. 57 (2), 66)	dir. prep. 1965
vi) Paramedical professions (Arts. 57 (2), 66)	dir. prep. 1965
Legal professions:	
i) Lawyers (barristers, solicitors, etc.) (Arts. 57 (2), 66)	dir. prep. 1964
ii) Tax consultants (Arts. 57 (2), 66)	dir. prep. 1964
iii) Patent agents (Arts. 57 (2), 66)	dir. prep. 1964
6. Cinema	
Freedom to supply services in the film industry [Art. 63 (2)]	Dir. No. 63/607 ad. 15.10.63
Nationality certificates for films [Art. 63 (2)]	rec. 8.4.64
7. Guarantees required of companies (See also Competition, No. 12)	
Sociétés anonymes, sociétés à responsabilité limitée and sociétés en commandite par actions:	
Publication of particulars, validity of commitments, nullity of association [Art. 54 (3,g)]	dir. sub. 21.2.64
Sociétés anonymes, sociétés à responsabilité limitée and sociétés en commandite par actions:	
Matters not covered by the first directive [Art. 54 (3,g)]	dir. prep. 1964

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Co-operatives	[Art. 54 (3,g)] dir. prep. 1965
Other companies under civil and commercial law	[Art. 54 (3,g)] dir. prep. 1965
Other legal persons under private law	[Art. 54 (3,g)] dir. prep. 1965
Legal persons under Public law	[Art. 54 (3,g)] dir. prep. 1965
IV. MOVEMENT OF CAPITAL	
Direct investment, movements of capital, short- and medium-term loans, transactions in securities	(Arts. 67, 69) dir. ad.11.5.60
Amendment of above directive	(Arts. 67, 69) Dir. No. 63/21 ad. 18.12.62
Abolition of discrimination in connection with the issuing and placing of foreign securities	(Arts. 67, 69) dir. sub. 14.4.64
V. COMPETITION	
1. <i>Technical obstacles to trade</i>	
Traffic indicators of motor vehicles and trailers	(Art. 100) dir. prep. 1961
Rear registration plates for motor vehicles and trailers	(Art. 100) dir. prep. 1962
Licensing of motor vehicles and trailers	(Art. 100) dir. prep. 1963
Brakes on motor vehicles and trailers	(Art. 100) dir. prep. 1962
Suppression of radio interference caused by internal combustion engines	(Art. 100) dir. prep. 1962
Lighting equipment and illuminated signals on motor vehicles	(Art. 100) dir. prep. 1963
Permissible noise level for motor vehicles	(Art. 100) dir. prep. 1964

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Brakes on certain categories of motor vehicles and trailers (Art. 100)	dir. prep. 1964
Safety windows on motor vehicles (Art. 100)	dir. prep. 1962
Maximum speeds (by type) of farm tractors and their equipment with additional seats and with loading surfaces (Art. 100)	dir. prep. 1961
Licensing of farm tractors (Art. 100)	dir. prep. 1965
Brakes on farm tractors (Art. 100)	dir. prep. 1962
Lighting equipment and illuminated signals on farm tractors (Art. 100)	dir. prep. 1962
Protection of the drive take-off on farm tractors (Art. 100)	dir. prep. 1964
Maximum dimensions, brakes, lighting equipment and illuminated signals for self-propelled combine harvesters (Art. 100)	dir. prep. 1965
Measuring instruments (Art. 100)	dir. prep. 1963
Weights, commercially accurate (Art. 100)	dir. prep. 1963
Weighing appliances, commercially accurate (Art. 100)	dir. prep. 1963
Medical thermometers (Art. 100)	dir. prep. 1964
Gas meters (Art. 100)	dir. prep. 1964
Liquid meters (Art. 100)	dir. prep. 1964
Measurement of natural weight of cereals by hectolitre (Art. 100)	dir. prep. 1964
Measurement of tanker tonnage (Art. 100)	dir. prep. 1964
Pressure appliances subject to control (Art. 100)	dir. prep. 1964
Low-tension electrical equipment (Art. 100)	dir. prep. 1964
Household electrical appliances (Art. 100)	dir. prep. 1965
Fertilizers (Art. 100)	dir. prep. 1964
Rules for the construction and exploitation of oil pipelines	form und. 1964

TABLE 7 (cont.)

Object and legal basis	Legal nature of the ap- proximation measure and state of progress
Precious metals	(Art. 100) dir. prep. 1965
<i>2. Public contracts</i> (see also Freedom of establishment and services, No. 3)	
Procedures for the award of public works contracts	(Arts. 7, 54, 63, 100, 223) dir. sub. 28.7.64
Procedures for the award of public supply contracts	(Art. 100) dir. prep. 1964
<i>3. Pharmaceutical products</i>	
Marketing of branded pharmaceuticals	(Art. 100) Dir. No. 65/65 ad. 26.1.65
Control of branded pharmaceuticals	(Art. 100) dir. sub. 24.2.64
Advertising of branded pharmaceuticals	(Art. 100) dir. prep. 1962
Patentability of pharmaceutical products	(Art. 100) dir. prep. 1963
Colouring matter in pharmaceutical pro- ducts	(Art. 100) dir. prep. 1963
Mutual recognition of marketing licences	(Art. 100) dir. prep. 1965
<i>4. Price legislation</i>	(Arts. 100, 101) form und. 1964
<i>5. Air and water pollution</i>	(Arts. 100, 101) form und. 1964
<i>6. Fuel and power</i>	(Arts. 100, 101)
Stocking of oil products	(Art. 103) dir. sub. 5.11.64
<i>7. PTT</i>	
Postal rates	(Art. 100) dir. p.d. cptd. 1965

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
8. <i>Elimination or prevention of distortions of competition in specific cases</i>	
Italian Law No. 3906 (formerly Bill) relating to the nationalization of the electricity industry (Art. 102)	prior ex. pursuant to Art. 102 begun in 1962, see decision CJE 6/64 (Costa-ENEL)
12th Federal German turnover-tax amendment law relating to the increase of turnover equalization tax, and 15th turnover-tax amendment law relating to refunds (Arts. 101, 102)	ex. pursuant to Arts. 101, 102 begun in 1963
Italian Law No. 639 on standard-rate refunds on exports of certain mechanical engineering products (Art. 101)	ex. pursuant to Art. 101 begun in 1965
Dutch law amending turnover tax and export refunds (Arts. 101, 102)	prior ex. pursuant to Arts. 101, 102 begun in 1964
Italian Law No. 190 relating to taxes on motor vehicles (Art. 101)	prior ex. pursuant to Art. 101, cptd. 1964. Italian law no longer in force
Luxembourg law amending turnover tax and introducing refunds (Art. 101)	prior ex. pursuant to Art. 101 begun in 1964
Italian Bill No. 518 relating to the modification of the structure of holdings and the promotion of peasant ownership (Art. 102)	ex. pursuant to Art. 102 cptd. 1964-65. No danger of distortion
Italian Bill No. 519 relating authorization of the expenditure of development organizations (Art. 102)	ex. pursuant to Art. 102 cptd. 1964-65. No danger of distortion

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Italian Bill No. 1427 on rules relating to agricultural contracts (Art. 102)	ex. pursuant to Art. 102 cptd. 1964-65. No danger of distortion
Italian Bill No. 251 on the relations between general agents for foreign products and their sub-agents (Art. 102)	ex. pursuant to Art. 102 begun in 1964
Belgian Bill amending countervailing charges and introducing export refunds for certain products (Art. 102)	ex. pursuant to Art. 102 begun in 1965
<i>9. Penal provisions in commercial law</i>	
Detection and punishment of infringements of EEC regulations, etc. [Art. 220 (4)]	conv. prep. 1962
Status in criminal law of officials of the European Communities [Art. 220 (4)]	p.d. conv. fin. 1965
<i>10. Industrial property</i>	
European patent law	p.d. conv. pub. 1962
European system of industrial property rights	conv. prep. 1959
European trade-mark law	conv. prep. 1959
European law on models and designs	conv. prep. 1959
<i>11. Unfair competition</i> (Arts. 100, 101 conv.)	form und. 1965
<i>12. Company law</i>	
(see also Freedom of establishment and services, No. 4)	
Recognition of companies and of legal persons [Art. 220 (3)]	conv. prep. 1962

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress	
Mergers of companies from different countries	[Art. 220 (3)]	conv. prep. 1965
Maintenance of legal personality on the transfer of a company's headquarters from one country to another	[Art. 220 (3)]	conv. prep. 1960
European form of company	(Arts. 100, 220 (3), conv.)	form und. 1964
<i>13. Law of enforcement</i>		
Legal jurisdiction, recognition and enforcement of judgments in civil and commercial cases, service of writs	[Art. 220 (4)]	p.d. conv. fin. 1965
Bankruptcy law: legal jurisdiction, recognition and enforcement of judgments	[Art. 220 (4)]	conv. prep. 1961
<i>14. Taxation law</i>		
(For other measures connected with taxation law, see Transport)		
Turnover taxes (introduction of TVA)	(Arts. 99, 100, 155)	dir. sub. 5.11.62 amdt. 12.6.64
TVA structure and implementing procedures	(Arts. 99, 100, 155)	Com. op. 3.6.64 dir. p.d. cptd. 1965
Indirect taxes on capital contributions	(Arts. 99, 100)	dir. sub. 16.12.64
Indirect taxes on insurance contracts	(Arts. 99, 100)	dir. prep. 1962
Elimination of double taxation	[Art. 220 (2)]	conv. prep. 1964
Consumer taxes	(Arts. 99, 100)	form und. 1963
Direct taxes on company profits	(Art. 100)	form und. 1961

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
VI. SOCIAL LAW (For other measures connected with social law, see Transport)	
1. Conditions of work and pay	
Equal pay for men and women	(Art. 119) rec. 20.7.60
Protection of young people at work	(Arts. 118, 155) rec. p.d. cptd. 1965
Protection of working mothers	(Arts. 118, 155) rec. p.d. cptd. 1965
2. Social security	
Harmonization of social security systems	(Arts. 118, 101) form und. 1962
Social security for migrant and frontier workers	(Art. 51) Regs. Nos. 3 and 4 ad. 25.9.58 amdt. 1962
Activities of the social services for migrant workers	(Arts. 118, 155) rec. 23.7.62
3. Industrial safety (Protection against accidents)	
Cartridge-operated stud-drivers	(Art. 100) dir. sub. 3.8.64
Metal scaffolding	(Art. 100) dir. p.d. cptd. 1965
Cranes	(Art. 100) dir. prep. 1963
Hoists	(Art. 100) dir. prep. 1964
Belt conveyors	(Art. 100) dir. prep. 1964
Portable electric tools	(Art. 100) dir. prep. 1964
Dangerous products	(Art. 100) dir. p.d. cptd. 1965
4. Industrial medicine	
Medical services at place of work	(Arts. 117, 118, 155) rec. 20.7.62
European list of occupational diseases	(Arts. 117, 118, 155) rec. 23.7.62

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Health surveillance of workers exposed to special hazards (Arts. 118, 155)	rec. sub. to EP and ESC 9.2.65
Work with compressed air (Arts. 118, 155)	rec. or op. prep. 1964
5. <i>Employment policy</i>	
Development of vocational guidance (Arts. 118, 155)	rec. prep. 1964
VII. AGRICULTURE	
1. <i>Food legislation</i>	
Colouring matters [Arts. 100, 227 (2)]	dir. ad. 23.10.62 amdt. sub. 3.8.64
Preserving agents (Art. 100)	Dir. No. 64/54 ad. 5.11.63
Purity standards for preserving agents (Art. 100)	Dir. No. 65/66 ad. 26.1.65
Anti-oxidants (Art. 100)	dir. sub. 3.8.64
Purity standards for anti-oxidants (Art. 100)	dir. prep. 1964
Emulsifiers and stabilizers (Art. 100)	dir. prep. 1965
Cocoa and chocolate (Art. 100)	dir. sub. 23.7.63
Jams, marmalades, fruit jellies and chestnut paste (Art. 100)	dir. prep. 1962
Labelling and packaging (Arts. 43, 100)	dir. prep. 1964
Preserved foods (Arts. 43, 100)	dir. prep. 1964
Food extracts, broths and soups (Arts. 43, 100)	dir. prep. 1964
Macaroni, spaghetti and similar products (Arts. 43, 100)	dir. prep. 1964
Flour, groats and meal (Art. 43)	dir. prep. 1965

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Milk products (Art. 43)	dir. prep. 1965
Fruit juices (Art. 43)	dir. prep. 1964
Definitions, methods of analysis and assessment of wines, oenological practices (Art. 43)	dir. prep. 1961
Residues of pesticides in food and agricultural products (Arts. 43, 100)	dir. prep. 1964
<i>2. Veterinary legislation</i>	
Health requirements in intra-Community trade in pigs and cattle (Arts. 43, 100)	Dir. No. 64/432 ad. 26.6.64
Health problems in trade in fresh meat (Arts. 43, 100)	Dir. No. 64/433 ad. 26.6.64
Expert opinions in connection with intra-Community trade in fresh meat and in pigs and cattle (legal basis: the two directives cited above)	Com. dir. p.d. cptd. 1965
Expert opinions in connection with the approval of slaughterhouses and cutting premises for intra-Community trade in fresh meat (legal basis: directive on health problems in trade in fresh meat)	Com. dir. p.d. cptd. 1965
Health problems in trade in fresh poultry meat (Art. 43)	dir. sub. 19.12.63
Health problems in trade in meat products (Art. 43)	dir. sub. 19.12.63
Health problems connected with imports from non-member countries of fresh meat and pigs and cattle (Art. 43)	dir. p.d. cptd. 1965
Employment of assistants for the inspection of poultry and poultry meat (Art. 43)	dir. prep. 1964
Filletted and prepackaged meat (Art. 43)	dir. prep. 1965

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Animal health inspection measures, prevention of tuberculosis and brucellosis, methods of diagnosis (Art. 43)	dir. prep. 1965
<i>3. Forestry legislation</i>	
Measuring and classification of wood in the rough (Art. 100)	dir. prep. 1962
<i>4. Legislation relating to seeds and seedlings</i>	
Marketing of beet seed (Art. 43)	dir. sub. 3.3.64
Marketing of herbage seed (Art. 43)	dir. sub. 3.3.64
Marketing of cereal seed (Art. 43)	dir. sub. 3.3.64
Marketing of seed potatoes (Art. 43)	dir. sub. 3.3.64
Marketing of forestry reproductive material (Art. 43)	dir. sub. 3.3.64
Institution of a Standing Committee on Agricultural, Horticultural and Forestry Seeds and Seedlings (Art. 43)	dir. sub. 3.3.64
Marketing of vegetable seeds (Art. 43)	dir. prep. 1963
Marketing of vine stocks and seedlings	dir. prep. 1964
EEC catalogue of varieties of agricultural plants (Art. 43)	dir. prep. 1963
<i>5. Plant protection legislation</i>	
Measures against the introduction of organisms harmful to plants (Art. 43)	dir. sub. 31.3.65
Control of wart disease of potatoes (Art. 43)	dir. prep. 1965
Marketing of pesticides (Art. 43)	dir. prep. 1963
<i>6. Legislation concerning animal feeding-stuffs</i>	
Additives in animal feeding-stuffs (Art. 43)	dir. prep. 1961
Methods of analysis and sampling for the control of animal feedingstuffs (Art. 43)	dir. sub. 12.10.64

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Definition of plain and compound animal feeding-stuffs (Art. 43)	dir. prep. 1964
VIII. TRANSPORT	
Certain provisions affecting competition in the field of transport by rail, road and inland waterway (Arts. 75, 99)	C dec. 9.3.65
Weights, dimensions and technical requirements for commercial road vehicles licensed to ply between Member States (Art. 75)	dir. sub. 7.9.62 amdt. 9.4.63 21.5.64
Rate bracket system for goods transport by rail, road and inland waterway (Art. 75)	reg. sub. 20.5.63
Issuing of licences for goods transport by road between the Member States (Art. 75)	dir. ad. 9.3.65
Community quota for goods transport by road within the Community (Art. 75)	reg. sub. 20.5.63
International transport of passengers by road (Art. 75)	reg. sub. 13.4.64
Elimination of double taxation on motor vehicles in international transport (Art. 75)	reg. sub. 20.3.64
Duty-free entry of fuel in tanks of commercial vehicles and inland waterway vessels (Art. 75)	form und. 1963
Standardization of the basis of tax assessment of motor vehicles and inland waterway vessels (Arts. 75, 99)	form und. 1963
Methods of compensating certain charges incumbent on passenger transport operators (Art. 75)	form und. 1963
Financial relations between railway companies and governments and standardization of railway accounts (Art. 75)	form und. 1963
Conditions of work in the three modes of transport (Art. 75)	form und. 1963

TABLE 7 (cont.)

Object and legal basis	Legal nature of the approximation measure and state of progress
Personal log-book for the purpose of checking on hours worked by road hauliers and crews of inland waterway vessels (Art. 75)	form und. 1963

Abbreviations :

ad.	= adopted on	ex.	= examination
amdt.	= amendment	form und.	= work in hand since... but legal form still undecided
Art(s).	= article(s) of the Treaty of Rome	op.	= opinion
C	= Council	p.d.	= preliminary draft
CJE	= Court of Justice of the European Communities	prep.	= in preparation since
Com. dir.	= Commission directive	pub.	= published
conv.	= convention	object	= object of the approximation measure or of creation of a European law
cptd.	= completed in	rec.	= recommendation
dec.	= decision	reg.	= regulation
dir.	= Council directive	sub.	= submitted to the Council by the Commission on
dr.	= draft		

3 recommendations and 18 approximation measures the legal form of which was not yet determined were still in the preliminary draft stage or in that of elaboration by the Commission. Naturally, the number of approximation measures adopted in the various fields is no indication of the importance of the measures or of the amount of work each has required.

Experience gained so far has vindicated the Commission's choice of functional unification of law—i.e. unification of law for one object only: creation of an economic union with conditions similar to those prevailing on a domestic market. Approximation of legislation involves work in so vast a field, with subject-matter which has so many ramifications, that progress cannot and should not be other than cautious and gradual. Detailed comparative studies are an essential preliminary in each sector. The object is to create not a comprehensive single European legal system but a system of federal type drawing its strength and prestige at once from the history, diversity and vigour of the laws of the Member States,

from jurisprudence common to all the countries and from the needs of economic concentration. Seen in this light, approximation of legislation is not only an important instrument of common policy in the various fields, but also a factor of integration of special significance.

APPROXIMATION OF LEGISLATION AND THE CREATION OF EUROPEAN COMPETITION LAW (1)

Technical obstacles to trade

83. The Member States and the business interests concerned have supplied information on technical obstacles to trade. Under the programme established, harmonization of legislation has been begun in certain sectors and will shortly be undertaken in others. The work in hand is shown in detail in the tables on pages 82 sqq. and mainly concerns the following groups of products: motor vehicles, farm tractors, measuring instruments, pressure appliances, electrical appliances and machinery, fertilizers, precious metals and oil pipelines.

For effective elimination of obstacles to trade, harmonization must be carried out at two different levels: not only technical rules, but the inspection and supervision procedures which ensure their enforcement, must be brought into line.

Approximation of the various procedures is intended to ensure reciprocal recognition of inspections by the competent authorities of the Member States. To this end the Commission will make proposals for outline directives on certain groups of products. These directives will provide for the introduction of common approval and inspection procedures *pari passu* with the harmonization of technical rules.

As part of the work undertaken on the sector producing machinery and appliances for the building industry, the Commission laid before the Council in August 1964 a proposal for a directive on cartridge-operated

(1) See secs. 16-26 (customs); 34-53 (freedom of establishment and freedom to supply services); 83-102 (competition); 138 (capital movements); 153-159 (fuel and power); 196 sqq. (agriculture); 226 sqq. (transport); 254 sqq. (social law); 265 (law relating to the professions).

stud drivers. This proposal has since been approved by the European Parliament and the Economic and Social Committee.

Public contracts (1)

84. On 30 July 1964 the Commission laid before the Council a proposal for a first directive on the co-ordination of procedure for the award of public works contracts. The purpose of this directive is to liberalize such contracts.

It provides for publishing them in all Community countries, establishes Community criteria for the selection of contractors and the award of contracts, prohibits discriminatory technical specifications, and sets up an advisory committee. This committee, which will be attached to the Commission, will be responsible for seeing that the Community rules are strictly applied.

Progress has been made in preparing a similar directive co-ordinating procedures for awarding public supply contracts.

Pharmaceutical products

85. On 26 January 1965 (2) the first directive on the marketing of branded pharmaceuticals was adopted by the Council. The final version departs in only a few minor respects from the Commission's original draft, which the European Parliament and the Economic and Social Committee had approved.

A proposal for a second directive on the control of branded pharmaceuticals was submitted to the Council on 24 February 1964 (3). It was discussed in detail by the competent committees of the European Parliament and of the Economic and Social Committee, which approved it virtually without reserve.

Further directives, on subjects as indicated in the tables on pages 82 sqq., V. 3, are now in the drafting stage.

(1) See also above, sec. 40.

(2) See official gazette No. 22, 9 February 1965.

(3) See Seventh General Report, sec. 84.

Postal and telecommunication services

86. During the year under review the Commission decided to begin approximation in the postal and telecommunications field. This decision was the outcome of a meeting in Brussels in September 1964 at which the PTT ministers of the six countries considered the possibilities of harmonization in this field.

To begin with, the rates charged in the Member States are to be aligned under Article 100. The preliminary draft has been prepared of a first directive on the harmonization of postal rates for letters not exceeding 20 grammes and postcards, and other work has been undertaken.

Penal provisions in commercial law

87. Work continued on a preliminary draft convention for the harmonization of certain rules relating to investigation and punishment of infringements of Commission regulations, directives or decisions. Matters studied included the widening of scope for instituting proceedings, the recognition of foreign judgments penalizing infringements in the socio-economic field, and the various provisions applied by the Member States to punish breaches of Community rules.

Industrial property rights

88. *Patents:* The introduction of Community arrangements for the protection of industrial property depends on political decisions which the Governments must take on important points in the preliminary draft of a convention on a European patent law. A report on these questions of principle was therefore submitted to the Council.

After a first reading of the report, the Council asked for the Commission's opinion on the following questions: nature of the European patent contemplated, objective (international patent or Community patent), administrative and legal structure of the future European industrial property system, ways in which non-member countries might participate, accessibility to the patent for nationals of countries not party to the Convention or not

associated with it. The Commission submitted a memorandum in reply on 17 November 1964, and the decisions which the Council is to take in 1965 on the basis of this memorandum will determine the final structure not only of the European patent but also of the future trade mark and the future European model and design.

89. *Trade marks, models and designs; the General Convention:* The first version of a preliminary draft convention on the creation of a European trade-mark law is now ready. Its completion and adjustment in accordance with the decisions of principle to be taken on patents are not expected to require much more time.

On the basis of these decisions, work on a European models and designs law will also be resumed; the preliminary draft of a convention could then be worked out quickly.

Lastly, the decisions of principle to be taken by the Governments will enable a General Convention—already well advanced—to be completed. This convention will establish common rules for implementing and interpreting the three conventions mentioned above; the institutional and administrative machinery required by the European system of industrial property rights; the details of co-operation between the three specialist offices, and the principles governing co-ordinated action by the Member States in the field of industrial property.

Unfair competition

90. The Commission has begun to examine a study of unfair competition from the point of view of comparative law, carried out for it by a specialized institution⁽¹⁾. Rules to be aligned will cover, *inter alia*, rebates, gifts to promote sales and designations of origin and provenance, as well as unfair competition pure and simple.

Company law

91. On the basis of the third sub-section of Article 220, a preliminary draft convention governing mutual recognition of companies and of legal

⁽¹⁾ See Seventh General Report, sec. 80.

persons has been drafted ⁽¹⁾ and submitted to the Governments for their views.

Conventions are being prepared to enable the registered offices of companies to be transferred from one member country to another and to make possible international mergers of companies within the Community. The Commission attaches great importance to this last convention, which may well facilitate the international co-operation of Common Market firms and improve their competitive position vis-à-vis firms of non-member countries.

The Commission has tackled these tasks jointly with experts from the Governments. Another company law matter was examined separately, i.e. the case for unifying national company law, at least national laws relating to limited companies, or for establishing a standard type of EEC company alongside the various national types. Unity of law would not only promote integration, but would also give enterprises easier access to foreign capital markets, and would enable them to transfer their headquarters from one country to another without losing their legal personality and to acquire an interest in or merge with enterprises from other Member States. The legal and psychological difficulties resulting from the disparities between legal systems would never disappear completely, even after extensive approximation of municipal law. But unity of law would enable them to be avoided, knowledge and enforcement of the law would be facilitated, there would consequently be greater certainty as to its interpretation, and distortions of competition resulting from differing requirements of municipal law would no longer arise. Lastly, solutions suited to the requirements of an enlarged domestic market could be found, notably with regard to legislation governing combines.

The Commission is well aware of the many difficulties this will involve and of its relationship with the approximation of law in other fields, notably taxation. It will submit the results of its preparatory work to the Council shortly.

Recognition and enforcement of court judgments; bankruptcy law

92. Pursuant to the fourth sub-section of Article 220 the preliminary draft of a convention ⁽²⁾ has been laid before the Governments. The final

⁽¹⁾ See Seventh General Report, sec. 86.

⁽²⁾ *Ibid.*, sec. 85.

draft will be prepared on the basis of their views and will then be submitted for signature.

This convention, which also regulates the international competence of the courts, will appreciably simplify and expedite international litigation, and will eliminate some restrictions on movements of services in the field of direct insurance.

Despite wide disparities in the legal provisions, preparatory work on a convention on bankruptcy law has made substantial progress.

*Economic law; specific cases of provisions distorting competition
(Arts 101 and 102)*

93. Articles 101 and 102 gain in importance as full economic union draws nearer. In the year under review the number of cases in which the Commission's departments were required to examine laws and regulations of individual Member States for compatibility with Articles 101 and 102 more than doubled. The main cases are as follows:

In accordance with the first paragraph of Article 101 the Commission entered into consultation regarding Italian Law No. 639 of 5 August 1964. This law superseded Law No. 103 on 1 January 1964 and provides for the payment of standard refunds on exports of a broad range of mechanical engineering products. The Commission has also put before the Court of Justice the question of Law No. 639 on the grounds that it infringes Article 96.

The German steps to increase countervailing charges on imports and refunds on exports of numerous products of a widely varying nature are also under scrutiny for compatibility with Article 101.

A number of taxation rules in Belgium, Luxembourg and the Netherlands were examined from the angle of Articles 101 and 102. In the case of both Belgium and the Netherlands, the problem is that of adjustment or intended adjustment of various existing rates of countervailing charges or refunds, whilst in the case of Luxembourg the intention is to introduce refunds.

Numerous other economic provisions have been examined from the angles of Articles 101 or 102 at the instance of a government or of the business

interests concerned. These include certain price provisions adopted by individual States, the Italian bill on the relations between general agents for foreign products and their sub-agents (providing *inter alia* for the compulsory registration of all agency agreements), the Italian laws No. 518 (modification of the structure of holdings and the promotion of peasant ownership), No. 519 (authorization of expenditure by development companies), No. 1427 (rules governing agricultural contracts) and the German bill on notification of the capacities of oil refineries and surface pipelines. In addition, work continued on an inventory of disparities in the field of social law which are liable to lead to distortions of competition within the meaning of Article 101.

Further progress was also made in studying problems arising from Articles 101 and 102 in legislation relating to fuel and power.

Broadly speaking, there is no escaping the fact that the Member States are still not sufficiently aware of their obligations, particularly under Article 102 of the Treaty, which provides that, where there is reason to fear that the enactment or amendment of a law or regulation will cause a distortion within the meaning of Article 101, the Member State desiring to proceed therewith must consult the Commission.

TAXATION POLICY

94. With the EEC in its infancy, the Commission's main activity in the fiscal field has been the examination of tax rules liable to distort competition. Thus the Commission attaches particular importance to building up some degree of fiscal neutrality through the elimination of measures discriminating between domestic products of a Member State and like products imported from other Member States, and through a study of the various equalization measures introduced by certain States regarding turnover taxes.

The Commission is well aware that economic union cannot be achieved without the progressive introduction of a Community taxation policy. Hence, as the Common Market moves forward, endeavours have also been made to harmonize a number of the main taxes.

Such changes in taxation arrangements will have important consequences for the national budgets. The unification of certain taxes—for instances

turnover tax and some excise taxes—will not only enable tax frontiers to be abolished, but will also necessitate adapting the pattern of taxation so that a new balance between expenditure and revenue can be achieved in each Member State. In pursuing its harmonization work, the Commission has always borne this necessity in mind. With a view to the elimination of tax frontiers, it has carried out a preliminary general study to ascertain the budgetary consequences of introducing a common added-value tax system into all the member countries.

95. In December 1964 the Commission laid before the Council its proposals concerning the institution of a tax on fats and oils in connection with the arrangements to establish a common organization of the fats and oils market. The tax is based on Article 201 of the Treaty, and will be the second Community tax (the first was the ECSC levy). Scope, basis of assessment and rates are all to be fixed at Community level, and both yield and implementing machinery will therefore be under Community control. For this tax, too, there will be no frontiers between the Member States ⁽¹⁾.

The Commission also laid before the Council, on 31 March 1965, proposals whereby the financial contributions of the Member States to the Community budget would be replaced by the Community's independent revenue. These proposals involve amending Articles 201 and 203 of the Treaty and are dealt with in Chapter VII ⁽²⁾.

APPROXIMATION OF TAX PROVISIONS

Indirect taxes

96. *Turnover tax:* In response to certain wishes expressed by the European Parliament and the Economic and Social Committee, the Commission amended its directive for the harmonization of turnover taxes and laid the fresh version before the Council on 12 June 1964 ⁽³⁾.

⁽¹⁾ See below, secs. 185 and 188.

⁽²⁾ See below, secs. 343 sqq.

⁽³⁾ See Seventh General Report, sec. 89.

The proposal provides that the current turnover tax systems should be replaced by a common added-value tax, which would enter into force not later than 1 January 1970. The added-value tax should be a consumer tax, applied according to the tax-on-tax method, and extend as far as the retail stage inclusive. However, the States would retain the right to limit the scope of the tax to the wholesale stage inclusive, and, if necessary, levy an independent supplementary tax at the retail stage. The Council had discussed the draft of the directive on 30 March.

A second draft directive has also been prepared, giving details of the structure and implementing procedures for the common added-value tax system. The Commission had previously submitted a memorandum to the Member States on 3 June 1964 outlining the suggested Community system.

The Commission's objective is the elimination of tax frontiers. This will mean not only the introduction of the Community TVA, but also practically identical tax rates.

Studies are now in hand on the impact of common rates on the member countries's budgets. Social and economic repercussions are also being considered.

97. *Specific cases:* In addition to many requests for information, the Commission's departments dealt with 59 specific cases in the field of indirect taxes, especially turnover taxes. A number of these cases were submitted to the Commission itself. In 11 cases the Commission found that there was an infringement of Articles 95-97 of the Treaty; some of these infringements are now being terminated.

98. Italian Law No. 103 (¹) was replaced by Law No. 639, published on 5 July 1964. On 9 October 1964 the Commission applied to the Court of Justice against Italy, alleging infringement of Article 96 of the Treaty. The application is of special interest because the Court of Justice will have to deal here with questions of fiscal principle.

Of the 11 cases mentioned above, those in the field of turnover tax include discriminatory arrangements for imports of certain farm products into Germany and for imports into Belgium effected directly by the Belgian

(¹) See Seventh General Report, sec. 92.

Government or by Belgian public corporation. Other practices that should be mentioned govern imports of timber into Belgium, and of timber and certain petroleum products into the Netherlands. Arrangements for a foreign supplier to import merchandise into Germany by his own means of transport also involve discrimination.

In addition, there were five cases of prior consultation with the Commission, as provided for in the decision of the member governments' representatives meeting in the Council on 21 June 1960. These consultations concerned government schemes for adjusting systems of compensation (equalization taxes on imports and refunds of turnover tax on exports).

99. *Consumer taxes:* Work on the harmonization of consumer taxes depends to a great extent on the progress of consultations in the Council on the proposal for a turnover tax directive. If "Initiative 1964" is to be complied with, this work must be speeded up.

The Commission expects an early solution to the problem of discrimination against imports of sugar products into the Benelux countries.

100. *Indirect taxes on capital movements:* On 16 December 1964 the Commission laid before the Council a proposal for a directive which would abolish stamp duty on securities, irrespective of whether the securities represent companies' own capital or loan capital, and whatever their origin.

As regards capital duty, the Commission proposes that all the relevant factors be brought into line, i.e. operations attracting tax, the basis of assessment, rates and exemptions. This tax should be kept as light as possible; it is suggested that the normal rate be fixed at 1%.

Another result of harmonization is that a company's own capital will be subject to capital duty once only—and solely in the State in which the company has its central management.

In the course of 1965, the Commission will continue its examination of the other taxes affecting movements of capital; in particular the possibility of harmonizing stock-exchange turnover tax is to be studied.

101. *Indirect taxes on insurance contracts:* When the right to supply services in the field of insurance is freed of all restrictions—in principle

between 1 January 1966 and 31 December 1967—the existence of differing tax arrangements with regard to insurance contracts would mean a danger of double taxation or of disruption of trade. The Commission is therefore preparing a proposal for a directive. In an initial stage the territoriality rules relating to insurance taxes should be harmonized, in order to eliminate the risk of double taxation and to limit the extent to which competition can be disturbed. In a second stage, further harmonization measures should be carried out.

Direct taxes

102. *Taxation of enterprises:* The Commission completed its study of the bases of assessment. The study covers rules for calculating depreciation, valuation of stocks, the treatment of capital gains, and operating losses. The Commission has embarked on an examination of rules concerning taxation at source of income from capital assets—a key factor in capital movements—and of the taxation of distributed company profits, which, like depreciation rules, can influence choice of the place of investment.

103. *Double taxation:* During the period under review, the Commission also tackled double taxation in the field of direct taxes. The work, undertaken on the basis of the Standard Convention worked out by the OECD Fiscal Committee, should show whether a multilateral convention between the Member States is possible and necessary, or whether difficulties in connection with double taxation can be eliminated only after harmonization of the systems of direct taxation now in force in the six countries.

104. *Tax census and control methods:* A comparative study of tax census and control methods, notably with regard to direct taxes, has been undertaken with a view to alignment.

Interpenetration of markets

DEVELOPMENT OF INTRA-COMMUNITY TRADE IN 1964

105. The expansion of intra-Community trade, which had gathered momentum in 1963, remained brisk in 1964. The growth rates over the year were 15% in value and about 13% in volume, compared with 17% and 16% in 1963. Growth in terms of value in relation to 1958 was about 166%. However, the rate slowed down during the year, as the trend from quarter to quarter shows: although trade between the member

countries, calculated from seasonally-adjusted customs returns, expanded 7.5% more in the first quarter of 1964 than in the last quarter of 1963, there was a distinct loss of pace in the spring. In the second quarter the adjusted increase was only 2.8%, and in the third there was an actual decline in terms of value. The slowdown in the summer months was probably partly due to the increasingly pronounced slackening of economic activity in certain member countries during that period. Nevertheless, the results for the final months of the year also point to a slower expansion of trade between the member countries.

This slower expansion was accompanied by a recovery of equilibrium in trade between the member countries: the increase in intra-Community trade in 1963 and early in 1964 was partly due to the inflationary pressure of demand in France and in Italy, and this gradually weakened in the former country and disappeared altogether in the latter. From the beginning of the spring until the autumn, Italy's purchases from the other member countries declined consistently and sharply in value from one quarter to the next. Although a slight increase was again recorded at the end of the year, the level of Italy's imports was still relatively low in the fourth quarter of 1964.

Taken over the year, they were 5% down in value on 1963. In France, where the effects on overall demand of the stabilization drive were slower in making themselves felt, a very pronounced loss of momentum in the growth of imports from member countries was noted from the second quarter onwards. In Benelux purchases from other Community countries forged ahead in the first six months, mainly because of the boom in private consumption, but they grew more slowly from the middle of the year until the autumn, notably in B.L.E.U., where the slowdown in demand from the summer onwards became a little more marked at the end of the year. In the Federal Republic of Germany, however, imports, which had made only relatively slow progress in the preceding year, spurted in 1964 because of the rapid tempo of economic growth and the inability of the domestic economy to expand beyond the increasingly stringent limits set by available capacity and shortage of labour.

The changes in the pattern of intra-Community trade are manifested on the export side as well: the very marked weakening in domestic demand in Italy, notably for many export items, enabled that country's deliveries to the other Community countries to be stepped up more rapidly—by 26%

in 1964, compared with 11% in 1963. On the other hand, this decline in purchases by Italy, and the fact that France's import trend, too, began to lose momentum in the course of the year, had a fairly sharp braking effect on the exports of the Federal Republic of Germany, which had been buoyed up in the previous year by the vigorous demand for imports in these two countries. The German year-to-year value of sales to Italy, which had jumped by 33% in 1963, declined by 10% in 1964. Total sales by the Federal Republic to the rest of the Community increased by only 8.5% in 1964, compared with 21% in 1963. In France, the very pronounced decline in exports to Italy was offset by a more rapid growth of sales to the other member countries. In Benelux, which benefited to a great extent from the lively demand in the Federal Republic of Germany, exports to the rest of the Community greatly increased in 1964, especially in the Netherlands, where sales to Italy remained relatively brisk.

The return of improved conditions of equilibrium in intra-Community trade is reflected in the development of the various countries' trade balances with their partners. For example, in the Federal Republic of Germany the appreciably more rapid growth of imports and the concurrent slowdown in expansion of exports led to a sharp cutback in the trade surplus, which had reached a formidable level in 1963. Conversely, the decline in purchases by Italy and the more vigorous development of its sales led to a substantial improvement in that country's trade balance vis-à-vis the rest of the Community. Until the autumn of 1964, France's deficit increased; however, there was an improvement in the fourth quarter, mainly because exports to Italy ceased to decline and exports to Germany speeded up. In Benelux the trade balance showed scarcely any change compared with 1963. In the Netherlands, where the adjusted import growth rate was very high in the first six months, the deficit remained substantial (\$430 million), despite a lively increase in sales to the other EEC countries. In B.L.E.U., which gained from the appreciable expansion of purchases by the Netherlands and Federal Germany, the trade surplus again increased, despite the brisk rise in domestic demand, which entailed an appreciable increase in imports in the first two quarters.

Total intra-Community trade continued to expand more rapidly than trade with non-member countries. However, the disparity in growth was narrower than in preceding years, since the healthy world economic situation prompted a sharp expansion in world trade (8% above 1963, excluding

intra-Community trade). This upward surge helped to stimulate Community exports. Sales to non-member countries grew by 12%, compared with 5% in 1963. Imports increased by only 9%, compared with 10% in 1963, owing to weaker pressure of demand within the Community. In relation to 1958, exports to non-member countries increased in value by 52% and imports by about 66%.

106. The fundamental trend towards a relatively more rapid expansion of trade in manufactures continued in 1964: their share in the total of intra-Community trade again increased. However, the expansion of trade in capital goods, which had already slowed down in 1963, continued at only a rather subdued tempo in 1964: the decline in the demand for capital goods in Italy, and the tendency for productive investment in French industry to mark time, had an impact which was all the heavier since the share of these items in total trade in capital goods is relatively large. On the other hand, despite the slowdown in the expansion of private consumers' expenditure, the development of intra-Community trade in finished consumer goods was generally a little brisker than in 1963, except in the motor industry. Again, in terms of value, trade in raw materials and semi-manufactures was well above the 1963 figure, owing in part to the high level of prices during the first half of 1964 and a tendency for stock-building within the Community to increase, which prevailed during most of the year. Trade in foodstuffs continued to grow at approximately the same rate as in preceding years, but trade in chemical products grew more rapidly than in 1963, and at a rate distinctly higher than the average for trade as a whole. On the other hand, trade in fuels scarcely showed any increase at all over 1963.

Trade in foodstuffs again grew appreciably in 1964. The rate of growth was 15% by value in the first nine months of 1964, compared with 14% for the same period in 1963. This rate of expansion owed something to temporary measures adopted in certain member countries to combat inflation. For example, trade in meat and milk products, for which supply lagged behind demand within the Community, was up by more than 20% over the preceding year. But trade in cereals increased most, by nearly 65% in the first nine months of the year as compared with the same period in 1963. This was due mainly to the fact that in Italy and Benelux production was generally rather low. Consequently, purchases by these countries increased sharply, while those of the Federal Republic of Germany

continued to run at a very high level. Since at the same time output had been relatively favourable in France and heavy stocks from the previous harvest were available, this country's sales rose steeply.

Intra-Community trade in raw materials expanded more than it had in 1963. For the first nine months of 1964, the growth rate was 16% by value, compared with 4% for the same period in 1963. This relatively sharp increase was partly because the prices of most raw materials rose until the middle of 1964 and enterprises showed a tendency to accumulate larger stocks of them. The movement did lose a little momentum, notably during the second half of the year, because growth of production weakened more and more perceptibly in certain member countries, and this led to a considerable slowdown in the expansion of current requirements of raw materials. Trade in raw materials of animal or vegetable origin grew by about 50% compared with the preceding year, while trade in wood and cork, which had not increased in 1963, advanced by 15% in the first nine months of 1964. Again, trade in fats and oils of animal or vegetable origin made brisk progress in this same period, and trade in textile fibres increased by 11% despite a very marked decline in demand from the garment industry in certain member countries. On the other hand, the lively recovery in iron and steel production in 1964 led to no increase in iron ore trade, the figure for which showed a decline of nearly 10% on the previous year, doubtless as a result of structural reorganization in the industry.

However, the more favourable trend in the iron and steel industry did stimulate trade in semi-manufactures. For example, trade in iron and steel products, which constitutes a very large part of trade in semi-manufactures, increased by 16% in value in the first nine months of the year compared with a bare 7% the preceding year. In particular, purchases by the Benelux countries jumped by more than 40%. Again, trade in copper, which had scarcely increased at all in 1963, rose in value by 33% in 1964; the increase was mainly due to higher prices.

After the vigorous expansion in 1963, which was partly due to accidental factors, notably the severe winter, the growth of trade in fuels fell back to a relatively weak figure in 1964. For the first nine months of the year, the growth rate was only 3%, as against 12% in 1963. This very slow progress was due in part to the weakness in demand for coal: there was an actual decline in trade in coal products as compared with the previous

year. On the other hand, trade in petroleum products continued to expand vigorously, e.g. through purchases by B.L.E.U. and Federal Germany and sales by Italy and France.

Trade in chemical products, which was growing rapidly in 1963, expanded even faster in 1964. The rate of growth reached 22% in the first nine months of the year, against 18% in 1963. The very persistent demand for plastics led to a particularly sharp increase (about 40%) in trade in these products. Trade in polyethylene and organic chemicals likewise expanded relatively strongly.

Although productive investment grew a little more steadily than in 1963 in certain member countries, trade in capital goods failed to improve on the 1963 figures, mainly because of the decline in Italy's imports and the relative weakness of demand from France. As in 1963, there was an overall increase in trade in non-electrical machines—14% in the first nine months of the year compared with the same period of 1963. However, trends varied appreciably from branch to branch of the capital goods industry. In particular, adverse business conditions in mechanical engineering led to a distinct decline in trade in metal-working machinery and non-electrical generating machinery, by 14% and 4% respectively in value on the preceding year. On the other hand, trade in electrical machinery and apparatus again increased strongly. The figures for electric generators and telecommunication apparatus, in particular, moved sharply upward, with growth rates of 18% and 33% respectively for 1964 over 1963.

The slowdown during the year in the growth rate of consumption in some member countries did not lead to a weakening in the growth of trade in finished consumer goods, which remained vigorous. Although conditions in the textile industry were less favourable, especially in the second half of the year, trade in clothing grew in the first nine months. Again, trade in household electrical appliances increased by about 20%, compared with 18% for the preceding year; purchases by B.L.E.U. and Germany, for example, rose sharply, and Italy's sales increased at a very rapid tempo. However, the slowdown in demand in the motor industry led to a distinct decline in the growth rate of trade in motor vehicles, which rose by only 10%, compared with 27% in 1963. In particular, the value of Italian imports declined by 32% and French exports by 16% on the 1963 figures.

TABLE 8

Progress of trade among member countries by main classes of products ⁽¹⁾

Classes of products	1959	1960	1961	1962 ⁽²⁾	1963	1964	Increase in 1964 over 1963 (%)
	Millions of units of account						
Food, beverages and tobacco	753.6	942.4	1 030.1	1 194	1 355	1 558	+ 15
Fuels	547	616.1	603.3	642	717	741	+ 3
Other raw materials	550	733.9	767.7	832	865	1 002	+ 16
Chemicals	417.4	548.5	622.2	697	824	1 008	+ 22
Machinery and transport equipment		1 640	2 181	2 682	3 185	3 643	+ 14
Miscellaneous manufactures	2 110.3	2 895.6	3 283.9	3 621	4 191	5 088	+ 21

⁽¹⁾ On the basis of import statistics; classes of products are in accordance with SITC headings. Totals and growth rates refer to the first nine months of the year only.

⁽²⁾ No correction has been made to take account of the changes in import statistics introduced in Germany and France at the beginning of the year.

TABLE 9

Growth rate of trade between member countries from 1963 to 1964 ⁽¹⁾

Exporting country \ Importing country	Germany (FR)	France	Italy	Netherlands	B.L.E.U.	EEC
Germany (FR)	—	+ 16.3	- 12.8	+ 17.9	+ 18.2	+ 9.9
France	+ 15.3	—	- 5.1	+ 26.0	+ 16.4	+ 11.7
Italy	+ 22.9	+ 23.3	—	+ 32.4	+ 31.0	+ 24.5
Netherlands	+ 16.8	+ 31.5	+ 17.4	—	+ 17.7	+ 19.3
B.L.E.U.	+ 28.4	+ 19.5	- 14.0	+ 17.7	—	+ 18.6
EEC	+ 19.9	+ 20.0	- 10.0	+ 19.4	+ 18.2	+ 15.1

⁽¹⁾ Growth in value (%) computed on the basis of average import and export figures in the member countries.

THE COMMON MARKET AND THE CONSUMER

107. In 1964/65, the Commission expanded its work of analysing the effects of the Common Market on the consumer. In the first place, the study of trends of trade in private consumer goods was continued, and, as in the previous year, an effort was made to find out what effects the expansion of trade was having on supplies to consumers and on prices. It should be stressed that the figures obtained are to be treated with reserve ⁽¹⁾. Secondly, the university institute entrusted with establishing scientific methods of analysing the effects of the Common Market on consumers completed its report, which contains suggestions for the study of incomes, prices and the pattern of consumption, and for the analysis of the reactions of consumers to the impact of the Common Market. Not all the suggestions could be acted upon in the time available. However, some studies with limited objectives were commissioned with the aim of determining the effects of the Common Market on several products

⁽¹⁾ See Seventh General Report, sec. 103.

consumed in large quantities; the main results of these studies are given below. The report also stresses the difficulties mentioned in the Seventh General Report (¹).

108. The analysis of trade is based, as it was last year, on the trend in imports of some 300 products or groups of products for private consumption. Talks with government experts and representatives of trade organizations and consumers' organizations yielded certain information facilitating interpretation of the statistics.

In 1963, the total value of products for households imported into the six EEC countries was \$7 500 million (against \$6 500 million in 1962). A little more than half of these imports came from EEC countries, about 5% from the Associated African States and Madagascar, and the rest from non-member countries. The share of intra-Community imports in all imports was appreciably higher in Germany, the Netherlands and B.L.E.U. (more than 50%) than in France (43%) and Italy (39%).

TABLE 10

Imports of products for household consumption in 1963

Origin	<i>In \$ million</i>					
	France	B.L.E.U.	Netherlands	Germany	Italy	. EEC
EEC	756	553 ⁽¹⁾	710 ⁽²⁾	1 411	482	3 912
AASM	332 ⁽³⁾	3	2	16	35	388
Other sources	679	231	273	1 254	719	3 156
Source not specified	—	—	52	—	—	52
Total	1 767	787	1 037	2 681	1 236	7 508

Source: SOEC, Statistiques du Commerce Extérieur, Tableaux analytiques — Importations janvier-décembre, 1963.

(¹) Including 216 from the Netherlands (Benelux).

(²) Including 351 from B.L.E.U. (Benelux).

(³) Mainly food.

(¹) *Ibid.*, sec. 101.

In 1963 EEC imports of products for household consumption were up 15% on the 1962 figures. This increase was chiefly due to imports from Community and non-member countries (increasing respectively by 19% and 20%), since imports from the associated African countries declined sharply—mainly, as indicated above, because of the decline in French purchases from this area. Italy was the country in which imports expanded most (61%), whilst in Germany they virtually stagnated, showing an increase of only 1%. This disparity between import growth in terms of value for the two countries—a disparity which should also show in the volume returns—was probably due to the difference between price trends in the two countries. The upward price movement seems to have stimulated imports in Italy, whereas in Germany foreign suppliers seem to have found considerable difficulty in widening their share of the market. In the other countries, the growth of imports ranged from 14% to 19%.

TABLE 11

*Trends in imports of products for household consumption:
1960 to 1963*

Year	Origin							
	EEC		AASM		Other		Total ⁽¹⁾	
	\$ million	Year-to-year variation in %	\$ million	Year-to-year variation in %	\$ million	Year-to-year variation in %	\$ million	Year-to-year variation in %
1960	2 238		496		2 080		4 825	
1961	2 626	+ 17	475	- 4	2 210	+ 6	5 366	+ 11
1962	3 280	+ 25	532	+ 12	2 639	+ 19	6 509	+ 21
1963	3 912	+ 19	388	- 27	3 156	+ 20	7 508	+ 15

⁽¹⁾ The figures under "Total" include certain Dutch imports of unspecified origin.

TABLE 12

Imports of products for households in relation to private consumption ⁽¹⁾

\$million

1962	France	B.L.E.U.	Netherlands	Germany	Italy	EEC
	1962					
Private consumption ⁽²⁾ ⁽³⁾	36 832	6 780	6 237	39 093	20 562	109 504
Total imports from all sources ⁽⁴⁾	1 546	682	873	2 640	768	6 509
Ratio intra-EEC imports/private consumption ⁽⁵⁾ (%)	1.4	7.1	9.4	3.5	1.4	3.0
Ratio imports from AASM/private consumption (%)	1.3	—	—	—	0.1	0.5
Ratio imports from non-member countries/private consumption (%)	1.4	2.9	3.6	3.2	2.2	2.4
Ratio total imports/private consumption (%)	4.2	10.0	14.0 ⁽⁶⁾	6.8	3.7	5.9
	1963					
Private consumption ⁽³⁾	41 132	7 338	6 854	41 023	24 221	120 568
Total imports from all sources ⁽⁴⁾	1 767	787	1 037	2 681	1 236	7 508
Ratio intra-EEC imports/private consumption ⁽⁵⁾ (%)	1.8	7.5	10.4	3.4	2.0	3.2
Ratio imports from AASM/private consumption (%)	0.8	—	—	—	0.1	0.3
Ratio imports from non-member countries/private consumption (%)	1.7	3.1	4.0	3.1	3.0	2.6
Ratio total imports/private consumption (%)	4.3	10.7	15.1	6.5	5.1	6.2

⁽¹⁾ Owing to different methods of obtaining private consumption figures, these are not strictly comparable from country to country.

⁽²⁾ Allowance has been made for subsequent adjustments to private consumption figures in the data for 1962.

⁽³⁾ Source: SOEC General Statistical Bulletin, No. 11/1964.

⁽⁴⁾ Products intended mainly for household consumption: 300 items selected by the SOEC from foreign trade statistics.

⁽⁵⁾ Private consumption is reckoned at retail prices; imports at prices before customs clearance. The ratios would be higher if both quantities could be measured at retail prices. Moreover, the comparison concerns in principle only goods, services.

⁽⁶⁾ The disparity between the sum of EEC imports plus non-member imports on the one hand and total imports on the other is due to imports of unspecified origin.

Imports grew more in 1963 than in 1961 but less than in 1962, mainly because of the slight decline in the growth rate of intra-Community imports, which fell back to much the same level as that of imports from non-member countries.

109. In 1963, the percentage ratio of imports in private consumption continued to grow. In 1962, the figure was 5.9%; in 1963 it was 6.2%. The trend prevailed in all the member countries save Germany. Here, the share of imports in private consumption increased between 1960 and 1963, but fell very slightly in this last year as compared with 1962 (6.8% in 1962; 6.5% in 1963—see table).

Imports from Community countries and imports from non-member countries contributed equally to the general increase; the share of the former in private consumption rose from 3% in 1962 to 3.2% in 1963, the share of the latter from 2.4% to 2.6%. Consumers in the six countries continue to benefit both from better supply opportunities due to progress made towards a single market and from their persisting freedom to obtain supplies from the rest of the world.

As in 1962, the increase in intra-Community trade was accounted for by only a limited number of products. In France and the Netherlands the number of items imported from the Community countries whose value increased by at least \$500 000 was 56 and 44 respectively. It was between 36 and 38 in the other countries. In comparison with the preceding years these figures had tended to increase in all the countries except Germany.

In all six Member States this small number of products accounted for more than 90% of the increase in intra-Community imports.

Degree of unification of markets by country and by product

110. The trend towards single markets for certain products noted in 1962 ⁽¹⁾ persisted in 1963, but cannot be said to have spread to other industries. The motor-vehicle industry remained the most significant case.

The other products or groups of products for which there were big

⁽¹⁾ Motor vehicles, knitted and crocheted outer garments, footwear and women's outer garments, non-electric cookers.

increases in intra-Community imports ⁽¹⁾ include the following in descending order of size of increase:

Germany - Foodstuffs: poultry (from the Netherlands, France and B.L.E.U.), sugar (from France), lemons (from Italy).

France - Foodstuffs: meat (from the Netherlands and B.L.E.U.), vegetables (from the Netherlands, B.L.E.U. and Italy), confectionery (from B.L.E.U. and the Netherlands), household equipment: furniture (from Germany and B.L.E.U.), radio and television sets (from Germany and B.L.E.U.).

Italy - Foodstuffs: meat (from the Netherlands), dairy products (from France, Germany and the Netherlands), sugar (from France); a few miscellaneous products: detergents (from Germany); household equipment: washing machines (from Germany), plastic articles (from Germany and France).

B.L.E.U. - Foodstuffs: meat (from the Netherlands), wine (from France and Italy); some very varied products: drugs and medicines (from the Netherlands, Germany and France), books and stationery (from France and the Netherlands); household equipment: refrigerators (from Germany, Italy and France), washing machines (from Germany and France).

The Netherlands ⁽¹⁾ - Textiles: carpets (from B.L.E.U.); underwear (from Germany and B.L.E.U.); household equipment: washing machines (from Germany); radio sets (from B.L.E.U. and Germany), refrigerators (from Germany, Italy and France); foodstuffs: vermouths (from B.L.E.U.), honey (from France).

The difference in trend between trade in agricultural products and in industrial products was confirmed. During each of the last years, intra-Community imports of industrial products grew more rapidly than those of agricultural products:

1961: 8% for agricultural products
24% for industrial products

⁽¹⁾ Comparable information for the preceding year is given in the Seventh General Report, sec. 105.

⁽²⁾ The increase in trade within Benelux can obviously not be attributed to establishment of the Common Market.

1962: 20% for agricultural products
28% for industrial products

1963: 19% for agricultural products
26% for industrial products.

In 1963 this was true of all the EEC countries, though the disparity was not as wide as hitherto. However, in Germany there was even a slight decline in imports of agricultural products.

Germany: 10% for industrial products
— 3% for agricultural products

France: 44% and 36%

Italy: 63% and 59%

B.L.E.U.: 16% and 12%

Netherlands: 22% and 16%

Price trends of agricultural products

111. Once again the impact of the Common Market on the prices of farm products is seen to be less marked than its impact on other prices and for the same reasons as before ⁽¹⁾. The table below gives a picture of price index trends.

Pigmeat: After the vigorous increase recorded in 1963, producers' prices declined in 1964 in Belgium, Germany, France and Italy. During the same period, retail prices increased in all the Member States of the Community. It is no easier than it was last year to differentiate the effects of introduction of the common agricultural policy from the effects of other factors.

Eggs: Retail prices had considerably increased in all the Member States from 1958 to 1963, but in 1964 they fell back below the 1958 level in all these countries except Belgium. Producers' prices were also running below the 1958 level in 1964. The Seventh General Report ⁽¹⁾ included some comments on this trend, which had already emerged quite clearly.

Poultry: This sector is still expanding vigorously. The price trend was very diversified in the various member countries. Compared with 1963,

⁽¹⁾ See Seventh General Report, sec. 106.

TABLE 13

Indices of retail food prices (R) and of prices paid to producers (P)

		1958 = 100					
Country		1959	1960	1961	1962	1963 (*)	1964 (†)
Belgium	R	102	101	102	104	106 (109)	111 (114)
	P	107	104	106	108	118	119
Germany	R	101	102	103	106	109 (110)	111 (112)
	P	102	98	102	104	106	n.a. (‡)
France	R	104	107	109	117	123 (125)	127 (128)
	P	94	98	100	106	115	115
Italy	R	98	99	99	103	112 (115)	117 (121)
	P (‡)	101	102	109	119	118	n.a.
Luxembourg	R	100	101	101	101	104 (106)	106 (108)
	P	—	—	—	—	—	—
Netherlands	R	102	103	104	109	114 (114)	120 (120)
	P (‡) (§)	98	97	97	98	106	n.a.

(*) In brackets: December 1963 and December 1964.

(†) Farming year: 1959 = 1959/60, etc.

(‡) Including direct subsidies for milk and rye.

(§) n.a. = not available.

producers' prices fell in Belgium, Germany and France, but moved up sharply in Italy and remained stable in the Netherlands. An increase in retail prices was recorded in the Netherlands and in Germany, and the beginnings of a downward movement were noted in France and Belgium. In Italy, retail prices fell well below the 1963 level.

Cereal products: Implementation of the common agricultural policy has probably influenced the trend of market prices for certain types of imported cereals, though the information available does not justify any firmer conclusions than those drawn from the previous year ⁽¹⁾.

The same holds for fruit and vegetables, a sector in which prices are determined by a large number of widely differing factors not amenable to analysis.

General market situation

112. It is extremely difficult to differentiate the influence of the Common Market as such from the other factors which have affected prices.

In particular, the analysis of repercussions on prices is not easy because there are no detailed statistics of retail prices which are comparable from country to country. The bulk of the information on industrial products was supplied by government experts and representatives of the industries and of consumers.

Products fall into three groups:

- a) For a small number of articles, the creation of the Common Market has brought price reductions;
- b) For a larger group of products, introduction of the Common Market has served to stabilize the price level or slow down the upward movement;
- c) For the other products, no effects on price movements have so far been perceived.

The first group includes a number of foodstuffs (chocolate, pastries and certain items of confectionery) the prices of which have been forced down by imports, notably in Germany. A similar trend has been observed in various member countries as regards women's stockings, which have become cheaper under the pressure of competition from other EEC countries. Lastly, the prices of refrigerators, washing machines and radio and

⁽¹⁾ See Seventh General Report, sec. 106.

television sets are tending to fall, or at least not to rise, despite appreciable improvements in quality.

It is true that there is no means of accurately gauging the influence of the Common Market in this trend. However, it is noteworthy that all the products concerned are manufactured on a fairly large scale. This suggests that marketing in an area enlarged to embrace all the EEC countries has in certain cases enabled mass production methods to be introduced and costs to be cut.

Intra-Community imports which have had the effect of stabilizing prices, or causing them to rise more slowly than they would have done otherwise, include the following:

- i) On the German market: knitted and crocheted articles and bicycles of Italian origin, synthetic products from Italy and France;
- ii) On the French market: knitted and crocheted articles and footwear, furniture from the Federal Republic of Germany and B.L.E.U., certain toys of German origin;
- iii) On the Dutch market: knitted and crocheted articles of Italian origin.

The impact of the Common Market on prices is not negligible; but it has been appreciable in the case of only a small number of products. The main reason why many items seem unaffected by it is that imports are not yet competing effectively with home-produced goods. This appears to be the case where imports of a product account for only a small proportion of the consumption of that product, or where they only supplement the range on the domestic market. It also happens that products are imported because they are in fashion or to the taste of consumers; these articles may then often be sold at very much the same price as the articles produced at home, or even at higher prices.

In a few exceptional cases, the favourable effects on prices of tariff reductions are absorbed by the middleman (particularly where there is an exclusive dealing agreement), through an increase in profit margins unwarranted by business risks or additional costs. It would seem, therefore, that competition is still not adequate in the field of distribution.

The Commission has already examined this question within the framework of its competition policy and it has come out firmly against certain

exclusive dealing agreements which hamper the free play of competition in trade between the EEC countries (1).

As already stressed in the preceding report (2), despite the appreciable reduction in tariffs and the abolition of quotas there are still a number of obstacles to the free movement of goods, and these constitute a substantial barrier to the attainment of the Common Market.

Commission survey of three products

113. In an endeavour to ascertain the effects of the Common Market on supply to consumers, prices and quality, the Commission put in hand studies of the markets for three widely differing industrial products: motor vehicles, electric razors and women's stockings.

The sample surveys carried out did not yield comparable information for the three products. Owing to lack of basic information, the surveys on electric razors and stockings were carried out fully in only two countries; however, the survey of motor vehicles covered the whole of the EEC.

In the case of stockings, it was found that consumption had more than doubled on the two markets concerned (Belgium and the Netherlands), whilst prices had dropped by 20 to 30%. There is general agreement that this trend was largely due to keener competition, notably from Italy and Germany, which compelled producers to streamline their manufacturing processes and change the qualities of their products.

The survey of electric razors revealed no such definite trends; intra-Community imports certainly grew, but they do not seem to have led to any appreciable increase in competition, and the tariff reductions were not clearly reflected in the shops. This was probably due to the fact that the market concerned is very different from that for stockings, which is dominated by a very small number of firms that were already internationally established well before the foundation of the EEC.

The Common Market has made itself felt much more in the motor industry. In the first place, tariff protection has generally declined sharply both within the Community and vis-à-vis non-member countries. Between 1958

(1) See above section 62.

(2) See Seventh General Report, sec. 109.

and 1963, intra-Community duties in this field fell from 35%-45% to 14%-18% in Italy, from 30% to 12% in France, from 24% to 9.6% in the Benelux countries, and from 13%-16% to 6%-6.8% in Germany. Over the same period, tariffs on imports from non-member countries rose in Germany (from 13%-16% to 20%-22%), but fell more or less appreciably in all the other countries (Italy, from 35%-45% to 27.2%-31.2%; Benelux, from 24% to 22%; France, from 30% to 29%). In addition, between 1960 and 1962 quantitative restrictions vis-à-vis both Community and OECD countries were abolished in France, Belgium and Italy (1).

Imports of motor vehicles greatly increased between 1958 and 1963 (see table 14).

The aggregate figures show an increase of more than 400% for 1958-1963, against only 100% for 1953-1958.

The trend was not the same in all the EEC countries. It is significant, in particular, that in the countries formerly enjoying highest protection (Italy and France) the rate of growth of intra-Community imports after establishment of the EEC was considerably higher than the rate recorded before and the rate for imports from non-member countries. For Germany, the pattern is rather different. In absolute terms, imports from other Community countries have forged ahead here, too, since 1958; in percentage terms, on the other hand, imports from non-member countries seem to have been greater. They are, however, only a small proportion of the total, and therefore cannot be regarded as significant.

Tariff reductions and the disappearance of quantitative restrictions have been the main reasons for the appreciably keener competition between manufacturers. To maintain their position on the home markets or to penetrate those of the other EEC countries, firms have vied with each other in all fields: price, quality of vehicles, delivery dates, frequent changes of model, etc. They have stepped up investment, increased rationalization, and sometimes made greater efforts to regroup their production. Similarly, marketing and after-sales service networks have been extended and modernized.

(1) Italy has not abolished its quotas for trade with non-member countries, but in practice accords very liberal treatment to imports from the main OECD producing countries.

TABLE 14

*Imports of motor vehicles into the EEC countries**Thousands of units*

Importing country	Origin	1953	1958	1963
Germany	EEC	4.2	58.9	118.5
	Non-member countries	0.6	4.7	14.3
	Total	4.8	63.6	132.8
France	EEC	2.7	5.7	116.5
	Non-member countries	3.3	3.0	34.5
	Total	6.0	8.7	151.0
Italy	EEC	1.4	4.2	161.3
	Non-member countries	0.2	1.2	29.9
	Total	1.6	5.4	191.2
B.L.E.U.	EEC	22.7	11.6	50.0
	Non-member countries	12.2	3.2	6.5
	Total	34.9	14.8	56.5
Netherlands	EEC	19.5	47.6	181.2
	Non-member countries	4.6	1.9	11.8
	Total	24.1	49.5	193.0
Total EEC	EEC	50.5	128.0	627.5
	Non-member countries	20.9	14.0	97.0
	Total	71.4	142.0	724.5

The beginnings of the Common Market seem to have had some effect on prices, but this cannot be measured accurately because exact figures on the trend of real prices paid by consumers are lacking. There is, however, no doubt that since 1958 list prices (which do not take account of reductions granted by dealers to purchasers) and producers' prices have increased much less rapidly than retail prices in general. This is all the more significant since substantial technical improvements have been made to new models.

This disparity in price trends would appear to be attributable to increased competition among Community manufacturers, who have striven to cut costs by optimum rationalization of production techniques and economies of scale based on the larger market. Firms in non-member countries, which generally enjoy only a small part of the Community market, have been obliged to adapt their prices to the general movement. Again, pressure of competition seems to have impelled manufacturers and distributors to pass on tariff cuts to the consumer. Research in certain Community countries has shown that the trends in prices of cars imported from other Community countries have developed more favourably for consumers than those of cars manufactured at home or in non-member countries.

Under the increased pressure of competition, motor manufacturers have renewed their models much more often than was their practice before 1958. Certain French models, in particular, had remained practically unchanged for some ten years; but in the last few years French manufacturers have launched a whole range of new models over a relatively short period of time.

Lastly, it must be stressed that the opening of the frontiers within the Community is already having favourable effects on marketing conditions. In the first place, delivery dates have been shortened in most of the countries. The case of France is particularly striking. Here, delivery dates have shrunk from 1-2 years at the end of the nineteen-fifties to one or two months at present. Secondly, firms which have gained a foothold on foreign markets have made efforts to extend their distribution network. For the consumer, the result is not only a gain in time on the purchase of a new vehicle but also better after-sales service.

CHAPTER III

TOWARDS A COMMON POLICY

Economic and financial policy

SHORT-TERM ECONOMIC POLICY

The economic situation in the Community in 1964 and the outlook for 1965

114. In order to avoid overloading the General Report, the Commission refers the reader, as in previous years, to the regular reports by which it keeps the European Parliament, the Governments and the public informed of the economic situation: "Graphs and Notes on the Economic situation in the Community", Quarterly Surveys entitled "The Economic Situation in the Community", and "The Community Business Survey", which appears every four months. Quarterly Survey No. 4/1964, which was published in January 1965, contains an account of economic trends in 1964 and prospects for 1965, with some forecasts in figures. On 19 January 1965, in his annual statement to the Parliament, M. Marjolin, Vice-President of the Commission, expressed the Commission's views on economic developments in 1964 and on the prospects and short-term economic policy problems in 1965.

Economic development and the objectives of the Treaty

115. The results for 1964 still did not fully correspond to the economic objectives of the Treaty, although the year was one of vigorous action in the field of short-term economic policy, decided at Community level. The action has borne fruit, although the results for 1964 were again partly influenced by the (in varying degree) inflationary trend apparent in most of the Member States in the second half of 1963; also, there is always a certain time-lag before the effect of such steps makes itself felt, and then it does so only gradually. Since the spring of 1964, the trend within the

year has been more favourable than the trend from one year to another, both as regards the objectives of the Treaty and as regards action taken in the field of short-term economic policy.

Taking the results for the whole year, economic growth and the advance of the standard of living were satisfactory for the Community as a whole. The level of employment was generally high. But in foreign trade or where prices and costs are concerned the Treaty's objectives have not yet been attained.

There was a very appreciable increase, in real terms, in the gross product of the Community as a whole, estimated at 5.5% (Netherlands: 7.5%, Germany: 6.5%, Belgium: 5.5%, France: 5%, Italy: 2.7%). Of course the trend in Italy must be considered regrettable in view of the expansion aims referred to in Article 2 of the Treaty; but the sacrifice which Italy had to make in the matter of expansion was a consequence of the particularly serious inflation which had occurred previously and of the means that finally had to be applied to combat inflation.

In 1964, there was even a temporary decline in absolute figures of industrial production in Italy. In other member countries too—France and, to a lesser extent, Belgium—there was a certain tendency for production to slow down in the second half of 1964, mainly as a result of stabilization policy and as a reaction to the previous inflationary trend; but this tendency did no more than reduce the growth rate of production.

The general standard of living continued to rise. This is evident both from the trend in real terms of private consumption, considered as a whole and *per capita* ⁽¹⁾, and from the incomplete data and information available on the reduction of working hours and extension of holidays; account must be taken of short-time working in Italy as a result of the slack business trend in that country since the spring.

The level of employment, expressed as an average over the year, was high in five of the Community countries. In some of these, particularly Germany and the Netherlands, it was in fact too high, in view of the conditions that are required for price and cost stability. In Germany the shortage of manpower even became more acute as the year went by. In the second half of the year there were signs of an easing in France and,

(¹) See Quarterly Survey No. 4/64.

though less definitely, Belgium, but one cannot yet speak of an appreciable reduction of overall imbalances on the labour market in these countries. In Italy, on the other hand, there was a decline in the level of employment during the year, but it was reflected in short-time working rather than in increased unemployment. Side by side, however, with persistent structural unemployment in Italy, which has diminished sharply in recent years, some unemployment of a cyclical nature also made its appearance.

The objective fixed with regard to price trends, namely the stability (Article 104 of the Treaty), has not yet been achieved despite a policy designed to that end. The accompanying table shows the upward movement in 1963 and 1964.

116. A slowdown in the rise of prices can be observed, except in the Netherlands, where, mainly as a result of wage increases decided in late 1963 for 1964 involving an increase of some 11% in unit costs, the increase was greater than in the same period of the previous year, and in Belgium, where the rate has hardly changed. In the same two countries, however, price rises tended to slow down in the second half of the year after a quite appreciably upward movement in the first half. In Italy the tendency in the second six months may have been a little more distinct than appears from the indices, for the statistics scarcely show the individual price reductions and discounts made, for numerous industrial products at least, in the face of slack demand. In France and Germany the increase in prices was moderate throughout 1964; in France, however, this was in part due to direct price controls. However this may be, price increases in these two countries still exceed the limits set as part of stabilization policy. In Germany there was even a tendency for prices to rise more quickly during the year.

The Commission has already expressed its opinion on many occasions on the causes of the rise in prices: in the General Reports, in the Quarterly Surveys, in M. Marjolin's statements, and in specific documents, for example in the explanatory memorandum, also submitted to the Parliament, of the Commission's proposal to the Council for a recommendation to the Member States concerning the co-ordination of stabilization measures.

In the Commission's opinion the main cause of these price increases is to be sought in excessive demand, which came about mainly in 1963, and

TABLE 15

Consumer prices

Country	Percentage variations				
	March	June	Sept.	Dec.	Dec. In rela- tion to Decem- ber 1962
	1963				
Germany	+ 2.6	- 0.3	- 0.5	+ 1.5	+ 3.3
France	+ 1.8	+ 1.1	+ 1.4	+ 1.0	+ 5.4
Italy	+ 2.8	+ 0.8	+ 1.0	+ 2.2	+ 6.9
Netherlands	+ 2.8	+ 0.9	- 0.9	+ 0.9	+ 3.8
Belgium	+ 1.7	- 0.3	+ 1.1	+ 1.7	+ 4.2
Luxembourg	+ 0.6	+ 2.3	+ 1.0	0	+ 3.9
	1964				
Germany	+ 0.9	+ 0.4	+ 0.2	+ 0.9	+ 2.3
France	+ 0.7	+ 0.3	+ 0.7	+ 0.6	+ 2.3
Italy	+ 1.2	+ 1.7	+ 1.3	+ 1.6	+ 5.8
Netherlands	+ 2.7	+ 1.8	+ 1.7	- 0.9	+ 5.5
Belgium	+ 0.1	+ 1.9	+ 0.9	+ 1.0	+ 4.0
Luxembourg	+ 0.4	+ 1.0	+ 1.8	- 0.4	+ 2.8

in the pressure of costs, which to a great extent accompanied or was consequent upon this excessive demand.

The pressure of costs seems to have lessened somewhat during 1964 from the spring onwards. This was so in France and also in the Netherlands, after the sharp increase at the beginning of the year. In Germany the year-to-year growth of unit costs was markedly smaller than a year earlier as a result of the slowdown in economic growth in 1963 and because

of the very great elasticity of production in 1964; towards the end of the year, however, contrary to what happened in the other Member States, the pressure of costs again tended to increase slightly.

Besides the trend of demand and costs, there are a number of other factors pushing up prices such as imperfect competition, out-of-date organization of production and distribution in many industries, insufficient mobility of production factors, economically unjustified tendencies towards regional concentrations, etc. These factors influence the structural movement of prices and not the cyclical movement, though the latter may be aggravated by structural factors. Short-term economic policy measures, by definition, are aimed only at the short-term rise in prices. Structural factors can only be eliminated relatively slowly; they must be tackled more energetically in the framework of medium-term economic policy.

117. In the year 1964 the external economic balance of the Community as a whole improved slightly in comparison with 1963: the trade deficit was slightly smaller (some 2 800 million units of account as against 3 000 million in 1963) ⁽¹⁾, and the balance of current payments showed a moderate surplus (about 500 million units of account). At the same time the capital account showed a surplus; but a highly industrialized area like the Community should have, on the one hand, greater surpluses in the balance of current payments and, on the other hand, corresponding deficits on capital account (net exports of capital).

The comparison of annual figures partly fails to reveal the distinct improvement in the trend of current payments during the year. The tendency for the balance of current payments to deteriorate, which was still present in the first quarter of 1964, disappeared and was succeeded, from the third quarter, by an appreciable improvement, which was reflected particularly in the trade account.

Capital account, furthermore, probably showed a considerably heavier surplus than in 1963, though the announced new tax on the yields of fixed-interest securities in Germany temporarily caused large exports of capital. In Italy, a considerable mass of capital flowed into or re-entered the country from abroad; in France, Belgium and the Netherlands, the

⁽¹⁾ 1 unit of account (u.a.) = \$1 U.S. at official exchange rates.

inflow of private long-term capital continued and to some extent increased. Towards the end of the year a large flow of short-term capital entered the Community as a result of the sterling crisis.

SHORT-TERM ECONOMIC POLICY OF THE COMMUNITY IN 1964

118. The Commission has already described the problems of short-term economic policy which arose in 1963 ⁽¹⁾; these problems, from the Community's point of view at any rate, became more serious up to the beginning of 1964. The various Member States affected by inflationary pressure had already started taking counter-acting measures in 1963. The Community's institutions—in particular the Commission in its economic reports and cautionary advice, written and spoken, and in its proposals and recommendations to various Member States, and also the Short-term Economic Policy Committee and the Monetary Committee—have played a not unimportant role in this reorientation of economic policy.

The anti-inflation measures taken by the various Member States up to the beginning of 1964 were clearly not enough to eliminate disequilibria. It became more and more obvious that it was indispensable that action in the Community should embrace all the member countries, and that it should be intensified and thoroughly co-ordinated. The Commission's view was shared by the representatives of the Member States, in particular in the Short-term Economic Policy Committee, and also by the Monetary Committee and the European Parliament ⁽²⁾. Consequently, at the beginning of April 1964, the Commission submitted to the Council a proposal for a recommendation to the Member States. The proposal, which had been discussed by the Short-term Economic Policy Committee and the Monetary Committee, was adopted by the Council at its session of 13-15 April 1964 ⁽³⁾, after some modification, and was communicated of the European Parliament. The Seventh General Report ⁽⁴⁾ referred to this recommendation (sec. 130) but did not discuss its content since the recommendation was still under consideration of the Council. For

⁽¹⁾ See Seventh General Report, sec. 121 sqq.

⁽²⁾ See Seventh General Report, sec. 326.

⁽³⁾ See official gazette No. 64, 22 April 1964.

⁽⁴⁾ See section 130.

this reason, despite the publicity which it has received, the main points are repeated here:

The Council recommendation of 15 April urged the Member States:

- a) To maintain a liberal policy on imports;
- b) To limit the annual growth of public expenditure, if possible, to 5%;
- c) To finance any unavoidable spending above this ceiling by taxation, or from the marginal increases yielded by certain graduated taxes, or by increasing certain public charges;
- d) To finance any budget deficit persisting despite these measures by long-term borrowing;
- e) To maintain a restrictive credit policy and if necessary tighten it up;
- f) To explain to both sides of industry the requirements and principles underlying the stabilization policy planned, with a view to an incomes policy for the rest of 1964 and for 1965 ensuring as far as possible that the increase of money income per head of the working population does not exceed the growth in real national product per head of the working population;
- g) To take special measures to curb demand in the building sector in those countries where demand exceeds supply, with the proviso that in countries where there is a shortage of school premises, hospitals or low-cost dwellings, the construction of these should not be cut back or made more difficult;
- b) To consult, as may be necessary, with the other member countries on methods of financing any balance-of-payments deficit.

In conclusion, the recommendation suggested certain specific measures to fit the current action of Italy and Germany into the overall Community framework. It also instituted procedure whereby the Community authorities would be kept informed of any action taken upon it.

The general scope of the recommendation can be summed up as follows:

- a) It was concerned with short-term economic action aimed at the short-term causes of inflationary pressure and using the instruments of short-term economic policy;

- b)* For the first time in the Community a joint decision has given temporary priority to one of the objectives of economic policy—stability of prices and production costs—over the other aims of economic policy;
- c)* For the first time, too, exact general limits have been set for the permissible growth of public expenditure inside a country (5%: any spending above this ceiling to be financed by additional revenue), and for the incomes policy (productivity rule). Because of the current differences between the inflationary situations in the various Member States, the general rules did not imply, as some have claimed, an unacceptable uniformity; in applying the rules different countries had different aims. Where the trend of demand, incomes and prices was more markedly inflationary, an appreciably greater effort had to be made to adhere to the same rule than in a country where the trend was moderate;
- d)* The recommendation by no means has a deflationary character; it aims only at keeping growth within certain limits. If there has nevertheless been a tendency for the growth of production to slacken or even for production to decline for a time, as in Italy, this was a reaction to the previous excessive expansion; but it was also in part because the “mixture” of measures applied by the Member States had relatively wide repercussions on enterprises and their investments;
- e)* The recommendation calls for the maintenance of a liberal policy on imports both from inside the Community and from non-member countries. The Community countries, including those which at the time had more or less heavy balance of payment deficits, were unanimous in considering a liberal import policy as one of the instruments of stabilization policy.

119. The Commission and the Council followed closely the action taken on this recommendation in the course of the year. On the basis of information that the Member States had been asked to supply, the Commission laid its first report ⁽¹⁾ on this subject before the Council, which examined it on 30 July 1964.

The Council noted that the action taken within the Community was beginning to bear fruit, stressed the need to continue the war on inflation, and confirmed the resolve of the Member Governments to implement the recommendation.

(¹) See annex to Quarterly Survey 3/64.

On 10 November 1964 the Council considered for the second time the effect given to the recommendation. On the basis of a verbal communication from the Commission, it examined the economic situation, the latest tendencies, the outlook for stabilization policy in the light of the recommendation and the results already obtained. It came to the conclusion that the stabilization policy recommended should be continued in 1965. Italy was, however, advised to give a new impetus to investment while at the same time maintaining a budget and wages policy that would avoid any undue rise in consumption and would stabilize wage costs per unit of production.

The European Parliament has also played a role. The addresses by M. Marjolin to the Economic and Financial Committee and the Social Committee and his statement to the Parliament on 23 September 1964 were followed by lengthy discussion. Short-term economic policy was also one of the main subjects of the joint meeting of 25 November 1964 between the European institutions ⁽¹⁾.

On 19 March 1965 the Commission submitted to the Council a second draft recommendation concerning short-term economic policy to be pursued until the end of 1965. The proposal was examined by the Council at its session of 29-30 March and was referred to the European Parliament. On 22 and 23 March the Parliament held a debate on M. Van Campen's report and adopted a resolution confirming that it "considers it necessary that the stabilization policy, which has already shown good results, should be continued", and urging that care should be taken to see that productive investments were maintained at an adequate level.

120. To sum up the action taken in 1964, it will be noted that the Governments and central banks of the Member States have taken steps to give effect to the Council's recommendation. This is true, in particular, of monetary policy, where the restrictive approach has been maintained and even accentuated. The adoption of a restrictive credit policy had particularly far-reaching effects in Italy, but this was almost inevitable given the degree of inflation already reached in that country.

In three Member States the budget policy of the central authorities—that is, excluding local authorities, the Länder in Germany, and national

⁽¹⁾ See Chap. VI., sec. 353.

insurance administrations—followed the guide-line set by the Council. This was not possible in the Netherlands or Luxembourg since certain items of public expenditure in those countries (in particular the very substantial pay rises in the public sector) had already been decided on according to the rules current before the Council's recommendation. In Italy, the trend of Government spending was in harmony with the Council's recommendation up to the end of summer 1964; but during the final months of the year public expenditure grew faster as a result of efforts to maintain the level of employment.

121. In the matter of financing any budget deficit and of policy regarding public debts, the results for 1964 have been satisfactory, considered from the angle of the recommendation. Furthermore, all the Member countries, even those that had temporary but large deficits in their balance of payments, maintained a liberal import policy towards not only intra-Community trade but also trade with non-member countries. This is particularly conspicuous in the case of Italy. There, despite a very heavy deficit in the balance of payments, the authorities by no means tried to put a general brake on imports. Nor were they tempted, by credits promised them mainly by an important non-member country, to adopt a policy of only slowly reducing surplus demand and being resigned to large and persistent deficits in the balance of payments. On the contrary, they took energetic and prompt measures to tackle the internal causes of disequilibrium. Consequently, the procedure under Article 108 of the Treaty, on which the Commission had embarked in agreement with Italy, did not have to be pursued and aid from the other Member States was not necessary.

122. The Council's recommendation was not followed on the whole with regard to the expenditure of local authorities and of other public and semi-public bodies. The results achieved in the matter of moderating expenditure were rather limited. Without a doubt, short-term economic policy needs to be co-ordinated more or less urgently in all the Member States.

Nor was the Council recommendation fully implemented on the building market, with which it dealt specifically. Efforts were certainly made to curb the expansion of demand in this sector, but despite the exception-

ally vigorous growth of production, mainly due to the fact that the weather was better than last year, imbalances were merely reduced, not eliminated.

123. Lastly, the recommendation was not put into effect in the matter of incomes policy. Incomes followed the general trend of the economic situation rather than a deliberate and concerted incomes policy; in Germany the trend reflected the delayed effects of the slackening in 1962 and 1963, and in France and Italy the first consequences of the weakening in the course of 1964.

124. Nevertheless, considerable results have already been achieved as regards stabilization policy and its reinforcement and co-ordination at Community level.

Surpluses and deficits in intra-Community trade were no longer excessive, and the deterioration of the Community's external trade balance and its overall balance of current payments with the non-member countries not only halted but gave place to a certain recovery from the third quarter of 1964. This trend was particularly evident in Italy, where the balance of current payments and the overall balance of payments showed a truly spectacular change of direction from a deficit to a large surplus.

The upward movement of prices and costs has slowed down somewhat, but not sufficiently for the purpose of stabilization. The forecasts of the economic trend for 1965—both those in the economic budgets of the member countries and those of the Commission—indicate that, despite a further expected easing, 1965 will still be marked by an undue tendency for costs and prices to rise if the stabilization policy is not pursued right up to the end of the year.

In working out their draft budgets for 1965 the Member States seem to have taken this point into consideration. Some relaxation of stabilization policy has been evident, however, in the shape of increased expenditure and reduced revenue.

125. In short, the tendencies in the various member countries call for a more diversified short-term economic policy in the Community in 1965 than in 1964. There is no question, nevertheless, of appreciably relaxing stabilization policy in all the Member States. On the Commission's proposal of 19 March (see paragraph 119 above), the Council adopted

the following recommendation⁽¹⁾ to the Member States on 29 March 1965: The Council recommends that, in view of recent developments in the economic situation and of the economic outlook, the Member States should keep their economic policies for the remainder of 1965 on the lines laid down by the Council on 15 April 1964 in points 1 to 9 of its recommendation for measures to be taken to restore the internal and external economic equilibrium of the Community.

The Council draws particular attention to the fact that prices and unit production costs are still rising, even in Member States where excess demand has been eliminated or is declining.

If increases in money incomes exceed the increase of productivity, tendencies towards stagnation or recession may persist or even worsen.

The Council recommends, however, that the following changes be made:

For Italy, the Council approves the policy of reviving domestic demand defined by the Italian authorities in accordance with the conclusions reached by the Council at its session of 10 November 1964. As regards budget policy for 1965, there might in Italy—but in no other Member State—be an increase of more than 5% in those disbursements by public authorities which affect the domestic economy.

Demand should be stimulated in a way which ensures a reduction in the pace at which unit production costs are rising.

In expanding public demand and encouraging private demand, the authorities should ensure that emphasis is laid on investment expenditure: they should increase public expenditure on investment, should stimulate—particularly by fiscal measures—investment by public and private enterprises, and should give support to low-cost housing and to building in general. In the credit field, measures should also be introduced to make bank advances more readily available.

On the other hand, great caution should still be exercised in expanding public current expenditure on goods and services, and government transfer expenditure that stimulates private consumption; it is recommended that new permanent commitments should not be undertaken and present ones should not be increased.

(¹) See official gazette No. 65, 15 April 1965.

Both the budget deficit and the Treasury deficit should be financed by normal means, without recourse to the central bank.

Measures to stimulate the economy should, however, be reviewed as soon as there is any threat of a renewed acceleration of the upward movement in prices and costs.

In France fiscal measures have been taken to encourage investment by private industry.

For the same purpose, limited measures of this kind could also be taken in the field of credit policy.

In Belgium the restrictive provisions adopted in 1963 and 1964 to put a brake on certain public investments, investment by enterprises, and activity in the building sector might be cautiously relaxed.

In Luxembourg similar steps might be taken to ease restrictions on certain public investments and investment by enterprises.

In Germany the imbalance between the expansion of domestic demand and of domestic supply, is, if anything, becoming more pronounced. This country should therefore continue to comply with the recommendation of 15 April 1964.

126. The Community spirit shown in 1964 in stabilization action provides grounds for believing that progress will be made towards joint action to tackle short-term economic problems, in particular to orientate the short-term economic trend, so as to ensure that serious situations are avoided in good time. This raises the problem of procedure.

Furthermore, it is necessary to consider whether the Council should not also fix certain rules and criteria of short-term economic policy, to be binding on all the Member States and itself, in order to prevent inflationary trends and heavy deficits in the balance of payments on the one hand and deflationary movements on the other. Not that there is any question of replacing policy by automatic processes. Such rules and criteria cannot be narrow and dogmatic; for the current economic situation, the causes and trends of which are different in each case, must always be taken into account and a sufficient margin left for manoeuvre. But there are undoubtedly certain absolute and general limits on which agreement could, and should, be reached in the Community.

An agreement in this direction—joint decisions on the main lines of short-term economic policy and on certain rules limiting action—would mean that an important condition for monetary union had been fulfilled.

Conversely, the establishment of new bodies for financial co-ordination (Committee of Governors of Central Banks and Budget Policy Committee) will also facilitate the co-ordination of short-term economic policy.

Improvement of instruments

127. Owing to the urgency and extent of the task of re-establishing economic equilibrium in the member countries and in the Community as a whole, the Commission has not been able to propose or accomplish further improvement of the instruments of short-term economic policy. The common fight against inflation and the successes obtained confirm, however, that the essential instruments are already available and can be effectively applied, given sufficient political good will. Late in 1962 the Commission addressed to the Member States recommendations to develop and perfect instruments for preventing or remedying undue downturns in economic activity; but the recent period of inflationary pressure did not favour trying for complete results. The Member States continued to reorganize their instruments along the lines of the recommendation, but there is still room for improvement, especially in the time needed to apply them and in their state of preparedness. The Commission proposes to summarize the results achieved and to base a draft Council recommendation on them. It will also examine the extent to which the Community as such can acquire further instruments of short-term economic policy, for example by gearing to this policy all or part of its budgetary expenditure, which will expand sharply in the foreseeable future ⁽¹⁾.

128. The auxiliary instruments analysing, forecasting and co-ordinating short-term economic policy have, however, been improved, particularly the monthly EEC business survey among firms. Its results have been made more representative and it has been extended to new sectors. It is now possible to analyse the results with sufficient accuracy. In 1964 they yielded valuable information on changes in the economic trends in certain member countries.

(¹) See secs. 215 and 216.

The attitude of heads of firms in the Netherlands to these surveys remains unchanged. The Dutch industrial federations are still not ready to co-operate on the same terms as the other member countries. Their members are particularly chary of exchanging information with other heads of enterprises in the Community. The Commission regrets this attitude; it can only continue to point out that the heads of firms in the other countries are sure that the confidential nature of specific information is respected and that the overall data by branch of industry which they receive for the various member countries are of real importance to them.

129. The survey of investments and investment projects was carried out in Germany, France and Italy in 1964, and will be extended to Belgium in 1965. The technical difficulties and uncertainties are appreciably greater than in the monthly business survey. It is therefore all the more important that the results should be sufficiently representative. Only after a suitably long period of trial and error will it be possible to publish them.

130. The Commission's Action Programme for the second stage made provision for an economic survey among consumers. Studies in preparation for this have begun. Contacts will soon be made with the various organizations already carrying out such surveys in the EEC countries, in order to determine what can be achieved and how methods can be harmonized. Everything depends, however, on the availability of considerable funds and the necessary staff.

131. Economic budgets have again been one of the main instruments for co-ordinating the economic policies of the Member States. The procedure instituted in 1962 has been continued: towards the middle of the year the Short-term Economic Policy Committee examined the member countries' preliminary budgets for 1965 and, in late autumn, the final budgets. At the conclusion of each examination the Committee issued an opinion, which was transmitted to the Commission and the Council and published as an annex to the Commission's Quaterly Survey on the Economic Situation in the Community.

Improvements have been made in the lay-out of these budgets, so that the actual effect of budget policy on general economic development can be seen more clearly. Greater detail has been given on Government operations and some indications supplied on flows of money.

Efforts have also been made to harmonize the nature of the forecasts provided by the member countries; this harmonization has improved the comparability of the various data and has enhanced the value of the synthesis made at Community level.

132. Better co-ordination of the Member States' economic policy means that more is needed in the way of short-term statistics. The statistical apparatus of the Member States still leaves much to be desired in certain respects. Often it takes too long to publish information, and definitions and data have yet to be satisfactorily harmonized. The Commission is preparing a recommendation to the Member States outlining a basic programme concerning short-term economic statistics. The draft has already been submitted to the Short-term Economic Policy Committee, which has approved its general lines. It is now being given final shape.

MONETARY AND FINANCIAL POLICY

133. In order not to burden the General Report, the Commission directs the reader's attention to the Monetary Committee's Seventh Report ⁽¹⁾, which reviews the financial and monetary situation of the Member States, the trend of their internal liquidity and money markets and that of their capital markets.

STRENGTHENING MONETARY CO-OPERATION WITHIN THE COMMUNITY

134. As economic integration progresses, inflationary or deflationary influences spread more rapidly within the Community, while at the same time it becomes more difficult to avoid such infection by altering exchange rates. The Community's economic development in 1964, which is described in the previous chapter, already reveals that economic developments in one or more member countries can have a strong influence throughout the Community. The economic trend in each Member State depends less and less on its individual monetary, fiscal or wage policy and more and more on the policy adopted by the Community as a whole.

(¹) See official gazette No. 42, 15 March 65.

The Monetary Committee "concluded that progressive integration within the EEC, and particularly the tendency for the prices of a growing number of products to settle at much the same level throughout the Community, will make devaluation or revaluation increasingly difficult and unlikely. The establishment of a single agricultural market will strengthen this trend. However, the Committee considered that even so it would still be possible for a State to adjust the exchange rate of its currency, should this prove necessary in order to safeguard, for example, the smooth working of the Common Market itself".

The task of the Community institutions is now to render internal devaluation or revaluation impossible or unnecessary, instead of merely difficult and unlikely.

The Commission has begun to tackle this point. It is seeking a solution in a number of directions at the same time, knowing that the decisions taken in all of them will have to form a coherent whole. Four of these directions can already be mentioned:

- a)* Intensified co-ordination of the economic and financial policies in the member countries, following the method adopted in 1964 to counteract economic disequilibria, by defining common norms for budget policy, credit policy and, as soon as possible, incomes policy;
- b)* Complete unification of the Community in the matter of capital movements, whether for long-term or short-term investment;
- c)* Increasing harmonization of the instruments of monetary policy;
- d)* Greater solidarity between the member countries in the matter of reserves of international liquidity and wider co-operation in international monetary operations, until national reserves come to be considered as part of a single reserve.

Some very important institutional improvements concerning economic co-operation within the Community were decided upon in 1964.

In the first place, the Monetary Committee's terms of reference were widened, and extended to matters connected with the international monetary system. Regular discussions had already taken place in the Committee on these matters. The Council's decision of 8 May 1964 meant that in future the Committee should be consulted before any important

decision or stand be taken by the Member States regarding international monetary relations. In 1964, for example, the Committee was consulted on the general working of the international monetary system and on the Member States' share in measures to provide monetary support for non-member countries.

Secondly, two other committees were set up by the Council on 8 May 1964, and have begun work.

The Committee of Governors of Central Banks has met five times, and has examined the principal measures within the competence of central banks.

The Budget Policy Committee, composed of senior national officials with responsibilities in this field, held its inaugural meeting on 16 February 1965. Its first task will be to compare the main lines of the Member States' budget policies.

On 14 April 1964 the representatives of the Member States meeting in the Council also adopted a declaration on the holding of consultations between the Member States prior to any change in their exchange rates. The EEC Commission will be associated with these consultations, the procedure for which is now being applied.

Furthermore, the Short-term Economic Policy Committee continued to devote a great part of its activity to a comparison of the Member States' economic budgets. It was also closely associated with the drafting of the Council recommendation of 14 April 1964 to the Member States on short-term economic policy and with the subsequent regular examinations regarding its implementation. The Committee also issued an opinion in favour of the new recommendation on short-term economic policy, which was adopted by the Council on 29 March 1965.

Thus practically all the machinery that the Commission, with the support of Parliament, recommended in its Action Programme of 1962 has now been set up. The most senior national officials concerned with matters of economic, financial and monetary policy will hold regular meetings with representatives of the Commission, and will see that the national authorities taking decisions in these fields fully bear in mind the general situation of the Community and decisions taken in the other Member States.

135. Outside investments in the Community: While debating the Seventh General Report the Parliament raised the subject of outside investments

in the Community, especially when concentrated in a few sectors of the economy. The Commission is studying this problem from various angles. The European solution to it depends on complex factors bound up with the possibility of developing an active European capital market. The Commission considers that it would be useful if the EEC countries adopted a common attitude to such transactions. There can be no question of closing the Community to outside investments, which in general are highly profitable to it; all that is necessary is to keep them within reasonable bounds. Detailed statistics could be kept on direct investment by non-member countries, with arrangements for consultation between the Governments and the Commission regarding national policies in this field. This supposes that the Member States supply each other with the necessary information as they are required to do by Article 72 of the Treaty of Rome.

The Community's balance of payments (1)

136. For the Community as a whole, the balance of current transactions in 1964 showed, as in 1963, a slight surplus amounting to a few hundred million dollars. But the monetary reserves (i.e. the banks' net holdings of gold and foreign exchange plus International Monetary Fund credits) rose by some 1 500 million dollars.

These figures show that the Community's net imports of capital last year were considerable. If one excludes the sharp movements of "hot money" provoked in late 1964 by speculative pressure on sterling, most of this capital came from the United States, and there are grounds for believing that, while direct investments played a considerable part, they were far exceeded by transfers of liquidity.

The spectacular reduction of the Community's surplus on current account is mainly due to the especially pronounced inflationary pressures of 1963 and early 1964, in particular to a combination of two factors.

The first was a direct consequence of inflation: the outstripping of production by actual demand is reflected in curbed exports and swollen

(1) Statistics on the balance of payments of EEC countries in 1964 were still by no means complete when the present report was drafted. Despite this it has been possible to form an idea of the general trend.

imports, leading to a deterioration in the balance of goods and services. While it is true that the problems facing the Community in 1963/64 varied in gravity from country to country, the particularly vigorous inflationary pressures in certain countries very soon affected the others, owing to the intensive trade between them. The situation became less acute as the drive against inflation was stepped up; this is shown by the reduction in the Community's trade deficit late in 1964.

The inflationary pressures of 1964 have left more lasting traces through the second factor: the increase in costs per unit of output. This means a relative loss of competitiveness on the international plane, which is difficult to remedy. Of course, in the years preceding 1962-64 all the Common Market countries had made considerable advances in the matter of competitiveness, and there is no reason for thinking that, in general, these have been completely nullified by recent developments. Nevertheless, the advantages gained by the United States since about 1959, and the spectacular increase in that country's surpluses on trade account and current account, prompt the opinion that the Community countries cannot allow their competitive position to deteriorate further without running into serious difficulty.

137. The Community's payments situation in 1964 calls for some further observations on capital movements. The considerable flows of liquid capital into the Community, mainly from the United States, were a source of difficulty in 1964, both for the working of the international monetary system in general and for the Member States' internal monetary policy. The causes of these inflows are various and complex. They are linked in part with certain points of United States monetary policy, which tends to maintain the country's money and capital markets at a high degree of liquidity in relation to the opportunities for utilizing available funds within the country. It is difficult to change this state of affairs; the American authorities sought a remedy in 1963 by instituting an "interest equalization tax", and this year by extending the tax to further classes of transaction and by setting up a procedure of consultation between the public authorities and the sectors of the economy concerned for other transaction, in particular direct investments abroad. If the measures meet with the success hoped for, the problem of unwanted surpluses will take on a different aspect for the EEC countries. Nevertheless it is in their

interest not to count solely on the measures taken by the United States, or on the preventive measures most of them have had to take themselves to stem the flow of liquidity from abroad at the cost, on the one hand, of added difficulties for their own monetary policy and, on the other hand, of interrupted progress in liberalizing capital movements within the EEC. Positive action is needed to try to solve this problem by encouraging the export of capital. Isolated steps will not suffice: they must be taken at Community level.

FREE MOVEMENT OF CAPITAL

138. On 14 April 1964 the Commission, after consulting the Monetary Committee, submitted to the Council a proposal for a third directive to implement Article 67 of the Treaty. This directive, which is still under consideration of the Council, is to eliminate certain legal and/or administrative obstacles to the issue and placing of foreign securities on national capital markets, to the introduction of foreign securities on national stock exchanges, and to the acquisition of foreign securities by financial institutions.

During the period under review there were no new liberalization measures of importance. Instead, restrictive systems were maintained, particularly in the matter of foreign issues. In the Member States where there are exchange restrictions of this type, foreign issues have been allowed on the capital market only to a very limited extent, viz., one issue in France by the ECSC of FF. 150 million and two in the Netherlands by the European Investment Bank and the ECSC of Fl. 30 million and 25 million respectively.

In order to make further progress in abolishing restrictions and discrimination impeding movement of capital, it was considered useful to obtain a general view of the objectives, methods and implications of financial integration. For this purpose, the Commission has set up a panel of experts on capital markets to examine, in particular, the problems that may arise from any appreciable differences between the member countries in their savings and investment circuits and in the organization of their capital markets. It will also analyse the possible effects of an integrated Community capital market on certain national policies which are based principally on financial instruments. The information obtained will make

it easier for the Community authorities to take practical steps to implement the provisions of the Treaty regarding free movement of capital.

The activities of the credit insurance group are described elsewhere ⁽¹⁾.

THE EUROPEAN INVESTMENT BANK

139. The activities of the European Investment Bank in the period under review are described in detail in its annual report.

The Bank's field of activity was extended to the 18 Associated African States including Madagascar, and to the Overseas Countries and Territories dependent on the Member States, on the entry into force on 1 July 1964 of the Association Convention signed at Yaoundé on 20 July 1963; it was extended to Turkey on the entry into force on 1 November 1964 of the Association Agreement signed in Ankara on 12 September 1963.

For legal and financial reasons, the operations of the European Investment Bank in Turkey had to be kept apart from its ordinary operations, in a "Special Section" created on 27 May 1963 by the Bank's Board of Governors. The Section is not, legally speaking, a separate body from the Bank, but operations carried out by the Bank on its behalf are financed out of special funds and managed separately from other operations. Such operations are carried out on instructions given by the Community or Member States to the Bank, at the exclusive risk of the Community or Member States, with funds specified in each case and supplied directly by the Community or Member States.

The Special Section thus enables the Bank to grant low-interest, long-term loans with a lengthy period of grace.

As part of its normal operations, in 1964 the Bank approved 16 loans totalling 101 400 000 units of account. Twelve of these loans were granted for schemes in Italy costing 74 500 000 units of account, one for a scheme in France costing 13 100 000 units of account, and three for schemes in Greece costing 13 800 000 units of account.

Furthermore, two operations in Turkey were approved, costing 5 240 000 units of account.

⁽¹⁾ See Chap. IV, sec. 282.

In 1964 the Bank therefore approved a total of 18 loans amounting to 106 800 000 units of account, as against 104 600 000 units of account in 1963. Sixteen loans, for 38 400 000 units of account, were for industrial investments. Four loans, for 68 400 000 units of account, were for financing economic infrastructure (building a section of the Brenner motorway in Italy; a hydraulic engineering scheme to irrigate and supply water for the Provence region in France; irrigation of the Salonika plain in Greece; construction of a hydro-electric power station in Turkey).

The total cost of the projects to which these loans will contribute is estimated at 480 million units of account.

Between its establishment and the end of 1964 the Bank approved 85 loans, totalling 465 100 000 units of account. Investments it has aided amount in all to about 2 000 million units of account.

To obtain funds the Bank has borrowed a further 66 800 000 units of account, in the German, Luxembourg and Netherlands capital markets and, for the first time, in the dollar market.

On 31 December 1964 the total amount borrowed by the Bank was 155 600 000 units of account.

MEDIUM-TERM ECONOMIC POLICY

140. In 1964 considerable progress was made in the field of medium-term economic policy. The discussions and preparatory work which had been going on since the Commission presented its Action Programme in 1962 culminated in a Council decision of 15 April 1964 on arrangements for formulating a medium-term economic policy programme for the Community. The new organization required by these arrangements has been set up satisfactorily, and it is already possible to form an idea of the fields to be covered by the first programme, for 1966-1970.

The Council decision - preparation and contents

141. The Commission recommendation of 26 July 1963 ⁽¹⁾ is based especially on Article 2 of the Treaty of Rome. Its object is to introduce

⁽¹⁾ See Seventh General Report, sec. 137.

a concerted medium-term economic policy. Medium-term forecasts are to provide the framework for measures to be taken by the Governments and the European institutions, so that the consequences for the economic trend may be determined in advance.

Medium-term economic policy should not only lead to rationalization of measures taken by the public authorities but also contribute to a balanced economic policy. It cannot and must not replace competition in connection with maximum resource allocation. On the contrary, the number and scope of the measures taken by the public authorities in the various EEC countries are such that competition will certainly function more effectively in the long run if the lines followed are as planned by the various national and Community authorities.

The Commission recommendation listed the main spheres of economic policy in which advance information and planning appeared necessary: public investments, general financial matters, incomes, scientific and technical research, regional policy.

In order to co-ordinate the policies of the Member States in these spheres, a two-stage procedure was proposed:

- i) Studies of economic prospects consisting mainly of projections to be made for the Commission by a group of independent experts;
- ii) Economic policy guide-lines, to be prepared by a Medium-term Economic Policy Committee, composed of officials responsible for national and Community economic policies, and to be submitted by the Commission for approval by the Community institutions.

On 14 April 1964 the Council of Ministers decided to set up the Medium-term Economic Policy Committee.

The new organization

142. The organization consists essentially of two new bodies, whose close co-operation will establish the necessary connection between economic studies and economic policy. The results obtained by these bodies will enable the Commission to submit to the Council a draft for the first programme of medium-term economic policy, for 1966-1970. The

European Parliament and the Economic and Social Committee will be associated with preparation of the programme, as indicated below ⁽¹⁾.

a) The Group of Experts on Medium-term Forecasts, which will *inter alia* prepare comprehensive medium-term economic projections to guide economic policy decisions. It may also carry out supplementary forecasts or studies of alternative hypotheses required for the preparation of a programme.

This group, which is presided over by M. Kervyn de Lettenhove, is composed of 18 independent experts selected from the leading figures in the member countries. In March 1965 the group submitted to the Commission an interim report containing the first national projections for 1965-70. These projections will have to be reviewed in the light of discussions to be held by the Medium-term Economic Policy Committee, and supplemented by certain specific studies, before being included in the report on which the first medium-term policy programme will be based.

b) The Medium-term Economic Policy Committee, which will study the trends of national policies, pick out the problems which may result from them at Community level, and propose to the Community institutions, in the preliminary draft programme, the courses it considers will best serve the aims of the Treaty.

The Medium-term Economic Policy Committee is composed of two members and two alternates for each country, selected from the senior officials responsible for general economic policy, together with two members and two alternates representing the Commission. The Chairman is M. Langer, State Secretary in the German Ministry of Economic Affairs; M. Brouwers, Secretary-General of the Netherlands Ministry of Economic Affairs, and M. Massé, *Commissaire général au Plan* in France, were elected Vice-Chairmen.

The Committee held its first meeting on 11 December 1964 and has since been meeting approximately every six weeks, in order to have an initial programme for the Community ready by the end of 1965.

The number and diversity of the subjects to be dealt with—an idea of these is given below—necessitate a broad division of tasks. First of all,

(1) See end of sec. 144.

since quantitative studies are essential in preparation of the programme, information and plans must be exchanged continuously with the group of Experts on Medium-term forecasts. Relations have already been established with other Committees, notably the Budget Policy Committee. Furthermore, the Economic Policy Committee has already set up working parties, for example on structural policy, while other subjects, such as employment, are being studied by alternates in the Committee assisted by experts. Study of incomes policy calls for special procedures. The varied patterns of procedure spring from both the special characteristics of the various subjects and a desire to carry out the work efficiently.

The aims of the first medium-term economic policy programme

143. No forecast can yet be given of the programme, since the preparatory work only began in earnest late in 1964. An attempt can be made, however, to sketch a few features from the tendencies which have already emerged.

It seems probable that most of the Community countries will have two main problems to face the next five years.

The first is the slower rate of increase of the working population expected in several countries. The danger of shortage of labour is linked with problems arising from structural changes in the various economic sectors and with the need for better-qualified manpower.

It will therefore be necessary to encourage the development of a flexible apparatus of production which will be more capable of satisfying demand. Vocational training, scientific and technical research, and a policy to promote the adjustment of structures can play important parts here.

Another big problem which is likely to present itself in the next few years is that of the considerable additional investment, particularly public investment, which will be required to increase productivity and meet the rising need for public utilities and services in the fields of transport, education, health and town planning. A selection must be made, for needs are likely to exceed available resources and it is important that savings should be promoted and utilized to the best advantage.

These points induced the Committee to give priority to employment and public investment. It will have to define the main lines for tackling the problems, which are present in the majority of the member countries, in varying degrees. The first task will be to ascertain the actual situation by collecting all available information and, if necessary, obtaining more; the developments expected at Community and national level will then have to be determined. This will form the basis for proposing the general lines that can profitably be followed by the Community.

144. Other points will also have to be tackled more or less urgently, for example:

- i) The impact of the common agricultural policy on general economic policy. Agricultural policy affects not only the question of employment already mentioned but also the trend of external trade and that of the general price level;
- ii) Regional policy: the Committee will make use of the Commission's summary to implement the conclusions of the reports by the three working parties which met following the Conference on Regional Economies ⁽¹⁾;
- iii) The structural policy to be followed in the various economic sectors in order to adjust them to market developments;
- iv) Scientific research policy, with particular reference to the studies and experience of the Euratom Commission and the ECSC High Authority;
- v) Incomes policy, which is bound to influence medium-term equilibrium considerably.

The solutions to be applied under these various heads will have a decisive effect on the harmonious development of European integration. Work on most of them will begin this year. But it is not certain that detailed conclusions can be reached for all of them in the first programme. Caution is called for because of the great difficulties involved, and the limited means available will necessitate dealing with matters in order of priority. This experiment in co-ordinating medium-term economic policies is too important to allow its chances of success to be jeopardized by hasty and superficial measures.

(1) See end of sec. 145 below.

Before the end of the year the Commission will submit to the Council a first draft of a medium-term economic programme. As requested by the Council, the draft will first be referred to the European Parliament. But even before this the Commission will keep the Parliament regularly informed of progress. In this way the Parliament will be associated as closely as possible with the programme's preparation, mainly through its Economic and Financial Committee. Likewise, the Commission intends to keep the representatives of industrial, commercial and professional groups concerned informed of how the work is going, before the Economic and Social Committee is officially consulted.

REGIONAL POLICY

Definition of an overall approach to regional policy: reports of working parties

145. In its resolution of 22 January 1964, the European Parliament pointed out "that an effective EEC regional policy can be implemented only on the basis of an overall approach to regional policy established jointly by the Communities and the national and regional authorities". With this in mind the Commission has been working out a general concept of regional policy which it intends to put before the Governments, to guide regional, national and Community authorities in their work in this field. It has also sought to make fuller use of the instruments of regional policy at its disposal.

The Seventh General Report ⁽¹⁾ gave a brief account of the activities of the three working parties set up by the Commission. Their reports were made to the Commission in March 1964 and passed on to the Economic and Financial Committee of the European Parliament. They contain a body of detailed conclusions on regional policy on which the Member States and the European Communities may base a coherent pattern of action. It is impossible to give a summary here of the extensive contents, for which the reader must refer to the reports themselves.

(¹) See Seventh General Report, sec. 142.

The first of the three reports details the aims of regional action in the Community, viz., to give all the regions the opportunity of contributing more effectively to the prosperity of the nation concerned and of the Community, to develop the present and potential resources of each region, and to encourage specialization in activities capable of competing on the Community market.

The report goes on to submit conclusions on the role that agriculture, industry and services can play in regional development. It suggests the creation of focal points for industry, forming coherent groups, of industries and services together with all the necessary infrastructure; once established, these focal points should be capable of developing through the free play of the market. For regions nearer the big industrial areas, the report also suggests that secondary industrial centres be developed to attract manpower leaving the land, which would otherwise be absorbed by the large over-concentrated towns.

The experts emphasize that effective regional action is impracticable without population and employment forecasts, enabling precise programmes of infrastructure development to be drawn up. The report contains detailed suggestions to this effect.

The second report is concerned with adaptation in long-established industrial areas where the decline of one or several main activities has not been offset by a growth of new activities. The speed-up of establishment of the Common Market and the development of trade with non-member countries may cause certain problems of regional conversion, which were inevitable in any case, to arise more rapidly than had been expected. The report therefore stresses the need to anticipate where adaptation will be necessary.

The generally accepted view of conversion as being entirely a matter of further industrial investment is being replaced more and more by the idea of a general re-awakening in depth of the economic and social life of the region. The various means of action at the disposal of the public authorities should therefore be combined to serve a single overall approach; employment policy, reorganization of urban structures and development of infrastructure must be co-ordinated.

The third report, which surveys the means available, deals with infrastructure, financial incentives and administrative organization.

A distinction is made between industrial, local and regional infrastructure. Measures taken in the Member States to create industrial zones, to improve regional transport infrastructure and cultural and social facilities, and to promote housing, are studied in detail.

These conclusions form the basis for the general survey which the Commission is soon to submit to the Council on the regional action to be carried out in the Community. This overall approach, which has been worked out jointly by the national and Community authorities as the Parliament recommended, is to be integrated in the medium-term economic policy that the Council decided on 15 April 1964 to put into effect.

*Co-ordinated application of the instruments of regional policy
at the disposal of the European institutions*

146. Without waiting for its general concept of a regional policy to be adopted, the Commission has exploited the instruments available to it and made several studies.

*Study on the promotion of a development pole in the provinces
of Bari and Taranto*

The organization responsible for the study has moved on to the second part of it ⁽¹⁾: selection of the main and subsidiary industries to form the initial core.

Reports are to be submitted to the Commission in 1965. Hence, by the middle of the year it will be possible to start seeking industrial groups to provide the main and ancillary industries which will make up the Bari-Taranto complex.

Study on development of the Eifel-Hunsrück area

Improvement of the main lines of communication and creation of a network of "central points" seem to be the most suitable ways of developing this

(¹) See Seventh General Report, sec. 145.

area, which is situated between the industrial regions of Belgium, France, Luxembourg and Germany and has suffered in the past from being close to various frontiers.

The study will be ready in its final form in the first half of 1965.

Study on the development of eastern Bavaria

This region is underdeveloped because of unfavourable geological conditions and its position on the Community's eastern boundary.

The study was begun in 1964 and is to be finished by the end of 1965.

Co-operation between northern Lorraine and the south of the Luxembourg province of Belgium

The Commission which has recommended the meeting of the parties concerned with the water problem ⁽¹⁾, regrets that the conversations between Belgium and France did not lead to agreement in sufficient time, despite the obvious economic advantages which the two parties would have derived from it. Apparently the French authorities have since decided to supply the Longwy region with water entirely from the Chiers Valley.

The Governments concerned are still discussing exploitation of the other complementary economic factors in the two areas.

Problems of the sulphur industry in Italy

On 8 May 1964, at the 132nd session of the Council, the Commission gave an account of the Action and Liaison Committee's report ⁽²⁾ and endorsed its conclusions. The representative of Italy stated that his Government approved the report to a very large extent. Despite the complex situation, involving economic, social and regional aspects, the Commission fixed a date for the definitive opening of the Italian sulphur

⁽¹⁾ See Seventh General Report, sec. 147.

⁽²⁾ *Ibid.*, sec. 144.

market, and made proposals on various social measures to facilitate it. The Italian Government gave its assent. In due course the Council will examine the proposals on the basis of the above report.

The Commission and the Italian Government have continued their talks on the simultaneous application of measures to implement the programme proposed by the Action and Liaison Committee ⁽¹⁾, e.g. reorganization of the sulphur mines, development of sulphur processing industries, protection measures to be maintained, development and implementation of the programme for economic expansion of the Sicilian region, etc.

On 17 February 1965 the Commission took a decision on safeguard measures for carbon disulphide.

Regional effects of common policies

147. Policies adopted at European level have to take full account of their effects on regions and should contribute to achievement of the regional objectives of the Treaty.

As far as the common agricultural policy is concerned improvement of structures in the various regions entails promoting the technical training and social progress of the rural population and facilitating the switching of surplus rural manpower to other activities; at the same time, care must be taken not to cause regions to be left with an ageing rural population ⁽²⁾.

Social policy and regional policy are closely linked. A balance must be sought between mobility of labour between sectors or regions, which is essential for a dynamic economy, and the social and economic disadvantages which could arise from excessive inter-regional migration. The regional aspects of vocational training have also been studied by the Social Fund Committee and at the Symposium on vocational training in November 1964. The Commission's proposals regarding vocational training will take regional requirements into consideration.

Aspects of regional development must also be considered in energy policy (peripheral regions must benefit from new possibilities of cheap supplies

⁽¹⁾ See Sixth General Report, sec. 106.

⁽²⁾ See sec. 204 below.

of energy), transport policy (support tariffs), and competition policy (regional development aids) (1).

Financial instruments of the European institutions

148. The Community's financial instruments (European Investment Bank, European Social Fund, European Agricultural Guidance and Guarantee Fund, High Authority loans) enable it to contribute to certain schemes. As recommended by the European Parliament, the Commission has endeavoured to co-ordinate the use of these instruments. In certain cases it would like their scope to be widened. The High Authority participates in all regional policy groups, thereby ensuring co-operation between the Executives.

Exchange of information on regional policy

149. The Parliament has recommended that the Communities set up a central information office on European regional policy.

The Commission considers that, in view of the number of authorities concerned with regional policy matters, it can play an important role as a centre for the exchange of information. Its slender resources, however, in both money and staff, prevent it from making the mass of documentation it has assembled fully available to regional specialists who may wish to consult it.

Relations with representatives of local authorities and of the Member States

150. The Commission has regular contacts with the representatives of national and international organizations of local authorities, both at meetings in Brussels and at conferences arranged by those bodies. Through the Council of European Municipalities, the Commission asked the representatives of local authorities for their observations on the conclusions

(1) See Sec. 74 above.

of the working parties, and a fruitful discussion took place. The Commission is ready to join the Member States in working out procedure for intensifying these contacts.

ENERGY POLICY

THE DEVELOPMENT OF THE FUEL AND POWER MARKET

151. The generally favourable situation in the energy sector in the period under review reflected the increased economic expansion of the Community.

With weather conditions about average, energy consumption in 1964 was 580 million metric tons of hard coal equivalent, an increase of 19 million metric tons or 3.4% over 1963. From its own resources the Community supplied no more than 6 million tons of this increase, the rest being imported, mainly in the form of oil. Net imports amounted to 280 million tons of hard coal equivalent, which was 48% of the Community's total consumption.

As regards the covering of needs by the different forms of energy, the structural transformation begun some years back has continued. Coal consumption decreased relatively and absolutely from 254 million metric tons in 1963 to 245 million in 1964; the share of coal in total consumption of fuel and power fell from 45 to 42%. Pit-head stocks rose in 1964 by 6 million metric tons, mostly in Germany.

Petroleum products continued to advance, and the share of petroleum in the Community's total energy consumption rose from 37% to 41%. The quantity of crude petroleum refined in 1964 amounted to 210 million metric tons, an increase of 17% on 1963.

With regard to natural gas, the new situation created by the marketing of Dutch gas will not be perceptible before 1965. Deliveries of liquefied gas from Algeria were begun in 1964.

Community coal prices remained almost stable, in spite of large wage increases (averaging 7%) which were only partly offset by higher productivity.

The cif prices of American coal only varied because of slight fluctuations in freight charges.

Supply of petroleum products again exceeded demand, with a consequent weakening of prices.

The price of heavy fuel oil, coal's main competitor, moved down slightly and the price differences between the various countries were somewhat reduced.

In autumn 1964 the pre-tax prices per ton were between \$11.5 and \$14 for the North Sea ports (Antwerp, Rotterdam and Hamburg), a dollar less than in autumn 1963, and between \$10.5 and \$12 for the Italian ports (Genoa, Naples), a reduction of only half a dollar. Although the reduction in French prices was greater (about \$2) they were still the highest, being about \$4 above these levels.

The relations between tax-included prices in the various countries were different because of the wide disparities in the taxes applied. The market could be divided into two price zones: one in the Netherlands, Belgium and Italy at \$15.5-\$17, and the other in Germany and France at \$18-\$20.

The fall in the price of light fuel oil was far more appreciable, and even reached 25%. It began in Germany, mainly in the Munich area, where there was a structural modification of prices following the establishment there of a large refinery supplied by pipelines from the Mediterranean. The movement gradually spread from south Germany, to the north via the Rhine region.

The price of natural gas to public distributors in the Netherlands was fixed in April 1964. The price to industrial consumers in the same country was fixed in September at the same level as for fuel oils.

MEASURES BY THE MEMBER STATES

152. The German Government took a number of measures to encourage the development of petroleum and natural gas resources and to protect German coal.

Early in 1964 a system of aids to help German petroleum exploration and production was set up in accordance with the Protocol concerning mineral oils annexed to the Treaty of Rome, under which Germany can import crude oil free of customs duty. The Commission considered that these aids conformed to the conditions laid down in the Protocol.

On 7 July 1964 the German Government sent the Commission a draft decree on the grant of loans for development of the German oil industry. The loans were for German companies complying with specific conditions concerning exploration and production outside Germany.

In accordance with the procedure set out in Article 93 (2), the German Government was informed that the loans for exploration did not call for comment by the Commission but that the conditions of competition between companies might be distorted if the loans were granted for production. Furthermore, the Commission asked that Member States' territory should be excluded from the scope of such loans. On 31 July 1964 the German Government adopted a new text complying with these conditions.

At the end of 1964 the German Government decided on a number of measures to protect or support the German coal industry. They included:

- i) Tax incentives to promote the consumption of coal in thermal power stations. The Commission is at present examining these incentives in accordance with the provisions of the Treaty;
- ii) Aids to promote the improvement or enlargement of urban heating installations using coal. The Commission examined the aids and raised no objection;
- iii) Compulsory notification of the construction or enlargement of oil refineries and pipelines;
- iv) Following discussions between the German Government and the oil companies, import licences are to be issued for crude oil and petroleum products. This form of control will reveal whether the supply of such products is adjusted to the growth of requirements. Quotas have not been fixed for the moment. The German Government made it clear to the Commission that licences would be given automatically and without delay for products freely circulating in the Community.

The Commission examined the two latter measures (compulsory notification and licences) and asked the German Government for details of how they are to be implemented.

On 7 December 1964 the Belgian Government introduced in Parliament a Bill on the transport of gas by pipeline to enable natural gas to be imported from the Netherlands, if desired.

The Netherlands Government has introduced in Parliament a Bill on the exploration and production of oil and natural gas from the North Sea continental shelf. The Bill makes both exploration and production there subject to a system of licences and concessions, whilst the current laws governing the national territory allow exploration for minerals to be carried on freely and only make production subject to concessions.

In April 1964 the Netherlands Government participated in setting up the Nederlandse Gasunie NV, a company whose object is to transport and sell gas in the Netherlands.

In France the Government authorized some slight reductions in the prices of petroleum products which took effect on 1 October 1964.

ACTION BY THE COMMISSION

153. The Commission has watched over the application of the Treaty in the sectors for which it is responsible (petroleum, gas and electricity), and has helped in the planning of a common policy covering all energy sectors.

Implementation of the Treaty of Rome

The last gap in the Community's external tariff was filled when CCT duties were fixed for the products appearing in List G annexed to the Treaty.

On 8 May 1964 the Council adopted moderate duties for petroleum products, and nil duties for natural gas. The nil duty for crude oil had already been written into the Treaty. From 1 November 1964 all the

Member States applied these duties to imports from non-member countries and abolished duties in intra-Community trade ⁽¹⁾.

The special arrangements for the import of petroleum into France led to two recommendations being issued by the Commission in pursuance of Article 37 of the Treaty in 1962 and 1963; the French Government increased its import quotas accordingly.

The Commission continued to examine the economic and legal aspects of the matter.

As regards freedom of establishment and freedom to supply services ⁽²⁾, the following time-table has been fixed:

i) Petroleum: production has been liberalized by a directive adopted by the Council on 7 July 1964, which took effect on 7 January 1965.

The directive does not apply to exploration and drilling, unless covered by a development concession. According to the general programme these activities will be liberalized between 1 January 1966 and 31 December 1967; a draft directive is being prepared.

ii) Refining: liberalization is planned for after 31 December 1967. A draft directive on distribution, covering the whole of retail trade, was submitted to the Council at the beginning of 1965.

iii) Gas and electricity: on 24 September 1964 the Commission submitted to the Council a draft directive concerning the production, transport and distribution of electricity, the manufacture of gas and the distribution of such gas or natural gas to industrial and domestic consumers. The transport of natural gas, which appears in Annex III of the General Programmes (liberalization planned for between 1 January 1966 and 31 December 1967), is also discussed in this draft directive. The Commission considered that this activity should be liberalized at the same time as the other activities in the gas industry covered by the directive, and should be removed from the group of "transport not elsewhere classified" in which it normally figured.

154. Article 95 of the Treaty lays down that fiscal charges causing distortion shall be abolished.

⁽¹⁾ See also sec. 8.

⁽²⁾ See Chap. II for this subject as a whole.

Omzetbelasting, or turnover tax, of 5% is charged in the Netherlands on the selling price of crude petroleum, whether produced in the country or imported. On imported refined products the importer has to pay 5% on the total value plus duties, charges and transport costs to the place of destination which are not already included in the value. For products refined in the country, turnover tax is not charged on the refining operations, which are exempted, but only on the value of the crude petroleum, the additional raw materials used, capital goods and services.

Since the turnover tax on imported products is higher than that on products refined in the country, there is discrimination which is contrary to the Treaty.

The Netherlands Government has recognized the existence of such discrimination and the Commission with the Government is examining ways and means of abolishing it.

155. On 5 November 1964 a proposal was submitted for a directive, based on Article 103 (2 and 4) of the Treaty, requiring Member States to keep minimum stocks of crude oil and petroleum products. The directive was referred to the European Parliament, which gave a favourable opinion at its session of 22-26 March 1965.

The directive requires the Member States to ensure that there is a stock of petroleum products on their territories equal to the total average daily domestic consumption for at least 65 days of the previous year; up to 15% may be deducted from this to allow for oil produced on the territory of a Member State. This measure should also help to make prices more stable by reducing the risk of speculation by producers and carriers.

156. The petroleum Protocol annexed to the Convention of Association with the Netherlands Antilles has been implemented since 1 October 1964. It provides for duty-free imports of petroleum products refined in the Netherlands Antilles but allows the Member States to reintroduce customs duties on these products if imports cause them real difficulty, and in any case if the ceiling fixed in the Protocol is exceeded.

157. Consultation between the Commission and the Member Governments on energy matters, which began in 1960, continued in the year

under review. For the third time two reports were published by the Commission, one giving annual information on imports of petroleum and petroleum products from non-member countries, and the other on investment programmes in the petroleum industry.

A report was also produced on "Natural gas in the European Economic Community: problems and outlook"; this has just been published by the Commission.

PREPARATION OF A COMMON ENERGY POLICY

158. The Commission's work entered a new phase in 1964 after a Protocol of Agreement relating to energy problems had been adopted on 21 April by representatives of the Governments of Member States within the ECSC Special Council of Ministers ⁽¹⁾.

In this Protocol, the Governments of the Member States, while expressing the conviction that a common energy market must be set up in the framework of the general Common Market, nevertheless pointed out that to elaborate a common policy in this sphere would take some time.

The following objectives were fixed for this policy: low prices, security of supply, progressive replacement of forms of energy, stability of supply in respect of costs and quantities available, free choice for the consumer, and fair competition in the Common Market between the different forms of energy. Furthermore, the Governments recognized that the basic lines of the common energy policy could be settled only in the context of the merger of the Communities and, in the meantime, they confined themselves to stating the principles which must be followed for each form of energy under the existing Treaties.

The Protocol was approved on 14 May by the European Parliament, which regretted, however, that it still did not involve the realization of the proposals contained in the Memorandum of the Executives of June 1962.

As regards coal, the Governments recognized the need to provide State support for rationalization measures taken by the collieries, and invited the ECSC High Authority to propose a procedure for setting up a Com-

(¹) See official gazette No. 69, 30 April 1964.

munity system of aid. The Commission has been closely associated with discussions on the matter between the High Authority and the Member States.

The discussions led to the High Authority's decision of 17 February 1965, by which the Member States may grant certain types of aid to the collieries. According to the type concerned, these aids must either be notified to the High Authority or approved by it beforehand, in certain cases after consultation with the Council.

It was also decided that the Commission should be associated with consultations arranged to implement the Protocol in respect of protection or support measures to be taken by the Member States to help the collieries. As such measures may affect oil, gas or electricity, the Commission drew the attention of the Governments to the fact that such consultations could under no circumstances prejudice implementation of the provisions of the Treaty of Rome concerning these forms of energy.

As regards hydrocarbons (oil and natural gas) the Governments expressed a wish to establish, under the Treaty of Rome, a common policy ensuring widely diversified supply at the lowest and most stable prices possible and by arrangements adaptable to the circumstances. More specifically, they undertook to promote the development of Community production where this made economic sense; to seek a common stockpiling policy; to abolish progressively any discrimination between their own nationals and those of other Member States in the terms and practical application of their national rules; to work out for petroleum fuels a tax system suited to the objectives of the energy policy; and to align charges on other petroleum products.

In order to achieve these aims and to co-ordinate measures taken, the Member States agreed to carry on permanent consultations with the Commission.

159. Since 1960 the Commission, in conjunction with the senior officials of the Member States responsible for petroleum and natural gas, has been examining the problems arising in the establishment of a common policy in these sectors. It continued this work in 1964/65 on the new lines set out in the Protocol.

In November it submitted to the Council a draft directive on petroleum stocks ⁽¹⁾.

On other matters the Commission has begun to compile the data it needs in order to carry out the tasks assigned to it.

In the matter of supply, the Commission drew up a first inventory of world oil resources and of reserves on which it could rely if difficulties arose in provision from certain quarters.

For this purpose it has made contacts with the oil companies developing these resources, and has taken part in discussions at OECD with the member states of that organization.

In the longer term the Commission, with the EEC Member States, is seeking ways of diversifying sources which would, by spreading risks more widely, improve the security of the Community's supply.

This work includes a study of the development of Community resources in all areas under the jurisdiction of the Member States, including the continental shelf.

At the same time, the Commission is still working on the abolition of discrimination between nationals of the Member States in the matter of exploration, production, transport and distribution of both oil and natural gas.

Common agricultural policy

160. The decisions of 15 December 1964 on the common level of cereal prices—among the most important ever taken by the Council since the Community was established—show that the Community is resolved to continue and in fact to speed up its policy of integrating agricultural markets.

The importance of these decisions, which required great efforts and generous concessions by all the Member States in their concern to strengthen the Community, extends far beyond agriculture into political

(¹) See sec. 155 above.

and economic affairs. They will hasten progress towards the final stage of the common market. They will also make it possible to carry on the negotiations on farm products begun in GATT.

However, the alignment of cereal prices does not mean that the common agricultural policy is fully operative. There are further important decisions to be taken in the year ahead ⁽¹⁾.

PRICE POLICY

Common cereal prices from 1 July 1967 (Decisions of 15 December 1964)

161. The Commission first submitted proposals to the Council for the harmonization of cereal prices in a single operation from the 1964/65 marketing year in November 1963. The Parliament, in its resolution of 28 March 1963, had already supported the Commission in this step urging that "if the future price level adversely affects the income of certain farmers, the latter should be assured of a fair income by the operation of the common agricultural policy as a whole and in particular by the granting of Community subsidies on a regional basis". After a long and lively debate in the Parliament on 7 and 8 January 1964, the Commission's proposals were approved. In its resolution dated 22 October 1964 on the Seventh General Report, the Parliament stressed once again the urgent need for a Council decision on farm prices, hoping "that the Council, in conformity with the decisions taken in June and July last, will fix a common level for cereal prices between now and 15 December 1964..." ⁽²⁾. Thus supported by the Parliament, the Commission upheld its proposals, even through the most arduous discussion in the Council, apart from minor changes.

Work in the Council continued throughout 1964. Germany and Italy in particular raised questions for the Council and the Commission on points of major interest to them. On two occasions, 14 April and 1 October 1964,

⁽¹⁾ See sec. 213.

⁽²⁾ See official gazette No. 177, 6 November 1964.

the Commission gave written replies to questions raised by the German member of the Council. On 14 October 1964 it also replied to comments made by the Italian member.

On 12 May 1964, as it seemed unlikely that a decision could be reached soon enough for the common cereal prices to be fixed for 1964/65, the Commission sent the Council a communication with four proposals annexed setting out the politically important factors in the proposals of November 1963 and filling them out at certain points. Under these proposals the unification of cereal prices was to be put back to 1 July 1966.

Once it had received this communication, which the Commission presented "as an integral whole", the Council decided after a prolonged discussion on 2 June 1964 to fix only the upper and lower target price limits for 1964/65 and to put off until 15 December 1964 the decisions on price alignment proper. This was decided unanimously against the wishes of the Commission, which had refused to accept piecemeal treatment of its proposals, despite an urgent request by the Council—an occurrence almost without precedent in the history of the Community.

When discussions were resumed in October 1964 the Commission submitted, at the Council's request, a memorandum listing the main points at issue. After detailed discussion of this document, and of other problems on which certain delegations made their approval of common cereal prices dependent, it seemed that all the members of the Council were resolved to reach a political decision before the end of the year. At the Council meeting of 12 and 13 December, the Commission put forward its first compromise proposal.

During the debate on 14 December, the Commission's second attempt, with a proposal differing slightly from the first, met with success. In the early hours of 15 December all the members of the Council gave their approval.

162. This compromise, which was accepted by the Council primarily on political grounds and which is accompanied by a number of resolutions, is as follows:

a) The common prices will be applied from 1 July 1967 (for 1967/68).

b) The common prices will be fixed in units of account (u.a.).

c) The basic target prices (valid for Duisburg) will be:

Wheat other than durum	106.25 u.a./metric ton
Barley	91.25 u.a./metric ton
Maize	90.63 u.a./metric ton
Rye	93.75 u.a./metric ton

Durum wheat:

basic target price	125.00 u.a./metric ton
minimum price to producer	145.00 u.a./metric ton

d) The Community price system (zoning) remains basically unchanged; in other words, derived intervention prices are fixed to guarantee producer prices (apart from maize, where there is only one derived intervention price).

On 15 December the Council adopted:

i) The following basic intervention prices valid for Duisburg:

Wheat other than durum	98.75 u.a./metric ton
Barley	85.00 u.a./metric ton
Rye	87.50 u.a./metric ton
Durum wheat	117.58 u.a./metric ton

ii) The single derived intervention price for maize 77.00 u.a./metric ton

iii) Derived intervention prices for the 38 main marketing centres in the Community;

iv) Criteria for price formation at regional level, i.e. for designating further marketing centres and fixing the target and derived intervention prices for these centres. These prices and centres will be determined by the Commission through the Management Committees.

e) Special arrangements for various cereals

i) *Barley and maize*

The Italian Government has been authorized to reduce the levy on maize and barley imported by sea by 7.50 u.a./metric ton until 1971/72. This

arrangement applies to imports from non-member countries and from Community countries. The Italians may also decrease levies on barley and maize from non-member countries by a supplementary amount of 3.12 u.a./t for 1967/68 and 2.50 u.a./t for 1968/69 and 1969/70. For imports from member countries, a subsidy of equal amount is to be granted.

On exports of barley and maize from Italy to the other Member States, a charge equal to the amount indicated above (1967/68: 3.12 u.a./t) will be imposed.

Subsidies for cereals produced in the Community are financed by the European Agricultural Guidance and Guarantee Fund (EAGGF).

The Commission was also asked to examine whether similar measures should also be introduced for products processed from barley or maize and for eggs and poultry.

These measures were adopted to take account of the difficulties experienced in Italian ports, where handling charges are high, and to ensure that Italian manufacturers are not too seriously affected by sharp rises in barley and maize prices.

ii) *Rye*

For rye for human consumption, the intervention price may be increased by 2.50 u.a. The effects of this increase will be studied by the Council on the basis of a report from the Commission. If need be, the Council will make amendments to the measures adopted on the basis of a Commission proposal.

In Germany and Luxembourg rye is grown mainly as a bread grain; it is hoped that these measures will prevent too sharp a reduction in the prices paid to growers.

iii) *Malting barley*

For this commodity, quality subsidies may be paid in addition to the intervention prices for barley.

The Commission is to keep the Council informed of market trends, particularly the degree of support; and on proposals by the Commission the Council will adopt suitable measures.

Malting barley commands a higher market price than fodder barley. In order to guarantee that producers affected by cereal price reductions retain this advantage in the Common Market, the subsidies mentioned above may be paid.

iv) *Durum wheat*

The arrangements for durum differ from those made for other cereals in that two separate prices have been fixed: there is a basic target price (125 u.a./t) and a guaranteed minimum price (145 u.a./t). The difference between market prices and the guaranteed minimum price will be made up to Community growers by Community subsidies.

These measures were adopted because durum grown in the Community is concentrated in the south of Italy, Sardinia and Sicily and because durum cannot be replaced by other crops in these areas. The price of this commodity therefore determines growers' incomes. In view of the low yield obtained (about 12 quintals per hectare), durum constitutes a social problem for southern Italy. The Council adopted these special arrangements in order to guarantee a minimum income to producers.

v) *Products processed from cereals* (flour, groats and meal, etc.). The elimination of customs duties and the fixed component in the levy will be settled by the decision on "Initiative 1964".

f) *Review clause*

So that it will be able to allow for future developments, the Council adopted a review clause that will enable the prices that have now been fixed to be adjusted as necessary. The clause is worded as follows: "On the basis of a Commission report, which is also to deal with costs and prices, the Council shall before 1 July 1966 re-examine the basic target prices with a view to adjusting them where necessary, on a proposal by the Commission, to any intervening developments".

g) *Compensation*

163. The Community will make the following payments to compensate farmers for loss of income due to cereal price reductions in Germany, Italy and Luxembourg:

TABLE 16

Country	<i>Millions of u.a.</i>			
	1967/68	1968/69	1969/70	Total
Germany	140.00	93.50	46.75	280.25
Italy	65.00	44.00	22.00	131.00
Luxembourg	1.25	0.75	0.50	2.50
Total	206.25	138.25	69.25	413.75

These payments will be financed according to the scale for contributions laid down in Article 200 (1) of the Treaty; payment will be made by a special section of the EAGGF.

b) Community financing

164. From 1 July 1967 expenditure of Member States eligible under Article 3 of Regulation No. 25 for financing by the Fund (refunds for exports to non-member countries and market intervention for cereals, pigmeat, eggs and poultry) will be borne entirely by the Fund.

Italy's contribution to the Fund for 1965/66 will be limited to 18% and for 1966/67 to 22% (under the previous scale 28%). Belgium, however, is not to be put at any disadvantage by the adoption of these new ceilings for Italy.

The Council decided, in a spirit of solidarity among the Member States, to extend the financial responsibility of the Community to other products (fruit and vegetables from 1 January 1966, durum from 1 July 1967, and tobacco as soon as possible).

The Council also asked the Commission to submit, before the common prices take effect, proposals concerning the implementation of Article 2 of Regulation No. 25 (own resources, i.e. allocation to the Community of proceeds from the levies as independent revenue) ⁽¹⁾, and it was agreed

⁽¹⁾ See secs. 215-216 below.

that the Commission, in taking decisions under the Guidance Section of the EAGGF, would bear in mind the need to improve farm structures in Italy and Luxembourg.

i) Common organization of the markets in fruit and vegetables

165. In order to ensure a balanced development in all sectors of agriculture throughout the Community, the arrangements made for imports of fruit and vegetables from non-member countries must be as effective as those provided within the framework of the other common organizations of agricultural markets. The main intention here was therefore to fix reference prices and to levy countervailing charges on imports.

Accordingly, the Council gave its agreement in principle during its session of 22-24 February 1965 to a regulation amending Article 11 (2) of the fruit and vegetables regulation. It will no longer be necessary to prove the presence or threat of grave disturbances on the market before imposing countervailing charges on imports of fruit and vegetables from non-member countries ⁽¹⁾.

j) Organization of markets in pigmeat, eggs and poultry

166. When the common market for cereals comes into force on 1 July 1967, a common market in pigmeat, eggs and poultry will also be established. Intra-Community levies (variable and fixed components) and intra-Community sluice-gate prices for pigmeat will thus be abolished.

k) Transport rates for farm products

167. The Council adopted a resolution inviting the Commission to submit, before 1 July 1966, a report on transport rates and the difference in transport rates for the various modes of transport, on the distribution among the various means of transport of quantities transported etc. for each agricultural product. At the same time the Commission was instructed to submit to the Council by 1 July 1966 proposals that would fit into the common transport policy.

Following the decisions of 15 December 1964, the Commission is preparing

⁽¹⁾ See sec. 181.

the implementing provisions needed if they are to come into force in good time for the common market in cereals to take effect—planned for 1 July 1967.

PRICE POLICY FOR OTHER FARM PRODUCTS

168. The basic regulations on the common organization of agricultural markets adopted so far by the Council provide for common prices for rice, milk, beef and grain. Similarly, the Commission's proposals for the establishment of the common organization of the markets in sugar and in vegetable oils and fats contain provisions on price fixing.

At the moment the basic regulation for milk (13/64) stipulates certain prices, and that for beef and veal (14/64) provides for upper and lower limits within which the Member States will have to fix their guide prices. Common prices as the sole price objective are not envisaged until the end of the transition period (though the procedure differs for each of the two regulations).

To ensure the harmonious development of all sectors of agriculture, the Commission believes that common prices for farm products should be applied on a single date. Meeting on 25 January 1965, the Council agreed to take 1 July 1967 as the target date for the main part of the common agricultural policy. The Council and the Commission are thus largely conforming to the wish expressed in a resolution by the Parliament on 22 October 1964, asking the Commission to submit to the Parliament and the Council proposals to fix common prices for the main farm products other than cereals by 15 January 1965⁽¹⁾.

The operation of price policy until then, however, means that the prices of cereals, milk and beef will have to be brought closer into line each year. For this reason, the Commission put before the Council two proposals for regulations based on Regulations Nos. 13/64 and 14/64 fixing upper and lower limits of prices for the 1965/66 marketing year beginning 1 April 1965.

Under the regulation on milk and milk products, the Council should have fixed a common target price for milk by 15 January 1965. But since the

(¹) See official gazette No. 177, 6 November 1964.

Council will soon be considering proposals by the Commission that it should fix a common target price for milk applying within a common market with effect from the 1967/68 milk year, which will involve the alignment of national target prices, the Commission did not consider it appropriate, pending the outcome of discussions on this point, to proceed to a common target price for 1965/66.

On the basis of Commission proposals, the Council fixed the upper and lower limits within which Member States may fix national target prices for a kilogramme of milk of 3.7% fat content at 0.0825 and 0.1030 u.a. for 1965/66 ⁽¹⁾.

The upper and lower guide prices for beef and veal, within which Member States will fix national guide prices for 1965/66, were fixed as follows: for calves 85 and 78 u.a. per 100 kg live weight; for cattle 61.25 and 57.50 u.a. per 100 kg live weight ⁽²⁾.

In order to take into account the Parliament's suggestion (see above), which is in line with the wishes of the Commission itself, the Commission is now drawing up proposals for the establishment of common prices for the other agricultural products; these will be laid before the Council and the Parliament as soon as possible.

MARKET TRENDS

Production

169. The Community's wheat production went up 18.8% in 1964, while output of barley dropped by 3.6%.

In the two rice-growing member countries, France and Italy, the year's harvest was relatively good—an estimated 770 000 metric tons, or about 8% more than in 1963/64.

Pigmeat production also increased in Community countries, and consumption also showed a sharp rise.

⁽¹⁾ Council Regulation No. 46/65/CEE, official gazette No. 51, 30 March 1965.

⁽²⁾ Council Regulation No. 20/65/CEE, official gazette No. 36, 6 March 1965.

Production of beef and veal was 6.4% down on 1963, while consumption remained more or less steady. Consequently the degree of self-sufficiency dropped from 89.4% in 1963 to 83.6% in 1964 ⁽¹⁾.

As regards eggs and derived products, the imbalance between supply and demand already in evidence early in 1964 became more pronounced, with a critical period of excess production from May to November.

Poultrymeat production continued to rise.

Production of milk and butter in the Community was much the same as in 1963; cheese production, on the other hand, showed some increase—particularly in Germany, Italy and France. Consumption of butter, which had gone up in 1963, declined slightly in 1964.

Production of fruit and vegetables continued to rise during the past year, especially apples, oranges, peaches and pears.

Figures supplied by Member States show that the Community's wine production in 1964/65 was 13.8% up on the previous year.

TABLE 17

<i>'000 hl</i>		
Country	1963/64 (Final figures)	1964/65 (Provisional figures)
Germany	6 034	7 435
France	56 183	60 563
Italy	53 640	64 000 ⁽¹⁾
Belgium	4 ⁽¹⁾	—
Luxembourg	157	164
Netherlands	9 ⁽¹⁾	—
Total	116 027	132 162

⁽¹⁾ Government estimates.

Moreover, the 1964/65 harvest was of a much higher quality than the year before.

⁽¹⁾ See also sec. 178.

TRADE

170. The trend of imports into each Community country from non-member countries, and from the other Community countries, of a number of farm products subject to common market organizations is shown in the table below, covering 1963 and the first nine months of 1963 and 1964⁽¹⁾.

For pigmeat, this table only shows numbers of pigs for slaughter (imports of which from non-member countries declined) and not total imports of pigmeat, including pork, offal, bacon, sausages, preserved pigmeat, etc. (imports of which from non-member countries have increased).

The relatively large increase of Dutch imports of dairy produce from non-member countries is due to the reduction in dairy output resulting from the dry summer of 1964 and to the increasing use of skimmed milk powder for cattle feed. The quantities imported were intended to cover domestic requirements and to enable producers to meet their commitments to traditional customers.

Common organization of cereal markets has so far caused hardly any change in the flow of trade. Imports from Member States have not affected those from outside the Community. The volume of imports still depends on the quantitative and qualitative needs that have to be met after the domestic harvest is accounted for.

The Community continued exporting its wheat surpluses on the most favourable terms, as a result of the considerable demand from certain East bloc countries. However, there is reason to believe that this situation will not persist, since the exportable surplus is increasing and demand from the East bloc declining.

Quantities of rice imported by non-producing member countries were extremely high before the levy system came into effect, total imports in the first eight months of 1964 equalling or even exceeding the annual total in preceding years.

The marketing year consequently began with appreciable supplies still available, and it is therefore understandable that intra-Community trade is slow in getting under way; it can only really expand after existing stocks

⁽¹⁾ Figures for 1961 and 1962 are given in the Seventh General Report.

TABLE

Imports by EEC countries of some agricultural

Products	Year	Germany
		I. From non-member
Wheat (metric tons)	1963	1 552 959
	First 9 mths 63	967 260
	First 9 mths 64	1 067 302
Barley (metric tons)	1963	455 830
	First 9 mths 63	309 666
	First 9 mths 64	422 777
Pigs for slaughter (units)	1963	131 214
	First 9 mths 63	85 607
	First 9 mths 64	97 068
Poultrymeat (metric tons)	1963	91 616
	First 9 mths 63	54 297
	First 9 mths 64	55 834
Shell eggs (metric tons)	1963	44 923
	First 9 mths 63	33 120
	First 9 mths 64	17 475
Live bovines (units)	1963	343 437
	First 9 mths 63	279 966
	First 9 mths 64	245 516
Beef and veal, fresh, chilled or frozen (metric tons)	1963	37 327
	First 9 mths 63	29 152
	First 9 mths 64	48 035
Milk and cream, fresh, not concentrated or sweetened (metric tons)	1963	448
	First 9 mths 63	322
	First 9 mths 64	462
Milk and cream, preserved, concentrated or sweetened (metric tons)	1963	8 806
	First 9 mths 63	6 542
	First 9 mths 64	5 892
Butter (metric tons)	1963	11 194
	First 9 mths 63	6 857
	First 9 mths 64	8 954
Cheese and curd (metric tons)	1963	53 912
	First 9 mths 63	36 642
	First 9 mths 64	42 615

Source: National statistical bulletins.

products subject to common regulations

In tons

France	Italy	Netherlands	B.L.E.U.	EEC
countries				
643 848	308 337	680 947	431 291	3 617 382
357 883	172 667	441 140	286 379	2 225 329
484 452	248 152	403 511	261 561	2 465 324
1 221	564 045	173 547	72 228	1 266 871
1 221	457 999	139 842	49 666	958 394
490	287 090	131 238	34 398	890 187
22 800	56 556	41	1 015	211 626
8 647	55 974	41	572	150 841
46 058	5 252	2	37	102 309
217	4 406	870	131	97 240
48	2 075	299	38	56 757
34	2 124	903	57	58 952
836	41 664	4	54	87 481
828	36 577	1	48	70 574
57	7 717	5	40	25 256
5 280	456 967	27 617	5 064	838 365
4 825	333 577	19 569	2 630	640 567
877	218 220	55 448	63 514	583 575
2 488	213 866	9 008	18 728	281 417
2 377	156 784	5 882	13 047	207 242
34 018	178 228	20 782	17 003	298 066
73	6 216	2	586	7 325
30	3 843	2	103	4 300
4	3 124	85	9	3 684
4 375	14 794	42 628	10 397	81 000
3 642	11 683	29 585	8 143	59 595
3 306	20 612	89 216	6 750	125 776
1 529	24 795	1 629	4 659	43 806
1 501	17 554	7	2 642	28 561
468	11 418	3 583	6 087	30 510
8 498	26 245	1 612	8 302	98 569
6 486	17 987	829	5 805	67 749
6 107	29 072	1 141	6 030	84 965

TABLE

Products	Year	Germany
		II. Intra-Community
Wheat (metric tons)	1963	201 379
	First 9 mths 63	131 083
	First 9 mths 64	183 039
Barley (metric tons)	1963	404 119
	First 9 mths 63	297 931
	First 9 mths 64	394 937
Pigs for slaughter (units)	1963	41 290
	First 9 mths 63	34 234
	First 9 mths 64	13 018
Poultrymeat (metric tons)	1963	80 483
	First 9 mths 63	57 345
	First 9 mths 64	67 291
Shell eggs (metric tons)	1963	123 337
	First 9 mths 63	87 325
	First 9 mths 64	87 573
Live bovines (units)	1963	16 161
	First 9 mths 63	12 879
	First 9 mths 64	3 107
Beef and veal, fresh, chilled or frozen (metric tons)	1963	53 803
	First 9 mths 63	41 168
	First 9 mths 64	41 613
Milk and cream, fresh, not concentrated or sweetened (metric tons)	1963	51 265
	First 9 mths 63	40 542
	First 9 mths 64	34 256
Milk and cream, preserved, concentrated or sweetened (metric tons)	1963	17 665
	First 9 mths 63	13 383
	First 9 mths 64	12 304
Butter (metric tons)	1963	13 482
	First 9 mths 63	8 586
	First 9 mths 64	7 005
Cheese and curd (metric tons)	1963	72 521
	First 9 mths 63	54 482
	First 9 mths 64	55 510

Source : National statistical bulletins.

France	Italy	Netherlands	B.L.E.U.	EEC
Trade (imports)				
13 598	—	44 801	97 599	357 377
13 598	—	21 107	43 692	209 480
241	113 329	43 632	122 864	463 105
250	182 851	40 531	185 278	813 029
250	100 330	32 437	135 027	565 975
2	158 766	52 014	133 094	738 813
152 912	49 046	5	130	243 383
63 144	48 683	—	—	146 061
323 920	—	165	50	337 153
64	—	38	169	80 754
55	—	16	68	57 484
215	—	114	82	67 702
11 390	14 908	23	112	149 770
8 523	8 530	22	101	104 501
1 250	4 361	12	72	93 268
26 763	293 622	3 088	408	340 042
19 123	192 581	2 379	197	227 159
13 512	120 305	5 218	6 135	148 277
13 327	44 221	8 778	1 678	121 807
11 600	33 908	7 313	1 409	95 398
23 029	27 913	3 579	1 361	97 495
2 090	442	3 795	1 104	58 696
1 248	343	661	752	43 546
1 940	2 495	11 376	1 172	51 239
2 701	19 816	20 761	9 897	30 840
1 951	10 295	11 735	6 097	43 461
2 372	7 479	11 890	8 149	42 194
1 830	14 501	1 117	2 117	33 047
1 751	8 841	407	2 117	21 702
379	7 502	139	1 196	16 221
9 014	23 360	1 839	23 801	130 535
5 933	14 126	1 257	17 599	93 397
5 677	15 448	3 139	18 059	97 833

have been run down. Nevertheless, since 1 September 1964 a certain amount of newly harvested rice has been exported to or imported from non-member countries in particular.

Intra-Community trade in pigmeat was intensified (especially exports of live pigs and pigmeat from Benelux countries to France). Imports from outside the Community were again higher than the year before, despite relatively low market prices in the Community.

It is not yet possible to give any information on the effect of the regulated market on trade in beef and veal.

Increased egg production in the Member States, which are normally net importers, led to a decline in intra-Community trade and international trade in comparison with the previous year.

For poultrymeat, on the other hand, a substantial flow of imports was maintained because of the increase in consumption—more marked than the increase in output by Member States, considerable though it was.

The share of non-member countries in Member States' imports of fruit and vegetables is showing an upward trend.

Outlets for intra-Community trade in wine expanded in 1964, partly because of the enlargement of quotas opened under Article 33 of the Treaty and partly because of the increase in quotas opened under Article 43 by a Council decision on 4 April 1962. Under the last head, quotas to be opened by Germany were increased to 950 000 hl for table wine and 480 000 hl for wines used to produce sparkling wines; the quotas to be opened by France and Italy rose from 300 000 hl to 330 000 hl.

The trend of intra-Community trade during the first nine months of 1964 seems to indicate that, even though business is normally better during the fourth quarter, the overall figures for the year will be 400 000 hl lower than in 1963, when they totalled more than 4 100 000 hl.

Imports from non-member countries (including Algeria), still on the basis of figures for the first nine months of 1964, will probably exceed 12 million hl—about a million more than in 1963.

Lastly, EEC exports to non-member countries, on the same basis, will be in the region of 2 750 000 hl, as against 3 100 000 hl in 1963.

Although trade in 1964 was weaker than in 1963, this cannot be put down to the regulated markets; since only preparatory measures were in force.

The decrease in intra-Community trade is due chiefly to the considerable stocks available in Germany, to the grant of tariff quotas to this country (for technical reasons) and to subsidiary measures such as the removal of incentives for exporters in France.

The growth of imports from non-member countries derives largely from French purchases of Algerian wine. The decline in exports to non-member countries is for the most part a result of the removal of the incentives mentioned above.

PRICE TRENDS

171. In France, Germany, Italy and the Netherlands, market prices for wheat settled down more or less between target prices and intervention prices—and nearer the latter than in 1963. In Belgium, market prices held close to the intervention price during the first half of 1964 but moved towards the target price between July and December.

As a rule, the price of barley fluctuated more widely than that of wheat and showed more marked seasonal variations. However, the general movement was between the intervention and target prices, except in Italy and the Netherlands, where prices were around the target price—and often above it.

The market price for maize in the producing member countries, France and Italy, settled at the target price or thereabouts, with a marked tendency to rise above it in Italy.

The trend of cereal prices shows once again that the prices fixed under the common market organization are the factors guiding the market.

World prices for cereals (cif Antwerp/Rotterdam) showed significant and frequent variations—with the exception of maize, which was constantly supported, and barley, which fell from January to June and then rose from July to December.

Between April 1964 and March 1965, the pigmeat market had a period of relative price stability as a result of the counter-balancing effects of

seasonal variation and the pig cycle. However, the downward trend grew steeper every week, and according to the pig cycle, which is at the moment the same throughout the Community, prices should reach their low level in the spring of 1965.

The shortage of beef and veal sent prices up significantly in all member countries. The weighted average price of cattle and calves in 1964 was well above the guide price fixed by the Member States for 1964/65, except in Luxembourg.

Producer prices for eggs were generally so low that they often failed to cover cost price, which led to a reduction in the numbers of layers, particularly in exporting member countries.

The same price trend was evident in certain non-member countries which are interested in the European egg trade.

During the first half of the period under review, producer were still obtaining reasonable prices for chickens. Output expanded as a result, but there was also a slight recession of prices in the second half of the period under review.

EEC butter prices tended to go up—less sharply in Germany and Belgium than in the other countries. The same applies to cheese prices, which rose particularly in France and Italy, remaining stable in Germany and the Netherlands.

The price of wine kept fairly steady from April to September 1964, settling down rather lower than the September 1963—March 1964 level. At the beginning of the year there was a general reduction in the price of wines, especially those with a high alcohol content in Italy, because demand for wines for blending fell off, and in Germany because stocks were so high. In Italy this trend continued during the early months of 1965, whereas there was a certain recovery in Germany and the situation remained relatively stable in France. Wine prices held steady and rather firm in Luxembourg for the whole of 1964 and for the beginning of 1965.

Minimum prices

172. Minimum price regulations for imports of certain fruits and vegetables were extended in France, Belgium and Germany; the arrange-

ments made were in conformity with the Council decision of 4 April 1962 ⁽¹⁾.

With effect from 1 January 1964, in accordance with Article 9 of Council Regulation No. 23 ⁽¹⁾, minimum prices ceased to apply to Extra and Class I products. The result is that these arrangements no longer cover dessert grapes, cherries, strawberries or endives.

Under Article 1 (3) of the Council decision of 4 April 1962, the Commission authorized the Belgian Government to extend the period initially laid down for the application of minimum prices because of the delay in potato marketing.

The French Government imposed minimum prices under Article 4 of the decision for fresh herring, mackerel, cod, and coalfish. The minimum prices for fresh herring applied from 23 December 1964 to 15 February 1965. Issue of import licences was suspended from 1 to 3 December 1964. On 4 January 1965 the Dutch Government made an offer to the French Government whereby it would guarantee a minimum export price for these products under Article 5 of the decision. Talks are still in progress.

COMMON ORGANIZATION OF MARKETS

173. Three new basic regulations for the gradual establishment of common market organizations came into force in 1964: on 1 September, Regulation No. 16/64/CEE for rice, and on 1 November, Regulation No. 13/64/CEE on milk and milk products and Regulation No. 14/64/CEE on beef and veal.

As of 1 November 1964, then, nine markets in all, representing about 85% of the Community's agricultural output, had been brought under common regulations.

Giving effect to these new arrangements meant that a great number of implementing regulations had to be issued, particularly in the dairy sector. Between 1 April 1964 and 19 February 1965 the Council adopted thirty-three regulations and seven decisions, and the Commission fifty-seven regulations and twenty-six decisions, for the three newly organized sectors.

⁽¹⁾ See official gazette No. 30, 20 April 1962.

Common organization of cereal markets

174. Measures taken by the Member States in this field generally came under the provisions of Regulation No. 19, especially those on the zoning of prices.

Nevertheless, after examining the particular difficulties encountered by Italy on this last point, the Commission had to recognize the need for a temporary waiver to Article 7—regarding the fixing of intervention prices—and appropriate measures were laid before the Council.

Drawing on experience over the first two years of the levy system, the Council and the Commission adopted a number of further measures. These introduced no major changes in the basic regulation, apart from the amendment of the list of products annexed to Council Regulation No. 19, which was a necessary consequence of the entry into force of the regulations organizing the rice market and the dairy produce market.

By one of these measures, originating in a proposal by the Commission, the Council extended the facility for advance fixing of intra-Community levies to the whole of the marketing year—a facility hitherto authorized during the first three months of the year only.

The Council authorized Italy to apply an additional levy for 1964/65 on certain types of common wheat competing with durum wheat, which is an important crop in the Italian economy, with a view to preventing home-grown durum from being sold to government intervention agencies and consequently exported at a loss.

The Commission, with a view to harmonization, issued a regulation laying down certain conditions relating to denaturing premiums.

On a proposal by the Commission, the Council reviewed the regulation on cereal-based products so as to take into account past experience and the entry into force of the regulations on rice, milk and certain dairy products.

As in previous years, there was no serious disturbance on markets in the Member States resulting from the implementation of Regulation No. 19. Nor did application of the system of levies on exports outside the Community give rise to any major difficulty, since the Member States were

able to retain their position as exporters by means of the existing machinery.

175. As regards processed products based on cereals, experience showed that the refund procedure introduced by Council Regulation No. 115/63, which based the refund on the difference between threshold prices, ensured that intra-Community trade among member countries with high prices and those with low prices could be carried on under satisfactory conditions.

Following the decisions on cereal-price harmonization taken by the Council at its 156th session on 15 December 1964, the Commission is to put forward measures for the adaptation of Regulation No. 19 and the implementing regulations.

In December 1964 the Commission put before the Council a proposal for a regulation making special arrangements for imports of processed products from the Associated States in Africa.

Common organization of rice market

176. Now that the three basic regulations and implementing regulations (thirty in all) have been issued by the Council or the Commission, the levy system instituted by the Council decisions of December 1963 has been put into operation for rice in its various stages of manufacture, broken rice, rice flour, rice meal and rice starch.

The special arrangements for rice and broken rice from the associated countries and territories come into force on the same date as the basic regulations; they include provisions for French imports of rice from Madagascar and for imports of rice from Surinam into non-producing Member States.

Council Regulation No. 141/64, laying down arrangements for processed products based on grain and rice, came into force on 1 November 1964. The levy on rice flour, groats, meal and starch, the variable component in which was hitherto calculated on a cereal other than rice, is now to be made up of a variable component based on the quantity of broken rice used in the manufacture of these products and of a fixed component.

The 1964/65 rice marketing year began on 1 September 1964—at the same time as the levy system for this product came into force.

As regards levies on rice, the price of milled rice, which is currently showing an abnormal divergence from the price of husked rice, led the Commission to authorize a temporary abatement of the levy on imports into non-producing Member States in order to prevent an excessive levy being charged on husked rice—which would have an undesirable effect on consumer prices.

Common organization of pigmeat markets

177. The Community regulations on pigmeat, which have covered all products in this sector since September 1963, operated in a satisfactory manner and enabled good progress to be made towards the single market. Various measures were taken to facilitate attainment of this objective—particularly as regards trading arrangements.

In accordance with the formal opinion rendered by the European Parliament, the method of calculating the levies on imports from outside the Community and of sluice-gate prices for livestock products derived from cereals was amended by Council Regulation No. 118/64. The new rules, in force since 1 October 1964, simplify the system of calculation and also make it possible to take into account, with greater accuracy, the trend of prices for fodder grains—especially developments resulting from price alignment in the Member States. Comparison of the coming year's threshold price and those of the preceding year were taken into account, with market prices between October 1963 and March 1964 taken as the basis of reference. Prices on internal markets are noted once a year, on 1 July, and the quarterly review of levies takes place only if world market prices for fodder grains (noted each quarter) rise or fall by more than 3%.

Apart from the quarterly reviews of levies on imports from outside the Community, the prescribed annual reduction of intra-Community levies with a view to progress towards the single market was effected on 1 August 1964, account being taken of the alignment of threshold prices for fodder grains in the Member States and of the gradual reduction of the fixed component in the levies concerned.

The sluice-gate price system has not yet been applied, since the offer prices free-at-frontier remained above the sluice-gate prices.

In pursuance of Regulation No. 95/63 concerning refunds on exports to non-member countries, the Commission took steps to facilitate bacon exports to the London market (on the grounds that these are traditional exports from a Member State to Britain), with due regard to the relation between prices for this product on the Community markets and those on the world market.

The gradual liberalization of trade has brought the pig cycles of the various Community countries into line, so that there is now a common pig cycle. Consequently, the Commission has adopted a series of measures designed to stabilize market prices within the Community: these include provisions to ensure that sluice-gate prices are respected and measures enabling export refunds to be effected.

On 15 December the Council approved in principle a system of Community market intervention, which is to come into operation by 1 July 1967.

To this end the Commission called upon pig farmers at the end of 1964 to aim at a steadier level of production in spite of pig-cycle and seasonal fluctuations. The Commission also put forward an initial proposal for a pig census in the Community; this was supported by the European Parliament and passed on to the Council.

The Commission is also continuing its examination of measures to stabilize markets and is analysing market support systems currently in force in the Member States; together with experts from the Member States, the Commission is establishing a Community system for grading pig carcasses.

Common organization of beef and veal markets

178. Following the Council's adoption on 5 February 1964 ⁽¹⁾ of the regulation gradually establishing a common organization of markets in beef and veal, numerous provisions were made by the Commission and Council to permit application of the rules with effect from 1 November 1964.

(¹) See Seventh General Report, sec. 178.

The upper and lower limits of the guide prices had to be corrected to take into account unusual weather conditions—particularly the dry summer of 1964. Price limits were also fixed so as to ensure that cattle breeders concentrate more on beef than milk. On 30 January 1965 the Commission put a proposal to the Council concerning the upper and lower limits of guide prices for 1965/66. The limits were officially fixed in a Council regulation adopted on 2 March 1965 ⁽¹⁾; the maximum price for cattle was 8% higher than before. Price limits for calves were kept at about the same level as the year before in order to encourage production of cattle rather than calves ⁽²⁾.

Other measures affecting trade were those fixing correcting factors for the calculation of levies to be charged on the items listed in Annex II to the basic regulation ⁽³⁾, making transitional provisions for imports ⁽⁴⁾, determining prices to be used in calculating the levy on imports from non-member countries ⁽⁵⁾, laying down implementing procedures for the import licences required by the basic regulation ⁽⁶⁾ and the system of refunds on exports to non-member countries ⁽⁷⁾. Criteria were laid down governing market support in the beef and veal sector ⁽⁸⁾, followed by provisions concerning the application of market support measures and intra-Community levies ⁽⁹⁾.

Various measures were adopted to take account of the special conditions obtaining on the frozen-meat market (imports and support measures); these relate to the release of stocks of frozen meat held for market support purposes ⁽¹⁰⁾, the control of imports required by Article 1 of Regulation No. 135/64 ⁽¹¹⁾, and world market prices ⁽¹²⁾.

The whole Community is now suffering from a shortage of beef and veal, which may well mean that processors will not find the quantities they

⁽¹⁾ Council Regulation No. 28/65/CEE dated 2 March 1965, official gazette No. 36, 6 March 1965.

⁽²⁾ See sec. -68.

⁽³⁾ Council Regulation No. 47/64/CEE, official gazette No. 72, 9 May 1964.

⁽⁴⁾ Commission directive of 19 May 1964, *ibid.* No. 88, 4 June 1964.

⁽⁵⁾ Commission Regulation No. 63/64/CEE, official gazette No. 92, 10 June 1964, and decision dated 27 October 1964, official gazette No. 185, 17 November 1964.

⁽⁶⁾ Commission Regulation No. 139/64/CEE, *ibid.* No. 166, 23 October 1964.

⁽⁷⁾ Commission Regulation No. 150/64/CEE, *ibid.* No. 171, 29 October 1964.

⁽⁸⁾ Commission Regulation No. 155/64/CEE, *ibid.* No. 82, 29 May 1964.

⁽⁹⁾ Commission Regulation No. 134/64/CEE, *ibid.* No. 159, 17 October 1964.

⁽¹⁰⁾ Council Regulation No. 135/64/CEE, *ibid.*

⁽¹¹⁾ Commission Regulation No. 160/64/CEE, *ibid.* No. 173, 31 October 1964.

⁽¹²⁾ Commission Regulation No. 161/64/CEE, *ibid.*

need on the Community market. The Council therefore adopted a decision ⁽¹⁾, under Article 4 of the basic regulation, opening an additional tariff quota of 33 000 metric tons of frozen beef for processing for November and December 1964. For 1965 the Council adopted a regulation on 26 January temporarily reducing the CCT duty on imports of frozen beef and veal ⁽²⁾.

The Council also had to take a number of decisions in view of the special position of Italy, where there was a marked increase in prices of cattle and calves: Italy was authorized to suspend national duties on imports from non-member countries of animals not exceeding 340 kg in weight ⁽³⁾ and, under Article 103 of the Treaty, the duties on imports of frozen beef and veal for processing ⁽⁴⁾.

Egg and poultry markets

179. As in the pigmeat market, levies on imports from non-member countries are fixed quarterly as laid down in Council Regulation No. 118/64. Since 1 October 1964, this arrangement has led to some reduction in the levies for shell eggs and poultrymeat, as for example in the case of Germany.

An important improvement has also been made in the method of computing levies for eggs, in that a single feed-conversion rate has been fixed for all the Member States. This was made possible by improved production techniques in the Member States, and was done in accordance with the terms of the basic regulation. The single feed-conversion rate will be lowered on 1 April 1965.

Throughout the year the offer prices for slaughtered chickens from a few non-member countries remained below the sluice-gate price and it was therefore necessary to charge supplementary amounts, which were altered on several occasions in order to allow for changes in the offer prices.

⁽¹⁾ Council Decision of 13 October 1964, official gazette No. 163, 21 October 1964.

⁽²⁾ Council Regulation No. 6/65/CEE dated 26 January 1965, *ibid.* No. 16, 1 February 1965.

⁽³⁾ Council Decisions of 16 July 1964 and 2 February 1965, official gazette No. 119, 27 July 1964, and No. 22, 9 February 1965.

⁽⁴⁾ Council Decision of 30 July 1964, *ibid.*, No. 127, 7 August 1964.

The Commission gave particular attention to the level of the single "supplementary amount" for imports from countries with different offer prices. As it was impossible under Regulation No. 109/62 to fix differentiated supplementary amounts, the Commission fixed, under Article 4 (2) of that Regulation, a supplementary amount applicable solely to imports from non-member countries whose offer prices were lower than the sluice-gate price. It proved possible to dispense with that amount at the beginning of November, the situation of the market having improved.

As the market did not, however, remain favourable beyond the end of the year, it was again necessary to fix a supplementary amount for imports of eggs from certain non-member countries, which was done by Commission Regulation No. 2/65/CEE.

Implementation of provisions relating to supplementary amounts was facilitated by a considerable improvement in market information, which became more accurate and rapid as the year went on. Nevertheless there is still too long a time-lag after market prices have been ascertained and before the necessary measures come into force.

The method of computing intra-Community levies for products on which the duties are bound under GATT was revised so as to guarantee for those products the same treatment whether imported from Member States or from non-member countries.

For the whole of the poultry sector, the Commission will, for present and future purposes, have to make a fresh study of the methods of calculation and of feed-conversion rates and coefficients used in computing levies and sluice-gate prices, in order to take into account the modernization of the poultry industry and the agreements on the alignment of feed-grain prices which have been reached in the Council as part of the common agricultural policy.

Common organization of markets in milk and milk products

180. Numerous implementing regulations have been adopted with regard to the common organization of the market in milk and milk products which was defined in the basic Council Regulation, No. 13/64. The trading system entered into force on 1 November 1964.

In this sector the main task has been to establish the trading mechanism. In addition, the details of a Community policy of market support for first-quality home-produced fresh butter have been worked out, and the preparatory work has been done with a view to the alignment of target prices for milk and of threshold prices for milk products.

The trading mechanism proved difficult to establish for technical reasons, owing to the large number and variety of products on the milk-products market, and the substitution possibilities of these products.

In order to simplify matters, Council Regulation No. 13/64 laid down that the products should be divided into groups; the levies and refunds were to be fixed for a "pilot product" in each group, and the levies and refunds for the pilot product were also to be applied to derived products.

Council Regulation No. 111/64 established the list of products, divided into 13 groups, and defined the pilot product for each group.

In order that the trading mechanism might function satisfactorily, it was necessary to have a method of determining free-at-frontier prices for the purposes of trade between Member States and trade with non-member countries; the conditions for fixing these prices were laid down in several implementing regulations, together with the corrections and adjustments necessary to allow for the marketing stage, the quality of the product, its age, manufacture, packaging etc.

Criteria were also laid down for ascertaining the most favourable terms of purchase in international trade; Member States have been given a say in determining these prices, and regular world market information for milk products has become available.

Threshold prices for the 1964/65 milk year were fixed by the Member States according to the conditions prescribed in Regulation No. 13/64 ⁽¹⁾.

On 1 November 1964 the levy system replaced customs duties and quotas; no major difficulties have been encountered since the "running-in" period of the first few weeks.

The policy for market intervention for first-quality home-produced fresh butter was the subject of two implementing regulations, which specify the

(¹) The milk price fixed for 1965/66 is dealt with in sec. 168.

conditions on which butter is bought and aid granted for private stocking, lay down conditions for storage, and prepare the way for standardization of national market support measures.

The market in fruit and vegetables

181. Standardization has been made compulsory for all products imported from non-member countries or from one Member State to another, and a time-table has been fixed for liberalization depending on the quality of the products. These various provisions have proved an effective way of progressively eliminating obstacles in intra-Community trade during the first stage of market organization.

With the establishment of common quality standards for asparagus and cucumbers (added to the Annex to Council Regulation No. 23), standardization now covers a wider field. In addition, a proposal fixing common quality standards for garlic has been submitted to the Council by the Commission.

Since 1 January 1964 trade between Member States has been liberalized for the standardized products of the "Extra" class and "Class I"; this has not presented any special difficulties, although the prices of some products on the market of certain importing Member States fell 10% below the minimum price in force before 14 February 1964.

Co-operation between inspection services, which had to be expanded, has been very satisfactory.

Where imports from non-member countries are concerned, Community preference is ensured by the progressive application of the common customs tariff accompanied by tariff disarmament between Member States, and by the adoption, where appropriate, of special measures such as countervailing charges (Article 11 (2) of Regulation No. 23). In the period covered by this report, a countervailing charge was only imposed once, for imports of dessert grapes from Bulgaria and Yugoslavia (¹).

The market organization measures so far adopted have helped to promote free movement of the products in question, and have paved the way for

(¹) Official gazette No. 169, 27 October 1964.

greater regional specialization in production. The experience of the last two years, however, confirms the view that these measures are not sufficient in themselves to prevent fruit and vegetable prices falling owing to low-priced imports from non-member countries or a glut in home production.

With regard to the system applicable to imports from non-member countries, the Council, acting on a proposal of the Commission supported by the Parliament, adopted a regulation amending Article 11 (2) of Council Regulation No. 23 (fruit and vegetables). This lays down that a common countervailing charge shall be imposed where the entry price of a product imported from a non-member country is lower than the reference price.

Compared with the system previously in force (Article 11 (2) of Council Regulation No. 23, and Commission Regulation No. 100 of 1962), the principal innovation is that one of the conditions for the measures envisaged has been eliminated. It is no longer necessary to show that markets are suffering or are liable to suffer serious disturbances by reason of imports from non-member countries.

It is also likely that adoption by the Council of the Commission's proposals laying down supplementary provisions for the market in fruit and vegetables will do much to promote the establishment of a single market in this sector.

Wine market

182. Commission Regulation No. 143, adopted in 1962, laid down the broad lines for the establishment of a register of vineyards in the Member States ⁽¹⁾. In order to ensure that the information at Community level might be homogeneous and comparable, certain questions of interpretation and form had still to be settled, as well as the methods for keeping the information received up to date. This was done by Commission Regulation No. 26/64/CEE ⁽²⁾ introducing supplementary provisions concerning the establishment and current administration of the viticultural land register.

Side by side with this, the Commission issued explanatory notes and recapitulatory tables for the use of the relevant services of the Member States in implementing these regulations.

⁽¹⁾ See Sixth General Report, sec. 131.

⁽²⁾ See official gazette No. 48, 19 March 1964.

The Member States have thus completed all the preliminaries for the establishment of their register of vineyards, but some States have made more progress with their register than others.

Estimates of the 1964 wine harvest and of the stocks existing at the beginning of the latter, which were submitted on the exact dates fixed by Commission Regulation No. 134, enabled the Commission to make a provisional assessment of resources and needs.

183. On 15 April 1964 the Commission laid before the Council a draft regulation concerning quality wines produced in specified areas, under which the wines in question must conform to common quality standards, exceptions being envisaged in certain cases in order to allow for particular production conditions.

The principle is that natural factors and vinification methods must be taken into consideration in appraising the quality of wines produced in specified areas, accompanied by analysis and assessment of organoleptic characteristics.

The Council referred the draft regulation to the European Parliament and to the Economic and Social Committee, and instructed the Special Committee for Agriculture to submit a report on the matter. At its session of 8 and 9 December 1964, the Economic and Social Committee endorsed the Commission's proposal, subject to certain amendments.

The Commission continued its work on a proposal for a Council regulation concerning sparkling wines.

NEW MARKET ORGANIZATIONS

Common organization of the sugar market (1)

184. On 20 January 1965 the European Parliament rendered its opinion on the proposal submitted to the Council by the Commission on 12 March 1964. The Parliament's opinion was generally favourable, but a number

(1) The marketing system for sugar proposed by the Commission was dealt with in the Seventh General Report, sec. 180.

of amendments were suggested: that, in addition to the target price for white sugar, a target price for raw sugar should also be fixed for the transition period; that for the next marketing year the upper and lower price-limits should be fixed in relation to production costs for sugar-beet; that a specimen contract between sugar-beet growers and sugar producers should be drawn up, securing for sugar-beet growers a fair share of the profits made by sugar producers; that the Community should set a medium-term production target, to be reviewed each year if necessary, and should make provision for Community stocks of sugar to be built up when the final stage of the Common Market is reached.

At its meeting of 23-25 June 1964, the Economic and Social Committee drew up an interim report.

The Council is at present examining these proposals.

The markets in oils and fats

185. On 4 and 11 December 1964, the Commission submitted three proposals to the Council for regulations concerning oils and fats:

- i) A proposal for a Council regulation establishing a common organization of markets in oils and fats;
- ii) A proposal for a Council regulation making special provisions for oil-seeds and oils imported into the Community from the associated African States and Madagascar and the Overseas Countries and Territories;
- iii) A proposal for Council provisions introducing a charge on oils and fats in pursuance of Article 201 of the Treaty.

These proposals follow the basic principle for a common organization of markets in oils and fats laid down by the Council in its Resolution of 23 December 1963.

186. The first of the proposed regulations applies to all fats of vegetable or marine mammal origin.

The commercial policy towards non-member countries (except in the case of olive oil) is based exclusively on CCT duties. Special measures are proposed to ensure that Community production of olive oil and oil-seeds is maintained.

For olive oil, producers will receive a norm price, their earnings will come directly from the market if the market price, or the target price corresponding to the price acceptable to consumers, is equal to the norm price; if, because of competition from seed-oils, the target price is fixed at a level lower than the norm price, producers will receive direct aids.

The target price is protected, vis-à-vis non-member countries, by a threshold price, and by levies if the cif price of imported olive oil is lower than the threshold price.

Producers can also sell olive oil to government purchasing agencies at a support price. The proposed regulation includes provisions to stabilize the market, particularly by the constitution, where necessary, of carry-over stocks from one marketing year to the next. A Community programme to improve structures in the oil sector is also envisaged.

For oil-seeds, producers' returns will lie between a support price and a norm price; the difference between the latter and the world price serves to determine the amount of a premium that is granted to purchasers of home-grown seeds in order that these can be disposed of on the market.

As in the other market organizations, a Management Committee will be set up to implement certain provisions.

18. The system for oils and oil-seeds imported into the Community from the Associated African States and Madagascar (AASM) and the Overseas Countries and Territories (OCT) arises out of the obligation accepted by the Community to accommodate the interests of these countries and territories in planning its agricultural policy; in addition, the system takes into account the possible repercussions which the world market situation for oils and oil-seeds may have on the economic development of these countries and territories.

The central features of the trading system are that the same duties as the Member States apply among themselves will be applied to products imported from the AASM and the OCT, and that special measures will be adopted if trade in oil-seeds and fruits between these countries and the Community suffers serious disturbance.

Should the world market price fall below a reference price fixed by the Council after consultation with the Associated States concerned, the Community will take steps to mitigate the effects.

On 18 March 1965 the Commission submitted to the Council a proposal for a regulation laying down the provisional system to be applied to imports of olives and olive oil from Greece until such time as the decision to harmonize the agricultural policies of Greece and the Community is taken by the Association Council.

188. The charge on oils and fats for human consumption, which will accrue to the Community and will reach a maximum of 87.5 million u.a., is intended to finance expenditure occasioned by the proposed organization for oils and fats. This charge would provide the first independent revenue of the EEC, which has been agreed upon in principle by the Council.

The charge is based on Article 201 of the Treaty and will therefore be subject to ratification by the Member States.

The provisions proposed by the Commission are designed to form the necessary legal basis for the introduction of this charge, and a general framework for the decisions that the Council will have to take regarding its implementation.

*PROPOSAL FOR A REGULATION ON MEASURES TO BE TAKEN WHERE
DIFFICULTIES ARE EXPERIENCED OVER SUPPLIES OF
AGRICULTURAL PRODUCTS*

189. On 29 October 1964 the Commission put before the Council a proposal for a regulation on measures to be taken at Community level in cases where difficulties are experienced that may jeopardize the attainment of the objectives laid down in Article 39 of the Treaty.

The Commission had two considerations in mind: the machinery of the markets subject to Community regulations is inadequate to remedy such difficulties; and to be effective the necessary measures must be capable of being applied promptly.

The procedure envisaged is briefly as follows: on receiving a request from a Member State, the Commission will be empowered to decide what measures are to be taken by that Member State and, where necessary, by other Member States. Prior consultation with the Member States will take place within the competent Management Committee. As the Com-

mission will decide upon measures to be taken by Member States that have made no application in the matter, any Member State will be able to refer the Commission's decision to the Council, which can rescind or modify it.

The measures prescribed vary according to whether the product in question is or is not subject to a common market organization, and whether it is or is not subject to a levy varying with the price. These steps will be taken by the Commission within fifteen days from receipt of a Member State's application, and in such a way as to affect as little as possible the functioning of the common market and the contribution made by the common commercial policy to the harmonious development of world trade

The regulation will be applicable until the end of the transition period at latest. It will cease to be applicable as soon as a single market for the product in question is established.

The Council referred this proposal to the Parliament and to the Economic and Social Committee.

OTHER ASPECTS OF THE COMMON AGRICULTURAL POLICY

The European Agricultural Guidance and Guarantee Fund (EAGGF)

190. With the adoption by the Council on 5 February 1964 of Regulations Nos. 17/64/CEE, 18/64/CEE and the financial regulation, the necessary conditions were satisfied and the EAGGF began to operate.

For the Guarantee Section a series of implementing provisions had to be adopted in pursuance of Regulation No. 17/64 on conditions for aid from the European Agricultural Guidance and Guarantee Fund before the first applications for reimbursement could be made. These specify, for example, the content of applications for reimbursement ⁽¹⁾ and the classes of processing trade to be excluded ⁽²⁾.

As the cost of refunds on exports to non-member countries is to be reimbursed, a list of basic products had to be established for cereals,

⁽¹⁾ Commission Regulation No. 98/64/CEE, official gazette No. 126, 5 August 1964.

⁽²⁾ Commission Regulation No. 173/64/CEE, *ibid.* No. 178, 6 November 1964.

pigmeat, eggs and poultry ⁽¹⁾, and standard coefficients had to be fixed for certain derived products ⁽²⁾.

For market intervention, the technical costs of denaturing wheat and rye had to be determined, as also the minimum quality standards to which these cereals must conform for human consumption, and the stocks which are not eligible for Community financing ⁽³⁾.

In accordance with Regulation No. 17/64, drafts of the measures to be taken by the Commission were referred to the Fund Committee and in certain instances also to the Management Committees, which expressed unanimous approval in almost every case. Most of these regulations apply only to the first two marketing years, 1962/63 and 1963/64. They will be extended or amended for later years in the light of experience. Provisions will also have to be made for the new common market organizations.

Once the final provisions had been adopted in the autumn of 1964, the Member States were able to make their applications for reimbursement; these were submitted to the Commission towards the end of 1964 and the beginning of 1965, and are at present being examined by the Commission.

For the purpose of computing the credits to be included in the Community's budget for the 1965 financial year, operations under the Guarantee Section were established at 12.17 million u.a. for 1962/63 and at 49.85 million u.a. for 1963/64. Of these totals, 80-85% were for refunds on exports to non-member countries (mainly for exports of cereals) and 15-20% were for market support ⁽⁴⁾.

191. With regard to the Guidance Section, two implementing regulations were adopted by the Commission, one relating to applications for reimbursement, the other to arrangements for implementing decisions concerning aid ⁽⁵⁾.

On 1 July 1964 the first applications were submitted to the Commission through the Member States; aid amounting to 37.86 million u.a. was

(1) Council Regulation No. 52/64/CEE, official gazette No. 72, 9 May 1964.

(2) Commission Regulations Nos. 152/64/CEE and 174/64/CEE, *ibid.* No. 171, 29 October 1964, and No. 180, 10 November 1964.

(3) Commission Regulations Nos. 127/64/CEE, 128/64/CEE, 129/64/CEE and 179/64/CEE, *ibid.* No. 149, 30 September 1964, and No. 188, 19 November 1964.

(4) For detailed figures see the general report mentioned in sec. 215.

(5) Commission Regulations Nos. 45/64/CEE and 99/64/CEE, official gazette No. 71, 6 May 1964, and No. 126, 5 August 1964.

requested for 250 projects for which the total investment amounts to 152.6 million u.a. A second round of applications was submitted on 1 October 1964, requesting 51.4 million u.a. of aid for 277 projects representing a total investment of 239.47 million u.a.

The aims of the projects are extremely varied. They concern land improvement, hydraulic works, marketing facilities for fruit and vegetables, cereal silos and dairies.

This shows the great interest that the prospect of Community aid to improve agricultural structures has aroused in the Community and the need to work out the general purposes for which such aid should be used. Community programmes are therefore being planned, and the projects will have to form part of these from March 1966.

192. As the amounts requested under the Guidance Section for the first two accounting periods greatly exceeded the funds available, the choice to be made by the Commission will be particularly important.

At present, the Commission is sifting the projects and considering its first decisions.

For the first time credits have been included in a Community budget. They amount to 102.7 million u.a. (provisional figures) for the first two periods together, i.e. the 1962/63 and 1963/64 financial years. Of this total, 77 million u.a. is for the Guarantee Section and 25.7 million u.a. for the Guidance Section.

The Commission prepared proposals for financing for the period from 1 July 1965, together with a comprehensive report which it put before the Council, with a view to arriving at a permanent system of financing for the common agricultural policy.

State aids to farming

193. *Permanent review of national aid systems.* In accordance with Article 93 (1) of the Treaty, the Commission examined existing aids in the Member States in order to inventory all aids for particular agricultural

products and certain aids of a general nature ⁽¹⁾ (finance and credit facilities, and aids for equipment).

This review of aids from governments and regional authorities (Länder in Germany, regions in Italy) was completed by the end of 1964. From the information collected, the Commission drew up an inventory of all aids granted, by sector, for the products listed in Annex II to the Treaty. Proposals will be made either to abolish or harmonize these aids, so as to create equal conditions of competition for the six Member States.

194. *Notification by Member States of plans to institute or modify aids.* Being required, under Article 93 (3), to examine draft laws concerning new aids, the Commission submitted its comments on the following:

In Belgium: premium for exports of hot-house grapes; reorganization of the vine-growing sector; malting barley; beef and veal; compensation for losses due to drought in grassland areas.

In France: potatoes; structural financial aids in the fruit and vegetables sector; semi-fiscal charges in the fruit and vegetables sector; compensation for natural disasters; compensation for losses due to drought; associations of poultry producers.

In Italy: reorganization of land structures and development of peasant holdings in Italy; peaches in Sicily; animal husbandry in Sicily; mechanization in Sicily; purchase of durum wheat seed and of fertilizers in Sicily; use of the National Solidarity Fund in Sicily; financial reorganization in Sardinia; consortium against hail damage in the Trentino-Alto Adige region; irrigation in the Trentino-Alto Adige region; mechanization in the Trentino-Alto Adige region; increase in the endowment of the medium- and long-term credit institution in the Trentino-Alto Adige region.

In the Netherlands: peat-bog areas; potatoes; reorganization of agriculture.

On a large number of these aids the Commission had no comment to make.

In a few cases the Commission rendered a favourable opinion on condition that the Member State concerned make certain alterations in the nature or amount of aid envisaged.

⁽¹⁾ See Seventh General Report, sec. 185 (for the three categories of aids and the report of 8 November 1963).

In three cases the Commission called for the abolition or non-renewal of the aid in question.

Measures to increase the income of farmers and farmworkers

195. The Commission has also begun making an inventory of measures taken by the member Governments to increase the income of farmers and farmworkers. The inventory includes:

- a) Measures connected with agricultural price policy (in particular, the effect that the fixing of prices for farm produce has on incomes);
- b) Subsidies which either increase receipts or decrease expenditure in various classes of farming;
- c) Subsidies to improve the marketing and processing of farm produce;
- d) Payments made in the form of special social security benefits for independent farmers and their families;
- e) Subsidies to improve agricultural structures.

The inventory should be completed during the first half of 1965.

Harmonization of legislation in agriculture, the food industry and forestry (1)

196. The Commission's activity in these fields is essential if trade is to be freed from obstacles arising out of differences in national laws and regulations. Contacts with the international organizations concerned with the harmonization of legislation or with standardization have shown that some of these organizations often use EEC regulations as a basis for their own decisions.

In drafting its directives the Commission has frequently consulted the competent trade and professional organizations (in farming, industry and trade) which were set up at EEC level, and the EEC's Consumers Contact Committee. Formal opinions were also rendered later by the Economic

(1) See tables pp. 82 sqq.

and Social Committee. Wherever scientific questions arose in connection with the Commission's decisions, they were discussed within the scientific committees set up by the working parties on food and veterinary legislation.

With regard to food legislation, proposals for three directives have been submitted to the Council:

- i) A proposal to amend the Council Directive of 23 October 1962 ⁽¹⁾ concerning colouring matters;
- ii) A proposal on permitted anti-oxidants in human food;
- iii) A proposal establishing special standards of purity for permitted preservatives in human food.

The latter proposal was adopted by the Council on 26 January 1965 ⁽²⁾. The other two proposals were endorsed by the Parliament and the Economic and Social Committee and are now under consideration of the Council, together with the proposal for a directive on cocoa and chocolate (submitted on 23 July 1963).

The Commission is also studying the following questions: labelling and packaging of foodstuffs; methods of analysis for control of purity standards (colouring matters, preservatives, anti-oxidants); permitted emulsifiers and stabilizers; preservers, jams, marmalades, pasta products etc.

197. A first important step towards the harmonization of veterinary legislation was taken by the Council on 26 June 1964 when it adopted a directive on health requirements for intra-Community trade in fresh meat and a directive on health requirements for intra-Community trade in cattle and pigs ⁽³⁾.

Proposals for a directive on health requirements of trade in fresh poultry-meat and a directive on health requirements for trade in meat products were endorsed by the European Parliament at its session of 15-18 June 1964 and by the Economic and Social Committee on 27 May 1964 ⁽⁴⁾.

All these veterinary directives authorize or will authorize the Commission to prescribe the procedure to be followed in rendering opinions on matters

⁽¹⁾ Official gazette No. 115, 11 November 1962.

⁽²⁾ *Ibid.*, No. 22, 9 February 1965.

⁽³⁾ *Ibid.*, No. 121, 29 July 1964.

⁽⁴⁾ See Seventh General Report, sec. 189.

of intra-Community trade in these products and on the licensing of slaughter-houses etc. (1).

The Commission will submit to the Council in the near future a proposal containing provisions on the appointment of auxiliary staff for the inspection of poultry and fresh poultrymeat.

Work has continued on health regulations and requirements for cattle, pigs and fresh meat imported from non-member countries, and a proposal for a directive on this subject will probably be submitted to the Council in April 1965.

The Council decided to make a further 525 000 u.a. available to the FAO on the same terms as the 1 500 000 u.a. already granted in 1963 for the control of foot and mouth disease in Greece and Turkey.

198. A proposal was put before the Council on 12 October 1964 for a directive on the introduction of Community methods of analysis in the official control of animal feeding-stuffs. This proposal had received the support of the European Parliament and the Economic and Social Committee. A proposal for another directive will be submitted during the second half of 1965.

199. With regard to plant health legislation, a proposal for a directive concerning measures to prevent the importation of plant pests into Member States was put before to the Council on 31 March 1965. Other directives have been drafted concerning pesticide residues on and in fruit and vegetables and the campaign against wart disease in potatoes; these will be submitted to the Council in the near future.

200. Six proposals to harmonize legislation on agricultural, horticultural and forestry seeds and seedlings have been laid before the Council. The European Parliament and the Economic and Social Committee endorsed the Commission's proposals, while suggesting that faster progress should be made towards the adoption of general principles for an EEC catalogue of varieties. A directive on the marketing of vine reproductive material is at present being drafted and will be submitted to the Council in 1965.

(1) See tables on pp. 82 sqq.

201. A directive on the measurement and classification of rough timber has been drafted and will be put before the Council as soon as possible.

Fisheries

202. The Commission staff has completed a general report on the fisheries situation in the Member States. The first two parts, which deal with the present economic situation and its development during the last few years, have been brought up to date, taking the statistics as at 1 January 1964. In view of the trend apparent on Community markets and of the special conditions in this industry, it would seem that the steadily increasing demand for fishery products in the EEC will continue and that, if it is to be satisfied, there will have to be more recourse to imports from non-member countries, some of which are subject to tariff quotas bound under GATT.

The last part of the report, which has reached the final drafting stage, outlines a common policy in this sector.

Forestry

203. A report on the forestry situation in the EEC was presented to the Council on 8 April 1964; it surveys the problems connected with forestry and suggests a programme for co-ordinating national policies within the context of the common agricultural policy. The report was approved by the Economic and Social Committee after discussion.

Work has continued on the harmonization of technical regulations and on freedom of establishment and freedom to supply services in forestry; draft directives have been prepared (forestry reproductive material, plant health protection, classification of rough timber, freedom of establishment). Forestry statistics for the Community, which are as yet incomplete, will be published shortly.

Improvement of agricultural structures

204. The Standing Committee on Agricultural Structures has given close attention to certain matters referred to it by the Commission:

i) The Committee has been studying Member States' policies on agricultural structures to see how far these policies are designed to improve the capital/manpower ratio in agriculture.

ii) Another important aspect is the area of land per man employed. The Committee has been examining the measures taken by Member States to facilitate the acquisition of land for farming, with a view to taking them into account in planning structural improvements in agriculture.

iii) The Member States supplied the Committee on Agricultural Structures with information as to the nature and scope of the steps they planned to take to improve agricultural structures in 1964; this information has been used in preparing the report on agricultural structures, which will probably appear for the first time in 1965.

The Commission considers it very important that the drafts of laws and regulations on measures to improve agricultural structures should be referred to it, as also the drafts of plans and regional programmes to co-ordinate agricultural structures. On several occasions the Commission has reminded Member States of their obligations in the matter, with the result that notification of such drafts by Member States has become more frequent and more regular. The Member States' communications have been discussed by the Standing Committee on Agricultural Structures for purposes of mutual information.

After consulting the Standing Committee on Agricultural Structures, the Commission gave its opinion on two draft laws:

i) Provisions concerning the Netherlands fund for development and reorganization (monthly pensions for independent farmers who give up their farms at the age of 55 or over).

ii) Italian Bill to modify the structure of holdings and promote peasant ownership.

With regard to the Luxembourg law of 25 May 1964 on the consolidation of holdings, the Commission adopted, on 25 January 1965, a recommendation⁽¹⁾ in which is stressed the need to combine consolidation measures with other measures to improve agricultural structures and measures affecting sectors outside agriculture.

(1) See official gazette No. 29, 20 February 1965.

Social policy in agriculture

205. With a view to implementing its social programme for agriculture, which was the subject of a report and a resolution of the Parliament (24 March 1964) and of a memorandum of the Economic and Social Committee (29 April 1964), the Commission has drawn up a list of the steps it proposes to take as a matter of priority. This list was put before the Council on 7 July 1964. With regard to employment, further study has been devoted to regional employment trends and to the problem of finding more efficient ways of employing seasonal labour.

Work has continued on the monographs dealing with certain occupations in agriculture and on employment trends and prospects in agriculture.

A draft action programme on training in agriculture is at present before the Advisory Committee on Vocational Training. On 3 February 1965 the Commission submitted to the Council two draft regulations to assist the retraining of farmers and farmworkers.

In addition to proposals for a regulation to render more effective the action of the European Social Fund, the Commission has adopted four draft proposals for Council regulations concerning Community grants towards the retraining of farmers and farmworkers wishing to change their occupation within agriculture, and Community grants towards the training of advisers to staff information services for farmers and farmworkers wishing to change their occupation.

Two draft Community programmes for agronomic research are in preparation, one concerning the control of African swine fever and the other the bread-making properties of wheats.

Social security, security of employment and working conditions are also being studied.

Co-operation with farmers' and farmworkers's associations

206. The Advisory Committees have held seventeen meetings during the period under review.

The Advisory Committee for Cereals rendered three opinions: on measures to be adopted to attain a single market for durum wheat; on the proposed

Council regulation on the system governing processed products based on cereals and rice, and on the zoning of cereal prices according to natural price formation.

The Advisory Committee for Pigmeat rendered nine opinions, *inter alia* on the relation between the levies on different processed products based on pigmeat, and the effects that this relation might have on trade in the different products; on price-support measures in the event of surpluses; on the comparability of the prices for slaughtered pigmeat quoted on important markets in non-member countries with those in the EEC; on a pig census and common standards for grading pig carcasses, and on the assessment of frontier-crossing costs (excluding levies) for live pigs, carcasses and cuts in intra-Community or external trade.

The Advisory Committee for Poultrymeat and Eggs rendered three opinions: on market trends in eggs and poultrymeat; on the use of common standards, and on the working of Council Regulation No. 129/63/CEE (official gazette No. 185, 19 December 1963).

The Advisory Committee for Fruit and Vegetables gave its opinion on the supplementary provisions for the organization of the market in fruit and vegetables contained in the proposal for a Council Regulation submitted to the Council on 22 July 1964.

The Advisory Committee for Wine rendered five opinions—on a provisional assessment of supply and demand for wine in the Community, and on the proposed regulations concerning quality wines produced in specified areas, sparkling wines and liqueur wines, and the enlargement of existing quotas.

The Advisory Committee on social problems of independent farmers gave its opinion on two Commission drafts concerning retraining.

The Joint Consultative Committee on social problems of agricultural workers rendered several opinions on working hours, wages and training.

207. *New Committees:* On 20 July 1964, in order to elicit the opinions of farmers' and farmworkers' associations and of the consumers most directly affected by the common organizations of the markets in beef and veal, milk and milk products, and rice, the Commission set up an Advisory

Committee for Beef and Veal, an Advisory Committee for Milk and Milk Products, and a "rice" section of the Advisory Committee for Cereals.

The Advisory Committee for Beef and Veal rendered five opinions on, *inter alia*, production forecasts for 1965, the fixing, on a carcass basis, of the reference prices defined in Regulation No. 14/64, and increasing the regularity of supplies by such means as live storage and factory farming. On 29 July 1964 the Commission set up an Advisory Committee on Agricultural Structure Policy, which is to be consulted on questions arising in the application of the Council Decision of 4 December 1962, and on the implementation of policy for improving agricultural structures ⁽¹⁾.

The Commission has also consulted farmers' and farmworkers' associations by other means than through the Advisory Committees; numerous meetings have been held with central and specialized organizations for purposes of information and discussion.

SOURCES OF INFORMATION REQUIRED FOR THE COMMON AGRICULTURAL POLICY

208. The Community institutions will have a growing need of reliable statistical data on which to base their decisions.

The Commission has submitted to the Council proposals for regulations that will make it possible, by means of comparable information, to obtain a more precise knowledge of economic conditions and the agricultural situation within the Community. It has also set up the necessary technical machinery for its day-to-day decisions on prices (cif prices of cereals and milk products), in order to be in a position to collect and use the relevant statistical data as quickly as possible (commodity market quotations).

209. On 19 September and 11 November 1964 respectively, the Commission put before the Council two draft regulations for surveys in the Member States:

i) Proposal for a Council Regulation relating to the organization of a basic survey as part of a programme of surveys on farm structures;

⁽¹⁾ Council Regulation No. 17/64, official gazette No. 34, 27 February 1964.

ii) Proposal for a Regulation providing for the taking of censuses of the pig population in the Member States.

210. The proposal for a regulation on a basic survey of farm structures will concern a quarter of all the farms in the Community (i.e. 1.7 million farms out of a total of 7 million); the object is to ascertain what products are produced by the Community's farmers, in what areas, in what types of undertaking, and under what conditions.

This survey should remedy the general lack of comparable statistical data on farm structures in the Community.

The programme of surveys is divided into two parts:

- i) A basic survey to be carried out in 1965;
- ii) Eight special surveys to be undertaken between 1966 and 1970 with the object of amplifying the information obtained by the basic survey.

The questionnaire for the basic survey, which was sent experimentally to 7 000 farms in all the Community countries in November-December 1964, contains questions on the main features of the farms: use of land; farming methods; head of livestock; labour employed; training of farmers and their successors on retirement; accounting and advisory services; use of tractors and agricultural machinery; membership of agricultural co-operatives; forward contracts with wholesalers, and sale of produce.

The Council referred the proposed regulation to the Parliament, which rendered a favourable opinion at its session of 18-23 January 1965, emphasizing the urgent need for such a programme.

211. The regulation providing for the taking of pig censuses is designed to establish a uniform system, avoiding divergences and irregularity.

The pig-cycle is uniform in all Community countries, so that a precise census of the pig population is essential for the assessment of market conditions and of future trends as regards the supply of live pigs, their prices and seasonal variations, which it will then be possible to influence.

The Council referred the proposed regulation to the Parliament. In its resolution of 5 November 1964, the Parliament endorsed the proposal, while suggesting certain drafting amendments and stressing the urgent need for such censuses.

212. Among the sources of information that the Community needs in order to assess the current situation as regards farm incomes, the most important is an information service on farm accounts ⁽¹⁾.

The Parliament's opinion stressing the importance of this service was submitted to the Council, and at its session of 25 January 1965 the Council also recognized the urgency of the matter, but has not yet taken any decision. However, as long as no documents are forthcoming from the information service on farm accounts, the Commission will not be in a position to draw up its report on the situation of agriculture and agricultural markets in the form originally envisaged, taking into account the needs of the institutions responsible for common agricultural policy.

More and more use has been made of the telex service, which was instituted by the Directorate-General for Agriculture in order to expedite information on prices and the communication of Commission decisions on prices. Even the services of non-member countries regularly send by telex the information on markets and quotations that is particularly important for a sound assessment of the market situation. Twice more information was sent by telex than in the year before; transmission of the Commission's decisions and communiqués accounts for a large part of this increase.

With regard to the processing of data on prices, for example, the computer installed has met all expectations.

PROSPECTS

213. In accordance with Commission proposals the common organization of markets will probably be extended to sugar and to oils and fats, and the Council will adopt a supplementary regulation for the common organization of the market in fruit and vegetables.

In addition, the Commission intends to submit proposals to the Council for a decision—in July 1965, if possible—on uniform prices for beef and veal, milk, sugar, oils and fats, and rice, to take effect from the 1967/68 marketing year.

(¹) See Seventh General Report, sec. 194.

In fact, assuming that the industrial customs union is completed by 1 July 1967—earlier than originally envisaged—in order to ensure a balanced development of the common market in all the important sectors, it would also be desirable to attain free movement of agricultural products, customs union taking the form of common prices. Furthermore, the fixing of common prices is a necessary prerequisite for the Community to discuss support margins in practical terms at the Kennedy round negotiations in GATT.

The Commission also intends to submit, in the near future, proposals for Community arrangements for raw tobacco and for non-edible horticultural products, and proposals on fisheries during the second half of 1965.

THE COMMISSION'S PROPOSALS FOR FINANCING THE COMMON AGRICULTURAL POLICY

214. Important proposals on this subject were submitted by the Commission to the Council on 31 March 1965.

Council Regulation No. 25 makes the Community responsible for financing its common agricultural policy through the European Agricultural Guidance and Guarantee Fund, but it makes explicit provisions regarding the introduction of common financing only for the first three years. A decision therefore had to be taken before the end of that period as to how the common agricultural policy should be financed during and after 1965/66. In its decision of 15 December 1964, the Council had invited the Commission to submit proposals on this subject before 1 April 1965. The Commission accordingly submitted to the Council on 31 March 1965 a proposal for a new regulation on the financing of the common agricultural policy ⁽¹⁾.

215. The Commission considers that, according to the principle laid down in Article 2 (2) of Regulation No. 25, the establishment of the single

⁽¹⁾ See sec. 343 for the other proposals submitted to the Council on the same occasion concerning the replacement of the financial contributions of Member States by independent Community revenues, and amendments to Articles 201 and 203 of the Treaty.

market on 1 July 1967 implies above all full financing of all expenditure on refunds on exports to non-member countries and on measures to regulate markets under the common organization of agricultural markets, since such expenditure is the financial consequence of agricultural policy decisions taken by the Community. In addition, the Guarantee Section of the Fund must be empowered to finance other measures than those provided for in Regulation No. 25, if such measures are decided upon under the common organization of markets.

The Commission considers, moreover, that if they are to justify full financing by the Community, the measures in question will have to be based, at the single market stage, on precise and detailed Community rules, particularly with regard to commercial policy. As all refunds on exports to non-member countries and measures to regulate markets will be financed in full, it will be necessary to devise effective machinery for establishing that this expenditure conforms to Community rules.

216. Financing of the common agricultural policy through the European Agricultural Guidance and Guarantee Fund ("the Fund") will be divided, from 1 July 1965, into two stages:

- i) From 1 July 1965 to 30 June 1967, the transitional system provided for in Articles 3-8 of Regulation No. 5 will be maintained;
- ii) From 1 July 1967, the single market system provided for in Article 2 of Regulation No. 25 will be applied.

Under the transitional system, the contribution of the Guarantee Section of the Fund to eligible expenditure will be four sixths for 1965/66 and five sixths for 1966/67.

The expenditure of the Fund will be met by financial contributions fixed according to the following scales:

	1965/66	1966/67
Belgium	7.96%	7.96%
Germany	32.35%	30.59%
France	32.35%	30.59%
Italy	18 %	22 %
Luxembourg	0.22%	0.22%
Netherlands	9.12%	8.64%

At the single market stage (after 1 July 1967) the Guarantee Section of the Fund will finance the following operations in accordance with Community rules: refunds on exports to non-member countries, measures taken to regulate markets, and other measures decided upon by the Council, acting on a proposal of the Commission by qualified majority.

Probably by the time the single market system comes into effect, Community financing will be on a considerably larger scale than at present. For 1964/65 Community financing was extended to the dairy produce, beef, rice and fats sectors, where the eligibility rules have still to be settled, and last December the Council decided, in a spirit of solidarity among the Member States, to extend Community financing to the fruit and vegetables sector on 1 January 1966, to durum wheat on 1 July 1967, and to tobacco as soon as possible.

When Community financing is fully in effect (from 1 July 1967), expenditure may reach over 1 000 million u.a. for market support.

According to the Commission's proposal, expenditures by the Guidance Section of the Fund for the adaptation and improvement of production and marketing and the development of outlets, will continue to represent one third of the total for the Guarantee Section. However, to avoid excessive fluctuations from year to year, this expenditure must be at least equal to the average appropriations of the two preceding years. The Guidance Section of the Fund can therefore be expected to spend about 300 million u.a. per year (1).

217. At the beginning of April, at the same time as it submitted these proposals, the Commission sent the Council a general review of the financing of the common agricultural policy, in pursuance of Article 4 of Regulation No. 25. This review gives as complete a picture as is possible at the present time of the working of the EAGGF and of its achievements, with figures, for the first three years (July 1962 to June 1965).

(1) In addition to this expenditure, provision must be made for Community compensation to Germany, Italy and Luxembourg, which was agreed upon by the Council last December and will total 414 million u.a. The Commission has so far reserved its position as regards the possibility of financing such compensation out of the independent Community revenues referred to above.

Common transport policy

218. The Council has begun to study the five proposals for the Action Programme to promote a common transport policy which were submitted to it by the Commission on 21 May 1963 ⁽¹⁾.

The Council has so far adopted three of the proposals: the one concerning the organization of a survey on infrastructure costs was adopted on 22 June 1964 ⁽²⁾, and those on the standardization of procedures for issuing licences for road haulage between Member States and on the harmonization of certain provisions affecting competition in transport by rail, road and inland waterway were adopted on 9 March 1965.

Meanwhile, the Commission has laid a further set of proposals before the Council. These concern:

- i) Abolition of double taxation on motor vehicles;
- ii) Common rules for international passenger transport by road;
- iii) Community action regarding investment in transport infrastructure;
- iv) Application of rules of competition to transport by rail, road and inland waterway.

The Council referred these proposals to the Parliament and the Economic and Social Committee, which have already rendered their opinions.

On 19 February 1965 the Commission submitted a further proposal to the Council to implement Article 4 of the decision of 22 June 1964 concerning organization of a survey on infrastructure costs in rail, road and inland waterway transport.

As a result of the opinions rendered by the European Parliament and the Economic and Social Committee and of new data in this field, the Commission has amended its initial proposal on weights and dimensions of road vehicles and has submitted supplementary proposals to the Council.

⁽¹⁾ See Seventh General Report, sec. 198.

⁽²⁾ See official gazette, No. 102, 29 June 1964.

ACCESS TO THE MARKET

219. On 18 June 1964 the European Parliament gave an opinion on the Commission's proposal concerning a Community quota for goods transport by road. Like the Economic and Social Committee, which issued its opinion on 13 January 1964, the Parliament asked that the system recommended should be an experimental one.

The Council has worked out a draft for a system to apply until the end of the transition period. It will consist of a limited Community quota which will leave the system of bilateral and transit quotas to be progressively adapted to requirements. This system is at some remove from the Commission's proposal, which provided for gradual dismantling of the bilateral quotas as the Community quota was built up, and for liberalization of transit traffic.

At its meeting of 9 March 1965 the Council approved this draft on condition that agreement on organization of the transport market was reached by 1 January 1966, the date on which the system should take effect. The Council agreed that Member States should not wait for the system to come into force, but should immediately prepare measures for adapting bilateral and transit quotas. While recognizing the progress thus achieved, the Commission could not see its way to accepting this solution; it diverges appreciably from the Commission's initial proposal, which was more in keeping with the Community spirit.

At the same session the Council adopted a proposal on standardization of procedures for the issue of haulage licences. The European Parliament had given a favourable opinion on this on 18 June 1964.

220. The proposed Council regulation on common rules for international passenger transport by road, submitted to the Council by the Commission on 13 April 1964, lays down definitions for the various forms of transport (scheduled services, shuttle services, unscheduled services). Some protection is assured for the scheduled services, and the unscheduled services are progressively liberalized. Time-limits were set for fixing common rules to cover scheduled and shuttle services.

The Economic and Social Committee, on 24 February 1965, and the European Parliament, on 23 March 1965, gave opinions which were

favourable in principle to the Commission's proposal. However, these two institutions recommended adding to the proposal specific rules for passenger transport on own account.

TRANSPORT RATES AND CONDITIONS

221. At its meeting of 15 to 19 June 1964 the European Parliament approved the main lines of the proposed regulation on the introduction of a rate-bracket system. The Parliament asked for a few amendments and, like the Commission, considered that the Community policy should also apply to Rhine navigation. So far this proposed regulations has not met with unanimity in the Council. At the meeting of 9 March, M. Schaus, a member of the Commission, maintained the proposal but pointed to possibilities of breaking the deadlock. The Council has begun to study these possibilities.

The Commission is at present preparing the texts of the implementing measures, to enable the tariff system to be brought into force as soon as agreement is reached. One aim of these texts will be to fix the respective powers of the Member States and the Commission, and the conditions for permanent co-operation between them.

Work on the harmonization of transport conditions on inland waterways is in progress within the Consultative Committee on Transport (Article 83 of the Treaty). The aim is to produce a draft for a convention similar to those which already exist for transport by rail (CIM) and by road (CMR).

222. Certain differentiations in transport rates and conditions (Art. 79) were completely eliminated by the end of 1964. These were cases of discrimination between a Member State's domestic traffic and intra-Community goods traffic which were not justified by the competitive situation of carriers or by the technical or economic aspects of transport operation. Forty-three tariffs limited to the domestic traffic of a Member State were abolished and seventy-four others amended or extended to traffic between Member States. In addition, thirty-nine tariffs limited to a Member State's export or import traffic were abolished and ninety-five others amended to bring them into line with the Treaty.

223. Furthermore, Regulation No. 11/60 has been applied, and the Commission has not heard of any special difficulties except as regards Rhine shipping ⁽¹⁾. For lack of personnel it has not yet been able to study all non-published transport rates and conditions or the international tariffs.

The Commission did not see any advantage in acting on Article 10 of this regulation (nature, form and extent of publicity), because the proposals in the Council's draft regulation on the introduction of a rate-bracket system are likely to settle the problem.

224. As regards rates and conditions involving an element of support or protection in the interest of one or more particular enterprises or industries (Article 80 of the Treaty), the Commission has completed its examination of the published domestic tariffs at present in force in the three modes of transport. It has begun to study international tariffs and unpublished transport rates and conditions.

During the present year, 645 domestic tariff schedules have been examined. The studies carried out with the help of Governments have led to the abolition of 127 special tariffs and the amendment of twelve other tariff measures. Furthermore, 341 measures have been approved on justification being supplied to the Commission by the governments concerned. A considerable number of tariffs have also been abolished as a result of other reforms.

The Commission has taken various decisions pursuant to Article 80 (2):

- i) Prolongation until 31 December 1965 of the authorization of 19 March 1964 ⁽¹⁾ for Italian railways tariff No. 251 A (fruit and vegetables exported from Italy);
- ii) Authorization to apply French national railways tariff No. 11, Chapter 103, Section II (carriage of cement) until 31 December 1966 in traffic to Corsica, on condition that equivalent measures are taken for transport by road;

⁽¹⁾ See sec. 225 below.

⁽²⁾ See official gazette No. 123, 8 July 1964, and Seventh General Report, sec. 213.

iii) Refusal of authorization to apply French national railways tariffs No. 3, Chapter 103, Section II and No. 6, Chapter 103, Section III respectively to consignments of potatoes and beer for Corsica.

Finally, the Commission found that German national railways and road transport tariffs No. 8 B 14 cannot be considered competitive tariffs and therefore do not fall under Article 80 (3).

RHINE SHIPPING

225. Regulation No. 11 is not in fact applied to Rhine shipping, and the Council discussions on the proposal concerning bracket rates have shown that one of the most difficult problems is how to apply the Treaty in this case.

Accordingly, on 13 April 1964 the Commission submitted a memorandum on application of the Treaty to Rhine shipping. It contends that such application of the Treaty provisions on transport and of the measures in this field taken or proposed to the Council by the Commission does not run counter to the traditional system of Rhine navigation and in particular the provisions of the 1868 Mannheim Convention. For both political and economic reasons it therefore considers that Rhine shipping should be fitted into the common transport policy.

The Commission proposed that exploratory talks to examine the problems likely to arise should be opened without delay with the non-member countries concerned, particularly Switzerland.

At the Council session of 9 March 1965, the Commission made a statement on the plan for establishment of an International Union for the Navigation of the Rhine (UNIR). This plan was adopted by the Economic Conference on Rhine Shipping in September 1964 and submitted by the Central Commission for the Navigation of the Rhine to the countries represented on it for their opinion.

After hearing this statement the Council agreed that Member States should take no decision regarding the plan before discussing it in the Council.

HARMONIZATION OF CONDITIONS OF COMPETITION

226. As mentioned in Section 218, the Council adopted a decision on the harmonization of certain provisions affecting competition in rail, road and inland waterway transport.

The text agreed by the Council is essentially that of the Commission's proposal ⁽¹⁾. However, the Council reserved for separate consideration the article on the adjustment of charges and dues to defray the cost of infrastructure and the articles on insurance, and it did not adopt the article on social security.

The importance of the decision must be emphasized. It fixes time-tables and specifies some of the fields to which the common transport policy must be applied, thus amplifying the Treaty provisions on this point; and it will speed up solution of the difficult questions arising in the harmonization of working conditions in transport.

Even before the decision was adopted, the Commission had continued to work out new proposals for implementing harmonization measures. On 20 March 1964 it proposed to the Council a regulation abolishing double taxation on motor vehicles in international transport. The Economic and Social Committee gave a favourable opinion regarding this proposal on 9 December 1964, and the European Parliament on 18 January 1965. Hence there is nothing to prevent the Council from adopting it at an early date.

In pursuance of the harmonization decision the Commission will shortly make other proposals concerning standardization of rules for the free entry of fuel in vehicle tanks, etc., working hours and the composition of crews, and the enforcement of these rules in the three modes of transport, starting with road haulage.

Social policy in the transport sector

227. Besides taking the above-mentioned measures for harmonizing conditions of competition, the Commission studied the results of the Round

(¹) See Seventh General Report, sec. 201.

Table on social policy in the transport sector (1). Following this conference it received from both sides of industry and from the independent experts many additional opinions concerning points on the agenda; these are a great help in preparation of the social measures the Commission must propose.

The Commission's inventory of working conditions in road transport, now being prepared, has been extended to cover rail and inland waterway transport.

*APPLICATION OF THE RULES OF COMPETITION TO TRANSPORT BY RAIL,
ROAD AND INLAND WATERWAY (2)*

228. In pursuance of Council Regulation No. 141 on 8 June 1964, the Commission submitted to the Council a proposed regulation mainly designed:

- i) To prohibit, with effect from 1 January 1967 and without the need for any prior decision, agreements, decisions and concerted practices within the meaning of Article 85 (1) of the Treaty whose object or result is the fixing of transport rates and conditions, the limitation or control of the supply of transport, the sharing of transport markets, or the abuse of a dominant position on the transport market. Because of the special features of the transport sector, provision is made for exemptions from this ban;
- ii) To apply to the transport sector from the same date the arrangements made to implement Articles 85 and 86;
- iii) To carry out an inquiry into the situation as regards competition in inland transport.

By its resolution of 27 November 1964 the European Parliament approved this proposed regulation.

The Commission attaches great importance to the regulation, which is to enable the rules of competition to be applied to transport in such a way as to take account of the special feature of this sector and of the common transport policy.

(1) See Seventh General Report, sec. 217.

(2) See also sec. 69.

AIDS TO TRANSPORT ENTERPRISES
(Arts. 77, 92 and 93)

229. The Commission has continued its examination of aids and, taking into account the Parliament's observations, has drawn up an inventory of the situation for 1961 and 1963. In conformity with the Council's decision of 9 March 1965, it will submit proposals to the Council for implementation of Article 77 of the Treaty.

APPLICATION OF THE STANDSTILL CLAUSE OF ARTICLE 76

230. The Commission has continued to study how far Member States' arrangements in the transport field are compatible with Article 76 of the Treaty.

The Franco-German Agreement of 13 June 1961 on road transport of goods has been declared in no way incompatible with the Rome Treaty.

As regards the measures taken by France and Germany to amend the system of duty- and tax-free import of the fuel in the normal tanks of commercial vehicles, the Commission is at present working out a proposal, pursuant to the harmonization decision, for removing the distortions of competition which can arise as a result of differing regulations in the Member States and the possible infringements thereof.

PRIOR EXAMINATION OF MEASURES BY MEMBER STATES

231. In general the Member States have satisfactorily implemented the Council decision of 21 March 1962 introducing prior examination and consultation in respect of laws, regulations and instructions contemplated by Member States in the transport field ⁽¹⁾.

The Commission has issued recommendations or opinions in the following cases:

⁽¹⁾ See official gazette No. 23, 3 April 1962.

- i) Draft Belgian Royal Decree pursuant to the law of 3 July 1964 amending the law of 25 August 1891 revising the section of the commercial code which deals with transport contracts ⁽¹⁾;
- ii) Netherlands Bill providing for the establishment of a road fund ⁽²⁾;
- iii) Draft decree of the Federal Republic of Germany amending the existing arrangements concerning the weight and dimensions of commercial vehicles ⁽³⁾;
- iv) Draft Italian law on maximum and minimum weights of commercial vehicles ⁽⁴⁾.

During these consultations it became apparent that Member States were tending to use the emergency procedure too often. Because of the short time-limit (10 days) allowed to other Member States and the Commission's departments, this procedure has grave disadvantages, particularly when—as is often the case—the Commission considers Community consultation necessary. On 9 March 1965 the Commission therefore suggested to the Council that the emergency procedure should be reserved for exceptional cases where the normal 30-day procedure would really involve serious drawbacks. The Council agreed to the Commission's suggestion.

INVESTMENT IN TRANSPORT INFRASTRUCTURE

232. On 8 April 1964, the Commission presented an account of the common transport policy in this field accompanied by a proposal for a Council decision concerning Community action in the matter.

The Commission has defined the aims and the place of this long-term action in the common transport policy and in general economic policy. It proposes that work should begin at once with the introduction of a procedure of information and consultation on investment projects of

⁽¹⁾ Commission opinion of 16 October 1964.

⁽²⁾ Commission recommendation of 4 December 1964. Official gazette No. 212, 19 December 1964.

⁽³⁾ Commission recommendation of 13 January 1965. Official gazette No. 5, 19 January 1965.

⁽⁴⁾ Commission opinion of 30 March 1965. Official gazette No. 61, 10 April 1965.

Community interest and with the setting up of a committee of infrastructure experts to assist in this matter.

This action is to be dovetailed with the general medium-term economic policy measures. The Parliament and the Economic and Social Committee were consulted and rendered favourable opinions; they asked for pipelines to be included within the scope of the measures.

233. The Commission has called in two consultant firms to make road traffic forecasts in an area centred round the Liège-Luxembourg-Strasbourg route. The aim of this study, which is being financed by the Commission and the Member States concerned, is to forecast traffic in 1970 and 1980 in an area which covers a part of the territories of four Common Market countries and in which trade flows are likely not only to develop considerably but also to follow different patterns. Such a study will facilitate the choices which the Commission may have to propose to implement the draft decision referred to above.

WEIGHTS AND DIMENSIONS OF COMMERCIAL VEHICLES

234. Following the opinions expressed by the European Parliament (24 April and 29 October 1963) and the Economic and Social Committee (17 October 1963), and taking new data into account, the Commission had recourse to Article 149 of the Treaty and amended the proposed directives on the weights and dimensions of road vehicles which it submitted to the Council on 10 April 1963 ⁽¹⁾. The main changes are as follows:

- i) Dimensions of vehicle trains: maximum length of 18 metres (instead of 17.2 metres);
- ii) Weight of vehicles: maximum load of 13 metric tons per single axle (instead of 10 tons).

The Council studied the amended proposal at its meeting of 20 October and 10 December 1964. Agreement was reached on most of the provisions

⁽¹⁾ See Seventh General Report, sec. 209.

except those concerning maximum weight per single axle and maximum outside projection.

At its session of 20 October the Council requested the Commission to make an inventory of roads in the Member States able to carry vehicles with a load of 13 tons per axle. After studying this inventory the Council noted on 10 December 1964 that there was at present no continuous international road network to cater for such vehicles:

The Commission was consulted by Germany on a draft decree introducing new arrangements on weight and dimensions and, by a recommendation of 13 January 1965⁽¹⁾, requested the Federal Government to postpone implementation of this decree until after 9 March 1965 (Council session on transport).

At this session the Commission handed the Council a working document suggesting a *modus vivendi* which, while permitting immediate harmonization of those technical conditions on which agreement exists, reserves the final solution of the question of maximum weight and maintains side by side the two systems at present in force, i.e. 13 tons per single axle (19 tons per twin axle) and 10 tons per single axle (16 tons per twin axle), the problem of international traffic being covered by bilateral agreement between the Member States.

Road safety

235. The Commission is taking part in the work being done by other international bodies in this field—ECTM (European Conference of Transport Ministers), the Council of Europe and the Economic Commission for Europe. To avoid duplication the Commission has hitherto refrained from acting independently, but once studies in these organizations, particularly ECTM, are sufficiently advanced it will submit proposals to the Council for Community implementation of the measures advocated.

Transport by pipeline

236. At its meeting of 22 June 1964 the Council studied a proposed decision for the inclusion of pipelines in the procedure of prior examination

(¹) See official gazette No. 5, 19 January 1965.

and consultation under the Council decision of 21 March 1962. The Council felt that it was too early to pronounce on the substance of this proposal, and considered that the development of oil pipelines should first be studied from the power supply angle. On 19 January 1965 the Commission called together a group of government experts to study with it the problem of oil pipelines from the two angles of "energy" and "transport". A programme of work was drawn up.

Improvement of frontier-crossing conditions (Art. 81)

237. The Commission devoted special study to the possibility of reducing the costs of frontier crossing. Following a question tabled on 8 August 1963 by several members of the European Parliament concerning difficulties encountered by rail freight crossing the Italian frontier, the Commission has kept the Council informed of measures taken to improve the situation in this field.

The Commission's inquiries enabled it to transmit to the Council, on 9 June 1964, a report on the problem proposing certain solutions in matters of customs and rail traffic. The Italian Government recently sent its comments to the Commission, and these are being examined.

Independently of this specific action, the Commission is continuing general action. Thus, definite improvements have been made to the crossing conditions by waterway at the Franco-Belgian and Belgo-Dutch frontiers. Customs clearance by night at the Dutch-German frontier began on 18 January 1965.

In April 1964 the Commission put in hand an inquiry at the Brenner Pass, in Italian territory, with the participation of the Italian organizations concerned. Various solutions have been advocated: they concern in particular the infrastructure of the Italian and Austrian frontier posts (access roads and parking areas). The Commission has communicated the results of the inquiry to the Italian and Austrian Governments.

Survey on infrastructure costs

238. After consulting the European Parliament and the Economic and Social Committee, the Council by decision of 22 June 1964 ⁽¹⁾ approved

(¹) Decision No. 64/389/CEE, official gazette No. 102, 29 June 1964.

the proposal for this survey made on 21 May 1963 ⁽¹⁾, subject to certain amendments which provide in particular for postponement of the reference period from 1965 to 1966 and for the definition by the Council itself before 30 April 1965 of the scope of the survey and the methods for determining and apportioning costs.

With a view to implementing this last provision, on 19 February 1965 the Commission sent the Council a draft decision which lays down that the Member States shall make a report on transport infrastructure expenditure incurred in 1966 and also study a certain number of specific cases.

The survey thus planned will make it possible to assemble adequate data on which to base the Council's subsequent decisions on the financial system for infrastructures. The information gathered will be used in the report which the Commission must submit to the Council before 30 June 1968.

In pursuance of the Council decision of 22 June 1964 the Commission consulted the Member States and on 10 July 1964 ⁽²⁾ settled the arrangements for a road traffic census in 1965: Before 30 April 1965 it will take a second decision concerning the collection in 1966 of statistical data on use of the infrastructures not covered by the 1965 counts.

SEA AND AIR TRANSPORT

239. At the Council session of 20 October 1964 the Commission made a statement recalling that, if the European Economic Community was to be completed, such important fields as sea and air transport could not be omitted from it. The interdependence of the various modes of transport calls for Community action to co-ordinate the necessary arrangements in these two modes of transport with the measures governing the others. The Commission mentioned the efforts being made at world and at European level to ensure co-operation in sea and air transport, and recalled that the European Parliament had constantly drawn attention to the need

⁽¹⁾ See Seventh General Report, sec. 202.

⁽²⁾ Decision No. 64/449/CEE, official gazette No. 123, 30 July 1964.

to include these two elements in the European integration process. The Commission considers that the present negotiations between the Governments of the Member States for a common air transport policy should continue within the Community institutions themselves, in conformity with the Treaty, and that any agreement in this matter should be embodied in appropriate Council provisions under Article 84 (1).

The Council agreed that the Commission should be kept regularly informed of the progress of the negotiations concerning Air-Union.

As regards sea transport the Commission considered it best to await the conclusion of current negotiations in other international institutions.

Social policy

EMPLOYMENT AND VOCATIONAL TRAINING

Employment policy

240. As mentioned above (1), the year 1964 saw an appreciable increase in numbers of people in employment in the Community as a whole. The rise was even a little sharper than in 1963, owing to the more rapid increase in the active population.

In its report on labour problems in the Community in 1964, sent to the Council on 16 June 1964, the Commission advocated intensifying certain measures taken by Member States to redress foreseeable imbalances between supply and demand on the different labour markets. These included expansion of vocational training and retraining; encouragement for firms to settle or expand in areas where manpower is still available; encouragement of transfers from overmanned industries to industries in need of manpower; mobilization of potential manpower resources; and, finally, further hire of foreign labour. The Commission also advocated examining at Community level the question of transferable manpower still available in the Member States, and also vocational training facilities for nationals

(1) See Ch. III, sec. 115.

of Member States wishing to emigrate from one Community country to another.

The Council took note of this report at its session of 15 October 1964 and asked the Commission to submit to interested Member States vocational training programmes to meet the requirements of the economic situation. Action on these lines is being studied.

In the field of vocational guidance the Commission has worked out a programme for collaboration between the national authorities, and is contemplating a recommendation on the matter.

The Commission has had monographs prepared on the organization and functioning of employment services in each Member State. It will submit a report summarizing these to the national experts in the second quarter of 1965. This report will serve as basis for a programme of co-operation between the employment services in the Member States and for a project to co-ordinate their policies.

Common vocational training policy

241. On 18 December 1963 the Council agreed upon the constitution of the Advisory Committee on Vocational Training ⁽¹⁾, and on 21 April 1964 appointed the members of this Committee. The Committee met for the first time on 29 June 1964 and adopted its rules of procedure. On this occasion the Commission made a brief statement on the aims and tasks of a vocational training policy and gave some indications on how the Committee would go about its work. The Committee held further meetings on 12 October and 10 December 1964.

On 12 October 1964 the Commission submitted to the Advisory Committee a draft programme on common vocational-training arrangements and a special draft programme on training in agriculture. These two programmes provide for various long- and short-term measures.

The aim of the more immediate measures is to encourage the movement of manpower reserves in the Community, not only from one country to

(¹) See Seventh General Report, sec. 228.

another but also from one economic sector to another. In this connection it is recognized that there are not enough vocational training establishments offering young people and adults the possibility of developing their training and adapting their skills to technical progress.

The long-term measures aim at gradually adapting the structures and methods of vocational training to the needs of economic, technical, social and scientific progress and also at improving the training of teaching personnel.

Through these two complementary sets of measures the common vocational training policy will make its contribution to the harmonious development of the Community's different economic sectors and regions.

The Advisory Committee has rendered its opinion on the two draft programmes, and the Commission is now planning detailed proposals to the Member States on the points where action is most urgently required.

On 2 December 1964 the Commission asked the Advisory Committee for its opinion on a proposal whereby the Community is to grant aids to help the retraining of farmers who are affected by conversions or structural change in agriculture and must be offered new openings in that sector. The Advisory Committee approved the Commission's proposal but strongly urged that the scheme should also apply to hired agricultural workers. The Commission took this wish into account in its two proposed regulations to increase the effectiveness of the European Social Fund, and also transmitted to the Council, on 3 February 1965, a draft regulation on the retraining of persons working in agriculture. This provides for the granting of financial aid in the form of bonuses of a standard amount per person retrained. These people must be between 16 and 45 and have worked for at least six months in a new occupation corresponding to the qualifications acquired by retraining.

The Commission has also begun preliminary studies for the alignment of levels of training in various basic metalworking trades, and has worked out a draft European "career brief" for the trade of turner. This will be submitted to the Advisory Committee for its opinion.

As regards the training of teachers and instructors ⁽¹⁾, in June 1964 the representatives of Member Governments visited the establishments for

(1) See Seventh General Report, sec. 228.

training such personnel in France. This visit showed the great importance attaching to the matter, on which the Commission will shortly request the Advisory Committee to give its opinion.

On 29 June 1964 the Commission sent the Member States a recommendation concerning the customs system applicable to teaching aids temporarily imported into one Member State from another ⁽¹⁾.

242. From 16 to 20 November 1964 the Commission held a symposium on vocational training. About 150 experts from national authorities, employers' associations, trade unions, scientific circles and international organizations took part. The aim was to hold a broad discussion between the individuals responsible for such training, to assess the efforts already made in the six countries, and to draw conclusions which would be useful in implementing a common vocational training policy and, in particular, an initial joint action programme.

Two working parties studied the training of teachers and instructors and the adaptation of vocational training to technical and economic evolution and social progress. The discussions brought out technical elements on which to base the measures to implement a common vocational training policy. The Advisory Committee on vocational training has taken note of the conclusions of the symposium.

243. Acting on a Commission proposal ⁽²⁾ the Council agreed, on 8 May 1964, to an initial common programme (Article 50 of the Treaty) to encourage the exchange of young workers within the Community ⁽³⁾. The Commission has had several discussions with government experts on the implementation of this programme.

Free movement of workers

244. On 1 May 1964, Regulation No. 38/64, which replaced Regulation No. 15 ⁽⁴⁾, came into force. A directive concerning the removal of

⁽¹⁾ See official gazette No. 112, 14 July 1964.

⁽²⁾ See Seventh General Report, sec. 228.

⁽³⁾ See official gazette No. 78, 22 May 1964.

⁽⁴⁾ *Ibid.*, No. 62, 17 April 1964.

restrictions on movement and residence of workers from Member States and their families within the Community was notified to the Member States on 6 April 1964. A further directive, based on Article 56 (2) of the Treaty and agreed by the Council on 25 February 1964 (1), co-ordinates restrictions on travel and residence for foreigners if justified on grounds of "ordre public", public health or public safety. This took effect on 19 March 1964, when it was notified to the Member States(2).

The new arrangements were implemented without any major hitch. As soon as Regulation 38/64 came into force a telex message procedure was worked out by which the European Co-ordination Office informs the Member States at the beginning of each quarter of the regions and occupations in which priority for the home labour market has been provisionally maintained or re-established; the reasons supplied by the Member States are given in the quarterly surveys of the European Co-ordination Office.

The Member States have made only a few departure from the principle of abandoning priority for the home labour market. Germany, Italy and the Grand Duchy of Luxembourg did not maintain or re-establish priority for any region or occupation. In the Netherlands and Belgium the occupations of artiste and musician benefited by protective measures in the first quarter of 1963. In France, the occupations of labourer, office worker and shop assistant were protected throughout the whole country.

Article 29 of Regulation 38/64 lays down procedure for consultation and co-operation between the Member States and with the Commission to ensure priority for the Community labour market (3). Observance of this priority, to which the Commission, like the European Parliament, attaches the utmost importance, is based on a report containing forecasts of manpower requirements and surpluses in the Community for the year ahead which is discussed at the beginning of each year.

The first of these reports was discussed between the Member States on 12 February 1965, with the Commission participating.

To facilitate vacancy clearance the Commission, with the help of national experts, has prepared a second edition of the "Comparative dictionary of

(1) *Ibid.*, No. 56, 4 April 1964.

(2) See Seventh General Report, secs. 35-37 and 47 for a summary of these texts.

(3) *Ibid.*, secs. 35-36.

trades in which migration is most frequent in the EEC countries", listing 119 occupations instead of 68. This will very shortly be submitted for approval to the Advisory Committee and the Technical Committee on the free movement of workers.

245. The institutions set up by Regulation No. 15 continue to function.

The European Co-ordination Office continued to draw up quarterly surveys of the situation and development of labour markets in the Member States. With these surveys it has regularly circulated information on the maintenance or re-establishment of priority for the home labour market by the procedure worked out with the Technical Committee ⁽¹⁾, which, after the necessary running-in period, has proved fully satisfactory both to the Member States and the Commission.

In co-operation with a working party set up for this purpose by the Technical Committee, the Office has also continued its work on uniform criteria by which to judge the labour markets in the Member States, particularly with respect to migratory movements.

Finally, in addition to the Annual Report of vacancy clearing operations in the Community, the Office has prepared the first of the reports required under Article 29 of Regulation No. 38 ⁽¹⁾.

246. The Advisory Committee has issued an opinion on the principles which should inform the policy of free movement in the Community in order to attain the objectives of Articles 48 and 49 of the Treaty at the single-market stage. This opinion defines free movement as a fundamental right of the worker. The implementing measures should ensure that "movements of labour do not in principle occur as a result of economic constraint". These measures must be part of a policy of balanced economic development (Community employment policy, provision of jobs in regions with surplus manpower) and go hand in hand with the alignment of social legislation and the harmonization of social policies.

The Committee also examined and approved the report on the application of Regulation No. 15 and of the directive of 16 August 1961 which supplements it; the European Co-ordination Office's second Annual Report

(¹) See above, sec. 244.

on vacancy clearing operations; and the fifth Annual Report on manpower problems in the Community, which specially deals with short-term labour market questions.

247. The Technical Committee examined the measures which were needed to implement Regulation No. 38/64 and the directive of 25 March 1964 (see above).

The members of the Technical Committee and a number of national officials attended study meetings organized by the Commission in conjunction with the German authorities. Those participating were shown how clearance of applications and vacancies operates in Germany, and the machinery for placing foreign labour was explained. The meetings were a continuation of those arranged by the Commission in 1963 ⁽¹⁾.

SOCIAL SECURITY FOR MIGRANT WORKERS

Revision of Regulations Nos. 3 and 4

248. Since their adoption in 1958, Regulations Nos. 3 and 4 have undergone changes which, in particular, improve certain benefits and simplify administrative procedures. In addition, the supplementary regulations for frontier and seasonal workers ⁽²⁾ came into force on 1 February 1964.

This body of rules—to be assembled in a single booklet—assures all social security benefits to the various categories of wage-earners who move about in the Community, irrespective of where they or their families reside, with the exception of seamen, who are dealt with below.

However, all these provisions are extremely complex and are still defective on certain points. The Commission therefore considered it necessary to carry out a general revision of them, in the light of the experience of the

⁽¹⁾ See Seventh General Report, sec. 40.

⁽²⁾ *Ibid.*, secs. 222-224.

first six years of implementing Regulations Nos. 3 and 4, and taking into account the development of co-operation in all fields within the EEC. This revision is taking place in conjunction with the High Authority of ECSC and after hearing the opinion of the Administrative Committee. The object on the one hand is to assure more complete and effective social security coverage for any worker moving about the Community and, on the other, to speed up co-ordination of the various systems of social security, as required by the Commission's Action Programme for the Second Stage. The more specific aim is to simplify the administrative and financial procedures by which social security benefits are made available for migrant workers and their families, and to improve the basic provisions and also the text of the regulations themselves. However, difficulties of co-ordination will continue as long as the national laws differ too widely from each other.

As a first step, in order to associate all circles concerned with these studies from the start, the Commission consulted the two sides of industry and the Member Governments. A working party of independent experts then established a preliminary report which was submitted to the Administrative Committee for its opinion.

At the same time the Commission has continued to make those partial amendments to the regulations which seemed immediately feasible. On 7 July 1964 it submitted a draft regulation to the Council abolishing the six-year limit on the migrant worker's right to sickness benefits in kind and to family allowances for dependents not resident in the same country as himself ⁽¹⁾. This the Council approved on 30 July 1964. On 28 October 1964 the Commission referred to the Council another draft regulation supplementing Regulations Nos. 3 and 4 with respect to unestablished officials of the European Communities. The new regulation will define the scope of Article 70 (1) of the Statute regarding the social security of such officials, and will lay down the procedure for implementing this article.

In addition, provisions supplementing Regulation No. 3 have been proposed to cover procedures for paying family allowances when the children con-

(¹) Regulation No. 108/64, official gazette No. 127, 7 August 1964.

cerned are not resident in the worker's country of employment and the beneficiary does not use them to maintain the children. These provisions will guarantee that such allowances are paid to the person actually caring for the children.

249. The Commission has begun to prepare rules for the application of Regulation No. 3 to seamen, a category of workers still excluded from Community arrangements though covered by social security conventions between Member States. With the technical assistance of the International Labour Office a preliminary draft regulation was worked out and submitted for their opinions to the Administrative Committee and to representatives of both sides of industry.

*Association of management and labour in the application
of the regulations*

250. In addition to consulting workers' and employers' organizations on the revision of Regulations Nos 3 and 4 and on social security for seamen, the Commission associated them with problems of the social security of migrant workers by arranging a second meeting between their representatives and the Administrative Committee. Information was exchanged on how the regulations were being applied and on possible solutions to certain practical difficulties.

EUROPEAN SOCIAL FUND

251. In 1964 reimbursements by the European Social Fund totalled 4 639 519 units of account, 4 259 875 of which were for retraining and 379 644 for resettlement ⁽¹⁾. Only one conversion project was submitted to the Committee for approval and this had to be rejected.

(¹) The gap between these two amounts only partially reflects the relative importance of the two types of operation, since many of the resettlement applications are still being considered.

TABLE 19
Reimbursement by the European Social Fund

In units of account

Country	For retraining	For resettlement	Total
Belgium	613 161	—	613 161
France	—	315 696	315 696
Germany (FR)	1 531 252	—	1 531 252
Italy	2 106 632	63 948	2 170 580
Luxembourg	8 830	—	8 830
Netherlands	—	—	—
Total	4 259 875	379 644	4 639 519

TABLE 20
Numbers of workers aided by the European Social Fund

In units of account

Country	Workers retrained	Workers resettled	Total
Belgium	1 503	—	1 503
France	—	52 084	52 084
Germany (FR)	2 310	—	2 310
Italy	12 584	677	13 261
Luxembourg	92	—	92
Netherlands	—	—	—
Total	16 489	52 761	69 250

The schemes carried out with the help of the Fund enabled 69 250 workers to find new jobs after retraining or resettlement.

Most of the retrained workers found new employment in mechanical engineering and services. However, since the operations aided by the Fund in 1964 were carried out in earlier years, it would be hazardous to draw over-precise conclusions from them as to present trends on the labour market.

Practically all the resettled workers in respect of whom France received assistance from the Fund in 1964 were Italian nationals.

In 1964, reimbursements granted (credits) and Member States' contributions (debits) entailed a transfer of 1 494 165 units of account from France, Luxembourg and the Netherlands to Italy (1 242 676 units of account), Belgium (204 883 units of account), and Germany (46 606 units of account).

The total for applications submitted in 1964 by all the Member States—about 9 million units of account—is slightly higher than in 1963. This is due almost entirely to applications for retraining, where two expansive trends seem to be emerging more clearly than in the past, i.e. in operations concerning underemployed workers and concerning handicapped workers. There is reason to think that Commission Regulation No. 12/64/CEE has greatly increased the number of cases of retraining by defining very flexibly the criteria of underemployment within the meaning of Article 2 of Regulation No. 9 on the European Social Fund. The total amount for resettlement applications does not yet reflect the slackening of migration within the Community because a large proportion of these applications concern European refugees from Algeria and the operations are therefore exceptional.

252. At the close of its fourth year of functioning the Fund's activity was as shown in the Table 21.

As the Table shows, some of the applications (for about 23 million units of account) are still being examined by the Commission and should be covered by later reimbursement decisions. The Commission has therefore asked the Council to carry over to the 1965 financial year 23 197 860 units of account not spent in 1964. In addition, a sum of 19 674 741 units of

TABLE 21

Balance-sheet of the activities of the Fund
from 20 September 1960 to 31 December 1964

Country	Type of operation	In units of account			
		Applications submitted	Applications examined	Aid granted	
Germany (FR)	Retraining Resettlement	10 426 834.56	5 554 070.20	4 960 159.22	34 487
	Total	5 005 978.84	3 596 087.43	304 270.19	41 803
Belgium	Retraining Resettlement	15 432 813.40	9 150 157.63	5 264 429.41	76 290
	Total	1 983 701.46	1 515 000.54	1 425 113.80	3 925
France	Retraining Resettlement	1 985 207.80	1 515 000.54	1 425 113.80	3 925
	Total	11 735 934.70	7 293 152.86	7 216 486.98	15 043
Italy	Retraining Resettlement	1 782 522.54	391 446.98	326 299.77	52 179
	Total	13 518 457.24	7 684 599.84	7 542 786.75	67 222
Luxembourg	Retraining Resettlement	13 764 487.27	8 170 852.28	7 172 869.42	100 874
	Total	3 656 050.75	869 248.82	865 279.69	79 888
Netherlands	Retraining Resettlement	17 420 538.02	9 040 101.10	8 038 149.11	180 762
	Total	8 830.98	8 830.98	8 830.98	92
EEC	Retraining Resettlement	8 830.98	8 830.98	8 830.98	92
	Total	5 023 363.94	2 691 864.40	2 213 484.65	4 543
EEC	Retraining Resettlement	35 254.30	—	—	—
	Total	5 058 618.24	2 691 864.40	2 213 484.65	4 543
EEC	Retraining Resettlement	42 943 152.91	25 233 771.26	22 996 945.05	158 964
	Total	10 481 312.77	4 856 783.23	1 495 849.65	173 870
EEC	Retraining Resettlement	53 424 465.68	30 090 554.49	24 492 794.70	332 834
	Total	—	—	—	—

account has been included in the budget for 1965 to meet applications for aid which Member States plan to submit in that year. The balance of the European Social Fund for 1965 is therefore 42 872 601 units of account, of which 30 908 931 are for retraining and 11 963 670 for resettlement.

Of the applications submitted, those directly from States and decentralized local authorities represent about 72% as against about 28% from statutory bodies on the list mentioned in Article 18 of Regulation No. 9. This list has been brought up to date by the addition of six further bodies by the Commission on 15 January 1965, so that the total number of statutory bodies entitled to apply for aid from the Social Fund is now 68.

253. In conformity with its Action Programme for the Second Stage and taking into account the trend of applications in 1962, 1963 and 1964, the Commission has endeavoured to secure for the Social Fund the means of continuing its tasks under the Treaty, adapting itself to the new conditions arising from the general development of the economy and the accelerated build-up of the Common Market.

Accordingly, in January 1965 the Commission submitted to the Council of Ministers, in "Initiative 1964", two proposed regulations to increase the effectiveness of aid from the Fund and to channel the latter's action, in the three fields it covers, more in the direction of the immediate aims of Community policy. The special purpose of these proposals is to associate the Fund more closely with Member States' efforts to maintain a high level of employment, ensure more balanced development of regional economies, and improve the living conditions of migrant workers and their families.

It has also been proposed that the Social Fund should be used to help vocational training not only of unemployed or underemployed workers but also of employed workers whose jobs are threatened because they lack qualifications or because those they have are no longer adequate for modern production techniques. It is also planned that the Fund should help to maintain the wages of workers who have lost their jobs through the closing of their firms in a region suffering from or threatened with unemployment, and are waiting to be re-employed by a new enterprise setting up in the same region. Similarly, participation by the Fund in the building of training centres in under-equipped regions is envisaged.

Finally, it is to help low-cost housing schemes for migrant workers and their families and also the social services caring for these workers.

The Social Fund Committee has devoted considerable attention to the above-mentioned problem of adapting the Fund to the Community's economic and social evolution. It has studied both the advisability and the form of the new versions of the Fund's regulations put forward by the various circles concerned, and gave its opinion on the Commission's proposals on 1 December 1964.

PLANS TO HARMONIZE SOCIAL POLICIES (1)

254. The Commission's activities in harmonizing social policies are carried on in close contact with the Governments and both sides of industry. Working parties have been set up for exchange of information on the trends in the social situation in the different Member States. They are sometimes bipartite, with representatives of the employers' and workers' organizations, and sometimes tripartite, when government representatives also take part.

In "Initiative 1964" the Commission has called the Member States' attention to the need for increasing the close collaboration provided for in Article 118 in order to promote the levelling upwards of living and working conditions and thus facilitate the attainment of economic union.

Before the end of the year the Commission intends to make proposals on social security, the protection of young people and mothers at work, and industrial safety.

It is clear that social policy will have to be given its rightful place in medium-term economic policy. But this will only happen if the social objectives are taken into account from the start. Accordingly, the Commission has already devoted close attention to this aspect and will continue to do so.

(1) See also sec. 205 "Social policy in agriculture" and sec. 227 "Social policy in transport".

WORKING CONDITIONS AND WAGES

255. The first part of a survey of working hours in six branches of industry (motor manufacture, electrical engineering, textiles, man-made fibres, rubber, chemicals) has been concluded, and the Commission has compiled a digest of existing laws, regulations and agreements. This survey is rounded off by an overall view of the length of the working day and week, obtained by an inquiry into hours worked and time-off in a number of firms.

256. As regards wages, the Statistical Office of the European Communities is compiling its second series of common statistics on labour costs and workers' incomes in a total of thirty-five branches of industry. The first series drew its data from three survey of wages, in 1959 (fourteen industries), 1960 (eight industries) and 1961 (thirteen industries). The second series started with a fourth survey, of the level and structure of wage costs in fifteen manufacturing industries in 1962. Since it covers the same ground as the survey of 1959, it also enables an exact comparison to be made, for the first time, of the trend of labour costs with that of real incomes during the 1959-1962 period. The results of the 1963 and 1964 surveys, which are a repetition of those covering 1960 and 1961 respectively, will greatly add to knowledge of these trends for the whole of the manufacturing sector.

In order to obtain still more precise information on wage structure and distribution, particularly with regard to the influence of various factors on wage levels, the Commission put before the Council a draft regulation for the organization of a far-reaching survey of the individual earnings of workers in industry, to take place in October 1966 ⁽¹⁾. The Council adopted this regulation on 12 December 1964.

The Commission examined the considerable divergences which the first survey revealed in the level and structure of labour costs in three industries (cotton-spinning, rubber, shipbuilding and ship repairs) ⁽²⁾. With the aid of the employers' and workers' organizations, it is now preparing three new monographs on the laws, regulations and contractual arrangements

⁽¹⁾ See official gazette No. 214, 24 December 1964.

⁽²⁾ This study has recently been published: Social Policy Series No. 10/65, "Wages in branches of industry".

and the actual situation in the field of wages and working conditions in three more industries (ready-made clothing, printing, metal and structural engineering) which were included in the third wages survey. Anomalies in the level and structure of wage costs were found in these industries too. This new study is to be published at the end of 1965.

The joint working party on labour relations discussed recent trends in collective bargaining and, more generally, in the field of labour relations. It also examined the study on "the peaceful settlement of collective labour disputes in the EEC Member States" compiled by independent experts.

Equal pay for men and women (Art. 119)

257. On several occasions in 1964 the Commission reminded the Governments and both sides of industry that the time-limit fixed in the resolution of 30 December 1961 for the full introduction of equal pay for men and women was 31 December 1964. In close co-operation with the Member Governments and with the employers' and workers' organizations, the Commission also worked out a detailed questionnaire to enable it to make a report, at the beginning of 1965, on the extent to which Article 119 and the resolution of 30 December 1961 had been implemented by the end of 1964. This report will be forwarded to the Council, the European Parliament and the Economic and Social Committee.

Protection of workers

258. The Commission made a comparative study of laws and regulations for the protection of young workers in the Member States of the Community and submitted it to the Governments and both sides of industry for checking. It will be published in the course of 1965.

On the basis of these preliminary investigations the Commission has drawn up a recommendation on the protection of young people at work in the EEC Member States.

A comparative study of the measures for the protection of mothers in force in the six Community countries is also to be published in 1965. Preparation of a recommendation based on this is well under way.

Social security

259. The close collaboration between the Member States which the Commission is required to promote in this field has taken place in three spheres: studies, consultations and the fixing of standards. The studies put in hand include:

- a) A report on supplementary social security systems in the Community countries;
- b) The economic effects of social security on employment, redistribution of incomes, and prices, and consequently on the economy as a whole;
- c) An analysis of the consumption of pharmaceutical products in the social security context.

A meeting of the heads of social security departments in the six countries was held for the first time in 1964. The object was to study the progress of harmonization and to exchange views on the trend of social security in the member countries and the financial situation of the systems.

The Commission has begun to prepare a number of technical and medical information memoranda on the diseases in the European list of occupational diseases (¹). The Governments have also begun to exchange information on those diseases which have not been recognized by all of them as occupational.

A second trainee-exchange programme between the social security institutions of the six countries is going on. Trainees receive the first part of their training with the departments of the Commission.

Action to fix standards has been developed: implementation of the first programme for the harmonization of social security systems, based on Articles 117 and 118 and on the results of the European Social Security Conference, has continued for all occupations, particularly in agriculture.

Discussions on preparing several recommendations have been held both with government experts and with independent specialists and employers' and workers' organizations.

(¹) Recommendation of 23 July 1962, official gazette No. 80, 31 August 1962.

The Commission has also continued the studies put in hand following its recommendation to the Member States on the adoption of the European list (1), and has initiated a survey of compensation for occupational diseases and particularly of the limiting conditions concerning diseases, occupations and the different deadlines.

Industrial health and safety

260. The Governments of the Member States have given full support to the Commission's activities concerning approximation of legislation on industrial health and safety. The heads of the departments responsible for these matters in the Member States continued to meet regularly (three meetings took place in 1964; the most recent, the seventh, was held in March 1965), to examine draft directives in preparation and the programme of work. The employers' and workers' organizations have shown great interest in these studies, the progress and future plan of which were communicated to them.

In the field of industrial safety, on 3 August 1964 the Commission sent the Council a draft directive concerning the approximation of laws, regulations and administrative provisions on the manufacture and use of cartridge-operated stud drivers. The European Parliament and the Economic and Social Committee gave a favourable opinion early in 1965. This draft Council directive establishes for the first time mutual recognition of authorizations issued by the competent national authorities on the basis of technical inspections. The Council decision will fix the principles which must inform the other studies on the approximation of national industrial safety arrangements.

Furthermore, in order to facilitate the approximation of national legislation in all spheres at present under examination, the Commission has undertaken a comparative study of the qualifications required of experts and of technical inspecting bodies.

In conformity with the wishes expressed by the European Parliament's Health Protection Committee, the Commission has also undertaken to prepare a seminar which will deal *inter alia* with action to make workers

(1) Recommendation of 23 July 1962, official gazette No. 80, 31 August 1962.

safety-minded, safety standards and safety instruction in factories, and the special problems of migrant workers.

261. As regards industrial health, the Commission has been noting action taken on its recommendation to the Governments of the Member States ⁽¹⁾ concerning industrial medicine in enterprises. On 3, 4 and 5 June 1964 it held a symposium on industrial medicine with representatives of the responsible Ministries of the Six, university professors, industrial doctors and representatives of the associations of industrial doctors in the Community countries.

This symposium studied university and post-university teaching of industrial medicine, the organization of medical services within and between firms, the role of the factory doctor and the training and role of the factory medical inspector. Those participating unanimously considered that industrial medicine should be a compulsory subject, with a final examination, for all medical students; that doctors wholly or partly employed in industry should hold a special diploma or certificate issued after a study period of at least two terms; and that close collaboration must be established between factory doctors and engineers, chemists, sociologists and social workers. Similarly, an extensive knowledge of industrial medicine should be required of all factory medical inspectors. The meeting hoped that training courses for inspectors would be organized between the Member States.

In conformity with paragraph 25 of the recommendation the Member States have reported on the measures taken and progress achieved in industrial medicine in the two years following its publication. On the basis of these reports and of the work of the symposium, the Commission has drawn up a statement for the European Parliament.

The draft of a new Commission recommendation was sent to the European Parliament on 9 February and to the Economic and Social Committee on 18 February for their opinions. It deals with medical supervision of workers exposed to special hazards. This draft supplements, so to speak, those concerning the European list of occupational diseases and industrial medicine in enterprises. It emphasizes the need for a periodical medical

⁽¹⁾ See official gazette No. 80, 31 August 1962, and Sixth General Report, secs. 196 and 197.

check of workers exposed to occupational diseases by doctors who are experts in industrial medicine, indicates the frequency of these checks, and lists jobs which involve specific hazards. Other recommendations or opinions are being prepared, particularly concerning work with compressed air and health precautions on building sites.

Social services

262. The Commission has drawn up its first report on the action taken on its recommendation to the Member Governments concerning the activity of social services with regard to workers moving from one Community country to another ⁽¹⁾. It gives an account of the work done and still to be done to cope with the human problems involved in these migrations. The conclusions of this report will be referred to the Social Committee of the European Parliament.

The Commission's second programme of scholarships enabling social workers to spend training periods in Community countries other than their own is now being carried out. Some of the scholarships are financed directly by the EEC, and others are provided by the Governments of Germany, Italy and the Netherlands.

Housing policy and family questions

263. In July 1964 the Commission submitted to the European Parliament and the Economic and Social Committee a draft recommendation to the Member States concerning housing for workers and their families migrating within the Community. The two institutions issued their opinions on 27 January and 26 March 1965 respectively. They welcomed this Commission initiative and stressed the advisability of greater efforts by the Member States to ensure appreciably better accommodation for these workers, who play a considerable part in the Community's economic expansion.

In order to keep itself informed on housing policy in the Member States the Commission has organized several meetings of experts from the govern-

(1) See official gazette No. 75, 16 August 1962.

ment departments concerned and representatives of management and labour. It was found that in 1964 the building of houses continued on the whole at a normal level, bearing in mind the fact that the economic situation sometimes presented difficulties. However, the Commission is concerned at the volume of unsatisfied housing requirements, particularly among the less well-off sections of the population, and at the complexity of the specific problems which still arise (financing, availability of sites, etc.).

The Commission called together government experts and representatives of trade and family organizations for the annual comparative review of family welfare measures in the Member States. The usefulness of this annual review in helping to level up conditions has been generally recognized. The Commission organized a meeting of those responsible in the Member States for home help services (services supplying help at home to mothers and elderly people), with the object of assisting the development of these services, calls on which are constantly increasing.

The Commission is concerned with guaranteeing the rights of families when the breadwinner is working in another country, and has asked the Governments of Belgium and Luxembourg to sign the United Nations Convention on the Recovery Abroad of Maintenance (1956), as the other Member States have already done. Both Governments have agreed, and have initiated the procedure for accession.

The Commission will continue to study the human aspects of the movement of workers in the Community, particularly questions of accommodating and reuniting families and measures for better social, cultural and linguistic adaptation.

TOWARDS A COMMUNITY POLICY ON EDUCATION AND RESEARCH

264. As the Community develops and consolidates, requirements stemming from integration become more numerous and specific. It is already generally recognized that concerted action on a Community basis will be needed to ensure essential progress in education and in scientific and technical research.

Such action is important economically. As the Commission emphasized in the medium-term economic policy proposals to the Council, it will have to make a major contribution to maintaining a pace of growth consonant with Europe's needs. But its significance goes beyond the economic field. What is at stake is the intellectual influence of Europe.

This is why the EEC is bound today to act as a unit and according to a plan. The Commission hopes that this necessity will not be overlooked in preparing the merger of the Communities. Meanwhile it has endeavoured to define a general concept in conformity with the objectives mentioned above.

Education

265. It should be pointed out that, in the Commission's Action Programme for vocational training ⁽¹⁾, the short-term measures to facilitate transfers of personnel to more prosperous economic sectors are generally dictated by economic and social considerations, while the long-term measures are based on qualitative principles stemming from a true common training policy. In the latter connection, the approach chosen, i.e. gradual adaptation of structures and methods to the economic, technical, social, and scientific trend, may provide a first element of considerable importance for establishment of a common policy in all fields of training and of education in general. It should also be borne in mind that stress is placed on the need to improve teacher training.

Furthermore, the first programme of exchange of young workers aims not only at perfecting their vocational training but also at developing their cultural and linguistic knowledge and their social aptitudes ⁽²⁾. Thus the scope of this exchange system now goes far beyond the principle of free movement of labour—the heading under which it falls in the Treaty.

266. The Commission has continued to study the mutual recognition of diplomas. Here again the initial aim—exercise of the right of establishment—is chiefly economic; but such recognition involves the confrontation of teaching systems and standards, at any rate incidentally. The Com-

⁽¹⁾ See sec. 241.

⁽²⁾ See sec. 243.

mission is, in fact, endeavouring to encourage this confrontation, and certain working parties which prepare proposals and directives on the mutual recognition of diplomas have already attacked the problem of approximating syllabuses.

More than ten draft directives are advanced sufficiently for the Commission to envisage sending them to the Council before the end of 1965. The proposals concern the liberal professions and cover the following activities:

- i) The profession of architect, for which the studies required in the Member States are considered sufficiently equivalent. Examination of these studies corresponds to the objective of Article 57 (1) regarding mutual recognition of diplomas;
- ii) The profession of engineer (or more exactly "research, consultation and practical activities in the technical field"), for which two draft directives are being prepared;
- iii) Consultants in the field of economics and accounting are also being dealt with in two draft directives. These concern only consultation and expert advice for enterprises, to the exclusion of their effects on third parties and the public authorities;
- iv) Doctors, regarding whom two directives are being prepared. They concern the abolition of restrictions and the mutual recognition of degrees, "limited for the time being to general practitioners' degrees";
- v) In the pharmaceutical field, work is fairly advanced on three draft directives concerning dispensing chemists. As regards pharmaceutical manufacture and trade two other proposals will cover the abolition of restrictions, co-ordination and the diplomas required of technicians responsible for manufacture;
- vi) Studies are also fairly advanced for the professions of dentist, veterinary surgeon, optician, lawyer and tax consultant.

267. The universities are playing a more and more important part in training leaders in the professions. A short while ago they were still the traditional moulders of small but influential élites, but today they have to cope with a mounting flood of young people desiring to acquire the higher professional training required by technical progress. It is therefore

only natural that the Commission should co-operate more and more actively with the universities. This co-operation is all the more opportune since university circles, profiting by their traditional academic freedom, were themselves taking steps to meet the new conditions created by the development of the Community.

The annual inquiry carried out by the European Community Institute for University Studies in co-operation with the Community Institutions has provided an opportunity to assess progress in adapting high-level teaching and research to the new problems posed by European integration (law, economics, social and political sciences). This progress is seen not only in the greater weight given to European problems in the normal courses of the faculties, and in the growing number of theses and research studies, but also in the increase in the number of institutes or centres of European studies providing specialized courses.

The Commission has brought to bear every available means to encourage the adaptation of teaching and the expansion of studies on European problems. To facilitate the launching of institutions and programmes of higher education with an emphasis on European questions it granted subsidies totalling 870 000 Bfrs. in 1962, 885 000 Bfrs. in 1963, and 1 100 000 Bfrs. in 1964. Since 1962 the chief beneficiaries have been:

- i) The Centre universitaire d'études des Communautés européennes of the Faculty of Law, University of Paris (first courses, 1963/64: law and economics sections; studies last a year and conclude with an examination);
- ii) The Institut d'études juridiques européennes of the Faculty of Law, University of Liège (first courses, 1962/63; this institute prepares students for a degree in European law which requires two years study);
- iii) The Institut d'études européennes et internationales of the University of Louvain (first courses, 1964/65; prepares students for a post-graduate degree in European law);
- iv) The Fédération internationale de droit européen. (FIDE was set up in 1961 and is the only organization covering the legal professions of all the six countries with the sole object of studying and developing every aspect of Community law);
- v) The Association pour le développement de la science politique. Set up in Paris in 1964 to promote European ideas in the political sciences.

In addition the Commission grants scholarships to students at the existing institutes of European studies.

The total amount of these scholarships was 496 500 Bfrs. in 1962, 587 000 Bfrs. in 1963 and 687 652 Bfrs. in 1964, for students at:

- i) College of Europe (Bruges),
- ii) Centre européen universitaire (University of Nancy),
- iii) Centre universitaire des hautes études européennes (University of Strasbourg),
- iv) Collège universitaire d'études fédéralistes (Val d'Aosta),
- v) Institut universitaire d'études européennes (Turin),
- vi) Institut d'études européennes (University of Brussels),
- vii) Istituto di studi europei Alcide de Gasperi (University of Rome),
- viii) Institut européen d'administration des affaires (Fontainebleau),
- ix) Institut d'études européennes de l'Université de la Sarre (Saarbrücken),
- x) Université internationale de sciences comparées (Luxembourg),
- xi) Seminars on transport in the Community at the University of Trieste.

Although the studies listed almost doubled between 1963 and 1964, and visits to Community offices by university men engaged in research or teaching on the integration of Europe increase every year, the credits available to the Commission are clearly insufficient for carrying on the necessary work and meeting the demand.

The Community's aid to study and research also takes the following forms:

- i) Financing scientific symposia and seminars;
- ii) Assigning paid tasks to research workers or specialized institutes;
- iii) Organization of training periods: 189 young graduates spent periods of 3 to 6 months in the Commission departments in 1964;
- iv) Organization of visits to Community headquarters by groups of professors and students;
- v) Supply to universities and institutes of documentation on the Community's decisions and operations. Great efforts have been made, partic-

ularly by the Joint Information Service, to work out a system of rational and efficient distribution of the documents originating in the various Institutions.

The above list is inadequate to give a complete picture of the busy collaboration which has grown up between university circles and the Community. Despite the remarkable fruit it has already borne, this collaboration has not yet made it possible to undertake that basic approximation of structures, programmes and methods which can only result from co-ordination of the national policies of the Six.

268. The above considerations explain why the Commission continues to set store by the speedy establishment of a European University.

This will first of all have to be a dynamic centre for study and research on European affairs and provide a rallying point for the efforts of the national universities to the same end. Through the confrontation within its walls of lessons learned on the national plane, it will also have to be essentially the starting point for a renewal of structures, programmes and training methods at the highest level in the Community. To fulfil this objective the University cannot be merely a centre in which young research workers continue their individual studies. It would only be worth setting up if given the characteristic task of every university: that of forming an élite—a task it would have to perform even if financial or other factors prevented it from being as large as would be desirable.

With these considerations in mind the Commission followed with interest the negotiations between the six Governments in 1964 and 1965, to which the Italian Government invited it to send an observer.

269. The information programme for young people and adult education authorities continued along two lines:

- i) In the schools, where syllabuses, textbooks and courses are giving more and more attention to Community questions, thanks to the diffusion of suitable documentary teaching material and the organization of numerous meetings between educationalists (more than 150 in 1964);
- ii) In youth groups and popular education organizations whose leaders increasingly feel the need for thorough information to enable them to get a better grasp of the complex integration process going on and its conse-

quences for their members in their future working lives and as citizens. The higher grades of professional people in our countries can acquire the necessary knowledge of European matters during their university studies, but the methods and programmes of information and education of the middle grades have to be adapted to this.

The work undertaken among young people and in educational organizations naturally calls for contacts and consultations with the responsible Government services. For this purpose two meetings for the exchange of information were organized in 1964 with the senior officials handling these problems in the six Member States.

Scientific and technical research

270. In the Seventh General Report ⁽¹⁾ the Commission recalled its concern with scientific and technical research as expressed in its recommendation of 25 July 1963 to the Council on the Community's medium-term economic policy. Competition between the enterprises of the large industrialized countries will increasingly turn on the technical quality of manufactured products. Scientific and technical research programmes will therefore have to be directed to stimulating expansion of the more dynamic branches of production on which the Community's future depends. Care must be taken lest the industries in which competition is mainly based on innovations are gradually left behind for lack of adequate research. The Community countries are undoubtedly taking measures to promote research, but a pooling of their efforts would have the effect of multiplying them and make it possible to restore European scientific research to its former level.

To this end, various lines of action have been developed in the Community framework. The Commission's recommendation to the Council on medium-term economic policy pointed out that a special organization "would have to be set up to carry further the work done in the field of scientific and technical research". Basing itself on the text of the Council decision which established it, the Medium-term Economic Policy Committee decided on 5 March 1965 to set up a working party on scientific policy, whose terms

⁽¹⁾ See sec. 395.

of reference and composition will shortly be decided on. ECSC and Euratom will be closely associated with its activities.

The Commission examined its own possibilities of helping in this field. Commission officials have taken part in inter-Executive contacts "particularly with a view to determining how the experience of the three Institutions could promote the action undertaken", as the Commission stated in reply to a written question in the Parliament by M. Pedini and Madame Gennai-Tonietti. The Commission is prepared to give all aid to any inter-Executive working party set up.

Finally, a new departure by the Commission is likely following a proposal submitted on 4 March 1965 by the French Government regarding a common policy on scientific and technical research. This suggests two series of studies by the Community before a common policy and co-ordinated action are planned.

The first series would consist in the confrontation of current civil scientific research programmes in the Member States, with the aim of avoiding duplication and perhaps sharing certain tasks between the research bodies in the six countries. This would also yield a more precise idea of the scope and value of present or projected efforts and reveal weak points. The second series of studies would be an inventory of the vulnerable branches of industry of the six countries, i.e. those in which applied research is inadequate and those whose impetus depends closely and directly on the expansion of research.

In view of the arrangements already envisaged by the Medium-term Economic Policy Committee, the Member Governments requested the Commission to join with the Committee in studying means of implementing the French proposals.

Besides these general activities, the Commission has pursued its labours in the field of agricultural research in pursuance of Article 41 of the Treaty. Especially with an eye to action against swine fever, the working party has drawn up a research programme and has allocated tasks among the various bodies concerned. This allocation will shortly be finalized and a draft budget is being prepared.

CHAPTER IV

EXTERNAL RELATIONS

External trade

271. External trade, which had grown steadily since 1958, went on expanding in 1964.

EEC external trade (\$ million)

	1958	1959	1960	1961	1962	1963	1964
Imports	16 156	16 222	19 445	20 455	22 353	24 644	26 826
Exports	15 911	17 051	19 483	20 428	20 636	21 620	24 158

Between 1958 and 1964, imports rose 66% and exports 52%. The import growth rates of EFTA and the United States between 1958 and 1963, 38% and 29% respectively, were lower than the corresponding EEC figure of 53%.

The progress of trade from one year to another is uneven. The 1963 import and export figures, for example, show increases of 10.2% and 4.7% over 1962, while the 1963-1964 growth rates were 8.8% and 11.7% respectively. The expansion of imports has been stronger than that of exports, except in 1959 and 1964.

Balance of trade (\$ million)

1958	1959	1960	1961	1962	1963	1964
- 245	+ 828	+ 39	- 27	- 1 717	- 3 024	- 2 668

1959 and 1960 were the only years to show a surplus, which was partly due to an improvement in the French balance of trade, the devaluation of the franc in December 1958 having turned the deficit for that year to a surplus in 1959. The 1961 trade figures for the EEC as a whole were almost in balance, but in general the situation has steadily deteriorated

since 1959, with particularly high deficits in 1963 (\$3 000 million) and in 1964 (\$2 600 million).

This trend is partly explained by the rapid expansion of the economies of the Member States, the growth of internal demand and inflationary pressure. In 1964, the deficit on trade for the first six months rose to nearly \$2 000 million, but thanks to stabilization measures ⁽¹⁾, there was a considerable improvement in the second half of the year.

The appreciable rise in imports and the imbalance in external trade make it obvious that the Community has not cut itself off from the outside world, but has, on the contrary, opened wide the door to competition from non-member countries.

Taking intra-Community trade into consideration, the EEC accounted for 43% of the expansion in world trade between 1958 and 1964. The Community now plays a dominant role in international trade, having become the world's chief importer and its second largest exporter, close behind the United States.

272. The contributions made by the individual Member States to the Community's external trade vary widely and the pattern here has remained basically unaltered between 1958 and 1964.

Germany accounts for the largest part of the Community's external trade, having taken slightly more than one third of all imports and provided upwards of 40% of total exports in both of the years shown. France, Italy, the Netherlands and Benelux follow in that order. France's share in both imports and exports has declined while Benelux accounts for the same proportion of imports but now claims a greater share in exports. Germany and Italy are the only two countries to have increased their share of both imports and exports, thus making the largest contribution to the development of Community trade between 1958 and 1964. However, when gross national product and population are taken into account, Benelux and Germany emerge as the leaders.

As regards the balance of trade, deficits on the extra-Community account have been recorded by all Member States since 1958, except for Germany, with an unbroken series of surpluses, and France, where surpluses were

(1) See secs. 118 sqq. above.

TABLE 22

Imports (\$million) broken down by Member States

Year	EEC	France	Bel- gium/ Luxem- bourg	Nether- lands	Ger- many	Italy
Imports						
1958						
\$ million	16 156	4 382	1 674	2 107	5 465	2 528
Percentage	100	27	20	13	34	16
1964						
\$ million	26 826	6 304	2 755	3 384	9 516	4 867
Percentage	100	23	10	13	15	18
Exports						
1958						
\$ million	15 911	3 985	1 675	1 881	6 401	1 969
Percentage	100	25	11	12	40	12
1964						
\$ million	24 158	5 503	2 086	2 575	10 303	3 690
Percentage	100	23	9	11	43	15

recorded during the three years following devaluation in December 1958. Italy's deficit mounted steadily until 1964, when it accounted for 44% of the overall EEC deficit, despite an appreciable recovery in the course of the year. The Benelux deficit, like that of France since 1962, has also steadily increased.

The growth of intra-Community trade has not affected the EEC's world trade position; both imports and exports have held their own, showing

comparatively higher growth rates than those of other countries and economic groupings.

273. The tendency for the Community to do most of its external trade with industrialized countries grew stronger between 1958 and 1964 as the following table shows:

TABLE 23

External trade of the EEC broken down by area

In %

	Imports		Exports	
	1958	1964	1958	1964
EEC	100	100	100	100
Category 1 (industrialized countries)	53	57	54	65
EFTA ⁽¹⁾	22	25	31	37
United Kingdom ⁽¹⁾	7	10	8	9
USA ⁽¹⁾	17	20	10	12
Category 2 (developing countries)	42	37	38	29
Overseas associates ⁽¹⁾	9	8	12	7
Central and South America ⁽¹⁾	10	9	10	7
Category 3 (state-trading countries)	5	6	6	6

⁽¹⁾ Percentages based on total EEC imports and exports.

^(*) Associated African States and Madagascar, Overseas Departments, Overseas Territories and Algeria.

Nearly half of the Community's external trade is carried on with the EFTA countries and the United States, the latter's share having increased most since 1958. One quarter of the Community's 1964 imports came from the EFTA countries, which take over a third of EEC exports.

Although trade with the developing countries is now worth considerably more in absolute terms, it accounts for a lower proportion of the Community's total external trade, particularly in the export field, while the share of the state-trading countries has remained more or less unchanged.

In value, the pattern of trade varies appreciably from one major economic area to another.

TABLE 24

EEC balance of trade broken down by economic area

($\$$ million and percentage changes)

	Imports		%	Exports		%	Balance	
	1958	1964		1958	1964		1958	1964
Total	16 156	26 826	66	15 911	24 158	52	- 245	- 2 668
Category 1	8 526	15 451	81	8 638	15 621	81	+ 112	+ 170
EFTA	3 608	6 588	83	4 970	8 832	78	+ 1 362	+ 2 244
United Kingdom	1 192	2 585	117	1 330	2 275	71	+ 138	- 310
USA	2 808	5 430	93	1 664	2 849	71	- 1 144	- 2 581
Category 2	6 824	9 831	44	6 125	6 889	12	- 699	- 2 942
Overseas associates	1 546	2 054	33	1 860	1 652	- 11	+ 314	- 402
Central and South America	1 647	2 459	49	1 604	1 676	4	- 43	- 783
Category 3	789	1 506	91	980	1 331	36	+ 191	- 175

The biggest advances have been made in trade with industrialized countries. The 1964 imports from the United Kingdom were more than twice, and those from the United States almost twice as high as the corresponding 1958 figures. While trade with the EFTA countries showed a comfortable surplus in 1964, despite a deficit with the United Kingdom, the deficit on trade with the United States has more than doubled since 1958 and now stands at more than \$2 500 million.

Imports from the developing countries have risen faster than exports, which have even declined in some cases. Although Community exports to the overseas associates and Central and South America rallied somewhat in 1964, the overall deficit on trade with the developing countries was close to \$3 000 million.

Trade with state-trading countries continued to expand, with the EEC showing a slight deficit, but the total volume remains relatively low.

Since the growing tendency for the Community to trade with the industrialized countries of the free world is likely to become even stronger with the lowering of customs barriers, an attempt should be made to diversify and increase trade with other areas of the world, particularly with the developing countries.

THE KENNEDY ROUND OF TRADE NEGOTIATIONS IN GATT

274. The meeting of the Trade Negotiations Committee at ministerial level on 4 May 1964, marked the official opening of the Kennedy round. Having taken stock of the vast amount of work done to prepare the negotiations, the members of the Committee expressed the view that sufficient progress had been achieved in exploring the various problems involved for an effective start to be made with this new exercise in liberalizing world trade.

The decision to proceed was not without some reserve. It was taken despite the fact that some preliminary ground had not been covered and that no agreement had been reached on a number of fundamental points such as the rules for negotiation in the agricultural sector and, to some extent, the rules governing disparities; this shows that the countries represented at the meeting have every confidence in the future as well as the political determination to negotiate. Thanks to the principle of reciprocity, each of them will, in the final analysis, be able to weigh the concessions it makes against the advantages which it will gain.

Following the meeting of 4 May, technical arrangements were made for the submission of exceptions lists on 16 November and further steps were taken to set up machinery for examining the non-tariff and semi-tariff

measures which the participating countries wish to have included on the agenda of the negotiations.

The situation as regards disparities has not changed since 4 May 1964 ⁽¹⁾. It should nevertheless be stressed that the lack of progress on the disparities issue and on agricultural matters is more apparent than real. Some of the small European non-member countries, whose export interests are at stake, have accepted the Community's offer of bilateral discussions to seek mutually satisfactory solutions. These discussions have made it possible to pinpoint the problems and even, in a few cases, to chart the first steps towards a solution. However, those bilateral problems are so closely linked with progress on multilateral issues, particularly with the question of exceptions lists, that the adoption of a possible solution often depends on the attitude of another non-member country to the product involved. It may be that at some future point in the negotiations a sort of chain reaction will set in, producing solutions based on trade policy considerations binding on all the industrial countries of GATT.

The agricultural talks which preceded the official opening of the Kennedy round centred on the Community's proposed plan of negotiation. At its meeting of 4 May 1964, however, the Trade Negotiations Committee noted that it had not been possible to reach agreement on the rules and methods for the agricultural part of the negotiations. One reason why no substantial progress was made is that the Community still had a number of internal decisions to take on common prices for agricultural products; another is that some of the Community's negotiating partners were inclined to favour the traditional type of negotiations in this field, most of the commitments undertaken falling upon the importing countries.

The Community's negotiating team held a number of unofficial talks to find common ground but without departing from the mandate given by the Council on 23 December 1963.

A landmark was reached on 15 December 1964, when the Community laid down common cereal prices, demonstrating to non-member countries its ability to negotiate expeditiously a new kind of general arrangement on cereals in accordance with its plan of negotiation.

(¹) See Seventh General Report, sec. 289.

On 27 January 1965, the chairman of the Trade Negotiations Committee convened a meeting of the Agricultural Committee to seek ways and means of continuing the agricultural part of the negotiations. At its session of 1 and 2 March 1965, the EEC Council agreed on a number of essential points which were further developed in the procedural proposals made by Mr Wyndham White, Director-General of GATT, and approved by the Trade Negotiations Committee at its meeting of 18 March 1965.

The following time-table was adopted at this meeting:

- a) The negotiations on cereals will be resumed on 17 May 1965 on the basis of the proposals and concrete offers which were to be submitted by the members of the Cereals Group not later than 26 April;
- b) For all other products, the countries taking part in the negotiations will, commencing on 3 May 1965, initiate a procedure for confronting their national agricultural policies for the purpose of singling out elements of support and protection for discussion during the negotiations;
- c) The participating countries will submit, by 16 September, and in respect of all products, concrete offers bearing on all relevant elements of support or protection or on the overall effect of those elements.

Submission of exceptions lists for industrial products

275. On 16 November 1964, negotiations on industrial products got under way when exceptions lists, established on a linear basis, were submitted by five countries: the EEC, the United States, the United Kingdom, Finland and Japan ⁽¹⁾. The procedure of justifying these exceptions in accordance with the agreed criterion of "overriding national interest" took place from 19 January to 12 February 1965.

The Community's list was reduced to a bare minimum; the exceptions it contains are, as the Council decided in December 1963, not simply an aggregate of the requests made by the individual Member States but compare fairly closely with the list, based on Community considerations, which the Commission originally drew up after consulting the relevant

(¹) Switzerland, Austria, Denmark, Norway and Sweden announced that they did not intend to request exceptions; Canada submitted a list of "positive" offers and Czechoslovakia tabled a general offer.

trade circles and government departments. This awakening of Community interest, to which the Commission attaches great importance, was particularly evident at the time when the Community's list was tabled. It was apparent that care had been taken to fit the exceptions requested into the pattern of the Community's overall industrial policy. By thus taking a stand in favour of a proper economic analysis of each industry in an international context, the Community made out a strong case for its exceptions list, which doubtless made a considerable impression on the other Contracting Parties.

The Community's list contains a high proportion of partial exceptions. This means that for the products concerned, the Community is prepared to accept a lower tariff cut than the 50% which had been adopted as a working hypothesis. This is further proof of the Community's desire to make a maximum contribution to the negotiations whenever reciprocity makes this possible.

The procedure of justifying exceptions lists took place from 19 January to 12 February 1965. The countries concerned were called upon to explain their reasons for claiming exception for a given product on the grounds of "overriding national interest". The proceedings were very detailed. The information provided by the various countries was duly noted and will serve as a basis for future bargaining. However, the group of countries concerned took the view that no attempt should be made to draw general conclusions from the proceedings and refrained from any collective assessment as to the validity of the exceptions submitted. It was felt that there was an undoubted advantage to be gained by first seeking to define more clearly the bilateral problems involved and then to look for possible solutions; it was therefore agreed to spend some time on bilateral talks before taking a decision on the procedure for multilateral bargaining. The Community thus entered into bilateral discussions with various other countries, the general purpose of which is not necessarily to reach a number of balanced bilateral agreements but rather to pave the way for multilateral solutions to the problems arising.

Non-tariff measures

276. Non-tariff and semi-tariff measures are also a major item in the industrial negotiations. A number of discussion groups have already been

set up on such matters as customs value, government purchasing policy, quotas, internal taxes and state-trading.

The major problems here have to do with certain methods used to evaluate the customs value of various commodities, particularly in the United States.

277. The resolution of 4 May 1964 reaffirms two principles concerning the role of the developing countries in the negotiations: the first states that no effort will be spared to reduce obstacles to exports from the less developed countries, the second that the developed countries are not to expect reciprocity from those countries.

Forms and procedures for the participation of the developing countries ⁽¹⁾ were laid down a short time ago. The main difficulty was to decide on the nature and scale of the contribution to be made by the developing countries as an indication of their resolve to play an effective part in the negotiations.

The resolution of 4 May 1964 determined the scale of this contribution, but no decision has yet been reached as to the form it should take. The determining factor here should be the development needs of the countries concerned, but failure on their part to provide a contribution in keeping with their means—and their own interests— will limit the scope of the negotiations and the advantages they offer to all concerned.

Meeting on 18 March 1965, the Trade Negotiations Committee adopted a plan to serve as a basis for the participation of the developing countries. Under this plan, those countries are required to notify by 15 April 1965 that they are in a position to table their offers by 1 August; when they have given notice to this effect, they will receive the list of exceptions concerning the products in which they have expressed an interest as exporters. After tabling their offers, the countries concerned will be admitted to the negotiations ⁽²⁾.

⁽¹⁾ See also sec. 303 below.

⁽²⁾ Other aspects of the Community's relations with GATT are dealt with in sec. 303 (expansion of developing countries), sec. 313 (renegotiations) and sec. 342 (Association Agreement with Turkey).

Common commercial policy

278. In March 1964, the Commission laid before the Council a number of proposals for harmonizing trade policy. These proposals were part of a 1964 working programme on commercial policy covering all the sectors in which the Commission considers that systematic harmonization is urgently required during the transition period.

Since receiving these proposals, the Council has taken two major decisions concerning trade policy: first, it approved the trade agreement with Israel and secondly it agreed to extend Regulation No. 3/63 concerning trade relations with state-trading countries in respect of certain farm products, the list of which was extended to include milk, beef and rice ⁽¹⁾. This completes the series of decisions, taken over the past few years, relating to the inclusion of an EEC clause in trade agreements with non-member countries (1960) and arrangements for prior consultations in this field ⁽²⁾.

The results achieved in 1964, however, fell short of what the Commission considered necessary. The European Parliament, for its part, again stressed the need for decisions on the harmonization of trade policy. At its session of 22-26 March 1965, it adopted a resolution on a report by M. Hahn, calling for the gradual introduction of a common policy in the course of the transition period and urged the Council to adopt the Commission's proposals as rapidly as possible. In another resolution on the Commission's proposals concerning the financing of the agricultural policy, the Parliament expressed the view that for want of a Community commercial policy serious difficulties might well arise in this field. The Commission likewise stressed the need to bring forward decisions in this field in order to prepare the way for the stage when the Treaty will be fully operative.

Developments in the various branches of commercial policy during 1964/65 are described below.

GENERAL PRINCIPLES AND MANNER OF IMPLEMENTATION

Towards uniform import and export policies

279. The policy applied by the Member States towards the rest of the world as regards both imports and exports is broadly liberal in character,

⁽¹⁾ Council Regulation No. 107/64, 30 July 1964, official gazette No. 127, 7 August 1964.

⁽²⁾ See Fourth General Report, sec. 192.

except towards state-trading countries and, in certain sensitive sectors, several other non-member countries. Further liberalization measures have been introduced in respect of products formerly subject to import quotas. Discrimination against various geographical areas was relaxed and full liberalization was introduced on 919 tariff headings in respect of OECD countries and on 824 headings in respect of all GATT countries out of a total of 1097 tariff headings.

Considering that sufficient progress has been made with the standardization of national liberalization lists, the Commission plans to submit to the Council in the near future a proposal for the establishment of a common liberalization list for imports. First on this list should come those tariff items which the Member States allow to enter duty free from the other members of GATT. The Member States should also consolidate their individual lists, making any subsequent alterations subject to a Council decision.

A common list for exports is in the course of preparation.

The Commission is also working on a proposal for a regulation on the administration of import quotas whenever quantitative restrictions have been maintained or introduced by the Community or the volume of imports is laid down either by agreement or independently by the competent authorities. A similar project is envisaged for export quotas.

Late in 1964, the Member States and the Commission gave further consideration to certain restrictions on exports to non-member countries on which the Commission had issued recommendations. Earlier in the year, it had been planned to relax those restrictions by agreement with the other European countries concerned. Since nothing came of the OECD talks on this subject, a harmonized system will be maintained in 1965 at Community level for certain products such as raw hides, hemp seed and non-ferrous metals.

Competition on the world market

280. The continuance of abnormal conditions of competition on the world market may force the Community to take measures in defence of trade or grant aids for exports to non-Community markets.

Aids for exports to non-member countries

281. In 1964, a panel of experts was formed at the instigation of the Commission to make a detailed examination of the various aids or incentives to exports to non-member countries and the Commission plans to draw up proposals to harmonize a number of special export-aid schemes not already covered in other surveys. The Commission attaches particular importance to measures designed to promote sales abroad, co-ordinate initiatives taken by the Member States and prepare joint action for trade expansion.

Co-ordination of policy on credit insurance

282. The Group for the co-ordination of policy on credit insurance, guarantees and financial credits pursued its work with two objectives in mind—consolidation of the progress already made and further progress towards the harmonization of the policies of the Member States as regards credits and export guarantees.

The Group's first efforts were directed towards strengthening the consultation procedure instituted in May 1962 for co-ordinating, on the basis of specific cases, the policies of the Member States in the matter of export credits and guarantees. To this end, it laid before the Council certain proposals to extend the rule of consultation to certain operations to which it had not previously applied and to make the relevant procedure more binding. In July, the Council approved those new proposals and, at its session of 25-26 January 1965, adopted the new consultation procedure.

In order to improve industrial co-operation between the Member States in the export field, the Group undertook the delicate task of remodelling the rules governing sub-contracts which had previously been adopted by the Community.

The Group also continued its work on the harmonization of credit-insurance schemes, the ultimate aim being to establish a uniform Community system. The experts studying this matter have made substantial progress and are about to submit an interim report to the Council.

The Group carefully examined the possibility of having a Community agency such as the European Investment Bank contribute to the financing

of joint export projects, and reported its conclusions to the Council. Further attention is being given to this point.

Financial co-operation continued between the Member States and the Inter-American Development Bank, an experiment which could lead to other joint projects in non-member countries. The Member States have offered to put up funds to cover a first award of contracts.

Finally, the Commission took part in the work of the OECD Group on Export Credits and Credit Guarantees and attended the Geneva Conference talks on this subject.

Defence of trade

283. In November 1963 ⁽¹⁾ a proposal was referred to the Council concerning common principles and a Community procedure for measures to protect trade against abnormal export practices by non-member countries.

The Council has not yet reached a decision; the Commission takes the view, however, that if the Community is to possess a trade protection system similar to that of its major trading partners, regulations must be drawn up to provide against the most frequent of those practices—dumping, bounties and subsidies. The mere existence of such regulations would be sufficient to prevent those practices and help to establish proper trade relations between the Community and non-member countries. The Commission therefore intends to submit a new proposal for a regulation ensuring protection against dumping, bounties and subsidies by non-member countries.

COMMON COMMERCIAL POLICY VIS-A-VIS CERTAIN COUNTRIES OR GROUPS OF COUNTRIES

Trade agreement with Israel

284. The trade agreement between the Community and Israel, signed on 4 June 1964, came into force on 1 July 1964 ⁽²⁾. This is the second non-discriminatory trade agreement to be negotiated by the Community

⁽¹⁾ See Seventh General Report, sec. 297.

⁽²⁾ See official gazette No. 95, 13 June 1964.

with a non-member country, the first having been concluded between the Community and Iran on 14 October 1963⁽¹⁾. It represents a further step towards a Community commercial policy.

In a resolution of 13 May 1964, the European Parliament expressed the view that this agreement should be regarded as no more than an opening phase in commercial and economic relations between the signatories and stressed the need for wider outlets for Israeli farm products under the common agricultural policy.

The decision to open trade negotiations with Israel was taken by the Council at its session of 24-25 September 1962. Three rounds of talks were held—in December 1962, June 1963 and April 1964—and the draft agreement was initialled on 6 May 1964.

At its session of 22-26 March 1965, which was attended by a parliamentary delegation from Israel, the European Parliament adopted a resolution in favour of an association between the Community and Israel, calling on the Commission to support, in the meantime, any measures designed to improve relations within the framework of the agreement.

285. *Content of the Agreement:* The Agreement provides for temporary reductions of the Community's common customs tariff, ranging from 10% to 40% of the present rates and covering 21 agricultural and industrial products, including the following:

- i) Grapefruit: 7.2% (present rate 12%);
- ii) Grapefruit juice: 8% (present rate 19%);
- iii) Avocado pears: 8% (present rate 12%);
- iv) Stockings of man-made fibres: 17.6% (present rate 22%);
- v) Bathing costumes: 16% and 16.8% (present rates 20% and 21%);
- vi) Outer garments of man-made fibres: 16% (present rate 20%);
- vii) Sheet glass for hothouses: 8% (present rate 10%).

The list also includes reductions of about 20% for some chemical and aluminium products.

For all the products in question, those Member States which at present have a higher duty than the common customs tariff thus reduced began

(¹) See Seventh General Report, sec. 293.

applying the lower rate as soon as the Agreement came into force. Moreover, alignment on the present CCT rates has been effected by those Member States whose customs duties were above this level for seven headings or sub-headings such as oranges, natural citrus fruit juice, certain types of processed vegetables and asbestos thread. These speedier alignments on the CCT increase the economic importance of the reductions proposed.

For seven tariff headings or sub-headings partial or total liberalization measures for imports have been applied by certain Member States. For France this concerns natural citrus juice and lobes of grapefruit; for Italy it concerns certain bromides and potassium sulphate.

The Agreement contains a declaration of intention by Israel concerning Community exports to that country.

A Joint Committee of Community and Israeli representatives was set up with the task of supervising the implementation of the Agreement and following trends in trade between the Community and Israel.

A protocol appended to the Agreement provides that if the Community should conclude with one or more third countries which are large producers of oranges any agreement likely to affect materially the outlets for these products in Community markets, the question will be examined by the Joint Committee.

The two heads of delegations also exchanged letters containing a declaration of intention according to which the Community, in the course of the Kennedy negotiations, will give every consideration to the question of Israeli exports.

The Agreement was signed for three years and is renewable.

Implementation of the Trade Agreement with Iran

286. The Joint Committee set up under Article VI of the Trade Agreement concluded on 14 October 1963 between the Community and Iran met in Brussels from 20 to 22 October 1964 (1). This was the first

(1) See Seventh General Report, sec. 293.

meeting of a Joint Committee under a Community trade agreement with a non-member country.

The Committee studied the trend of trade between the Community and Iran and put forward to the competent authorities of the two parties suggestions for certain measures to improve it. These include, on the Community side, a more rapid adjustment of certain national duties on dried apricots and caviar towards the common customs tariff and earlier moves towards the 2% duty laid down for the tariff quota on raisins provided for in the Agreement. Meeting in the Council on 30 November 1964, the government representatives of the Member States decided to implement the proposals made by the Joint Committee by 1 March 1965⁽¹⁾.

The Iranian delegation undertook to draw their Government's attention to the Community's requests—particularly those regarding import arrangements, tenders and ratification of the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Approximation of Member States' trade policies towards Japan

287. The Commission considers that a high priority must be given to the Community's relations with Japan. A common trade policy should rapidly be laid down, so that the tariff reductions discussed in GATT can be extended to trade with Japan, but without jeopardizing certain sectors of Community activity.

The proposal for a uniform trade policy towards Japan⁽²⁾ was followed by a communication on 3 March 1964 proposing that an immediate start be made on exploratory talks between the Community and that country.

The Council discussed this question at its session of 13-15 April. On 24 June 1964, the Commission, complying with a Council request, outlined the possible content of a trade agreement between the Community and Japan, so that exploratory talks might begin. The proposals covered such matters as the establishment of a common negative list, Community rules

⁽¹⁾ See Seventh General Report, sec. 293.

⁽²⁾ *Ibid.*, sec. 295.

for quota administration, the application of a Community safeguard clause and the assurances to be provided by Japan as regards Community exports.

Subsequent discussions in the Council failed to reconcile the views of the Member States, and the Commission was requested to prepare, in the light of those discussions, fresh proposals for submission to the Council in 1965.

Relations with state-trading countries

288. In the Seventh General Report ⁽¹⁾, the Commission explained the reasons for its proposal for the speedier establishment of a common trade policy towards state-trading countries, which it had submitted to the Council on 3 March 1964. Although the proposal has been widely discussed over the past year, it has still not been adopted by the Council and there are no signs that it will be in the near future. In the meantime, until guidelines have been laid down for future common commercial policy, nothing further is being done on the basis of the Action Programme of 25 September 1962.

On 30 July 1964, the Council extended until 31 December 1965 Regulation No. 3/63/CEE on trade relations with state-trading countries in respect of certain agricultural products. The scope of this regulation was also enlarged to cover the products referred to in Regulations Nos. 13, 14 and 16/64 (milk, beef and rice).

289. From 25 to 29 January 1965, the Commission held technical discussions with a Yugoslav delegation on trends in trade between Yugoslavia and the Community. These talks will be resumed at a later date.

In November 1964 and again in late March 1965, the Commission discussed the problems of Poland's exports of agricultural products with a delegation from that country. In view of the assurances offered by Poland as to sluice-gate prices, the Commission decided not to impose a supplementary amount on Polish eggs, this in accordance with the provisions of Article 4 of Commission Regulation No. 109.

(¹) See Seventh General Report, sec. 296.

Exploratory talks with Spain

290. In a letter dated 14 February 1964, the Spanish Government, recalling its application for association made in 1962 ⁽¹⁾, proposed exploratory talks to examine objectively what form of relationship could be established between Spain and the Community and to find the most appropriate solutions. The Spanish Government pointed out that with the completion of its economic development plan, the time was ripe for talks to determine what commitments could be accepted by both sides; such commitments could then be written into the Spanish Economic and Social Development Plan.

On 2 June 1964 the Council replied that it had authorized the Commission to open discussions in order to seek solutions to the economic problems facing Spain as a result of the expansion of the Community ⁽²⁾.

On 9 December 1964, the first meeting between a Spanish and a Commission delegation took place in Brussels. The head of the Spanish delegation, H.E.M. Jose Nuñez-Iglesias, read out a statement on economic relations between Spain and the EEC. It was agreed that the Commission would send a questionnaire to the Spanish authorities covering the points raised in the statement. The questionnaire was submitted to the Spanish mission on 10 February 1965 and further talks are to be held in the course of the year.

Bilateral trade agreements

291. The Commission is preparing a complete list of trade agreements and commercial or navigation treaties in force between the Member States and non-member countries. Proposals are also being prepared to replace those arrangements by Community agreements or treaties by the end of the transition period at latest.

Participation of European Parliament in conclusion of agreements

292. At its January 1965 session, the European Parliament unanimously adopted a resolution on the role it is to play in the procedure for concluding trade agreements between the Community and non-member countries.

⁽¹⁾ See Fifth General Report, sec. 195.

⁽²⁾ See also Ch. VII, secs. 348 and 349.

Under the proposed procedure, such agreements will be discussed first by appropriate parliamentary committees—a Commission representative being present—and then by the plenary Parliament which will render an opinion if thought fit.

Speaking on behalf of the Commission, M. Rey said that he agreed with the general principles of parliamentary intervention as set out in the resolution, observing that it was politically desirable that the Parliament should have a hand in the conclusion of such agreements, adopting for the purpose any procedure of its choice. M. Rey stressed that the proposal was already being followed to a large extent in practice; but he advocated a certain flexibility in applying it, for overstrictness might bring negotiations and procedures to a standstill or at least give rise to complications.

At its session of 22-26 March 1965, the Parliament, acting on a report by M. van der Goes van Naters on relations between the European Parliament and the parliaments of the associated European States, adopted a resolution urging that the various Association Committees be merged in a single "Parliamentary Association Committee".

NEGOTIATIONS WITH AUSTRIA

293. On 3 June 1964, the Commission submitted to the Council a report on its exploratory talks with the Austrian mission held between July and December 1963 to discuss what steps could be taken to meet the Austrian Government's request of 12 December 1961 for an arrangement with the Community. The Commission's report summarizes the views of the Austrian representatives regarding the content of an agreement with the Community and briefly analyses the various approaches which might be adopted.

The Council debated the report at its session of 28-30 July 1964. It was realized that Austria, with its close trade relations with the Community, its neutral status and its State Treaty, was a case apart. Desirous of finding a solution to the problem, the Council instructed the Committee of Permanent Representatives to draw up, with the help of the Commission, a plan for negotiations with the Austrian Government.

The Committee of Permanent Representatives began this task with the help of an "ad hoc" group of experts, but despite their diligent efforts

and the Commission's assistance, work had not been completed by the end of January 1965. Considering that settlement of the Austrian problem could not be delayed any longer, the Council decided on 2 February 1965 to request the Permanent Representatives to prepare, for the next Council session, draft directives concerning only those points on which immediate agreement could be reached between the Member States. The Committee's draft was unanimously adopted by the Council at its session of 2 March 1965 and the Commission was instructed to open the first round of negotiations with the Austrian Government.

The purpose of those negotiations will be to study possibilities for an agreement removing obstacles to trade between the Community and Austria and providing sufficient harmonization of Austrian customs and economic policy with that of the Community to prevent distortion of competition. The Council will give the Commission further directives on the degree of harmonization considered necessary. Special institutions designed to prevent any disturbance in the smooth running of the Community will be set up to implement the agreement.

The negotiations opened in Brussels on 19 March 1965. The Austrian delegation was headed by M. Bock, the Minister of Trade, accompanied by M. Kreisky, Minister of Foreign Affairs. In a statement, M. Bock recalled the special problems with which Austria is faced and gave certain pointers as to the kind of agreement the Austrian Government would like to see concluded. It was agreed that the first working sessions should begin on 22 April.

The Community and the World

THE EUROPEAN COUNTRIES

United Kingdom

294. The measures taken by the British Government in October 1964 to overcome its balance-of-payments difficulties were discussed in detail by the Commission, with particular reference to their effects on trade between the Community and the United Kingdom. The Commission stated in a

communiqué that while it was aware of Britain's difficulties, it deplored the failure of the British Government to discuss them in advance with its trading partners within the framework of existing international organizations. The Commission also stressed that the Community was particularly affected by the British measures which, unless revoked within a short space of time, were likely to compromise the GATT negotiations.

The Commission took an active part in talks on this matter in several international organizations—GATT, OECD and the WEU Council.

When the members of GATT met to consider the British measures in December 1964, the Commission representative, speaking on behalf of the Community, said that the British surcharges were incompatible with the General Agreement and, pointing to the adverse effect they were having on EEC trade, called for their speedy removal. He also expressed sympathy with the developing countries' desire to see the rapid removal of surcharges on products of particular interest to them. The Commission's spokesman also stressed the need to exempt from the surcharge any goods imported under contracts concluded before 27 October.

Contacts between the Community and the United Kingdom were maintained at meetings of the WEU Ministerial Committee held in Brussels (April), Paris (July), Bonn (November 1964) and Rome (March 1965). A number of questions of mutual interest were discussed, including the economic situation and policy of the Community and Great Britain, the Kennedy round, the UN Conference on Trade and Development, the draft patents convention and relations between the EEC and EFTA. At the November meeting the British delegate explained the tariff measures taken by the United Kingdom.

Returning a visit to London by M. Rey in April 1964, Mr Douglas Jay, the new President of the Board of Trade, met several members of the Commission in Brussels on 13 January 1965 to discuss progress in the GATT tariff negotiations. The Commission took the opportunity to recall the Community's position on the measures taken by the United Kingdom in October 1964.

On 22 February 1965, the British Government announced its decision to reduce the surcharge from 15% to 10% with effect from 27 April 1965. The announcement was made simultaneously in the House of Commons and the EFTA Council in Geneva. The United Kingdom's partners in

EFTA and GATT, where the matter was again discussed in March, took note of the decision and hoped that the surcharge would before long be entirely abolished.

Ireland

295. Contacts have been maintained with the Irish mission to the European Communities. The problem of the application of certain agricultural regulations, particularly those relating to beef and milk products which had already been discussed on previous occasions, again appeared on the agenda of the various talks held with the Irish mission and with the Irish Minister of Agriculture, Mr Charles Haughey, when he visited the Commission on 26 January 1965.

Mr Haughey repeated on this occasion that it was Ireland's wish to resume negotiations for membership of the EEC as soon as circumstances should permit.

Denmark

296. Close contact has been maintained with the Danish authorities in the course of the year. The problems facing Denmark as a result of the gradual implementation of the common agricultural policy were carefully examined by the Commission and also at the two meetings held between Commission experts and the Danish Government to prepare for the visit which M. Haekkerup, the Danish Minister of Foreign Affairs, will pay to the Commission in May/June 1965.

On 4 and 5 February 1965, M. Rey paid an official visit to Denmark. The Danish Government expressed the desire to maintain and strengthen its links with the Commission.

Norway

297. Contacts at government level were made with Norway on 15 May 1964 when M. Lange, the Norwegian Minister of Foreign Affairs, paid a visit to the Commission. Discussions centred on certain aspects of relations between Norway and the Community, the problems raised by

the Kennedy round and the Community's policy with regard to tariff quotas. Further talks on this last point were subsequently held between experts.

EUROPEAN ORGANIZATIONS

Council of Europe

298. The Community has been following the work of the Consultative Assembly, much of whose debating time has been taken up with relations between the United States and Europe and the prospects for European political union.

At the joint session of the Consultative Assembly and the European Parliament held in Strasbourg on 12-13 June 1964 ⁽¹⁾, President Hallstein and M. Rey, member of the Commission, delivered addresses on Europe's world trade position.

The Commission has played an active part in the work of the committees of experts convened by the Council of Europe, particularly as regards the European Consular Convention, patents, social security for workers and cultural co-operation.

At the instigation of the Consultative Assembly, the Commission considered the possibility of closer co-operation with the Council of Europe, which may well prove fruitful in many fields. A working Party consisting of Commission and Council of Europe officials is due to meet shortly to initiate such co-operation.

The Organization for Economic Co-operation and Development

299. Most of the work done by OECD in conjunction with the Commission in the field of commercial policy was concerned with trade relations between industrialized and developing countries in the light of the World Trade Conference, which clearly showed that the industrialized countries

⁽¹⁾ See Ch. VII, sec. 348.

would have to remould their trade policy towards developing countries. OECD provides an ideal forum for co-ordination between the developed countries in this field. The Committee for trade in basic commodities and manufactured goods is covering this ground in full detail and has also begun a study of the removal of non-tariff trade barriers between OECD member countries (dumping, government purchasing, procedure for the issue of licences, customs classification and value, etc.).

The member countries of OECD have agreed to consult one another before making any major changes in their trade policies. For example, consultations were held with the United States when that country amended its anti-dumping legislation.

In the field of economic policy, OECD has discussed the balance-of-payments difficulties experienced by some of its members. Ten of these have formed a group to provide financial assistance whenever deficits occur in their balance of payments; OECD has been requested to exercise multilateral supervision over the funds used for this purpose and to examine the procedure whereby the balance of payments is geared to the internal economic situation in the member countries.

With the active co-operation of the Commission, the Economic Policy Committee has also endeavoured to combat inflationary trends in certain member countries. Assessing the situation in the OECD member countries, the Committee found that progress so far made was consonant with the planned target of a 50% increase in the gross national product between 1960 and 1970 ⁽¹⁾.

THE COMMUNITY AND THE DEVELOPING COUNTRIES

300. As a result of economic expansion in the Community and continued efforts to assist the developing countries and territories, imports from the latter have risen steadily, being worth \$9 831 million in 1964 as against \$6 824 million in 1958.

⁽¹⁾ The part played by the Commission in OECD development aid schemes is described in sec. 304. For relations with WEU see sec. 294 "The United Kingdom".

Trends in Community trade with the developing countries and territories

301. The EEC remains the chief customer of the developing countries, with import figures roughly ten times higher than those of the USSR, twice as high as those of the United Kingdom and well above those of the United States. The role of the EEC assumes even greater significance when it is realized that its deficit on trade with the developing countries has grown steadily since 1958 (see table overleaf), rising from 699 million units of account in 1958 to 2 467 million in 1963, and 2 942 million in 1964.

In the Commission's opinion, the Community should make even greater efforts to step up trade with the developing countries, to help stabilize the prices of basic commodities at a "fair, stable and remunerative level" ⁽¹⁾ and to co-ordinate technical and financial assistance.

In order to attain those objectives however, the member countries must practise effective co-ordination, and this is the aim of the Commission's efforts; as emphasized in the Parliament resolution of 23 October 1964, failure by the Six to adopt a common attitude in this field could have serious adverse effects on the harmonious development of world trade.

UN Conference on Trade and Development

302. The UN Conference of Trade and Development was held in Geneva from 23 March to 15 June 1964 ⁽²⁾. This was the first time that trade and economic development experts from all over the world had met in an attempt to organize trade in a manner likely to contribute more effectively to the development of the less favoured countries. While the conference made a strong impression on public opinion, especially in the developing countries, it seems to have produced little in the way of immediate results, merely marking the starting point of discussions at world level. It did, however, set up a number of new organizations which will henceforward be the forum for permanent and detailed discussion of world trade problems.

⁽¹⁾ See statement made on behalf of the Community by M. Brasseur, Chairman of the Council at the GATT ministerial meeting in May 1963.

⁽²⁾ See Seventh General Report, sec. 269.

TABLE 25

EEC Trade with the developing countries and territories (1)

In \$ million

Year	Origin		Destination						EEC trade balance with		
			EEC imports			EEC exports					
	Category 2 countries		AASM		Category 2 countries		AASM		Category 2 countries		
	Value	Index	Value	Index	Value	Index	Value	Index	Value	Value	
1958	6 824	100	914	100	6 125	100	712	100	—	699	— 202
1959	6 669	98	854	93	5 926	97	585	82	—	743	— 269
1960	7 485	110	952	104	6 738	110	603	85	—	747	— 349
1961	7 575	111	941	103	6 765	110	673	95	—	810	— 268
1962	8 163	120	930	102	6 197	101	666	94	—	1 971	— 264
1963	8 822	129	989	108	6 355	104	726	102	—	2 467	— 263
1964	9 831	144	1 147	125	6 889	112	820	115	—	2 942	— 327

(1) Category 2 countries.
 Source: Statistical Office of the European Communities (Table 8, Monthly Statistics, 1965, No. 2).

At its October 1964 session, the European Parliament stressed that the Conference was the starting point of a new policy and regretted that on this important occasion the Six had been unable to appear before the world as a single economic entity: the Conference showed that there are still obstacles in the way of effective co-ordination between the Member States. On the other hand, the Parliament noted that at no point had any serious attack been made on the Community but that, on the contrary, many of the developing countries placed their hopes in what the Community might do.

The Conference was attended by 120 countries, including the six Member States, the Community being represented by an observer.

The following matters were discussed:

- i) Primary products: access to and organization of markets;
- ii) Semi-manufactures and finished products: access to markets and possible preferential tariff treatment for developing countries;
- iii) Compensatory financing;
- iv) New institutional machinery.

Primary products: two opposing views were advanced here, the one traditionally upheld by the free-traders—which found support from some of the developing countries—in favour of free access to markets, and the other held by the Community and put forward in Geneva on its behalf by M. Brasseur. In accordance with this view, of which France is the chief exponent, markets in the primary products should be organized in such a way as to stabilize prices at a fair level. The main arguments on either side will be found in the introduction to the final recommendation.

Semi-manufactures and finished products: the Member States and the Commission reaffirmed their support for the principle of tariff preference for finished products manufactured by the developing countries. This view was not shared by the Anglo-Saxon and Scandinavian countries. The recommendation of the Conference on this point is in two parts, the first dealing with standstill measures and the removal of trade barriers, the second with preferences, the principle of which was accepted by all the developing countries and the great majority of the advanced countries.

It was recommended that the UN Secretary-General set up a special committee to work out the best method of implementing such preferences without reciprocal concessions from the developing countries and to further explore any differences of principle which came to light.

Compensatory financing: the International Monetary Fund was invited to render more flexible the compensatory credit system it introduced in 1963 and to consider ways and means of refinancing the commitments of developing countries whose export earnings were invariably inadequate for the purpose. The International Bank for Reconstruction and Development was invited to study a new non-automatic scheme for providing longer-term assistance than is at present offered by the International Monetary Fund. Funds for such a scheme could be obtained through extra contributions to the International Development Association.

The new institutional machinery: the Conference recommended several new arrangements to the General Assembly of the United Nations, including the recognition of the Conference on Trade and Development as an agency of the General Assembly, the establishment of a permanent Conference secretariat to be known as the Council for Trade and Development (which would in turn set up any subsidiary agencies required, laying down their terms of reference and rules of procedure) and finally the establishment of a permanent secretariat within that of the United Nations itself.

Conclusions: the Conference had the merit of suggesting new approaches to the problem of redressing the balance between the prosperous and less prosperous countries of the world. In this respect, the proceedings were dominated throughout by two opposing though not necessarily irreconcilable concepts: on the one hand, there were the Anglo-Saxon and Scandinavian countries with a plan based on the classical concept of free trade and on the other, there was the Community, and one or two Member States in particular, whose position is essentially linked with the conclusion of commodity agreements and a market organization to achieve "stable, equitable and remunerative prices" together with the principle of tariff preference for goods manufactured in the developing countries. The path which led to this Community position was not an

easy one and the Member States did not always see eye to eye on the various recommendations.

It is nevertheless a position which provides the Community with an opportunity to broaden its present policy with regard to association, which is based on specific tariff preferences, into an overall policy towards the developing countries and still amply safeguard the interests of the Associated States. The Commission will therefore spare no effort to look further into the problem and to play as active a role as possible both at Community level and in the new UN institutions.

Sequels of the Conference: on 30 December 1964, in the course of its XIXth session, the General Assembly of the United Nations took note with satisfaction of the report and final Act of the Conference, and approved the recommendations for the new institutional machinery. The meetings of the agencies thus established will be attended by Community observers.

The Commission is closely following the work being done as a result of the Conference and will submit in due course proposals for effective Community action.

*Expansion of trade with the developing countries
within the framework of GATT*

303. Co-operation between the EEC and GATT in this field continued on an even greater scale in the agencies set up as a result of the GATT ministerial meeting held in May 1963 (1).

During discussions of the Working Party on Preferences the Community came out in favour of the developed countries granting tariff preferences on certain products as an incentive to industrialization in the under-developed countries, and of those countries granting preferences to each other. This question has not been finally settled and will be further considered by the new Committee on Trade and Development. While reminding the Action Committee of the Community's qualified views on

(1) See Seventh General Report, sec. 271.

the "Action Programme", the Commission notified the Committee of certain measures taken either by the Community or the Member States to lower or remove barriers to trade in products of which the developing countries are exporters.

New chapter added to the General Agreement: at the end of October 1964, the GATT Committee on the Legal and Institutional framework completed the draft of a new chapter entitled "Trade and development" for inclusion in the General Agreement. After review this draft was embodied in a Protocol. At a special meeting of the Contracting Parties held in Geneva on 8 February 1965, 53 countries signed the final act authenticating the Protocol and 28 countries signed the Protocol itself. A Committee on Trade and Development was set up on which the Member States and the Commission are represented. The Committee has taken over the duties hitherto discharged by the various committees mentioned above.

Five Member States signed the Protocol subject to ratification, France abstaining. The Commission representative informed the Contracting Parties that the Community as such had not yet adopted a position on the Protocol, adding that this did not affect matters concerning the Member States individually.

On 18 March 1965, the Commission submitted to the Council a proposal for the signature of the Protocol by the Community as such.

This amendment to the General Agreement will be approved by the Contracting Parties in accordance with their respective procedures. Under Article XXX of the General Agreement, it will come into force when two thirds of the Contracting Parties have notified their approval. However, the governments represented at the meeting of 8 February adopted a declaration, announcing their intention of applying the provision of the new chapter *de facto* to the extent allowed by their constitutions and existing legislation.

The main provisions of the new chapter are a compromise between the two proposals put forward at the ministerial meeting held in May 1963. Underlying those proposals, which were extensively discussed during the conference, are two concepts, the first based on the traditional principles of free trade and the second, which is the Community's on a certain organization of markets, with measures to control prices and facilitate the application of the most-favoured-nation clause to developing countries.

Both concepts are partly embodied in the new chapter. Under Article XXXVIII of the General Agreement, the Contracting Parties are required to take action, including action through international arrangements, to provide improved and acceptable conditions of access to world markets in primary products; Article XXXVIII specifies what commitments are required in order to facilitate access to markets (particularly the standstill rule in tariff and non-tariff barriers). These commitments are mainly derived from the traditional concepts which the Community had considered inadequate, particularly as regards farm products.

Meeting in Geneva in March during the annual session of GATT, the Trade and Development Committee submitted a report which was approved by the Contracting Parties.

The Committee also laid down procedure for examination notifications made under Article XXXVII (2) of the new chapter, which states that the developed and other countries must report any departures from the general rule in favour of products of interest to the less-developed contracting parties (e.g. the standstill rules on tariff and non-tariff barriers). The Committee also decided that the Contracting Parties would be invited to report any measures taken to implement the other provisions of the said article.

The Committee also made the necessary arrangements to fulfil its other duties. Several working parties were set up, including a working party for the expansion of trade between developing countries, whose chief task will be to study the role of preference in trade between developing countries, a new working party on preferences which will consider proposals for the granting of preferences by industrialized to developing countries, and finally, the working party on basic commodities and related international problems, which will be concerned with measures to stabilize the price of basic commodities at an equitable and remunerative level. This last working party was set up at the instigation of the Associated African States and Madagascar, who played an active role in the work of the Committee.

The OECD and development work

304. In addition to co-ordinating financial aid to the developing countries, the OECD countries and the Commission set up three new working

parties to examine what the UN Conference had achieved in the domain of financial assistance.

Thanks to the existing Consortium, Turkey received considerable financial aid to which the Community countries contributed; a similar scheme is being worked out for Greece.

Co-ordination of development aid and technical assistance

305. The Working Party on Development Aid, set up in 1963⁽¹⁾, submitted an interim report, suggesting certain guide-lines for a Community policy on development aid. The working party are anxious to find an approach which will yield practical results—a criterion which will be uppermost in their mind when they come to formulate proposals on the subject.

The Technical Assistance Group for the developing countries (set up by the Council on 19 October 1960) held three meetings in the course of 1964. Efforts were made to co-ordinate bilateral technical assistance schemes for reviving the National Institute of Agricultural Studies in the Congo (Leopoldville) and for a new procedure for the exchange of information between the Member States and the Commission.

International commodity agreements

306. The Community is represented by an observer at meetings of the International Coffee Council, the International Wheat Council, the International Sugar Council and the International Olive Oil Council. It took part in the multilateral negotiations leading to the conclusion or renewal of those agreements.

Negotiations to renew the International Tin Agreement are in progress. At the request of the Committee of Permanent Representatives, the Commission has submitted an initial report to the Council and, in view of the stage reached in the negotiations, plans to lay down guide-lines and suggest approaches for common action in this field.

(¹) See Seventh General Report, sec. 277.

After the failure of the Conference for an international cocoa agreement, the major producing countries drew up an agreement to stabilize the cocoa market which came into force on 1 October 1964. The Community is still in favour of further talks between the producer and consumer countries on cocoa prices.

The Commission sent observers to the meeting of the International Coffee Council and to the first FAO conference on the banana industry.

Finally, the Commission regularly participates in the work of the various international study groups on commodities such as lead, zinc, rubber, wool, jute, tea etc.

NEGOTIATIONS WITH NON-MEMBER COUNTRIES

Lebanon

307. As its session of 13-15 April 1964, the Council instructed the Commission to open negotiations with the Lebanon with a view to an economic agreement with that country (1).

The negotiations took place from 13 to 15 May 1964, and led to the initialing, on 9 March 1965, of an agreement on trade and technical co-operation.

The main points of the agreement are as follows:

- i) The EEC and the Member States on the one hand and the Lebanon on the other will grant each other most-favoured-nation treatment in the widest sense of the term (i.e. including MFN treatment in the field of non-tariff obstacles to trade);
- ii) Co-ordination of Member States' activities in the field of technical assistance to the Lebanon by co-operation between the Contracting Parties. This could be done by sending experts to the Lebanon, providing technical training for Lebanese nationals in the EEC, preparing surveys on the exploitation of Lebanese natural resources and by supplying technical equipment.

(1) See Seventh General Report, sec. 304.

For this purpose, a joint working party on technical co-operation, composed of representatives of the Member States, the Commission and the Lebanon will be set up to examine Lebanese applications for assistance and to supervise the execution of schemes approved;

iii) The establishment of a mixed Commission of Community and Lebanese representatives to watch over the proper application of the trade clauses of the agreement and to observe trade trends.

A protocol on oranges and a declaration of intent concerning credit insurance for Community exporters to Lebanon are annexed to the Agreement.

The Agreement is for a duration of three years and is renewable.

Exploratory talks with the Maghreb countries

308. In 1963, Tunisia, followed by Morocco and Algeria, proposed exploratory talks with the Community ⁽¹⁾.

Both Tunisia and Morocco referred to the Protocol to the Rome Treaty for the safeguard of their special trading system with France and, more particularly, to the declaration of intent appended to the Treaty, concerning the association of independent countries of the franc area. Algeria's application was based on Article 227 of the Treaty and also on the same declaration of intent.

At the request of the Council, discussions were held with Tunisia from 13 December 1963 to 18 January 1964, with Morocco from 30 January to 12 June 1964 and with Algeria from 28 February to 18 December 1964. The Commission's report on the talks with Tunisia and Morocco was submitted to the Council on 14 October 1964 and that on the Algerian talks on 24 February 1965. On the basis of those reports, the Council is now considering terms of reference for subsequent negotiations. The requests submitted by those three countries are broadly similar and cover the following points:

Trade: the Tunisian, Moroccan and Algerian authorities have stated that they are in favour of overall preferential agreements with the EEC. They

(¹) See Seventh General Report, sec. 305 sqq.

agreed that any such agreements should be in keeping with GATT regulations, adding that the formula of a free-trade area, adjusted to take into account the wide difference in economic development between the signatories, might be adopted, at least as a working hypothesis. The Maghreb countries would, however, reduce customs duties and quotas at a much slower pace than the EEC Member States, who would be expected to apply a system as similar as possible to that in force between themselves. Furthermore, provision would have to be made for safeguard clauses if balance-of-payments difficulties made it necessary to protect infant industries or to re-introduce customs duties as a source of revenue.

Naturally enough, it was for farm products, their chief exports, especially fruit, vegetables and wine, that the three countries wished to derive substantial advantages—equivalent at least to those they now enjoy. In this connection, a formula will have to be found to smooth the transition from a preferential to a uniform Community system.

As regards financial and technical assistance, the three countries said that they were interested in several types of scheme, ranging from grants and loans on the one hand to the conduct of surveys and expert advice on the other. The three delegations suggested that financial assistance could be justified at least in part by the adverse effects which the EEC's agricultural policy might have on their exports.

As regards manpower, the three countries were anxious to obtain the best possible conditions for those of their nationals employed in the Member States and to arrange for vocational training courses both in North Africa and in Europe.

Non-member countries with economic and production structures similar to those of the Associated States

309. *Nigeria*: On the basis of a Commission report ⁽¹⁾, the Council drew up, on 8 June 1964, terms of reference for negotiations with this country. The first two rounds of talks, which took place from 14 to 17 July and from 19 to 23 October 1964 made it clear that the pattern

⁽¹⁾ See Seventh General Report, sec. 245.

of future relations between Nigeria and the EEC could be based on an association agreement providing for mutual rights and obligations and following as closely as possible the lines of the Yaoundé Convention. As regards trade, consideration is being given to the gradual establishment of a free trade area; on the institutional plane it has been agreed in principle to make provisions concerning liberalization of establishment, services payments and capital transfers.

A third round of negotiations was held from 9 to 12 February 1965 on the basis of a supplementary mandate adopted by the Council on 2 February.

310. *The East African States: Kenya, Uganda and Tanzania* ⁽¹⁾: On the basis of the Commission's report on the exploratory talks held with those three countries from 10 to 14 February 1964, the Council drew up terms of reference for negotiations at its session of 12-13 October 1964.

The first round took place from 1 to 8 March 1965, and the second will probably be held in June.

The pattern of future relations with those three countries poses similar problems to those which emerged in the negotiations with Nigeria.

ASIAN COUNTRIES

311. On the eve of the trade negotiations in GATT and the United Nations Conference on Trade and Development, contacts were established between the Commission and the Indian Pakistani missions with a view to reaching a clearer understanding of the problems of their mutual relations. Further contacts took place during the World Conference itself.

In September 1964, the Indian mission suggested exploratory talks to seek practical solutions to the chief problems between India and the Community.

LATIN-AMERICAN COUNTRIES

312. Generally speaking, relations between the Community and Latin America, which were initially marked by a critical attitude of the latter

(¹) It will be remembered that since the publication of the Seventh General Report, Tanganyika and Zanzibar have united to form the Republic of Tanzania.

towards the basic concept of European integration, have now entered a more constructive phase, in which the desire for co-operation and agreement is clearly growing stronger.

A number of prominent South Americans visited the Commission, among them Dr Pedro Abelardo Delgado, Secretary-General of the Treaty for the Integration of Central America, and M. José Antonio Mayobe, Executive Secretary of the United Nations Economic Commission for Latin America. The Organization of Central American States opened a liaison office in Brussels. At inter-American meetings attended by the Commission (Trade Committee of the Economic Commission for Latin America at Santiago, Chile, in November 1964, Inter-American Economic and Social Council, Lima, December 1964), the hope was expressed that the Community would place its economic power and its experience in the techniques of integration at the service of Latin-America development.

At its session of 23-26 November 1964, the European Parliament adopted a resolution stressing the political and economic importance of strengthening relations between the EEC and Latin America, and invited the Commission to submit new proposals along those lines to the Council. The Commission will very shortly convene a meeting of the contact group between the Commission and the missions of the Latin American countries in order to prepare the ground for such proposals.

The Commission regards the resolution as an incentive to continue with the drafting of proposals concerning the only continent in the western world which has fallen seriously behind as regards development and which does not enjoy the benefits of multilateral co-operation with Europe.

Mindful of the need to develop relations with Latin America along those lines, the Commission began in 1963 to convene regular meetings of a contact group composed of the heads of Latin-American missions to the Community.

The group's discussions were interrupted by the Geneva Conference on Trade and Development but were resumed on 30 April. A number of *ad hoc* working parties will undertake a full-scale analysis of economic relations between the EEC and Latin America and associated problems. This work will result in due course in the new proposals referred to in the resolution adopted by the European Parliament.

A Press and Information Office will shortly be set up in Montevideo ⁽¹⁾ which is the seat of the Latin-American Free Trade Association. The Commission will do its utmost to make the fullest use of this office despite its limited potentialities.

RELATIONS WITH INTERNATIONAL ORGANIZATIONS

Relations with GATT

313. In addition to the points discussed above (Kennedy round, expansion of trade of the developing countries, etc.), mention should be made of renegotiations under Article XXVIII of the General Agreement which the Community has conducted with Canada, Australia and New Zealand. The talks with New Zealand covered the entire range of customs duties, since that country has introduced a new tariff system similar in structure to the Brussels nomenclature. The negotiations were concluded on 26 October, 5 November and 3 December 1964 respectively, all three countries agreeing to bind the tariff concessions made in favour of the Community as a whole.

Furthermore, the Contracting Parties examined the report submitted by Committee II on the consultations it held in February on the changes made in the agricultural policies of the United States, the United Kingdom and the EEC. The Contracting Parties gave particular attention to the results of the consultations with the Community concerning the common regulations on milk products, beef and rice.

Finally, the Commission representative gave what has now become the traditional address to the Contracting Parties on developments in the EEC.

United Nations and Specialized Agencies

314. The United Nations' invitation to the Community to send observers to the World Conference on Trade and Development helped in some

(¹) See Ch. VII, sec. 381.

measure to strengthen the bonds between the two organizations, although no formal agreement was concluded. Relations can be expected to grow even closer with the setting up of the new machinery decided by the Conference.

As in previous years, the Community also sent observers to the meetings of the Economic Commission for Latin America and of the Trade Committee of the Economic Commission for Asia and the Far-East.

In accordance with Article 229 of the Treaty, an agreement was concluded between the Commission and UNESCO and came into force on 15 September 1964; provision is made for consultations between the Commission and the UNESCO Secretariat whenever thought fit, and for each of the two organizations to send observers to technical meetings and conferences organized by the other whenever the agenda includes topics of mutual interest. Finally, the agreement provides for the creation of joint working parties.

The Commission has already concluded similar agreements with the International Labour Office and the Food and Agricultural Organization of the United Nations.

The Commission has regularly sent observers to meetings of the Administrative Council and the annual conference of the International Labour Office as well as to meetings of the FAO Council and Commodities Committee and of the Intergovernmental Committee for a World Food Programme, which is administered jointly by the FAO and the United Nations.

The Community was associated in a number of operations sponsored by UNESCO, FAO and ILO, while the European Development Fund contributed funds to the buildings of schools by UNESCO in a number of associated African States. The Community also contributed funds to the campaign against foot and mouth disease in Europe, particularly in Greece and Turkey, and also to vocational training schemes sponsored by the International Labour Office (¹).

(¹) See sec. 241.

THE COMMUNITY'S DIPLOMATIC RELATIONS

315. The EEC maintains official relations with 68 countries, including the 18 Associated African States and Madagascar.

As at March 1965, 62 countries, including the Associated African States and Madagascar, had established a mission with or sent representatives to the EEC. In addition to the countries listed in the Seventh General Report (¹), Finland and the Philippines have now set up a mission to the EEC, and for six other countries *agrément* is pending.

(¹) See sec. 302.

CHAPTER V

THE ASSOCIATED AFRICAN STATES AND MADAGASCAR AND THE ASSOCIATED OVERSEAS COUNTRIES AND TERRITORIES

316. The Yaoundé Convention of Association ⁽¹⁾ entered into force on 1 June 1964 all the formalities laid down in Article 57 having been complied with ⁽²⁾.

The Council Decision of 25 February 1964 relating to the association of the Overseas Countries and Territories with the EEC, which also includes the provisions applicable to the French overseas départements, came into force on the same date, together with other decisions, protocols and agreements connected with the Association system.

The Association of the Netherlands Antilles ⁽³⁾ came into force on 1 October 1964. From that date that country has benefited from the same form of association as the other Associated Overseas Countries and Territories, with the addition of a Protocol on exports to the EEC countries of refined petroleum products ⁽⁴⁾.

Implementation of the Yaoundé Convention

Institutions of the Association

317. With the entry into force of the Yaoundé Convention, the Interim Committee, whose activities covered the period from 20 July 1963 to 19 June 1964, was dissolved, and the institutions of the Association provided for in Article 39 of the Convention were set up.

⁽¹⁾ See official gazette No. 93, 11 June 1964.

⁽²⁾ Two African States lodged their instruments of ratification a month later.

⁽³⁾ See Sixth General Report, sec. 217.

⁽⁴⁾ See sec. 156 above (energy policy).

The first meeting of the Association Committee was held on 19 June 1964. The Committee adopted its rules of procedure, which were submitted to the Association Council and approved by the latter when it met in Brussels on 8 July 1964. At that meeting the Association Council delegated some of its powers to the Association Committee. The Council also adopted its own rules of procedure, leaving two points to be settled later; its meeting-place and the organization of its secretariat.

The Association Council took various decisions on procedure, including the information and consultation arrangements mentioned in Article 12 of the Yaoundé Convention.

At its meeting on 27 July 1964, the Association Committee considered the implementation of the provisions on quota disarmament contained in the Convention and Protocol No. 2.

On 2 October 1964, the Committee examined the Yaoundé Convention in relation to GATT, the customs tariffs which the Associated States had laid before the Association Council (in accordance with Article 1 of Protocol No. 1) together with their quota systems for 1964, and the draft Statute of the Court of Arbitration.

At the meeting of 13 November 1964, the draft Statute of the Court of Arbitration and the quota systems notified by the Associated States were again discussed, as well as preparations for the first parliamentary Conference of the Association in Dakar.

The fifth meeting, which was held on 29 February 1965, was devoted to the customs tariffs and quota systems submitted by the Associated States for 1964 and 1965, the definition of the concept of "goods originating in...", the answers to be given to the supplementary questionnaire submitted by the GATT Secretariat, and the implementation of Annex VIII to the Yaoundé Convention. The Association Committee also discussed the Association Council's rules of procedure, and considered the resolutions of the Dakar parliamentary Conference.

The parliamentary Conference of the Association held its first meeting in Dakar from 8-11 December 1964 ⁽¹⁾. After adopting its rules of procedure, the Conference heard a speech of welcome by M. Lamine

(1) See official gazette No. 218, 30 December 1964.

Gueye, President of the Senegal National Assembly, and an address by M. Senghor, President of the Senegal Republic; these were followed by speeches from M. Cabou, the Senegalese Minister for Trade, Industry and Crafts, speaking as President of the Association Council, M. Lah, State Secretary at the German Ministry of Foreign Affairs, on behalf of the EEC Council of Ministers, and M. Rochereau, member of the EEC Commission responsible for overseas development.

The parliamentary Conference adopted a 35-point resolution concerning the institutions of the Association, the conditions for economic and social progress (the need for productive investment, for utilities and services to permit economic diversification, and for planning throughout the whole area of the Associated States), trade (stressing the importance of satisfactory trade balances), financial and technical co-operation (an effective contribution by the Bank), and the Association's external relations. The resolution recommended that "the play of supply and demand should cease to be the sole arbiter for products which tend to fluctuate in price", and called for a common effort on the part of the Associated States to organize their trade.

The European Parliament endorsed this resolution at its session of 18-23 January 1965.

Relations with the representatives of the Associated African States and Madagascar

318. At the beginning of 1965 fourteen of the eighteen missions of the Associated States to the EEC had their seat in Brussels, two in Paris and two in Bonn. Three of the latter have also set up permanent offices in Brussels. The presence in Brussels of representatives of the Associated States allows of continuous contact between them and the Commission, and facilitates the implementation of the Association system.

The Parliamentary Conference of the Association had urged that the EEC Commission should be permanently represented by information bureaux in the Associated African States and Madagascar. The Commission is fully aware of this need, which has also been emphasized on many occasions by the European Parliament. As an information bureau has been opened

in Geneva and another in Latin America, the need to open one on the African continent has become even more urgent. Pending a keener appreciation of this fact within the Community, the Commission has endeavoured to improve the Community's representation and information services on the spot, particularly by organizing symposia in Africa.

Development of trade

319. In dealing with the activities of the Association as a whole—development of trade, institution and management of the Fund—only the main points need be mentioned, because Article 50 of the Convention and the Protocol concerning the administration of financial aids stipulate that specific and detailed reports must be submitted to the Parliament, and these will provide answers to any of the questions that were raised by the Parliament in its report on the activities of the Community in 1963/64.

Tariff provisions

320. *The Member States:* Under the Yaoundé Convention the system governing imports is the same as that for products from other Member States ⁽¹⁾. (Until 1 June 1964, trade was governed by interim provisions).

The products listed in the Annex to the Convention, which are the chief tropical products of interest to the Associated States, have since 1 June 1964 been admitted into the Community free of duty if they originated in the Associated States, whereas the full common tariff has been applied to products from third countries.

In consideration of the interests of producer countries not associated with the Community, the initial rates of the common customs tariff for these products have been reduced by amounts ranging from 15 to 40%. In addition, the duty on a few products such as tea and tropical hardwoods has been suspended as a result of negotiations with certain third countries.

The table below shows the present position for the products in question.

⁽¹⁾ See secs. 5 and 9 above.

TABLE 26

Products	Initial rate	Rate resulting from entry into force of the Convention	As percentage of initial rate	
			Suspension %	Production %
Pineapples	12	9		25
Coconut (desiccated)	5	4		20
Coffee, not roasted, not decaffeinated	16	9.6	15	25
Pepper	20	17		15
Vanilla	15	11.5		25
Cloves	20	15		25
Nutmeg	20	15		25
Cocoa	9	5.4	15	25
Tea	18	10.8 ⁽¹⁾		40

(¹) As a result of negotiations between the EEC and the United Kingdom, the customs duty was suspended for the period 1 January 1964 to 31 December 1965.

321. *Associated States, countries and territories:* Under Article 3 (1) of the Yaoundé Convention, the Associated States that discriminated in their tariff treatment of goods originating in the Member States were obliged to abolish such discrimination within six months of the entry into force of the Convention, i.e. by 1 December 1964. This obligation was respected. The African States which are members of the West African Customs Union (Senegal, Mauritania, Ivory Coast, Dahomey, Niger and Upper Volta) have during the second half of 1964 extended to goods

from other Member States the treatment that they formerly accorded to French goods. Mali and Madagascar had already abolished discrimination in 1963 and 1961 respectively.

When the Equatorial Customs Union was set up in 1962 between the four States of Equatorial Africa and Cameroon, goods originating in France were exempt from the duties of their common customs tariff, while products from the other Member States were granted only temporary suspension. This was superseded by exemption on 1 June 1964. The other Associated States have a non-discriminatory tariff.

The Associated Overseas Countries and Territories have taken the same steps in pursuance of the Council Decision of 25 February 1964, the Associated Territories concerned being French Polynesia, Saint-Pierre and Miquelon, and New Caledonia.

Under Article 1 of Protocol No. 1 annexed to the Convention the Associated States had to communicate their customs tariffs to the Association Council within two months from entry into force of the Convention, indicating the duties and charges applying to goods originating in Member States and other Associated States, those that applied to goods originating in third countries, and the duties imposed for revenue or protection purposes. Most of the Associated States notified their tariffs accordingly.

In accordance with the Decision of 25 February 1964, the Member States having special relations with the countries or territories concerned notified the Commission, in the same way as the Associated States, of the customs tariffs or all the customs duties and charges with the equivalent effect of such countries and territories.

These are being examined by the Commission.

322. *Reduction of the tariffs of the Associated States, Countries and Territories on imports from the Member States:* The first reduction of customs duties and charges with equivalent effect on imports originating in the EEC Member States was to be made on 1 December 1964, excluding duties maintained for revenue or protection purposes. The Community considered that countries whose customs tariffs had been reduced to zero by their obligation to align on the most-favoured nation system had fulfilled their obligations. For the others, the reduction is conditional on the

present examination of the tariffs and information submitted by the States concerned (under Article 61 of the Convention, certain States may be relieved of this obligation for a period of three years).

Removal of quotas

323. *Member States:* The Member States have extended to goods and products originating in Associated States the quota increases they have granted to each other. In addition, provisions liberalizing imports, adopted in pursuance of Article 33 (4), have been extended to all the Associated States, Countries and Territories.

Associated States: Provisions implementing the new rules for the dismantling of quotas in the Associated States, as laid down by the Yaoundé Convention, were adopted by common consent, at meetings of the Interim Committee, and later by the Association Committee.

In general, by the end of 1964, most of the Associated States had fixed the quotas required by the new rules of the Convention. When these quotas were fixed, important steps were taken to liberalize the quotas that had not been fully taken up during the previous Convention. The remaining quotas were greatly increased by the application of the new rules. The Community is also at present examining, with the Associated States concerned how the restrictions imposed on imports for balance-of-payments reasons in certain Associated States—Congo (Léopoldville), Somalia, Rwanda, Burundi and Togo—may be adjusted so as to fulfil the obligations arising from the Yaoundé Convention.

Trade between the Community and its associates

324. On 30 October 1964 the Commission submitted to the Association Council a draft decision, in pursuance of Protocol No. 3 of the Yaoundé Convention, concerning the definition of origin of goods for the purpose of ensuring preferential relations within the Association.

The same rules are proposed for preferential trade between the Community and the Associated Countries and Territories⁽¹⁾; on 29 December 1964

(¹) Council Decision of 25 February 1964, official gazette No. 93, 11 June 1964.

a draft decision on this subject was submitted to the Council by the Commission.

Volume of trade

325. The Community's total trade (imports and exports) with all its Associates increased from 1 582 million units of account in 1959 to 1 915 million u.a. in 1963 and about 2 460 million u.a. in 1964 (provi-

TABLE 27
EEC trade with the AASM (1)

In million u.a.

Origin and destination	1963			1964		
	Import	Export	Balance	Import	Export	Balance
Cameroon	119	70	- 49	140	82	- 58
Madagascar	62	85	+ 23	67	94	+ 27
Mali	6	14	+ 8	3	14	+ 11
Niger	19	14	- 5	23	17	- 6
Chad	15	13	- 2	17	15	- 2
Senegal	118	130	+ 12	123	129	+ 6
Ivory Coast	197	138	- 59	218	162	- 56
Central African Republic	10	16	+ 6	16	18	+ 2
Gabon	71	28	- 43	86	32	- 54
Congo (Brazza.)	33	42	+ 9	34	46	+ 12
Congo (Leo.)	268	79	- 189	318	115	- 203
Rwanda-Burundi	5	9	+ 4	7	9	+ 2
Somalia	23	15	- 8	16	18	+ 2
Togo	17	12	- 5	26	17	- 9
Mauritania	12	20	+ 8	38	12	- 26
Upper Volta	3	16	+ 13	3	18	+ 15
Dahomey	13	24	+ 11	13	23	+ 10
	991	725	- 266	1 148	821	- 327

(1) Note: The figures given in this chapter refer to trade with AASM and with the Overseas Countries and Territories.

sional figures). There was therefore an increase of 55.5% between 1959 and 1964 (these figures refer to all Associated States, Countries and Territories taken together).

Community imports from the Associated States, Countries and Territories increased from 924 million units of account in 1959 to 1 105 million u.a. in 1963 and to 1 348 million u.a. (provisional figure) in 1964—showing an increase of over 46% for 1964 as compared with 1959.

Community exports for the same years increased from 658 million units of account in 1959 to 810 million u.a. in 1963 and 1 112 million u.a. in 1964 (provisional figures).

There was therefore an increase of almost 69% for 1964 as compared with 1959. This development is particularly encouraging because it benefited all the Associated States; the only exception to the general trend was in exports from the B.L.E.U., which amounted to 87 million units of account in 1964—a decline from their 1959 level of 101 million u.a. but an improvement on 1963 (64 million u.a.).

The Commission has recently begun a study of the balance-of-payments situation of the African countries associated with the EEC; this should provide a better view of how the Association is functioning in general as regards foreign trade and payments.

It is proving very difficult to compile the basic statistical data nevertheless the Commission hopes to be able to determine balance-of-payments situation of each Associated State for the last few years and to uncover the underlying causes of the present imbalance.

Aids to production

326. Aid to production, which is provided for in the Yaoundé Convention, is an important innovation; the aim is to enable certain tropical products to be marketed at competitive prices by aiding producers to make the necessary adaptations.

It was not long before the new machinery began to function. The first proposal for financing aid to production (in Cameroon) was submitted to the European Development Fund Committee on 16 July 1964 and

approved by the Commission on 29 July 1964; it was therefore possible for the financing convention to be signed in October, providing credits totalling some 2.7 million units of account to assist production of cotton, groundnuts and coffee.

The EDF Committee has dealt with an average of one programme per month. It has examined programmes submitted by the Central African Republic, Chad, Niger, Dahomey and Senegal, and these have been approved by the Commission.

Out of the eleven Associated States receiving aid, nine have requested permission to use a large part of their allocation to improve the conditions of production for the products in question (particularly cotton and groundnuts) and not only to support the prices of these products.

Altogether the sums allocated as aid to production amount to about 9 million units of account for the first annual tranche (February 1965).

Accommodating the interests of the Associated States as regards agricultural products similar to and competing with European products

327. "Similar and competing" agricultural products often constitute a very high proportion of the Associated States' exports. For example, groundnuts account for almost 85% of Niger's exports, and for 80% of those of the group consisting of Senegal, Mali and Mauritania; 77% of Dahomey's exports consist of palm-oil and groundnuts, 20% of Togo's exports are of palm products and manioc, 19% of those of the Congo (Brazzaville) consists of sugar and palm-oil, and 16% of those of Madagascar of manioc starch, sugar and rice.

Rice and broken rice: On 22 September 1964 the Council, acting on a proposal of the Commission, adopted Regulation No. 121/64 concerning arrangements applicable to rice and broken rice imported from the Associated African States and Madagascar and from the Overseas Countries and Territories; this regulation is the first practical application of the principle of accommodating the interests of the Associated States, Countries and Territories.

Under this regulation the levy is reduced for imports of both husked rice and milled rice originating in the Associated States, Countries and Territories. In addition, the traditional imports from Madagascar into France

and from Surinam into the non-producer Member States (Germany and the Benelux countries) benefit from a nil levy until 31 August 1965, up to certain quantities.

As the reduction of the levy favours milled rice particularly, the regulation should encourage the countries concerned to increase the value of their rice exports by processing the raw product before exporting it.

Sugar: The measures to be taken are at present being considered.

Manioc flour and starch: The "permanent" system, which was adopted by the Council on 15 March 1965 and on which the Association Council is at present being consulted, provides for the fixed component of the levy to be eliminated immediately for manioc flour and starch. (Under the transitional system, imports of these products into the EEC are exempt from the levy.) The elimination of the fixed component of the levy will enable processed products originating in the Associated States, Countries and Territories to enjoy the same commercial preference as the Member States accord to each other. In addition, imports will be exempt from the levy for a specified period and up to certain quantities. This system was to have replaced the transitional system on 1 January 1965 but, as it was not possible to obtain the opinion of the European Parliament in time or to consult the Associated States before the end of 1964, the transitional system had to be kept in force for three months more.

Oils and fats: The Council Resolution of 23 December 1963 ⁽¹⁾ envisaged a tariff preference for oils on Community markets, special provisions for oil-seeds where necessary, and financial aid for all oils and fats to mitigate the effects of a drop in world prices below the reference price. The proposed regulation, which the Commission submitted to the Council on 2 December 1964, lays down that the Member States shall apply to the products in question originating in the Associated States, Countries and Territories the same customs duties as they apply among themselves. Where trade in oil-seeds suffers serious disturbance, the Community will take specific remedial measures. Each year a reference price and a world market price will be fixed for tropical oil-seeds and oils. The amount of aid granted to the Associated States, Countries and Territories will be fixed each year by the Council which will base its decision on the

(¹) See Seventh General Report, sec. 181.

quantities imported into the Community and on a degressive scale of rates at which the Community will compensate for differences between reference prices and world prices.

This regulation will do much to stabilize the prices of oils and fats originating in the Associated States, Countries and Territories.

Co-operation in training

328. The scholarship scheme for nationals of the Associated States and the Associated Overseas Countries and Territories has been considerably extended: 1 400 scholarships (including renewals) were awarded for the 1964/65 academic year as compared with 713 for 1963/64. The funds available to the Commission out of its own budget are in future to be supplemented from the European Development Fund; the Association Convention (in Articles 17 and 24 of Title II: financial and technical co-operation, and Article 9 of Protocol No. 5 concerning the administration of financial aids), lays down that the latter may be used for vocational and supervisory grade training schemes.

The increased number of applications for scholarships shows the importance that the Associated States attach to training for their nationals: 2 000 applications were considered in 1964/65, compared with 1 200 for 1963/64.

The scholarship-holders were assigned to training establishments in the Member States and in certain Associated States, and were more evenly distributed than in previous years. A special effort was made to place more scholarship-holders in the Associated African States themselves. At the request of their Governments, a few scholarship-holders completed periods of specialized training in two non-member countries. The distribution was as follows: Belgium 17%, Germany 18%, France 25%, Italy 14%, Netherlands 8%, Associated States 16%, non-member countries 2%.

In future a number of scholarship-holders will undergo training in Luxembourg.

The striking increase (16% as against 9% in 1963/64) in the number of scholarship-holders placed in Africa (particularly in Dakar, Abidjan, Bouaké, Yaoundé, Bamako, Ouagadougou and Brazzaville) is proof of the desire to have training carried out more often within the Associated States themselves in spite of the problems that arise (selection of establishments by the number of places available, by their ability to accept students from other countries, by their curricula, etc.); the Commission intends to continue its efforts in this direction in order that the best and most rational use may be made of the facilities available and that these facilities may be expanded.

The distribution of scholarship-holders among the different types of training shows little variation, except in the "feminine occupations" section, where the percentage has risen from 16 to 18% (¹).

There has been much more regular supervision of the courses followed by the individual scholarship-holders; this has been done in a variety of ways (quarterly reports, visits to institutes, seminars for scholarship-holders etc.).

The Commission is concerned with the following matters:

- i) Fixing criteria for selecting candidates in the light of employment needs;
- ii) Integrating programmes for vocational and supervisory grade training with the implementation of the investment projects it finances, in order to ensure an adequate supply of personnel capable of carrying out the investment projects;
- iii) Adopting, in addition to traditional methods of training, new methods which allow of a wider diffusion of knowledge (correspondence courses, audio-visual aids, programmed instruction, etc.);
- iv) Organizing refresher and complementary courses for former scholarship-holders, and examining the employment offered to former scholarship-holders.

329. As the Yaoundé Convention had entered into force, a new annual batch of traineeships, now to be financed by the European Development

(¹) See Seventh General Report, sec. 254.

Fund (EDF), began on 15 September 1964 and will end on 15 July 1965. Fourteen trainees have worked or are working with the Commission: one from Congo (Brazzaville), four from the Congo (Leopoldville), one from Gabon, two from Upper Volta, one from Rwanda, one from Somalia, one from Madagascar, one from Togo, one from Surinam, and one from Polynesia.

Thirty-five short training courses were organized in the Member States; 1 340 African students and trainees took part, coming not only from te Associated States but also from a number of English-speaking African countries. In addition, numerous lectures were given at short courses or seminars.

After a symposium which was held in Cameroun in February 1964 as an experiment, two other symposia were arranged in Africa, one in the Ivory Coast in July 1964 and the other in Gabon in February 1965.

Joint symposia, bringing together nationals of the Associated States and of other African countries (220 English-speaking participants) were particularly successful.

The "Courrier de l'Association", an information bulletin for former scholarship-holders and trainees, has reached its sixth number.

European Development Fund

The first Fund

330. On 16 March 1964, the Commission submitted a report, as the European Parliament had recommended, on the administration of the first Fund up to the end of 1963, and on 28 May 1964 a supplementary document summarizing in economic and technical terms the achievements of the European Development Fund since its inception. The European Parliament's "Review of the operations of the first European Development Fund and the lessons to be drawn for the operations of the second Fund" was the subject of a resolution of 23 November 1964, which endorsed the policy pursued by the EEC Commission in administering the Development Fund. The European Parliament welcomed particularly the provision

by the Fund of technical assistance linked with investment, and considered that in future more of the Fund's activity should be directed to encouraging local processing of the Associated States' products.

The year 1964 saw the completion of the preparatory work on projects of the first European Development Fund. A few new projects were also submitted for decision in 1964: 28 projects totalling about 32 million units of account plus 3 projects (4.5 million u.a.), on which the Council gave its decision on 21 January 1965. This brings the number of projects financed by the first Fund to 370.

The project for the general hospital in Mogadishu deserves particular mention. Following the Council Decision of 9 March 1964, the Commission co-operated with Italy, Belgium and the Netherlands, who provided bilateral technical assistance, in working out a programme of technical co-operation for this hospital (in Somalia) involving the appointment of about 30 doctors.

This programme will run until 30 June 1967 and its cost of about 1 350 000 units of account will be borne entirely by the European Development Fund. The new hospital opened on 4 January 1965, and two thirds of these doctors are already at work.

A second project to provide other staff and an administrative director (70 people altogether) was approved by the Commission on 21 January 1965 after endorsement by the EDF Committee.

This second project, which will run concurrently with the first, will cost 1 064 000 units of account.

During the year the Commission, by agreement with the governments of the beneficiary countries, has made an estimate of the cost of these 370 projects, with a view to ascertaining the maximum amount to which the first Fund is committed. From these ceilings, it appeared that all the available resources of the first European Development Fund, were in January 1965 fully committed, except for credits of about 17 million units of account earmarked for schemes in Surinam and the Netherlands Antilles.

As the Association with the Netherlands Antilles entered into force on 1 October 1964, that country has since that date been eligible to receive aid from the European Development Fund. A mission was sent to the

Antilles for the first time in November-December 1963, and a second in October-November 1964; by February 1965 the Commission was therefore in a position to approve the financing by the first European Development Fund of three social development projects for the Netherlands Antilles: these three projects, which will cost altogether 2 338 000 units of account, are concerned with the building of nine schools and one road.

Initial operations of the second Fund

331. The European Development Fund Committee met for the first time on 16 July 1964. It held three other meetings in 1964 and three in January, February and March 1965. This Committee, the chairman and secretariat of which are provided by the Commission, is composed of representatives of the Member States; it votes by a qualified majority of two thirds (weighted in proportion to the Member States' contributions to the Fund) on all proposals for financing submitted to the Committee by the Commission.

By the beginning of March 1965, with the approval of this Committee, the Commission had taken 32 decisions regarding the financing by the second Fund of projects totalling 65 million units of account. The wide distribution of these decisions already reflects the diversity that characterizes the second Fund; they include: aids to production, 18.8 million units of account (6 annual tranches); investment projects and aid for diversification, 27.4 million units of account (14 separate projects); technical assistance linked with investment, 12.8 million units of account (4 projects or general programmes); general technical co-operation, 5.9 million units of account (7 programmes or projects); emergency aid, 250 000 units of account (for one project).

In June 1965, that is, at the end of the first financial year of the new Fund created by the entry into force of the Yaoundé Convention, the total new commitments will probably amount to approximately the annual average, which may be estimated at 125 million units of account. If, as is probable, the European Development Fund is in full swing, by the end of its first year, this will be a great improvement on the past, when decisions were taken more tardily and spasmodically.

Whether or not this pace can be maintained will, however, depend on the rate at which new projects are submitted and above all on the quality of the dossiers concerning them. There has been some increase in quantity: in 1963 the Commission received 85 new projects representing a total of 100 million units of account, whereas in 1964 it received 67, estimated at 180 million units of account. In consultation with the Associated States, the Commission is considering whether some of the projects down for the first Fund could not be transferred to the second. The second Fund appears to have begun operations with a number of projects waiting to be examined, and one can therefore hope that it will be able to choose the best among them. At 15 March 1965, the Commission had 151 projects waiting to be examined, involving some 270 million units of account.

Unfortunately the quality of the dossiers submitted has not shown the same encouraging trend. In most cases what the Commission receives is not so much thoroughly prepared dossiers as nebulous schemes, and it is obliged to spend much time getting them in order and checking the economic and technical data before it can take a decision.

It is here that action by the Commission, in the form of technical assistance preparatory to investment, can be most useful; such aid is, moreover, being requested more and more often. Seventy-six contracts for studies costing 4.9 million units of account were thus signed in 1963, and 77 in 1964 for the same amount. Here too, the work has now got into its stride and is proceeding at a pace that would seem to correspond to investment needs. In the new European Development Fund, two general credits of 3 million and 5 million units of account have already been opened in favour of the Commission, which is free to be decided for itself what studies are needed to complete the dossiers on projects submitted.

332. Some of the reasons for the delays that were mentioned by the European Parliament persist. When tenders are invited, firms must be given a reasonable time if they are to compete on an equal footing but, in addition to this, these delays are due in greater or lesser degree to difficulties encountered by the Governments of the beneficiary countries, which have to bear the full responsibility for carrying out the projects financed by the Fund. The Commission has indeed always been against any policy of "key in the door" projects, by which the donor takes full responsibility for the projects from preparation to completion; it considers

that joint operations are in every way preferable, in spite of the risks involved.

The figures for 1964 show a marked improvement in the results achieved. At 31 December 1964 the first Fund had undertaken 367 projects, and issued 395 invitations to tender for 263 of these projects, amounting to 364 million units of account. It had concluded 1 044 contracts and accepted 101 estimates for a total of 336 million units of account. In contrast to this, at 31 December 1963 only 749 contracts had been concluded or estimates accepted, worth 222 million units of account.

333. As the Fund's activities have speeded up, so too have its payments. At 31 December 1963, the total payments made by the first Fund since its inception amounted to only 138 million units of account, but this had risen to 221 million units of account by 31 December 1964. Actual payments made during 1964 therefore represent over 83 million units of account as against 65 million u.a. in 1963, 53 million u.a. in 1962, and 16 million u.a. in 1961. The amount paid out in 1964 alone was greater than the total of all payments made during the first five years of the Fund.

The increase in yearly payments is therefore now almost equal in volume to the average annual increase in new commitments. Whereas in the first few years of the Fund there were increasing delays, the situation is now becoming much more normal.

The Commission will continue to help in every way it can under the much fuller provisions of the new Convention, in order to reduce the time-lag between commitment and payment as much as possible. Studies prior to investment are already reducing the delays—as also the surprises—experienced when projects are carried out. Under the heading of technical assistance linked with investment, one must also include the work of directing and supervising works, in which the Governments of beneficiary states are assisted by technicians appointed by the Commission. In 1964, as in 1963, such operations continued to increase by an average of 4.5 million units of account per year. Under the second Fund, a financing decision was taken under which a general credit of 4 million units of account is allocated to the Commission to enable it to intervene whenever action of this kind—not foreseen at the time the project approved—proves

necessary. Thus, where both studies and execution are concerned, it has given effect to the European Parliament's recommendations that technical assistance linked with investment by the Fund should be continued and extended (resolution of 24 November 1964). Where the regional distribution of works is concerned, the Commission takes care to see that the projects are distributed fairly among the countries of the Community.

The Community's share in aid

334. The European Parliament considers it very important that aid from the European Development Fund should be co-ordinated with bilateral and multilateral aid. The Commission has continued its efforts in this direction, helped by a system of relations with the donor Member States or non-member countries and with international organizations; based on regular exchanges of information, either in writing or orally, and technical meetings to co-ordinate such aid. The Commission still believes that these practical methods of co-ordination will progressively further the development of common attitudes which will lead to the planning and execution of a common development policy. The Fund Committee may sooner or later become one of the centres where such common attitudes are formed.

At its session of 23-26 November 1964, the Parliament adopted a resolution pointing out the disadvantages resulting from discrepancies in Member States' policies on trade and aid towards the Associated States, and requesting the six Governments to study within the EEC Council ways and means of co-ordinating such bilateral relations.

During the debate the Commission's representatives pointed out that the Commission had systematic contacts with the Member States in this field, and said that the essential aim in Community aid, which was complementary to bilateral aid, was to avoid out-bidding and duplication.

The Commission has, however, gone further; and co-operation between donor countries made substantial progress in 1964 and the first part of 1965 through joint financing, the possibility of which was expressly provided for in Article 23 of the Yaoundé Convention. Some of the steps taken by the Commission were mentioned in the Seventh General

Report ⁽¹⁾, but up to that time no agreement on joint financing had been reached with the International Bank for Reconstruction and Development (IBRD) and its subsidiary the International Development Association (IDA), although there had long been exchanges of information and technical meetings on co-ordination of aid between the latter organizations and the European Development Fund. As a result of negotiations which took place at the end of 1964, a decision was reached on joint financing by the IDA and the EDF of two important road projects: the Afgoi-Baidoa highway in Somalia (total cost 14.2 million units of account), and the Nouakchott-Rosso highway in Mauritania (total cost 10 million units of account). The first of these two projects is in fact being financed by three organizations, since, in addition to the IDA and the EDF, the Special Fund of the United Nations is also concerned. On 29 March 1965, M. Rochereau, a member of the Commission, and M. Woods, President of the IBRD and of the IDA, signed these two agreements on joint financing, the first of their kind.

Co-operation between the European Development Fund and the European Investment Bank was another new development in 1964. Since the new Association system came into force, the Commission has had to express its opinion on schemes for which "ordinary" loans are requested from the Bank by the Associated States, and to examine requests for interest rebates at the expense of the European Development Fund to lighten the burden of such loans. In addition, there will have to be close co-operation for the "loans on special terms" made by the Fund, which are examined by the Commission and the Bank concurrently.

Diversification of structures

335. This is a question of great concern to the Parliament and also to the Parliamentary Conference of the Association; the Dakar resolution called for "diversification of the agricultural and industrial structures of the Associated States, which is an essential condition for their economic independence". In October 1963 the Commission had addressed a memorandum to the Associated States, giving its views on aid to diversification. The Commission considered that such aid should primarily be provided

⁽¹⁾ See sec. 265.

for agriculture, but that it was also important to develop the processing industries, and that these should be given high priority. Diversification was so essential that more funds should be made available than were expressly reserved for it by the Yaoundé Convention.

To use the Fund in this way would not be to imply that the modernization of infrastructure was complete—in particular, more would have to be done in the field of transport and in that of social development—but it seemed that the time had now come to devote more aid to productive investment. The resolutions of the European Parliament and of the Parliamentary Conference of the Association should be interpreted in this light, for both these bodies are in broad agreement with the policy that the Commission intends to pursue.

Financing of surveys for the Associated States

336. The Commission has assembled the statistical data available on the Associated States and developing countries, putting them into comparable form; concise notes have also been added describing the economic and social situation in each Associated State. These are for the use of the European Development Fund particularly.

A document has just been completed listing all public aid granted to the developing countries by the industrialized countries and the EEC during the period from 1959 to 1963.

The studies carried out in 1964-65 include the following:

i) *Trade*: Two studies on the development of outlets within the EEC for commodities produced by the Associated States were sent to the State concerned. The first was a survey of coffee, cocoa and banana markets in the EEC countries, analysing the conditions governing imports, transit processing, distribution and price formation for these products; it also included the results of a survey carried out among consumers, and projections of consumption levels in 1970. The second study concerned future outlets for tropical oleaginous products in the EEC countries, on which attempts to diversify production will depend. The first part of this study which deals with past developments, was published in 1964 under the title: "General survey of the world situation regarding oils and fats".

A survey is also being prepared of all trade between the EEC and the Associated States; this should provide answers to numerous questions raised during debates of the European Parliament.

ii) Investment in the Associated States: A study is being made of the practical problems that will arise when a multilateral system of guarantees against non-commercial risks is eventually introduced at Community level to safeguard private investments. The European Parliament had recommended on several occasions that such a study should be carried out.

The first stage of a pilot study on the economic and social effects of a European Development Fund investment project (for the Andapa basin) was concluded at the end of 1964.

The next studies will be in two fields: the first aim will be to determine the methods by which agricultural production in the Associated States can be progressively diversified and industrialization begun while ensuring that the different measures planned and taken at the national level are dovetailed as much as possible. Particular attention will be given to the production and processing of foodstuffs, so that industry and agriculture may develop side by side within a policy of "regional development poles". In preparation for this study, net imports of consumer goods into the Associated States are being analysed and a list of the processing industries already established in those countries drawn up. The second objective will be to expand the Associated States' exports to the Community. As tariff preferences are insufficient to give them a competitive advantage over third countries, traditional measures of tariff policy will, except in the case of a few products, have to be supplemented by a wider programme to promote trade, if the Association is to achieve better results in this respect in a reasonable time.

CHAPTER VI

ASSOCIATION OF EUROPEAN COUNTRIES WITH THE COMMUNITY

Greece

337. The EEC-Greece Council of Association continued the work of implementing the Athens Agreement ⁽¹⁾. It has held four sessions since April 1964, one at ministerial level.

The discussions between the two parties centred on the problem of harmonizing the agricultural policies of the EEC and Greece, as provided for in Article 35 of the Agreement. Since there were many difficulties to be overcome, particularly in institutional matters, an attempt was made to proceed pragmatically in connection both with harmonization and with the financing problems involved, with the trading system to be established within the framework of this harmonization and the ways and means whereby harmonization itself was to be achieved.

All these difficulties made it impossible to reach a decision on harmonization within the time-limit laid down in Article 35 of the Agreement, i.e. by 12 November 1964. The question of the system to be applied to the products to be harmonized was therefore deferred until the Council of Association reached the decision provided for in Article 35, provided this was not later than 12 November 1965.

338. The Council of Association furthermore reached the following three decisions:

a) From 1 May 1965 the Member States will apply among themselves, in the case of unmanufactured tobacco and tobacco refuse (heading 24.01), a duty equal to 30 % of the duty applied on 1 January 1957, which

⁽¹⁾ See Fourth General Report, sec. 200 sqq. and official gazette No. 24, 18 February 1963.

represents a further reduction of 10 % on the duties applied by the Six, in favour of Greece;

b) In pursuance of Protocol No. 14, paragraph 5, the enlargement of the wine quotas opened for 1964 by the Federal Republic of Germany, France, and Italy has been fixed as follows:

Germany:	750 hl. (wines intended for direct consumption)
	3 500 hl. (wines intended for the preparation of vermouth, the manufacture of vinegar, distillation and blending)
France:	700 hl.
Italy:	700 hl.

c) The percentage of the common customs tariff to be taken into consideration for the purpose of determining the rate of the levy to be applied to goods produced in Greece and for whose manufacture products have been used which come from non-member countries but were not in free circulation either in the Member States or in Greece (Article 8 (1) of the Agreement), was fixed at 65%.

Finally, the Council of Association agreed in accordance with Protocol No. 10, paragraph 3, that for 1965 the common customs tariff should be reduced temporarily to 3.5% for rosins and to 3% for turpentine. The Council of Association has also given its agreement in advance for 1966, should the Community wish to renew this system for next year.

Commission staff have drawn up a list of Greek Government monopolies with a view to their progressive adjustment, as laid down in Article 31 of the Athens Agreement; this will also facilitate a decision by the Member States and the Commission within the Council of Association, which must decide how and when Greek monopolies shall be adjusted (Article 31 (4) of the Agreement).

Furthermore, Greece having requested the Community to be good enough to make a contribution, in the light of its experience, to the creation of industrial areas in Greece, this problem was examined.

339. Consultations took place concerning the negotiations being conducted with Israel, Lebanon, and Nigeria and concerning the multilateral tariff negotiations being conducted at GATT (Kennedy round). Moreover,

information was supplied to Greece on the subject of the quotas opened to Turkey as a result of the entry into force of the Ankara Agreement.

The Parliamentary Association Committee ⁽¹⁾ held its second and third meetings on 29 and 30 June in Brussels and on 1 October 1964 in Athens. Following its June meeting, the Committee adopted the first annual report of the Council of Association and issued a recommendation drawing attention to the problems of economic development faced by Greece. At its Athens meeting the Committee considered the stage reached in the progressive establishment of the association and the principles to be followed in harmonizing agricultural policies.

340. In the financial field, the European Investment Bank approved the partial financing of six infrastructure projects to a total of 33 300 000 units of account. This sum is made up of four loans for road construction, a loan to set up a hydro-electric power station and, finally, a loan for the improvement and irrigation of part of the plain of Salonika.

For all these projects, the Member States have granted a 3% interest rebate, thus adhering to the proportion of 2/3 on infrastructure projects carried out as part of the first tranche of 50 million dollars earmarked for the first two years after the Agreement comes into operation.

Greece has submitted a number of other industrial projects to the European Investment Bank. The partial financing of two of them has just been approved.

Turkey

341. The Ankara Agreement, signed on 12 September 1963, came into force on 1 December 1964.

The EEC-Turkey interim committee, set up to draw up the draft rules of procedure of the Council of Association and to decide on the means

⁽¹⁾ Set up on 5 April 1963 by the Council of Association in response to the European Parliament's resolution of 19 October 1962.

whereby the provisions of the transitional protocol appended to the Ankara Agreement were to be implemented, held four meetings between March 1964 and the entry into force of the Agreement.

The EEC-Turkey Council of Association held its first session on 1 December 1964, during which the volume of tariff quotas to be opened by the Member States of the Community to Turkey during 1964 was among the matters fixed. These quotas are as follows:

1. *Unmanufactured tobacco: tobacco refuse*

Belgo-Luxembourg Economic Union	795 tons
Germany	2 450 tons
France	1 680 tons
Italy	500 tons
Netherlands	310 tons

2. *Dried grapes:*

Belgo-Luxembourg Economic Union	1 350 tons
Germany	5 300 tons
France	1 100 tons
Italy	3 800 tons
Netherlands	3 700 tons

3. *Dried figs:*

Belgo-Luxembourg Economic Union	750 tons
Germany	4 205 tons
France	2 500 tons
Netherlands	150 tons

4. *Nuts, fresh or dried, shelled or not: hazel nuts*

Belgo-Luxembourg Union	225 tons
Germany	9 320 tons
France	835 tons
Netherlands	405 tons

The Council of Association also adopted its rules of procedure and set up an Association Committee to assist in carrying out these duties, to

prepare its discussions and, in general, to ensure continuity in the co-operation required to make the Agreement a success. The Council of Association furthermore adopted a recommendation on movement certificates.

Under the financial protocol appended to the Ankara Agreement, the European Investment Bank has already agreed to finance two projects for the construction of a hydro-electric power-station and the extension of a steel tube factory respectively. Other projects are under consideration.

GATT DISCUSSIONS ON THE AGREEMENT WITH TURKEY

342. In September 1964 a GATT Working Party examined the Association Agreement between the EEC and Turkey. The Commission and the Turkish delegation maintained that the Association Agreement fitted perfectly into the framework of Article XXIV of the General Agreement and that it made provision, in particular, for the establishment of a customs union and for a start to be made on tariff disarmament within the Union by opening tariff quotas for products from Turkey.

Some members of the Working Party considered on the other hand that the Agreement could not be regarded as a "provisional agreement" within the meaning of Article XXIV because the time-table it contained referred only to the preparatory phase and did not lay down a complete plan and programme leading within a reasonable period to the formation of a customs union.

When the Contracting Parties examined the Agreement at their session in March 1965, the same divergence of opinion was apparent. After close discussion, the Contracting Parties adopted the report drawn up by the Working Party, took note of the views held on either side concerning the compatibility of the provisions contained in the Agreement with Article XXIV of the General Agreement and decided to keep the question on the agenda on the understanding that only if a Contracting Party considered it advisable would the Association Agreement be re-examined at a later session.

CHAPTER VII

ACTIVITIES OF THE INSTITUTIONS

Institutions and organs

FINANCING OF THE COMMUNITY: INDEPENDENT REVENUE

343. The Commission submitted to the Council, on 31 March 1965, at the same time as its proposals concerning the financing of the common agricultural policy ⁽¹⁾, proposed regulations for the replacement of the system whereby financial contributions are paid by the Member States by a system under which the Community will have its independent revenue.

Regulation No. 25 provides that, when the single market for agriculture comes into being, the proceeds of agricultural levies should accrue to the Community. The Commission considers that, in view of the degree of market integration which will be attained on 1 July 1967, it would be reasonable that the revenue from levies and customs duty on imports of goods from non-member countries should accrue to the Community in its own right from the same date. Indeed, the preliminary conditions laid down in the Treaty, Regulation No. 25, and the Decision of 15 December 1964 will all be fulfilled (Article 201 of the Treaty provides for the possibility of transferring to the Community the revenue accruing from the common customs tariff when it is finally established).

It would appear desirable to replace the financial contributions of the States by independent revenue for a variety of reasons: if the Community is to develop smoothly, the removal of obstacles to intra-Community trade cannot remain confined to levies on agricultural produce. If there is to be a coherent economic policy, both agricultural levies and industrial duties will have to be abolished as from July 1967, as has already been proposed by the Commission ⁽²⁾.

Thus the Community is faced with the same problem which confronts all customs unions: the place where the levies and customs duties are

⁽¹⁾ See secs. 214 and 215.

⁽²⁾ See Ch. I "Initiative 64", sec. 3.

collected will be less and less likely to be that at which the imported goods are consumed. There is no longer any justification, then, for the revenue obtained from the duties and levies accruing to the Member State which collected them. The Commission has therefore linked the proposals concerning the financing of the common agricultural policy with the whole question of achieving a financial and institutional balance as the integration of the Community progresses.

The submission of these proposals by the Commission is the fruit of several years' work and discussions in the various institutions of the Community. An outline of this work will be found below.

Article 201 of the Rome Treaty already provides for the creation of independent Community revenue accruing from the common customs tariff. The system of making available to the Community the levies and receipts from the common customs tariff is based on Regulation No. 25 of 4 April 1962 concerning the financing of the common agricultural policy. In its Action Programme dated 24 October 1962, the Commission made it known that it would shortly submit proposals making provision not only for agricultural levies but also for the proceeds of the common customs tariff to accrue to the Community. During the negotiations with the United Kingdom, the Commission laid before the Conference of Ministers of the six Member States a preliminary draft to this effect. Finally, the Council of Ministers requested the Commission, on 15 December 1964, to make proposals concerning the application of the relevant article of Regulation No. 25.

Among the various practical procedures adopted by the Commission, the most important was concerned with the gradual stages by which it appeared advisable to make the transition from the system under which contributions are paid by the Member States to the Community budget to the stage when the Community will have independent revenue.

Among the various possible methods of achieving such a gradual transference, the following method appears to commend itself by its simplicity.

During the first half of 1967, the scales laid down for the Members' financial contributions will still apply. During the second half-year, the Member States will pay to the Community the agricultural levies and such part of the revenue accruing from customs duties as is required to cover the contributions they would have to make on the basis of the scales

laid down in the Treaty and of the Council decisions concerning the EAGGF, as applied during the first half of 1967.

During this period, part of the customs duty will remain in the hands of the Member States; this part will be a percentage, varying from one country to another, of all the levies and customs duties collected in the Member States during the second half-year.

Between 1968 and 1971, the percentage of this revenue left in the hands of the Member States will be reduced each year by one fifth, so that the entire revenue from these levies and duties will accrue to the Community as from 1972. The revenue accruing to the Community would be entered in its budget and would be used to finance without discrimination all classes of expenditure provided for therein.

Should the Community's independent revenue be insufficient to cover its expenditure, the budget will be balanced by means of contributions from the Member States.

Should the Community's independent revenue exceed its normal requirements, the Community institutions will decide how the available funds should be allocated for special Community tasks or redistributed among the Member States.

In 1968, 1969, and 1970, according to present estimates of the Community's requirements and of the revenue that will accrue to the Community from the customs duties and levies, it is unlikely that there will be any funds available for redistribution among the Member States or for special Community tasks over and above normal commitments.

The institutional aspects of these proposals (amendments to Articles 201 and 203 of the Treaty: budgetary powers of the European Parliament)

344. On the basis of Article 236, the Commission at the same time laid before the Council a number of amendments to be made to the Treaty to adapt it to this new situation. These proposals make it necessary to re-examine the procedure for approving the budget laid down in Article 203, mainly with a view to extending the budgetary powers of the European Parliament: such an extension would indeed appear to be essential to ensure adequate European Parliamentary control of the considerable sums

of money accruing as independent revenue, the spending of which would be withdrawn from the control of the national parliaments.

In addition to the amendment made to Article 203 (budget procedure), the Commission considered it advisable to amend Article 201 (which would therefore not be applicable to the approval of the independent revenues referred to in the proposals of 31 March 1965). It is indeed logical that wider powers of control over the budget should be accompanied by wider powers to determine the Community's revenues.

With regard to Article 201, the Commission's proposal provides for only a limited increase in the Parliament's powers at the present stage. The Commission considers that when the Parliament is elected by direct universal suffrage, in accordance with Article 138 (3), the power to create independent revenue for the Community, which at present rests with the Member States (Article 201 (3)), would have to be completely transferred to the Community.

With regard to Article 203, the Commission's proposal takes into account the ideas put forward by the Parliament itself on 12 May 1964, when adopting the report submitted by M. Vals on behalf of the Budget and Administration Committee, as well as the arrangements suggested by the Government of the Netherlands and other Governments during the discussions in 1963/64. The Commission has sought to introduce an arrangement effecting a certain balance between the powers of Parliament, Council and Commission. Thus, amendments made by the Parliament to the draft budget prepared by the Council will be deemed approved unless the Council, within a stipulated time-limit (20 days), modifies them by a large majority (five members). If, however, the Council and the Commission agree on changes to the Parliament's proposal, they can be adopted by a smaller majority (four members).

The terms of the proposed amendment are:

"The Commission shall study the conditions under which the financial contributions of Member States provided for in Article 200 may be replaced by independent Community revenue.

For this purpose, the Commission shall submit proposals to the Council, which shall refer them to the Assembly.

The Council, acting by unanimous vote, shall adopt the necessary provisions. Nevertheless, it may decide such provisions by qualified

majority if the Assembly has rendered an opinion supporting the Commission's proposals by a two-thirds majority of the votes cast constituting an absolute majority of its members.

The provisions adopted by the Council must be approved by the Member States according to their respective constitutional rules, until such time as the members of the Assembly are elected in the manner provided for in Article 138 (3) of the Treaty."

The amendment proposed in the case of Article 203 provides that:

"The financial year shall run from 1 January to 31 December inclusive. The Commission shall lay the preliminary draft budget before the Council not later than 15 September of the year preceding that to which it refers and shall submit it at the same time to the Assembly. The draft budget should be laid before the latter not later than 15 October of the year preceding that to which it refers."

This new budgetary procedure, like that proposed in Article 201, would be a step towards full budgetary powers for the European Parliament, which it will exercise when elected by direct universal suffrage.

During the meeting of 22-26 May 1965, the President of the Commission informed the Parliament of the Commission's intention to lay before the Council very shortly proposals concerning the financing of the common agricultural policy and independent revenue. The Parliament adopted a resolution on the subject forthwith. In this resolution, it approved the principle of transferring to the Community the proceeds of levies on agricultural produce and customs duties on imports from non-member countries, but requested that the "principle of the equal sharing of costs" be respected and made the creation of independent revenue subject to the transfer to the European Parliament of the power to "settle revenue and expenditure under an autonomous budget".

THE EUROPEAN PARLIAMENT

345. Between 25 March 1963 and 31 March 1964, the European Parliament held eight ordinary sessions. It has been increasingly active, whether in furthering the executions of the Treaty or in taking action in European integration more generally, and, in particular, in the sphere of political union and in cultural matters.

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Following the amendment of Article 36 (5) of the rules of procedure a fourth political group was formed, known as the European Democratic Union.

The Parliament held its eleventh joint meeting with the Consultative Assembly of the Council of Europe on 12 and 13 June 1964, under the joint presidency of MM. Pflimlin and Duvieusart. The colloquium between the institutions of the three Communities, which was this year devoted to the economic situation, was held on 25 November 1964. The Parliament heard a report by the President of the Council on the activities of this institution during the past year.

The first meeting of the Parliamentary Conference of the Association was held from 8 to 10 December 1964, under the presidency of M. Lamine-Guaye, President of the National Assembly of Senegal.

The Parliament was consulted by the Council on numerous drafts concerning the various fields of implementation of the Rome Treaty. These included, in particular, the common agricultural policy, the common transport policy, economic and monetary policy and the approximation of legislation in various fields.

This year, the Parliament devoted lengthy discussion to institutional questions. In the first place, it attempted to define the theoretical background of political union and the practical means whereby it was to be achieved. In the second place, it discussed on several occasions the question of merging the Community Executives, as well as of the seat of the institutions. It laid particular stress on the need to take advantage of the opportunity offered by the proposed merger of the Executives and the three Communities to give the Parliament wider powers of control, particularly in budget matters and on the urgency of making the working of the Community institutions more democratic.

It devoted special attention to the problems of the developing countries, particularly from the angle of the World Conference on Trade and Development. In this connection, and also in relation to other problems, it emphasized the need to lay down without delay the principles of a common commercial policy.

The Parliament likewise dealt with the question of agreements concluded between the Community and non-member countries (section 292) and

it once again expressed the hope that satisfactory procedure whereby the Parliament might be consulted should be laid down in this field.

The Parliament also urged that effect should be given to its proposals that it should play a more effective role in the legislative activities of the Community; it requested that the legislative powers which the national parliaments had relinquished by the very fact of implementing the Treaty should be transferred to it.

The number of opinions and resolutions adopted, the number of written questions, which was higher than last year, and the no less appreciable increase in the amount of work carried out in the Parliamentary Committees bear eloquent witness to the Parliament's activity.

The following pages give a chronological outline of the parliamentary work described in the preceding chapters and a list of formal opinions and resolutions.

Session of 20-25 March 1964

346. The Parliamentary year opened with the election of M. Duvieusart (Belgium, Christian Democrat) as President of the European Parliament, by 57 votes to the 55 gained by M. Kapteyn (Netherlands, Socialist). MM. Battaglia, Brunches, Fohrman, Furler, Kapteyn, Kreyssig, Rubinacci, and Vendroux were elected Vice-Presidents by acclamation ⁽¹⁾ ⁽²⁾.

Session of 11-14 May 1964 ⁽³⁾

346. This session opened with tributes to two of its late members M. Motz, a member of the Belgian Senate and of the Liberal Group, and M. Turani, a member of the Italian Senate and of the Christian Democrat Group.

The President of the Parliament paid tribute to the memory of M. Alcide de Gaspari, who ten years previously had been elected President of the Common Assembly of the European Coal and Steel Community.

Two discussions were held, on the problem of wider powers for the European Parliament in budget matters (rapporteur M. Vals, France,

⁽¹⁾ A summary of these discussions is contained in the seventh report (sec. 326).

⁽²⁾ See official gazette No. 60, 14 April 1964.

⁽³⁾ *Ibid.*, No. 81, 27 May 1964.

Socialist) and on the question of founding a European university (rapporteur M. Janssens, Belgium, Liberal), respectively.

During the first-mentioned debate, M. Levi Sandri, speaking on behalf of the Commission, stressed that the latter had always supported efforts to strengthen the democratic structure of the European institutions and endorsed the rapporteur's conclusions, which were a first step towards the desired objective.

M. Janssens introduced his report on the question of setting up a European university; the debate revealed that the Parliament still very much wished to see this enterprise brought to a successful conclusion. The resolution adopted again stressed that this institution should be of a Community character and made suggestions as to how it should function.

During this session, the Parliament adopted various other resolutions, concerning the trade agreement between the Community and Israel (see section 284), the Commission's proposal for regulations concerning the application of Article 85 (3) of the Treaty (section 68), the energy policy of the Community (section 158), the harmonization of certain provisions affecting competition in rail, road, and inland waterway transport, regulations concerning the application of quality standards to fruit and vegetables (section 181), regulations amending Article 3 (1) of Council Regulation No. 23, and the stage reached in giving effect to Article 119 of the Rome Treaty.

Eleventh Joint Meeting of the European Parliament and the Consultative Assembly of the Council of Europe (12-13 June 1964)

348. The eleventh meeting of the Consultative Assembly of the Council of Europe and of the European Parliament was held in Strasbourg on 12 and 13 June 1964 under the joint presidency of MM. Pfimlin and Duvieusart, the Presidents of the two bodies.

On behalf of the European Parliament, M. Dehousse (Belgium - Socialist) presented a report dealing with commercial relations between the Community and the rest of the world. This question was also the subject of a report presented by M. Czernetz (Austria - Socialist), on behalf of the Consultative Assembly. The ensuing discussion centred on three topics—the Kennedy round, trade with the East bloc countries, and aid to the underdeveloped countries.

M. Walter Hallstein, the President of the Commission, contributed to the discussion a description of the Community's position in world trade. The various speakers expressed the hope that trade with the East bloc countries would increase, since such a development would give substance to the concept of peaceful co-existence.

Finally, with regard to the third subject, a number of speakers drew attention to the importance of the World Conference on Trade and Development and expressed the hope that the underdeveloped countries might benefit from the growth of trade in the products which they exported. M. Rey, a member of the Commission, gave an assessment of the foreign trade problems of the Commission.

The discussion then turned to the question of the Community's relations with Spain. Without ruling out the possibility of establishing relations with this country, the Socialist groups in the two Assemblies expressed their anxiety on this subject and made it clear that they were opposed to Spain's being admitted either as a member or as an associate of the European Economic Community. Speaking on behalf of the Commission, M. Rey pointed out that, in accordance with the mandate given to the Commission, it would be careful to propose to the Council only such solutions as had a reasonable chance of being accepted unanimously.

Winding up the debate, M. Duvieusart stated that this meeting had been a fruitful one from the standpoint of developing a sense of European consciousness and solidarity.

Session of 15-19 June 1964 (1)

349. The Parliament was informed of the entry into force of the Association Convention with the Associated States; it expressed its satisfaction and noted the important part played by the European Parliament in bringing about this association.

M. Hallstein, the President of the Commission, presented the Seventh General Report on the activities of the Community.

(1) See official gazette No. 109, 9 July 1964.

M. Dehousse (Belgium - Socialist), speaking on behalf of the Socialist group, commented on an oral question put to the Commission concerning, firstly, the terms of reference given to the Commission by the Council for Conversations with the Spanish Government and, secondly, the lines along which the Commission intended to conduct these conversations.

M. Rey, speaking for the Commission, recalled the remarks he had made the day before at the joint meeting, and, while pointing out that it was not the usual practice for negotiators to reveal the course of their conversations, once again stressed that the Commission was determined to seek only solutions which could be accepted unanimously and completely by the six Member States.

The discussions and resolutions concerned the establishment of a rate-bracket system for goods transport by rail, road and inland waterway, the fixing of a Community quota, and procedure for the issue of road haulage licences (see section 219); the means whereby freedom to supply services in the fields of agriculture and horticulture (see section 36) was to be achieved, the date of implementation (July) of certain measures concerning the common agricultural policy (beef, rice, and milk products) (see section 178 sqq.); health requirements for trade in meat products and fresh poultrymeat (see section 197); the marketing of agricultural seeds and seedlings, and reproduction material of trees (section 200); the gradual establishment of a common organization of sugar markets (see section 184); the meeting held in Messina to prepare for the Parliamentary Association Conference; the estimates of expenditure and revenue of the European Parliament for the financial year 1965 (see section 393).

Session of 22-24 September 1964 (1)

350. The Parliament heard a statement by M. Marjolin, Vice-President of the Commission, on the economic situation and, more particularly, on action taken by the Governments of the Member States on the Council's recommendation concerning the internal economic balance of the Community (see section 119).

(1) See official gazette No. 153, 6 October 1964.

The Parliament also heard a report by M. Burgbacher (Germany - Christian Democrat) on the energy policy of the Community from the standpoint of the forthcoming merger of the European Executives, and adopted a resolution calling for a single control of the activities of the new Executive with regard to energy policy.

During this session, the Parliament adopted resolutions on budget and administrative problems raised by the merger of the Executives and of the Communities (see chapter I), on the first annual report on the activities of the EEC-Greece Council of Association, and on the proposed Commission regulation on the levy to be applied to certain mixtures of milk products (see section 180).

Session of 19-22 October 1964 (1)

351. The Parliament held its annual debate on the activities of the Community on the basis of a report submitted by M. Rossi (France - Liberal). This report, which reviews the various aspects of the establishment of the Common Market and of economic union, placed the action taken in pursuance of the Treaty in a wider context, dealing with the various subjects simultaneously from the human, political, technical, and economic standpoints, in the light of the growing needs of the modern world, of European union, and of the citizens of Europe.

From the ensuing debate there emerged the view that it was necessary, in the interests of maintaining the vitality of the Community, to speed up its economic integration and strengthen its institutional structure, and that there was a certain leeway to be made up on fields where the Council had as yet been unable to reach decisions (in particular the common commercial policy and transport).

The Parliament expressed its satisfaction at the position with regard to customs union, the achievements or proposals in the field of medium-term economic policy, common agricultural policy, and monetary and budget policy. It expressed its regret at the absence of a common energy policy

(1) See official gazette No. 177, 6 November 1964.

(which should be laid down without delay with the merger of the Communities in prospect), stressed the need to speed up the approximation of legislation, and urged the Council to pave the way for European Parliamentary legislation in certain legal fields; it expressed the hope, in particular, that the Commission would lay down guide-lines for economic policy and incomes policy, that the harmonization of tax systems should be extended to cover direct taxation, that a step should be taken in the direction of political union, and that the Commission should boldly take the lead in promoting a real Community policy for training and research. The resolution, which covers all aspects of Community activities, lays stress on those proposals which make for more active participation by the Parliament in the legislative activities of the Community.

The Parliament then heard a report by M. Pedini (Italy - Christian Democrat) on the results of the World Conference on Trade and Development, held in Geneva from 23 March to 15 June 1964. The resolution adopted underlined the importance of the Conference, which was to be regarded as a vital instrument for the establishment of international co-operation with a view to furthering the economic and social development of the emergent countries, and drew attention to the fact that the Commission had given an undertaking to work out and implement a common policy vis-à-vis the developing countries.

Furthermore, on an oral question from Mme Strobel (Germany - President of the Socialist Group), concerning the democratization of the Community, the Parliament held a political debate in which the question of the seat of the institutions was raised.

This question, on the one hand, stressed that it was necessary for the establishment of a single Executive to be accompanied by a widening of the powers of Parliament, and, on the other, drew attention to the implications of this problem and of that of the seat of the Communities.

Replying on behalf of the Commission, M. Hallstein, President of the Commission, confirmed that the latter was to a very large extent in agreement with the position adopted by the Parliament and pointed out that, although the Commission was particularly anxious to find an effective arrangement, it was, however, opposed to any preliminary conditions which might hold up the solution of the problem.

Following a detailed discussion on questions of procedure and substance, the Parliament declined to treat by urgent procedure a draft resolution submitted by the Socialist Group on this subject and referred it to the Political Committee.

During this session, the Parliament adopted certain resolutions concerning the approximation of the regulations in force in the Member States concerning colouring matters in foodstuffs (see section 196), the level of salaries paid to officials (see section 390) and the proposed supplementary budget for the EEC for the financial year 1964 (see section 393).

Session of 23-27 November 1964 (1)

352. Opening the session, the President of the Parliament paid tribute to the memory of M. Malvestiti, the former President of the High Authority of the European Coal and Steel Community and former Vice-President of the EEC Commission. M. Del Bo, the President of the High Authority of the European Coal and Steel Community, and M. Levi Sandri, Vice-President of the EEC Commission, joined in this tribute.

M. Duvieusart then expressed the Parliament's regret at the death of M. von Brentano, the President of the CDU Parliamentary Group, former German Foreign Minister, and former chairman of the constitutional committee within the *ad hoc* Assembly (1952-53).

The Parliament debated the question of the place where its plenary sessions should be held, the Council having expressed the wish to have the Parliament's views on the subject (see chapter I). M. Eduardo Martino (Italy - Christian Democrat) submitted a report on behalf of the Political Committee dealing also with voting procedure on this point. It emerged from the discussions that the Parliament would have difficulty in giving a reply owing to the link existing between the various outstanding problems (single seat of the institutions) and the question which had been raised. According to the terms of the resolution adopted, it was considered inadvisable to amend the decision reached by the Governments on 7 January 1958, i.e. that the venue for plenary sessions should remain

(1) See official gazette No. 205, 11 December 1964.

Strasbourg as long as the single seat of the institutions had not been fixed.

The ensuing discussions and the resolutions adopted were concerned in the main with budget questions (see section 196), the co-ordination of bilateral relations between the Member States and the Associated States, the operations of the first European Development Fund (see section 350), relations between the EEC and Latin America, the rules for competition in the field of transport (see sections 69 and 228), and the pig census in the EEC (see section 177).

The Parliament furthermore adopted a resolution on the report on social developments in the Community in 1963/64, which was annexed to the EEC Commission's Seventh General Report.

The colloquium between the Institutions (25 November 1965)

353. The annual colloquium between the European Parliament, the Councils and the Executives of the Communities was held at Strasbourg on 25 November 1964.

The subject dealt with this year was "The economic situation in the Community"; the discussions were mainly concerned with the most topical aspects of the Community's general economic policy: anti-inflationary measures and the need for stabilization; medium-term programming and the various factors contributing to development; the problem of production costs as well as of competition with enterprises in non-member countries; the question of industrial conversion; wage and incomes policies; finally, the colloquium revealed a general awareness of the need for Europe to make up its leeway in the technical and scientific fields.

M. Schmücker, the German Minister for Economic Affairs and the present President of the Councils, drew attention in his statement to the main points to be dealt with in the discussion. Summing up, M. Schmücker laid special stress on problems of supply and demand and on the movement of prices and costs.

M. Pleven (Liberal - France) submitted a working paper drawn up on behalf of the Economic and Financial Committee, in which he emphasized

the complexity of trade-cycle problems among the Six and their fluid nature.

M. Del Bo, President of the High Authority, gave an account of the experience gained by that body in the field of trade cycle policy and drew particular attention to the role played industrial conversion from the trade cycle standpoint.

M. Margulies, a member of the Commission of the European Atomic Energy Commission, stressed the need to co-ordinate and strengthen research policy.

On behalf of the Christian Democrat Group, M. van Campen (Netherlands) laid emphasis on the importance to the Community of establishing a Community incomes policy, which was essential for balanced expansion.

Speaking on behalf of the Socialist Group, Mme Elsner (Germany) also expressed her approval of an incomes policy of this nature, but did not wish to see it limited to wages, which were not solely responsible for the rise in costs. Also speaking on behalf of the Socialist Group, M. Troclet (Belgium) stated his conviction that inflation made all social progress impossible and that cost-of-living-related wages could not be held to be the sole cause of rising prices.

M. Marjolin, the Vice-President of the Commission, described what had been done in matters of trade-cycle policy in the six Community countries.

Winding up, M. Schmücker stressed that the keystone of trade-cycle policy was the budget, both taken as a whole and broken down by sectors and regions. Finally, M. Schmücker summarized the lessons to be drawn from the various statements made, adding that the economic prospects for Europe were favourable.

Session of 18-23 January 1965 (1)

354. A report was submitted on behalf of the Political Committee by M. Eduardo Martino (Italy - Christian Democrat) on problems arising

(1) See official gazette No. 20, 6 February 1965.

in the political unification of Europe. The speaker stressed the necessity of defining ways and means whereby a political revitalization of Europe might be brought about and the role of the future European Parliament elected by universal suffrage laid down. Other speakers stressed the urgent need for action in this field. An interim resolution was adopted (since the discussion was to be continued at the following session), which took form of a solemn appeal to the Governments to give practical impulsion to the formation of a democratic Europe.

On a report submitted by M. Weinkmann (Germany-Christian Democrat), the Parliament decided to reduce the number of deputies required to form a political group from 17 to 14. This decision made it possible to form a fourth political group within the Parliament, known as "European Democratic Union".

M. Marjolin, Vice-President of the Commission, gave an address on the economic situation of the Community in 1964 and on the outlook for 1965; a debate ensued.

M. Mansholt, Vice-President of the Commission, presented a report on the decisions reached in December by the Council concerning the common agricultural policy and their political and economic implications for the development of the Community; a debate ensued.

The Parliament discussed a report submitted by M. Carcassone (France - Socialist), speaking for the Committee on Co-operation with the developing countries, on the first parliamentary conference held in Dakar from 8 to 10 December 1964. The speaker stressed the importance of those points of the resolution of the conference which dealt with trade. The Parliament expressed its agreement with the conclusions of the parliamentary conference.

The other resolutions adopted were mainly concerned with procedure for the conclusion of commercial agreements between the European Communities and non-member countries (see section 292), restrictions on establishment and services in the film industry (see section 41), the holding of stocks of crude oil and petroleum products in the Member States (see section 155), the gradual establishment of a common organization of sugar markets (see section 184), farm structures, and various provisions on veterinary and plant health matters.

Session of 22-26 March 1965

355. Renewal of the Bureau

The Parliament opened its annual session by re-electing its President, M. Duvieusart, by acclamation, and MM. Fohrmann, Battagli, Furler, Vendroux, Kreyssig, Brunhes, Rubinacci, and Kapteyn as Vice-Presidents.

M. Duvieusart paid tribute, on behalf of the Parliament, to the memory of the late Sir Winston Churchill.

Debates and Resolutions

Two political debates took place, the first of which was based on a new report submitted by M. Eduardo Martino, on behalf of the Political Committee, on the problems of European political unity (forming a follow-up to the January session), while the other was based on the statement made by the current President of the Councils, M. Couve de Murville, on the activities of the Councils during the past year. The discussion on political unity centred on two main subjects, first, the attempt to find a federal structure which would permit the establishment of a joint authority with adequate powers in the basic sectors of culture, foreign policy, and defence, and secondly, the place of the European political union within the Atlantic alliance.

The resolution, which was adopted after a lively debate, endorsed the concept of an Atlantic alliance between equal partners and, in particular, stressed once again the urgency of European political unity, the necessity of electing a European Parliament by universal suffrage invested with the powers which were essential for the build-up of Europe along democratic lines.

M. Couve de Murville's reviewed the progress made in establishing the Common Market and the pursuit of common policies, particularly in the agricultural field, external relations and institutional matters. Speakers were numerous by reason of the variety of subjects covered.

M. Rochereau, a member of the Commission, addressed the Parliament on trade between the Community and the Associated African States and Madagascar. The time had come, he said, to follow simultaneously a concerted policy of stabilizing, or even raising, commodity prices and a

policy of progressively opening up industrial markets to semi-finished products from the developing countries. He drew attention to the need to enable these countries to pay for the imports they required for their development.

On behalf of the Economic and Financial Committee, M. van Campen (Netherlands - Christian Democrat) submitted a report on the economic situation and the medium-term policy of the EEC; following this report, a resolution was passed in which the Parliament, wishing to see the Community make a constructive contribution to the working of the international monetary system, recommended that the ultimate goal should be the use of a single currency among the Member States (see sec. 119 *in fine*).

At this session, the Parliament adopted a number of resolutions on co-operation between the European Parliament and the parliaments of the Associated States (see section 292); the membership of the Research and Cultural Affairs Committee (fixed at 29 on the proposal of the four political groups); the right of establishment and freedom to supply services (public works contracts and the procedure to be followed in concluding these contracts; see section 40); Community action in the field of transport infrastructure investment (section 232); introduction of common rules for international passenger transport by road (see section 220); certain aspects of the financial organization of the EEC (sections 215 and 344); composition of the EEC-Greece parliamentary association committee; relations between the Community and Israel (section 284); common commercial policy (section 278); housing of workers counter-vailing charges on certain goods; settlement of the European Parliament's accounts for the financial year 1964.

THE COUNCIL

356. The Council held 34 sessions presided over successively by the Belgian member (up to 30 June 1964), the German member (1 July-31 December 1964) and by the French member (since 1 January 1965). Twelve sessions were devoted to agricultural matters, four to transport problems, two to economic and financial questions, and two to social matters.

A feature of this period was that three or four vital problems were examined at most meetings and formed the subject of important decisions.

The first of these problems was the fixing of common cereals prices. The further communication submitted by the Commission during May on this subject gave rise to several debates which afforded an opportunity for each delegation to explain the special difficulties which might be raised by the Commission's proposals. After having postponed this decision until not later than 15 December, the Council finally adopted it, at its 156th session on 14 December, when the Commission put forward a compromise solution. This decision was accompanied by several resolutions, concerning the financing of the common agricultural policy and the organization of the fruit and vegetable market (see sections 164 and 165). This set of decisions was supplemented on 23 and 24 February by the fixing of milk and beef prices for the period 1965/66 (see section 168), which constitutes a stage towards future single prices. The decisions reached on 14 December made it possible to continue negotiations effectively at GATT.

After the "marathon" session of 23 December 1963, there was a further development with regard to common agricultural policy in as much as the rice regulation and the milk products and beef regulations came into force on 1 September and 1 November 1964 respectively (see sections 176, 178 and 180). Before these dates the Council and the Commission had to adopt a series of implementing regulations, of which there were about thirty for milk products and rice and about fifteen for beef.

The regulation on assistance from the European Agricultural Guidance and Guarantee Fund and the financial regulation, adopted in February, came into force on 1 July 1964. The Council also held several discussions on the common organization of sugar markets (proposal submitted by the Commission in March and December). Finally, the decisions on fats, and particularly the introduction of a common levy (section 185) were added to round off the common agricultural policy.

The second problem to which the Council devoted a great deal of attention was the drawing-up of a Community list of the industrial products to be excepted from the commercial negotiations, and the submission of this list to GATT on 16 November, in accordance with the Council agreement of 15 November 1964, constituted an important step forward. The submission of this list within the stipulated time-limit, together with the

fixing of the common level of cereal prices, will make it possible for the commercial negotiations at GATT to be continued normally and will demonstrate the Community's intention of making an effective contribution to the success of the Kennedy round.

The third major problem was the merger of the Executives. Realizing the political importance and great practical advantages of such a regrouping of the institutions of the three Communities, the Council devoted several sessions to discussing the difficulties raised by the preliminary draft agreement setting up the Council and Commission of the European Communities. Since unanimous agreement was not reached on the Luxembourg proposal of July 1964 that the European Parliament should sit in the capital of the Grand Duchy, another solution was sought along the lines of making Luxembourg a European centre for certain financial and legal activities. An agreement was reached on 2 March and signed on 8 April 1965. With the provisional establishment of the institutions in Brussels, Luxembourg and Strasbourg; this agreement recognizes the principle of a single Executive having its seat in Brussels and grants the Grand Duchy of Luxembourg the political and financial compensations it requested in view of the fact that the High Authority of the European Coal and Steel Community would cease to have its seat in Luxembourg.

Finally, the Council was confronted with the problem of restoring the Community's internal and external economic balance. Special importance is to be attached, to the recommendation of 14 April 1964 addressed to the Member States concerning the measures to be taken in order to meet the threat of inflation among the Six. By setting up a Medium-term Economic Policy Committee, a Committee of Governors of Central Banks, and a Budgetary Policy Committee, the Council showed that it intended to help achieve a stable level of prices and production costs by establishing closer links and intensifying consultations between the Member States. By this recommendation the Six recognized their interdependence and their solidarity in economic and financial matters.

With regard to European non-member countries, the Council devoted lengthy discussion to the question of negotiations with Austria (see section 293), since it attaches special importance to the Community's relations with this country. A mandate to conduct the negotiations was given to the Commission on 2 March. The entry into force of the Associa-

tion Agreement between the Community and Turkey, the working of agreements already concluded with non-member countries, and, finally, the opening of negotiations with Nigeria and the East African countries formed the subject of discussions in the Council from session to session.

357. A concise account will be found below of the most important decisions reached by the Council, in chronological order, details having been given in the earlier chapters. The dates quoted are those when the substance of the various decisions was adopted, and not those when they were formally approved in the languages of the Community, which was done later. These key dates, of course, reveal nothing of the preparatory discussions, whether within the Council itself or within its numerous working parties at different levels, nor of a number of less spectacular decisions, which are referred to in connection with each question dealt with in the present General Report. Thus, quite apart from agricultural problems which recurred at almost all the meetings, the Council dealt almost continuously with a number of other problems, in particular, the multilateral negotiations at GATT, the conclusions to be drawn from the World Conference on Trade and Development, budget questions, the right of establishment and freedom to supply services, tariff problems, and the approximation of legislation. No mention will be made here, either, in order to avoid making this chapter excessively lengthy, of the decisions concerning consultation by the Council of the Parliament and the Economic and Social Committee, nor of its relations with the other organs of the Community.

129th session: 13-15 April 1964

The Council agreed, on proposals submitted by the Commission, to address a recommendation to the Member States in order to restore the Community's internal and external economic balance (see sections 118 sqq.). It has decided to set up a Committee of Governors of Central Banks and a Budgetary Policy Committee (see sec. 134).

130th session: 21-23 April 1964
(social questions)

The Council examined several problems arising in the application of Article 118 (in particular, maintenance of the families of migrant workers and social security for such workers; see section 248).

The representatives of the Governments of the Member States drew up a joint programme for the exchange of young workers (see sec. 243).

131st session: 29-30 April 1964
(agriculture)

The Council drew up a number of implementing regulations for beef and dairy produce (see sec. 178 and 180).

132nd session: 8 May 1964

The Council drew up the necessary documents for the conclusion of a commercial agreement between the Community and Israel (see sec. 284).

The Council fixed the duties for petroleum products (List G), thus completing the establishment of the common customs tariff (see sec. 153).

133rd session: 19-21 May 1964
(agriculture)

The Council drew up a regulation laying down criteria for price support for beef and two regulations concerning the butter market (definition of best butter; price support). It furthermore adopted several implementing regulations concerning various products (see sec. 178 and 180).

134th session: 1-2 June 1964

The Council decided to postpone until 15 December 1964 its decision on a common level for cereal prices together with its decision on the financing by the Community of export refunds (see sec. 161).

It drew up the financial regulations of the European Development Fund (see sec. 330 sqq.).

It approved a mandate for the Commission to open negotiations with Nigeria (see sec. 309).

It drafted the reply to be addressed to the letters received from the Spanish Government concerning a request for conversations (see sec. 290).

The Council renewed the terms of office of the President and members of the Committee of Control (see sec. 376).

*135th session: 10 June 1964
(agriculture)*

The Council approved two regulations concerning poultrymeat and starches (see sec. 175).

136th session: 16 June 1964

The Council held an exchange of views on the questions of principle raised by the preliminary draft convention on European patent law (see sections 89 and 90).

*137th session: 22 June 1964
(transport)*

The Council decided to authorize a survey on infrastructure costs for railways, roads and inland waterways (see sec. 238).

It gave initial consideration to a proposal for a directive on permitted weights and dimensions of commercial road vehicles. It examined the question of applying rules of competition to the field of transport, and received a communication from the Commission concerning the applicability of the Treaty to Rhine shipping (see secs 234, 69, 228 and 225).

*138th session: 24-26 and 30 June 1964
(agriculture)*

The Council drafted two directives on trade in fresh meat and on problems of veterinary supervision (see sec. 197).

It approved several regulations (manioc flour, eggs, poultry, pork preserves, scale of subsidies for rice).

The Council postponed the date of entry into force of the trade system and price support as regards Regulations Nos. 16 (rice), 13 (milk and milk products) and 14 (beef) from 1 to 31 July 1964.

139th session: 7 July 1964

The Council drafted three directives on freedom of establishment and freedom to supply services in a self-employed capacity in certain sectors and in handicrafts as well as in the extractive industries (see section 35).

The Council approved several principles for the improvement of consultation procedure in the field of credit insurance, guarantees and financial credits for exports (see sec. 282).

*104th session: 14-17 July 1964
(agriculture)*

The Council approved several implementing regulations pursuant to the regulation on milk and milk products 13/64 (classification of products, fixing of reference prices for certain milk products, countervailing charges and subsidies, lump sums) (see sec. 180).

It adopted several implementing regulations on the system to be applied to rice and broken rice from the Associated African States and Madagascar (see sec. 176).

141st session: 28-30 July 1964

The Council held a full exchange of views, on the basis of a Commission report, concerning implementation by the Member States of the Council recommendation of 15 April 1964 on measures to be taken to establish internal and external economic balance in the Community (see secs 118 and 119).

The Council received a communication from the Commission urging it to take certain decisions to press forward the agricultural negotiations at GATT.

142nd session: 18 September 1964

This session was largely devoted to the question of merging the Executives. The Council decided that the single Commission, from the entry into force of the treaty merging the Executives to that of the treaty merging the Communities, should have fourteen members, and thereafter nine. It discussed the question of the location of the institutions (see Ch. I).

The Council approved two proposals for directives on freedom of establishment for certain self-employed activities and laid down procedure for the conclusion of public works contracts (see sec. 40).

143rd session: 21-22 September 1964
(agriculture)

The Council approved several regulations amending Regulations Nos. 20, 21 and 22, and discussed certain questions connected with the common agricultural policy (see secs 177 and 179).

144th session: 12-13 October 1964

The Council took note of a communication from the Commission entitled "Initiative 1964" addressed to the Council and the Governments of the Member States (see sec. 3).

It approved a mandate for the Commission to open negotiations with the East African countries (see sec. 310).

It approved the draft budget of the Community for the financial year 1965 (see sec. 393).

145th session: 15 October 1964
(social questions)

Following an exchange of views on the social situation in the Community, the Council continued its discussions on the application of Articles 117 and 118 of the Treaty. It took note of the action programme submitted by the Commission on social matters in agriculture and on labour problems

in the Community. The representatives of the Governments of the Member States examined a Commission report on the preparation of the statistical survey on wages earned by men and women, and decided not to carry out such a survey for the present (see sec. 240).

*146th session 19-21 October 1964
(agriculture)*

The Council continued its discussions on the common organization of sugar markets (see section 184), and also adopted two regulations on processed cereal products, and approved a regulation on certain compound feeding-stuffs (see sec. 198).

*147th session: 20 October 1964
(transport)*

The Council began to examine in substance three of the Commission's proposals concerning common transport policy. It endorsed a solution concerning Community quotas and discussed various other matters such as the harmonization of provisions affecting competition, weights and dimensions of commercial road vehicles, etc. It took note of a statement received from the Commission on sea and air transport (see secs 218, 219, 234 and 239).

148th session: 30 October 1964

The Council adopted several agricultural regulations on certain mixtures of milk products and reference prices in this field.

149th session: 10-14 November 1964

The Council held an exchange of views on those proposals for European policy submitted by the German Government which were concerned with economic and social matters. In the course of these discussions, "Initiative 1964", together with the proposals made in February by the Italian Government, were examined.

The Council drew up a list of industrial products to be included in the Community list of exceptions for the GATT multilateral negotiations (see sec. 275).

The Council held an exchange of views on the action taken by the Member States in response to the Council recommendation of 15 April on restoring the Community's internal and external economic balance (see sec. 119). It adopted a directive concerning arrangements for freedom to supply services connected with agriculture and horticulture.

*150th session: 16-17 November
(agriculture)*

The Council signified its agreement in principle with the fixing of import quotas for quality wine to be opened by Germany, France and Italy (see sec. 170).

152nd session: 30 November-1 December 1964 (1)

The Council examined the stage reached in negotiations with Austria and Nigeria (see secs 293 and 309).

The Council examined the situation created by the Parliament's vote on the venue for its plenary sessions (see chapter 1).

*153rd session: 30 November-1 December 1964
(agriculture)*

All the problems connected with the fixing of common cereal prices were reviewed in view of the impending dead-line at the end of the year (see sec. 161).

*154th session: 7-8 December 1964
(agriculture)*

At this session, the discussions held on the previous day were continued, and the entire meeting was devoted to the decisions to be reached by the close of the year.

(1) The only EEC item that was to have been dealt with at the 151st session, which was otherwise devoted to Euratom, was carried over to the 152nd session.

*155th session 10-11 December 1964
(transport)*

The Council continued its examination of problems connected with Community quotas, the harmonization of provisions affecting competition, the rate-bracket system, and the weights and dimensions of commercial road vehicles (see secs 219 and 234).

156th session: 12-15 December 1964

At this session, the Council reached agreement in principle on measures to be taken to establish a common level of cereal prices (see chapter on agriculture).

The Council established the draft EEC budget for 1965 (see sec. 393).

157th session: 25-26 January 1965

The Council finally adopted the measures to be taken to establish a common level of cereal prices, a subject on which agreement in principle had been reached at the "marathon" session of 12-15 December 1964. It furthermore drew up a directive on the harmonization of laws and regulations governing branded pharmaceuticals (see sec. 86).

It adopted a decision on procedure for consultation in the field of credit-insurance, guarantees and financial credits (see sec. 282).

158th session: 2 February 1965

The Council adopted a regulation concerning the application of certain rules of competition (see Article 85 (3) of the Treaty) to certain classes of agreements and concerted practices (see sec. 68).

The Council gave the Commission further instructions for the resumption of negotiations with Nigeria.

*159th session: 22-23 February 1965
(agriculture)*

The Council signified its agreement in principle with the regulation amending Article 11 (2) of Regulation No. 23 (fruit and vegetables; see sec. 181).

It likewise endorsed a regulation fixing the upper and lower limits of beef guide prices for the period beginning 1 April 1965 (see sec. 178).

It adopted a regulation on prices in the milk and milk products sector for the period 1965-66 (see secs 168 and 180).

160th session: 1-2 March 1965

The Council gave the Commission a mandate for negotiations with Austria (see sec. 293).

The representatives of the Governments of the Member States decided on a further reduction of 10% in internal customs duties on tobacco (24.01) as from 1 May 1965.

*161st session: 9 March 1965
(transport)*

The Council adopted a directive concerning the standardization of certain regulations governing road haulage licences between the Member States (see sec. 219).

It was agreed that a regulation on the establishment of a Community quota and on the adaptation of bilateral quotas for road haulage between Member States should come into force on 1 January 1966, assuming that agreement had been reached by then on the organization of the market (see sec. 219).

It was agreed that a regulation on the establishment of a Community quota and on the adaptation of bilateral quotas for road haulage between Member States should come into force on 1 January 1966, assuming that agreement had been reached by then on the organization of the market (see sec. 219).

The Council adopted a decision on the harmonization of certain provisions affecting competition in the field of transport by rail, road and inland waterway (see sec. 226).

The Council heard Commission statements on procedure for prior examination and consultation (decision of 21 March 1962; see section 231), a plan for the creation of a union for the international navigation of the Rhine (see sec. 225) and a proposal for a decision concerning the survey of infrastructure costs (see sec. 218).

*162nd and 163rd sessions: 15 and 16 March 1965
(agriculture)*

The Council agreed in principle to two regulations on eggs and live poultry. It fixed in principle the threshold prices for all milk products (see sec. 168).

The Council continued its discussions on sugar (see sec. 184), starches and the information service on farm accounts (see sec. 212) as well as on fruit and vegetables (see sec. 181).

164th session: 29-30 March 1965

After a further examination of the trade-cycle situation, the Council adopted, on the basis of a proposal from the Commission, a further recommendation to the Member States, inviting them to pursue in 1965 a trade-cycle policy in harmony with the recommendation of 15 April 1964, making such modifications as might be called for by the situation (see sec. 119).

The Council held a general discussion on the Commission's modified proposal for a directive concerning harmonization of turnover taxes and decided to resume discussion of this subject after the Commission had submitted a proposal for a second directive (see sec. 96).

After considering the subject at earlier sessions, the Council decided that the European Investment Bank might contribute to the financing of joint operations in so far as such action was open to the Bank under the EEC Treaty.

THE COMMISSION

Appointment of M. Levi Sandri as Vice-President of the Commission

358. The representatives of the Member States appointed M. Levi Sandri, Vice-President of the Commission, on 30 July 1964, in succession to M. Caron, who had tendered his resignation ⁽¹⁾. M. Levi Sandri remained President of the Social Affairs Group within the Commission and continued to attend meetings of presidents, as he was responsible for a number of administrative matters. M. Levi Sandri also represented the Commission on the Supervisory Board of the Statistical Office of the European Communities.

Appointment of M. Colonna di Paliano as a member of the Commission

359. At the same meeting the representatives of the Member States appointed M. Guido Colonna di Paliano a member of the Commission. M. Colonna di Paliano was to act, within the Commission, as President of the Internal Market Group and replace M. Rochereau as President of the Internal Information Group; he was also to preside, as the Commission's representative, over the Supervisory Board of the Information Group. M. Colonna di Paliano was also appointed member of the Commission's delegation to the Inter-Executive Group on Energy.

THE COURT OF JUSTICE

New cases

360. During the period under review, the Court of Justice dealt with 31 new cases, of which 12 were decided and 19 are pending.

The 31 cases are listed below:

A suit by the Commission, on the basis of Article 169 of the EEC Treaty, against a Member State for violation of the Treaty:

⁽¹⁾ See Seventh General Report, sec. 357.

Case 45/64 ⁽¹⁾ — EEC Commission v. the Italian Government. The Commission impugns Italian Law No. 639 of 5 July 1964, superseding Law No. 103 of 10 March 1955, regarding drawback on exports of engineering products.

This case is pending.

Eight suits filed for acts committed by Community institutions, under Article 173 of the Treaty, four of which are suits filed by Member States and four suits filed by organizations or private persons against decisions of the Commission:

Case 7/64 ⁽²⁾ — Belgian Government v. EEC Commission.
Case withdrawn ⁽³⁾.

Case 32/64 ⁽⁴⁾ — Italian Government v. EEC Commission. This is a suit for annulment of the decision of 22 May 1964 concerning authorization of the Italian Government to take safeguard measures in respect of certain products in Chapter 50 of the Italian customs tariff, which the Italian Government considered inadequate.

Case 38/64 ⁽⁵⁾ — Getreide Import Gesellschaft GmbH v. EEC Commission. This is a suit for annulment of the Commission's decision of 25 June 1964 fixing cif prices for sorghum.

Case 40/64 ⁽⁶⁾ — Avv. M. Sgarlata and others v. EEC Commission, seeking annulment of Commission Regulations Nos. 65, 66 and 74/64 fixing reference prices for lemons, mandarines, tangerines, clementines and sweet oranges; and of Council Regulations Nos. 23 and 100/62.

Cases 41 and 42/64 ⁽⁶⁾ — Italian Government v. EEC Commission. These suits seek, respectively, to annul Commission Regulations Nos. 64 and 66/64 of 16 June 1964 fixing reference prices for lemons, mandarines and clementines; and Commission Regulation No. 74/64 of 26 June 1964 fixing reference prices for sweet oranges.

⁽¹⁾ See official gazette No. 179, 7 November 1964.

⁽²⁾ *Ibid.*, No. 52, 27 March 1964.

⁽³⁾ See below: cases decided by the Commission.

⁽⁴⁾ See official gazette No. 132, 14 August 1964.

⁽⁵⁾ *Ibid.*, No. 151, 1 October 1964.

⁽⁶⁾ *Ibid.*, No. 167, 24 October 1964.

Cases 56 and 58/64 ⁽¹⁾ ⁽²⁾ — *Consten S.a.r.l. v. EEC Commission — Grundig GmbH. v. EEC Commission.* These two suits seek to annul the Commission's decision of 23 September 1964 applying Article 85 of the EEC Treaty to the agreements concluded between Consten company and Grundig.

With the exception of case 7/64, the seven other cases are pending.

Seven requests under Article 177 for interlocutory rulings on interpretation of the Treaty:

Case 20/64 ⁽³⁾ — *Albatros Co. v. SOPECO.*

Case 24/64 ⁽³⁾ — *A.M. Dingemans v. Sociale Verzekeringsbank.*

Case 31/64 ⁽⁴⁾ — *De Sociale Voorzorg, Brussels, v. W. H. Bertholet.* The "Arrondissementsrechtbank" Maastricht, First Chamber, submitted on 15 July 1964 a request for an interlocutory ruling concerning the interpretation of Council Regulation No. 3 on the social security of migrant workers.

Case 33/64 ⁽⁴⁾ — *Betriebskrankenkasse der Heseper Torfwerk v. Egberdine van Dijk, relict of R. Koster.* The "Arrondissementsrechtbank" of Assen submitted a request for an interlocutory ruling, on 28 July 1964, concerning the interpretation of Council Regulation No. 3 on the social security of migrant workers.

Case 47/64 ⁽⁵⁾ — *N.V. Vermeulen's Handelsmaatschappij v. Alfred Faber GmbH.* The "Arrondissementsrechtbank" of Zutphen in the Netherlands submitted a request for an interlocutory ruling on 10 October 1964, on the interpretation of Articles 85 and 86 of the EEC Treaty.

Case 10/65 ⁽⁶⁾ — *Firma Waldemar Deutschmann, Essen v. West German Government.* The Verwaltungsgericht, Frankfurt-on-Main, submitted a request, on 10 February 1965, for an interlocutory ruling on the interpretation of Article 95 (1) of the EEC Treaty, having regard to the

⁽¹⁾ See official gazette No. 2, 12 January 1965.

⁽²⁾ *Ibid.*, No. 3, 14 January 1965.

⁽³⁾ *Ibid.*, No. 110, 10 July 1964.

⁽⁴⁾ *Ibid.*, No. 132, 14 August 1964.

⁽⁵⁾ *Ibid.*, No. 179, 7 November 1964.

⁽⁶⁾ *Ibid.*, No. 37, 8 October 1965.

German law concerning import charges imposed by the "Aussenhandelsstelle des Bundesministeriums für Ernährung, Landwirtschaft und Forsten".

Case 16/65 — Firma C. Schwarze, Bremen v. "Einfuhr- und Vorratsstelle für Getreide und Futtermittel", Frankfurt-on-Main.

The Hessisches Finanzgericht, Kassel, submitted a request, on 26 February 1965, for an interlocutory ruling on the interpretation of Articles 173 and 190 of the EEC Treaty and Articles 2 and 3 of Council Regulation No. 19.

Cases 20/64, 24/64, 31/64 and 33/64 were decided (see below); the other three cases are pending.

Fifteen suits filed by Commission staff against decisions of the Commission

In seven of these cases annulment is sought of Commission decisions concerning the grading of the applicants; one of these cases was settled.

In two consolidated cases the applicants sought annulment of a notification of vacancy and of a Commission decision not to fill the vacancy concerned by promotion, transfer or internal competitive examination and to apply Article 29 (1 c) of the Statute of Service. These cases were decided.

Three suits (two of which were consolidated) were filed to obtain the annulment of a competitive examination or of the decision of the examining panel; one of these cases was settled, while two others are pending.

One case is concerned with a decision of the Commission to refuse payment for overtime (case decided).

In another suit the applicant complained of the Commission's refusal to allow him to act as deputy head of a division (case decided).

Finally, an applicant complained of a refusal to grant him a family allowance (case withdrawn).

Cases settled by the Court during the period covered by this Report

Suits filed by the Commission under Article 169

361. Consolidated cases 90 and 91/63 ⁽¹⁾ ⁽²⁾ — EEC Commission v. Grand Duchy of Luxembourg and Kingdom of Belgium.

(¹) Mention is made of the following cases in the Seventh General Report, sec. 360 et seq.

(²) See official gazette No. 219, 30 December 1964.

The Commission sought a ruling that the imposition of a special charge on the issue of import licences for powdered milk, condensed milk and certain cheeses by the Luxembourg and Belgian Governments were contrary to Article 12 of the Treaty.

The Court gave a ruling in favour of the Commission on 13 November 1964.

Suits filed concerning acts of Community institutions

Case 103/63 ⁽¹⁾ — Rhenania Schiffahrts- und Speditionsgesellschaft mbH, Mannheim, Rhenus Gesellschaft für Schiffahrt, Spedition und Lagerei mbH, Frankfurt-on-Main, and Westfälische Transport Aktiengesellschaft, Dortmund v. EEC Commission.

These German firms filed a complaint, under Article 179 of the Treaty alleging failure of the Commission to take action against the fixing by the German Government of intervention prices for products based on cereals.

The Court declared on 2 July 1964 that no judgment was called for.

Case 7/64 ⁽²⁾ — Kingdom of Belgium v. EEC Commission.

This is an application to rescind the Commission's decision of 19 December 1963, allowing countervailing charges to be imposed on imports into Germany of dextrines and soluble or roasted starches from other Member States.

The Court struck this case off on 20 January 1965, the applicant having withdrawn.

Request for an interlocutory ruling on interpretation of the Treaty, under Article 177

Case 92/63 ⁽³⁾ — Mme M. Th. Nonnenmacher, relict of H. E. Moebs v. Sociale Verzekeringsbank.

This was a request for an interlocutory ruling on the interpretation of Article 12 of Council Regulation No. 3 of 25 September 1958 on the social security of migrant workers.

⁽¹⁾ See official gazette No. 157, 13 October 1964.

⁽²⁾ *Ibid.*, No. 15, 1 February 1965.

⁽³⁾ *Ibid.*

The Court of Justice gave the following ruling on 9 June 1964:

“1. Article 12 of the EEC Council Regulation No. 3 concerning social security for migrant workers (official gazette No. 30, 16 December 1958) does not prevent Member States other than those on whose territory employed persons and persons treated as such are working from applying to such persons their legislation on social security.

2. This is the position unless a Member State other than that in which the person works obliges him to pay contributions to a social security institution from which he would not be entitled to supplementary benefit for the same risk and over the same period.”

Case 100/63 ⁽¹⁾ — Mme J. G. Van der Ween, relict of J. Kalsbeek, Overdeukel v. Bestuur Sociale Verzekeringsbank.

This was a request for an interlocutory ruling on the interpretation of certain provisions of Council Regulation No. 3.

The case before the Netherlands Court was concerned with the implications of certain provisions of Council Regulation No. 3 on the social security of migrant workers, in Netherlands legislation on widows' and orphans' pensions.

The Court first of all ruled, on 15 July 1964, that Regulation No. 3 was applicable to social security legislation adopted after the entry into force of Regulation No. 3. It went on to declare that Article 28 of Regulation No. 3, which provides that pensions shall be paid on a *pro rata* basis according to the periods during which insurance contributions have been paid in various countries was applicable in a Member State only if, for the person to be eligible for pension in the State concerned, it was necessary to take into account the periods during which insurance contributions were paid in one or more other Member States (cumulation of periods under Article 27).

Basing its interpretation on Article 51 of the Treaty, the Court ruled that regulations adopted under this article could not reduce benefits enjoyed under the legislation of a single Member State.

⁽¹⁾ See official gazette No. 15, 1 February 1965.

Case 101/65 ⁽¹⁾ — M. A. Wagner-Jung v. M. J. Fohrmann and M. A. Krier (members of the European Parliament).

This was an application by the “tribunal d’arrondissement” of Luxembourg for an interlocutory ruling on Articles 8 and 9 of the Protocol on privileges and immunities.

The Court of Justice rendered its decision on 12 May 1964 to the effect that:

“1. The words “During the session of the Assembly” as used in Article 9 of each of the three Protocols on privileges and immunities must be interpreted as follows:

Subject to the opening and closing dates of the annual session, which are determined by Article 22 of the ECSC Treaty, the European Parliament must be considered in session, even if it is not actually sitting, until the close of its annual or extraordinary sessions.”

Case 6/64 ⁽¹⁾ — Avv. Flaminio Costa v. ENEL

This was an application for an interlocutory ruling on the point whether the Italian law of 6 December 1962 establishing the ENEL and the decrees of the President of the Republic of 15 December 1962 were compatible with the EEC Treaty, and in particular with Articles 37, 53, 93 and 102 thereof.

The Court rendered its decision on 15 July 1964. It declared the request admissible, stating that “Article 177 should be applied notwithstanding any domestic law, here any question of interpretation of the Treaty arose”, even if the domestic court were not required to apply a provision of the Treaty, but only a domestic law that might be incompatible with the same provisions.

As requested by the Italian judge, the Court gave its interpretation of Articles 102, 93, 53 and 37 of the EEC Treaty on the point whether these provisions had direct consequences and conferred upon individuals legal rights that must be upheld by domestic courts. The Court decided that Articles 102 and 93 did not have such effects, but that Articles 53 and 37 (in part) did.

⁽¹⁾ See official gazette No. 83, 29 May 1964.

⁽²⁾ *Ibid.*, No. 182, 12 November 1964.

Concerning the relationship between Community law and domestic law, the Court's judgment contains a statement of principle. It is that a law passed after the entry into force of the Treaty cannot overrule Community law (contrary to the principle of "lex posterior"), because by signing the Treaty the Member States agreed to restrict their jurisdiction and to transfer some of their powers to the Community, and thus created a body of law applicable to their nationals and to themselves.

Case 20/64 (1) — *S. Albatros Co., Rome, v. SOPECO, Paris*

A dispute between the Italian company "Albatros" and the French company "SOPECO" was brought before the Rome civil court, to decide whether or not French regulations governing petroleum imports were compatible with certain provisions of the Rome Treaty. The Rome civil court then requested the Court of Justice to give an interlocutory ruling on the interpretation of Articles 30, 31, 32, 33, 35 and 37 of the EEC Treaty, to establish whether any of these articles cancelled certain provisions of French regulations governing petroleum imports.

The Court gave the following ruling on 4 February 1965:

"None of the Treaty provisions referred to by the Rome Tribunal implies that quantitative restrictions, discriminatory measures or similar measures were automatically abolished when the Treaty came into force, nor did they oblige the Member States to eliminate such measures completely by 1959".

The Court did not give a ruling as to whether the French regulations governing petroleum imports constitute a State monopoly within the meaning of Article 37 of the Treaty.

Case 24/64 (2) — *Mlle Dingemans v. Sociale Verzekeringsbank*

This was a request for an interlocutory ruling concerning the same regulation.

The Court of Justice gave an interlocutory ruling, on 2 December 1964, in response to a request from the Centrale Raad van Beroep (Netherlands),

(1) See official gazette No. 30, 23 February 1965.

(2) *Ibid.*, No. 119, 30 December 1964.

concerning the interpretation of certain provisions of Regulation No. 3 regarding the application of this regulation to Netherlands legislation on invalidity insurance.

The Court found that Regulation No. 3 applied to the Netherlands law on invalidity insurance since the law provided for benefits computed by reference to "periods completed".

In the grounds stated, the Court confirmed its ruling 100/63 (*Van der Veen v. Sociale Verzekeringsbank*), concerning the interpretation of Article 28 of Regulation No. 3.

Case 31/64 ⁽¹⁾ — *De Sociale Voorzorg, Brussels, v. W. H. Bertholet*

Case 33/64 ⁽¹⁾ — *Betriebskrankenkasse der Heseper Torfwerk GmbH v. Egberdina Van Dijk*

Case 31/64, submitted to the Court of Justice by the "arrondissementsrechtbank" of Maastricht on 15 July 1964, and case 33/64, submitted by the "arrondissementsrechtbank" of Assen on 25 July 1964, sought an interlocutory ruling on Council Regulation No. 3 concerning the social security of migrant workers.

The Court of Justice rendered its decision in these two consolidated cases on 11 March 1965. It ruled that Article 52, section 1 of Regulation No. 3 concerning the social security of migrant workers was applicable before the bilateral agreement referred to in paragraph 2 of this article had been concluded between the Member States concerned.

The Court ruled that the provisions of paragraph 1 were explicit and capable of direct application without difficulty.

The Court furthermore confirmed the ruling implicit in Decision 75/63, declaring that the application of Regulation No. 3 was not confined to migrant workers in the strict sense but covered all wage-earners, including those who had always worked and resided in the same Member State.

Cases brought by Commission staff against Commission decisions

Fourteen cases involving appeals made by members of the Commission's staff were decided by the Court of Justice, eight being dismissed:

⁽¹⁾ See official gazette No. 46, 22 March 1965.

Case 26/63 ⁽¹⁾ — M. Pistoij v. the Commission (decision concerning establishment): ruling given on 1 July 1964.

Case 78/63 ⁽¹⁾ — M. Huber v. the Commission (decision concerning establishment): ruling given on 1 July 1964.

Consolidated cases 109/63 and 13/64 ⁽²⁾ — M. Muller v. the Commission (decision concerning grading): ruling given on 16 December 1964.

Case 10/64 ⁽³⁾ — M. Jullien v. the Commission (decision concerning grading): ruling given on 24 February 1965.

Consolidated cases 12 and 29/64 — M. Ley v. the Commission (cancellation of announcement of vacancy No. 403 and of the decision to adopt the procedure provided for in Article 29 (1 c) of the Statute of Service.

Ruling given on 31 March 1965.

Case 16/64 — Mlle Rauch v. the Commission (decision concerning the admission of an auxiliary employee to an internal competitive examination).

Ruling given on 31 March 1965.

In six other cases, the Commission's decision was quashed:

Case 79/63 ⁽⁴⁾ — M. Reynier v. the Commission (decision concerning grading): ruling given on 9 June 1964.

Case 80/63 ⁽⁵⁾ — M. Degreef v. the Commission (decision concerning establishment): ruling given on 1 July 1964.

Case 82/63 ⁽¹⁾ — M. Erba v. the Commission (decision concerning grading): ruling given on 9 June 1964.

Consolidated cases 94 and 96/63 ⁽⁶⁾ — M. Bernusset v. the Commission (cancellation of announcement of vacancy): ruling given on 9 June 1964.

⁽¹⁾ See official gazette No. 157, 13 October 1964.

⁽²⁾ *Ibid.*, No. 30, 23 February 1965.

⁽³⁾ *Ibid.*, No. 43, 16 March 1965.

⁽⁴⁾ *Ibid.*, No. 120, 28 July 1964.

⁽⁵⁾ *Ibid.*, No. 157, 13 October 1964.

⁽⁶⁾ *Ibid.*, No. 120, 28 July 1964.

Case 97/64 ⁽¹⁾ — M. de Pascale v. the Commission (decision concerning grading): ruling given on 7 July 1964.

In six cases the applicant withdrew

Case 71/63 ⁽²⁾ — M. Mastroposqua v. the Commission (decision concerning grading).

Case 72/63 ⁽²⁾ — M. Bering v. the Commission (decision concerning establishment).

Case 81/63 ⁽³⁾ M. Barnhoorn v. the Commission (decision concerning establishment).

Case 95/64 ⁽³⁾ — M. Pistož v. the Commission (decision concerning grading).

Case 8/64 ⁽⁴⁾ — M. Cohen v. the Commission (decision concerning the granting of a family allowance).

Case 22/64 ⁽⁵⁾ — Mlle Oberthur v. the Commission (decision concerning payment for overtime).

ECONOMIC AND SOCIAL COMMITTEE

362. The Economic and Social Committee held nine plenary sessions and rendered 23 formal opinions, five of these after discretionary consultation by the Commission. Most were concerned with the agricultural sector.

The Committee furthermore held seven debates on special problems, on the basis of statements made by members of the Commission. Special importance was attached to the multilateral trade negotiations held in

⁽¹⁾ See official gazette No. 182, 12 November 1964.

⁽²⁾ *Ibid.*, No. 207, 12 December 1964.

⁽³⁾ *Ibid.*

⁽⁴⁾ *Ibid.*, No. 52, 27 March 1964 and No. 207, 12 December 1964.

⁽⁵⁾ *Ibid.*, No. 110, 10 July 1964 and No. 207, 12 December 1964.

Geneva, the Community's relations with non-member countries, and the social policy of the Community.

The opinion concerning "Initiative 1964", rendered following consultation by the Commission, is of particular interest in as much as the Committee gave its full backing to the Commission's proposals for acceleration; it furthermore stressed that the final goal remained political integration and effective participation by the peoples in building up Europe along democratic lines.

It should be emphasized that there was a considerable increase in the number of consultations by the Commission. The Commission's wish to see the Committee play a more prominent part in the work of the Community recently resulted in the Committee's being consulted, for the first time, on the trade-cycle situation within the Community.

M. Giustiniani (Italy) was elected Chairman of the Economic and Social Committee for the period May 1964 to May 1966: M. Cool (Belgium) and M. Genin (France) were elected Vice-Presidents.

36th session (28 to 29 April 1964)

363. During this session the Committee approved the Action Programme on social matters in agriculture, by 61 votes with 23 abstentions (VI, section 195).

The Committee adopted a revised draft of its rules of procedure, which was then submitted to the Councils of Ministers for their final decision.

37th session (26 May 1964)

364. During this session, which was held under the chairmanship of the senior member, M. Brand, new officers were elected for the last two years of the Committee's second four-year term, i.e. until May 1966.

The Committee unanimously elected as Chairman, M. Giustiniani (Italy) (Employers' Group), who thus became its fourth Chairman.

The Committee elected M. Cool (Belgium) (Workers' Group) and M. Genin (France) (General Group) as Vice-Presidents, and also elected

the following bureau members: M. Beutler (Germany), M. Kuipers (Netherlands), M. de Précigout (France), M. Velter (Belgium); for the Employers' Group: M. Brenner (Germany), M. Macario (Italy), M. Mourgues (France) and M. van der Mei (Netherlands), for the Workers' Group: M. Bernes (Luxembourg), M. de Cesare (Italy), M. Meyvaert (Belgium) and M. Schäfer (Germany), for the General Group.

These appointments were made unanimously.

38th session (27 May 1964)

365. During this session the Committee rendered the following four opinions:

An opinion on the "proposal for a Council regulation on the application of Article 85 (3) of the EEC Treaty to certain classes of agreements, decisions and concerted practices".

The Committee heard a communication from M. von der Groeben on this subject.

An opinion on the "proposal for a Council directive on health requirements for trade in fresh poultrymeat" (adopted unanimously).

An opinion on the "proposal for a Council directive on health requirements for trade in meat products".

An opinion on the proposal for a second directive on the film industry.

39th session (23, 24 and 25 June 1964)

366. The Committee adopted an opinion (by 63 votes with 2 abstentions) on the proposal for a Council directive concerning arrangements for freedom to supply services connected with agriculture and horticulture.

The Committee adopted a report concerning the proposal for a Council regulation on the gradual establishment of a common organization of sugar markets; the report had been drawn up at the request of the Commission by the Committee's Agricultural Section.

The Committee heard a statement by M. Mansholt, Vice-President of the Commission, on the agricultural aspects of the GATT negotiations and another by M. Rey a member of the Commission, on various problems arising from the same negotiations. Discussions followed.

40th session (24 and 25 September 1964)

367. The Committee adopted unanimously an opinion on five proposed Council directives concerning the marketing of agricultural, horticultural and forestry seeds and seedlings and a proposed Council decision instituting a Standing Committee for this sector.

During this session the Committee was addressed by M. Levi Sandri on the Community's social policy, and by M. Rey on relations between the Community and non-member countries. Discussions ensued.

41st session (27 and 28th October 1964)

368. Opening the session, M. Giustiniani, Chairman, reviewed the progress made in European integration and drew attention to the tasks confronting the Economic and Social Committee. He pointed out that the Commission at all times warmly welcomed requests and suggestions from the Committee, and recommended that contacts with the members of the Commission should be intensified.

The Committee adopted an opinion (by 68 votes for and 7 against), on the "proposal for a Council directive to co-ordinate and render equivalent the guarantees required in the Member States of companies as defined in Article 58 (2) of the Treaty, to protect the interest of the members of such companies and of third parties".

The Committee heard a statement from M. Rochereau, a member of the Commission, on the working of the Association Convention between the EEC and the African States and Madagascar. A debate ensued.

42nd session (8 and 9 December 1964)

369. During this session, the Committee rendered the following five opinions:

a) An opinion (adopted unanimously) on "Initiative 1964" (Communication from the Commission to the Council and to the Governments of the Member States ⁽¹⁾).

The Committee shared the view of the Commission that it was undesirable at present to lay down too many prior conditions for a solution to the various difficulties. It hoped however that measures to establish customs union on the one hand and the implementation of a balanced economic and social policy on the other would go hand in hand.

For these reasons, the Economic and Social Committee requested the Commission:

- i)* to step up its efforts to implement the proposals already submitted in the various spheres of common policy, and above all in connection with common agricultural policy;
- ii)* to draft as soon as possible concrete proposals for areas of Community policy not yet covered.

The Committee considered that a customs union would not be viable in the long run if shortcomings of Community policy were to jeopardize living standards, full employment, a balanced regional policy, smooth economic growth and a fair distribution of its fruits.

The Committee stressed that the integration process, the objective of which continued to be political integration, called for a progressive adjustment of the Community's institutions to the new situation. Once again it confirmed its support for the relevant measures in the Treaty and pointed out the great importance of the effective participation of the peoples in the democratic building-up of the Community.

The Committee heard a statement from M. Colonna di Paliano in which he stressed that "Initiative 1964" did not take the place of any of the action programmes proposed by the Commission.

b) An opinion was adopted by 69 votes with 12 abstentions on the proposals for a "first directive concerning the participation of firms in the execution of building work for governments, their local or regional authorities and other public corporations".

(¹) See official gazette No. 14, 30 January 1965.

c) An opinion was rendered on the "proposed Council regulation concerning quality wines produced in specific areas".

d) An opinion was rendered on the communication submitted by the Commission to the Council concerning the "co-ordination of national forestry policies".

e) An opinion was rendered on the "proposal for a Council regulation on the elimination of double taxation of motor vehicles used in international transport".

The Committee decided to set up a sub-Committee to prepare a draft opinion on the trade-cycle situation in the Community, on the basis of the annual statement submitted by the Commission to the European Parliament.

43rd session (27 and 28 January 1965)

370. During this session, the Committee rendered the following three opinions:

An opinion on the "proposal for a Council directive on procedure for introducing freedom of establishment and freedom to supply services in activities connected with the press".

An opinion, which was adopted unanimously, on the "proposal for a recommendation to the Member States concerning housing for migrant workers".

An opinion on the "proposal for a Council directive introducing freedom of establishment and freedom to supply services in respect of self-employed persons engaged in dealings in real estate (Group 640 ISIC) and business services (Group 839 ISIC).

The Committee heard a progress report from M. Mansholt, Vice-President of the Commission, on the common agricultural policy.

44th session (23 to 25 February 1965)

371. During this session, the Committee adopted the following seven opinions:

An opinion on the "proposal for a first Council directive for the co-ordination of procedures for the conclusion of public works contracts".

An opinion on the "proposal for a Council directive concerning the approximation of legislation, regulations and administrative provisions on the manufacture and use of cartridge-operated stud drivers".

An opinion on the "proposal for a Council regulation concerning the introduction of common rules for international passenger transport by road".

This opinion, which was favourable, was adopted unanimously. The Committee urged the Council to adopt the supplementary regulations as soon as possible.

An opinion, which was adopted unanimously, on the "common transport policy and infrastructure investments" and on the "proposal for a Council decision on Community action regarding investments in transport infrastructure".

An opinion on the "proposal for a Council directive amending the Council directive concerning the approximation of regulations of Member States on permitted colouring matters in foodstuffs".

An opinion on the "proposal for a Council directive relating to the approximation of the regulations of Member States concerning permitted antioxidants in foodstuffs".

An opinion on the "proposal for a Council directive to introduce Community methods of analysis in official controls of animal feeding-stuffs".

During the session, the Committee heard a report by M. Levi Sandri, Vice-President of the Commission, on the proposals for a regulation to increase the effectiveness of the European Social Fund.

Other Community Institutions

MONETARY COMMITTEE

372. The Monetary Committee held 12 sessions during the period under review. In accordance with its terms of reference under Article 105 of

the Treaty, the Committee continued its periodical reviews of the financial and monetary situation in the Member States. Since the activities of the Committee are described in detail in its seventh Annual Report which appeared on 12 February 1965, only certain features will be reported here.

The Committee made its third and fourth annual reviews of the still existing restrictions on capital movements.

At the request of the Council, the Monetary Committee discussed whether the common agricultural prices should be expressed in national currency or in units of account. It considered that if they were expressed in units of account, it would be possible to keep prices automatically at the same common level, in the event of fluctuations in the exchange rates of the currencies of member countries, and more surely guarantee the maintenance of market organizations machinery at Community level, particularly vis-à-vis non-member countries.

Finally, the Committee implemented the decisions reached by the Council on 15 April and on 8 May 1964 (see section 118 sqq.). It followed closely the development of the international monetary situation, with a view to co-ordinating the attitudes adopted by the Member States in other international organizations, such as the International Monetary Fund (IMF) and the Group of Ten. A series of preliminary consultations took place within the Committee on the supply of special funds to the International Monetary Fund within the framework of a "general loans agreement".

COMMITTEE ON SHORT-TERM ECONOMIC POLICY (1)

373. The Committee on Short-term Economic Policy (2) met on six occasions during the period under review, on 6 and 7 April, 24 and 25 June, 17 July, 19 October, 15 and 16 December 1964, and 24 and 25 March 1965.

The Commission informed the Committee of its proposal for a Council recommendation on the measures to be taken to restore the Community's internal and external economic balance.

(1) For a full account of the activities of the Short-term Economic Policy Committee, see section on trade-cycle policy.

(2) See Seventh General Report, sec. 377.

The Committee continued its periodical reviews of the general business situation within the Community. At its June session, it examined the preliminary economic budgets for 1965 and recommended that all Member States should draw up their preliminary economic budgets along uniform lines. The Committee compared the final economic budgets for 1965 at its December meeting. It submitted an opinion to the Commission on these budgets and on trade-cycle policy for 1965.

The Committee furthermore expressed its satisfaction at the Commission's action in addressing a memorandum to the Member States on the improvement of economic statistics. Like the Monetary Committee, it expressed its approval of the general intention of the requests submitted by the Commission.

BUDGETARY POLICY COMMITTEE

374. The Budgetary Policy Committee, set up by the Council on 8 May 1964 ⁽¹⁾, held its first session on 16 February 1965. It elected its officers, M. Carlo Marzano being elected chairman.

It adopted its rules of procedure and settled its calendar of meetings.

MEDIUM-TERM ECONOMIC POLICY COMMITTEE

375. The Medium-term Economic Policy Committee, set up by the Council on 15 April 1964 ⁽²⁾, held its first meeting on 11 December 1964 under the chairmanship of M. Langer, German State Secretary for Economic Affairs. Since the above mentioned date, it has held three meetings to prepare the first Community programme for the end of 1965 ⁽³⁾.

COMMITTEE OF CONTROL

376. At their 134th session held on 1 and 2 June 1964, the Councils reappointed the present chairman and members of the Committee of Control.

⁽¹⁾ See official gazette No. 77, 21 March 1964.

⁽²⁾ See Seventh General Report, sec. 137, and official gazette No. 64, 22 April 1964.

⁽³⁾ See Ch. II "Medium-term Economic Policy", sec. 142.

In pursuance of Article 206 of the Treaty and of the financial regulation on the rendering and auditing of accounts, the Committee of Control submitted its report on the accounts for the financial year 1963 on 15 July 1964.

This report, together with the administration accounts and balance-sheet for the financial year concerned were laid before the European Parliament and the Council on 9 February 1965.

CONSULTATIVE COMMITTEE ON TRANSPORT

377. The Consultative Committee on Transport (see Article 83 of the Treaty) had before it a number of requests for opinions submitted by the Commission in the form of a programme of work for the entire financial year. This programme was executed.

In addition to an oral opinion, given on 13 May and 1 June 1964 concerning the examination of certain problems arising in the implementation of Article 79 (2) of the Treaty, the Consultative Committee on Transport dealt with the following questions ⁽¹⁾, in the case of each of which a written opinion was submitted to the Commission, except for the first, which is still under consideration:

- i) An investigation of the possibility of concluding an international convention for goods transport by inland waterway;
- ii) An examination of certain problems arising in the implementation of the rate-bracket system (fixing of charges for transport between Member States—criteria for the admissibility of special contracts);
- iii) An examination of certain problems arising in the implementation of the rate-bracket system (transport agents and intermediaries—hiring of means of transport);
- iv) An economic examination of the position of transport auxiliaries in the light of a common transport policy.

Since the mandates of the members of the Committee expired on 27 January 1965, the six governments were invited to appoint, in due

⁽¹⁾ See also Seventh General Report, sec. 379.

course, their representatives on the Committee for the new financial year. It should be pointed out, however, that by virtue of an amendment to the Committee's statute, decided by the Council of Ministers on 22 June 1964 ⁽¹⁾, members of the Committee remain in office until such time as they are replaced. This amendment was made to comply with the Commission's recommendation on the continuity of the Committee's work.

Co-operation between the European Executives and the Joint Services

CO-OPERATION IN FIELDS OF COMMON INTEREST

378. Co-operation between the European Executives and joint action in various spheres continued during 1964 on a wider scale at various levels.

In the sphere of energy policy, the Inter-Executive Group on Energy continued its efforts, first, to determine common ground between the three Executives with a view to discussions with the governments, which culminated in the protocol of Agreement of 21 April 1964 in the Special Council of ECSC Ministers ⁽²⁾, and, secondly, to harmonize their action in implementing this protocol.

In the field of external relations, the High Authority and the Commission kept each other informed of the attitude they intended to adopt to the British surcharge of 15%. The High Authority furthermore was associated in preparing the multilateral trade negotiations at GATT.

With regard to social matters, the High Authority of the ECSC and the Euratom Commission co-operated closely in the preparation of the symposium on vocational training organized by the Commission in Brussels in November 1964 ⁽³⁾ and of the symposium on industrial medicine organized by the Commission in June 1964 ⁽⁴⁾. The Commission invited the other two Executives to participate in the periodical meetings it organized with the national heads of departments responsible for industrial

⁽¹⁾ See official gazette No. 102, 29 June 1964.

⁽²⁾ See sec. 158 and official gazette No. 69, 30 April 1964.

⁽³⁾ See sec. 242.

⁽⁴⁾ See sec. 261.

safety and hygiene. It was itself represented at the meetings of the joint committee on harmonization of terms of employment in the coal industry as well as at those of the technical committee for the application of article 69 of the ECSC Treaty, particularly with a view to a comparative study of the ECSC and EEC systems for the free movement of workers.

The Commission continued to co-operate in drawing up the quarterly economic forecast published by the High Authority.

In the sphere of customs policy, the Commission approved of the inclusion of forged high-speed steel bars (item 73.15 B.IV a of the common customs tariff) in the list of products coming under the ECSC Treaty.

The Commission kept the High Authority of the ECSC informed of the position it intends to adopt concerning state-aid projects particularly in mining research, and enlisted the co-operation of the other two Executives in the work being carried out by the experts on patents.

The inter-Executive Working Party on Transport devoted attention to the implementation of Recommendation No. 1/61 of the High Authority on the publication of rates and conditions of carriage. It also examined the difficulties which had arisen at the Italian frontier in the case of cross-frontier rail traffic ⁽¹⁾, the rates tentatively fixed to meet competition in Germany ("als-ob-Tarife"), and the rate-bracket system. The two institutions also co-operated in harmonizing their action to abolish discriminatory tariffs and support tariffs as well as in laying down through tariffs for road transport between France and Germany.

With regard to administrative matters, co-operation between the three Executives culminated in July 1964 in a set of joint proposals being submitted to the Councils concerning the adjustment of the salary scale and of the system of grants and allowances paid to Community staff. In September 1964, the Executives also submitted their annual report to the Councils, which was used as a basis by the Councils, in accordance with Article 65 of the Statute of Service of officials, to review the level of salaries paid to officials and other servants of the Communities.

The High Authority of the ECSC and the Euratom Commission endorsed the submission, by the Commission, of a proposal for a Council regulation

(¹) See sec. 237.

supplementing Regulations Nos. 3 and 4 on the social security of migrant workers, with a view to regularizing the situation with regard to the social security of auxiliary staff.

STATISTICAL OFFICE OF THE EUROPEAN COMMUNITIES

379. The Supervisory Board of the Statistical Office of the European Communities held two meetings under the chairmanship of M. Albert Coppé, Vice-President of the High Authority. In addition to budget, staff and administrative matters, it discussed the work of the *Centre Européen pour la formation des statisticiens de l'économie des pays en voie de développement* in Paris (CESD), and the use of a new method of calculating the common index, in accordance with Article 65 of the Statute of Service.

The heads of national statistics offices held only one meeting during 1964. Their discussions centred mainly on technical questions arising from relations between the Statistical Offices of the European Executives and the national statistical offices, on the programme of work for 1965, the long-term programme of the Statistical Office of the European Communities, the problem of secrecy in statistics, and the question of nomenclature.

There was an expansion of the work of the Statistical Office, in communication of the very varied and ever-increasing volume of information requested by the Commission's services, and in documentation, bringing current statistics up to date, and carrying out large-scale projects begun in previous years, particularly with regard to nomenclature, working programmes, and surveys. Only the most prominent features are described below.

The harmonization of national accounting systems was considerably extended, since agriculture, social security and government departments were also taken into consideration in drawing up accounts. In addition to the general statistics usually published in connection with national accounting systems and the details of the contributions made by the various economic sectors to the gross national product, issue No. 9 of the "General Statistical Bulletin" and issue No. 3 of the "Agricultural Statistics" for the first time contain tables of accounts in the agricultural sector.

Comparative statistics on the balance of payments of the six Member States of the European Economic Community, the United Kingdom and the United States were also published for the first time in several issues of the "General Statistical Bulletin". Methodological surveys are in progress with a view to improving the comparability of statistics.

Of particular importance are the "input-output tables" for the EEC countries published in issue No. 10 of the "General Statistical Bulletin". Although these tables are not yet ideal instruments for making economic analyses, they are nevertheless much more valuable than the information which had hitherto been available in the various countries. Indications for their use and on the principles and methods on which they are based are to be found in two articles published in issue No. 2 of the "General Statistical Information".

In the field of energy statistics, the main achievement was the completion of a year-book giving information on all sources of energy. Furthermore, extensive documentation was collected on various aspects of the petroleum industry and this will be exploited in various ways during the coming months.

With regard to external trade statistics, the office was active mainly in collecting figures with a view to the economic negotiations carried out by the EEC Commission. Thus extensive documentation was collected, in particular, for the World Conference on Trade and Development and for the Kennedy round. In addition, the implementation of the common agricultural policy has necessitated special treatment of basic statistics. The year 1964 also saw the publication of the first statistics on tariffs. The work of harmonizing the nomenclature used in the case of the external trade statistics of the EEC countries continued throughout the year.

In the sphere of transport statistics, special attention should be drawn to the publication of a programme containing a large number of model tables and methodological definitions and information, intended to offer a sound basis for the common transport policy.

As far as industrial statistics were concerned, one of the main tasks during the past year has been the preparation of a harmonized nomenclature of industrial products. Furthermore, work on establishing short-term indices,

which are required for the second phase of the Community's programme, was stepped up, particularly from the methodological standpoint.

With regard to statistics on the iron and steel industry, new questionnaires were drawn up on production capacity according to products, the lay-out of which has already been adopted by OECD.

In the field of agricultural statistics, the office mainly devoted its attention to preparing the survey for 1965 on farm structures. Furthermore, the first steps were taken to draw up regulations for the pig census in the Community countries. In order to ensure continuity, the processing of statistical data on external trade for the balance-sheets of supplies of agricultural produce in the Community countries was published in No. 1/1964 of the latest "Statistical Information".

In the sphere of social statistics, the publication of the results of the wages surveys carried out in the various industrial sectors continued. The results of the surveys on household budgets were applied in a Community context during the year and will be published some time next year. The necessary preliminary arrangements have been made for the surveys of wages structure which will be made during the next few years; the relevant proposals have meanwhile been approved by the Council of Ministers ⁽¹⁾.

LEGAL SERVICE OF THE EUROPEAN EXECUTIVES

380. As in previous years, close co-operation of the legal service was sought in all the Commission's fields of activity.

The legal service is called upon to advise on all important legal points raised in the application of the EEC Treaty and Community law, and its main task is to see that common legal principles are observed in the various spheres and that Community law is interpreted and applied in a uniform manner by the Commission. What makes this task all the more important is the fact that this is an entirely new legal field, and that it is rarely a question of simply carrying on an established tradition, whether in national or international law.

(¹) For further details, see secs. 209 and 256.

The legal service is closely associated in preparing and drawing up the legal instruments of the Commission and the proposals submitted to the Council. Its main contribution in this field is to advise on the drafts submitted by the Commission, their compatibility with existing Community law, their repercussions on the development of the Community legal system, and on the legal basis and type of instrument best suited to the end in view.

The legal service also endeavours to encourage the use in Community texts of an unambiguous and standard terminology, which, in view of the fact that there are four official Community languages and two institutions authorized to draw up legal instruments, sometimes raises delicate practical problems, not all of which have yet been solved satisfactorily. In connection with these two first-mentioned tasks, there has been a considerable expansion in the work of the legal service. Whereas during the period 1963/64, 775 written opinions were rendered, over a thousand were given during the period between 1 April 1964 and 31 March 1965. There was also an appreciable increase in the number of opinions given orally.

The officials of the legal service also represented the Commission and upheld its interests and decisions before the Court of Justice. The number of disputes concerning the economic activities of the Commission continued to increase. While the Commission was a plaintiff in only a single case (case No. 45/64, Commission v. the Italian Government), all the other suits under Article 173 of the EEC Treaty were brought either by Member States or by individuals or corporations; these suits were concerned with the internal market, competition and agriculture. There was also an increase in requests for interlocutory rulings under Article 177 of the EEC Treaty, and the Netherlands and Italian courts, and also recently the German courts, availed themselves of this procedure; these issues involved the interpretation of Community law in social matters, the internal market, competition and agriculture.

That Article 177 of the EEC Treaty has been invoked more frequently by the Member States may be considered the outstanding feature of the past year in the legal sphere. It is now quite clear that legal circles in all the Member States have become aware of the existence of Community law and of its practical importance in legal matters. The problems which arise from the fact that two founts of law—Community

law and municipal law—exist side by side and partially overlap has been occupying the attention not only of the theorists, but also, to an increasing extent, of those responsible for putting legislation into effect, and the question has even been discussed in the daily press. The European Parliament, for its part, has also had to deal for the first time with these theoretical problems (1).

In this field, the Legal Service of the European Executives is confronted with an onerous and varied task. It must be in a position not only to supply information, at any given time, to its own Executives on any question of principle which may be raised and to render a detailed opinion on the subject, but is also expected to keep the interested legal circles informed and thus to facilitate the solution of fresh problems which arise. In this connection, the Legal Service is represented at the meetings and legal seminars held either at national level or within the Community. It assists students to choose subjects for academic theses on Community law and to find the necessary documentation for these theses, receives trainees and plays an active part in organizing visits, either individually or in groups, by legal experts to the Executives. In these various ways, this work has the effect of making legal experts working with legislative and administrative bodies in their own countries increasingly familiar with Community law and of opening up new horizons, beyond municipal law, for coming generations of lawyers.

With regard to organizational matters, the Supervisory Body of the Legal Service, which is presided over by M. Sassen, a member of the Euratom Commission, continued to deal with general organizational matters and administrative questions concerning all three branches. Furthermore, the close co-operation between the three branches of the Legal Service was continued as in previous years in fields of common interest.

INFORMATION

THE JOINT INFORMATION SERVICE OF THE COMMUNITIES

381. M. Colonna di Paliano, member of the Commission, was elected chairman of the Supervisory Board of the Joint Information Service of

(1) See, in particular, the Legal Committee's report on the relationship between Community law and municipal law.

the Communities in September 1964, in succession to M. Rochereau, who had held this office since M. Caron's departure.

The Councils examined the memorandum submitted to them in June 1963 by the Supervisory Board of the Joint Information Service of the Communities (1). Approving the report submitted, the Councils agreed that greater efforts should be made to disseminate information outside the European Community without any slackening of similar efforts inside the Community, and agreed that an information office should be set up in South America (2).

382. In accordance with the courses of policy outlined in this memorandum, the Joint Service mainly concentrated, during 1964, on the following activities:

- i) Keeping public opinion informed both inside and outside the Community on the main topical problems of the Community;
- ii) Giving European training in depth to certain circles directly affected by the development of integration: trade union, agricultural and university circles, youth organizations and institutions for further education, etc. It is clear that this urgent action was in no way exclusive, the aim being to reach all influential personalities capable of adapting and disseminating the information received.

All the internal or external information offices of the Community are now well established and have become centres for the dissemination of information and documentation which are highly appreciated by the general public; some of them are equipped with a small library and have made a member of their staff specially responsible for establishing wider contacts with university circles.

The New York and Geneva offices have got off to a good start, the former being mainly responsible for disseminating information in United Nations circles, while the second is concerned with the international organizations established in Geneva and the various Swiss circles interested in problems of European integration. Finally, an information office for South America will be opened in Montevideo (Uruguay) in 1965.

(1) See Seventh General Report, sec. 384.

(2) See sec. 312.

In the other associated or non-member countries, where no Community information offices yet exist, publications and information are regularly supplied to local information offices of a private nature. This is the case in Athens, for example, where a documentation centre on the European Communities was opened in 1964, and in Dublin, where there also exists an "Information Centre on the European Communities".

383. *Technical media:* The Joint Information Service makes use of all the technical information media: fairs, exhibitions, publications, radio and television broadcasts, films. Special importance is attached to written media. The most important publications issued by the Joint Service are the six magazines for the German-, French-, Italian- and Dutch-speaking public as well as for English and American readers. These publications have a circulation of 130 000 copies within the Community, 25 000 in the United Kingdom, and 35 000 in the United States. A survey carried out during 1964 in Germany, France, Italy and the Netherlands, besides providing many valuable suggestions for the improvement of the magazines, showed that these publications very largely meet their readers' requirements.

In addition to the publication of these magazines, the Joint Service issued in 1964, in the Community languages, and also in English, Spanish and Greek, 51 brochures, with a total circulation of 761 000 copies, and 8 folders, with a total circulation of 1 432 000 copies. An album of geographical cards for school-children was republished.

In Brussels, the library and photographic library were supplemented to meet increasing public demand, and in particular the interest of journalists and university circles. A library card index intended for universities and particularly for institutions offering a course of European studies will shortly be published.

384. Very great importance is also attached to information by audio-visual media: radio, television, and the cinema, although, in the latter sphere it is less a question of actually producing films than of inducing the organizations controlling the main information media to take a sustained interest in European problems.

The installation of a well-equipped studio in Brussels has made it possible to establish closer co-operation with the networks. The programme

entitled "*Communauté européenne*", which is planned and produced jointly by the television organizations in the six Member States, is now in its second series. Several films or film strips have been produced on subjects such as the common agricultural policy, nuclear energy, Euratom, the ECSC, etc.

Finally, efforts continued to be made to encourage directors and producers to take an interest in European subjects, in particular by organizing short study meetings on European films, in which government experts and professional film men in the Community countries have participated, by launching a second European photographic competition for young amateur photographers.

385. By exhibiting at fairs and exhibitions, it is possible to reach a rather different public, whether technicians and specialists or persons living in rural areas or in medium-sized towns. Since this medium is expensive, only after very careful consideration is it decided to participate in fairs and exhibitions. The only ones in which it was decided to participate in 1964 were the following:

- a) The "Grüne Woche", held in Berlin from 24 January to 3 February, which is an important annual agricultural event attended by a large number of exhibitors from all over the world and visited by some 350 000 people;
- b) The "Salon de l'énergie", held in Paris from 16 May to 2 June, which was visited by 100 000 people, a figure to which must be added guided visits of about 10 000 to 12 000 students;
- c) The "ACHEMA", held in Frankfurt from 19 to 27 June, a biennial event for technicians and industrial chemists during which a large number of scientific congresses are held.

Mention should be made of two other undertakings. In France, a travelling exhibition attended the local fairs at Nevers, Nantes, Valence, Bagnols s/Cèze, Toulon and Caen, and local events were held in most of these towns. In Italy, a similar travelling exhibition visited Cagliari, Foggia, Padua and Teramo, and a "European Day" was held on each occasion.

Finally, in Germany, Belgium, the Netherlands, the United Kingdom and the United States, small mobile exhibitions were made available to various bodies which requested them.

386. Action taken in specific circles: Constant efforts have been made to keep trade union and labour circles, in particular, informed of European activities, and to make training available to these circles. Thirty-two visits of two days or longer were organized to the headquarters of the Community institutions. At the same time, there were 53 days or weekends devoted to the study of European activities in the Community countries; two weekends for migrant workers were organized in Germany. Furthermore, a very large number of courses and lectures were organized, as part of the syllabus of the permanent training centres and trade union institutes, and special attention should be drawn to the decentralized course of lectures offered by a group of trade-union lectures (a series of 241 lectures).

Nine issues of a trade union information bulletin were published in five languages, as well as six issues of a special bulletin for the United States entitled "Labour". A monthly time-table of important labour and trade union events was also published.

Finally, contributions were made to various trade union periodicals and a number of brochures were published by the organizations themselves.

A large-scale information campaign was launched to reach agricultural and rural circles, such action being all the more necessary in view of the progress made with the common agricultural policy.

The heads of information services attached to the Ministries of Agriculture in the six countries held a third meeting ⁽¹⁾, during which an action programme was drawn up. A first seminar for students of agriculture at universities in the Community countries was organized at Wageningen (Netherlands).

About 60 groups interested in agricultural problems were received in Brussels. In the member countries, about 30 operations received technical or financial aid from the Joint Service. Among these operations, attention should be drawn to four study sessions organized by the "Comité d'entente" of young farmers in the European Community.

Besides specialized brochures on agricultural topics, 18 issues of "Nouvelles de la politique agricole commune" were published in five languages, with

(¹) See Seventh General Report, sec. 389.

a circulation of 3 500 copies per issue. In the United States, 12 issues of the "Common Market Farm Report" were published.

387. In other circles, a systematic information campaign was continued, mainly taking the form of organizing training periods and visits to the seats of the institutions (1).

Four hundred and thirty-two groups, comprising a total of over 13 600 people, were received in 1964, rather more than half of them in Brussels. Sixty per cent of these people were drawn from the world of education, 20 % were from social and economic circles, 12% were prominent figures in politics, 3% journalists, etc.

388. Finally, the Community's information campaign aims at reaching the Associated States of Africa and Madagascar as well as other African countries interested in the development of the association. An information campaign is conducted from Brussels, through a large number of channels, such as radio and television, daily newspapers and other periodicals, brochures, etc.

Over 300 daily radio broadcasts were made from Brussels, in addition to 52 weekly broadcasts from Radio-Léopoldville and two monthly magazines, one of which was produced in co-operation with the "*Office de coopération radiophonique*" (OCORA), and the other in co-operation with Belgian Radio and Television (RTB). In addition, the RTB broadcast about 250 native-language programmes to Central Africa.

As regards the press, over 350 news features, notes and working documents were distributed in Africa and Madagascar, several of them taking the form of special pages on the association and on the European Development Fund.

A poll carried out in four associated States during 1964 showed that this information reached those sections of the public to whom it was addressed. In towns such as Lomé, Yaoundé, Dakar, and Abidjan, one African out of three or four received at any rate some information on the Common Market, the radio being the main source of information.

(1) See Ch. III "Education and research policy" for action of the Joint Service in education circles.

THE SPOKESMAN'S GROUP

389. The extension of the Commission's field of activities brought with it an even greater increase in the work of the Spokesman's Group because the Commission's activities widened and because an increasing number of journalists and visitors were received from non-member countries.

This evolution is reflected in the development of the distribution network for regular information. The number of journalists, both from the Community and from non-member countries, whose names feature on the distribution lists of the Spokesman's Group, increased from 550 in 1962 to 847 in 1963 and 915 in 1964. As a result of the increased amount of specialization which is the inevitable consequence of the build-up of the Common Market, special mailing lists were drawn up for journalists working in the agricultural field and in the transport and legal fields.

In addition to the daily dissemination of information in written and oral form and the establishment of permanent contacts with accredited journalists in Brussels, the main activity was the preparation of notes on the activities of the Commission and its services containing background material and summaries. Moreover, a greater effort was made to supply information to the diplomatic missions of member countries to non-member countries.

Closer liaison was developed with national information offices, resulting in fuller information being supplied to the capitals and creating the best possible conditions for disseminating information in each of the six countries on the views of the Commission and the general trends of its policy. Along the same lines, co-operation with the Joint Information Service was continued, the members of the Spokesman's Group assisting in preparing publications and producing films as well as in giving lectures to groups of visitors for audiences outside the Community.

The Internal Administration of the Community

THE STATUTE OF SERVICE

390. The Councils adopted on 10 November 1964 a regulation amending Article 79 of the Statute of Service of officials, raising the pensions paid to

officials' widows from 50% to 60% of the pension which was paid, or would have been paid, to their husbands. This eliminated an anomaly which still existed as compared with the ECSC Statute of Service.

Furthermore, the ECSC and EEC Commissions submitted on 10 July 1964, by agreement with the High Authority of ECSC, a proposal for the adjustment of the salary scales and the system of grants and allowances paid to Community staff.

This proposal, which was favourably received by the European Parliament at its session from 19 to 22 October 1964 and by the Court of Justice, was examined by the Councils on 1 March 1965. Giving partial satisfaction to the Commission's requests, the Councils decided to raise salary scales. This increase was 7% for grades A/1 and A/2, 4% for grades A/3 to C/, and 5% for grades C/3 to D/4. The conditions under which certain allowances are granted and the amounts of these allowances as well as the refund of expenses were also slightly altered. These provisions were effective from 1 January 1965.

ESTABLISHMENT

391. The Commission's 1964 establishment numbered 2 555, distributed as follows:

Grade A	692 (plus 6 temporary posts)
Grade B	515
Grades C and D	1 094
Linguistic staff	254

To discharge certain essential tasks arising from decisions of the Council, 128 new posts were on various occasions requested for the Directorates-General of Agriculture, Economic and Financial Affairs, and Internal Market. The Council agreed to 82 posts and fixed the establishment for 1964 at 2 637.

The Commission proposed (in the preliminary draft budget for 1965) 186 additional posts (66 A, 36 B, 76 C and 8 D). In addition 50 posts (31 L/A, 19/C) were requested for the Linguistic Service. Of the latter posts, only 31 were granted. The other posts requested were reduced to 64 (20 A, 40 C, 4 D, and none in grade B).

The 1965 establishment thus totals 2 732 posts, distributed as follows: 745 A (plus 6 temporary posts), 534 B, 1 168 C and D, 285 L/A. The Commission can only stress that the reserved attitude of the Council in this matter is highly prejudicial to its activities and the smooth running of the Community.

Total strength

392. The total employed by the Commission was 3 115 on 31 March 1965, distributed as follows: 2 071 regular staff (585 A, 411 B, 781 C, 128 D, 166 L/A, 200 attached to the Joint Services plus 844 other staff, viz. 7 advisers (temporary), 684 auxiliary staff, 369 of whom were in grade C and 153 local staff.

Budgets

393. A summary of the Commission's programme for 1965 was submitted to the Council on 19 June 1964 in preparation for budget discussions. On 15 September 1964, the Commission submitted to the Council the preliminary draft budget of the European Economic Community for the financial year 1965.

At its session of 12 - 13 October 1964, the Council established the draft EEC budget for the financial year 1965. This amounted to 162 907 762 units of account, broken down as follows:

European Parliament (EEC share)	2 292 433 u.a.
Council (EEC share)	2 438 430 u.a.
Court of Justice (EEC share)	450 140 u.a.
EEC Commission	157 726 759 u.a.
	<hr/>
	162 907 762 u.a.

In the allocation for the EEC Commission the breakdown is as follows:
35 335 859 units of account for administrative expenditure
19 694 900 units of account for the European Social Fund
102 696 000 units of account for the European Agricultural Guidance and Guarantee Fund (EAGGF).

As against the estimates in the preliminary draft budget, the estimates for administrative expenditure are reduced by 4 365 308 units of account, or 10.9%.

Referring to its resolution of 12 May 1964 ⁽¹⁾, the European Parliament voted on the draft budget, for the first time, on 24 November 1964. This was done Head by Head, amendments being adopted by roll-call. The Parliament moved for an increase in certain estimates, but in respect of the Commission these increases were not adopted by the Council, and the latter therefore approved unchanged, on 12 December 1964, the draft which it had established earlier.

By agreement with the Committee of Presidents of the ECSC, the EEC Council finally approved the ordinary budget of the European Economic Community for the financial year 1964 on 14 January 1965 together with two supplementary budgets for 1964 ⁽²⁾.

Organizational matters

394. The Commission continued the rationalization of its departments; in particular, it undertook a large-scale re-organization of certain directorates in the Directorates-General for Agriculture and Economic and Financial Affairs.

395. *Buildings:* Work began on a large complex of buildings to centralize all departments in the immediate vicinity of the Rond-Point de la Loi and of the present headquarters.

Documentation: Owing to the expansion of the Commission's activities, there is an increasing demand for documentation. In order to meet these requirements more satisfactorily, new methods have been evolved, making the fullest use of the central library, which contains some 30 000 volumes, and of the magazines and documents circulated in the various departments.

Linguistic services: There have also been heavier demands on the translation and interpretation services. The figures—157 000 pages of documents translated and simultaneous interpretation provided at 3 876 meetings—give an idea of the enormous amount of work done by these services, which still have serious difficulties in finding the necessary staff.

⁽¹⁾ See official gazette No. 81, 27 May 1964.

⁽²⁾ *Ibid.*, No. 191, 23 November and No. 203, 8 December 1964.