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RESUME OF INTRODUCTION TO 10th ANNUAL REPORT
OF THE E.E.C. COMMISSION

As its term of office closes, ten years after the signing of the Treaty of Rome, the Commission takes the opportunity in its Tenth Annual Report to the Parliament to outline its thinking on the main aspects which it considers should guide the work of the Community institutions in the coming few years.

With customs union soon to be completed efforts must now be concentrated on the achievement of economic union and moreover urgently as the halfway situation of the Community presents risks of imbalance if not of rupture. The two themes of this set of thoughts are therefore - the achievement of economic union and the definition of the directions of community policy.

Economic union means all the measures needed to create conditions akin to those of an internal market in the Community area. There has been considerable progress but it would be mistaken to speak of a real common market. Numerous restrictions face intra-Community trade even though it has more than trebled since 1958, strictly speaking it is still "external trade". There are still the other frontiers of different fiscal systems, patents, monopolies, customs legislation etc. and these are the main areas of task for the future. Included here are different national arrangements for temporary imports of third country goods not subject to Community tariff or heavy treatment for which common policies and close customs collaboration are needed.

Until there is a common commercial policy there can be no real common market and this implies two conditions : basic agreement on measures concerning different products; juridical arrangements defining and guaranteeing these measures. The Commission considers that it is necessary now to contemplate a procedure to ease the task of transferring the numerous bilateral and multilateral agreements of member states to the Community.

Divergencies in foodstuff and agricultural product legislation present a considerable volume of work to the Community requiring an especial effort from the Community institutions. Technical obstacles to trade are many and must be harmonised. Fiscal frontiers must be approached not only by harmonization of structures but also a very big rapprochement of taxation rates. The Commission is aware of the difficulties posed here.

About fifteen commercial monopolies exist in the Community. Measures in hand, or planned, promise a Community solution for many of these but for others of great importance the situation is less clear and notably in the cases of petroleum and natural gas whose solution is bound tightly to a future energy policy. Proposals in this field will be urgently needed by the new Commission.

Free movement of labour already exists in the Community in fact for wage earners but this progress has not been matched in the field of services and the right of establishment. There have been new signs of progress of late but much still has to be done, a particularly sustained effort being required in the field of free establishment for liberal professions and in company law.

Progress in establishing economic union must be matched by progress in the free movement of capital but there are still numerous obstacles to this development in the Community. The Commission believes that a series of measures must be taken and that if customs union is not underpinned by the integration of financial markets there is always a risk of jeopardizing progress so far achieved. A European capital market will in fact be a fundamental element of a competition policy aiming at equal opportunity for enterprises and a determining factor for the creation of monetary union in the Community.

Achievement of a common transport policy has so far met serious difficulties, its slowness is regrettable and progress can be deferred no longer. The main difficulty in work so far concerns the choice of measures to remedy risks of abuse of dominant positions and of ruinous competition. The Commission has proposed a working programme for the achievement of a common transport policy covering two stages until 1973. Application of these measures must be prudent in a field which, for a long time, has been marked by restrictive and interventionist methods.

Competition policy has two tasks. It must contribute towards the effective establishment of a common market and it must guarantee its smooth operation. Priority in the Commission's work has been given to practices sealing off parts of the market and this course must be pursued. There is also the question of national aids, the development of which continues to be of concern to the Commission.

As achievement of complete customs union approaches ever close coordination is needed in the fields of member states' monetary, financial and cyclical economic policies, and this is indeed essential if there is to be maintenance of the cohesion already achieved and if harmonious economic development is to be maintained. Confrontation of national budgetary policies on a Community level has enabled the Commission to make precise proposals whenever the situation has required vigorous action. The Commission believes that in serious situations the Council should be able to even take directly applicable decisions for rectification on the basis of article 103. Reinforced economic policy collaboration has helped to maintain existing parities.

Growing interdependence has made it urgent that the risk of individual parity changes must be avoided - particularly with the common agricultural policy. This certitude, however, can only exist if considerable new progress is made in coordination of member states' financial and monetary policies, with advance notice of measures being given, and the Commission believes that Community level deliberations must be more systematic than they have been in the past. Public spending programmes, moreover, must be envisaged on a multi-annual basis with close collaboration between member states.

In 1963 the Commission proposed a medium term economic policy for the Community to reconcile in the long term the different needs of growth with stability particularly in the light of the facts that rapid and balanced growth is likely to be ^{more} difficult than it looked some years ago. The Community must face competition both from countries of more advanced technology and also from certain low-wage countries producing certain goods of comparable quality at lower prices. To meet this situation the Community rapidly needs a series of structural changes and it is the aim of the medium term policy to facilitate these.

Important steps have been taken in the field of social policy since the application of the Rome Treaty, including improvement in the social situation, harmonization of living and working conditions, increase of real wages, and virtual disappearance of unemployment. The positive evolution has undeniably been aided by the establishment of the common market as well as by Community actions in the social field. This work must be expanded and improved in two essential areas : employment and working and living conditions. The Community has an instrument, in the form of the medium term economic policy, which enables it to assure the development of social progress.

The objective of industrial policy should be to enable industry to contribute as much as possible to the improvement of overall productivity, to high employment, and to competitiveness on an international level. Industry itself must make use of the available possibilities. This task cannot be accomplished in a national framework, but rather in a Community framework. The Community should therefore examine its industrial structures and coordinate the actions of the member states as well as take its own measures.

Three factors must be taken into consideration :

1. The favorable growth of the economy has not hidden the increasing difficulties experienced in certain sectors such as coal, steel, shipbuilding, textiles, and paper. These difficulties are comparable in all Community countries, which indicates that they result from profound structural changes.

2. The wave of investments from third countries, primarily the United States, affects all the countries of the Community, and brings with it considerable advantages. The main question concerns the techniques and new methods of production accompanying these investments, which forces European firms to modernize in order to meet the new competition.

Nonetheless, the size of these investments creates a certain concern in business circles and in the governments of some countries. The problems vary depending on the sector involved; such as petroleum, automobiles, electronics, or airplanes. It would certainly be desirable for the member states to observe a stricter discipline concerning advantages given to third country firms, such as direct or indirect regional aids (infrastructure, industrial lands). One of the most effective methods of avoiding an excessive development of these investments, without harming general economic progress would be to develop firms in Europe with sufficient technical and financial means to compete equally with third country firms.

3. The agreement of the Kennedy Round will have great repercussions on European industry, of which the consequences must be accepted.

Creation of a large dynamic market is a factor of major importance for improving the Community industrial structures and competitiveness. A number of specific actions are also necessary.

- a. Creation of a legal and fiscal framework necessary for a large market. Included in the means of achieving this are the right of establishment, conventions for mutual recognition of companies, the international merger of companies and the statute of a European company. In addition the tax barriers obstructing structural adaptation and the formation of large-size firms should be removed. Finally, other legal obstacles could be overcome by the convention for a European patent law, a convention on legal competence and execution of foreign judgments, and a convention on European bankruptcy law.
- b. The Community competition policy must be continued and made more precise.
- c. Structural adaptation and more competitiveness of European firms implies an increase of their financial reserve and reorganization of their financial structure. The possibility to choose the conditions and the means of financing on a European-sized money market is an indispensable pre-requisite. A European capital market would permit the solution of common problems in the member states capital markets. Certain measures should be taken in the national capital markets by the public authorities to permit a better utilisation of available capital.
- d. Specific measures of sectoral policy in favor of certain branches should be undertaken only when absolutely required by circumstances and should be limited to necessities. Such interventions should aim at facilitating the adaptations in declining industries and reinforcing advanced technological sectors.

- e. The development of a common energy policy has been delayed, partly because of the separation of competence among the three communities and partly because of the disproportion of legal means in the treaties. The results have been disparities of prices leading to unequal competition and the placement of investments not always conforming to economic profit. Two tasks can no longer be deferred. The first is to lay down the objectives and means of the common energy policy. The second is to assure the free circulation of energy products in the Community. The new Commission will have the role of making proposals which will lead to a true common market for energy by January 1, 1970.
- f. Regional policy is an integral part of economic policy in each member country, and the coordination of these policies is the best means of facing the difficult problems posed by technical progress, reconversion and placement of investments. An increase of uncoordinated state aids could be disastrous for the customs union. Since 1958 the divergencies among different regions have not been considerably reduced, and steps have been taken to meet immediate difficulties rather than to solve, on an overall basis, the problem of regional disequilibria in the Community. In addition to general coordination of national policies, other measures must be taken such as the elaboration of regional statistics, the examination of regional aids, the carrying out of regional studies, and the regional orientation of economic policies.
- g. Without the capacity of research and industrial innovation, Community industry would be condemned to a cumulative and irreversible decline in its relative position. The main cause of the technological delay is the weakness of structure and notably of financial means of European firms. The establishment of the economic union should lead to a new organisation of the community efforts in scientific research, extending to new sectors. The cooperation undertaken with third countries should be continued and intensified. It seems desirable that certain financial means be placed at the disposal of Community institutions. This aid would play the role of catalyst for governmental and private efforts.

The success of the common agricultural policy is the guarantee of future progress in other sectors of the Community. The remaining tasks in the agricultural sector are the administration of the markets and the modernisation of structures. The administration of the markets must take into consideration a real competition and satisfactory income for farmers and the responsibilities of the Community in world trade. An international agricultural policy must be established progressively. Community programs will be essential for the development of a structural policy.

The volume of foreign trade of the EEC in 1966 which passed 60 billion dollars for the first time, had a determining influence on the economic expansion of the Community. In order to be able to sell on markets of the world, the Community has to conduct a liberal import policy including reduction of tariff barriers and suppression of other restrictions. Concerning customs duties, the Kennedy Round resulted in decisive progress which seems to represent the maximum possible for the next few years. Non-tariff obstacles were also considered, and the

Community has to adopt his own anti-dumping regulation by July 1, 1968 in view of the international anti-dumping code concluded. It is important that the United States accept the Brussels conventions on tariff nomenclature and customs valuation, and certain assurances were given on this.

The agriculture imports of the Community have continued at a high level and will continue to do so or even increase. Some changes in the composition of these imports are not excluded. Protection measures in the industrial sector are the exception and limited to particularly weak branches having difficulties of adaptation.

The imports of the Community from developing countries have increased much more rapidly than with developed countries, and the Community is the largest buyer of goods from developing countries, taking one fourth of their total exports. The efforts of the Community should be concerned, in the first place, with raw materials, the great part of which already enter the EEC without duty. The Community should also exercise its influence in favor of world organization of markets for these products. Finally, the Community should help to assure developing countries of a growing share in trade of manufactured and semi-manufactured products, by means of a world system of preference for these countries. The Member States and the Community institutions should make every effort to adopt common positions on the major topics to be discussed at the world conference on Trade and Development in New Delhi in 1968.

The trade of the Community with the countries of Eastern Europe has increased greatly in recent years, although it has never exceeded 6 per cent of the total external trade of the EEC. Since this corresponds neither to the levels of the past nor to the current development of the economies of Eastern Europe, the Community should follow a policy of general liberation of imports with certain guarantees.

The association between the Community and the African and Malagasy states has been a success for both sides, permitting an increase in trade, an abolition for discrimination, and a contribution to economic and social development. Politically, it has created or reinforced a climate of friendly relations. A better knowledge of the problems involved must be acquired by various studies. Financial and technical cooperation can be improved by increased coordination of assistance.

The question of enlargement of the Community has been accentuated by the presentation of membership application by the governments of the United Kingdom, Ireland, and Denmark. The Commission has always taken a favorable attitude toward the participation of other democratic Western European countries, particularly Great Britain, in the Community. Whereas the Council decided on June 5, 1967 to open the procedure foreseen in Article 237 of the Treaty, the Commission judges that it would not now be useful to publish new declarations.

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The success of the association with Turkey was underlined by the recent visit of Mr. Suleyman Demirel, the Turkish Prime Minister. The association with Greece functioned normally up to spring of 1967 but the Commission cannot hide its concern over the evolution of the Greek situation and the consequences which could result for the association. The Commission, in a communication to the Council, stated its preference for an association with Israel. The negotiations and work to the present give hope for the conclusion of an agreement with Austria. Beginning talks have been held with Algeria, Morocco, and Tunisia. The opening of negotiations with Spain can be foreseen in the near future.

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The constitutional order of the Community is the indispensable basis of the European construction, the determining element of its past progress, and the best pledge of hope for its coming successes. This conviction of the Commission remains intact, confirmed and strengthened by the facts of the past nine years.

The rule of conduct of the Commission has been : accept all the responsibilities granted by the Treaty, assure the complete execution of the Treaty, assure the respect of constitutional order established by the Treaty, and particularly watch over the regular functioning of the institutions. Acting thusly, the Commission has followed the example of the European Parliament, whose vigilance has helped and supported the Commission since the beginning.

It is not sufficient to maintain the present constitutional order. The "ever closer union among the European peoples" must be achieved, the way to which is foreseen in the Treaty through universal direct election to the European Parliament. The Commission has never hesitated to urge more power and influence for the Parliament and does not regret this.

In the eyes of the Commission, the Community has always been a political union in the economic and social sectors. Its institutions are political institutions. The clear proof of this is the will expressed by the peoples and the governments of the six countries to maintain and to advance the Community in spite of the gravest tensions and difficulties. The Commission has always expressed its interest for initiatives taken to extend the Community beyond the economic and social fields, initiatives which can be successful only if they lead to the establishment of a European constitutional order in other fields.

Ten years after the signature of the Rome Treaty and seventeen years after the historic declaration of Robert Schuman, the fusion of the institutions is a useful and necessary change. In the light of the work and ideals of the founders of the Community, the achievements are not unworthy of the original plan. A new Commission is taking over. As it turns to the future, a clear and straight path is open before it.