

Economic Union & Enlargement



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Economic Union and Enlargement

**The European Commission's revised
Opinion on the applications for
membership from the
United Kingdom, Ireland,
Denmark and Norway**

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This translation has been prepared by the Commission's staff, but only the texts in the languages of the Community are authentic

The 'unit of account' – ua – referred to in the text is equal to one United States dollar

Introduction

1. At a meeting held on July 22–23, 1969, the Council invited the Commission to bring up to date the Opinions it had issued in September 1967 and April 1968 concerning the applications for membership from the United Kingdom, Ireland, Denmark and Norway.

2. In reviewing the above-mentioned documents, the Commission has found that in general the points made in the Opinion of September 1967 had lost nothing of their value and that there was no need to modify the general trend of the document or the conclusions drawn.¹

3. It is, however, indispensable that the document should be brought up to date. The progress made towards economic union since 1967 has changed certain of the facts of the situation and brought out the need to strengthen, to 'deepen' or to develop the Community. Attention had already been drawn to this need in the Opinion of September 1967, and developments since

that time have aroused an awareness of the problems facing the six founder States in conditions which are such that failure to recognize it would mean jeopardizing the survival of what had been achieved in ten years of joint endeavour. The prospect of a wider Community makes such an examination more urgent than ever. Finally, the institutional problems must be dealt with more fully than in the Opinion of September 1967.

4. As in 1967, the present Opinion, also submitted under Articles 237 of the EEC Treaty, 205 of the ECSC Treaty and 98 of the Euratom Treaty, is preliminary in character. The basic options will remain open as long as the positions reached through negotiations are not known.

The Commission none the less considers that this document should make it possible for the Council and the Member States to define the framework of membership negotiations rapidly and with the requisite precision.

¹ On the other hand the Commission felt that the discussions in the Council on July 22 and 23, 1969, meant that the approach which underlay the Opinion of April 2, 1968, had ceased to be relevant and that, while the document should remain in the dossier devoted to enlargement of the Community, there was now no point in bringing it up to date.

I. Enlargement of the Community

I. General

5. The United Kingdom, Ireland, Denmark and Norway have maintained their applications for membership. The candidature of the United Kingdom cannot be considered in isolation from those of the other three countries. On the one hand, an *a priori* choice cannot be made between applications from European countries which have all declared that they are ready to accept unreservedly the Community's economic objectives and its aim of political union. On the other hand, these other three countries could hardly contemplate joining the Community independently of the United Kingdom because of the links uniting them with that country, particularly as members of EFTA, and it would also be difficult for them to remain outside a Community enlarged by accession of the United Kingdom alone.

6. The possibility for any European State to join the Community is laid down in the Treaties of Paris and Rome. Furthermore, in the Preamble to the Treaty of Rome, the founder States declared that they were:

'Determined to establish the foundations of an ever closer union among the European peoples' and

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

It is in this spirit, then, that the Community should examine applications for membership made by any European countries which subscribe to these principles and to these objectives.

This being so, the Commission considers that accession by Sweden should be envisaged only if the negotiations with that country were to show that it is in a position to accept without restriction the political aims of the Community as these appear from the Preambles to the Treaties.

7. On the plane of principles, the accession of States whose traditions of political equilibrium and democracy are as old-established and deep-seated as are those of the candidate countries would be of great value to the Community, both as regards its internal development and the exercise of increased responsibilities in international life.

8. As regards objectives, the enlargement of the Common Market to include countries whose level of development is comparable to that of the Six would have the further effect of creating a large economic entity which, particularly because of a better division of labour and the greater economies of scale resulting from mass production, should permit a more rapid improvement in living standards.

However, these advantages need to be assessed in the light of the Community's past experience. There are fairly narrow limits to the elimination of obstacles to trade if it is not accompanied and then underpinned by the establishment of a genuine economic union enabling firms to adapt their organization and activities to the new dimensions of the market. Unless complemented by such positive action, the elimination of obstacles to trade will itself remain precarious.

The fact that enlargement of the Com-

munity raises additional problems makes it all the more important to maintain its dynamism.

9. In any case the accession of new members to the Communities implies acceptance on their part not only of the Treaties but also of the decisions¹ which have been made since the Treaties came into force.

These decisions, which are the fruits of generally hard-won compromise between the six founder States, have become essential elements of the *de facto* solidarity which links the Six together and, from this angle, of the very existence of the Community. This is why, as a general rule, a solution to the concrete problems will have to be sought by working out transitional measures and not by amending the existing rules.

In several fields measures have been envisaged or undertaken even where the wording of the Treaties did no more than formulate principles without providing for detailed commitments. This is the case, for example, as regards the aid arrangements for coalmining, medium-term policy, monetary policy, industrial policy, etc.

In each case the further commitments accepted by the Member States resulted not just from the undertaking to establish an economic union among themselves, but also from the practical requirements brought out by experience gained in implementing the Treaties; it has not,

however, been found necessary to make formal additions to the Treaties.

10. The acceptance by new members, during the membership negotiations, of the objectives already fixed by the Community and, save for any minor adjustments which might prove necessary, of the acts already adopted, would not in itself suffice to ensure that the tasks to be accomplished in the coming years will be successfully completed. It remains to be seen, too, whether the commitments written into the Treaty or already assumed by the present members are sufficient to guarantee the efficacy of the enlarged Communities or whether, on the contrary, certain more precise undertakings on the part of the old and the new members will not be required.

It therefore appears advisable to make sure, at least in certain essential fields, that when negotiating with the present members of the Community these countries should declare their agreement with the necessary objectives and with the appropriate methods to achieve them. These fields should include not only questions whose interest and urgency would be increased by enlargement of the Communities, but also those to which the wider Community would attribute fundamental importance from the angle of its future economic and political development.

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

2. Economic problems

11. The Commission devoted Titles II and III of its Opinion of September 29, 1967, to these questions, dealing in particular with the economic aspects of enlargement. These it considered from the internal point of view and from that of the Community's external relations. Since some of the factors on which the Commission's analysis was based have since changed, the relevant passages have been revised. The review has again made it clear that the main problems, requiring priority consideration, concern essentially agriculture and economic policy, especially monetary problems.

Since United Kingdom membership could be expected to lead to membership for the other candidates and since the problems discussed in this chapter are of overriding importance in connection with the United Kingdom application, they have been examined primarily from the point of view of the prospective membership of that country.

Agriculture

12. In its September 1967 Opinion, the Commission stated that enlargement of the Community could not be allowed to call into question the common agricultural policy.

An analysis of changes in the basic economic factors of agriculture in an enlarged Community¹ shows that membership of the four candidate countries would not alter them. The entry of new members would not by itself entail a review of the bases of the common agricultural policy: a

single agricultural market based on the common organization of that market with common prices for the main products, a single system of trade with non-member countries and priority for commodities produced in the Community. The maintenance of these fundamental principles does not, however, mean that adaptation of the methods by which this policy is implemented may not prove necessary.

Nor should enlargement of the Community affect the principles underlying the financing of the agricultural policy, principles which reflect the financial solidarity of the Six: Community financial responsibility with regard to the price and marketing guarantees provided by the market policy and the provision of funds with which the Community can finance measures to improve the structure of agriculture.

13. When restating its basic attitudes in the present Opinion, the Commission is not unaware of the difficult problems, some of which have grown more serious in recent years, that will be raised by extension of the Community policy to countries where at present the agricultural situation is unlike that in the Community and the concept of agricultural policy also differs. Agreement on some of these matters would have to be reached between old and new members in the negotiations. The main problems are:

i The repercussions, on both production and consumption, that will inevitably follow application of the common agricultural policy in the enlarged Community;

ii The financial consequences of the common agricultural policy;

¹ An analysis of the changes in the basic factors and in the main problems posed by enlargement - brought up to date according to the latest available data - is given in the Annex (Chapter 3).

iii Difficulties which might arise in respect of Commonwealth sugar and New Zealand butter.

It should be possible to solve the problems connected with levels of farmgate and consumer prices by means of appropriate transitional measures which would spread the necessary adjustments over a period of time.

14. Since the Commission rendered its September 1967 Opinion, the Community has become aware – independently of the question of enlargement – of the grave problems created by developments on the agricultural market, both where farmers and the consumers are concerned and from the financial point of view. In its Memorandum on the reform of agriculture submitted to the Council at the end of 1968, the Commission has suggested how the Community's agricultural problems could be solved. In particular, it has recommended measures to deal with the structure of production and marketing and suggested a new approach to policy on markets and prices. The new line envisaged for the common agricultural policy is intended to establish equilibrium between output and market potential, having due regard to possible imports and exports, and to ensure that there is now and in the future a satisfactory remuneration for the capital and labour employed in agriculture.

15. If, before the opening of negotiations, the Community were to agree on the aims of such a new approach in agricultural policy, the road would be open for solving the economic and social problems which have beset agriculture for so long that

prompt action is called for. The need for such action is made even more urgent by the prospect that the Community may be enlarged.

Just to extend the existing common agricultural policy (especially the price and marketing guarantees) to the new members without the revision recommended could well engender a major increase in the output of certain key agricultural products in the candidate countries. On the other hand, the drive to improve the structure of production in agriculture and of the relevant marketing system will help the agricultural sector to close the gap between the situation in the Community and the highly efficient agriculture of certain candidate countries.

16. By establishing the targets to be achieved in the process of revising the agricultural policy, the Community would create a favourable outlook which could induce the new members to accept more easily certain commitments that they will have to assume. This is particularly the case where the financing problem and the problem of trade with non-member countries are concerned.

17. Faced with a sum of 2,300 million ua (unit of account, equal to US\$1), which is the amount budgeted for in 1969 on present bases for the support of the market in the Six alone, and given that this sum is likely to increase, the new members may well have doubts about accepting the principles which underlie the financing of the common agricultural policy and would be tempted to challenge them. By an act of political will and a vigorous drive to establish a new approach to this policy, the

necessary sums, especially for market support, can be scaled down to a much lower figure. These measures would entail a major financial effort for a limited period, but the resulting longer-term outlook would strengthen the Community's case for requiring the candidate countries to accept the common agricultural policy, including the principle of financial solidarity and its consequences, as soon as they join.

18. With regard to the problem of the costs arising from the application of the agricultural policy, it should be noted that the Community agricultural system combined with the own resources system will result in these costs being borne by the consumer. For foodstuffs produced in the Community, the consumer will, generally speaking, pay a price that stems from the market organization measures. For imported foodstuffs he will pay the same price, which in this case will include the levy and any customs duties. These levies and duties will be credited to the Community budget, as will the customs duties on industrial goods and any indirect taxes, which are also paid by the consumer. Expenditure from the Community budget, including that for agriculture, will therefore be entirely defrayed by the consumer.

This system will be necessary because of the supply situation in the Community and of the place occupied by the agricultural sector in the economy as a whole, a situation which will not be changed fundamentally by enlargement.

The extension to the candidate countries of the common agricultural policy with a common price level and an own resources

system will mean that the consumer in the candidate countries, as now in the Member States, will defray, without discrimination, the costs of the common policy.

19. By deciding to embark on effective action to make EEC agriculture more competitive, to get rid of structural surpluses in the Community while avoiding increases in agricultural production in the candidate countries, it should be possible to maintain in the enlarged Community a certain volume of imports and thus to reconcile the interests of agriculture and the interests of the external trade of this Community. With this in view, account could also be taken, when the common agricultural policy of the enlarged Community is put into practice, of the adjustments certain Commonwealth countries would have to make. In view of the preponderant position which the enlarged Community will occupy where international trade in agricultural produce is concerned, and of the worldwide responsibilities which will consequently rest on the Community, it would seem that the measures it takes in this context should be coupled with much wider action at world level. The Community should take the necessary initiative to ensure that all the major countries exporting or importing agricultural products act in concert with the Community.

20. Briefly, the Commission believes that the negotiations must not jeopardize the essentials of the common agricultural policy; the problems raised for the new members by the need to adapt themselves to this policy must be solved through appropriate transitional measures.

Economic and financial problems

21. In its Opinion of September 29, 1967, the Commission stated that among the candidate countries the United Kingdom required, from the economic and financial point of view, special study. It emphasized three problems 'that would have to be resolved before that country could, where economic policy and the balance of payments are concerned, effectively pursue the objectives laid down by the Treaty of Rome'. These were:

i The deficit in the United Kingdom balance of payments, which must be eliminated on a lasting basis if the United Kingdom is to be able to shoulder the obligations now borne by member countries and to cope with the additional burdens which, initially, will arise for the United Kingdom because of its membership;

ii The fluctuations in the sterling balances, which can expose sterling to sudden strains, constitute a factor of disequilibrium in the United Kingdom economy and would be a source of difficulty for the Community if and when Britain joins;

iii The international role of sterling, in view of the difficulties which the role of sterling could cause with regard to the convergence of economic objectives between the United Kingdom and the other members of an enlarged Community, and also in connection with the future establishment of a Community monetary system.

Since that Opinion was submitted to the

Council, events have occurred in the British economy which affect the problems referred to above. The most important of these events are:

i The 14.3% devaluation of sterling in November 1967 and its consequences for the United Kingdom balance of payments;

ii The implementation of a system set up within the framework of the Bank for International Settlements to curb withdrawals on sterling balances held by public authorities of the sterling area countries.

22 The Commission made certain oral comments on the devaluation of sterling at a Council session on December 11, 1967.

The effects expected from the change in the parity of sterling and from the economic policy measures announced by the British Government in a letter of intent sent to the International Monetary Fund in November 1967, when Britain was seeking an additional credit of \$1,400 million from the IMF to support these measures, have materialized but with some delay.

Because of the difficulties experienced by the British Government in reaching the targets it had set itself and the problems raised by the repayment of certain debts on the dates originally agreed, it decided in the early months of 1969 to re-examine the policy pursued after devaluation and to amend its balance of payments aims.

A further letter of intent sent to the IMF on May 22, 1969, set out new economic policy commitments based on attainment during the budget year ending on March 31, 1970, of a surplus of at least £300 million on the basic balance of payments.

23. It is not impossible that this objective will be achieved in the period stated. Exports are developing satisfactorily, and in the future they will be stimulated by the vigorous reorganization of British industry that has been promoted over the last two years by the IRC. 'Invisible earnings' have climbed sharply, but no firm predictions can be made in this connection. In the first half of 1969, the United Kingdom balance of payments achieved an overall surplus of £100 million. It is, however, difficult at the present time to make any definite statement concerning the nature and the exact scale of the improvements in the balance of payments. Interpretation of the figures raises delicate technical problems. Moreover, the improvement took place during a period of rapid expansion of world trade and at a time when certain temporary restrictions on imports into the United Kingdom were in force (system of compulsory import deposits). Finally, it should be noted that in the first half of 1969, the period during which the improvement in the figures was particularly clear, growth was weak, since in annual terms it is still below 1.5%.

However, if the impression that the British economy has entered a phase of export-led growth were to be confirmed, the balance of payments objective pursued could well be achieved without growth lagging behind a rate consonant with the full employment of the country's productive resources.

24. A lasting recovery in the United Kingdom balance of payments is all the more desirable since regular servicing of its debts, other than those denominated in sterling, will require substantial payments

surpluses over a fairly long period. During 1969, the servicing of long- and medium-term debts, mainly because of certain large sums becoming due to the IMF, has entailed considerable difficulties. According to official information published early in the year, the total of these debts (excluding sterling balances and short-term debts to central banks) was more than £3,000 million, and payments of some £630 million (including interest) should have been made during the present year; some of the deadlines were readjusted after negotiation. The amounts to be paid in 1970 and 1971 should, on an annual average, be about £300 million (including interest). The figures concerning total short-term official indebtedness to monetary authorities who took part in the support of sterling are not available; they are in any case liable to fluctuations, which can sometimes be abrupt.

This analysis shows that the constraints which will in the next few years be imposed on the British economy by the need to achieve a lasting recovery in the balance of payments and to repay the debts contracted since 1965 should not be ignored when, during any negotiations, the nature and details of a transitional period are being established.

25. With regard to the sterling balances, the Commission considered that the previous arrangements for dealing with this hazard were insufficient. The question today is whether the new agreements concluded in September 1968 are sufficient to dispel the concern that can be felt in this connection.

The arrangements made are twofold. In the first place, the United Kingdom gives

the sterling area countries a dollar-value guarantee on that proportion of their official sterling holdings exceeding 10% of their reserves. In return, these countries undertake to maintain a minimum proportion of their reserves in sterling. Most of the agreements, concluded bilaterally between the United Kingdom and each of the sterling area countries, are for a period of three years; they will be reviewed six months before expiry.

Secondly, the Bank for International Settlements, in agreement with 12 central banks, has accorded to the United Kingdom a credit facility of \$2,000 million, ie less than a third of the United Kingdom's current sterling commitments to the sterling area countries. This amount is designed to offset the immediate effect on the United Kingdom's reserves of any reduction below the agreed minimum level of the sterling balances held by public authorities and private persons in the overseas countries of the area. Drawings may be made until September 1971; repayments must take place between the sixth and the tenth year after the signing of the agreement.

26. If it is borne in mind that the main object of the arrangements in question was to eliminate a tendency for countries with sterling balances to diversify their reserves and so to provide a temporary solution to an urgent problem, there is no doubt that they have so far been crowned with success: not only have withdrawals ceased, but the balances held by public authorities in the sterling area countries have grown, rising from £1,506 million at the end of September 1968 to £1,847 million at the end of March 1969 and £1,906 million at the end of June. It is much more difficult to say how far

these agreements contribute to the solution of the problem raised in the Commission's Opinion. At present, when one considers the effect produced by the Basle Agreements on the current figure of sterling balances, it would seem that these agreements have helped to consolidate the role of sterling as a reserve currency. If this tendency were to continue, the short-term result would undoubtedly be to make it easier for the United Kingdom to finance its balance of payments. In the longer term, the fate of an increased amount in sterling balances would depend, failing an indefinite renewal of the agreements, on the confidence of creditors in sterling, ie in the last analysis on the strength of the United Kingdom balance of payments.

27. The central banks of the Community countries made an important but only partial contribution to the Basle Agreement of September 1968: a lasting and effective solution to the problem of the sterling balances goes beyond the financial potential of the Community countries alone. Moreover, this problem, which in essence is international since the sterling reserves constitute a part of world liquidity, could be dealt with correctly only within the framework of the international monetary institutions. However, this problem – and whatever solution may be found – is sufficiently important for the functioning of an enlarged Community that it should be thoroughly discussed between the Community and the United Kingdom; the discussions would establish certain guidelines in this field and the conditions on which the Community would participate in any international action that might be taken.

28. Although the devaluation of sterling has opened the road to the solution of certain problems posed in the Opinion of September 29, 1967, and may help towards the adaptation which membership of the Community would impose on the United Kingdom, the pattern of developments in the foreign currency liabilities of the United Kingdom and in the sterling balances is less clear. The prospects in this field should therefore be discussed with the United Kingdom Government.

There have at times been attempts from various quarters to propose rapid solutions to problems which are of extreme complexity. It is not for instance sufficient to look at the United Kingdom's external liabilities and make that country's liabilities seem less formidable by setting against them a list of its private and public assets abroad, for between the liabilities and the assets in question there are the considerable differences of nature and liquidity. Again, it seems overbold to imagine that even the temporary use of various technical procedures in the administration of exchange rates would be likely to eliminate these difficulties, the solution of which depends mainly on the compliance of each country with the rules which ensure the achievement of fundamental equilibria and, within the Community, on a more effective co-ordination of economic policies.

29. In this respect, the idea expressed in the Opinion of September 29, 1967, that 'it would not be enough if the countries applying for membership merely stated their agreement with general objectives: they should also accept the priorities that advancing Community co-ordination has

made it possible to establish both internally and at international level' remains fundamental for the Commission.

It assumes particular importance in view of the results obtained by the Community in the international monetary negotiations which led to a reform of the Articles of Agreement of the International Monetary Fund and to the creation of the special drawing rights system.

Its importance is further enhanced by the Council's decisions, taken on July 17, 1969, that the medium-term economic policies of the Member States should be more fully concerted, the co-ordination of current economic policies made more effective and monetary co-operation in the Community implemented by appropriate means. This will enable unduly serious disequilibria between Community countries to be prevented and the conditions governing the maintenance of stable intra-Community exchange rates to be more adequately fulfilled. Stable exchange rates are required not only because without them common agricultural prices are impossible but even more because without them transactions within the Common Market cannot be made with confidence and will not expand.

In setting out on this path, the Member States of the present Community are approaching a new phase in the construction of the Community, a stage which must eventually lead to the establishment of a Community monetary system. The cohesion and the dynamism of an enlarged Community will depend largely on the acceptance by the candidate countries of the objectives and methods underlying this new venture.

3. Practical problems

Problems raised by simultaneity of the applications

30. It will be necessary to know whether, in view of the problems raised by the fact that four States are at present candidates for membership, it is better to stagger the negotiations, with the intention that all four States should join the Community at the same time, or to stagger the dates of joining, starting with the United Kingdom, on whose membership that of the other applicants depends.

Quite apart from the political and economic consequences – important both for the applicant countries and for the Community – and from the difficulty there would be in working out different transitional arrangements for each of the new members, spreading the accessions over a period of time would entail institutional problems that would outweigh any benefits. The prospect of further countries joining could not be left out of account during negotiations with the first country. It would therefore be necessary to begin by working out provisional arrangements for certain States, subsequently making definitive arrangements to take effect once the last member was in, and to ensure that the definitive arrangements would also suit the members whose entry had been held up.

31. Because of these drawbacks it is hardly possible to envisage staggering the dates for membership: it would surely be better to have some staggering of the negotiations. This latter method should not exclude the requisite co-ordination on questions that cannot be settled in isolation at each set of negotiations. In any case, the institutional

adjustments cannot be negotiated until agreement has been reached with the four applicants on all the other problems. The four treaties of accession (plus perhaps a fifth with Sweden) would then come into force simultaneously.

32. If, however, the negotiations or ratification procedures were to be delayed appreciably in respect of one or more applicant countries, or if any country were to find, during or at the end of the negotiations, that it could not maintain its application for membership, alternative arrangements would have to be made to enable the other applicants to join the Community.

Problems involved in actual entry

33. In view of the imminent completion of the transitional period and the problems of adjustment this will involve, there can no longer be any question of the new members having to 'catch up' with the Six immediately and in all fields. It would seem logical that there should be transitional arrangements extending over a number of years. Three essential points must be made here:

i The purpose of the transitional arrangements would be to spread over a period the economic consequences resulting from the application of the Community rules by the new members. In areas where transitional measures proved inevitable, they should not prevent the new members from adopting as rapidly as possible the legal framework and the instruments established by the Community rules. The transitional adjustments ought then to disappear according to a prearranged timetable.

The legal framework and implementing mechanisms would presumably have to be adopted immediately in the case of the agricultural market organizations and the rules governing the customs union.

ii Another question is whether it is possible and desirable to have different transitional periods for industry and agriculture. The Community has always endeavoured to keep liberalization of industrial goods and establishment of the agricultural common market more or less in step. This principle should be maintained when new members are admitted.

iii Lastly, if the date of entry into force of the treaties and the timing of the transitional measures – especially as regards movement of goods – were to vary for different products or were to be adapted to the specific problems of each State acceding, the Community would come up against very serious difficulties (deflection of trade, administrative complications, particularly as regards the control of origin, risks of error or of disputes, and so on). It would therefore be advisable for the timetable to be the same for all concerned and for waivers or exceptions to be kept to a minimum.

4. Economic integration in Europe

34. Alongside the applications for full membership, and in most cases because of these applications, a number of European countries, particularly EFTA members, have made it known that they wish to open negotiations with the Community for the purpose of establishing special relations. Consequently, the prospects of enlargement bring the Community face to face with the problem of the economic organization of a large part of Europe.

35. The gradual establishment of the common market has already exerted considerable attraction on the countries neigh-

bouring the Community: association agreements have been concluded with Greece and Turkey, and negotiations with a view to preferential agreements have been opened with Austria and Spain and are envisaged with Malta.

The prospect of the Community being enlarged induced Switzerland in 1961 to ask that negotiations be opened. The Swiss Government has made it known to the Community on a number of occasions, the last quite recently, that it considers its 1961 application to be still pending.

Similarly, in 1962, the Governments of Portugal and Cyprus requested negotia-

tions, and in various ways they have made it clear that these applications still stand.

The Finnish Government, without making a direct approach to the Community, has on several occasions made statements advocating Finland's participation, in some form consistent with its neutrality, in the economic integration of Europe.

And finally it appears that, if the negotiations with Sweden did not lead to membership, it would still be the chief objective of the Swedish Government to establish special relations with an enlarged Community.

36. The countries of southern Europe, which are at a stage of economic development that rules out any idea of immediate membership of the Community, should be able to establish with an enlarged Community preferential relations so conceived that their development would benefit. Such relations could not take the form of association proper except in the case of those countries whose institutions and regimes are comparable with those of the founder States. The others might be offered agreements that would enable the Community to take account of their subsequent evolutions.

On the other hand, for countries which are sufficiently developed economically and possess institutions and regimes comparable with those of the founder States, the Community has always considered that full membership was the arrangement that accorded best with the objectives of the

Treaties. The drawbacks of association agreements or preferential agreements with such countries are well known: first, these countries might in certain cases have to comply with decisions in the taking of which they had had no part, and second, the commitments on consultation and the multiplicity of special arrangements would make for inextricable complications for the Community. The Commission therefore considers that the Community should not normally contemplate agreements of this kind except with such countries as could not become full members because of their international circumstances; and even this it should do only after taking every possible precaution to ensure that its decisions would continue to be made in full independence and that its operation was not unduly complicated.

37. Once the essential arrangements for the accession of new members have been defined, the Community could examine with the other European countries involved the problems that arise – particularly those due to the fact that most of these countries and the candidates for membership all belong to the large preferential trading area of EFTA.

The Commission considers, however, that this problem can be examined profitably only at a later stage in the process of enlarging the Community. It also reserves the right to inform the Council at that time of the action it thinks should be taken.

II. Strengthening the Community

I. The Community's future development

38. The Community is about to reach the end of the transitional period. Some important decisions still have to be taken, but it may be expected that the timetables laid down in the Treaties will, as a whole, be complied with.

But it is important to avoid the Community's achievements being threatened by the pull of divergent forces; it is therefore both necessary and urgent for the Community to be strengthened. The members of the Council have expressed themselves to this effect on a number of occasions, in particular at their meeting of July 22, 1969. The Commission has repeatedly insisted on the need for such strengthening, particularly in its statement of July 1, 1968, and in the Introduction to the Second General Report on the Activities of the Communities.

39. The Commission furthermore stresses, as it did in its Opinion of September 29, 1967, that the cohesion and the dynamism which are indispensable for the Community depend in part on the convergence of the national policies of the Member States, in particular, but not exclusively, of their foreign and defence policies.

The Commission is well aware that the Member States have as yet done nothing to put into practice the intentions they have expressed on this subject. The action to be taken in this field can only be worked out gradually, and it will always have to be kept in mind that, as the Community develops, such action will necessarily play an increasingly determinant role in its existence, its orientation and its cohesion.

40. So far the Community's chief task has been to work out concrete and precise rules for applying those provisions in the Treaties which require the removal of obstacles to freedom of movement in the Community. Once those rules were adopted, their implementation was more often than not a matter for day-to-day administration and required few political decisions.

The gradual transition from the customs union to the economic union will on the other hand require not only the return to normal functioning of the Community institutions but even their strengthening. It is also important that the Community should have the appropriate tools to ensure the success of whatever action is needed for the transition to be carried out smoothly.

With this in view the Commission has already sent to the Council the following proposals:

i Commission memorandum on the pursuit of the studies on Technological Co-operation (*Doc. SEC(68)1524 of May 15, 1968*);

ii Memorandum on the Reform of Agriculture in the European Economic Community (*Doc. COM(68)1000 of December 18, 1968*);

iii Commission memorandum to the Council on the 'First Guidelines for a Community Energy Policy' (*Doc. COM(68)1040 of January 17, 1969*);

iv Commission memorandum to the Council on the Co-ordination of Economic Policies and Monetary Co-operation within the Community (*Doc. COM(69)150 of February 12, 1969*);

v Proposal for a decision on the gradual standardization of agreements concerning Member States' commercial relations with non-member countries and the negotiation of Community agreements (*Doc. COM(69)126 of February 25, 1969*);

vi Commission memorandum to the Council concerning Euratom's future activities (*Doc. COM(69)350 of April 23, 1969*);

vii Commission Opinion on the reform of the European Social Fund by virtue of Article 126 of the EEC Treaty (*Doc. COM(69)347 of May 4, 1969*);

viii Commission memorandum to the Council on replacing the financial contributions of the Member States by the

Communities' own resources and on greater budgetary powers for the European Parliament (*Doc. COM(69)700 of July 16, 1969*).

41. In the longer term, some time will be necessary to narrow, as a preliminary step, the divergences between the economic policies of the Member States and, subsequently, to define and implement Community policies. However, this twofold action is not equally urgent in all sectors; on the contrary, it can be staggered in the light of the priorities attaching to the various fields. For instance, the common bases for an economic and monetary policy which would ensure smooth transition from the customs union to the economic union should be laid down as rapidly as possible.

2. Strengthening and enlargement

42. To strengthen the Community in this way means not only consolidating what it has already achieved and ensuring its further development, but also making suitable arrangements for receiving the candidate countries. It is in this setting of the measures to be taken and of the time needed for their execution that the problem of enlarging the Community is to be seen.

It is advisable to deal *pari passu* with the decisions on strengthening and the replies to be given to the applications for membership. But we must also make sure that the decisions concerning enlargement do not delay the important decisions on the action required to strengthen the Community.

43. In view of the link between strengthening and enlargement, the candidate countries will have to express, at the opening of the negotiations, their agreement not only with the principle of accepting the progress which the Community has already made – that is to say the Treaties plus the decisions taken since they came into force – but also, with full knowledge of the measures already decided on or now being put through, with the principle of strengthening the Community.

The aim of these measures is to solve the problems which confront both the founder States and the candidates, who must all ensure the balanced and satisfactory growth of their economies, improve the efficacy of their production apparatus and, in a more general way, take up the many and varied challenges stemming from the constant

changes that are inevitable in modern industrial societies. The agreements of principle demanded of the candidate countries should therefore not constitute an obstacle to the negotiations.

It is nevertheless important to be able to make sure during the negotiations that, if they should be successful, the said agreements of principle will be actually embodied in the reality of an enlarged Community.

In this respect it would be helpful if the candidate countries pursued policies convergent with those implemented in the Community. In this way they would be able to establish their economies on more solid foundations, while at the same time achieving some part of the adaptation necessary for full participation in the activities of an enlarged Community.

This action by the candidate States would facilitate the early solution of the many and varied problems raised when they accept what the Community has already achieved; it would also make it possible, if the negotiations prove successful, to keep the duration and the scope of the transitional measures down to a minimum.

The convergent policies thus pursued simultaneously by the founder States and the candidate States during the earlier part of the negotiations would help at a later stage to strengthen an enlarged Community and in any case to avoid the mechanical effects of enlargement weakening or watering down the present Community.

III. Functioning of the Institutions

I. General

44. The concern expressed on many occasions by the Commission and in the Council about the conditions required for the smooth working of the Communities cannot but be increased by the prospect of negotiations on an exceptionally large scale and of the foreseeable consequences of the accessions that might result.

Any increase in the number of Member States is likely to make institutional mechanisms more cumbersome. The adjustments needed – these are in fact provided for in Article 237 of the EEC Treaty – should therefore be made in such a way as to maintain the efficacy of the system and to offset the mechanical effects of enlargement.

The need to ensure the efficacy and to maintain the role of the institutional machinery in an enlarged Community becomes clearer still when one considers that the transition to a real economic union involves a substantial number of decisions

that will have to be spread over a period of time. To the extent, however, that those decisions can be fitted into rigid and exact timetables, due account should be taken of the constantly evolving and often unpredictable character of the underlying realities and of the speed with which action has to be taken in such matters.

45. The problem of improving and strengthening the institutional machinery must be tackled in any case. The Community has become a large entity that has to be governed and administered in the same way as the territory of any country. The Commission has already drawn attention to this problem, particularly in its statement of July 1, 1968, and in the Introduction to the Second General Report on the Activities of the Communities. The prospect of enlargement only makes these tasks of improvement and strengthening more immediate and more urgent than ever.

2. Improvements to the functioning of the Institutions in the Community as it is today

46. Agreement ought therefore to be reached as soon as possible within the Community, and at latest by the end of the negotiations, that the functioning of all the Community institutions should be reviewed.

The Parliament

47. As the Community develops, as its common policies are worked out and put into effect, as the influence exerted by the Community over national policies becomes clearer, a better institutional balance must be established, in which the Parliament and its powers of supervision would play a bigger part than was originally assigned to them. Consequently, the following two steps will have to be taken without delay.

The first is to give the Parliament real budgetary powers. Article 201 of the Treaty lays down that once the common customs tariff has been definitively introduced the Community is to have its own sources of revenue without the money passing through the budgets of the Member States. This will in itself necessitate an extension of the Parliament's supervisory powers: a point that has recently been made on many occasions by the Council and the Commission. The Commission is at present submitting precise proposals on this point to the Council. It is to be hoped that rapid agreement will prove possible, since any decisions taken will have to be ratified by the national parliaments.

The second is the election of the European Parliament by universal suffrage – another development explicitly required by the Treaties. The matter is by now one of topical interest, and here again it may be

hoped that a general agreement is not too far away.

Successful action on these matters would be in itself a considerable step forward and would substantially strengthen the institutional structure of the Community.

The Council

48. The efficacy of the Council's decision-making methods has become a major problem in the institutional life of the Community.

It is impaired first and foremost by application of the unanimity rule in cases where the Treaties do not require it. This explains why many questions have remained unsettled for months and even years.

The progress of integration has thus been appreciably slowed down and sometimes completely blocked. The delays affecting the Community's relations with the rest of the world, particularly in its commercial policy, and the high cost of certain aspects of the agricultural policy are, to a large extent, a result of these institutional aberrations. And these drawbacks are likely to be even more numerous in an enlarged Community.

Another difficulty is that a number of member countries have refused and still refuse, because of differences of opinion with the other members, to join in the search for compromise solutions acceptable to all. This practice of imposing a 'veto' would have even more serious consequences in an enlarged Community.

To meet these difficulties, two principles should be accepted and acted upon without delay:

i Decisions by majority vote should again become the normal practice of the Council in all fields where the Treaties do not explicitly require the contrary.

ii There are also fields in which the unanimous agreement of Council members is required. Among them are those areas where the Treaties merely lay down general objectives while the procedures for putting them into effect are only sketchily defined or would mean the issue by the Community of a whole set of laws and regulations. In these cases unanimity should be required only on the outline decisions – those laying down the targets in each specific field and perhaps the broad lines of procedure to be followed – with majority voting for the implementing decisions that remain.

The Commission

49. The counterpart of majority voting in the Council is the Commission's independence and its right to initiate legislation. Under the institutional arrangements laid down in the Treaties, the legitimate interests of the minority are protected by the fact that unanimity is required before a Commission proposal can be altered. The right of initiative, independence and au-

thority of the Commission, then, are of absolutely basic importance for the efficient functioning of the Community. This is all the more true now that the Community has completed the first period of build-up and is now moving on to a period concerned with the management of current business.

Consequently, further powers of management should gradually be transferred to the Commission as agreement is reached on the new objectives to be attained and as the Community is strengthened. The balance between the institutions of the Community, which gives the Commission responsibility for the day-to-day running of affairs in close liaison with the Council and the Member States, should be fully maintained and developed. The agricultural management committees could serve as an example in many other fields.

The Commission wishes to stress its conviction that it is only by returning to respect for both the letter and the spirit of the institutional arrangements laid down in the Treaty, by ensuring that they operate efficiently and by strengthening them in the light of developments and the requirements of Community life, that the Community will be able to accept in security the risks involved in enlargement.

3. The Institutions of an enlarged Community

50. If the institutional machinery of the present Community is strengthened and supplemented along these lines, the problems raised in this field by the enlargement of the Community will be less important and less intractable.

The Treaties properly use the word 'adjustments' to denote the limited nature of the changes that will prove necessary.

The Commission has already dealt with this point in its September 1967 Opinion and has only a few comments to add.

The Parliament

51. The enlargement of the Community would lead to an increase in the membership of the European Parliament.

On this occasion there should be a review of the distribution of seats among the representatives of the peoples of the Community countries.

The Council

52. A number of difficult problems arise from the enlargement of the Community.

First, it will scarcely be possible to contemplate eliminating the decisions requiring unanimity and replacing them in every case by majority decisions. Where unanimity was still required, the risk of inaction could be diminished if it were possible during the membership negotiations to work out a fairly broad consensus on the further action, whether provided for in the Treaties or not, that urgently needed to be undertaken; enlargement could thus be effected in the best possible conditions from the outset and the *de facto* solidarity required if the enlarged Community is to

work properly could be established among its members as quickly as possible.

Then there are the problems of weighting members' votes and the level of the qualified majority. As regards this last point, existing arrangements would have to be adjusted in an enlarged Community in such a way that its ability to act was preserved.

This would be all the more necessary because an increase in the number of Member States could mean that national interests and considerations of immediate political expediency might be even more divergent than before.

In any case, the level of the qualified majority should be determined in such a way as not to detract from the power of this provision to deter any State tempted to prolong a discussion indefinitely. Minority interests should be guaranteed by making it a general rule that no majority decision can be taken except on a proposal from the Commission.

The Commission

53. Deciding on the number of members of the Commission as a consequence of enlarging the Community, apart from the questions arising simply from concern that Community mechanisms should be effective, will raise a problem of balance that should be dealt with during the negotiations. The Commission must be in a position to play its role fully. Its collegiate character and the desire for impartiality require that its membership should be kept to the minimum.

The Commission does not believe that it would be politically feasible at the Com-

munities' present stage of development to envisage an arrangement under which the Commission would not include nationals of all Member States.

It also considers that to increase the number of Commissioners, though it would add to the total of personal ability, would be bound to make the functioning of the Commission more cumbersome. The size of the Commission should therefore be decided with an eye to both its collegiate character and the demands of efficiency.

The Court of Justice

54. The accession of new members presents hardly any difficulties as regards this institution.

When, however, the number of judges is increased, care should be taken that the total is still an odd number, as required by the Protocol on the Statute of the Court.

The Economic and Social Committee, Euratom's Scientific and Technical Committee and the ECSC Consultative Committee

55. In the case of these Committees enlargement would entail a corresponding increase in the number of members. Everything should be done to ensure that Committee members represent as fully as possible the interests in whose name they

have been appointed.

56. It would be well if the attention of the applicant countries were drawn to the development that the Community's institutional machinery is likely to undergo in the future.

This is first of all because the powers of the institutions are allocated and defined differently in each of the three Treaties of Paris and Rome and because it is difficult at the present stage to foresee what the institutions will be as a result of the Treaty merging the existing Communities.

A further reason is that the role of the European Parliament can logically be expected to expand. In its July 1969 proposals on the creation of the Community's 'own resources' and on the budgetary powers of the Parliament, the Commission expressed the view that from 1974 onwards the European Parliament should be endowed with legislative powers.

The current Treaties, essential as they are, are only one step towards the construction of an increasingly united and institutionalized Europe. The applicant countries must be fully aware of the fact that they are not only joining an economic and social undertaking, but that they will be required to participate fully in creating a continent which is economically and politically united.

IV. Remarks on procedure

The Commission believes that the time has come to draw the Council's attention to the following comments on the procedure for the negotiations.

Prior examination by the Six

57. The Council will recall that its examination of the Commission's Opinion begun in October 1967 was interrupted at a relatively early stage because of the political divergences of opinion then existing between the Member States and that it was never completed.

The Commission feels that it would be desirable if, prior to the opening of negotiations proper by the Community, the Council were to resume its examination of the Commission's Opinion of September 29, 1967, in conjunction with that of October 1, 1969, and to determine the main lines of the position to be defended by the Community when negotiations begin.

Content of the negotiations

58. An effort will have to be made, both in the preliminary examination described above and in the negotiations proper, to concentrate on the important issues involving political, economic or social choices. Negotiations must not get bogged down in detailed discussions on all the minor problems.

In this respect the negotiations of 1961-63 seem to have gone into too much detail in certain areas. The debates on kangaroo meat are still quoted as the supreme example of this excessive perfectionism. It would be well to concentrate on essentials during the negotiations, leaving to the institutions of the enlarged Community the

task of settling less important problems not resolved during the negotiations.

The Commission is prepared, once the Council considers the time ripe for such a step, to submit a list of the essential points on which, in its view, agreement should be reached during the negotiations themselves.

Negotiating procedure

59. The Council will recall that, on the previous occasion, the entire negotiations were entrusted to an intergovernmental conference which met in Brussels at ministerial level and, between meetings, at deputies' level. This extremely long and cumbersome procedure did not lead to success.

The Commission does not consider that Article 237 of the Treaty of Rome necessarily requires a technique of this kind. Without wishing to get involved in legal controversy, it doubts if this Article entrusts the Member States meeting in the Council with the task of negotiating individually with non-member countries on Community policies already formulated and in operation, such as customs tariff policy or the common commercial policy, over which they no longer have individual control.

But it is also convinced that this negotiating technique is not a very happy one. By the very fact of negotiating individually with non-member countries, the Member States accentuate rather than play down the differences between their points of view. The non-member countries themselves are tempted to divide the Member States and to conduct talks with them in parallel, and this damages the

cohesion of the Community, hardens positions and finally, as was seen in 1962, creates a situation conducive to failure rather than success.

The Commission therefore feels that the Community would be well advised to draw on the experience it has gained in the various important negotiations it has conducted and on this occasion to divide the negotiations into two phases.

The first phase would be conducted on the same lines as the Kennedy Round. The Commission would be given a mandate to negotiate on behalf of the Community; it would keep the Council constantly informed and would follow the directives given it by the Council. It will be remembered that this method worked well for four years during the Kennedy Round and led to the success of the negotiations, to the satisfaction of the Council and of the Member States. This phase of the negotiations would embrace the problems posed by common policies already in operation or in

course of elaboration (common external tariff, common agricultural policy and so on), for which Community-type negotiations seem particularly appropriate.

There would then be a second phase, conducted by the Member States meeting within the Council. Once they had decided on the acceptability of the results achieved during the first phase, the Member States would devote themselves first and foremost to the more peculiarly political issues, such as the general political problems resulting from the enlargement of the Community, institutional problems, and the adjustments to be made to the texts of the Treaties.

The Commission is convinced that a procedure of this kind, which has proved its worth in the past, would allow of more coherent, more dynamic and also more rapid negotiations and that it would offer a greater chance of success. When the time comes, it would be well to discuss this procedure with the non-member countries concerned.

Conclusions

60. At the close of this analysis of the main problems arising in the context of enlargement, the Commission finds that the general lines and conclusions of its 1967 Opinion are still valid.

Because, however, of the changes which have occurred in the meantime, it has examined the problems of strengthening the Community in the context of its enlargement in greater detail than it did in 1967. It has come to the conclusion that, because of the close links between these two issues, they must be considered simultaneously rather than treated separately.

61. As regards strengthening, the Community cannot stop where it now is. One of two things can happen; either, under the pressure of the divergent forces already in evidence, the Community will, paradoxically, allow its unity to be impaired just when the customs union has been completed at great cost in terms of effort and the pace of technological progress is steadily adding to the advantages offered by a large single market; or, by using the Community institutions to assure convergence of the policies followed by Member States, it will consolidate and widen the results obtained to the benefit of all.

It is therefore essential to make the necessary progress in the sectors (agricultural, economic and monetary, social, institutional, etc.) which have been stressed as being important in the present document. The Commission has already made various proposals in this direction. Action has already begun within the Community. It

must be pursued and reinforced.

62. The enlargement of the Community to include new members must not be a brake on this action. Only a strong Community can provide a suitable framework for receiving the applicant States.

The applicants can consider their request for membership only against a background such as this. At the beginning of the negotiations, they will have to state their agreement not only with the principle of accepting what has been attained by the Community – in other words, the Treaties plus the decisions taken since these came into force – but also, in full knowledge of the measures agreed on or in course of implementation within the Community, with the principle of strengthening the Community. Finally, they will need to adopt policies that are convergent with those pursued in the Community, thus ensuring its reinforcement.

63. The Commission considers that the framework described and the principles to which attention has been drawn in its 1967 and 1969 Opinions could well facilitate a joint examination, with the candidates for membership, of the problems posed by enlargement of the Community and could contribute to the search for solutions which would make it possible to establish conditions that guaranteed the cohesion and dynamism essential to an enlarged Community.

This should be the aim of the negotiations. In the Commission's opinion they should be opened as soon as possible.

ANNEX

A. Customs union and economic union

I. The customs union

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

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

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

New dimensions

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

On the basis of the figures for 1968, intra-Community trade (exports fob from each Member State to every other Member State) would rise from \$28,400 million for the Six to \$41,200 million for the enlarged Community.

For the same year, exports fob to non-

member countries would rise from \$35,300 million for the present Community to \$43,600 million for the enlarged Community, and imports cif from non-member countries would rise from \$33,500 million to \$46,400 million. These figures show that enlargement of the Community would considerably enhance its position as a major world importer (38%). The expansion in the volume of its exports would be less (24%).

3. These figures do not of course make allowance for the expansion of preferential trade which would result from the gradual elimination of customs duties and other obstacles to trade within the enlarged customs union. Although it cannot be expected that this expansion would be as rapid as that experienced in the EEC between 1958 and 1968 (from \$6,800 million to \$28,400 million), the obstacles to trade having already been eliminated inside the EEC on the one hand and inside EFTA on the other, it can be assumed that enlargement of the customs union would contribute to economic expansion in Western Europe.

Abolition of obstacles to intra-Community trade

4. Obstacles to trade already eliminated in the Community at the date of accession would have to be eliminated from trade

between the old and the new members during the transitional period. This applies of course not only to customs duties and quantitative restrictions but also to charges with effect equivalent to customs duties and to measures with effect equivalent to quantitative restrictions.

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

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

5. The problems of manufactures based on certain agricultural products, dealt with *inter alia* in Regulations Nos. 160/66 and 1059/69, also call for special attention: the system at present used in the Community should be applied in dealing with the new members as long as the latter do not fully apply the provisions of the common agricultural policy for the products used as raw materials. This problem is of special importance in view of the very appreciable extent to which the processing industries of certain candidates are likely to compete with the food industry of the Six.

6. The accession agreements cannot rule out the use of safeguard measures, which

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

² This should also apply to the United Kingdom coal importing arrangements.

allow exceptions to the rule of free movement of goods where there are economic difficulties or deflection of trade. These measures, similar to those provided for in Articles 115 and 226 of the EEC Treaty and elsewhere, should be laid down for the transitional period by the accession treaties. The present members of the Community would of course have to constitute one unit for the application of these measures after the expiry of the present Community's own period of transition.

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

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

The enlargement of the market should help to step up productivity and encourage necessary adaptation, but the conditions of competition must not be distorted. Difficulties can be foreseen, for instance, in the paper and paperboard industry, because of the privileged access of the Nordic countries to the raw material and the cartellization of the Scandinavian paper industry. The very considerable divergences of commercial and industrial policy between the United Kingdom and the Community in an industry such as textiles could also raise delicate problems for the Community's industry, which will in any case,

as a consequence of agreements recently concluded in Geneva, have to leave a growing part of the market to imports from the developing countries. Excessive differences in energy costs would prevent the Community's ferro-alloy industry from coping with Scandinavian competition. Lastly, particular attention will have to be paid to the problems arising from the extent of American investment in certain areas of British industry, such as the motor and agricultural tractor industries.

8. In order to remedy the foreseeable difficulties in sensitive industries such as those of which examples have been given above, measures of industrial policy will have to be taken to facilitate indispensable adaptation. If in exceptional cases co-ordination of policies should not permit the causes of distortion to be eliminated, special transitional or adaptation measures might prove to be necessary.

Application of the common customs tariff (CCT)

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

10. During the transitional period which they will be granted, the special position of the new members in relation to the present members of the Community will inevitably pose delicate problems. These difficulties

would be greatly reduced if the pace at which the CCT is introduced and that at which the mutual adaptation of customs duties is implemented were fixed in such a way as to limit the possibilities of deflection of trade.

11. *Pari passu* with this action, and for the same length of time, the conditions under which the new members would relinquish the EFTA tariff arrangements would have to be determined from the point of view of the Community's interests.

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

The problems raised by the relations of an enlarged Community with the countries of the Commonwealth and the possible introduction of a generalized preference system for the developing countries will be dealt with in Chapter 6 of this Annex.

13. Lastly, by declaring its willingness to accept the CCT as it emerges from the Kennedy Round, the United Kingdom appears to be prepared to drop its request for nil duties for various products which

had given rise to difficulties in the previous negotiations. The question arises, however, of the pace at which the United Kingdom would be prepared to bring its tariff closer to the CCT for the products concerned.

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

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

When the exact import to be attached to their acceptance of the common customs tariff comes to be examined, it would also be advisable to study the situation with

regard to certain products or particularly important industries where acceptance of the CCT cannot assume its full significance unless coupled with acceptance of a certain number of basic options in commercial or industrial policy.

Problems connected with commercial policy

15. The accession negotiations should not delay the endeavour to press forward the Community's implementation of a common commercial policy by independent action and under agreements negotiated with non-member countries.

The general approach now being worked out in this connection does not seem to raise any major problems for the new members.¹

¹ See *Legal and Constitutional Implications of United Kingdom Membership of the European Communities* (Cmnd. 3301), paras. 38 to 40.

2. Industrial development

16. With the transitional period drawing to a close, the removal of customs duties and the establishment of the common customs tariff have enabled certain of the conditions for creating a single market to be met. Experience shows, however, that in some sectors these measures are far from sufficient to bring about a real development of intra-Community trade and the effective use of the economies of scale offered by a large market. Moreover, the relatively meagre growth of interpenetration at company level is a further brake on full exploitation of the opportunities offered by the Community market.

The strengthening of the Community in the field of industrial development postulates both an effort to promote the multinational regrouping of enterprises and at the same time an effort to confront and concert national objectives to ensure that the influences exerted by the public authorities or agencies in the various member countries converge and supplement one another effectively. Without such efforts it is unlikely that the advantages expected from the creation of the single market will be obtained.

17. These considerations, which help to define the features of an economic union conducive to industrial development, have not as yet been incorporated in actual Community decisions. General policy lines have nevertheless been laid down by the Council, in particular in the second Medium-term Economic Policy Programme, and for technology in the Decision of October 31, 1967; these policy lines serve as guidelines for work currently in hand in the Community.

The energy sector raises special problems

for the Community in view of its dependence on external sources of supply, the importance of this point in the traditional activities and the political sensitivity of this sector in most of the member countries. The Community is preparing to determine general policy lines in the sector.

Industrial policy

18. The complete removal of obstacles to trade is one of the prerequisites for the Community industries to be able to derive more profit from the advantages of a large market. The development of these industries can nevertheless be ensured only by the creation of a privileged legal, administrative and financial framework at European level.

Establishment of the single market in certain sectors

19. Experience gained during the transitional period has shown that the removal of customs duties and the establishment of the common customs tariff not only fell short of what is needed to establish a single market in certain industrial sectors but did not even lead to a real development of intra-Community trade in the industries concerned, which include advanced technology and certain other industries that produce capital goods for public or private enterprises which provide a public service and are therefore subject to State influence.

The continued division into national markets results not only from the influence of Governments on those who use the products of these industries, but also from the large part played by the State in

financing the design and manufacture of the products themselves.

The implementation of the Treaty provisions concerning public contracts cannot without a concerted policy for public orders ensure the effective opening of the market in sectors as important as nuclear power, aeronautics, space, computers, conventional heavy electrical equipment, communications equipment, railway equipment, etc.

A statute for companies

20. There will have to be a common legal framework for the statute of companies if industry is not to continue to suffer because the diversity of legal systems in the various countries still allows disparate conditions of competition and obstacles to the movement of production factors across frontiers. Company law should be adapted and if necessary supplemented to encourage cross-frontier mergers or the founding of companies that operate in all the Member States. Steps that could be taken in this direction include the introduction of a statute for the 'European' company, arrangements for the international mergers referred to in Article 220 of the EEC Treaty, and the harmonization of company law on the protection of interests of members of companies and third parties would constitute relevant action.

Although the British system of company law is in a number of ways different from the continental systems (capital does not serve as a guarantee in the same way, the structure of management is different, and so is the function of the Annual General Meeting), it appears that the protection of

interests of members and third parties (EEC Treaty Article 54(3g)) is not so different that it could cause serious difficulties when Britain joins the Community.

The present lines under consideration for the 'European company' provide for the establishment of a new law independent of municipal law. For this reason no difficulties are to be feared if further countries join the Community.

The obvious economic advantage of creating a 'European company' in the enlarged Community justifies the hope that British law will not constitute a further obstacle, since the Government of the United Kingdom has declared its readiness to modify its legislation to this end.¹

Patents

21. In the field of industrial and commercial protection, there will have to be a European law on patents, trade marks and designs. Britain and the other candidate countries are already taking part with the Member States of the Community and other European countries in drafting a Convention on a European system for the grant of patents.

The accession of the candidate countries will make it possible for them to participate in a second Convention on the subject, currently being drafted in the Community. Its aim is to determine uniformly, but for the purposes of the Community alone, the effects of protective entitlements granted under the Convention on a European system for the grant of patents.

¹ See *Legal and Constitutional Implications of United Kingdom Membership of the European Communities* (Cmd. 3301), para. 36: 'Considerable amendment of our national law might eventually be involved ...'.

The structure of industry

22. The Commission has already submitted the first proposals for the elimination of certain obstacles hampering co-operation and concentration of enterprises with their registered offices in the Community. These proposals will have to be supplemented to remove the obstacles of all kinds which hamper the founding of Community multinational companies. With regard to structural adjustments, national policies must be co-ordinated if there is to be at least some degree of coherence among them. Britain for its part has for two years been making a significant effort to improve the structure of its industries and has for this purpose set up the Industrial Reorganization Corporation (IRC). The specific aim of this organization is to help British industry improve its structure. One of its tasks is to accelerate the process of concentration and so to improve the productivity and competitiveness of British industry. Since it was set up, this organization has already a certain number of successes to its credit. The Community will have to make sure that Britain and the other candidate countries are ready to take part in elaborating a Community policy in this sphere.

Investments by non-member countries

23. A significant proportion of American investment finds its way to Britain because of the traditional relations existing between Britain and the United States. Accession is likely to strengthen this trend, making it even more necessary to co-ordinate closely the policies of all the States in the enlarged Community on foreign investment.

The special problems of steel

The problems raised by the accession of the candidate countries mainly concern Britain, whose production in the steel industry is slightly under a third of Community production.

SPECIAL ADAPTATION PROBLEMS

24. In the case of steel, acceptance of the price rules (Article 60 and implementing provisions) will mean a change in the British systems. The procedures for these changes should be settled during the negotiations.

25. In transport, the ECSC Treaty rules serve mainly to ensure non-discrimination, a sufficient knowledge of transport rates for the application of the provisions in Article 60 (price-lists, calculation of prices, alignment), the establishment of international through rates and the harmonization of transport conditions.

In this case, too, the specific procedures by which Britain will implement these rules will have to be defined, particularly in view of the present organization of transport in Britain.

In addition, the existence of a sea passage for all transactions between Britain and the present Community adds a further dimension to the current difficulties of applying the rules governing the transport and the prices of products.

Particular attention should therefore be paid to knowledge of maritime freight rates and also to their publication, a point which raises serious technical difficulties.

THE FUNCTIONING OF THE
COMMON MARKET IN AN
ENLARGED COMMUNITY

26. Apart from questions of scale, the effects which integration of the British steel industry will have on the functioning of the Common Market present the following features:

In steel, the implementing provisions of the 1967 Iron and Steel Act will gradually centralize the entire responsibility for steel in the British Steel Corporation (BSC) which will moreover be acting under the Ministry of Power. Only a small fraction of steel production remains in private hands.

The system of ownership in the industry will not be affected (ECSC Treaty Article 83). However, the economic importance of the steel industry in the United Kingdom and the differences between the internal structure of the steel companies and that of companies in the corresponding industry in the ECSC might well raise problems of balance in the matter of competition.

27. Independently of the specific problems which may be raised by the size, internal structure and functioning of Britain's nationalized enterprises, it should be remembered that Articles 66 and 67 of the Treaty of Paris contain provisions which could prevent the dominant position of a public or private enterprise in the Common Market from being used for purposes contrary to the objectives of the Treaty.

28. To sum up, it appears that the problems to be solved in steel are mainly a matter of elaborating measures under which a few very large undertakings could be

integrated into the common market in an orderly fashion.

Research and technology policy

Recent trend

29. The trend in science and technology since September 1967 shows three main changes, two of which are satisfactory whereas the third is a source of concern.

First, the Community institutions have had occasion to clarify their attitude on certain desirable lines of technological development in Europe and have already taken several decisions. Thus, in the Resolution of October 31, 1967, the Council, the Representatives of the Member States and the Commission expressed their resolve to launch a vigorous policy to revitalize and promote scientific and technological research and industrial innovation. They likewise decided to carry on with various activities calculated to improve and harmonize the general conditions that foster research and innovation and to explore the scope for co-operation in new areas. The work stemming from this decision is in progress and should enable the Council to take further decisions very soon.

Secondly, the Community countries have made very definite advances as regards stepping up their research efforts. In spite of the lack of recent statistical data, it really looks as though the gap between the United Kingdom and the Community countries, as shown by the 1963 figures, is tending to shrink appreciably.

30. Against this, the past two years have been particularly difficult for Community action and international co-operation. In

both the nuclear and the space fields, the Community countries have been incapable, either as a group of six or in a wider framework, of agreeing on programmes of any considerable size likely to lead in the medium term to industrial applications.

31. It must be added that the surveys and discussions of the last two or three years have aroused a far clearer awareness of the need for international co-operation.

Naturally this is by no means the panacea for all the problems involved; it would be foolish to suppose that the pooling of national resources and expenditure would automatically bring about a commensurate improvement in technological progress. The contributions by the various States in money and manpower would only be really meaningful to the extent that the Community countries succeeded in defining and carrying out a common technology policy. Yet it is only through such co-operation that Europe will be able to improve its competitive power versus the United States and Japan by strengthening the technological foundations of its enterprises.

32. The chief technological development problems are encountered at all levels; the State, the Community and, after other countries join, the enlarged Community. One need only recall the piecemeal efforts, the precariousness of commitments, the question of outlets, the inadequate links between firms and research projects, and so on. The entry of the United Kingdom would not alter the nature of the problems or of the obstacles to their solution. On the other hand, it would considerably alter the

Community's scope for action. The enlarged Community would by its very size afford a still better framework for the implementation of a Community research and development policy of international range and would make it easier to co-ordinate the attitudes of the countries represented in the various international agencies or organizations where the Six and the applicant countries are preponderant. It is therefore in the light of the greater chances of co-ordinated action in an enlarged Community that the quantitative contribution in human and material resources which the United Kingdom can bring to the Community's overall potential should be appraised.

33. The proposals prepared by the Working Group on Scientific and Technical Research Policy concerning certain specific fields, which are now under discussion at the Council, are a first step on the road to new co-operative projects. An agreement on these proposals would be of major importance from both the political angle (by manifesting the Governments' intention to work together) and the technical angle (by opening up the way for new experiments in methods of organizing such co-operation). An agreement of this kind should be sought as quickly as possible, particularly as it is likely to concern non-member countries, and should not be delayed by the procedures involved in negotiations on admission to membership.

New prospects in an enlarged Community

34. The development of effective co-operation in the Community presupposes:

i That the duplication of programmes and projects will be gradually cut back by systematic confrontation of the various countries' programmes and budgets; next, that the scientific programmes will be dovetailed and the technological tasks shared out; the dovetailing process must cover activities carried out both in the member countries and in international agencies;

ii That scientific and industrial projects will be launched simultaneously in sufficient number to achieve an optimum Community ratio between the contributions and interests of the various countries taking part;

iii That firms or groups of firms will be associated in the preparation, implementation and further development of the various countries' and the Community's technological programmes;

iv That the conditions under which, in different countries, the State collaborates with industry in research and technology (State-aided contract machinery, association of State and industry, etc) will be harmonized;

v That bilateral scientific and technological agreements concluded between States will be compatible with the Community's interests;

vi That scientific and technical personnel will be trained or retrained to give them greater mobility within the Community.

The accession of the applicant countries, and more especially of the United Kingdom,

will give a new perspective to the problems of science and technology which have to be studied in the light of work planned or under way in the Community.

35. The first aim of the negotiations with the applicant countries should therefore be to obtain agreement, with due regard to what has already been achieved in the Community, on the implementing of a common policy for technological research and development, with as its main plank the pooling of resources in brainpower and money within the context of determining objectives and programmes decided upon jointly.

Specific nuclear research problems

UNITED KINGDOM

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

Its basic heavy equipment, an isotope separation plant, 31 research reactors, 29 power reactors with an installed capacity of 5,353 MWe at the end of 1969 (as against 21 power reactors with an installed capacity of 3,191 MWe in the Community) and its reprocessing plants, give the UK a power which is still as great as that of the entire Community. The important work in progress on breeder reactors deserves special mention.

Furthermore, the United Kingdom has at its disposal a real surplus of scientists and engineers who have specialized in nuclear work, particularly since the staff cuts carried out in the United Kingdom Atomic Energy Authority (31,653 employees in

1968 as against 40,000 in 1961). For a long time, however, British scientists and engineers had been playing a leading part in the nuclear development of a number of other countries.

The UKAEA has considered it advisable to adopt a plan for the gradual and partial redirection of its atomic personnel towards non-nuclear research; it also has to face another problem, that of the relatively high average age of its scientific and technical personnel.

37. Now that the Community is reviewing its nuclear policy, certain questions arise concerning possible participation by the United Kingdom.

In the first place, it should be pointed out that the Euratom Treaty contains no clause binding any member country to make available to the others the knowledge it possesses at the time of its joining the Community; only knowledge acquired subsequently has to be pooled. The United Kingdom could therefore in theory sign the Treaty as it stands and give no information whatsoever to its new partners. However, an issue arises which was already broached in the earlier negotiations: on joining the EAEC the United Kingdom would have access not only to the Community's installations and knowhow, but to those of the individual member countries, made available to the Community through contracts of participation and association (the national share in which is more than 60%). It would thus be no more than fair if the United Kingdom were to make some contribution; the nature, as well as the manner in which it should be made, would have to be negotiated.

United Kingdom participation in the Community's future research and development programme (due to take effect as from January 1, 1970), obviously depends on the general nature of that programme.

It must be borne in mind that the Community has decided to continue participating until at least March 31, 1973, in the Dragon project, an international project based in England which is an example of successful technical co-operation between the Community, the United Kingdom and the other member countries of the European Nuclear Energy Agency.

OTHER COUNTRIES

38. Norway has a limited nuclear potential, comprising four research reactors, and notably the Halden reactor, in the operation of which certain Community countries participate. Norway is likewise linked to the IAEA by various agreements and the bilateral Norway-United States agreement has been transferred to the IAEA for the implementation of safeguards and controls.

39. Denmark has a highly-reputed institute of theoretical physics and a nuclear centre at Risø equipped with three research reactors. The bilateral Denmark-UK agreement and the Denmark-USA agreement have likewise been transferred to the IAEA for the implementation of safeguards and controls.

40. Ireland has no atomic plant.

41. The conclusion prompted by this brief review of the problems arising in this sector from enlargement of the Community is

that the admission of the United Kingdom would:

- i Strengthen the enlarged Community's scientific nuclear potential;
- ii Alter the conditions of both the internal and the external nuclear market, because of the essentially private nature of the British industry;
- iii Strengthen the Community's competitive position on the world market through association of British firms with continental firms;
- iv Be an important factor in the development of general, other than nuclear, research.

It is clear that for an enlarged Community, the United Kingdom's experience in the field of isotope separation, by the gaseous diffusion and the centrifuging processes, would constitute not only a technical and economic but also a political advantage.

Energy policy

42. As regards energy, the United Kingdom and the Community are in a fairly similar situation in many respects. Furthermore, one of the essential features of that situation, namely the pronounced and growing dependence on external supply sources, is shared with the other applicant countries.

The similarity of the current situations and of the lines along which they are developing gives rise to policies that are

relatively comparable in their principles and their general pattern. In particular, it will be observed that the guidelines for the British energy policy are fundamentally no different from those proposed by the Commission.

If adjustments are made on individual points, the negotiations concerning entry should not run into insuperable obstacles in the energy field.

43. In preparing its *First Guidelines for a Community Energy Policy*, submitted to the Council on December 18, 1968, the Commission took as its basis the work accomplished by the three former Executives.

The results of that work were the Protocol of Agreement on energy problems concluded by the Governments of the Member States on April 21, 1964, and the Council's decision of July 10, 1967, taking note of the tabling of the Commission's first memorandum on the Community's policy concerning oil and natural gas.

The United Kingdom Government, for its part, last defined its energy policy in the *Fuel Policy* White Paper of November 1967.

Summary comparison of the energy economies

44. The energy supply and demand situation in the Community and in the United Kingdom calls for a few very general comments.

The United Kingdom's overall energy requirements are constantly rising, but more slowly than the Community's—1.5% a year as against 4.7% during the last ten years. But the British consumption figure is still distinctly higher than the Com-

munity average, the gap being about 50% at the present time.

In the Community, domestic production covers 39% of requirements as against 53% in the United Kingdom. On both sides the balance is made up almost entirely of imported oil. Unlike the United Kingdom, however, the Community imports more in the form of petroleum and considerably less in the form of refined products, as well as exporting more of them.

Most of the United Kingdom's domestic production consists of coal (90%). Natural gas still occupies only a minimal position, but its use is expanding more rapidly than in the Community. Nuclear energy, for its part, already accounts for an appreciable fraction of domestic production (6.5%).

The Community, on the other hand, has a wide variety of domestic resources, coal accounting for only 55% of the total. Lignite, oil, hydroelectric energy, negligible in the UK, and natural gas make up the remainder, nuclear energy still playing only a very modest part.

Both sides, however, place a great deal of confidence in this new energy form as a means of offsetting the shortfall in native fossil fuel resources.

45. It must be noted that, of the other countries seeking admission, Norway has abundant water power resources which cover nearly two thirds of its total energy consumption. Ireland and Denmark, on the other hand, lack resources of their own.

The energy policy's general objectives and framework of action

46. The objectives proposed for a common

energy policy in the light of that sector's specific features are set out in the 1964 Protocol. They include the equalizing of the conditions of competition between the different energy sources and in relation to enterprises outside the Community, and the protection of consumers' interests.

47. The framework of action outlined in the *First Guidelines for a Community Energy Policy* is designed to create the requisite conditions for medium-term estimates and planning, longer-term forecasts and, when necessary, intervention measures in the event of supply difficulties. These various categories of measures do not represent new departures, as some of them have already been in operation in certain sectors for a number of years. Their general application should not cause difficulties in the negotiations on admission, especially if it is remembered that, by reason of the fact that its energy industries are under public ownership, the United Kingdom has facilities that do not exist in all the Community countries.

In regard to the measures aimed at ensuring security of supply, their Community-wide character was confirmed by the setting up of the *ad hoc* Committee on Security of Supply, established by the ECSC Council's decision of May 3, 1966. Hence the countries seeking admission would have to concur in this scheme.

Establishing the common energy market

48. The setting up of a common market in the energy sector implies the implementation of measures already laid down by the

Treaties with regard to the free movement of goods and freedom of establishment.

As regards the rules of competition more particularly, this will mean ensuring access, without discrimination, to the supply sources, determining a specific notification procedure for firms' merger projects in the oil, natural gas and nuclear fuel sectors, and taking measures whereby *a posteriori* information will be provided on prices actually obtaining on the market for the various forms of energy. The adoption of the measures referred to above would entail deviation from the provisions of the Treaties. It will likewise be necessary to discuss with the Member States the expediency of harmonizing their arrangements concerning price policy and of ensuring a high degree of transparency in the energy market conditions.

49. For coal, Article 60(2) of the ECSC Treaty and the decisions stemming therefrom contain provisions concerning the publication of price lists and conditions of sale. Acceptance of the ECSC Treaty provisions in this field will necessitate changes in the British system, which in part uses delivered prices, and in certain cases area prices, but has no generally published prices. The same applies to carriage rates.

50. As to indirect taxation, the aim should be to attain harmonized application of the tax on value added, harmonization of the specific energy-consumption taxes, and harmonization of the specific taxes on petroleum products.

51. A common energy policy should comprise:

i A Community-level supply programme, more especially for hydrocarbons and nuclear fuel;

ii Supervision and guidance of capital investments in the energy sector;

iii Reorganization of the energy industries.

52. As regards the commercial policy on energy, hydrocarbons and nuclear fuel, the United Kingdom's entry might occasion certain difficulties, particularly in the hydrocarbons sector, because that country is linked, by special agreements, with certain crude oil producing or mainly refining countries.

In the case of coal, the proposed co-ordination of the national import programmes might present some difficulties for the applicant countries, notably the United Kingdom, which reserves its own market for home produced coal.

53. The provisions concerning the notification of investment projects in the coal and nuclear industries should be extended to the other forms of energy. The extension of this procedure should not give rise to any particular difficulties, bearing in mind the structure of the energy industries in the United Kingdom.

54. The operation of aid systems for coal was already provided for by the 1964 Protocol and was implemented by Decisions Nos. 3/65 and 1/67. At first sight, and subject to adjustments on particular points, it does not appear that in this field there should be any great difficulty in arriving at a common standpoint with the United

Kingdom, whose concerns are on the whole much the same as those of the Community.

As to hydrocarbons, the remedy for the disparity in conditions of competition between the Community enterprises and the big international companies would be to apply fiscal measures and to stimulate the search for and exploitation of crude petroleum by Community firms.

Generally speaking, British oil companies are already, by comparison with oil companies in other non-member countries, in a less favourable position than the Community's enterprises, especially as regards the fiscal handicap.

Regarding nuclear fuels, the basic requirement of an energy policy consists in possessing or at least having reasonably guaranteed access to resources. In this respect, the United Kingdom has:

- i Financial interests in natural uranium production in Canada, South Africa and Australia;
- ii A gaseous diffusion plant for enriching uranium, at Capenhurst, which is being enlarged at the present time and will probably further increase its capacity by use of the centrifuging system.

Assuming negotiations start in the near future, the Community countries' access to these resources could be arranged at the time of revising Chapter VI of the Euratom Treaty.¹ As far as isotope separation is concerned, the question of other Community countries' participation in the Anglo-German-Dutch project must be studied from the angle of the industrial problems it raises.

Safeguards and controls

55. In the nuclear field, it should be pointed out that the interpretation of the EAEC Treaty provisions on the Euratom safeguards and controls, as applicable to British military installations, came under discussion during the 1962 negotiations. There is an arrangement between the Community and the French Government on this point which might constitute a useful precedent.

Acceptance by the British Government of IAEA inspection of certain British installations or imports raises problems similar to those raised by the negotiations on the Non-proliferation Treaty. These problems do not appear to be insuperable.

¹ Provided for in Article 76 of the Euratom Treaty.

3. Agricultural policy

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

56. Compared with the natural and structural production potential of agriculture in the present Member States, that of the four applicant countries is relatively small.

Agricultural area would be about 30% greater in a ten-member Community than in the Six. Since the average farm holding in Britain and Denmark is larger than in the Six, the number of holdings (with one hectare or more of agricultural area) would increase only by some 20%. The increase in numbers employed in agriculture would be even less (16%).

Farms, more especially in Denmark but in the United Kingdom and Ireland too, are run on relatively rational lines and noted for high productivity. This comes out also in the figures for the value of production and value added by agriculture in these countries: whereas the value of production in the 'Four' is 23% of that of the Six, the value added per person employed in agriculture in the Four (3,000 ua) is more than 900 ua higher than in the Six (2,075 ua).

Consequently, agriculture's contribution to the aggregate national product of the Four (nearly 4.6%) is relatively high when compared with the proportion of farm labour in the total labour force (5.9%), while in the Six its contribution (7.7%) is much lower when compared with the percentage of the labour force employed (15%).

57. As for the supply of farm products, the situation of the Six will not be appreciably altered by the accession of the Four, if one

may judge from the supply situation in 1967-68.¹

Whereas self-sufficiency in the Six averages nearly 90%, the figure for the Ten would be around 85%. This slight difference arises from the fact that in the Four there are two small countries with agricultural surpluses (Denmark and Ireland) and one large importing country (United Kingdom).

58. The biggest changes in self-sufficiency in individual products (on the basis of 1967-68 figures) would be as follows:

Decreases	Six	Ten
Wheat	112.5%	97.6%
Rice	100.8	85.9
Sugar	104.6	83.0
Fruit	89.9	91.6
Vegetables	102.5	98.9
Mutton, lamb, meat of goats and kids	84.2	58.9
Butter	111.1 ²	91.8 ²
Cheese	102.7 ²	99.9 ²
Oils and fats	41.8	40.1
Increases		
Feed grain	78.6	79.6
Beef and veal	88.8	97.6
Poultrymeat	97.8	100.0
Pigmeat	100.0	103.9

¹ See table annexed to this chapter (p. 50)

² Provisional figures.

It is mainly in cereal-based livestock products, then, that self-sufficiency in the Ten would be higher.

The first figures available for 1968–69 indicate that for the Six and the Four alike self-sufficiency in most products is likely to increase further and along more or less the same lines.

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

59. In the matter of prices and price ratios at producer level, the prices ruling in the United Kingdom, Ireland and Denmark are fairly low compared with the single prices applied in the Six – leaving aside the basically different support system for British farming. Norway, on the other hand, has relatively high producer prices.

Producer price ratios in the Four are also different from those found in the Six.

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

i Those rules (especially those relating to market organization, price policy and financing) which are largely determined by the supply situation will not come up against a fundamentally changed situation once the Community has been enlarged, even if some adjustment might be advisable for a few products.

ii Adoption of the common agricultural policy and the price ratios now fixed for the

Six could lead to changes in the pattern of production in the new member countries because of their different price ratios. Assessment of the possible consequences of any such changes could be profitably attempted only in co-operation with the countries concerned.

Special problems of candidate countries

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

United Kingdom

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

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

Moreover, the United Kingdom has guaranteed prices for some products for which no guarantees are given under the common agricultural policy (eggs, mutton and lamb, potatoes, wool).

63. The application of the EEC price level and price system for farm products (involving abandonment of the deficiency pay-

ments system, the application of levies to products imported from non-member countries and payment for goods imported from the EEC at the internal market price) is bound to mean higher consumer prices for a number of important foods. There is unlikely to be any serious price change for other foods, notably drinking milk, fruit, vegetables and mutton and lamb, and there may even be a drop in price for some others (eggs and potatoes).

Various inquiries into this question show that, generally speaking, the increase in the cost of living can be put at about 3.5%.

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

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

i In the United Kingdom consultation with the farming organizations is official; in the Community contacts are purely informal. The Community procedure, on the other hand, includes reference to the European Parliament of price proposals submitted by the Commission to the Council;

ii In the United Kingdom the object of the exercise is to determine guaranteed producer prices, generally ensured by means of deficiency payments, so that market

prices are not affected, while the Community fixes target prices for the market, directly affecting the economy in general. For this reason, any official consultation of interested sections of the community could not be restricted to farming organizations.

65. With regard to relations between the United Kingdom and Commonwealth countries in the agricultural sector, two problems seem to warrant special attention; the Commonwealth Sugar Agreement and, more important, New Zealand butter.

66. The United Kingdom is bound by its obligations under the Commonwealth Sugar Agreement to buy a specified amount of sugar at a negotiated price. The current commitment is for approximately 1.8 million tons and the price is nearly 119 ua per ton of raw sugar, almost 50% above the current world price. In addition to this quantity at a negotiated price, the British market absorbs a further 0.4 million tons of Commonwealth sugar at the world price. This sugar enters the United Kingdom at a preferential rate of duty.

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

A point to be mentioned here is that there is already a sugar surplus in the Six. In an attempt to keep this surplus below 600,000 tons in a year with a normal harvest (this includes the French overseas departments), the Commission has put forward various proposals, one of which was to readjust the basic quotas. The main object of the

measures proposed is to link the sum of the basic quotas to total foreseeable human consumption of white sugar in the Community by means of an annual review (until 1974) of the right to utilize the existing basic quotas.

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

67. The British market is virtually the only outlet for butter from New Zealand, approximately 85% of whose butter exports go to the United Kingdom. The trade agreement now in force expires on September 30, 1972, and stipulates that the minimum tonnage of New Zealand butter to be imported under quota arrangements is 170,000 tons. This tonnage covers more than one third of the United Kingdom's total requirements, which amount to approximately 470,000 tons. Because butter production increased to an estimated 65,000 tons in 1969-70 - the normal average had been 30,000 tons - total United Kingdom imports have been cut from 440,000 to 400,000 tons. Three Community countries (France, Belgium and the Netherlands) have quotas totalling 11,800 tons. Norway, Ireland and Denmark have been authorized to supply 120,000 tons and quotas for other countries total about 95,000 tons (Australia accounting for 65,100 tons).

The present Community has structural surpluses now running at 400,000 tons, and there is a tendency for them to increase.

The butter problem is complicated by the fact that the extension of the common agricultural policy to the United Kingdom will mean higher prices for the British consumer and possibly an increase in home production of butter.

Ireland

68. Agriculture holds a very special place in the Irish economy. It employs almost 30% of the labour force and accounts for 20% of the GNP.

Agricultural exports represent approximately 50% of total exports. The United Kingdom is the largest single importer of Irish farm products, but considerable quantities are also exported to the Community and to the United States.

As far as agricultural structures are concerned, approximately 50% of farms in the country as a whole are of 12 ha and over. In the north and west, however, the percentage is not so high and here structural adaptation problems are complicated by limited non-agricultural resources.

69. For most products the alignment of Irish producer prices on Community prices would result in increases of varying extent in both producer and consumer prices. A slight drop, however, can be expected in sugar beet, potato and egg prices.

Denmark

70. Denmark has one of the most advanced and productive agricultural economies in the world.

Agriculture gives employment to approximately 9% of the labour force and accounts for somewhat less than 10% of the GNP. Almost two thirds of Danish farm production is exported.

71. Generally speaking, Danish farm prices are considerably lower than those applied within the EEC (1967-68). The alignment of Danish prices on EEC prices would bring considerable additional earnings to Danish agriculture, even allowing for an increase in feed-grain prices and the suppression of certain subsidies.

The application of the common agricultural policy would also lead to an increase in consumer prices.

Norway

72. In Norway the fishing industry and forestry are of importance as well as farming (contribution to GNP: farming 4%, forestry 1.6%, fisheries 1.9%). Norwegian agriculture is carried on under particularly unfavourable natural and structural conditions (the area of the average farm is 5 ha); it could not survive in the northern part of the country without substantial support from the State. In its efforts to maintain a minimum of population in these areas, Norway has not as yet been able to dispense with aid of this kind. Livestock products are the major item in agricultural production (two thirds of total income, 40% of which is accounted for by milk products).

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

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

Financial problems

75. As far as the Guarantee Section of the EAGGF is concerned, the enlargement of the Community will lead to increased expenditure on refunds on exports to non-member countries, intervention on the internal market, and direct aid to agricultural production in the new member countries. Expenditure will increase despite savings on refunds now payable on exports from the Six to the future member countries and on intervention expenditure now necessary on the internal market of the Six for products which will find a partial outlet on the markets of the future member countries.

For the Guidance Section of the EAGGF too, enlargement will mean higher expenditure because of the increase in activity.

Subject to all the reservations required in such calculations, a preliminary estimate of the order of magnitude of the sums which the EAGGF will have to administer in 1973 gives the following figures (page 49).

In this study 1973 is taken as the year when, hypothetically, definitive arrangements for Community financing of all farm products for which single markets now exist would be in operation not only for the Six but also for the Ten. Estimates are based on hypothetical quantities and hypothetical levels of expenditure.

For most products, quantities have been calculated on the basis of production and trade trends over the last ten years, projected to 1973. For the principal products allowance is also made for the most important changes likely to occur in the pattern of production, food consumption and trade as a result of the extension of the present common agricultural policy to the applicant countries.

Forecasts for the level of expenditure have been based on the Commission's price proposals for 1970-71 and current world prices.

76. Given the assumption that definitive

arrangements for Community financing of farm expenditure will have been introduced by 1973, it should be noted that the Commission's proposals on this matter are that, from January 1, 1971,

i receipts from agricultural levies and charges will be included in the Community's budget;

ii financial contributions from the Member States will be gradually replaced by the Community's own revenue.

The problem of financing EAGGF expenditure should be seen, then, in the general context of the Community budget.

Estimated European Agricultural Fund expenditure for 1973

(\$ million)	Six		Ten		Difference between Six and Ten	
	I	II	I	II	I	II
Guarantee Section	3,000	2,100	3,400	2,500	+400	+400
Guidance Section	285	1,500	350	1,700	+65	+200
Total	3,285	3,600	3,750	4,200	+465	+600

I Without implementation of the structures memorandum.

II With implementation of the structures memorandum.

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

	Six				
	Average 1962-64	1964-65	1965-66	1966-67	1967-68
Wheat	99.5	105.7	110.0	96.0	112.5
Feed grain	77.1	74.6	70.9	72.0	78.6
Total cereals (excl. rice)	86.3	87.2	86.4	81.2	91.1
Rice (husked)	79.0	79.0	59.9	79.8	100.8
White sugar	98.7	119.7	104.1	98.7	104.6
Vegetables	102.4	102.0	101.6	103.0	102.5
Fruit (excl. citrus)	91.3	90.8	87.8	89.4	89.9
Citrus	43.9	47.6	46.5	50.6	NA
Beef and veal	90.3	86.4	84.4	86.8	88.8
Pigmeat ¹	99.2	100.6	97.8	97.7	100.0
Poultrymeat	91.4	94.0	95.0	97.6	97.8
Mutton, lamb, meat of goats and kids	92.3	88.9	86.5	83.8	84.2
Eggs	94.4	95.5	NA	96.8	97.1
Cheese	98.0	98.4	98.5	101.2	102.7 ²
Butter	99.5	102.0	101.7	108.8	111.1 ²
Oils and fats	38.5	37.2	36.8	36.3	41.8

	Ten				
	Average 1962-64	1964-65	1965-66	1966-67	1967-68
Wheat	86.7	91.3	93.7	83.7	97.6
Feed grain	76.1	75.3	75.3	74.8	79.6
Total cereals (excl. rice)	80.2	81.3	80.9	78.0	85.8
Rice (husked)	68.1	68.3	51.6	68.6	85.9
White sugar	75.5	92.5	80.2	78.1	83.0
Vegetables	98.6	98.7	98.0	99.0	98.9
Fruit (excl. citrus)	83.6	82.8	79.8	81.2	81.6
Citrus	37.1	41.0	39.8	43.5	NA
Beef and veal	94.4	91.6	90.2	94.2	97.6
Pigmeat ¹	102.3	104.8	103.0	102.6	103.9
Poultrymeat	97.3	98.1	98.5	99.8	100.0
Mutton, lamb, meat of goats and kids	61.5	60.5	60.1	61.5	58.9
Eggs	97.5	98.0	NA	98.5	98.5
Cheese	95.8	96.5	96.4	99.3	99.9 ²
Butter	82.8	84.7	84.4	87.4	91.8 ²
Oils and fats	34.6	33.6	32.9	35.5	40.1

¹ Including bacon.

² Provisional figures.

NA = Not available.

Sources: For the Six: SOEC. For the Ten: OECD.

4. Other problems relating to economic union

77. The enlargement of the Community raises other problems arising either from the risk that competition may be distorted by the special situation of the new members or from the need to ensure that the new economic area of the Community is endowed with a satisfactory organization.

How important the achievement of economic union is for the development of the Community at the present juncture can be appreciated from the following examples:

Liberalization of capital movements

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

Under the two directives adopted by the Council pursuant to Article 67 of the Treaty, the normal arrangement within the Community is complete freedom from exchange controls for various types of capital movement, particularly those connected with direct investments, transactions in securities listed on stock exchanges, export credits and 'personal' transfers.

Since the war the United Kingdom has consistently maintained restrictions on capital movements to and from countries outside the sterling area. In October 1964 these restrictions were tightened up. The British authorities have also introduced new arrangements restricting freedom of capital movements within the sterling area.

To meet commitments arising from the Treaty and from directives adopted by the Council, the new members will have to

amend their current rules and regulations. In the case of the United Kingdom, this question should be tackled as part of a general study of the country's economic, financial and monetary situation.

Harmonization of taxes

79. The establishment of a common market comparable with a domestic market calls for considerable tax harmonization. The new members would have to accept not only the directives already adopted concerning turnover taxes but also current commitments to adopt further directives in this field. It would be advisable to ascertain during the negotiations whether the new members are prepared to join the present members in their efforts to achieve harmonization in other areas of taxation such as excise duties and the tax arrangements applying to capital movements, mergers and corporate profits, with an eye to elimination of tax frontiers and frontier controls inside the Community.

Restrictive agreements and dominant positions

80. The entry of the United Kingdom and other applicant countries can be expected to strengthen competition. The enlargement of the Community, then, ought to diminish the importance and effectiveness of restrictive agreements and dominant positions. Enlargement could offer the advantage of making it possible to increase the scale of firms while maintaining workable competition.

Since the new members would have no difficulty in accepting the objectives or

implementing procedures of Community policy in this field, the only problems which seem to arise are transitional (eg the time-limit for notification of agreements).

Technical obstacles to trade: industrial standards

81. Owing to the divergences between British standards or those of certain other applicants, and the standards now applied in the Member States, one of the effects of enlargement would be an appreciable increase in the significance of technical obstacles to intra-Community trade. It may well be, however, that a bigger market would constitute an incentive to overcome the difficulties encountered so far, given the interest that the United Kingdom has shown in this field.

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

Regional policy

82. The accession of the United Kingdom, Ireland, Denmark and Norway to the Community should not, it seems, call for any changes in the European Community's regional objectives.

Regional policies and regional problems in the prospective member countries are not basically different from those in the present Community countries.

The applicants' regional policies are like those of the Member States in having the same objective, more balanced distribution of development and similar incentives to guide the siting of new industry.

Norway's regional problem is the income

gap between the more developed regions and the outlying regions, particularly in the north, where special assistance has been granted to agriculture.

In the United Kingdom industry is concentrating heavily in certain regions, particularly in the south around London, while other regions are inadequately developed or are suffering from the decline of their traditional industries. The United Kingdom, moreover, has long experience of regional policy.

Ireland has embarked upon a policy of industrialization. The aim is to stimulate the economic development of the whole country rather than redress the differences in economic development between the various regions. Gross national product per head is approximately the same in Ireland as in Italy, but the differences between regions are less wide.

In the six-member Community it has been found that economic union with its common policies and even the common market with its threefold freedom of movement for workers, goods and capital could not be established and would not confer the expected benefits unless regional economic structures were resolutely harmonized. This should provide an additional incentive, once the process of enlarging the Community begins, to pay particular attention to the need for very active promotion and co-ordination of regional policies at Community level.

Financing of social security

83. Approximately half the United Kingdom's social security expenditure is paid for by the Exchequer and half by flat-rate

contributions from employers and employees. In the Six, at least three quarters of the money required is financed out of wage-related contributions from workers and employers, the balance coming from public funds. The British system may favour British firms, especially in industries where wages represent a large share of value added, unless this advantage is outweighed by the heavier burden of taxation.

This conclusion is, however, based on mere theory. Although the conditions are in fact such that specific distortions can occur, it still remains to be seen, industry by industry, whether the distortions are serious enough to require elimination (Article 101 of the EEC Treaty).

The same problem will have to be studied in respect of the Scandinavian countries also.

Nordic labour market

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

Commonwealth Immigration Act

85. The Commonwealth Immigration Act regulates access to employment and establishment in the United Kingdom for citizens of Commonwealth countries. It is

based on the principle of United Kingdom law whereby citizens both of the United Kingdom and Colonies and of Commonwealth countries rank as 'British subjects'; one application of this principle is that Commonwealth citizens can acquire United Kingdom citizenship after five years' residence.

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

Transport

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

ECSC levy

87. The ECSC has resources deriving directly or indirectly from the levy, part of

which is available for such operations as the enlarged Community might undertake.

The countries which have asked to join the Community should therefore contribute proportionately to these resources since they would benefit from any such operations by the same token as the Six benefit from them at the moment.

The biggest resources are the guarantee funds (100 million units of account) and the special reserve (about 88 million units of account). It is from these moneys that credits are granted under Articles 54 and 56 of the ECSC Treaty and that workers' housing and the interest-rate rebates for conversion credits are financed.

B. An enlarged Community and non-member countries

5. Developing and industrialized countries

88. Enlargement of the Community by the accession of four countries including the United Kingdom would have important repercussions on relations with non-member countries. The enlarged Community would be by far the biggest importer in the world, and its responsibilities, both inside and outside Europe, would be substantially increased. Moreover, its greater weight would be likely to expand considerably its ability to take action at international level.

The most immediate problems concern relations with those member countries of EFTA which cannot or do not wish to join the Community and also relations with the Commonwealth countries, given the special links between them and the United King-

dom and the existence of an association with African countries and Madagascar. The problem of the Commonwealth cannot be isolated from those raised by relations with the other industrialized or less developed non-member countries.

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

General effects of enlargement on relations with non-member countries

89. Accession of the four countries seeking membership could turn the Community, whose volume of external trade already exceeds that of the United States, into the foremost commercial power in the world, accounting for 25·6% of all international trade, as against 17·2% for the Six. Consequently the Community would play

a vital part in the evolution of international trade.

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

Share of the Community in the external trade of a selection of non-member countries or areas in 1966 and 1967

Countries or areas	Imports				Exports			
	1966		1967		1966		1967	
	in \$m	in %	in \$m	in %	in \$m	in %	in \$m	in %
1 United States								
Total	25,550		28,745		29,899		31,147	
Present Community	4,125	16·9	5,387	18·7	5,264	17·6	5,859	18·8
Enlarged Community	6,342	24·8	7,588	26·4	7,318	24·5	8,607	27·6
2 Canada								
Total	9,127		10,966		9,551		10,555	
Present Community	509	5·6	545	4·9	597	6·3	640	6·1
Enlarged Community	1,164	12·7	1,177	10·8	1,768	18·5	2,019	19·1
3 Japan								
Total	9,523		11,664		9,776		10,441	
Present Community	447	4·7	655	5·6	595	6·1	546	5·2
Enlarged Community	700	7·4	974	8·3	991	10·1	1,125	10·7
4 Australia								
Total	3,636		3,913		3,158		3,478	
Present Community	366	10·1	426	10·9	501	15·9	456	13·1
Enlarged Community	1,104	30·4	1,157	29·6	1,134	36·0	986	28·4

Share of the Community in the external trade of a selection of non-member countries or areas in 1966 and 1967

Countries or areas	Imports				Exports			
	1966		1967		1966		1967	
	in \$m	in %	in \$m	in %	in \$m	in %	in \$m	in %
5 New Zealand								
Total	1,095		955		1,076		993	
Present Community	63	5.8	66	6.9	180	16.7	117	11.8
Enlarged Community	424	38.7	347	36.3	714	66.4	639	64.5
6 South Africa								
Total	2,526		2,945		1,726		1,931	
Present Community	503	19.9	611	20.7	413	23.9	410	21.4
Enlarged Community	1,206	43.8	1,350	45.8	1,062	61.5	1,117	57.8
7 Eastern Europe								
Total	20,702		22,132		21,246		23,150	
Present Community	3,670	17.7	4,612	20.8	3,848	18.1	4,240	18.3
Enlarged Community	4,882	23.6	5,986	27.1	5,737	27.0	6,192	26.7
8 Developing countries								
Total	39,900		41,700		38,300		39,600	
Present Community	8,469	21.2	9,029	21.6	11,642	30.4	11,931	30.1
Enlarged Community	12,450	31.2	12,821	30.7	16,699	43.6	17,101	43.2
9 Latin America								
Total	9,740		10,290		11,040		11,030	
Present Community	2,137	21.9	2,296	22.3	2,902	26.3	2,902	26.3
Enlarged Community	2,997	30.3	3,162	30.7	4,227	38.3	4,285	38.8
10 Far East								
Total	13,590		14,720		9,760		10,090	
Present Community	1,555	11.4	1,567	10.6	1,252	12.8	1,145	11.3
Enlarged Community	2,716	20.0	2,661	18.1	2,338	24.0	2,238	22.2
11 Middle East								
Total	6,360		6,010		7,770		8,450	
Present Community	1,258	20.1	1,298	21.6	2,605	33.5	2,911	34.4
Enlarged Community	2,001	32.0	1,987	33.1	3,687	47.5	4,131	48.9

Note

The data concerning the areas or groups of countries from 4 (Australia) to 11 (Middle East) inclusive have been computed as 'derived figures' in respect of the Community share (both Six and Ten countries), i.e. Community imports = exports of these areas or groups of countries and vice versa.

Sources

OECD, Foreign Trade Statistics Bulletins, Series C, 1967; International Financial Statistics, Vol XXII, No 6, June 1969.

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

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

economic expansion.

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

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

Relations with developing countries

General

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

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

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

coffee, cocoa and palm oil, in the framework of the new Association Convention with the AASM (Associated African States and Madagascar).

If the Community accorded the developing countries tariff preferences for their exports of manufactured and semi-finished products, this would help avoid or offset most of the short-term inconveniences which enlargement of the Community would entail for certain countries inside or outside the Commonwealth. The autonomous preferential concessions which the Community would make would, of course, have to be reviewed or at least reassessed in quantitative terms when new countries join.

Effects of enlargement on relations with associated countries

(AASM and Commonwealth countries with comparable economic structure and comparable production)

94. The Community's association arrangements concern at the present time seventeen African States and Madagascar, all associated under the Yaoundé Convention, certain Commonwealth countries whose economic structure and production are comparable with those of the AASM, and several countries or territories outside Europe which are not independent.

A new member of the Community would

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

In 1962 it was envisaged that the non-independent Commonwealth overseas countries should be associated on the same terms as the non-independent associated overseas countries or territories. Correspondingly, those independent Commonwealth countries whose structure and production are comparable with those of the AASM¹ would qualify for association with the enlarged Community.

In this connection it should be remembered that alongside the trade clauses, financial and technical co-operation are a key element in the arrangements for the association of overseas States, countries and territories with the EEC. The aid given through the Community represents an appreciable part of the total official aid (multilateral and bilateral combined) which the Yaoundé countries receive from the Six. As an enlarged Community could not cease to give some measure of Community aid in addition to the bilateral aid provided by the Member States, new members would have to make their contribution. This aid would be available to all the associates, for manifestly it would not be possible, among countries of comparable structure and comparable production, that one group should benefit from technical and financial assistance while another did not.

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

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

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

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

96. It must be borne in mind that the association arrangements with the AASM and the three East African States which

¹ States in Africa south of the Sahara and in the Caribbean.

have just been renewed will expire at latest on January 31, 1975; eighteen months before the expiry of these Agreements, the Contracting Parties are to examine the arrangements that could be adopted for a further period.

Relations with the Maghreb countries

97. The need to establish homogeneous Community arrangements for all products traded with Tunisia, Morocco and Algeria would become greater should new countries, particularly the United Kingdom, join the Six.

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

Relations with other developing countries

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

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

Nevertheless, the grant of tariff pre-

ferences by the enlarged Community and other developed countries should prove to be an advantage for these countries and help them to accept the consequences of wider European integration.

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

Imports from Hong Kong pose a special problem.

100. In any case, the accession of new members should provide a new impetus and enable a broader development policy to be drawn up. In particular, this policy should be integrated in its technical, financial and commercial aspects, should be adjusted from the regional point of view and should help to facilitate the creation of economic groups.

101. In this connection, it would be desirable for the enlarged Community to study any possibilities of taking Community action for the benefit of the Latin American countries in accordance with the guidelines recently drawn up by the Commission.

Relations with other non-member countries

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

Canada, Australia, New Zealand

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

Exports from developed Commonwealth countries to the United Kingdom

(as % of exports to all countries)

	1938	1953	1960	1963	1967
Canada	37.2	16.2	17.3	13.8	10.3
Australia	54.7	37.9	26.9	17.4	12.7
New Zealand	83.4	67.1	53.0	48.4	44.8

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

In these circumstances, the removal of

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

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

The United States

104. Where the United States is concerned, an examination of commercial problems alone would not be enough. For the Community, whether it has six members or more, the United States will be a partner which, because of its size, will be of exceptional importance. The accession of several States, and of the United Kingdom in particular, would mean that the Community could hope, as a result of its increased dimensions, to have one day a potential comparable with that of the United States or, at least, that the gap between Europe and the United States would not grow wider. The Community would then have better chances of putting the relations between Europe and America on a footing of equality.

Japan

105. Assuming enlargement takes place, Japanese exports to the Community would, on the basis of the 1968 figures, rise from \$685 million to \$1,264 million (or from 5.3% to 9.7% of Japan's total exports); imports from the Community would go up from \$737 million to \$1,036 million (or from 5.7% to 8% of Japan's total imports).

The greater importance of relations with Japan would make it even more necessary than before for the old and new members of the Community to agree on a common commercial policy towards this country; the Community will, moreover, shortly be called upon to examine the possibility of concluding a Community trade agreement with it.

USSR and countries of Eastern Europe

106. The tendency to establish closer economic links between the Community and the countries of Eastern Europe might be strengthened by the enlargement of the

Community: the enhanced importance of the wider Community as a trading partner could well induce the USSR and the other Eastern European countries to take an objective look at the advantages that would stem from contact with the Community.

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

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THE HAGUE Alexander Gogelweg 22
The Hague

GENEVA 72 rue de Lausanne
Geneva

MONTEVIDEO Calle Bartolome Mitre 1337
Casilla Postal 641
Montevideo

Information Offices :

LONDON 23 Chesham Street
London SW1
Tel: 01-235 4904

WASHINGTON Suite 707
2100 M Street NW
Washington DC 20037
Tel: 206-5131

NEW YORK 2207 Commerce Building
155 East 44th Street
New York NY 10017
Tel: 212 MU 20458

BRUSSELS 200 rue de la Loi
1040 Brussels

PARIS 61 rue des Belles Feuilles
Paris 16e

BONN 53 Bonn
Zitelmännstrasse 9-11

BERLIN 1 Berlin 31
Kurfürstendamm 102

ROME Via Poli 29
00187 Rome

LUXEMBOURG Centre Européen
Kirchberg
Luxembourg

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