

EUROPEAN ECONOMIC COMMUNITY  
COMMISSION



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**INTRODUCTION**  
**TO THE**  
**TENTH GENERAL REPORT**  
**on the activities of the Community**

(1 APRIL 1966 - 31 MARCH 1967)



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Tenth General Report  
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*(1 April 1966 — 31 March 1967)*



1. Now about to hand over to a new body, ten years after the signature of the Treaty of Rome, the Commission feels it should preface its Tenth General Report to the European Parliament with a summary of the major considerations which it believes should guide the Community institutions in their work over the coming years.

One year from now, a customs union for industrial products and a single market for agricultural products will have been established. In the years to follow, the main objective should be to complete economic union — a *sine qua non* if the Common Market is to function properly. And this is a matter of urgency, because the intermediate phase in which the Community is situated — a complete customs union but only partial economic union — involves a definite risk of imbalance, perhaps even of disintegration.

Once an economic union has gradually been built up, the Community will have at its disposal a suitable framework within which its own activities, those of the Member States and those of economic transactors can proceed. But it is only a framework. How it should be filled in, how community life should be guided, these questions will remain. The success of the Community will ultimately depend on what use the Community's institutions make of the instruments at their disposal — on the nature of the policy they are able to plan and implement.

Completion of economic union and determination of the broad lines of Community policy will therefore be the two themes of this summary.

## I. COMPLETION OF ECONOMIC UNION

2. Economic union means all the measures required to create on the territory of the Community conditions similar to those obtaining on a domestic market. These are:

- a) Free movement of goods;
- b) Free movement of persons, services, and capital;
- c) Implementation of the common transport policy;
- d) Arrangements to protect competition from distortion;
- e) Provisions to guarantee that the economic policies of the Community and the Member States have in common the elements needed to secure conditions similar to those obtaining on a domestic market.

### A. Free movement of manufactures and farm produce

3. Over the last nine years considerable progress has been made towards completely open markets. On 1 July 1968 internal customs duties will disappear altogether, market organizations will be set up and a common level of prices will be fixed for the major farm commodities.

Between 1958 and 1966 the value of merchandise trade between the member countries more than trebled — rising from 6 800 million to 22 900 million units of account.

Nevertheless, there is as yet no real common market. Intra-Community trade is still subject to a number of restrictions that obstruct the movement of goods, result in hold-ups and checks at frontiers and involve firms in useless expense. Trade between the member countries has not yet become genuinely “domestic”. Apart from customs and quota frontiers, which will disappear on 1 July 1968 for all manufactures and nearly all farm produce, there are other “frontiers” impeding the free movement of goods — tax frontiers, patent frontiers, monopoly frontiers, the frontiers raised by customs legislation. The opening or elimination of such frontiers is one of the main tasks for the coming years. The Commission has done a substantial amount of preliminary work. In a number of cases proposals have already been submitted to the Council. Others will follow in the course of the year.

The chief objectives are as follows:

a) *Establishment of the remaining common organizations for agricultural markets*

4. The Commission considers that by 1 July 1968 free movement of all agricultural products should be introduced, or at least a deadline should be fixed. Common organizations need to be set up for liquid milk and fishery products, quality wines and ordinary table wines, tobacco, hops, cut flowers and the like, linen and flax, ethyl alcohol, mutton and lamb, and potatoes.

b) *Removal of the last remaining charges equivalent in effect to customs duties and of measures equivalent in effect to quantitative restrictions. End of the isolation of certain markets*

5. Of 365 cases of charges equivalent in effect to customs duties known to the Commission at the beginning of June, 261 have been settled and 26 others are being settled.

As regards the 78 cases still to be dealt with — 46 of which are charges for health, plant-health, veterinary and quality controls — the Commission will have to establish whether they really are charges with equivalent effect, and, if they are, an attempt must be made to eliminate them by 1 July 1968.

Difficulties persist in respect of measures equivalent in effect to quantitative restrictions. The Treaty does not define the concept and hence cannot list these measures. A Community standpoint can only be worked out gradually. Now work in this field will also have to be speeded up if the 1 July 1968 deadline is to be met.

The Commission has also been particularly concerned with the problem of the gradual adaptation of certain industries to the Common Market economy. It should

be possible, for instance, to introduce freedom of movement for sulphur, lead and zinc by 1 July 1968. The problem of Italian raw silk will have to be solved at the end of the transition period too.

c) *Harmonization of customs legislation*

6 Once Community goods can cross frontiers within the Community duty free, it must be expected that any substantial disparity between the laws of the various member countries will constitute an incitement to import into the member country with the most favourable legislation. Similarly, such disparities may obstruct the movement of goods because a member country that considered its interests harmed by the diversion of trade might try to put a stop to it by invoking the safeguard clauses in the Treaty.

The customs union is scheduled to come into effect on 1 July 1968, and a special effort will be required if the customs legislation of the member countries is to be aligned as quickly as possible, the main laws before 1 July 1968.

The first matter to be tackled is to draw up the joint rules needed for application of the common customs tariff. A great deal of work has already been done on this; specific items that have to be worked out are:

- a) Joint provision for the admission of goods to free circulation;
- b) Explanatory notes for the application of the customs tariff;
- c) Uniform application of the concept of customs valuation;
- d) A Community procedure for the settlement of disputes, particularly in respect of the classification of goods and the determination of value;
- e) A procedure for administering Community tariff quotas;
- f) Joint customs regulations governing the construction and repair of ships and aircraft;
- g) Harmonized rules for outward processing traffic.

Customs legislation also includes a variety of arrangements for the temporary importation into the Community of goods from non-member countries without the duties in the common customs tariff (or the agricultural levies) being applied to them. These arrangements must be reviewed in the light of the customs union, for the existence of disparities might cause business to be transferred from one member country to another or lead to a distortion of the conditions in which Community firms compete on external markets.

The Commission has begun to study the various temporary import arrangements. Proposals are being drafted for joint provisions on inward processing traffic, bonded warehouses and temporary admission.

Work on the removal of obstacles to merchandise trade should include arrangements enabling goods to be despatched from one point to another within the Community without any formality or control at frontiers.

Lastly, on a more general plane, the gradual establishment of a single customs territory in the Community raises the acute problem of co-operation between the customs authorities of the six Member States.

First of all, the principle will have to be accepted that measures adopted by any authority are recognized by its counterparts. Next, action to prevent or punish fraud and to recover debts will have to be co-ordinated.

d) *Community rules for external trade*

7. Until there is a common commercial policy for all products, there can be no common market with the characteristics of a domestic market.

It is already illogical, of course, for the Community to fix — sometimes with considerable difficulty — a common customs duty for a given product when the member countries are still free to liberalize or restrict imports. But the main factor that is prejudicial to the Common Market itself is the effect on internal trade. As long as import regulations still differ, it is not only products (photographic equipment or sewing machines, say) from outside the Community which are checked and perhaps refused freedom of movement: all products of a kind, even those originating in the Community, have to be checked at the frontiers between member countries so that it can be established that they do not come from non-member countries or contain parts manufactured in those countries. Now the differences between the various member countries' regulations often do not have sufficient economic justification to offset the harmful consequences they have on free movement of goods within the Common Market.

The Community is quite at liberty to pursue whatever commercial policy it considers best. <sup>(1)</sup> The important thing is that there should be a *common* policy. National regulations that result in controls and restrictions on the free movement of goods between the member countries are not compatible with a common market.

Before common regulations can be applied to external trade, two conditions must be fulfilled: basic agreement must be reached on the measures to be taken for the various products, and legal provisions defining and guaranteeing these measures must be adopted.

The basic agreement depends as much on industrial policy as on commercial policy. Over 90% of the Community's external trade is now liberalized. The 10% or less still subject to special regulations are mainly products considered "sensitive" by the member countries. The Community will have to examine these products indivi-

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(<sup>1</sup>) See sec. 33 below.



dually before determining what policy should be followed for each of them and how the national regulations should gradually be aligned on that policy.

The creation of the legal bases for the gradual introduction of common external trade regulations requires, apart from the measures to align customs legislation:

- a) A decision to consolidate the present degree of liberalization;
- b) A procedure whereby other products can be put on the liberalization list or, if need be, products already liberalized can be deliberalized;
- c) The opening of Community quotas and an agreement on the administration of these quotas;
- d) Procedures governing the application of the safeguard clauses provided for in international agreements;
- e) The adoption of Community antidumping and antisubsidy regulations.

Obviously, these measures will only be really effective if they are not in conflict with contractual obligations under bilateral or multilateral agreements between the Member States and other countries or international organizations.

The necessary provisions have been adopted (the EEC clause, limitation of duration) for the adaptation of bilateral agreements, so that a future commercial policy will not conflict with such treaties. As regards multilateral agreements, the measures needed should also be taken as quickly as possible so that the obligations incumbent on Member States under such agreements do not stand in the way of the adoption and implementation of the common policy at the end of the transition period. However, it should be realized that these measures will only have a practical effect if — in due course — they are actually implemented (i.e. negotiations are begun to adapt the agreements in question).

The Commission believes that thought should be given at this stage to instituting a Community procedure to facilitate the task of transferring to the Community the numerous bilateral and multilateral agreements to which the Member States are party.

e) *Harmonization of legislation on food and animal feed, seeds and stock breeding, and on veterinary, plant-health and forestry matters*

8. Harmonization of legislation in these fields, i.e. the elimination of “frontiers” resulting from differences in the law relating to agriculture from one country to another, is indispensable if the creation of market organizations and the related elimination of customs duties, quotas, monopolies, minimum price systems, levies and other obstacles to intra-Community trade are to have their full effect on the free movement of farm produce.

The volume of work to be done in these fields is appreciable. Sixteen directives have already been adopted by the Council on Commission proposals, and twenty-three others have been drafted and are now before the Council. Even after these proposals are adopted, however, the programme will still be far from complete. Before farm produce can really cross frontiers freely, the Community institutions will have to make special efforts in the coming years to eliminate those frontiers constituted by differences in legal provisions.

f) *Removal of technical obstacles to trade*

9. The expression "technical obstacles to trade" embraces all the difficulties affecting merchandise trade that result from the differences between member countries' laws and regulations on quality and composition, packaging and testing.

These provisions are designed to protect public interest and in particular human life and health. They are indispensable in the Common Market. The problem is not that such provisions are on the statute books but that they vary from country to country; certain products which comply with the regulations of the exporting country do not satisfy those of the importing country and cannot therefore be admitted for sale or utilization. Consequently, there are often as many markets for these products as there are national legislations. They cannot be mass produced on a European scale, and their adaptation to the requirements of the importing country often forces up the price.

As these laws and regulations cannot be abolished, adequate harmonization is the only means of eliminating the obstacles resulting from the discrepancies between them. The Commission has already submitted to the Council a number of proposals for directives in this field. However, this task is a highly technical one which will take years to complete: most of it has not yet been tackled. A practical programme establishing priorities and deadlines and determining the best method of harmonization for each sector will shortly be submitted to the Council, account being taken of past experience.

g) *Elimination of tax frontiers*

10. "Tax frontiers" are the obstacles to free movement of goods resulting from differences in indirect taxation and especially the practice of granting refunds and levying countervailing charges in international trade. Their elimination presupposes not only the harmonization of tax structures but also a good deal of alignment of tax rates.

The Commission is aware of the great difficulties in the way of rapid harmonization of tax structures and in particular tax rates. About 52% of the total tax revenue of the member countries comes from indirect taxes, and rates sometimes differ considerably. The process of harmonization, therefore, will necessarily involve substantial changes in the tax revenue of the member countries. Now these will only be tolerable

if the member countries still have enough room for manoeuvre in tax policy to offset the effects of harmonization on their budgets without producing undesirable economic social consequences.

Of the indirect taxes, turnover tax occupies a special position in that it is charged on nearly all goods and therefore obstructs the whole range of merchandise trade between the member countries. The elimination of turnover tax frontiers must therefore be considered a priority aim.

As regards excise duties, the most serious obstacles to merchandise trade are the tobacco taxes, either because a very high minimum rate makes it difficult to sell the cheaper brands of cigars and cigarettes or because the tax is not degressive enough — given the rate of tax — and this prices the dearer brands out of the market. The Commission will shortly submit to the Council its proposals for harmonizing the pattern of taxation on tobacco as part of an overall scheme to establish a real common market in tobacco.

Duties on beer, sugar, spirits, wine, and fuel oil and other oil products also have an appreciable influence on merchandise trade. For these taxes, as for tobacco tax, structural harmonization cannot be deferred. Alignment of rates could be left until later.

#### *h) Adjustment of government monopolies*

11. There are currently in the Member States about fifteen government monopolies affecting some ten groups of goods. Economically the most important are the French monopoly of petroleum and oil products, the French and Italian tobacco monopolies and the German and French spirits monopolies. The other monopolies with less of an impact on the economy as a whole nevertheless involve restraints and distortions of competition in the industries where they operate. Their adjustment is therefore as much a problem of competition as a problem of free movement of goods.

As regards a number of Italian monopolies of limited economy importance (salt, cigarette paper, lighters), the measures shortly to be adopted should make substantial progress towards freedom of movement possible.

For others, such as the French and Italian match monopolies and French powder and explosives monopoly, the recommendations sent to the Member States concerned should facilitate appreciable progress.

Specific proposals for the reorganization of the French and Italian tobacco monopolies are to be laid before the Council in the next few weeks.

The situation as regards the monopolies in oil products, natural gas and spirits is more complex. The adjustment of these monopolies is lagging behind the elimination of quotas within the Common Market because the solution of the economic problems raised by adjustment is closely tied up with the common policy to be pursued in these

industries. This applies chiefly to energy policy and the joint regulation of the market in spirits. One of the immediate tasks facing the new Commission will be to draft proposals on these matters.

## **B. Free movement of persons, freedom of establishment and freedom to supply services**

12. Free movement of workers has in fact already been widely introduced throughout the Community. Definitive regulations to enter into force on 1 July 1968 will remove the few remaining obstacles. The Commission will supplement existing provisions, or to be implemented, by fixing conditions by which the workers may stay on in the country where they have been in paid employment.

The movement of workers within the Community can, however, still be made easier. The machinery for clearing vacancies and job applications should be improved. The social and human problems raised by freedom of movement for workers have not all been solved satisfactorily: more still needs to be done to facilitate the adaptation of migrant workers and their families to their new circumstances of life and work. Finally, procedures for granting social security benefits to migrant workers should be further simplified and improved.

These various measures should give full effect to freedom of movement by enabling all to have the best employment prospects while ensuring the fullest use of manpower within the Community.

13. Freedom to supply services and freedom of establishment have not yet been introduced in the Community to the same extent as freedom of movement for workers. The timetable in the General Programme for freedom of establishment and freedom to supply services, adopted by the Council in December 1961, has proved somewhat ambitious. Technical difficulties have made it impossible to maintain the pace originally envisaged. However, after getting off to a relatively slow start, the Commission is submitting proposals and Community decisions are being reached more speedily, and there is now some hope that the aims of the Treaty in this field will also be attained by the end of the transition period. Moreover, the need for fair conditions of competition in the six countries and for the harmonious development of the Community make the early introduction of freedom of establishment and freedom to supply services a necessary counterpart to the introduction of a customs union.

Seventeen directives on the right of establishment were in force at the beginning of June 1967. Twenty-two other proposals for directives are now before the Council, having already been considered by the European Parliament and the Economy and Social Committee.

Much the same degree of progress has been achieved on freedom to supply services, since the Council's General Programme of 1961 covers both fields together. Most of

the directives cover both establishment and services, but three of those already adopted are concerned with services only (payments for services, the film industry and agriculture).

Results to date should not, however, disguise the fact that considerable efforts still have to be made. The extensive research needed to prepare the earlier directives will doubtless facilitate the preparation and adoption of those to come.

Various questions of principle have already been settled, but sustained effort is needed in the fields of company law and the professions particularly. The elimination of differential treatment is only part of what has to be done. The co-ordination of regulations affecting the professions, particularly conditions of entry to and practice of the professions, together with the recognition of degrees, certificates and the like, is still to be accomplished, and this will be a substantial task for the Community institutions and the member countries. The various professions in each country will have to be defined, equivalences worked out, the regulations applying to them listed, and appropriate measures of co-ordination selected. And efforts will also have to be made to inform and win the support of the professional people involved.

As well as implementing the Council's programme, the Commission and the Member States must also ensure the application of the directives already in force. The Commission, as guardian of the Treaty, has responsibilities in this field. For unlike other fields, where regulations directly enforceable in the member countries are the instruments normally employed by the Community, freedom of establishment and freedom to supply services are governed by directives, which bind the Member States to achieve the specified results but leave it to them to decide what form and legal means of implementation should be employed. The range of measures deployed by the member countries to give effect to directives can extend from the general delegation of powers by a national parliament to the government through special laws, government decrees, departmental or other orders, and government circulars from government to local authorities, to mere instructions issued by public boards. Over a hundred such measures have already been adopted. The number will increase considerably in the years to come. It is up to the Community to verify the compatibility of these measures with the letter of the Treaty and the directives adopted in each case.

### **C. Free movement of capital**

14. The advances made in introducing an economic union call for equivalent advances in freedom of movement for capital. Numerous obstacles to the mobility of capital still persist within the Community. The first liberalization measures approved by the Council in 1960 and 1962 enabled certain exchange restrictions to be removed, particularly those concerning direct investments, transactions in listed securities, and medium- and long-term loans and credits connected with business transactions.

A proposal for another directive currently being discussed in the Council is designed to establish a better balance in respect of liberalization of exchange controls between the

member countries and at the same time to eliminate a number of legislative and administrative obstacles, particularly concerning access of issuers from other member countries to the various capital markets and the listing of securities from other member countries.

The elimination of exchange controls cannot be the sole basis for a capital market on a Community scale. The remaining obstacles in the legislative, administrative and tax fields must also be removed and certain changes made in the institutional framework and in the economic policies affecting capital markets. To remove these obstacles the Community will have to eliminate their causes, either by the co-ordination of policies or by the harmonization of institutional provisions.

15. The Commission considers, on the basis of the work it has done, that the following measures should be taken:

- a) The remaining exchange restrictions should gradually be abolished;
- b) Institutional investors, such as life-assurance companies or savings banks, should be given wider scope, particularly for investment in other member countries;
- c) If free movement of capital is to be as effective as possible, constructive measures will have to be adopted — both in respect of market organization and in the co-ordination of the policies pursued by the member countries;
- d) Some alignment of the institutional and legislative framework of the various markets is needed to facilitate the free movement of capital, particularly as regards information for the public, guarantees and security, rules governing the issue of securities and arrangements governing the operation and control of financial institutions.

In order to prevent movements of capital that are abnormal or cannot be justified by economic considerations,

- a) A harmonized system of withholding taxes will have to be arranged for the interest on negotiable bonds and for dividends, with tax paid being set off against the beneficiary's total liability and rebates where too much tax has been paid;
- b) Certain procedures for the application of tax credits in Belgium and France will have to be adjusted, since these are discriminatory in nature, and a single method will have to be found to relieve the overall tax burden on the distribution of dividends (relief either for the company or for the shareholder);
- c) The tax consequences of the operations of investment companies will have to be adjusted and harmonized so that investments made through these companies are not taxed more severely than direct investments.

The customs union should be supported by the integration of the capital markets and the freedom of capital movements — both medium- and short-term. If the Community process is not brought to this logical conclusion, there is a risk that progress already made may be prejudiced, for a European capital market will be a basic element

in a competition policy designed to ensure for firms equivalent conditions as regards the cost of and access to funds; it will also be a determining factor for the establishment of monetary union within the Community.

#### **D. The establishment of a common transport policy**

16. Serious difficulties have so far hampered the establishment of a common transport policy. It is a pity that the Community has lost ground in a sector so closely linked with the achievement of customs union. The implementation of the Common policy can now no longer be deferred.

On several occasions the Commission has stated what principles it believes should lie behind the Community's policy in this field:

- i) The economic frontiers between the Member States must be abolished in respect of transport, and the transport market must be organized at Community level;
- ii) Transport must be in a position to respond satisfactorily to the needs of those engaged in business and of the consumer in all parts of the Community;
- iii) Measures must be taken to enable transport to work at the lowest overall cost for the community as a whole.

In view of these objectives, the transport market must be based on competition, the purpose of which is to ensure optimum distribution of traffic between types of transport and transport firms. This means that the arbitrary allocation of traffic between the types of transport and various firms cannot be allowed. On the other hand, it does not rule out certain measures of official intervention justified by the "special aspects" of the market.

The aims of official intervention should be:

- i) Competition on equal terms for the different types of transport and transport firms as a result of harmonization of competition conditions;
- ii) The prevention of abuse of competition, whether through the improper exploitation of dominant positions or through cut-throat competition;
- iii) Assistance towards the aims of regional and social policy.

On the basis of this general approach, the Commission has drafted proposals, some of which — mainly on the harmonization of conditions of competition — have already been adopted by the Council. Others are still being discussed. The main difficulty concerns the choice of measures to be implemented to counter the risks of abuse of dominant positions and cut-throat competition. The measures originally proposed by the Commission constituted a balanced and internally consistent whole, the gradual application of which should lead to the progressive elimination of these dangers. The Council's agreement of 22 June 1965 had given some measure of priority to rules concerning rates and fares. But the Commission's proposal for the implementation

of this agreement aroused lively opposition on the part of some Member States. A package-deal solution to the problem is now being sought through the simultaneous adoption of measures affecting a number of different fields.

With a view to the introduction of a common transport policy in phase with the introduction of the common market as a whole, the Commission proposed a plan of action in its last memorandum to the Council. The common transport policy would be introduced in two stages: the first would last until the end of the transition period — 31 December 1969 — and would deal mainly with transport between the Member States; the second, beginning on 1 January 1970, would also affect domestic transport arrangements.

17. In the first phase the following measures would be adopted:

a) *Harmonization of conditions of competition*

Proposals concerning the abolition of double taxation in connection with taxes affecting motor-vehicles, the standardization of regulations concerning the duty-free admission of fuel contained in vehicles' fuel tanks, aids granted to road, rail and inland-waterway transport firms, and the harmonization of working conditions in road transport have already been submitted to the Council. These four proposals will probably be adopted in the near future. A fifth proposal concerning the measures adopted by the Member States with regard to obligations inherent in the notion of public service has just been submitted.

Other proposals will be presented by the Commission in the very near future: they concern the normalization of the accounts of railway undertakings and the uniformization of the bases of calculation of motor-vehicle taxes and of the tax on vessels using inland waterways.

b) *Apportionment of infrastructure costs*

The fair apportionment of infrastructure costs between users is one of the conditions on which balanced competition between the various types of transport depends. However, this raises complex problems which cannot be solved quickly. In the meantime, the Commission is proposing, as a provisional solution, the harmonization of the structures of taxes on utility vehicles, the revision of arrangements for covering the infrastructure costs of inland waterways and the uniformization of methods of accounting for infrastructure expenditure.

c) *Rules of competition*

The provisional situation under which the application of Community regulations on restrictive agreements and dominant positions has been suspended in respect of road, rail and inland-waterway transport must be brought to an end. A Commission



proposal is now being examined by the Council and a decision is expected shortly. While bringing transport under the cartel regulations, it provides for the exemption of certain types of restrictive agreement.

d) *Access to the market*

Control in this field has gained increased importance because of the difficulties which have arisen with regard to the control of transport rates and fares: capacity control will be the main weapon against anti-economic competition, and the use of tariff measures is to be confined to the residual cases. The Commission will shortly submit its proposals on access to the market, capacity control and the admission of non-resident carriers to domestic transport services for both road and inland-waterway freight transport.

There is already an agreement on the constitution of a Community quota and the adaptation of bilateral quotas for road freight transport.

A similar proposal is to be presented for freight transport by inland waterway.

The aim of capacity control is to ensure a proper balance between transport supply and demand by preventing the development of capacity surpluses and deficits. This objective can be achieved through the introduction of a licensing system.

Measures are also to be taken to ensure freedom of establishment in respect of transport.

e) *Tariff control*

The Commission is maintaining its proposal for the introduction of a bracket-rate system for freight transport. However, in view of the regulations planned concerning access to the market, certain clauses in this proposal may be deleted or relaxed.

f) *Market supervision*

The impact of all these measures on the transport market is not fully foreseeable. This is a further argument for the creation of an organ to supervise the market. The Commission intends to propose that, when these regulations enter into force, a transport market supervisory committee should be set up, with the task of assisting the Commission and with responsibilities covering the implementation of all arrangements under the common transport policy.

In the second stage, which will begin on 1 January 1970, the rules and regulations already in force will be extended to domestic transport services and the regulations applying to transport between the Member States developed. Measures to harmonize conditions of competition and work on the apportionment of infrastructure charges

will be completed, arrangements concerning both access to the market and tariff control extended to domestic transport services, and the scope of the reference tariff system widened.

Taken together the measures described above constitute a balanced programme. None the less, the new rules and regulations must be implemented cautiously and gradually. There is no way of predicting with certainty the impact of liberalization on an industry which has for many years been restricted and controlled almost everywhere. Doubtless adjustments will prove necessary as experience is gained.

#### **E. The establishment of a system ensuring that competition is not distorted in the Common Market**

18. Competition policy in the Common Market has two objectives: it is designed to contribute to the effective establishment of the Market, i.e. to eliminate restrictions on intra-Community trade and, secondly, to ensure the smooth working of the Market through the elimination of measures restricting or distorting competition, since these are liable to prevent the optimum combination of the factors of production and, consequently, optimum growth of the economy as a whole.

The first objective of competition policy is of special importance in the period prior to the full establishment of economic union, particularly while freedom of movement for goods and services is being introduced. The abolition of tax frontiers and the elimination of distortions and restrictions hampering the free movement of capital have already been mentioned above. Restrictive agreements also need regulation, for it would be almost pointless to go to the great trouble of eliminating obstacles to trade created by governmental measures, if private restraints of competition were to be allowed to prevent the opening and interpenetration of the markets. The Commission has therefore given priority to work on practices whose object or effect is to share out or wall off domestic markets within the EEC. It will continue this work in the coming years.

With regard to vertical exclusive dealing agreements, the decisions rendered by the Commission are based on the principle that absolute territorial protection is illegal. They have been endorsed by rulings of the Court of Justice. For certain types of exclusive dealing contract, block exemption arrangements will establish what agreements qualify for exemption under Article 85(3) of the Treaty. The first decisions have already been taken by the Commission.

Before 1 January 1970, corresponding arrangements are to be made with regard to the main horizontal restrictive agreements, which are admittedly few in number, but of an economic importance it would be a mistake to underestimate.

19. As customs duties, quotas and the other obstacles to trade are gradually disposed of, the second objective of competition policy — the creation and the

maintenance of conditions allowing of optimum economic development — is acquiring greater importance.

Aids are the most important of the governmental measures which distort competition. Those granted to certain industries (e.g. shipbuilding, textiles, paper) have particularly serious effects on the working of the Common Market. If the Community decides against an aid policy for these industries, national arrangements are to be progressively abrogated in coming years, except where regional considerations are paramount. The development of general aid systems also remains a source of concern for the Commission; their legal basis is often so comprehensive that there is no way of getting at their economic significance solely by reference to the actual wording of the regulations. Hence the Commission will in future have to carry out a practical examination of the most important actual cases.

#### F. Monetary, financial and short-term economic policy

20. As the completion of the customs union draws nearer and as Community policies are introduced in various fields, the need has arisen for ever closer co-ordination of the economic, monetary and financial policies pursued by the Member States. Co-ordination is vital for the maintenance of the degree of cohesion already reached within the Common Market and is also indispensable if the Community economy is to go on developing harmoniously. As economic trends within the Community in the last four years have shown, co-ordination not only serves to preserve the degree of market integration already achieved, by protecting the Community from any changes in exchange rates as between the Six, but also provides the basis for further progress, notably with regard to the harmonization of legislation and the liberalization of capital movements.

The Community has achieved a number of new objectives in the field of short-term economic policy. These include the preparation of economic budgets by the Member States and their "confrontation" in the Short-term Economic Policy Committee. The main lines of the budget policies of the Member States are now discussed and compared within the Budget Policy Committee. Improvements have also been made to the EEC Business Survey.

Thanks to this forecasting and co-ordination work, the Commission has been able to lay specific proposals before the Council and the appropriate Community institutions whenever the economic situation of the Community called for vigorous combined action by the Member States. On Commission proposals, the Council has made three short-term economic policy recommendations to the Member States — in April 1964, April 1965 and December 1966.

The integration of short-term economic policies has special importance for the cohesion, stability and expansion of the Community economy, and the Commission is therefore very anxious that further progress should be made in this field.

It hopes that the Member Governments will adopt more precise — if possible, quantitative — criteria for the appraisal of their short-term economic policies, both when the economy is overheating and when there is a danger of a recession. The Short-term Economic Policy Committee and the Monetary Committee have been asked to study this matter jointly.

The Commission feels that in particularly serious circumstances — which still have to be defined — the Council should be in a position to take decisions applying to all or part of the Community. This is in fact provided for by Article 103. It would also be particularly valuable if, in accordance with what has now become a tradition, the Council continued to hold regular discussions twice a year on short-term economic policy questions.

In brief, the Community institutions should be in a position, at the end of the transition period:

- i) To identify clearly, at any moment, the economic policy objectives of each of the Member States and of the Community;
- ii) To iron out quickly any incompatibilities between the policies pursued by the several member countries;
- iii) To take prompt action, with policy instruments at a proper state of readiness;
- iv) To elicit active co-operation from local and regional authorities in policies agreed jointly in the Community interest;
- v) To have available legal instruments enabling Community decisions to be implemented without delay in serious or unexpected situations.

21. The Commission has always stressed the importance for the harmonious development of the Community of maintaining fixed relationships between the parities of Member States currencies. In fact, the parities of the Community countries have not been changed since early in 1961. This is partly because economic policies have been more closely co-ordinated. The integration of the markets is making the economies of the member countries increasingly dependent on one another and it is important that the Community should reach a situation in which the hazards of shifting exchange rates will have disappeared, i.e. in which the devaluation of the currencies of one or more Member States would be both useless and impossible. The entry into force of the common agricultural prices expressed in units of account is not only an important step towards monetary solidarity among the Member States, but yet another reason for maintaining fixed exchange rates between them.

This objective can be achieved with certainty only if further substantial progress is made in co-ordinating the monetary and financial policies of Member States. Appreciable progress along this road has already been achieved. The Community has acquired a whole range of instruments. A Committee of Governors of Central Banks has been set up to keep the Community's specific monetary problems under constant review. The Budget Policy Committee and the Medium-term Economic

Policy Committee are also helping in this task. In addition, the Monetary Committee's terms of reference have been extended, notably in the field of international monetary relations. Consultations have been provided for in the event of one or more of the Member States wishing to alter exchange rates.

If the Community's work is to be effective, it is essential that consultations, both in the short-term economic policy field and in the monetary and financial field, should be held *before* the Member States take their decisions. A discussion, at Community level, of measures already adopted at national level is of little value and makes reciprocal adjustment of the various policies impossible. The Commission believes that Community discussions should precede, more systematically than in the past, all changes the Member States are contemplating in their economic policies.

Increased co-ordination of the budget policies of Member States will need to be achieved in the Budget Policy Committee. This Committee's work and the experience acquired by the Member States show that it is impossible to make public spending really flexible when estimates are adopted annually. Expenditure policy should therefore be increasingly established on the basis of programmes covering several years and adequately co-ordinated between the various Member States. Public revenues are also an important anti-cyclical element in budget policy. Revenues are already subject to automatic variations, which have a built-in-stabilizer effect in tempering cyclical fluctuations. Any stronger stabilization policy envisaged should also include measures affecting taxation and the other revenues of the central government, and as far as necessary, of the local authorities as well.

In the monetary field, it will doubtless prove necessary to establish quantitative standards governing the admissible growth rate of liquidity in any specific period.

Lastly, a Community policy on capital markets, and freedom of capital movements within the Community, will make a major contribution to the Community's progress in the field of monetary and financial policy. This question has already been referred to above.

## II. COMMUNITY POLICY: THE GUIDELINES

### A. Medium-term economic policy

22. As soon as the Treaties entered into force, the institutions attempted to fix certain objectives which should guide Community action. During the period of the establishment of the customs union, when ways and means of applying the common policies were being worked out, it was none the less difficult to obtain any overall view of the development of the Community or of the action to be taken. After the progress now made, it has become reasonable to attempt to define the general guidelines of Community policy. This was what the Commission had in mind when in 1963, it proposed that a medium-term economic policy for the Community  
ered.

The objective of the medium-term economic policy must be the steady improvement of living and working conditions in the Member States. This is in fact the main objective of the Treaty of Rome. For this purpose, it must, over a long period, reconcile growth requirements with the need for stability and must provide the authorities with a general chart to which they can refer as a guide for the co-ordinated implementation of the various national and Community policies. However, with international competition growing keener, the achievement of rapid and balanced growth is likely to be more difficult than could be foreseen some years ago, when the Community might well have seemed to be trading from a position of strength with the rest of the world: the Community has to cope with competition from countries with more developed technologies and the advantages of a definitely superior capacity for novel industrial departures, and with competition from a few countries with lower wage levels, producing certain articles of comparable quality at lower prices. If the Community is to face up to competition of this kind, it must lose no time in carrying out a number of operations of a structural nature. The purpose of the medium-term economic policy is to determine the general direction of such operations and to see that they do not overlap or conflict. As for the progressive transformation of the customs union into an economic union, provided for by the Treaty, this also affects the Community's structures, and, for this reason, it is becoming more and more obvious that objectives must be defined and a work schedule fixed within the framework of the medium-term economic policy.

This policy is thus the privileged setting within which the general guidelines of Community policy are to be worked out, whether in the field of social policy, industrial policy, agricultural policy or commercial policy. Those responsible for the conduct of the Community's economic policy must show sufficient imagination to cope with the novelty of the problems raised in each of our countries by the construction of the Community. They must take as many liberties as prove necessary with old habits of thought and must not hesitate, should the need arise, to reject them outright: one of the aims of the medium-term policy is to prepare men's minds for the major changes — both inescapable and salutary — which sooner or later will have to be made.

Medium-term economic policy is also being discussed among the various non-governmental circles professionally involved. Their participation in the preparation of this general policy should be maintained and strengthened.

When they adopted the first medium-term economic policy programme on 8 February 1967, the Council and the Member Governments embarked on a process of co-ordination and guidance which had been made possible by the Council decision of 15 April 1964. The Commission and the Medium-term Economic Policy Committee are to ensure further progress in this field, not only by elaborating new programmes, but also by monitoring actual economic trends, so as to compare them with the developments previously forecast, verifying the compatibility of the economic policies pursued with the guidelines laid down in the programmes, and, as necessary, rendering opinions designed to advise the competent Community institutions and the Member States on the pursuit of the policies contemplated.

## B. Social policy

23. The various tasks entrusted to the Community by the Treaty of Rome have a social significance, as is made clear in the Preamble and in Article 117, where the need to improve the living and working conditions of labour "so as to permit the equalization of such conditions in an upward direction" is affirmed.

Since the entry into force of the Treaty of Rome considerable progress has been made along this road: an undeniable improvement in the social situation of the member countries can be discerned and living and working conditions have at the same time been brought more into line. Thus, until the recent economic slowdown, unemployment had for several years virtually disappeared in five member countries and there had been an improvement in the sixth. Real wages have increased more vigorously than in most of the other industrial countries; an appreciable reduction in the number of hours worked may also be noted: the working week is shorter and paid holidays longer. Considerable progress has also been made in social security by widening its scope or raising the level of protection.

This achievement undeniably owes something to the creation of the Common Market and to the specific action of the Community in the social field — action which must be extended and improved in two important fields: employment and living and working conditions.

In coming years the Community will have to treat employment as a matter of major importance. An active and modern employment policy must cope with two problems: first, in the medium term, a heavy demand for manpower, particularly skilled manpower, which is liable to engender strain on the labour market; and secondly, the emergence or the extension of difficulties in certain areas and certain industries due to major structural changes, be they in industry, agriculture, or services.

It is therefore very important for the Community to pursue and to improve the arrangements under which full and up-to-date information on the current underlying trend of employment is obtained. Longer-term forecasts in the framework of the medium term economic policy constitute an extension of this work: this is indispensable if the disappearance of old jobs and the creation of new ones are to be pin-pointed without delay. These analyses will have to be diversified and developed in greater depth to keep track of the trend of employment by industry, trade, level of skill and area.

This work should make it possible to establish guidelines and to take appropriate action in good time to meet actual or expected situations.

The need has already emerged for an improvement of the efficiency of manpower services in the Community, especially with regard to placing, information and advice for workers. Vocational guidance must be provided on as broad a basis as possible.

This analysis and forecasting work should also render more effective the Community's endeavours in the field of vocational guidance within the framework of the General

Principles and of the action programmes already adopted. It will provide valuable information in connection with the training of adults and the re-adaptation and further training measures which are a response to the requirements of occupational and geographical mobility and to the need to ensure jobs for all and prospects of social betterment. The problem of the training of young people also calls for the Community's attention: training facilities and methods must be studied and compared, the current and foreseeable demand for skilled personnel kept under review, and work done on teaching methods, on the alignment of training levels, and on the problem of multi-skills training.

Wider powers of intervention should be conferred on the European Social Fund, so that it can play an increased role in an active employment policy. Similarly, one of the vital elements in the policy will be completely free movement of workers, facilitated by the simplification and improvement of social security procedures for migrant workers and further improvements to social services.

The amelioration of living and working conditions must be the second main objective of Community social policy.

In this field too, fuller information is needed. The Community must be able to monitor as accurately as possible the trends of wages in the six countries, with details on costs, social charges and workers' actual "takehome". These matters must be reconsidered as to how they fit into the wider framework of an incomes policy; and this will entail joint study of problems such as wage drift, sliding scales and policy on workers' ownership of assets.

The analysis and comparison of the laws and regulations governing paid employment and actual working conditions in the member countries must also be continued: working week, Sunday work and night work, protection against dismissal, co-management, collective bargaining, etc., are all important aspects of the problem. The Commission will continue to promote close co-operation between the Member States in this field with a view to the "harmonization of the social systems" referred to in the Treaty, in the light of Community requirements, the attitudes of Governments and the views of employers' and workers' organizations.

The same applies for health protection arrangements, medical services and safety at work.

In the general setting of the harmonization of the social systems, social security represents a particularly important factor for the improvement of standards of living. Work undertaken on the harmonization of the concepts and definitions used at national level will provide criteria for bringing the different systems more into line. Here, the studies put in hand on the economic and financial aspects of social security will be specially useful.

These general social policy guidelines must also be taken into account in the Community policies: in the common policies — on agriculture and transport, for example — and in the other policies such as the short-term economic policy, regional policy, etc.



In the definition and implementation of the medium-term economic policy, the Community possesses an instrument for information and for action which will make optimum social progress possible in all areas.

### C. Industrial policy

24. The objective of the Community's industrial policy must be to enable industry to make a maximum contribution to the improvement of overall productivity, the maintenance of a high degree of employment and the strengthening of the international competitiveness of firms. This clearly means that industry itself must take advantage of the opportunities and facilities provided. The task of the authorities is confined to establishing a general framework and in certain cases facilitating the adaptation of firms to the development of economic and technical conditions by specific measures.

As the national markets gradually merge in the Common Market, this task cannot be carried out in the national setting alone. The new framework for industrial activity is that of the Community; it is therefore for the Community to review its industrial structures and to co-ordinate the operations of Member States or even to adopt the measures required itself.

Here, the authorities must bear three main facts in mind:

First of all, while the generally favourable business trend has, up to the present, facilitated necessary adaptations of structure, the general expansion has not completely concealed the increasing difficulties experienced by certain industries, which are in relative decline as a result mainly of structural changes arising from the development of techniques and modifications of demand.

The difficulties in the coal-mines, which have been hit by the radical change in Europe's pattern of energy supply, extend to most of the Community's iron, sulphur, lead, zinc and other mines.

Industries which were born of the industrial revolution in the nineteenth century, and which only a few decades ago constituted the basis of the Community's economy (iron and steel, shipbuilding, textiles, paper), have now entered a stage of slower growth and finding it very hard to adapt themselves. This applies particularly to the medium-sized firms.

Though the causes of this trend (technological progress and automation, utilization of new materials, industrialization of new countries, etc.) cannot be analysed here, it appears that the problems are comparable in all the Community countries. This shows clearly that they are not the effects of the business cycle, nor are they accidents due to errors of economic policy, but arise from profound changes of structure affecting all long-industrialized countries.

A second point calls for examination of the competitive capacity of Community industry. It concerns the wave of investment from non-member countries, mainly

the United States, which is manifest in all the Community countries despite the diversity of policies towards such investment.

The benefit derived by European economies is substantial. It takes the form not so much of contributions in capital — very limited since the measures taken to protect the American balance of payments — as of new industrial techniques and production methods which American investors provide, often in growth industries. The gains to productivity are considerable, not only in factories newly set up, but also in existing European firms, which are obliged to modernize their management methods in order to meet competition from the newcomers.

Nevertheless, the extent of such investment arouses some concern in business circles and, in certain countries at least, among the public authorities.

The problem of maintaining certain European firms arises in industries such as the oil industry, in which firms from non-member countries have held an important position for a long time now.

In other industries, such as the motor industry, it is less a question of technology — the excellence of European techniques here is beyond question — than of finance and the size of firms. The considerable funds the non-European parent companies can place at the disposal of their European subsidiaries, either for further investment or even to win a market, is a cause of concern for European firms which often have only relatively modest funds and which are frequently less profitable than their American competitors.

Industries based on advanced technology, such as electronics and aircraft construction, in which competitive capacity depends above all on the money available for research, pose even more difficult problems. The scattered European firms are too often out-classed by the subsidiaries of powerful American firms which have been able to recoup very considerable research expenditure in a large domestic market and which, in addition, benefit indirectly from technological progress due to research financed by the US Government.

It would certainly be a good thing if stricter discipline were observed by the Member States regarding advantages granted to firms from non-member countries, particularly in the shape of direct or indirect regional aid (infrastructure, industrial estates). It appears, nevertheless, that one of the most effective methods of preventing such investment from becoming excessive, without harming the general progress of the economy, would be to develop in Europe firms with sufficient technological and financial means to compete on equal terms with firms from non-member countries.

There is yet a third factor which will greatly affect Community industry: the tariff negotiations just concluded in Geneva and the problems arising from the establishment of a common commercial policy. Owing to the size of the agreed tariff reductions, the Geneva agreement will have wide repercussions on European industry. It is therefore urgently necessary to draw the conclusions from the commitments undertaken.

The tariff reductions obtained from certain countries may be expected to result in an appreciable development of industrial activity. But it is no less true that tariff reductions granted will impose on firms in sensitive industries, particularly in certain member countries, a distinctly faster pace of adjustment in a less favourable general business situation.

Subsequently, the establishment of the common commercial policy will evoke similar problems, for the main difficulties to be resolved, particularly in relations with Japan and the low-wage countries, concern sensitive branches of Community industry.

When we examine the means at the disposal of the Community to improve its industrial structures and generally to strengthen its competitive capacity, we have to note first and foremost that the creation of a large, dynamic market, offering the conditions of a domestic market, is in itself a factor of great importance. If industry is to align itself spontaneously on this market and seize the chances open to it, it must be certain that the goal of creating conditions similar to those of a domestic market will be achieved effectively. Interruption of free movement and barriers preventing it, monetary expedients and other sudden changes in the conditions of competition, affect the climate of investment and hold up adjustment to the conditions of the enlarged market. And so implementation of the programme set out in Section I above is in itself an essential element of industrial policy.

25. Furthermore, a number of specific measures will be necessary; they are outlined briefly below:

a) *Creation of a legal and fiscal framework suited to the requirements of a large market*

Company law and a European-type company: the free setting-up of companies in the unified market will involve, on the one hand, the risk of juridical insecurity due to the multiplication of economic relations between natural and legal persons subject to six different systems of law, and, on the other hand, a risk of abnormal transfers of activity encouraged by the different degrees of security offered by the six systems of legislation.

The right of establishment therefore calls for a counterweight which, according to the Treaty (Article 54), must take the form of co-ordination of the guarantees given to members of companies and third parties, this being the essence of company law. The importance of this task, which consists in smoothing out the most perceptible divergences between the six systems of company law, is evident. By its nature the work is slow and difficult, as experience of reforming such law in individual countries has shown. Despite great efforts, therefore, it has not been possible to avoid some delay. The Community must see that there is no further delay. In particular, the Council will have to reach a quick decision on the first directive on companies and partnerships, submitted by the Commission, concerning the system of publication of particulars, nullity of association, and the powers of boards.

Other specific measures will have to be taken in the form of conventions between the Member States (Article 220 of the Treaty) on reciprocal recognition of companies, the possibility for companies to transfer their registered offices while maintaining their legal personalities, and the merger of companies coming under the legislation of more than one Member State.

The draft convention on the reciprocal recognition of companies has been submitted to the Governments of the Member States. The draft convention on international mergers of companies coming under different systems of domestic legislation is being discussed extensively by a working party of government experts. The Commission will urge that the work be completed as soon as possible. This convention must also contain provisions on the transfer of the registered offices.

During the last few years it has, however, become apparent that harmonization of company law within the Community is not sufficient to satisfy the needs of firms expanding outside the Common Market and extending their activity to other Member States.

The Commission has therefore accepted the French Government's suggestion that European industry should be given the opportunity of forming "European joint stock companies". It sent a memorandum on the subject to the Council and, at the beginning of this year, submitted the preliminary draft of the Articles of a European-type joint stock company which had been drawn up by Professor Sanders of Rotterdam in co-operation with a panel of experts. The Commission hopes that substantial progress will be made in this direction in the next year.

Fiscal obstacles to structural adaptation of firms: adjustment to the larger market and the need to meet, inside and outside Europe, competition from the big international concerns, in particular US firms, has set in motion in all the Member States a marked tendency to form larger firms. It must be noted, however, that this tendency hardly goes beyond the national framework as yet. The reasons for this are many. One of the most important is certainly the fact that the fiscal provisions of the Member States still present serious obstacles to the international concentration of industries.

This applies, in particular, to the merger of companies situated in different Member States and, to a lesser degree, also to the acquisition of holdings.

As regards mergers, the fiscal costs of the operation itself prevents international mergers at present. These costs result from the manner of taxing the appreciation of capital assets (declaration of hidden reserves), and from double taxation under the head of company tax.

In the case of acquisition of holdings, it is not the procedure of combination itself which puts a brake on combinations, but taxation on the activity of newly-set-up groups of firms. Often the burden on two interdependent companies is heavier than that on a single company making the same profits. Here the Community should aim at:

- i) Preventing double taxation at European or national level of transfers of profits between parent and subsidiary companies, where large holdings are concerned;
- ii) Removing the difficulties arising for interdependent firms from the practice of tax deductions at source, by limiting such deductions to subsidiary companies.

Obstacles of a legal nature: an industrial policy aimed at establishment of a common market would be incomplete without alignment of all legislation which may have a decisive influence on the business activity of companies. The draft convention on European patent law has been ready for a long time. A draft convention on the international competence of courts and the enforcement of judgments given abroad will be submitted to the Governments shortly. The Commission also aims at completing this year a draft convention creating a European system of law on bankruptcy.

b) *Policy on restrictive agreements and combinations*

26. Stated simply, the objective of the common industrial policy is to strengthen the competitive power of European industry. The maintenance and strengthening of competition within the Common Market undoubtedly play a substantial part in achieving this objective. The point has been confirmed by the experience of the past nine years, which have seen the opening of frontiers within the Community while tariff and quota protection against non-member countries has also been reduced. Consequently, the competition policy pursued by the Community will have to be taken further during the next few years.

It has, however, been found that in a number of industries many firms are not big enough to make full use of the possibilities offered them by the Common Market and to take an effective part in competition. The Commission has drawn two conclusions: obstacles to the external growth of firms caused by company and fiscal law must be removed as soon as possible; and co-operation agreements concluded between two or more firms for purposes of specialization, joint research or rationalization should be approved on condition that they still permit effective competition on the markets in question. Over the next few years the Commission will have progressively to specify the conditions on which these classes of agreement may be considered permissible.

Regarding external growth and combination, work on company and fiscal law is advancing satisfactorily, as has been shown above. However, in this sphere too, care should be taken to ensure that the combination process does not impair effective competition or lead to monopoly situations.

c) *Increasing firms' funds*

27. If European firms are to be structurally adjusted, and rendered more competitive, their financial base must be broadened and, in numerous cases, their financial structure must be reorganized. The character and "European" dimension of a firm are connected not only with the possibility of buying, manufacturing or selling at will on one market

or another, but also with the firm's right to establish itself financially on a multinational basis. The opportunity of choosing the most suitable financing conditions, ways and means on a European-scale capital market must be open to firms if their movement towards structural adaptation is to be maintained.

Furthermore, examination of the structure of capital markets in the Community shows that, from the angle of demand, the reduction in profit margins has led to a rapid growth of firms' need for external finance (at the same time, the public authorities' demands on the market are likewise growing). From the angle of supply, savers exhibit an excessive preference for liquidity and a certain reluctance to buy shares or bonds. These two factors have led inevitably to a reduction in the ratio of own capital to total funds mobilized by firms.

A European capital market would facilitate solution of problems common to the capital markets of the Member States. Financial saving would certainly be encouraged if savers were thus offered new opportunities for investment and the working of the markets were improved. The present resources of the six markets would then no longer merely exist side by side but be developed to a large degree, and the very fact of integration should cause the Community's financing capacity to exceed the arithmetical total of the resources of the individual domestic markets. As a result of the widening of the markets and the consequent reduction of risks, the institutions "transforming" short- and medium-term deposits into long-term investments would be able to increase their investments. And the narrowness of the domestic stock markets, which is the source of their main operating defects, would be remedied to a certain extent.

During the next few years, certain improvements will therefore have to be made in the structure of domestic capital markets so as to promote indirectly the reorganization of the financial structure of firms and to allow better use of available capital.

The objects of action by the public authorities in the Member States should mainly be to:

- i) Enable European firms to place themselves financially on a multinational basis by progressively putting firms from the partner countries on the same footing as domestic firms with regard to access to the capital market and the purchase of their securities by institutional investors;
- ii) Remove fiscal obstacles to capital movements and to the movement of securities among member countries (differentiation between treatment of distributed profits and those placed in reserve; wide divergences in rules on the basis of taxation, particularly regarding amortization and investment incentives; differing provisions governing fiscal relations between parent and subsidiary companies; international double taxation, etc.);
- iii) Encourage the continuous adjustment of security issues to the pattern of savers' demand (improvement of investment and negotiation techniques);
- iv) Increase substantially the fund collection and employment facilities of institutions that build up and centralize savings funds and distribute them for the benefit of the economy.

d) *Industrial structure policy*

28. Specific measures favouring certain industries must be undertaken only if circumstances urgently call for them, and must be limited to what is strictly necessary. Such measures must aim not at maintaining structures outstripped by economic progress but at facilitating essential adaptation in declining industries and above all at strengthening industries based on advanced technology.

In industries with adaptation problems, action at Community level consists firstly in guiding the decisions of the Governments and Community institutions by viewing the problems of each of these industries as a whole. For this purpose studies must be made of the business outlook in industries threatened by technical developments.

The current programme of studies on industrial structure must therefore be continued and stepped up.

Above all, measures taken by the Member States and the Community's institutions in the various branches of industry must be co-ordinated. The preparation of the next medium-term programme will provide an occasion for dealing with problems in textiles and shipbuilding. Next it will perhaps be useful to study the paper industry, which will be particularly affected by the consequences of the Kennedy negotiations, and the lead and zinc industries. Lastly, there is the problem of the industries where scientific and technical research play a decisive part. The Commission has undertaken various studies on the electronics industry and has suggested to the Medium-term Economic Policy Committee ways of developing scientific and applied research in it, in particular by developing research centres.

Similar studies will have to be undertaken in other branches of industry.

e) *Implementation of a common energy policy*

29. In this field, the construction of "economic Europe" is undeniably lagging behind. The Community has not yet succeeded in working out the guidelines and ways and means of implementing a common energy policy. Numerous obstacles still impede the movement of energy products.

Despite the efforts at co-ordination of the Inter-Executive Working Party on Energy, the division of responsibilities between the three Communities undoubtedly remains one of the causes of this situation. Another reason is the disproportion between the legal means provided by the Treaties and the objectives to be attained.

The adverse consequences for Community industry of this division of the energy markets are self-evident. Price disparities place user industries on unequal competitive terms. Investments are influenced by these situations of inequality in such a way that they do not always meet the requirement of maximum economic profitability.

The single Commission will take over the work undertaken in the field of fuel and power by the High Authority, the Euratom Commission and the EEC Commission,

and must lose no time in trying to formulate an overall policy for energy. General discussions on the common energy policy have not been held in the Community since the ECSC Special Council adopted the resolution of April 1964 on energy policy. Two tasks can no longer be delayed:

The first is to specify the objectives, ways and means of the common energy policy. The problems here are not unlike those the Community has already encountered in agriculture and transport. But the present Treaties do not contain provisions for energy similar to those for agriculture and transport.

The merger of the Treaties will enable this defect to be remedied. It is not, however, possible to wait until then before adopting a number of provisions indispensable to the functioning of a common energy market.

On the basis of the work already done in the three Communities, in particular the Commission's first memorandum, in 1966, on Community policy for oil and natural gas, it is already possible to indicate what should be the immediate objectives of the energy policy:

i) To make the Community's oil and natural gas supplies more secure. In 1970 nearly 60% of the Community's total fuel and power needs will be covered by these products, and the fact that they will mostly have to be imported obliges the Community to take all measures necessary to guarantee its supplies;

ii) To strengthen the position of the small and medium-sized firms in the Community so that they can compete with the big international oil groups. In particular, their access to crude-oil resources of their own must be facilitated by granting certain fiscal advantages or aids, and they must be encouraged to form groupings so as to benefit from economies of scale;

iii) To see to it that a certain output of energy raw materials, in particular coal, is maintained in the Community territory. Efforts must be made to organize the necessary adjustments of production so that the closure of production sources does not have detrimental economic and social consequences. An important step in this direction is a system of aid to the coal-mines organized by the ECSC High Authority;

iv) To enable European consumers to enjoy advantageous prices.

The second task is to ensure that energy products can circulate freely in the Community. The High Authority and the two Commissions have already taken a whole series of measures to facilitate free movement in the fields for which each is responsible. Numerous obstacles still exist, however, in the shape of regulations, quotas and fiscal provisions. The Community's energy policy will have to lead to completely free movement of energy products.

The adoption of a number of measures for coal, and the strengthening of the competitive position of Community firms producing or distributing oil and natural gas, should permit the establishment of a common energy market sufficiently open to the outside world.



But the ways and means of implementing the future common energy policy still have to be specified, particularly as regards coal and reinforcement of the competitive position of Community oil companies. The new Commission will have to submit proposals as soon as possible, so that Community decisions can be taken quickly and a true common energy market established by 1 January 1970.

f) *Co-ordination of regional policies*

30. Regional policy is an integral part of the overall economic policy of each Community country. Lack of co-ordination at Community level can have serious consequences. Co-ordination of regional policies is the best means of maintaining solidarity in the Community in the face of the very difficult problems raised by technical progress, industrial conversion and location of investment. There is the danger that towns, regions and States in difficulties will endeavour to get rid of their burdens on to others. There can be an unbridled run on regional aid and the conditions of competition can be profoundly distorted. Such an exaggerated boom in the supply of aid — the true beneficiary from which, whether a region or a branch of industry, could hardly be known — would mean that some aspects of the customs union would inevitably be jeopardized.

The past nine years have shown that the Common Market is a powerful factor for progress in the economy of the member countries as a whole; but they have shown that the existence of the Community restates the problem, in different and sometimes more difficult terms, of regions whose economy is already weak or unstable. Although the inadequate statistical data on the subject hardly allow a true evaluation to be made, it would appear that the gap between the various regions has not been reduced appreciably since 1958. This is very likely because the better placed or better equipped regions have benefited fully from the boom of recent years, while those that are backward or more particularly hit by technical developments have benefited less.

Regional problems have therefore lost none of their gravity in the Community. The Member States are well aware of this. In the last few years each of them has increased, diversified and intensified its measures to aid areas where development is lagging behind because of insufficient industrialization or is hindered by conversion difficulties. Nor have the Community institutions remained idle. Experience has shown that these problems should be analysed not only in the national context but also at European level and that remedies would be all the more effective if they were agreed upon in common. The Community can no longer put off the work to be done in this field.

The Treaty has given the Community institutions certain means of taking action in the matter of regional policy: powers of assessment vested in the EEC Commission concerning the compatibility of regional aids and preferential transport rates with the rules of competition; ECSC and European Social Fund subsidies for retraining workers; substantial subsidies from the Guidance Section of the EAGGF for reorganizing agricultural structures; ECSC and European Investment Bank loans. In addition, the

working out and implementation of the common policies by the Community institutions have considerable regional implications, direct and indirect; it is sufficient to quote agricultural and transport policies here.

These means of action have already been used widely, but rather to tackle immediate difficulties empirically than to try to solve the problem of regional imbalances in the Community as a whole. As in past years, the Community institutions must continue to give all the support they can to action by the individual countries. However, decisions must be taken in the light of an overall concept. How can the vast annual programme of subsidies for agricultural structures be administered one hundred percent efficiently without a comprehensive view of developments in the Community's agricultural regions? How can the legitimacy of the different systems of regional aids be assessed without a common definition of the objectives to be attained? Unless such a global view has been worked out, the common policies, which it is the job of the Communities to implement, cannot help to correct regional imbalances, and national or Community action to do so is likely to be ineffective. It is from co-ordination of the Member States' policies, here as in other economic fields, that we hope for greater efficiency of the Governments' efforts and for the most balanced growth of the Community's economy.

The details of such co-ordination have still to be decided. Joint examination of regional programmes, which should be drawn up for the greatest possible number of regions, would certainly give the best opportunity for developing co-ordination. Other means, however, must be used, as was stressed by the Commission's first memorandum to the Council on the EEC's regional policy. These means are:

Preparation of regional statistics: it is indispensable to have comparable regional statistics in order to know the problems and decide on the action required. The present data are still far from uniform. The Commission would like to receive from the Member States, at regular intervals, regional statistics on a sufficient number of indices in the same way that it is supplied with data on economic trends.

Examination of regional aids: in order to achieve maximum efficiency at Community level, it is necessary to reconsider regional aids from the points of view of their nature, necessity, geographical area of application, and effect on industries.

Regional studies: the Commission has already had a hand in studies of particular interest to the Community: the Taranto-Bari development pole; the northern Lorraine-southern Luxembourg frontier region; the Eifel-Hunsrück region. Other studies could be carried out in the years to come.

Regional orientation of economic policies: the Community must take into consideration the needs of regional development in shaping common policies at Community level. Here the following two aspects must be stressed:

i) EAGGF: in conformity with the medium-term economic policy programme, financing by the Guidance Section of the EAGGF must take regional policy into

account and give priority to regions for which there is an overall development programme;

ii) Transport infrastructure: a priority list must be drawn up of transport routes which can make a decisive contribution to the development of regions hitherto without a modern transport network.

g) *Scientific and technological research*

31. Last February, the High Authority of the ECSC, and the Euratom and EEC Commissions submitted to the Council a joint memorandum containing guidelines for action within the Community to cope with the problems posed by technological progress.

This question is decisive for European enterprises. In the modern world, industrial research and innovation play the same role as the possession of raw materials in the last century. Without them Community industry would be condemned to seeing its competitive position steadily and irrevocably decline.

The main cause of the Community countries' technological lag is the structural weakness of European enterprises, and in particular their inadequate financial resources. The completion of the European Economic Community is calculated to change the terms of this problem. It may be hoped that more powerful industrial corporations will emerge in the Community, with large funds at their disposal and research and technology infrastructure far in advance of that at present available to companies in the Six. This is why it is essential that the Community rapidly produce its effects on the organization of economic life; the technological progress of the Community — and consequently its economic and social development too — depends very largely on the restructuration of enterprises.

However, European firms cannot carry the research burden unaided — any more than can their American counterparts — and Governments must continue to participate actively in this field. The problem of co-operation between the Member States within the Community then arises and — on a more ambitious level — the problem of a common research policy.

Co-operation between Member States in this field has so far been more or less confined to the atomic sector. Complete economic union must lead to a fresh organization of Community action with regard to scientific research, taking in new economic and technological fields and creating Community solidarity for action in other settings. Existing co-operation with non-member countries should be pursued and intensified.

At the present stage of the Community's development, it is still difficult to forecast what form this scientific co-operation within the Community will take. It is certain, however, that it must create flexible and varied procedures to deal with the complex situations posed by technological progress, the special situation of Community enterprises, and international competition. Side by side with joint projects financed and

directed by the Governments, other research incentives could be provided, for example research contracts to which the Member States and the Community would both contribute, and for which Community enterprises would compete. Such contracts would have the special advantage of encouraging these enterprises to undertake the spontaneous research necessary to tender for them. The advantages flowing from such contracts would encourage co-operation and the interpenetration of Community firms.

It would therefore seem desirable to make certain funds available to the Community institutions. In most cases aid should only be supplementary and act as a catalyst for action by the States and the firms.

Finally, a scientific research policy implies the existence at Community level of procedures for laying down general policy, choosing the industries to benefit from Community aid and deciding on the schemes or contracts to be financed.

#### D. Common agricultural policy

32. The common agricultural policy has been at the hub of Community activity for many years. As the first common policy to be implemented it served as a test bench for Community methods and machinery. Its success is the guarantee of future progress in other sectors of Community activity.

Now that single markets for agricultural products have been established, the tasks facing the Community are of two kinds: the management of these agricultural markets and the modernization of the pattern of European farming.

The Community must see to it that the markets are effectively managed, using all the means at its disposal. Within the Community, fair conditions of competition between producers must be guaranteed, while farmers are assured of satisfactory remuneration thanks to increased productivity and the arrangements for market intervention and support.

Management of the markets should also take into account the Community's responsibilities in international trade. Neighbouring countries in Europe and in the Mediterranean area, and African countries too, are already trying to secure improved trading arrangements with the Community for their agricultural produce. In the longer run, however, a better organization of international markets will not be possible unless discipline is achieved in domestic agricultural policies and the commercial policies of the world's principal producing and importing countries. This necessity, combined with the need for food aid on a large scale, will call for the gradual formulation of an international agricultural policy.

Agricultural production will be guided in the first place by the fixing of single prices each year. Before 1 August 1967, the Council will take this decision for the first time, on a proposal of the Commission and in the light of the report on the state of agriculture and agricultural markets in the Community. In future, the

content of this annual report will be amplified, in particular by data obtained through the information service on farm accounts, so as to arrive at the most rational price decisions in the Community context. Other factors which will determine the fixing of these prices are the agricultural situation and the trend of production and consumption within the Community, the financial cost of market support, and the situation on international markets.

Farms incomes will not, however, be entirely dependent on the Community's market and price policy. Its structural and aid policies are also destined to play a decisive role in determining the living standard of Community farmers. The Community's second task will therefore be to define those aids still necessary to overcome certain structural or social deficiencies remaining or likely to emerge within the Community, and to implement a policy on structures. Co-ordination of national policies in this matter has already been put in hand. Over and above this, however, the Community, which has the necessary funds at its disposal, should direct its attention to Community measures for the improvement of structures. Through its structural policy, it should help to modernize the economic and social pattern of farming by increasing productivity, developing rational forms of co-operation in production and marketing, and by constantly adapting production to demand from consumers inside and outside its borders. Structural policy should also aid — and even give priority treatment to backward areas, whose mainstay is indisputably farming, so that with the Community's help they can overcome the handicaps which have so far condemned them to lag behind economically. The adoption of Community programmes extending over several years is the main way to achieve this, and the Commission will submit a first tranche of such programmes to the Council in the very near future.

## E. Commercial policy

33. In 1966 the Community's imports from non-member countries represented almost 10% of its gross product and its exports to these countries 9%. The Community is therefore far more dependent on foreign trade than is the United States. The high level of its foreign trade, which passed the \$60 000 million mark for the first time in 1966, is a determining factor in its economic expansion.

The highly sophisticated economy of the Community is, in particular, far more dependent on outside sources for its supplies of raw materials and energy than are other large economic blocs. The Community today accounts for one third of all the West's imports of raw materials and energy. This burden is all the heavier, since with economic growth, dependence on certain external supplies necessarily becomes more and more marked.

In order to obtain the funds necessary to pay for these imports, the Community must have free access to the markets of non-member countries for its industrial products. This will only be possible if it is prepared in turn to follow a liberal import policy.

In these circumstances the Community cannot withdraw into its shell. As the Treaty lays down, it must:

- a) contribute to the harmonious development of world trade by liberalizing imports and exports as far as possible;
- b) aim at the lowering of customs barriers by means of negotiations with the principal non-member countries;
- c) act for the abolition of restrictions on international trade and the creation of normal conditions of competition.

As regards liberalization, the Council decision of 10 May 1959 already held out the prospect of an early end to all quantitative restrictions vis-à-vis the Community's GATT partners. The Commission proposed binding the level of liberalization reached at that time and establishing a common liberalization list. These proposals should be implemented between now and 1 July 1968 and extended in some appropriate form to trading partners who are not members of GATT.

In the field of customs duties, the Kennedy round negotiations made decisive progress which seems to represent the maximum attainable for some years to come — at least as far as trade with the industrialized countries is concerned.

Owing in particular to the drafting of an international anti-dumping code effective from 1 July 1968, the Kennedy round also made progress as regards both non-tariff barriers and barriers of equivalent effect to tariffs which distort competition and hinder trade. By that date at the latest, the Community must have its own anti-dumping rules. It is known that the Commission's proposal on this subject has been before the Council since 1965.

It would be of great importance for the transparency of world trade if the United States signed the Brussels conventions on nomenclature for the classification of goods in customs tariffs and on the valuation of goods for customs purposes. Certain assurances have been given in this regard.

Finally, the Community will continue to do all in its power, through the international organization of markets in agricultural products and raw materials, to have all measures eliminated which hinder trade in this sector.

However, the Community must keep in mind that — apart from imports of goods and services — its payments balance will be burdened during the years ahead by additional charges resulting from development aid and increased investment abroad. Continuous expansion of exports to non-member countries is therefore essential. One of the principal tasks of Community policy should be to ensure this expansion. It should therefore bring its full weight to bear in negotiating trade agreements with non-member countries to obtain this result. But it should also create optimum conditions for export financing and agree a common policy on export credit guarantees.

34. These general principles which dictate the Community's approach to commercial policy should naturally be adapted to meet special situations in certain sectors of the economy and in some non-member countries.

a) *International competition and the situation in certain sectors of the economy*

The sector mainly concerned is agriculture. Despite a relatively high rate of self-sufficiency, the Community's purchases make it the world's largest importer of farm products. This is of particular importance with regard to trade with certain non-member countries which, for their part, are large importers of the Community's industrial goods. Experience in the past, and the common agricultural policy as framed and applied, indicate that Community imports of agricultural products will continue at the same high level they have already reached, and might even increase further. This does not rule out the possibility that their composition may change. Such changes have been noted in the past and may occur again in the future, particularly as a result of technological developments affecting production and a shift in the composition of demand for farm products from Community consumers. However, since demand is continually increasing, it will be possible to parry any commercial policy difficulties which might result in certain instances from changes in the composition of imports.

In the industrial sector, protective measures under commercial policy must remain an exception. These measures will affect, on the one hand, growth industries which are not sufficiently developed but are essential for the Community's economic expansion and, on the other, particularly weak industries which are experiencing difficulties in adaptation. As a temporary measure, these industries must be given adequate tariff protection combined, where necessary, with quota protection until such time as industrial policy measures have enabled them to reach the level of development considered necessary, or the essential structural reform has been completed. The sensitive industries have already been enumerated in the list of exceptions presented by the Community for the Kennedy round. In the cotton textiles sector, Member States' commercial policy has been largely co-ordinated during recent months. Furthermore, during the spring of 1967, the Commission submitted detailed proposals to limit or control imports of sensitive products into the Community at abnormal prices.

In this connection, particular importance should be attached to the elimination of measures distorting competition in world trade and — if this cannot be achieved — to protection against abnormal trading practices, like dumping and subsidies, and against the risks of market disturbances resulting from low-priced imports; this protection will be assured in part by measures taken independently by the Community and by others negotiated with non-member countries and guaranteeing, by mutual agreement, the regular expansion of trade in certain goods.

b) *Trade relations with developing countries and state-trading countries*

35. *Developing countries:* In its commercial policy vis-à-vis developing countries, the Community has attempted to establish a satisfactory balance between the responsibilities

conferred on it by obligations under the association arrangements and the interests of non-associated developing countries.

Community trade has developed in a way which has benefited those countries which are signatories to the Yaoundé Convention — in 1966 their exports to the Community represented approximately 4.3% of all imports from non-member countries — and other developing countries too — 36 %.

Because of its rapid economic growth, Community imports from developing countries have grown much more rapidly than those of other advanced countries, or its own exports to developing countries. As a result the Community has since 1961 been the main customer of developing countries, which find outlets for approximately a quarter of their exports on its market. In addition, there has been a large deficit on its trade balance with developing countries since 1962; the deficit in 1965 amounted to \$1 420 million (fob).

The Community is conscious of the responsibilities towards developing countries conferred on it by its position in world trade. It shares these countries' concern to step up the growth rate of their exports, and consequently, to increase their import capacity, particularly as regards equipment goods.

In view of this, the Community cannot but attach particular importance to the harmonization of rules governing trade; it sees this as an appropriate means of improving its relations with these countries particularly in commercial matters.

Attention should be focused in the first instance on the commodities which still constitute the hard core of the developing countries' exports.

In this regard, the gradual dismantling of trade barriers is a first factor which could stimulate consumption and import of such commodities by the advanced countries. It should be remembered, however, that the majority of these products already enter the Community duty free.

On the other hand, since the stabilization of world commodity prices could improve and regulate the capacity of the developing countries to import, the Community should do all in its power to promote the organization of international markets for individual commodities. Since, however, economic and technical factors also limit action in this sphere, efforts to arrive at international commodity agreements should be accompanied by measures aimed at diversifying production and export structures in the developing countries and thus making them less vulnerable to fluctuations in world prices.

The Community should therefore attempt gradually to ensure that developing countries participate increasingly in world trade in semi-finished and manufactured goods, which constitute the most dynamic element in international trade. To this end, the implementation by the Community and other industrialized countries of a world system of tariff preferences for semi-finished and manufactured products from developing countries in general would be an important step on the way to an organization of world trade better adapted to the special conditions of developing countries. The granting of



tariff preferences to all these countries could partly offset their initial competitive handicap with regard to semi-finished and manufactured goods and thus contribute to a better international specialization of production.

All these questions will be discussed at the next World Conference on Trade and Development (UNCTAD) in New Delhi in the spring of 1968.

The Community's place in world trade and the political importance of the UNCTAD conference should encourage Member States and the Community institutions to lose no time in elaborating and adopting a common approach to the main subjects on the New Delhi agenda.

36. *State-trading countries:* In recent years, Community trade with East bloc countries has grown, proportionately, more rapidly than its trade with the West. However, it does not exceed 6% of the Community's overall external trade, and this is not a fair reflection either of the close economic links which existed in the past nor of the present level of development of national economies both West and East. Subject to satisfactory concessions in return, the Community should therefore pursue a policy of all-round import liberalization, although this could, of course, operate only with certain guarantees.

The Commission is well aware of the difficult nature of this task. Trade between countries with free market economies and state-controlled economies cannot be influenced on both sides by the same methods. Under the state-trading system, customs duties, quotas and liberalization measures have a different meaning than in the West. If Western countries accord most-favoured-nation treatment, or liberalize their imports from state-trading countries, they are necessarily making an advance concession. In view of the limited influence of the laws of the market on imports of East European countries, only subsequent analysis can show whether the state-trading partner has in fact kept his part of the bargain and reserved an adequate place on his market for exports from the West.

Given the Community's stature as a trading partner — provided it decides to make the best use of its position by presenting a united front — there is no cause for excessive alarm in this connection. Then again, trade with East bloc countries is not at present suffering from a lack of import demand in those countries but rather from a lack of means of payment. It is true that export credit guarantees given by Western countries partially bridge this gap. The difficulties have not however, disappeared; they have merely been postponed. The Commission trusts that closer co-operation between West European exporters of plant and equipment and appropriate financial co-ordination will put an end to the difficulties caused by competition between the Member States of the Community in this area.

c) *Outlook for the Association between the Community and the African States and Madagascar*

37. The Yaoundé Convention governing the present association is due to expire on 31 May 1969. But it is stipulated that one year before this, i.e. from 1 June 1968,

the contracting parties shall examine the arrangements which could be made for a further period.

The preparatory work for negotiating a new Association Convention is therefore among the important tasks to be tackled by the Community in the near future.

Aid for the development of certain overseas countries is embodied in the principles of the Treaty of Rome and even in the body of the Treaty itself.

Since 1958, this aid had been organized and developed under a form of association governed initially by the Implementing Convention annexed to the Treaty and later, from 1 June 1964, by the Yaoundé Convention.

The association has been a success both for the associated States and for the Community.

It has made possible an overall increase in trade, a gradual elimination of discrimination — in the AASM — between the Member States, their nationals and companies as regards establishment and the supply of services, and has above all greatly helped the economic and social development of the AASM through growing technical and financial co-operation.

From the political angle, the association has created or strengthened a climate of friendly relations both at the institutional level and between the participating States. It has contributed to a coherent Community policy in an important area of external relations. It has also facilitated efforts by the AASM to create between themselves common organizations at various inter-African levels. It has kept a reasonable balance between the interests of the various parties vis-à-vis other areas of the world.

Finally, applications from other African countries wishing to establish closer links with the Community are a further proof of its success. In this way, an agreement (also due to expire on 31 May 1969) was signed with Nigeria and negotiations are in train with the group comprising Kenya, Uganda and Tanzania.

It is therefore advisable that the Community should pursue its policy in this field.

All the guidelines of this policy cannot yet be outlined but from experience some points can be emphasized.

With regard to trade, various surveys have provided those concerned with a deeper awareness of the problems to be solved. The contracting parties should now draw from these practical conclusions conforming with the spirit and aims of the association, and make a fair appraisal of possible clashes between the interests of the different parties. In the associated States, efforts should be made to ensure that all signatories participate without discrimination in economic development.

Financial and technical co-operation should

a) be increasingly focused on productive schemes covering organized inter-African groupings;

- b) benefit from ever stronger practical co-ordination with bilateral aid from the Member States to the associated States, and also with other multilateral aid;
- c) ensure a close, programmed relationship between the various types of training for supervisors and personnel on the one hand and investment and economic development measures on the other.

As regards the institutions of the association, although practical considerations counsel against any over-extensive and over-complex machinery, it is nevertheless important entirely to retain the equal and democratic characteristics which lent to EEC/AASM association policy a form and force of attraction exceptional in relations between unequal economic partners.

38. The Commission has been chiefly concerned with developments within the Community, but this does not mean that it has neglected other problems referred to the Institutions.

The widening of the Community, which has been under discussion since 1961, has been a matter of prime concern to them and to the Member States since the Governments of the United Kingdom, Ireland and Denmark re-applied for membership of the Communities on 10 May 1967.

The Commission has always favoured the accession to the Community of other democratic States of Western Europe, in particular Great Britain. It has expressed its opinion on this matter on many occasions in the past, more particularly before the European Parliament. Its basic position was recalled in the introduction to the last General Report <sup>(1)</sup> and it has not altered in the meantime.

Whereas the Council decided on 5 June 1967 to initiate the procedure laid down in Article 237 of the Treaty, a procedure in the course of which the Commission will give its opinion, the Commission feels that no useful purpose would be served by publishing further statements here.

39. Apart from the applications for membership which have been submitted to it, the Community is pursuing an active association policy, particularly in Africa and the Mediterranean area. Quite apart from its economic implications, the establishment of association links inside and outside Europe is of great general significance.

The association with the African States and Madagascar has already been discussed in this Introduction. The success of the association with Turkey was highlighted by the recent visit to the Community of the Turkish Prime Minister, M. Suleyman Demirel. The association with Greece functioned normally until the spring of 1967. The Commission cannot however conceal its concern about developments in Greece and the consequences which these might have for the association. The Commission recently

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<sup>(1)</sup> Ninth General Report, Introduction, paragraph XII.

informed the Council that it favours the signing of an association agreement with Israel. Special agreements are also planned with other countries. The negotiations and studies so far undertaken augur well for the conclusion of an agreement with Austria; preliminary discussions have begun with Algeria, Morocco and Tunisia, and negotiations with Spain may be expected to start in the near future.

40. At the end of its period of office, the Commission reiterates its conviction that the constitutional order of the Community remains, in spite of difficulties and crises, the essential foundation for the European edifice, the determining factor in progress already achieved and the best guarantee of future success.

The members of the Commission who took office on 10 January 1958 following the entry into force of the Treaty were already convinced of this. Nine years later this conviction remains intact, confirmed and strengthened by the test of facts — and the Commission believes that this experience has helped to spread this conviction far and wide among the peoples both inside and outside the Community.

41. The rules chosen by the Commission to guide its work can be summarized in a few words: to assume all the responsibilities laid upon it by the Treaty, without compromising on any of them; to ensure that the Treaty is executed completely, to its fullest extent and with all its consequences; to guarantee respect for the constitutional order established by the Treaty and to see that the Institutions function properly. The Treaty itself makes all these demands. It may have been difficult from time to time to comply with them, but how much an Institution gains in authority, security and confidence when it is founded on the Treaty, that is on a Charter ratified in the name of the peoples of six countries.

In acting thus the Commission has followed the example of the European Parliament, and the Parliament's vigilance has supported and sustained it throughout its whole period of office. It therefore believes that these same rules can be recommended as a guide for action in future.

42. It is not, however, sufficient to maintain the present constitutional order — that "ever closer union among the European peoples" the foundations for which were laid by the Treaty remains to be achieved. The Member States themselves pointed the way to this by expressly providing in the Treaty for elections to the European Parliament by direct universal suffrage, with all that this implies in terms of increasing the authority and extending the powers of the Parliament.

The Commission has never hesitated to commit itself on the side of increased powers and influence for the Parliament, and it does not regret this. The Treaty directive is still in force and the Institutions will make it their business to see that this objective is maintained.

43. In the Commission's eyes, the Community has always been a political union in the economic and social fields. Its institutions — the Parliament, the Council, the Commission — are political institutions. If further proof of this political character

were needed, it would be found in the clearly expressed will of the peoples of the six countries and their Governments to maintain and advance the Community despite the most severe strains and difficulties. The extension beyond the economic and social spheres of those areas where the "ever closer union" of the peoples of Europe is being achieved is, if not the corollary, at least the normal extension of the existing Communities.

The Commission has always shown its interest in all moves in this direction. It must repeat its view that initiatives of this kind can succeed only if they lead to the establishment of a European constitutional order in the other spheres, an order which, whatever its structure, would include "institutions capable of guiding a destiny which from now on is shared".

44. Ten years after the signature of the Rome Treaty, 17 years after President Robert Schuman's historic declaration, the merger of the Institutions is a useful and necessary change. We may be permitted to look back to the work and the ideals of these who were the originators and the first builders, Jean Monnet, Paul-Henri Spaak, Alcide de Gasperi, Robert Schuman, Konrad Adenauer... What has been done, despite imperfections, despite set-backs, is not unworthy of the original design. A new team is taking over. A clearly marked straight road lies before it as it looks to the future.

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