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INFORMATION PAPER ON RECENT DEVELOPMENTS IN WESTERN EUROPEAN ECONOMIC GROUPINGS *

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INFORMATION PAPER ON RECENT DEVELOPMENTS CONCERNING WESTERN EUROPEAN ECONOMIC GROUPINGS

1. This paper is a follow-up of "Recent developments in Western European economic groupings as far as they concern African countries" (E/CN.14/139) to bring the information up-to-date[1/]. The Secretariat has had no access to unpublished sources of information. The following paragraphs are accordingly based on press reports.

2. The last months of 1961 and the first month of 1962 were both a dramatic and a hectic period in the life of the European Economic Community, but as a great part of the questions occupying the time of the Commission in Brussels and the Council of Ministers are only of limited interest in African countries, they will here only be mentioned in passing in a few paragraphs.

3. The Rome Treaty lays down that the Council must decide at the end of the fourth year of its transition period - that is, by the end of 1961 - whether to pass on to stage two. In the absence of approval stage one should automatically be extended for one year. One important aspect of the second stage is that the member countries would comply not only with unanimous decisions but also with those taken by "weighted majority voting" on a broader range of questions than hitherto, though not on agriculture. Unanimity will also be required for the renewal of the agreement of association. The main change in voting procedure will not occur until the third stage.

4. Before passing to the second stage, the Six had to reach agreement on all major questions of the first stage. Towards the end of 1961 three major points remained to be agreed on: a set of cartel regulations for the

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1/ It is hoped to present an analysis of the impact on African economies of the recent developments in Western European economic groupings to the first meeting of the Standing Committee on Trade.

Community, a time table for equating wages of men and women in member countries and a group of proposals for implementing a common agricultural policy among the Six. The two first points were successfully cleared up, while accord had still to be found on a number of principles of agricultural policy by the end of the year, particularly on the application of the escapes clauses which would allow individual countries to break the rules of the common policy in times of strain. Having failed to meet the deadline set by the Rome Treaty, the Council, however, decided to continue in permanent session in order to resolve the problems and not being forced to take a vote. By extending the Council session, it was made possible for the decision to be backdated to 1 January 1962. A summary of the agricultural agreement is given in paragraphs 29 - 49.

Tariffs and quotas

5. On 1 January 1962 the Six reduced their internal EEC tariffs by 10 per cent, thus bringing the total of their reductions since the Rome Treaty came into force to 40 per cent for manufacturers, 35 per cent for non-liberalised agricultural products and 30 per cent for liberalised agricultural products. France did not make any tariff reductions on 1 January 1962 as she unilaterally effected the necessary cut in two stages of approximately 5 per cent each on 30 March and 12 September 1961.

6. No further acceleration tariff cut of 10 per cent like the one at the beginning of 1961 was made. It is possible that this step may be taken sometime in 1962 since the next scheduled reduction will not be made until mid-1963. The following associated countries carried out the acceleration of 10 per cent which took place in EEC countries on January 1961: Niger and Dahomey (1 January 1961) and Ivory Coast (1 May 1961).

7. The first of the three moves towards the erection of EEC's common external tariff was completed by the end of 1961. For industrial goods the first harmonization took place 1 January 1961, on the basis of the

common external tariff less 20 per cent (with a few exceptions). The harmonisation taking effect from 1 January 1962 therefore only concerned agricultural goods. It was based on the common external tariff without reductions. At the same time Western Germany also raised her external tariffs on manufacturers vis-à-vis non-community countries by the same amount as she did at the end of 1960[1/]. This represents the second step by that country to implement the acceleration programme of May 1960.

8. In accordance with the acceleration decision, all quantitative restrictions on imports of industrial goods from other Community countries were abolished from 1 January 1962, unless an escape clause is invoked.

A new agreement of association

9. The meeting of ministers from the Six and the associated countries, which took place in Paris 6 and 7 December 1961, agreed on the general principles for the new agreement of association and on a time table and work programme for elaborating the agreement.

10. The meeting set up one steering committee composed of representatives of all member and associate member countries to organize and coordinate the activities of the working groups: one for institutional and administrative problems, one for financial and technical cooperation and one for commodity trade. The latter group will establish sub-groups to deal with special commodities.

11. The most important parts of the agreement reached in Paris are:

a - The new convention, which apparently is visualized as an outline agreement to be complemented by bilateral or multilateral protocols, will have a duration of five to seven years.

1/ Owing to the large German tariff reduction in 1957 the country was permitted to implement the acceleration programme in two operations.

b - It will assure advantages at least equivalent to those guaranteed by the Rome Treaty and provide for measures to facilitate marketing of tropical products and to improve profits and sales.

c - The associated countries will have the right to levy customs duties to foster economic development and industrialization or for budgetary reasons.

d - The establishment of a development institute, in Europe or in Africa, will be considered.

e - A new development fund will be instituted with means at its disposal at least equivalent to the present fund.

f - Measures will be agreed upon to develop private investment in the associated countries.

12. The steering committee will meet at the beginning of February while the working groups started their work in January 1962. The Ministers are to meet again 9 and 10 April 1962 to examine the progress made by the three working groups. It is expected that the new convention will be signed in June or July 1962.

13. It appears that the requests of the African associated countries have not been entirely satisfied. Particularly the non-member countries of the OAMCE (Togo, Mali, Somali and Congo (Leopoldville)) are believed to have pointed out their special positions of non-alignment. The majority of the African and Malagasy delegations apparently also wanted Part IV of the Rome Treaty to be mentioned in the final communique, but the Six could not agree to this.1/ A compromise consisting of a general reference to the Treaty and not specifically to the IVth Part was adopted. An adoption of the view

1/ Part IV of the Rome Treaty concerns the association of overseas countries and territories having "special relations" with Belgium, France, Italy and the Netherlands.

of the African countries would have given the present associated countries a priviledge position as compared to other countries (as for instance African Commonwealth countries) which may have to apply for associate membership under article 238 of the Treaty. France is known to support the African interpretation, while Western Germany and the Netherlands are more or less opposed.

14. It is furthermore evident that the main problems to be solved are the rules for the trade relations between the associated countries and the EEC member countries. The African delegates were as vocal as before in demanding that they should be given preferential tariff treatment on the EEC markets. It is, however, not clear whether the free trade area (embracing the Six and the associated countries) should cover all trade or only trade in tropical agricultural products.

15. Both the Commission and the member countries seem to be of the opinion that the advantages guaranteed by certain of the EEC member countries to associated countries must be taken into consideration when the new convention is drawn up. It is, therefore, not very probable that the associated countries will be granted guarantees as to the quantities they will be able to sell on the markets of the Six. On the other hand, France may be permitted to maintain the present guarantee system for countries belonging to the Franc zone.

16. African and Malagasy experts met in Paris 10 and 11 January 1962 to agree on the positions to take during the coming negotiations. The main features of their views on the new agreements were the following:1/

a) The common external tariff should be maintained.

b) The Six should guarantee to increase their consumption of the products from the associated countries in the same rhythm as the increase in production in these countries.

1/ Source: Afrique Service 17 January 1962.

c) Price stability should be guaranteed.

d) The present preferential system should not be changed.

e) Quantitative restrictions should be applied on imports of tropical products from third countries.

f) The European Development Fund should continue its activities and have its disposal US$220 million annually.

g) The final document from the ministerial conference should explicitly refer to Part IV of the Rome Treaty.

Financial aid operations

17. On 1 December 1961 the total commitments of the European Development Fund amounted to 235.5 million US dollars. A total of US$100.7 million was allocated to social investments and 134.8 million to economic investments. Of the latter 88.1 million went to infrastructure investment and 46.1 million to agriculture, the balance going to study and research.

18. The main recipients are the countries formerly dependent on France, which up till now have received 85 per cent of the amounts granted. About 12.3 million are earmarked for former Belgian colonies, 14.7 million for Somalia and 12.5 million to the Netherlands' overseas dependencies.

Association agreement with Greece

19. The association agreement with Greece was approved by the French Chambre des Députés 8 December 1961. The final ratification will take force when the Senate has voted.

20. It is anticipated that all parliaments will have ratified the agreement during the first half of 1962 so that it can come into force before the summer.

Table I

The European Development Fund

Projects approved in associated African countries and territories as of 30 November 1961 a/. Thousand EPU accounting units b/.

	Authorizations	
	No. of projects	Amount
Congo (Leopoldville)	8	9,384
Ruanda-Urundi	11	2,938
Cameroun	17	16,021
Central African Republic	15	6,028
Comores	5	2,069
Congo (Brazzaville)	7	8,216
Ivory Coast	12	19,978
Somali Coast	1	742
Dahomey	11	8,389
Gabon	9	8,058
Upper Volta	8	14,806
Madagascar	22	25,563
Mauritania	7	9,780
Mali	17	14,727
Niger	2	7,290
Chad	10	11,851
Togo	12	9,409
Reunion	3	1,682
Senegal	9	15,115
Somalia	4	4,760
	189	198,096 c/

a/ Excluding administrative expenses

b/ Equivalent to United States dollars

c/ Including a project for the railway Abidjan - Niger

Source: Industries et Travaux d'Outre Mer, December 1961.

Negotiations with Turkey

21. The member states of the EEC appear to be of the opinion that the financial aspects of the future association agreement with Turkey have to be decided in detail before further negotiations are undertaken. The European Investment Bank apparently has come to the conclusion that the normal credit procedures used by the Bank cannot be applied in the case of Turkey because the charges would be too heavy. A special formula more suited to the capacity of the country should be considered. The commercial facilities to be offered to Turkey have also not yet been decided by the Council. The Italian Government has reservations about granting tariff quotas for hazel nuts, dried figs and tobacco.

Negotiations United Kingdom - EEC

22. The negotiations for the entry of the United Kingdom opened in Brussels 8 November 1961. There were ministerial meetings on 8 December 1961 and 18 January 1962 while another is scheduled for 22 February 1962.

23. Decisions taken so far have primarily concerned matters of procedures or method. The United Kingdom has stated that it is prepared to accept the common external tariff as it emerges from the so-called Dillon negotiations in GATT. It has, however, submitted a list of 25 tariff items on which it would want low or nil duties under the common tariff. The major items of interest to African exporters on this list are aluminium, lead, cadmium and zinc. This request gives rise to complicated problems since many of the products on the UK list are on the negotiated G list, which is the result of prolonged and difficult negotiations between the Six themselves.

24. In dealing with the Commonwealth problem, the United Kingdom suggested a country by country analysis, whereas the Six wanted an approach by specific commodities. As both approaches apparently proved incapable of making the work move forward, it was decided to adopt to study the question by region

or rather by group of problems. The problems or countries were classified in four groups.

a - Countries exporting manufactured or semi-processed goods and which may run into difficulties by the application of the common external tariff (India, Pakistan, Hong-Kong, etc.).

b - Countries which may meet the same difficulties but which in addition will suffer under the preference accorded to countries with similar production (primarily African countries competing with countries now associated with the Community).

c - Countries experiencing difficulties by the application of the common external tariff and the difficulties mentioned under b, but which in addition find their interests impaired by the common agricultural policy, particularly as regards the organization of markets (producers of sugar, citrus, fats and oils).

d - Countries which do not come under any of these categories (mostly transit ports).

25. The advantage of this classification is that it will allow the negotiation to group the countries according to their major problems. It does not offer solutions, and the next step must obviously be to suggest ways of mitigating these difficulties whether by adjustment in the common external tariff, by association or by special protocols to the Rome Treaty.

26. The work so far has shown that two groups of commodities raise particular problems:

a) sugar (to incorporate the sugar from the British Antilles, Mauritius and Fidj in the common agricultural policy).

b) Manufactured products and especially textiles from Hong-Kong and Pakistan.

GATT

27. The negotiations between the EEC and the United States within the framework of the GATT were concluded 16 January 1961. The agreement on a 20 per cent reduction in duties does not cover all trade between the EEC and the USA. It applies only to goods for which the United States is the Community's biggest supplier and vice versa, but affects a large number of headings of the EEC common external tariff. Some agricultural products or by-products which are not part of the common agricultural policy of the Six are within the scope of the agreement. Of particular importance for African exports are the reduction in the duties on soya beans, leather and skins, some fruits and vegetables and cotton products.

28. According to the rules of GATT, the reciprocal concessions negotiated should be extended to all Contracting Parties. It is also worth noting that the United Kingdom has pledged itself to a 20 per cent reduction in her duties if the USA and the EEC reached agreement.

Common Agriculture Policy

29. After forty-five sessions the Council of Ministers agreed on the rules for a common agricultural policy 14 January 1962. The agreement is on the whole based on the Commission proposals published in May 1960, the so-called Mansholt proposals[1]. The Rome Treaty presents only a general framework for the common agricultural policy and restricts itself to express principles without defining with any precision which procedures should be followed to reach the goals.

30. The Mansholt proposals comprised rules for the following products: grains, pork meat, eggs, poultry, wines, fruits and vegetables. The rules conform to the objectives put forward in Art. 40 of the Rome Treaty[2] which offers options from the most flexible to the most rigid form of establishment.

1/ See also "The Impact of Western European Integration on African Trade and Development"(E/CN.14/72) paras 16-19.

2/ The common agricultural organization markets "shall take one of the following forms according to the products concerned:

a) common rules concerning competition; or
b) compulsory co-ordination of the various national market organizations; or
c) a European market organization."

31. The agreement, which is a rather complicated document, comprises involved technical questions. It is supposed to be a finely balanced merchanism paving the way to a common market for agricultural products, while providing each member state with the necessary guarantees against serious disturbances in their economies. The latter is solved by safeguard clauses and the use of a so-called intervention price.

32. The first steps in the direction of a common agricultural policy will be initiated from 1 July 1962. The time it will take to complete the policy will be seven year and a half (not six as envisaged in the Mansholt proposals).

Grains and products derived from grains

33. The rules for grains are applicable particularly to soft wheat, rye, barley, oats, maize, buckwheat, millet, sorghum, hard wheat, wheat and spelt flour. Among the processed products may be mentioned cereal flours (including of rice), cereal groats and cereal meal, malt, starches, gluten, bran and sweetened forage. Since pigs and fowls to a great extent nourish on the latter products, pork meat, eggs and poultry are named derived products. To this list will be added dairy products, for which the Commission will present proposals before 1 May 1962, to come into force 1 November 1962, and sugar, for which the Commission will present proposals before 15 July 1962, to come into force 1 January 1963.

34. Trade in all these products between the Six and with third countries will be freed from 1 July 1962. From that date will customs duties, import taxes and quantitative restrictions be abolished and replaced by a levy system. In intra-community trade the levy represents the difference between the price in the importing country and the price in the exporting country. It will gradually be reduced during the transition period and finally disappear when the Community constitutes a common market and singular indicator price is fixed for

all member States. In the transition period the levy on intra-community trade will be lower than the levy on imports from third countries. One of the consequences will for instance be that wheat from France will be supplied at a lower price on the German market than wheat from non-member countries.

In trade with third countries the levy is equal to the difference between the c.i.f. price of the product and the price in the importing country. The c.i.f. price will be calculated by the Commission.

35. The national price should be determined by the interplay of supply and demand, but in any case be maintained within the following limits:

a) A maximum price, which is the price on the markets of the marketing centre with the largest deficit (for instance in Germany the Ruhr area and in France the Marseilles area).

b) A minimum price, which is the so-called intervention price (the indicator price minus 10 per cent), i.e. the price at which the authorities will buy the quantities the producers are not able to sell on the free market.

By 1 January 1970 there will be only one price for the whole Community.

36. All the functions at present performed on a national level (stockpiling, refund to exporters etc.) will in the future be the prerogative of the Community. An administrative committee is established to be responsible for the execution of the common policy. The committee, which is composed of all the member States, is presided over by the Commission and acts by qualified majority in weighted voting. The president does not vote.

Fruits and Vegetables

37. The rules for fruits and vegetables do not envisage a levy system. The protection vis-à-vis third countries will also in the

future be dependent on customs duties. A common market will gradually be established, first for "extra" quality products, and thereafter for lower qualities. The rules comprise definitions of the products to permit this quality classification.

38. The common market for these products does not involve intervention from the Community. The only limitation on a free market is the quality control, which in principle will be carried out by the producers themselves.

39. From 1 July 1962 will all quantitative restriction be eliminated on trade in "extra" quality products between the Six. The internal customs duties will be abolished for this quality from 1 January 1964.

<u>Wines</u>

40. For wines there is also not envisaged a rigid organization of a common market. The main features of the rules regulating trade in wine are:

a) Establishment of a register of the wine industry before 30 June 1963.

b) Compulsory declaration of the quantities produced of wine and must.

c) The Council should decide before 1 January 1963 common rules for quality wines from specific regions.

41. For all the products which are not mentioned specifically the principle of minimum prices is applied.[1] The minimum price is a price below which the imports of agricultural products may be suspended

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[1] This is in accordance with article 44 of the Treaty, which <u>inter alia</u> states that minimum prices may be applied "below which imports may be:

- temporarily suspended or reduced; or
- made conditional on their price being above the minimum fixed for the product concerned."

or reduced. To determine the minimum price a certain number of criteria is defined. The rules distinguish two types of products:

a) Products for which there exist an intervention price. The minimum price should not exceed 105 per cent of this price.

b) Other products: the minimum price should be 92 per cent of the average of the wholesale price during the three preceding years.

42. The Council of Ministers also decided that a five per cent tax should be super-imposed on the customs duties on imports of certain manufactures into one member country from another member country. The manufactures concerned are particularly beer, paste foods and chocolate, which are all produced from agricultural products benefiting from specific aid measures. This tax, which is to be collected three years from the coming into force of the rules, should be reduced by one per cent annually.

43. Three points were particularly subject to negotiation: the reconciling of the prices on products for which a common market is envisaged, the safeguard clauses and the financing of the future European Guarantee Fund.

44. It was agreed that for the 1962-63 season no decision should be taken concerning the reconciling of the prices, but that the criteria for this reconciliation should be defined before 1 September 1962. From the 1963-64 season the Council should decide annually what steps to take to reconcile progressively the indicator prices leading to one singular price by the end of the transition period in all member states.

45. The member States should also be able to protect its agriculture against too brutal blows by the introduction of the common policy by a safeguard clause. This clause permits the states to suspend importation. Suspension of imports from a member state is automatically extended to third countries. These safeguards should in principle be instituted in the following way:

a) As soon as a member State had decided to apply the safeguard clause, it should notify the Council and the Commission. The decision cannot take effect until three days after this notification.

b) When it receives the notification, the Commission can with a delay of four days either decide to maintain, modify or nullify the measure taken by the member State. The decision by the Commission should take effect immediately.

c) The member State can appeal to the Council, but this appeal does not suspend the decision taken by the Commission.

46. There are two exceptions to this rule, one for grains and one for fruits and vegetables. If a member State appeals to the Council on a Commission decision on grains, the Commission decision is suspended. The Council must make known its ruling within ten days. In the case of extra quality fruits a member State cannot apply the safeguard clause before it has been referred to the Commission. There is no recourse to the Council. The Commission will not permit the application of the safeguard clause unless the price is reduced to 82 per cent of the reference price for three consecutive days.

47. It will furthermore be established a guarantee fund which progressively should be in charge of various support measures for agriculture, at present the responsibility of the various national States. During the transition period, when the domestic price is different from the price of another member State, the expenditure of the Fund is the responsibility both of the Community and the State.

48. Agreement was reached on the financing of the Fund for the three first years. The first year's expenditure will be borne entirely by budgetary contributions, the second year's by 90 per cent budgetary contributions and 10 per cent by income from the levies and the third year's by 80 per cent contributions and 20 per cent from levies. It was

decided that the total contribution from Western Germany should not exceed 31 per cent, from Italy 28 per cent, Netherlands 13 per cent and Belgium and Luxembourg 10.5 per cent. After the first three years the Council will agree upon the procedures for the rest of the transition period.

49. After the end of the transition period the Fund will be financed with budgetary contribution according to the scale laid down by Article 200 of the Treaty[1] and by other resources according to Article 201, which also will include income from levies. The reference to Article 201 implies that the decision will need parliamentary ratification in some member States.

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[1] 28 per cent for Germany, France and Italy, 7.9 per cent for Netherlands and Belgium and 0.2 per cent for Luxembourg.