BRITAIN and the EEC

The economic background

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Foreword

This booklet is designed to provide a summary of essential facts concerning the European Economic Community and policies with, where necessary, reference to present United Kingdom arrangements and policies. It is not intended to set out the implications for Britain of membership of the EEC or to discuss the possible advantages and disadvantages.

The information provided here should, however, clarify for many people the history of European co-operation since the second world war, what the EEC is and how it works, and the present state of the European economies.

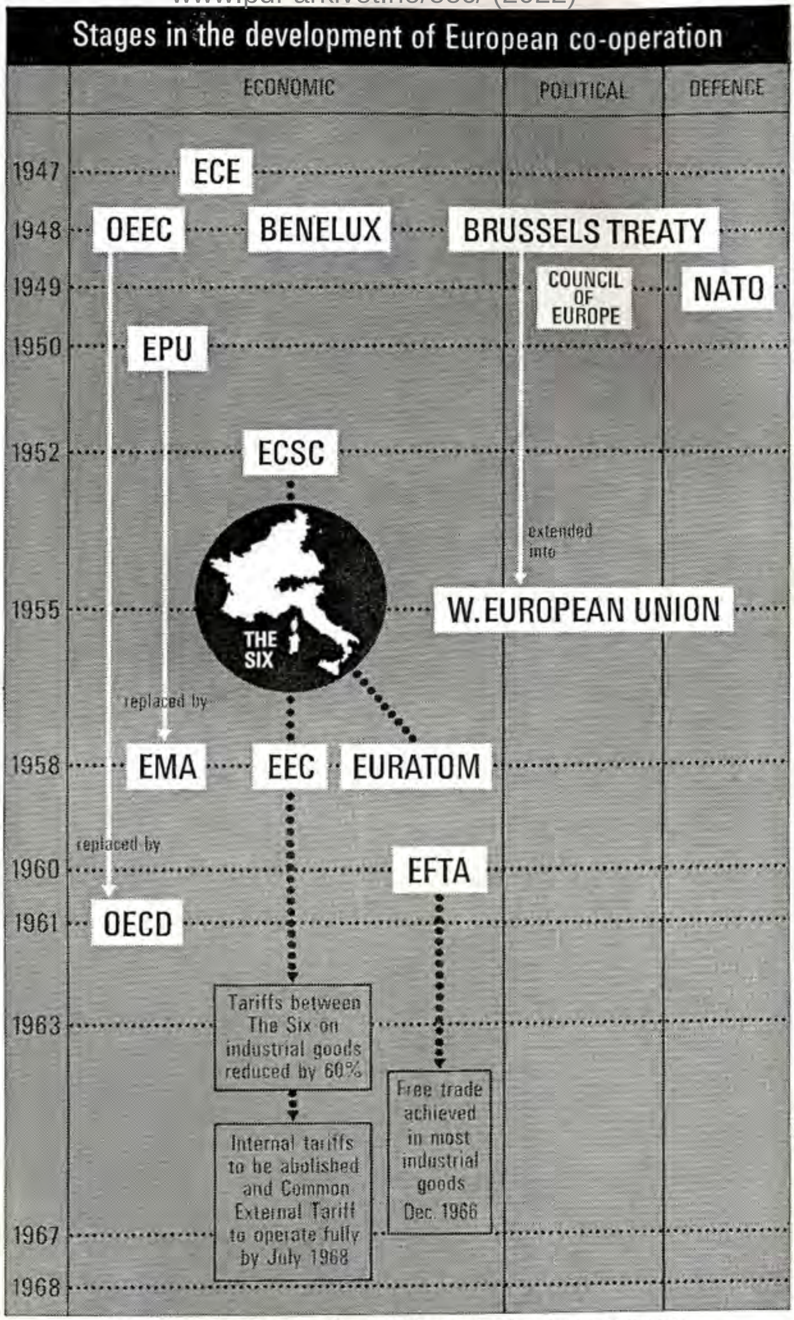
NOTES AND DEFINITIONS

Western Europe is generally used to include these countries: Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Irish Republic, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, Yugoslavia and United Kingdom. In the UK trade figures, Iceland and Irish Republic are included in **Overseas Sterling Area.**

Continental EFTA generally includes Austria, Denmark, Finland (Associate Member), Norway, Portugal, Sweden and Switzerland.

Germany is used for the Federal Republic of Germany throughout.

International comparisons have been made as accurately as possible, but it should be remembered that national statistics are often compiled on different bases.



Dates shown are the years from which organisations began to operate

CHAPTER 1

Progress in European co-operation

From time to time, a concept of European unity has emerged. Since 1945, that concept has grown stronger. Several factors have contributed to the strengthening of the European idea. Two world wars severely weakened the European economy. The United States and the Soviet Union have each become extremely powerful—far stronger than any Western European country. Another important factor has been the rapid development of technology. To operate to full efficiency, modern industry requires large production units and assured markets larger than any single European country. In co-operation with other countries Britain has taken a leading part in efforts to bring European countries closer together.

Economic co-operation

Immediately after the second world war, several emergency organisations were set up to solve vast social and economic problems in Europe caused by the war and by the breakdown of the normal pattern of life. The United States took a prominent part in most of these organisations. In 1947, the more permanent aspects of economic co-operation were consolidated into a single United Nations body, the *Economic Commission for Europe* (ECE).

In 1947, General Marshall, then United States Secretary of State, suggested that, helped by massive American aid, the European countries should jointly plan and operate a more permanent programme of recovery and development. Britain and France responded by inviting to a conference all European countries except Spain. Communist countries of Eastern Europe declined to participate, but most other European governments sent representatives. As a result of the conference the *Organisation for European Economic Co-operation* (OEEC) was set up. Most Western European countries became members and Canada and the United States joined as associate members.

The OEEC urgently set about its task. From 1948 to 1951, massive American aid was channelled to Europe through the OEEC as part of the Marshall Plan. The OEEC induced member states to lower trade barriers. A *European Payments Union* (EPU), set up in 1950, promoted trade by reducing difficulties of payments between countries. The *European Monetary Agreement* (EMA), which replaced EPU in 1958, includes most non-communist countries of Europe.

The OEEC achieved some co-ordination of economic and financial policies, and allocated raw materials in short supply. It gave technical assistance to industry and agriculture, and sponsored research and training schemes. It assessed long-term energy requirements and promoted the development of nuclear energy for peaceful purposes. The OEEC ended in 1961, by which time its main task of reconstruction was completed. A new body, the *Organisation for Economic Co-operation and Development* (OECD), replaced it. The OECD's main task is to co-ordinate the economic, financial, trade, development, and related policies of member countries. Its main objectives are to promote maximum economic growth, to expand trade on a multilateral basis, and to increase the flow of aid to developing countries. Canada and the United States became full members of OECD. Japan joined in 1964.

Other forms of co-operation

Concurrently with the drive for economic co-operation came several moves towards political co-operation. In 1948, Belgium, the Netherlands, and Luxembourg, which had entered into a customs union called *Benelux*, joined Britain and France in signing the *Brussels Treaty*—a pact for mutual assistance and defence. In 1949, the Brussels Treaty powers joined with Canada, Denmark, Iceland, Italy, Norway, Portugal, and the United States, to form the *North Atlantic Treaty Organisation* (NATO). By entering NATO Canada and the United States identified their own security with that of Western Europe. Greece and Turkey became full members of NATO in 1952.

In 1949, the five original Brussels Treaty powers joined with the Irish Republic, Italy, and the three Scandinavian kingdoms to found the *Council of Europe*. Eight other countries became full members later: Greece and Turkey (1949), Iceland (1950), the Federal Republic of Germany (1951), Austria (1956), Cyprus (1961), Switzerland (1963), and Malta (1965). The purpose of the Council is *to achieve a greater unity between its members for the purpose of safeguarding and realising the ideals and principles which are their common heritage, and facilitating their economic and social progress.* Defence matters do not come within the scope of the Council.

The Council has a *Committee of Ministers* representing the governments of member countries. It also has a *Consultative Assembly* of 147 representatives of national parliaments. It resembles a national parliament in form and procedure, but cannot pass laws. Through the Council, several international conventions have been agreed on matters that include human rights, patents, and extradition.

CHAPTER 2

Steps towards a Common Market

The imperative need for European countries to help each other to recover from the effects of the war rapidly diminished bitterness and suspicion between nations that had been enemies. In particular, France and the Federal Republic of Germany moved towards a new basis of friendship.

Wider co-operation between six countries

In 1950, M. Robert Schuman, then French Foreign Minister, put forward a plan to rationalise the coal and steel industries of Western Europe. Outside Britain, Europe's main coal, iron, and steel resources and industries are concentrated in the north-western corner of Europe, where the frontiers of Belgium, France, Germany, Luxembourg and the Netherlands almost converge. M. Schuman proposed that the industries should be reorganised into one large production group unhindered by national boundaries. Beyond the economic implications of the plan lay the hope that integration of French and German industries would make war between the two countries not only unlikely, but physically impossible. M. Schuman's plan led to a treaty in 1951 between the Benelux countries, France, the Federal Republic of Germany, and Italy, which in 1952 established the *European Coal and Steel Community* (ECSC). The ECSC was provided with an executive—the High Authority—independent of national governments in the performance of its functions and duties. In 1954, Britain and the ECSC set up a *Council of Association* through which they could consult each other on coal and steel policies.

ECSC quickly proved successful. For example, between 1952 and 1955 steel production rose from 42 to 53 million metric tons. An idea emerged in the six ECSC countries that co-operation might be extended to the point of integration of their military forces. A treaty was signed by all six ECSC countries to establish a *European Defence Community* (EDC). But in 1954 the French parliament failed to ratify it and the plan collapsed.

The Federal Republic of Germany and Italy then joined the Brussels Treaty organisation which in 1955 was extended into a new association called *Western European Union* (WEU). The scope of WEU includes political and economic affairs, apart from defence matters. In 1955, the Federal Republic of Germany joined NATO.

The basis of the Common Market

The success of ECSC encouraged the six member countries (called 'the Six') to explore ways of extending economic co-operation between themselves. In 1955, the Foreign Ministers of the Six met at Messina, in Sicily, and agreed in principle to co-operate in developing nuclear energy and to move towards achieving a common market within which much of the resources and economic activities of their countries would be co-ordinated and gradually integrated. After nearly two years of negotiation and consideration, agreement was reached. The Six signed the Treaty of Rome on 25 March 1957, and the *European Economic Community* (EEC)—known as the *Common Market*—began to operate on 1 January 1958.

Another treaty, also signed in Rome on 25 March 1957, provided for the co-ordination of nuclear research and power projects of EEC countries through the *European Atomic Energy Community* (Euratom). The Euratom treaty came into effect simultaneously with the Common Market.

By establishing the EEC, the Six hoped to speed economic and social progress through the closer union of their peoples.

They planned to eliminate step by step, barriers to trade between themselves. They proposed that each EEC country should eventually enforce identical tariffs on imports from countries outside the Six. Beyond this they announced that they favoured reducing barriers to international trade generally.

The EEC governments began to abolish by stages restrictions on the movement of people, capital, and goods within the Community. Within the framework of their far-reaching co-operation, the Six sought to promote fair business competition between firms within the Community. They undertook to control restrictive practices and monopolies in each country and agreed that state aid to industry which distorted competition would be incompatible with the Common Market.

In 1958, Belgium, France, and the Netherlands still possessed large overseas territories. After the African territories became independent they entered into association with the EEC. Other countries later sought association, including several Commonwealth countries (see p. 18). The EEC undertook to provide, between 1964 and 1969, £260 million for development in the African countries, and for overseas territories and departments of EEC countries.

Advantages to the Six

The combined population of the EEC countries (now about 180 million) almost equalled the population of the United States. The Six reasoned that great benefits would accrue from having a single market of such great size.

For example, they thought that efficient firms would be likely to expand their activities within the Community, and would deploy their resources more efficiently. They would tend to concentrate their production units in the most economically suitable areas of the Community. Firms would tend to specialise, producing larger quantities of a smaller range of goods and benefiting from increased economies of scale. These developments would eventually lower costs and prices.

Put briefly, the Six believed that a more efficient pattern of production would emerge, with each region and each firm doing the jobs for which they were best equipped. They believed that production costs would diminish, and that providing fair competition was maintained, prices would be kept low. This would bring an improvement in the standard of living throughout the Community.

Effects on other countries

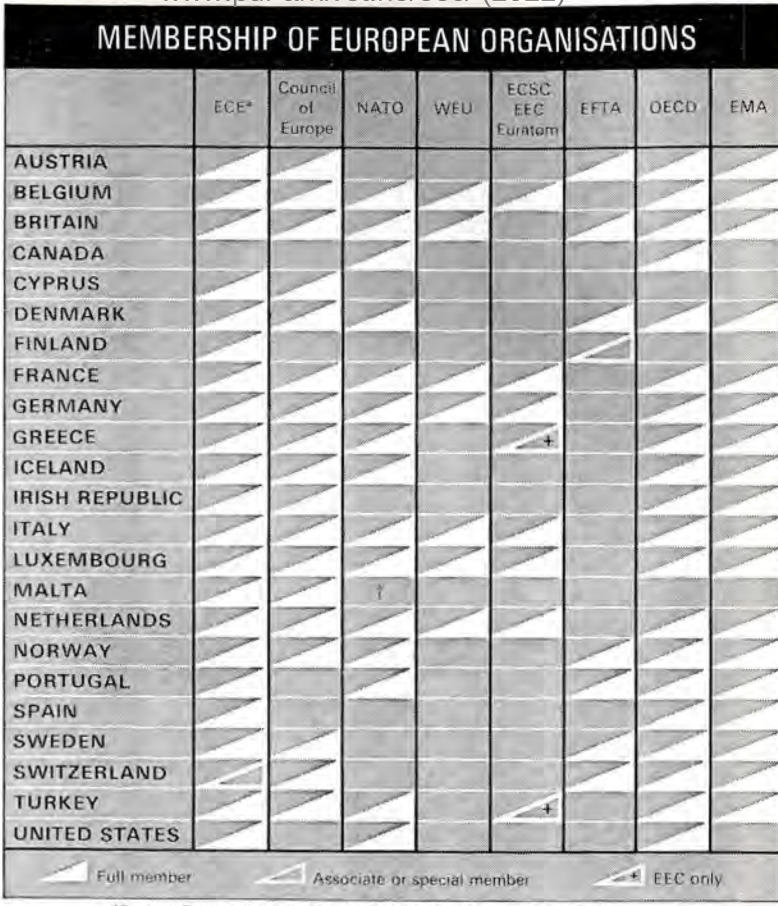
The establishment of the EEC was bound to have a considerable effect upon countries outside the Community. Tariff changes, for example, would be likely to affect the pattern of trade, and some countries might suffer as a result. The Six argued that the EEC would benefit the world generally. As prosperity grew, the EEC countries could provide cheaper goods to the world and become better customers and the customs union would speed up the liberalisation of world trade. They could provide more aid and investment funds for developing countries.

Several OEEC countries outside the Six, including the UK, feared that the development of the EEC would increase political as well as economic disunity in Europe. From July 1957, they sought to find ways of extending co-operation between the proposed EEC and other OEEC countries, including the setting up of a free trade area. Negotiations with this aim continued after the EEC was established, but ended in failure in November 1958.

EFTA

In 1959, seven OEEC countries outside the EEC—Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom—decided to form the *European Free Trade Association* (EFTA), which began to operate in 1960. Finland became an associate member of EFTA in 1961. The EFTA countries, whose combined population totals nearly 100 million, sought to establish an industrial free trade area among themselves. Like the EEC, they agreed to work for the removal of trade barriers between all OEEC countries.

The EFTA countries agreed to eliminate all restrictions on free trade in industrial products between themselves in ten years. The first tariff reductions between EFTA countries were made on 1 July 1960. EFTA, in common with the EEC, originally aimed at the abolition of tariffs between member states by the end of 1969. In fact, the original EFTA countries largely achieved free trade in industrial products in six and a half years, almost all industrial tariffs ending on 31 December 1966. Unlike the EEC, EFTA did not set up a uniform tariff against imports from non-EFTA countries. Each member country retained its own external tariff system.



*Eastern European countries also belong to ECE †Special Agreement

Britain's approach to the Six

EFTA countries emphasised that they wished to avoid extending the split in Europe. The view gained ground that a new approach to the Six was required. In the summer of 1961, Britain's leaders discussed with EFTA and Commonwealth leaders the implications of possible British membership of the EEC. In August 1961, the British Government made a formal application and negotiations began in October about the terms of admission. In March 1962, Britain also applied to join ECSC and Euratom.

Talks continued for fifteen months, but in January 1963, the French delegates requested that negotiations with Britain should be suspended. Talks broke off on 29 January 1963.

Britain and the Common Market

Britain's trade with Europe has increased rapidly during the past ten years. Up to 1964, our trade with the EEC grew faster than our trade with EFTA but since then the trend has been reversed.

During the ten-year period the economic division of Europe became more marked. The EEC lowered its internal tariffs while moving towards its common external tariff. EFTA abolished nearly all its internal tariffs. The ending of the economic division of Europe remained one of the main aims of the British Government.

The Government's position with regard to Europe was expressed in the following passage in the Queen's speech to Parliament in April 1966: *My Government will continue to promote the economic unity of Europe and to strengthen the links between the European Free Trade Association and the European Economic Community. They would be ready to enter the European Economic Community provided essential British and Commonwealth interests were safeguarded.*

In Parliament on 10 November 1966, the Prime Minister reaffirmed the Government's policy towards the EEC. He said that: *the Government would be prepared to accept the Treaty of Rome, subject to the necessary adjustments consequent upon the accession of a new member and provided that we received satisfaction on the points about which we see difficulty.*

Britain belongs to several organisations for technological co-operation in Europe, including the *European Nuclear Energy Agency* (ENEA), the *European Launcher Development Organisation* (ELDO), and the *European Space Research Organisation* (ESRO). In these organisations Britain is already an active partner of the EEC countries. On 14 November 1966, the Prime Minister made clear our desire *to pool within Europe the enormous technological inventiveness of Britain and other European countries* (see page 33).

On 5 December 1966, heads of government or senior ministers from all EFTA countries met in London to discuss economic integration in Europe. The ministers welcomed proposals that the British Prime Minister and the Foreign Secretary should visit all EEC countries for talks to determine whether or not conditions existed in which fruitful negotiations for British membership of the Community might take place. These talks were held in the six capitals between 16 January and 8 March, 1967.

CHAPTER 3

How the Communities work

This chapter outlines the aims of the three European Communities set up by the Six—EEC, ECSC and Euratom—and how they have set out to achieve their aims. The degree of progress towards the achievement of these aims varies widely. The Communities have adopted a flexible approach and have shown readiness to change with changing needs. The progress achieved in each case is summarised in bold type.

Membership of the EEC

The Treaty provides that any European state may apply to join. The Governments of all members must agree before a new member is admitted, and acceptance has to be ratified by all the Parliaments. The Community may also conclude association arrangements with any country, union of states or international organisation. It is contemplated that in the case of a European country, association may range from something approaching membership to a very limited relationship.

Since the Treaty was signed, Greece has concluded an association agreement which is intended to lead to eventual membership, and Turkey has entered into a more limited form of association but also sees full membership as her long-term objective. Talks about association are in progress with Algeria, Morocco and Tunisia, with Israel to succeed her present trade agreement, and with Austria. Spain has applied for association.

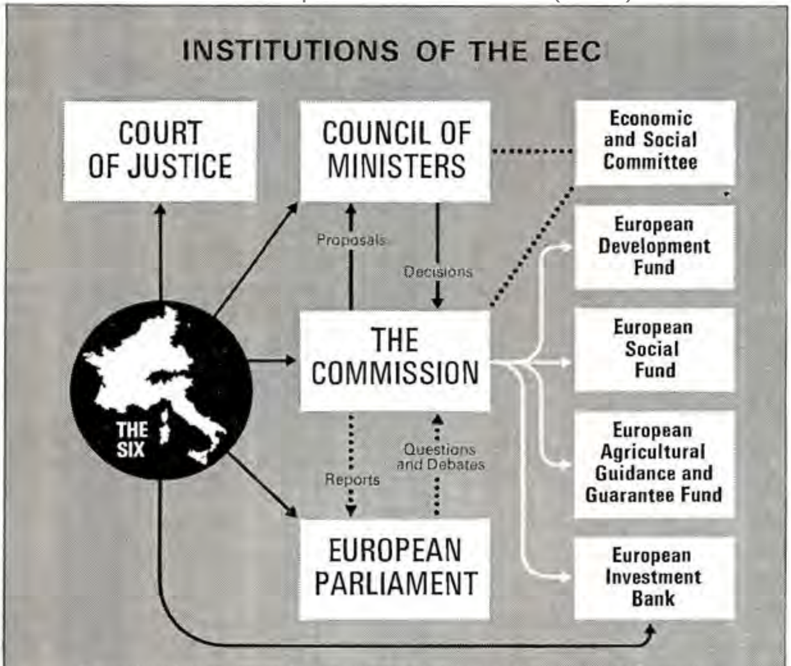
***Trade agreements* have been made with Iran, Israel and Lebanon. *Association* of African and other overseas countries with the EEC is described on pp. 18 and 22.**

Management of the EEC

Institutions were set up to elaborate and implement the intentions of the Treaty. Control of the EEC involves more than national governments co-operating, but, at the same time, the institutions do not constitute a *federal government* to which national governments are subordinate.

The main EEC institutions are described below and their relationships are set out in the chart on page 11. The central institutions in the formation and conduct of Community affairs are the *Council of Ministers* and the *Commission*.

THE COUNCIL OF MINISTERS. The Council consists of one Minister from each member state. Different Ministers can attend according to the subject under discussion. The Council makes basic decisions and ensures the co-ordination of the general economic policies of the member states. Decisions in the Council are reached by a simple majority *or* by a qualified majority *or* by unanimity according to the provision of the Treaty about the particular topic. In practice, in a



Councils of Association have been set up jointly with associated countries

large number of cases where the Council enacts regulations or issues directives it must do so by unanimity or by a qualified majority. Where a qualified majority is required, the votes of the Council members are weighted as follows: four votes each for France, Germany and Italy, two each for Belgium and the Netherlands and one for Luxembourg. A minimum of 12 out of the 17 votes is needed for a qualified majority decision but where the Treaty does not require decisions to be taken on a proposal by the Commission, the 12 votes must include at least four member states. Proposals from the Commission can be amended only by a unanimous vote.

On 1 January 1966, the EEC moved into the third and last of the transitional stages. A consequence of this was that a considerable number of matters hitherto decided by unanimity in the Council of Ministers were now to be decided by a qualified majority. This change in voting procedure was however, accompanied by differences of opinion among the Six. As a result of their meeting at Luxembourg in January 1966 they agreed that when, in the case of decisions which may be taken by majority vote on a proposal of the Commission, very important interests of one or more Member States were in question, members of the Council were to endeavour to reach within a reasonable period solutions which could be adopted unanimously. The French delegation considered that when very important interests were in

issue, discussion should continue until unanimous agreement was reached but this was not accepted by the other countries, and it was simply noted that there was a difference of opinion within the Six on what happened when a complete resolution of the divergent views was not achieved.

THE COMMISSION. The Commission has nine members each appointed for four years by common agreement among the six governments. There can be no more than two from any one country. Members have to act in the general interest of the EEC with complete independence of any particular country.

The Commission formulates proposals for the Council but also has certain powers of decision. The Commission and its staff constitute the executive institution of the Community, responsible for its day-to-day management. For this purpose, they dispose of considerable powers under the Treaty comparable with those exercised by the executives of national administrations.

THE COURT OF JUSTICE. The Court of Justice has seven judges appointed for six years by the six governments in common agreement. Its task is to interpret the Treaty and related legal provisions and to determine cases. Its jurisdiction covers acts of member states, of the EEC institutions, and of individuals. The Court also exercises jurisdiction under the ECSC and Euratom treaties.

A substantial number of cases have been referred to the Court.

THE EUROPEAN PARLIAMENT. This is composed of representatives of the national parliaments of the Six. The Treaty visualises it drawing up proposals for direct election by universal suffrage. It has certain advisory and supervisory functions under the Treaty but its powers are limited. It has to be consulted before certain decisions are taken and it asks questions of the Commission and debates the annual report. It may remove the Commission by a two-thirds vote of censure. It acts also for ECSC and Euratom.

No progress has yet been made with proposals for direct election.

ECONOMIC AND SOCIAL COMMITTEE. The Committee is a consultative one set up under the Treaty of Rome and consists of representatives of the various categories of economic and social activities (e.g. industry, trade unions, the professions). Under many articles of the Treaty, the Council and the Commission are bound to consult it before taking action.

The Committee is consulted by the Council and the Commission on many matters, including those where consultation is not compulsory under the Treaty.

THE EUROPEAN INVESTMENT BANK. The European Investment Bank promotes investment in the less developed areas of the EEC and its European associates and can help finance projects of common interest to several member states. (In recent years its scope has been extended to making loans to Governments or enterprises in the overseas associates of EEC, in co-operation with the *European Development Fund.*) Its Governors and all but one of its Directors are nominated by member states; the remaining Director is a nominee of the Commission.

For the work of the Bank see p. 17.

THE EUROPEAN DEVELOPMENT FUND. The Fund provides aid to the overseas associates of the Six. It is managed by the Commission to fulfil aims agreed by the member states and the overseas associates.

For the work of the Development Fund see p. 18.

THE EUROPEAN SOCIAL FUND was set up to improve employment opportunities and mobility of labour, and to tackle social problems created by the move towards the customs union (for example to help an area dependent on a local industry hard hit by cheaper imports).

For the work of the Social Fund see p. 17.

THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND is described in Chapter 5.

The basic aims of EEC

The basic aims of EEC are summarised below. The *free movement of goods*, the *common external tariff*, and the *common agricultural policy* are dealt with in the next two chapters, *Tariffs* and *Agricultural arrangements.* The Treaty provisions on the others and the progress made in each case are outlined below.

BASIC AIMS OF EEC

The founders of the Community stated in the preamble to the Treaty their determination to establish the foundations of an even closer union among European peoples. Within this framework, the aim of the Community is described as the harmonious development of the economies of member states by establishing a common market and progressively approximating their economic policies. The objectives go well beyond the formation of a customs union and provide for:

- **Removal of all barriers to trade between member states.**
- **Common customs tariff and common commercial policy towards third countries.**
- **A common agricultural policy.**
- **Free movement of persons, services and capital between member states.**
- **A common transport policy.**
- **Co-ordinated economic policies.**
- **Rules against unfair competition.**
- **Co-ordinated social policies.**
- **Association of overseas territories in the interests of trade and to assist their economic and social development.**

Transitional periods

A feature of the way the EEC is being developed is the use of transitional periods for stage by stage movement from national systems in particular fields to full functioning of a Community system. For example, for the customs union, the Treaty provided for a transitional period, divided into three stages each lasting four years.

Free movement of labour

The Treaty provides for free movement of labour within the Community not later than the end of the transitional period (i.e. by 1970). This will mean that people can move freely with their families from one member state to another to accept offers of employment actually made to them (subject to limitations justified by public order, public safety and public health). They will have the right to transfer all their social security benefits and to settle permanently with their families.

The Community is moving towards the free movement of labour by stages regulated by the Council under the Treaty. At first member states could give priority to their own nationals in filling vacancies, but this was given up in 1964. Member states can still impose a priority for two weeks for particular occupations or regions where there is a surplus of labour but they have rarely done so recently. Workers from any member country are given priority over those coming from countries outside the Community.*

Member states have so far not experienced any disturbances or difficulties under these rules.

The Council is at present considering proposals for freer movement. These provide for complete equality between workers from within the EEC in the filling of vacancies anywhere in the Community. There is to be a more extensive exchange of information between the employment services of member states, and improved machinery to ensure that applications for jobs from workers from other member states are submitted to employers before applications from outside the Community. All migrant workers from within the EEC will be entitled to equality of treatment with national workers in relation to tax and social insurance, housing and membership of trade unions and works councils.

The proposals provide, however, that if a member state experiences or expects serious employment difficulties in a particular area or occupation it will be able to notify the Commission and if the Commission agrees that there is a risk of difficulties all member states will co-operate to discourage workers from moving to the affected areas or occupations.

Freedom of establishment and to provide services

During the transitional period limits on the freedom of nationals and undertakings of one state to set up business and professional activities in another are to be progressively abolished. This will include any restrictions on the creation of agencies, branches or subsidiaries.

**The EEC has proved attractive to workers from outside the Six—of some 900,000 work permits issued to migrant workers in 1965 some two-thirds were for workers from outside. The majority of the remainder were issued to Italians, mostly for work in Germany and France. The unemployment level in the EEC in the latter part of 1966 was about the same as, or lower than, the level in Britain, except in Italy.*

The rate of advance towards freedom of establishment and freedom to supply services is now considered satisfactory by the Commission, although the Community has not kept up with the timetable laid down in 1961.

Free movement of capital

During the transitional period members are required to abolish progressively restrictions on the movement of capital by residents of Common Market countries.

The provisions of the Treaty dealing with movements of capital have been reinforced by Council Directives of May 1960 and December 1962 which have been accepted by member states. The Commission recently laid an amended version of a further draft directive before the Council, with the object of effecting further relaxation of exchange and other restrictions on capital movement.

Thus, a good deal of progress has already been made in the freeing of capital movements between Community countries, in particular in the reduction of exchange control barriers to inward and outward investment. But some exchange control restrictions remain, and it is with the object of securing some modification of these, and of other legislative and administrative barriers to free capital movement, that the Third Draft Directive has been prepared by the Commission.

A common transport policy

By the terms of the Treaty a common policy towards transport is to be adopted and followed by all members.

Little formal progress has been made towards a common transport policy. Agreement in broad principle was reached by the Council of Ministers in June 1965 on a phased programme of a compromise kind, for bringing the transport systems of the Six into line, and the Commission has since submitted proposals to the Council. Further discussions since then appear likely to lead to substantial revisions of the 1965 proposals with far less emphasis on the official control of transport rates and far more on the regulation of capacity.

Co-ordinated economic policies

The Treaty requires member states to consider their economic policies as a matter of common interest. It commits each state to pursue a policy necessary to ensure equilibrium of its overall balance of payments and to maintain confidence in its currency, while ensuring a high level of employment and stable prices. To achieve this end, member states are to co-ordinate their economic policies.

Various joint committees have been established including those reviewing the monetary situation and national budgets, and one of Central Bank Governors. The Finance Ministers of the Six hold regular meetings, at which the Chairmen of the Monetary Committee and the Short-Term Economic Policy Committee attend.

The Short-Term Economic Policy Committee examines each year the economic situation of member states and of the Community as a whole. It was associated closely with the drafting of recommendations that the Council has made in recent years to member states on measures to be taken to maintain the Community's internal and external economic balance.

The Medium-Term Economic Policy Committee prepared a draft programme as a basis for the co-ordination of economic policies to be pursued by member

states and Community institutions over the period 1966–1970. This programme was discussed in the Community and was adopted by the Council in February 1967. The programme does not lay down quantitative targets for member states, but sets out initial guide lines for various fields of economic policy, and deals in greater detail with such subjects as employment and vocational training policy, public finance and regional policy; it also emphasises the need to maintain economic balance while permitting adequate economic growth. The Medium-Term Economic Policy Committee is to review the programme annually and to examine the compatibility of member states' medium-term economic policies with the programme.

Early this year the Council adopted two directives, concerning the adoption of a common system of *value-added* taxation*. The common system will mean some amendment of the present French system of value-added taxation and will replace the *cumulative turnover* taxes at present in force in the other member states. The common system is due to come into force by January 1970 at the latest. There are no plans yet for harmonisation of rates of tax. The objective of tax harmonisation is to prevent distortion of trade within the EEC.

Common commercial policy

The Treaty aims to establish a common commercial policy towards third countries and prescribes that after 1970 commercial policy shall be based on uniformly established principles, particularly relating to tariff amendments, tariff and trade agreements, measures of liberalisation export policy and commercial protective measures, including action against dumping. During the Transitional Period, member states are to co-ordinate their commercial relations with other countries.

Tariff negotiations are conducted by the Commission in accordance with mandates from the Council of Ministers.

Commercial relations with some countries are governed by association and trade agreements (see next chapter).

So far no decisions have been made on proposals submitted to the Council by the Commission for Community policies on export aid, defence of trade, relations with state trading countries and with Japan.

Member States still retain the right to impose quantitative restrictions on trade with non-member countries and to conclude bilateral trade agreements with them.

Rules for competition

The Treaty prohibits all agreements and concerted practices which are liable to affect trade between member states and have as their object or result the prevention, restriction or distortion of competition in the Common Market. But, subject to certain conditions, the Treaty exempts from this prohibition agreements or practices which benefit production or distribution or promote progress. The Treaty also prohibits any improper exploitation of a dominant position within the Common Market.

In 1962, the Council approved a Regulation which prescribed a machinery of enforcement. Firms have to apply to the Commission for a finding that the particular arrangements to which they are party do not conflict with the

* *As the product moves from the raw material stage to the finished product the value added at each stage is taxed.*

prohibitions in the Treaty. The Court of Justice has ultimate jurisdiction on the application of the Treaty to a particular agreement. So far, the Commission has announced decisions on or referred to the Court a limited number of cases. No enforcement action has yet been taken in respect of monopolies.

State aids and regional policies

With the exception of aids of a social character to individuals or those which make good the damage caused by national disasters, any state aid which distorts competition in trade between member states is incompatible with the Common Market. But aids to regional development, or to promote an important European project, or to remedy a serious disturbance in the economy of a member state or which facilitate development of certain activities or of certain economic regions, providing there is no detriment to the common interest, may be deemed to be compatible with the Common Market. All aids existing or proposed are subject to scrutiny by the Commission.

If a state does not comply with the Commission's decision, the Commission may refer the matter to the Court of Justice. But the Council may, by unanimous vote, override the Commission's decision.

One of the objectives set out in the Treaty is to raise the living standards of the less prosperous areas of the Community. State aids with this objective in view are allowed by the Treaty, and positive measures to help these areas are also taken by several Community bodies.

Regional problems, including those of areas dependent on declining industries and of isolated agricultural areas, are tackled in various ways by the member states. In May 1965 the Commission published a memorandum recommending certain measures to member states.

Regional policies are mainly the responsibility of member states. The EEC instruments in this field are the *European Investment Bank* and the *European Social Fund*, the work of which is co-ordinated with the regional assistance given by the ECSC.

By the end of 1966 the *European Investment Bank* (see p. 12) had lent some £200 million within the Six, nearly two-thirds of this to help finance development projects in Southern Italy, and over £40 million in the European associates—Turkey and Greece.

The *European Social Fund* (see p. 13) began operation in 1961. In its first five years of work it spent over £10 million on re-training and about £1 million on re-employment schemes.

The *European Coal and Steel Community* (see p. 18) gives loans to aid industrial and regional development in areas where employment in coal and steel has fallen: last year this was worth £6 million. In addition its direct assistance to the workers affected, in the form of tiding-over and re-training allowances, is now running at an annual rate of over £3½ million.

Co-ordinated social policies

The member states agreed upon the need to promote improvement in the living and working conditions of labour towards a common higher level. The Treaty endorses the principle of equal pay.

As explained in Chapter 6 the member states have each developed varied social security systems.

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Co-ordinated arrangements have been made for social security for workers and their dependants moving from one member state to another (see p. 14). The Council agreed that equal pay should be introduced by the end of 1964, and although this objective has not been fully realised, substantial progress has been made.

For the European Social Fund, see p. 13.

Associated overseas countries and territories

The Treaty provides for the association of overseas countries with the Community, with a view to increasing trade and to pursuing joint efforts towards economic and social development.

For trade arrangements with these associated countries and territories see next chapter.

In 1963 an Association Convention (the Yaoundé Convention) was signed to govern for five years from 1964 the relations between the EEC and 18 newly independent African states, including Malagasy (Madagascar). This Convention replaced transitional arrangements. Joint institutions were set up by the Convention. Arrangements for the remaining associated overseas countries and territories were laid down by the EEC Council in their Decision of 25 February 1964. The terms of this decision are similar to those of the Yaoundé Convention, except that there are no joint institutions.

The first European Development Fund was succeeded by a second one, to which the Six agreed to contribute £260 million and the European Investment Bank £25 million. The Fund is spent on aid to economic and social development in the 18 overseas associates which signed the Convention and the small dependent territories of the Netherlands and France.

Nigeria signed a separate association agreement in 1966. This has yet to be ratified. It gives rising duty-free quotas to Nigerian peanut oil, palm oil, cocoa beans and plywood, and free entry to all other Nigerian products. In return Nigeria is to grant preferences on 26 products from the EEC. Nigeria did not request and will not receive development aid.

Kenya, Uganda and Tanzania have had discussions with the EEC about association.

EUROPEAN COAL AND STEEL COMMUNITY

The basic aim of the European Coal and Steel Community was to establish a common market in coal and steel in the Six, with common objectives and institutions, to ensure the rational development of these industries. It has a High Authority, and a Council of Ministers, and it shares the European Parliament and the Court of Justice with the EEC and Euratom. The High Authority's main powers are to supervise the operation of the common market for coal and steel and particularly the conditions of competition, and to encourage the co-ordination of investment.

Common markets in coal, iron and steel were established during 1953 and 1954, although some tariffs, subsidies and price controls continued for a transitional period which ended in February 1958. The pricing rules of the Community have been applied. These rules are designed to eliminate unfair competition and discrimination.

On 21 December 1954, an agreement was signed between the UK, the High Authority and member governments of the ECSC, establishing a Council

of Association which provides a means for exchanging information, consultation and—where appropriate—co-ordination of action on matters of mutual interest relating to coal and steel.

For ECSC aid to regional development and re-training see p. 17.

EURATOM

The European Atomic Energy Community Treaty of 1957 set for Euratom the aim of creating the conditions necessary for the speedy establishment and growth of nuclear industries, including research, the construction of the necessary basic facilities, the proper supply of ores and nuclear fuels, and establishment of uniform health standards.

Euratom has its own Commission and Council of Ministers. In addition there are committees dealing with the technical and research aspects of Euratom's functions and there is machinery for co-ordination with the EEC and ECSC.

Euratom is financed by contributions from member states in proportions set out in the Treaty. Most nuclear research and development within the Community is undertaken by member states within national programmes. However, the Euratom Commission, in addition to its administrative and information functions, undertakes research or development itself.

Euratom's research budget for the second five-year programme (1963–67) is about £160 million. About one-fifth is for the Commission's main Research Centre in Italy. Association contracts awarded by the Commission to national bodies stimulate and spread information about developments thought to be of wide interest in the Community. Euratom also has collaborative agreements with a number of countries including the UK and the USA.

A common market in nuclear material and equipment came into force on 1 January 1959; and the Euratom Supply Agency was set up to ensure equal access to resources of nuclear material for fuel within the Community.

Euratom is also concerned with plans for using nuclear power to supply electricity. Nuclear power at present provides less than one per cent of the total energy supply in the Community but this proportion is expected to rise to rather more than one-tenth by 1980 and to nearly a third by the end of the century.

CHAPTER 4

Tariffs

Customs duties are of two kinds: revenue duties (which are paid also by similar home-produced goods) and protective duties.

The UK protective tariff has been considerably reduced in recent years as a result of multilateral negotiations under the General Agreement for Tariffs and Trade (GATT) which seeks to reduce barriers to world trade. It is hoped that the Kennedy Round of trade negotiations, which Britain is strongly supporting, will lead to a substantial reduction in tariffs and non-tariff barriers to world trade. It is envisaged that most tariff reductions would be phased over a period of four years, beginning in 1968.

UK tariff levels

Nearly all raw materials and many basic foodstuffs are free of import duty from all sources. The main exceptions are where duties are charged on foreign products to give a margin of preference to Commonwealth suppliers. Duties on some horticultural products are varied during the course of the year and are fixed at higher levels for the periods when the home crop is marketed. The rates of duties on semi-manufactured goods are mainly 15 per cent *ad valorem* or less; while duties on manufactured goods range from 10 per cent to 33 per cent *ad valorem*, or higher on a few items.

The charts on pp. 22-23 enable a comparison to be made between the levels of the UK most-favoured nation tariff and the common external tariff of the EEC for industrial goods. Chart 1 shows the proportion of tariff items in the UK tariff and the CET falling within different duty bands. Chart 2 shows the proportion of UK and EEC imports in 1961 within the various duty bands of the UK tariff and the CET. Neither of these methods of comparing the two tariffs is entirely satisfactory. The first does not make allowance for the greater fragmentation of the UK tariff which contains over 2,800 separate items covering industrial goods, compared with some 2,400 in the CET. On the other hand, the second method does not take into account the deterrent effect on imports of high rates of duty.

EFTA

Protective duties have been removed from UK imports of industrial goods from Austria, Denmark, Finland, Norway, Portugal, Sweden and Switzerland. Protective duties have also been removed on imports from EFTA countries of some agricultural products of particular importance to EFTA suppliers.

Commonwealth Preference

Up to 1932 the UK had very few import duties other than those imposed for revenue purposes; and most of the duties that did exist were applied at preferential rates, or not at all, to Commonwealth goods. When the general protective tariff was introduced under the Import Duties Act 1932, provision was made to exempt imports from the UK dependencies from the duties imposed under that Act. Later that year the Ottawa Agreements Act gave effect to a series of commercial agreements with the Dominions, India and Southern Rhodesia, and extended our duty-free entry commitments to those Commonwealth countries. These agreements also provided for guaranteed margins of preference on certain goods. The Import Duties Act 1958 maintained the Commonwealth preference system by enabling goods grown, produced or manufactured in the Commonwealth preference area to be exempted from import duty or to pay duty at preferential rates. All Commonwealth countries, together with South Africa, the Irish Republic, Burma and Samoa are within the area.

Not all Commonwealth countries grant tariff preference to UK goods, but about half of our total exports to countries within the Commonwealth preference area enjoy some measure of preference.

Irish Republic

Goods originating in the Irish Republic are also entitled to duty-free entry into this country other than revenue duty under the Anglo-Irish Free Trade Agreement signed in December 1965.

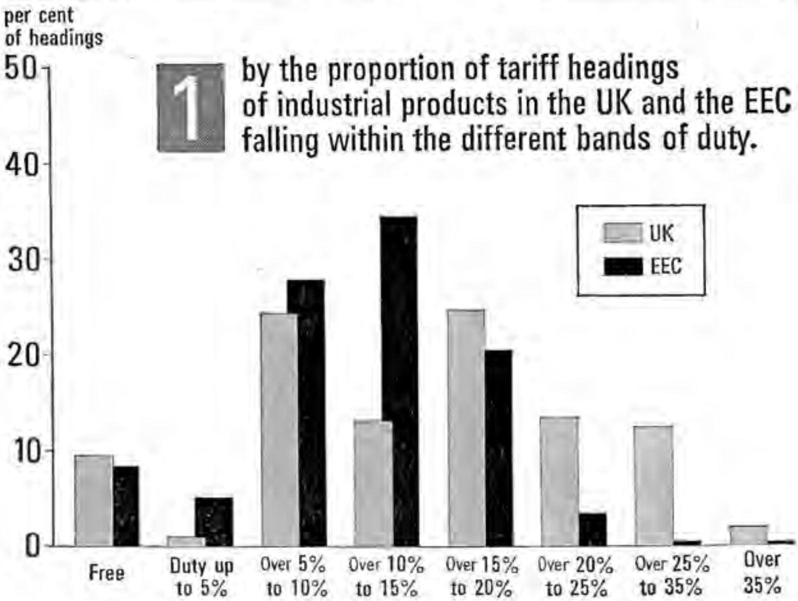
The Common Market

Article 9 of the Treaty of Rome laid down that *The Community shall be based on a customs union covering the exchange of all goods and comprising both the prohibition, as between Member States, of customs duties on importation and exportation and all charges with equivalent effect and the adoption of a common customs tariff in their relations with third countries.*

The Treaty of Rome timetable laid down that the transition from four separate customs zones (i.e. France, Germany, Italy, Benelux) to a single Common Market should take place in three stages, to be completed by 1970. The internal tariffs on industrial products traded between member states have now been reduced by four-fifths, and on agricultural goods by about two-thirds and the process is to be completed by July 1968, eighteen months earlier than originally planned.

The Common External Tariff (CET)

Originally the majority of tariffs in the common external tariff represented the arithmetic average of the tariffs of the separate member states on 1 January 1957. In general this meant a rise in German and Benelux tariffs and a fall in those of France and Italy. Some countries are allowed a " duty quota " on some goods—that is a quota which is allowed to enter at a tariff rate other than the normal rate. The Six have made two of the three projected moves by which their tariffs are to



be aligned with the common external tariff. Broadly they have reduced the difference between their former tariffs and the common external tariff by 60 per cent. The final alignment is due to take place in July 1968.

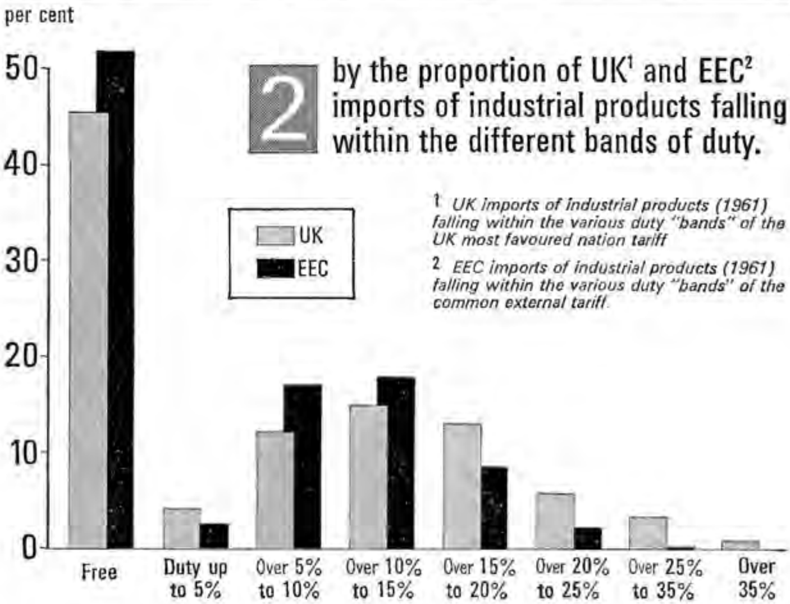
The rates to be applied in the common external tariff are similar for a large range of products to those in the British tariff.

Associated Overseas Countries and Territories

The Treaty of Rome brought into association with the Community the non-European territories which had special relations with Belgium, France, Italy and the Netherlands. In their commercial exchanges with associated countries the member states of the EEC are to apply the same rates which apply among themselves. Imports into EEC member countries originating in associated countries and territories thus benefit from the stage by stage abolition of customs duties. But there are, however, special provisions regarding the customs duties levied by the associated countries and territories themselves, taking into account, among other factors, the needs for their development and the requirements of their industrialisation.

The first Association Agreement concluded in 1958 was for five years, and a new five-year agreement which extended the arrangements was

CIDENCE OF UK AND EEC TARIFFS



signed in 1963 and commenced in 1964. Under the 1963 agreement Community tariffs on a number of tropical products were abolished altogether.

Although in principle the associated countries' tariffs on imports from the Community should be reduced by 15 per cent annually and quota restrictions on these imports should be abolished within the first four years of the new Convention's life, the new arrangements in fact also give the African countries the specific right to retain old tariffs or create new ones where these are needed to protect infant industries or to raise revenue.

In addition to these arrangements, a Protocol annexed to the Treaty (commonly known as the Morocco Protocol) provides for preferential arrangements to be maintained between particular countries of the Six and certain territories with which they had special trading relationships.

An Association agreement concluded between Greece and the Six provides for Greece to adopt over an extended period the Community's common external tariff. Special transitional arrangements were made to safeguard her particular economic position in the meantime. Turkey's Association agreement with the Six is of more limited scope. It provides for a start to be made on tariff disarmament by opening tariff quotas for products from Turkey. A customs union is a long-term aim.

Agricultural arrangements

The differences between the agricultural policies of the UK and the EEC reflect differences in their agricultural situations. Britain produces only half of its total food requirements and about two-thirds of its requirements of temperate foodstuffs. The EEC produces about nine-tenths of all its food requirements and is self-sufficient or in surplus for many of the main temperate foodstuffs.

British agricultural and food policies

British policy is based on the Agriculture Acts of 1947 and 1957. The Government reviews annually the economic condition and prospects of the agricultural industry, in consultation with representatives of agricultural producers, and then fixes the level of Government support for the coming year. Support is given in the form of guaranteed prices for the main agricultural commodities (cattle, sheep, pigs, eggs, wool, milk, cereals, potatoes and sugar beet) and direct farming grants (designed to raise farm productivity and encourage certain types of production). In general the guaranteed prices are maintained, where necessary, by *deficiency payments* to farmers. Thus the agricultural industry is given support while market prices for basic foodstuffs are allowed to remain at or near world price levels. In the year 1965–66, the Government spent an estimated £237 million on total agricultural support.

Horticulture is not supported by deficiency payments but by tariff protection against competing imports, and by assistance designed to help improve the industry's competitiveness.

The EEC's common agricultural policy

The Treaty of Rome provides that the common market shall extend to agriculture and to trade in agricultural products; and that over a transitional period the member states shall develop a common agricultural policy.

Under the Treaty, a series of regulations and decisions have been made, designed to lead to the eventual establishment of a common agricultural market and give effect to a common agricultural policy. This process is not yet complete, and the single market stage—when there are no longer any barriers to trade between member countries—is only due to be reached for the main agricultural commodities during 1967 and 1968. But the main lines of the policy are now established. It has three basic elements: the common organisation of markets for particular commodities; common price aims for particular commodities; and arrangements for financing the policy.

In 1962 a series of regulations were made for organising the marketing of some of the principal commodities. The cereals regulation made then has come to be regarded as the prototype for the Community's market organisation, and, although the separate regulations for particular commodities differ quite widely, the general philosophy underlying the cereals regulation informs them all. It is that the protection of national markets against other Community producers should be progressively eliminated and a common market for Community producers established; that producers are to look primarily for their returns to a managed common market and not to price guarantees or subsidies; and that in order to ensure that they receive reasonable returns, the Community market should be protected by charges on imports from non-member countries. For cereals, the aim of the common organisation of the market is defined in terms of a target price, and the protection from imports is by variable levies designed to raise the price of imports to at least that target price. This protection is, for cereals, supplemented by a system of support buying at intervention prices somewhat below the target price and by subsidising Community exports to other countries. The arrangements for other commodities vary—for some there are no target prices or intervention arrangements—but all have the same general purpose of establishing a common market and supporting that market wholly or in part by charges on imports.

The regulations for the various commodities provide for the gradual adjustment of price levels in each member country to a point where all barriers to trade between members can be removed and common producer price levels established for the whole Community. These common prices are of two kinds: prices which are to some extent fixed, if only as aims or targets, by decision of the Council of Ministers; and prices which come about naturally as a result of establishing a common market in the commodity in question. Common target prices for cereals are due to come into force from July 1967, and for milk and beef from April 1968. The single market stage for pigmeat, eggs and poultry is due to begin in July 1967.

The Community has created an Agricultural Guidance and Guarantee Fund to finance the common agricultural policy. The guidance section of the Fund finances assistance for improving the structure of agricultural production and marketing. The guarantee section—much the greater part of the total Fund—finances intervention or support buying and the subsidisation of exports. The Community has decided that from July 1967 to December 1969, member countries should pay to the Fund sums equal to 90 per cent of the levies collected on imports of foodstuffs from non-members. Latest estimates of the total cost of the Fund at the single market stage, put it at about £580 million a year. It is estimated that nearly 40 per cent of this total may come from the proceeds of levies on imports: the remainder has to be paid from the national exchequer of member states on a fixed percentage scale of contributions.

Summary

The broad differences between the two systems are as follows:

(i) In the EEC, the producer looks for his return to a managed market, protected by charges on imports, and the cost of support falls mainly on the consumer. In the UK home producers collectively are guaranteed a minimum return through the deficiency payments system, imports come in at lower prices, and the cost of support falls largely on the taxpayer.

(ii) The levels of producer prices differ. In general, EEC prices are higher, but the relationship between prices for cereals and for most livestock products favours cereals more than in the UK.

THE COUNTRIES OF WESTERN EUROPE

	Area '000 sq. km	Population (mid-1965) Millions
BELGIUM	30·5	9·5
FRANCE	547·0	48·9
GERMANY	248·5	59·0
ITALY	301·2	51·6
LUXEMBOURG	2·6	0·3
NETHERLANDS	33·6	12·3
TOTAL EEC	**1,163·4**	**181·6**
AUSTRIA	83·8	7·3
DENMARK	43·0	4·8
FINLAND	337·0	4·6
NORWAY	324·2	3·7
PORTUGAL	92·0	9·2
SWEDEN	449·8	7·7
SWITZERLAND	41·3	5·9
UNITED KINGDOM	244·0	54·6
TOTAL EFTA	**1,615·1**	**97·8**
GREECE	131·9	8·6
TURKEY	780·6	31·4
ICELAND	103·0	0·2
IRISH REPUBLIC	70·3	2·9
SPAIN	504·7	31·6
YUGOSLAVIA	255·8	19·5
TOTAL W. EUROPE	**4,624·8**	**373·6**

Sources: UN Statistical Yearbook and UN Monthly Bulletin of Statistics.

Note: This table includes all the European members of OECD plus Finland, which is not a member of OECD but is an Associate Member of EFTA, and Yugoslavia.

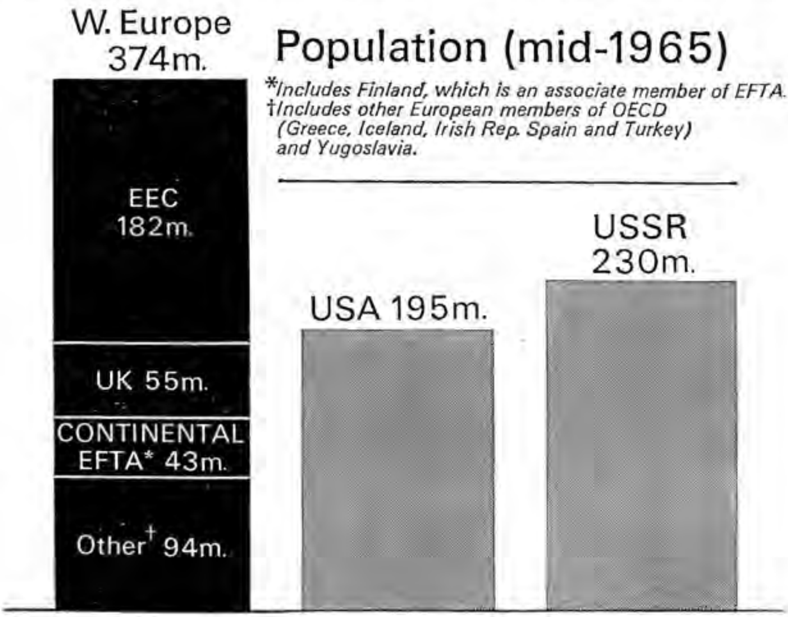
The European economy

Western Europe is one of the most important economic regions of the world and plays a vital part in world trade and industry. Although the countries of Western Europe comprise only about three per cent of the world's total land surface, they account for about 10 per cent of the world's total population.

Western Europe's place in the world economy

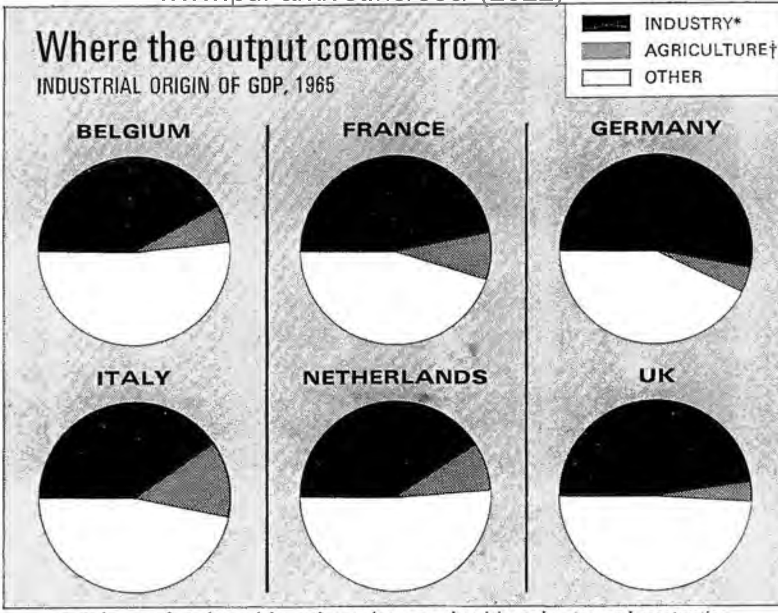
Western Europe has a population of about 375 million people, 180 million more than the USA and 145 million more than the USSR. About 180 million people live in the six EEC countries and almost 100 million in the seven EFTA countries (with their associate, Finland), of which some 55 million are in the United Kingdom.

The countries of Western Europe supply over two-fifths of world exports and are an important market for exports from all over the world. In 1965, their imports per head of population were twice as high as those of the United States. Western Europe is dependent on the outside world for many major industrial raw materials, including most of its oil supplies, for tropical foodstuffs and for a small proportion of its requirements of temperate foodstuffs. The growth of industrial



Where the output comes from

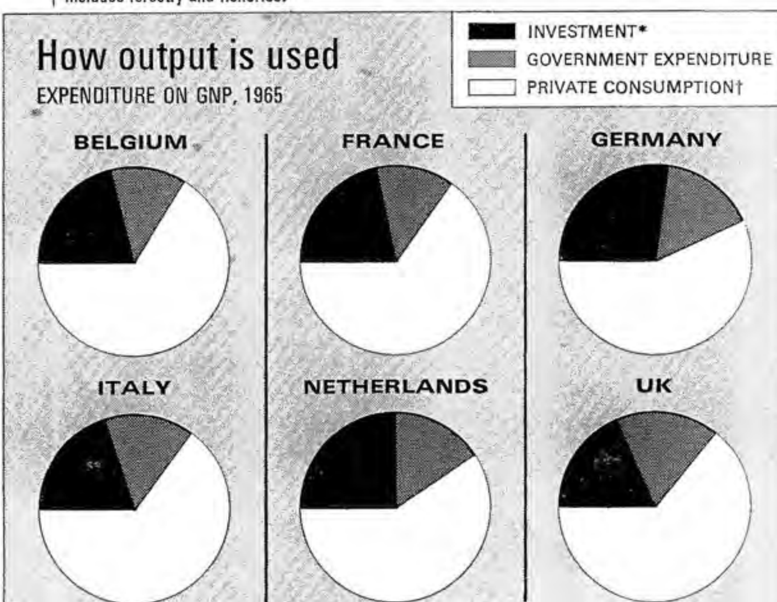
INDUSTRIAL ORIGIN OF GDP, 1965



* Includes manufacturing; mining and quarrying; gas, electricity and water; and construction.
† Includes forestry and fisheries.

How output is used

EXPENDITURE ON GNP, 1965



* Includes fixed capital formation and changes in stocks.
† Also includes exports less imports plus other net income from abroad.

Source: OECD

activity and improved living standards have greatly increased Western Europe's demands for imports in recent years, and the value of its imports from the rest of the world nearly doubled between 1958 and 1965.

Western Europe contains one of the world's biggest concentrations of industry. The main European industrial zone stretches from the central lowlands of Scotland and the northern and midland counties of England, through Belgium, north-eastern France and the Ruhr in Germany, to northern Italy. Based originally on coal and iron, it now produces almost all types of manufactured goods. In 1965, Western Europe produced nearly two-fifths of the world's passenger cars, nearly a third of its crude steel, a quarter of its electricity and about a fifth of its coal.

Western Europe and the United States

The economy of Western Europe has grown rapidly during the past 15 years. Total output has about doubled since 1950. But although output in Western Europe has been rising more rapidly than in the USA, the absolute level in the USA is still very much higher, and the real income per head of population is probably nearly twice as great in the USA as in Western Europe as a whole.

Production of electricity per head of the population has increased considerably in Western Europe in recent years, but it is still only about one-third of that of the USA. Western European output of steel, however, is now larger than US output, and steel output per head of the population in the UK and the EEC is about 80 per cent of the US level.

The growth of output in Western Europe

Between 1958 and 1965, total output and output per head grew faster in EEC countries than in the United Kingdom. Industrial output grew by about a half in the EEC, but less than a third in the UK; agricultural output on the other hand increased considerably faster in the UK than in the EEC. The leading growth industries have varied from country to country, but almost everywhere production in the base metal, engineering and chemical industries has risen by more than the average. There has been a shift in the pattern of output towards manufacturing, and, within manufacturing industry itself, away from old-established industries such as textiles to new technologically advanced industries such as engineering, chemicals and electronics.

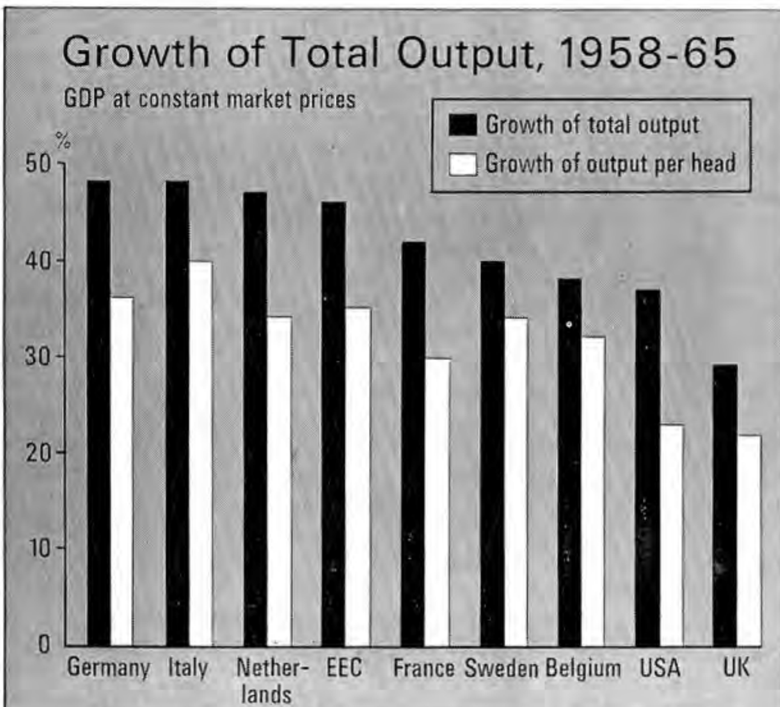
The table overleaf shows the changes in output of some major products in the UK and EEC between 1958 and 1965. Output of most of these products has been rising less rapidly in the UK than in the EEC. The notable exceptions have been commercial vehicles, sulphuric acid and man-made fibres (and also shipbuilding, where output in the UK has contracted less than in the EEC).

Agricultural output in the UK is a smaller percentage of total output than in any of the EEC countries. The share of production industries

INDUSTRIAL PRODUCTION		Total Output 1965		% Change 1958–65	
		EEC	UK	EEC	UK
Electricity	'000 mil. kWh	402	192	+73	+69
Hard Coal	Mil. metric tons	218	191	−12	−13
Crude Steel	Mil. metric tons	86	27	+57	+38
Passenger Cars	Mil. units	5·24	1·72	+102	+64
Commercial Vehicles	Thousand units	557·8	454·8	+31	+45
Merchant Vessels completed	Mil. gross tons	2·25	1·09	−28	−22
Cotton Yarn	Th. metric tons	964	220	−6	−23
Wool Yarn	Th. metric tons	531	250	+22	+12
Man-made Fibres*	Th. metric tons	1,126	374	+84	+96
Sulphuric Acid*	Mil. metric tons	11·50	3·19	+33	+40
Cement	Mil. metric tons	85·7	17·0	+67	+43

**Figures relate to total output in 1964 and percentage change 1958–64.*

Source: UN Monthly Bulletin of Statistics, December 1966.

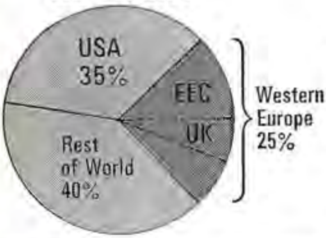


Source: OECD

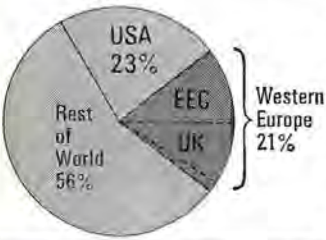
Output of some major industries

Shares of World Production 1965

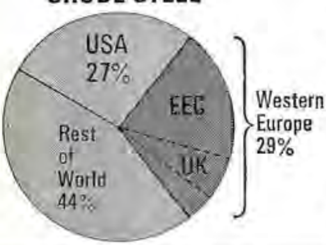
ELECTRICITY



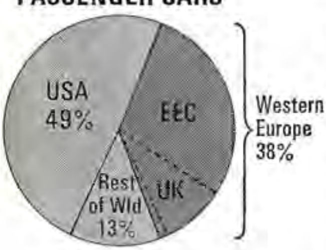
COAL



CRUDE STEEL



PASSENGER CARS



Source: UN

(manufacturing; mining and quarrying; gas, electricity and water; and construction) in UK national output is less than in Germany, about the same as in France, and considerably more than in Belgium, the Netherlands and Italy. The contribution of the service sector (commerce, transport, health, education, public administration, etc.) in the UK is more important than in France, Germany and Italy, but less than in Belgium and the Netherlands.

The big rise in industrial output in the EEC has been obtained partly from the rapid increase in industrial employment and partly from the higher productivity which has accompanied heavy investment in modern machinery and equipment.

Employment

Employment in manufacturing industry accounts for over a third of total civilian employment in the UK, Germany and Belgium; in the other EEC countries it absorbs between a quarter and a third. Agricultural employment accounts for a smaller share of total employment in the UK than in any of the EEC countries.

Up to 1966 employment in the Community as a whole remained at a high level and all countries, other than Italy, recruited additional labour from outside the Community. It is not possible to use the published unemployment statistics of the member countries to produce a figure of unemployment for the Community as a whole because the concept of unemployment differs considerably from country to country, but Community sources state that Community workless numbered 1·1 million (1·4 per cent) at the end of October 1966. This compares with 405,000 (1·3 per cent) in the UK in mid-October. The Community authorities have

STRUCTURE OF EMPLOYMENT 1964	Total Civilian Employment (thousands) Annual Average	Percentage Share of Total Civilian Employment			
		Manufacturing Industries	Other[1] Industries	Agriculture	Services[2]
Belgium	3,566	35·2	11·7	6·1	47·0
France	19,251	28·9	11·8	19·0	40·3
Germany	26,523	38·1	11·6	11·6	38·7
Italy	19,389	28·8	12·4	25·6	33·1
Luxembourg	138	45·5		14·0	40·5
Netherlands	4,310	30·9	13·2	9·8	46·1
United Kingdom	25,007[3]	36·0	11·5	3·8	48·7

[1]*Includes mining and quarrying; construction; and electricity, gas, water and sanitary services.*

[2]*Includes commerce; transport and communications; and other services.*

[3]*Mid-year estimate.*

Source: OECD Manpower Statistics, 1954–64.

announced that unemployment in the Community recently appears to have shown an upward trend which was accentuated towards the end of 1966 and is continuing in most member states, particularly Germany and the Netherlands. Although the number unemployed in Italy has

CHANGES IN EMPLOYMENT, 1960–64	Percentage Changes in Employment, 1960–64			
	Total Civilian Employment	Industry[1]	Agriculture	Services[2]
Belgium	+5·3	+6·3	−16·0	+8·0
France	+3·3	+7·6	−12·7	+8·2
Germany	+2·2	+3·4	−14·9	+7·0
Italy	−3·1	+8·2	−24·4	+6·3
Luxembourg	+3·0	+6·8	−13·6	+5·7
Netherlands[3]	+3·9	+4·3	−3·2	+5·1
United Kingdom	+3·4	+1·3	−10·0	+6·9

[1]*Includes mining and quarrying; manufacturing; construction; electricity, gas, water and sanitary services.*

[2]*Includes commerce; transport and communications; and other services.*

[3]*1962–64.*

Source: OECD Manpower Statistics, 1954–64.

declined considerably, that country still has the highest unemployment rate in the Community.

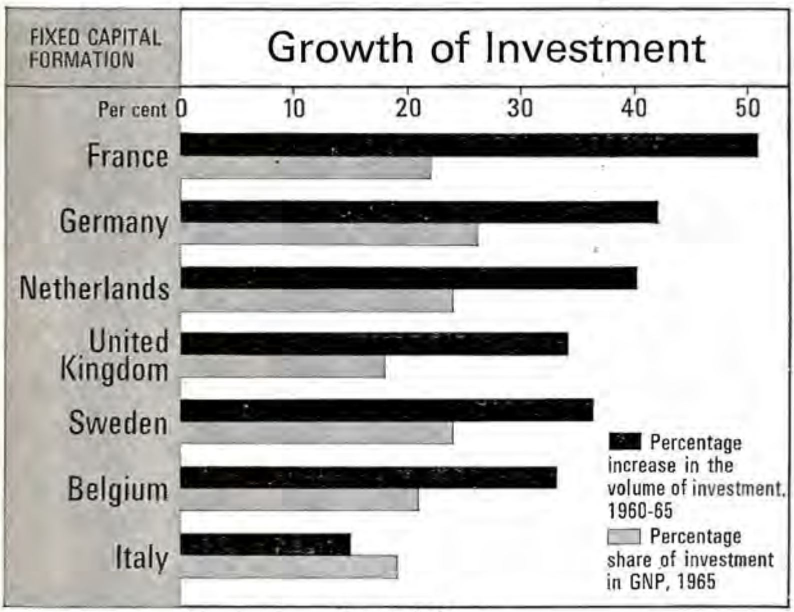
Investment

There is a significant relationship between a country's growth rate and the proportion of its output which is devoted to capital investment.

The UK devotes a much smaller share of output to investment than any of the EEC countries. In the rate of increase in the volume of investment since 1958, however, we are about level with Belgium, although we have been exceeded by France, Germany and the Netherlands. Since the early 1950s, and in common with all European countries, the UK has been using proportionately more of its output on capital investment and less on private consumption; but private consumption in the UK is still running at a proportionately higher level than in the EEC as a whole.

Technology

In some of the countries of Western Europe, the growth of the labour force is slowing down and there is a growing need for the introduction of more efficient production methods and more investment in labour-saving machinery and other new and technically-advanced equipment. There have been some big improvements in industrial technology in recent years, and more and more resources are being devoted by



Source: OECD

governments to scientific research and development. According to an OECD study* (relating to 1962), the scale of scientific research and development in the UK is much bigger than in any of the EEC countries, but far fewer resources are committed to research in Western Europe as a whole than in the USA.

Wages

Wages have risen rapidly in Western Europe in recent years. The pressure on labour resources has increased everywhere and the steady fall in the level of unemployment has resulted in an acceleration in the rate of increase in wages. Although prices have also been rising, the increase in the cost of living has been a good deal less than in the rise in earnings, and there has been a real increase in European living standards.

In the UK wages have increased more slowly since 1960 than in the EEC countries; they have also risen less in proportion to the rise in prices than in the EEC countries, so that the increase in real wages in the UK has been correspondingly lower.

Social security

The social security systems of the six EEC countries provide much the same range of benefits as the UK system, but there are many differences of emphasis and method. The EEC countries have no National Health Services, but medical treatment is provided as an insurance benefit for insured persons and their dependants generally through reimbursing them for the whole or part of the cost of any treatment received. Apart from family allowances, benefit rates are generally related to earnings. A much smaller part of the cost falls on general taxation than in the UK. The main burden is borne by the contributions of employers and insured persons. There are many special schemes for particular industries. The administration of benefits is not done directly by government departments, as in the UK, but mainly by independent institutes run by representatives of workers and employers.

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* *The Research and Development Effort in Western Europe, North America and the Soviet Union,* OECD, 1965.

PATTERN OF PRODUCTION IN WESTERN EUROPE, 1965		Total EEC	Belgium	France	Germany	Italy	Netherlands	Total EFTA[5]	UK	Total W. Europe[7]
AGRICULTURE (1964–65)										
Wheat	(million tons)	29·3	0·9	13·8	5·2	8·6	0·7	6·8	3·7	55·1
Barley	(million tons)	11·9	0·5	6·8	3·9	0·3	0·4	14·0	7·5	32·8
Other cereals[1]	(million tons)	19·4	0·5	5·4	7·4	5·1	0·9	7·3	1·5	41·3
Sugar beet	(million tons)	42·8	3·1	14·8	13·2	7·7	3·9	13·8	6·3	69·3
Potatoes	(million tons)	41·9	1·8	11·6	20·6	3·8	4·1	16·0	7·1	69·7
Beef and veal	(million tons)[2]	3·57	0·21	1·59	1·06	0·47	0·24	1·69	0·94	6·21
Pigmeat	(million tons)[2]	4·14	0·27	1·20	1·84	0·37	0·46	2·34	0·84	7·34
Mutton and lamb	(million tons)[2]	0·18	—	0·12	0·02	0·03	0·01	0·29	0·25	0·88
Milk	(million tons)	64·9	3·8	23·6	20·9	9·4	7·0	30·6	13·4	113·1
Butter	(million tons)	1·16	0·38	0·44	0·49	0·06	0·09	0·36	0·03	1·72
Cheese	(million tons)	1·42	0·03	0·50	0·36	0·32	0·21	0·46	0·11	2·17
Eggs	(million tons)	2·11	0·18	0·53[3]	0·64	0·46	0·30	1·24	0·85	3·96
INDUSTRY (1965)										
Hard coal	(million tons)	218·4	19·8	51·3	135·5	0·4	11·4	191·5	190·5	428·8
Electricity	('000 million kWh)	401·9	21·7	101·4	172·3	79·2	25·0	347·9	191·6	824·8
Crude steel	(million tons)	86·0	9·2	19·6	36·8	12·7	3·1	36·8	27·4	128·9
Passenger cars	(million units)	5·24	—	1·37	2·74	1·10	0·03	1·72[6]	1·72	7·16
Commercial vehicles	(million units)	0·56	—	0·24	0·24	0·07	0·01	0·46[6]	0·45	1·10
Merchant ships completed	(million gross tons)	2·25	0·07	0·48	1·03	0·44	0·23	3·00	1·09	5·92
Cotton yarn	(million tons)	0·96	0·09	0·27	0·38	0·16	0·07	0·34	0·22	0·67
Wool yarn	(million tons)	0·53	0·06	0·13	0·12	0·20	0·02	0·28	0·25	0·92
Man-made fibres[4]	(million tons)	1·13	0·05	0·24	0·44	0·31	0·09	0·54	0·37	1·80
Sulphuric acid[4]	(million tons)	11·5	1·3	2·7	3·6	2·9	1·0	4·6	3·2	18·7
Cement	(million tons)	85·7	5·9	22·42	34·1	20·2	3·0	34·1	17·0	142·32

Sources: *FAO PRODUCTION YEARBOOK 1965* and UN Monthly Bulletin of Statistics, December 1966.

[1]Includes rye, oats, mixed grain, maize, millet and sorghum, and rice.
[2]Dressed carcass weight.
[3]1962.
[4]Figures relate to 1964.
[5]Excluding Finland.
[6]Excluding Sweden.
[7]Western Europe total includes all European members of OECD plus Finland and Yugoslavia.

Note.—Weights are in metric tons.

Britain's trade in Western Europe

The growth of world trade

In recent years, world trade in manufactured goods has increased about twice as fast as trade in raw food and other basic materials. Exports of manufactures by the twelve main manufacturing countries grew by an average of 8½ per cent a year between 1955 and 1965*, while exports by the primary producing countries grew by only 4½ per cent.

Many factors have been at work in promoting this strong growth of trade in industrial goods. Among them are: the higher rate of economic growth in industrial countries, the growing sophistication there, not only of technology but of consumer tastes, and the liberalisation of trade through tariff cuts and removal of other restrictions.

Nearly nine-tenths of all exports of manufactures by countries outside the Sino-Soviet bloc come from the twelve countries—three in EFTA: Britain, Sweden and Switzerland; the six EEC countries; and the USA, Canada and Japan.

These, with some other industrially-developed countries, are also the largest and fastest growing markets for each others' sales. The primary producers have more slowly growing export earnings with which to buy more manufactures.

In 1965, nearly two-thirds of all exports of manufactures by the 12 countries were sold in Western Europe including Britain, and North America (Canada and USA). Within these areas the EEC has shown the biggest increase as an importer and is second only to Sweden in growth as an exporter.

Europe's expanding market

In the ten years, Western Europe's total imports have not only grown very fast, compared with most other areas, but the fastest growth has been in imports from within Europe. (See charts on p. 37.)

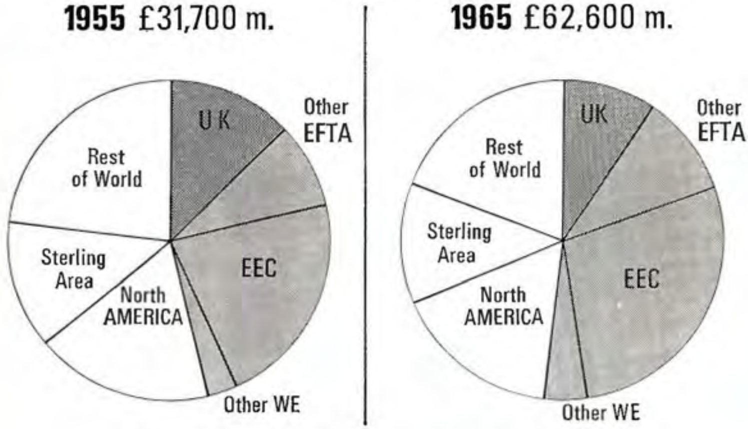
Western Europe, including Britain, increased its total imports by about 120 per cent. North America and Overseas Sterling Area imports both grew by about 80 per cent, those of the rest of the world by about 75 per cent.

While Britain's share of world imports† dropped from about 12 to 8 per cent, between 1955 and 1965, the share taken by the rest of Western Europe rose from about 33 per cent to 42 per cent. Taking

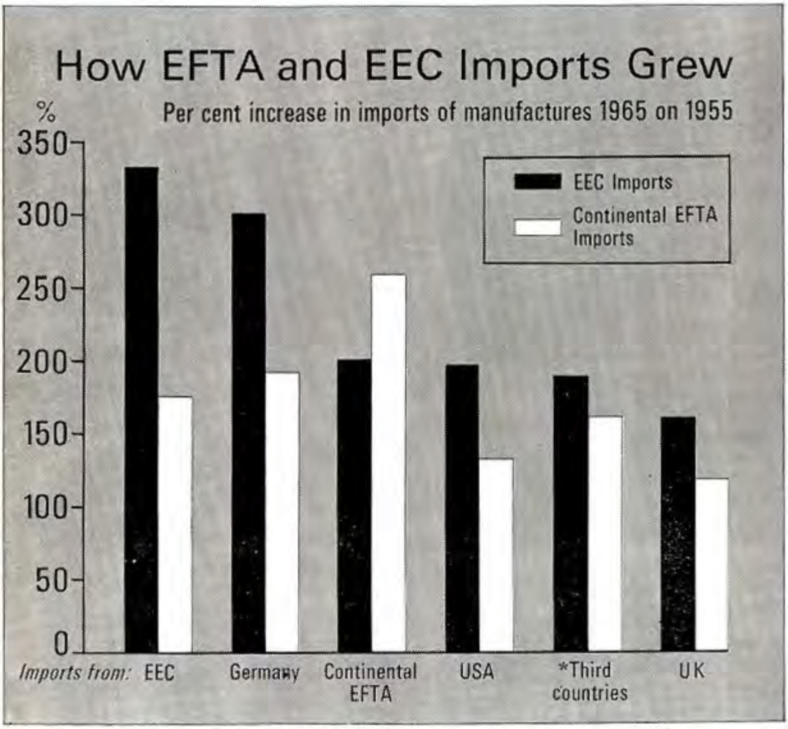
**1965 was the latest year for which full international statistics were available at the time of publication.*

† Excluding imports by the Sino-Soviet bloc.

Where World Imports Went *



*Imports by the Sino-Soviet bloc are not included.



*All countries not belonging to the group concerned (EEC or EFTA) manufactures alone, Western European imports, including those of the UK, rose by 210 per cent, those of the EEC by 260 per cent and those of our EFTA partners by 180 per cent.

Where European imports come from

The fastest growth of trade in manufactures in the ten years has been that of EEC countries' imports from each other. They rose by 330 per cent, while imports from non-EEC countries rose by 190 per cent.

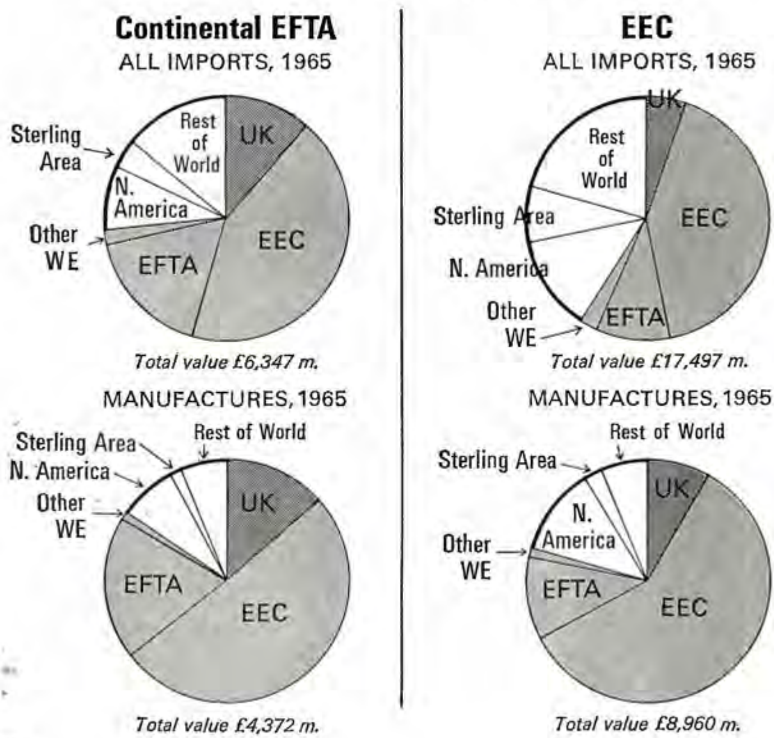
Continental EFTA countries' imports of manufactures from each other rose by 260 per cent, those from non-EFTA countries by 160 per cent.

In 1965, 80 per cent of EEC imports of manufactures and 85 per cent of those of Continental EFTA came from Western Europe, including Britain.

The pattern of British exports

About 85 per cent of UK exports are manufactures. And a large part of the *non-manufactures* we export, such as whisky, are in fact

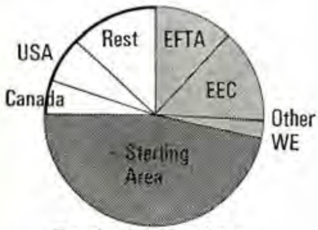
Where EFTA and EEC Imports come from



Britain's Changing Trade Pattern

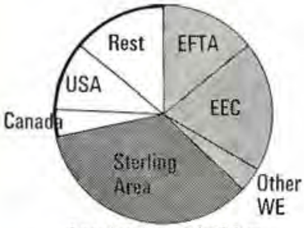
Where **exports** went

1955



Total value: £2,957 m.

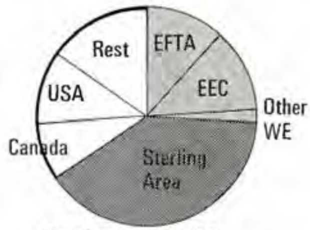
1965



Total value: £4,726 m.

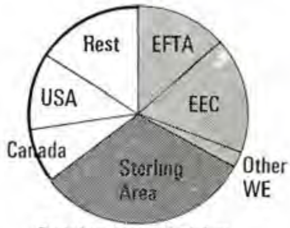
Where **imports** came from

1955



Total value: £3,936 m.

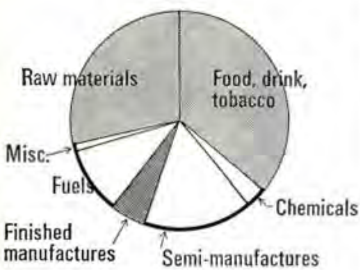
1965



Total value: £5,751 m.

What we **bought**

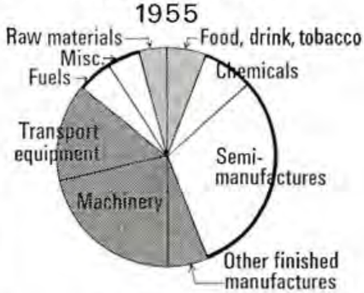
1955



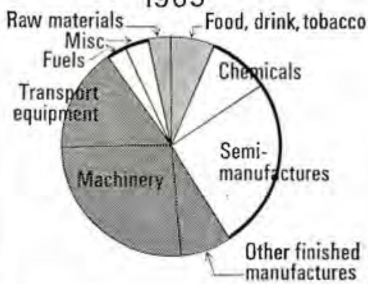
1965

What we **sold**

1955



1965



products of British industry, for which demand is strongest in developed countries.

The broad composition of our total exports has not changed much in recent years. But our exports of chemicals, machinery, cars, consumer goods, and food, drink and tobacco have all risen faster than the rest.

The big change has been in the destination of our exports. (See charts on p. 39). In 1955, 28 per cent of them went to Western Europe. In 1965, 37 per cent went there. Western Europe has overtaken the Overseas Sterling Area as our biggest export market.

Our exports to the world have grown by an annual average of nearly 4½ per cent in value over the decade. Exports to Western Europe have grown by just over eight per cent a year, and exports to the Sterling Area by just over one per cent.

Our exports of every main type of goods (except ships and aircraft) have grown faster in the European market than in the world or the Sterling Area, and in most cases faster than in the USA (see chart on p. 43). More than half our re-exports, not included in these figures, go to Western Europe. We sold very nearly £100 millions worth there in 1965.

Exports to the EEC

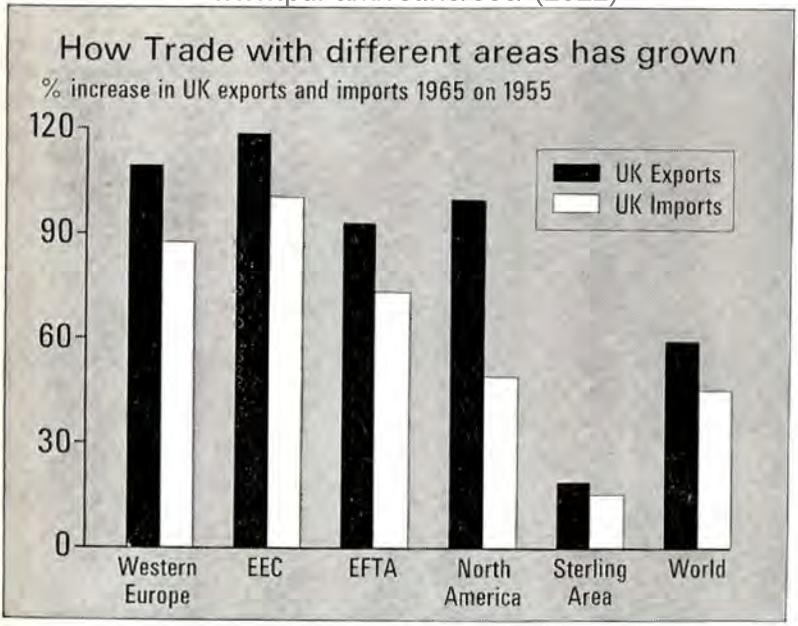
In the ten years, our exports to the EEC have more than doubled, growing at an annual average of over nine per cent. The EEC bought 19 per cent of all our exports in 1965, compared with 14 per cent in 1955.

This growth has not been steady. Our exports to EEC rose by 18, 16 and 14 per cent in 1961, 1962 and 1963. But there was very little growth in 1964 and 1965. In the earlier years, British firms were making special efforts in the expectation of Britain joining the EEC. The falling away was partly due to recessions in France and Italy, which particularly affected our sales of cars. Our exports to the EEC picked up again in 1966, when they rose by six per cent.

All the EEC countries are now among our top 13 trading partners. Germany has been a particularly strong export market, taking 5½ per cent of all our exports in 1965, compared with only 2½ per cent in 1955.

Exports to EFTA

Although our exports to EFTA have grown slightly less fast over the decade, they have nearly doubled, growing at an annual average of seven per cent; and in 1964, our exports to EFTA began rising faster than those to the EEC and have continued growing more strongly ever since, by 12 per cent in 1964, seven per cent in 1965 and 11 per cent in 1966. EFTA bought over 14 per cent of all our exports in 1965, compared with under 12 per cent in 1955. Sweden is now seventh among our main trading partners and Denmark eleventh.



EFTA is one of our best markets for textile exports and an important one for ships. Our sales of machinery and consumer goods there have been rising well.

Our exports to the Western European countries outside both EFTA and the EEC, particularly those to Spain, have grown even faster than those to the two main groups—by an average of 10 per cent a year, But they still make up a very small proportion of our total trade.

Although, in total, our exports have grown faster to the EEC than to EFTA over the ten years, we still have a much smaller share of the EEC than of the EFTA market. However, it should be remembered that the EFTA tariff reductions began only in the second half of the period, and that since 1964 our exports have been rising more rapidly to EFTA than to the EEC.

How we compare

Our exports to Europe have done well, but some of our competitors have done better.

The chart on page 37 shows how both EEC and Continental EFTA imports of manufactures from all non-member countries together, and from the USA have grown faster than those from Britain.

The fastest growth in EEC imports of manufactures was from other EEC countries; this was twice as fast as the increase in EEC imports of manufactures from Britain.

The chart on page 44 shows how our performance compares with the world's in the separate countries. Only in Switzerland and Austria, comparatively small markets for our goods, have we increased our share of the market for manufactures since 1955. Our share of the market in Germany, Italy, Portugal and Sweden has declined relatively slowly, but it has fallen relatively fast in Finland and in Norway where, however, deliveries of ships happened to be very high in 1955 and unusually low in 1965.

Britain's share of all exports of manufactures to Western Europe by the 12 main manufacturing countries has fallen from 15 per cent in 1955 to about 11 per cent in 1965. Italy has increased her share from four per cent to nine per cent. Germany, France and the Netherlands have slightly increased their shares, Germany supplying over a quarter of the total. The USA has held her share at about 13 per cent of the total.

The pattern of British imports

Both the composition of our imports and the share coming from different sources has changed considerably in the ten years. (See chart on p. 39).

Food and raw materials made up 47 per cent of the total in 1965, compared with 62 per cent in 1955. We import a growing proportion of chemicals and other semi-manufactures. And finished manufactures have trebled their share of the total, rising from about five per cent in 1955 to over 15 per cent in 1965.

This great increase in our imports of finished and unfinished manufactures has made Britain, like other industrial countries, a much faster-growing market for industrial countries' exports than for those of primary producers. And our imports from Western Europe have grown more than from any other area. They grew at an annual average of 6½ per cent a year over the decade, while imports from the world grew at under four per cent.

Western Europe's share of our total imports rose from under 26 per cent in 1955 to 33 per cent in 1965, while the Sterling Area's share fell from nearly 40 per cent to just over 31 per cent.

Our imports from Western Europe

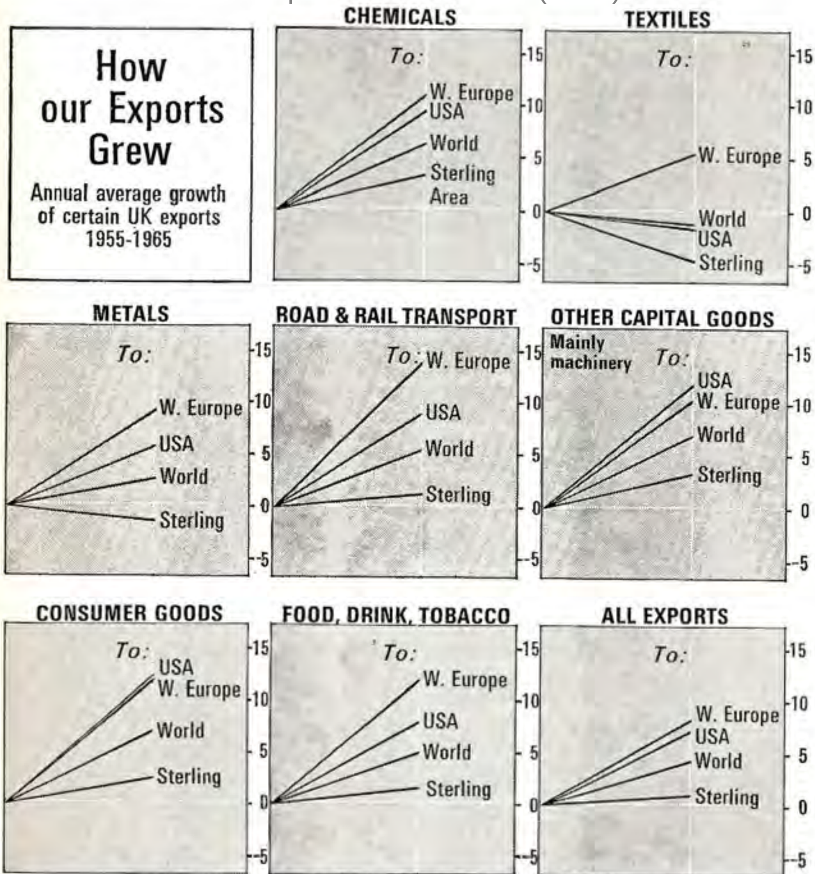
Our total imports from Western Europe have been growing rather less fast than our total exports to Western Europe—at over seven per cent a year from the EEC and under six per cent from EFTA. But our imports of manufactures have been rising faster than our exports, at over 10 per cent a year from Western Europe as a whole.

A large rise of nearly 20 per cent in total imports from Western Europe in 1964 fell away to a growth of about five per cent in 1965 and nine per cent in 1966.

Our imports from EFTA and the EEC are made up very differently both from each other and from our total imports from the world (See chart on p. 45).

How our Exports Grew

Annual average growth of certain UK exports 1955-1965



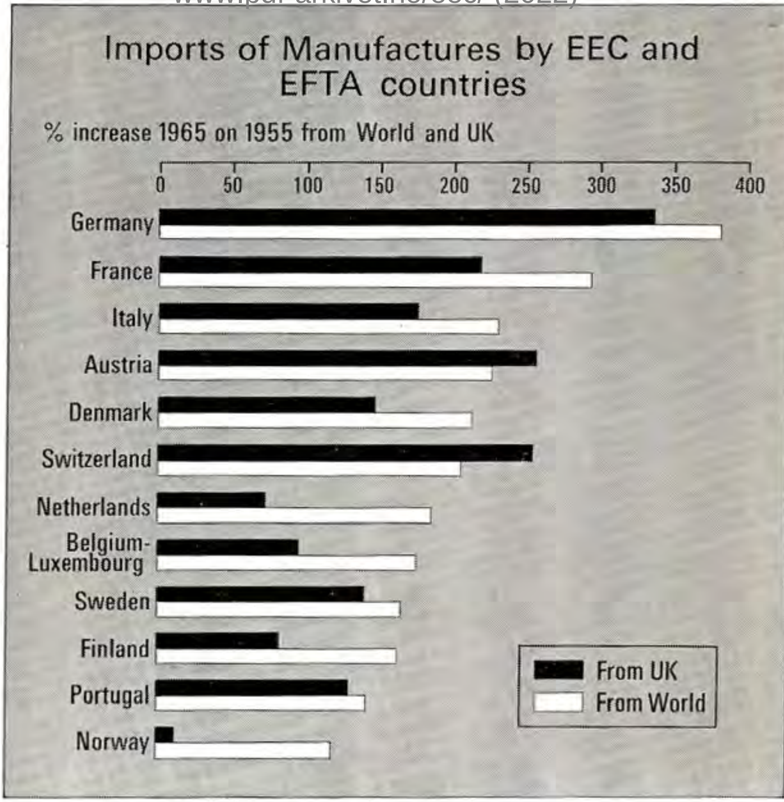
(excluding Lend-Lease silver shipments to USA)

Raw materials and semi-manufactures make up a much larger proportion of our imports from EFTA than of those from the world, mainly because of our large imports of wood, paper and pulp from Scandinavia.

From the EEC we import a very much smaller proportion of food and raw materials than from the world. On the other hand, over a third of all our imports from the EEC are of finished manufactures, over half of these being machinery.

We buy not only a higher proportion but a greater quantity of food, particularly meat and dairy produce, and of raw materials from EFTA than from the EEC and about the same quantity of semi-manufactures, other than chemicals.

The chart on page 45 shows the large share of our total imports of



some important industrial goods which come from Western Europe. Over 40 per cent of all our imports of machinery and chemicals and nearly 60 per cent of all transport goods now come from the EEC. More than a third of all our iron and steel imports come from EFTA.

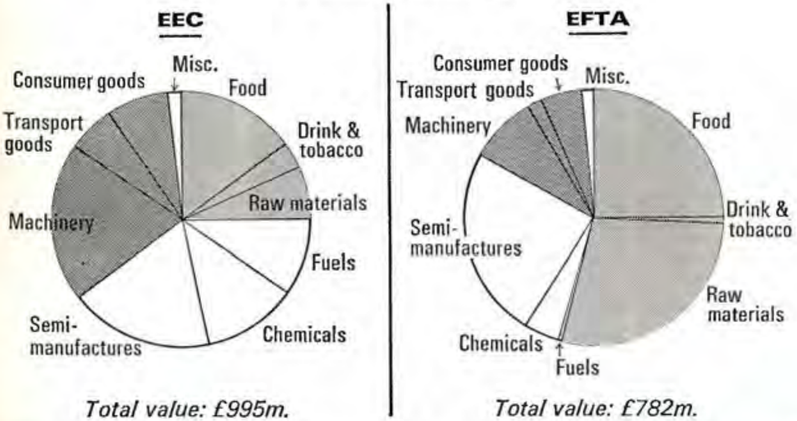
The balance of trade

We do not need to make a surplus on our trade with particular areas, but if deficits occur in some areas they must be offset by surpluses elsewhere.

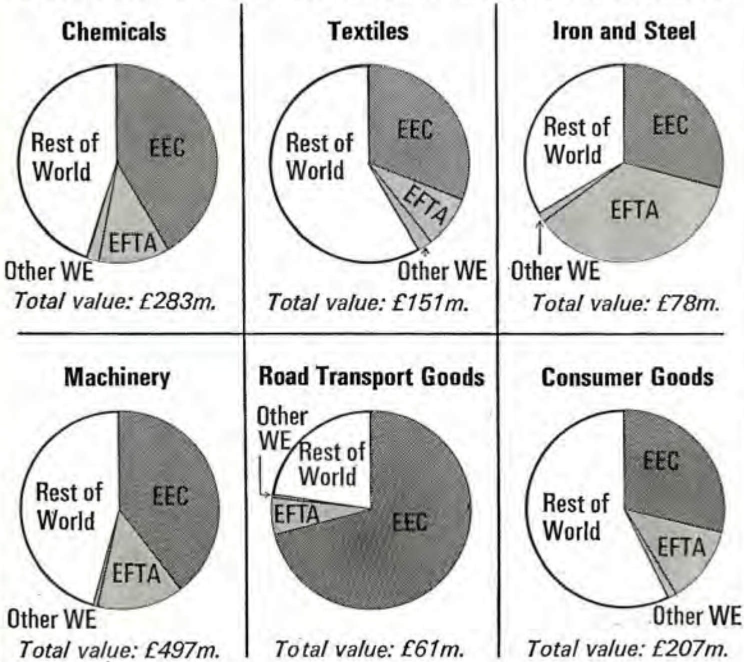
Our balance of trade with Western Europe varies a good deal from country to country and from year to year. But in balance of payments terms—that is, taking both imports and exports f o b—we have earned a surplus with Western Europe in every year since 1961. In 1965, the latest year for which figures on this basis are available, the surplus was over £80 million.

What We Import from Europe

UK Imports, 1965, from:



Source of certain UK Imports, 1965



Britain's trade with other countries

To help put our trade in Western Europe in perspective, this chapter gives a brief summary of our trade with other parts of the world.

As Chapter 7 showed, we now do over a third of all our trade with Western Europe. About another third is with the Overseas Sterling Area. Of the remaining third, more than half is with North America, and less than half with the rest of the world.

Our Commonwealth and Sterling trade

Between 1955 and 1965, our trade with the Commonwealth and Sterling Area has grown much more slowly than the rest.

Between 1955 and 1965 our exports to the Commonwealth (as constituted in 1965) rose by 11½ per cent, from £1,205 million to £1,343 million, and our imports from the Commonwealth rose by 10½ per cent, from £1,554 million to £1,718 million.

In the same period our exports to the rest of the world rose by 93 per cent, from £1,752 million to £3,385 million, and our imports from the rest of the world rose by 69 per cent, from £2,382 million to £4,034 million.

Within the Commonwealth, our exports to Canada grew by about 1½ per cent a year, while those to Australia remained at about the same level and those to New Zealand actually declined.

Within the Sterling Area, our exports to the Irish Republic grew by 5½ per cent a year and those to South Africa by over three per cent a year.

Our exports to the less developed Sterling countries rose by about one-half per cent a year.

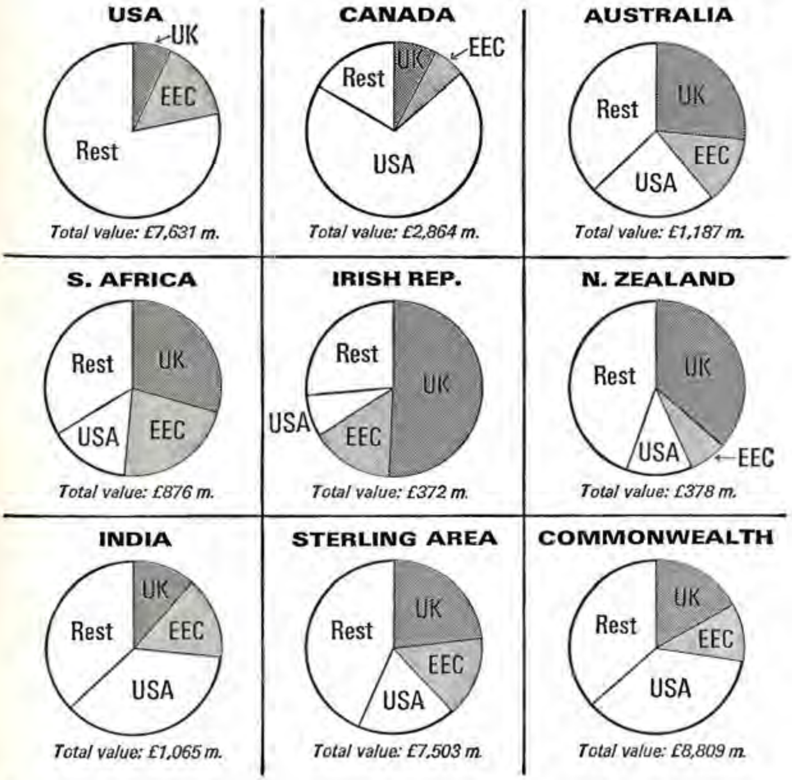
Our share of the total Overseas Sterling import market has fallen from about 34 per cent in 1955 to 23 per cent in 1965. The EEC's share has risen from under 12 per cent to nearly 15 per cent. In the Canadian market, our share has fallen from eight to seven per cent, while the EEC's has risen from three to six per cent.

This slow growth of trade with the Commonwealth and Sterling Area is partly the result of the very high proportion of their imports which we supplied in the years following the last war.

The USA, partly helped by her aid programme, Germany and Japan, all trebled their exports of manufactures to the Sterling Area outside Europe between 1955 and 1965. Ours rose by about one-sixth. Japan's exports of manufactures to Canada quintupled, Germany's trebled and ours rose by about a half.

Our share of some main markets

Shares of countries' imports, 1965, supplied by UK, EEC and USA



Britain's large part

In spite of our falling share, Britain still plays a very large part in Commonwealth and Sterling trade. The chart above shows the importance of our exports in the markets of our larger trading partners, the importance of the UK market to their exports, and how these vary greatly from country to country.

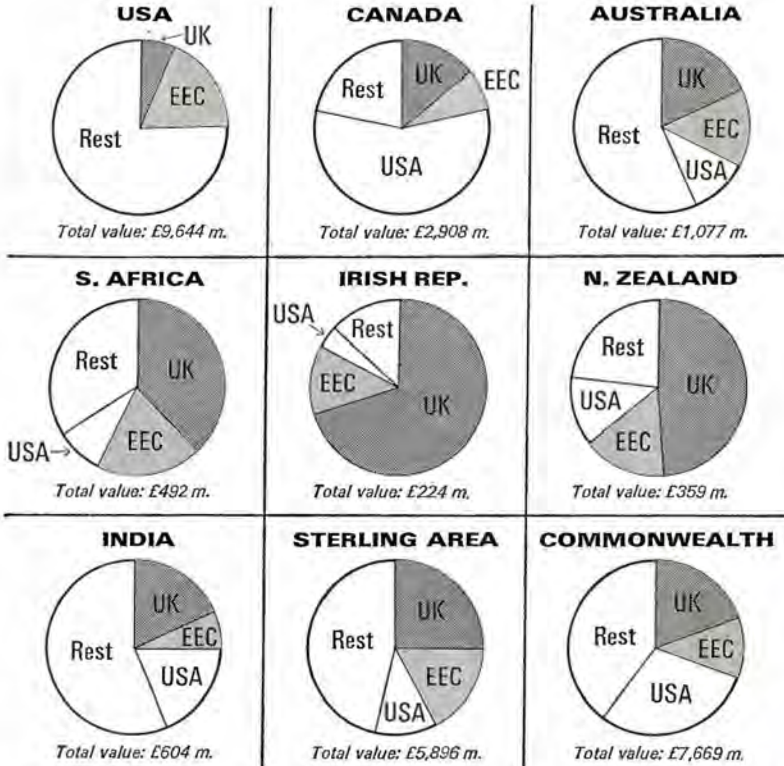
The UK supplies nearly a quarter of all Sterling countries' imports and buys a quarter of their exports, a much larger share than is sold or bought either by the EEC or the USA.

Because Canada does far more trade than any other of our Commonwealth partners, and the vast bulk of it is with the USA, Britain's share of the overseas Commonwealth's trade is a good deal smaller than the USA's.

In Australia, the USA now has almost as large a share of the import

Our share of their exports

Shares of countries' exports, 1965, going to UK, EEC and USA



market as we have, the EEC only half as much. But Australia now sells almost as much to the EEC as to Britain, and a good deal less to the USA.

In New Zealand, our exports have over a third of the market, much more than those of the USA and EEC put together. New Zealand sells almost half of all her exports to us, and about a quarter to the EEC and USA together. Most of New Zealand's exports to the UK are of food, and she is heavily dependent on these to finance essential imports.

South Africa buys nearly a third of her imports from Britain and sells us more than a third of her exports. She does about a fifth of all her trade with the EEC.

India buys less from us than from the EEC and much less from us than from the USA. But she sells nearly a fifth of her exports to Britain, the same amount to the USA and only a third as much to the EEC.

Food and raw materials make up about 65 per cent of our imports from the Commonwealth, a much higher proportion than they make up in our total imports from the world. Semi-manufactures provide about 20 per cent, oil and other fuels about five per cent, and finished manufactures only about another five per cent.

It is important for many Commonwealth and Sterling countries with developing industries to build up their exports of manufactures.

Trade with the USA

The USA imports more than any other single country. In the decade 1955–1965 our exports there were rising at over seven per cent a year, only a little less quickly than those to Western Europe and our share of imports into the USA increased from under 5½ per cent to a little over 6½ per cent.

Our imports from the USA over this period rose by less than five per cent a year compared with a seven per cent a year growth in our exports there. Over a third of these imports are of finished manufactures, and we even buy more of these from the USA than we sell there.

Trade with other countries

Apart from Western Europe, the Sterling Area and North America, the rest of the world together bought about 14 per cent of our exports and provided 16 per cent of our imports in 1965. This trade was divided fairly evenly between the non-Sterling Middle East (UK exports £186 million, UK imports £182 million), Latin America (£159 million, £283 million); non-Sterling Asia, including Japan (£124 million, £133 million), and Eastern Europe, including Russia (£113 million, £220 million). Our exports to non-Sterling Africa were worth £36 million and our imports from it £79 million.

Our exports to Eastern Europe have been among our fastest growing, almost as fast as those to Japan. Both, however, still account for only a small share of our total exports. We do more trade with Finland, for example, than with either Russia or Japan. Our exports to Latin America have grown at a slower rate than our exports to the world.

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FURTHER INFORMATION ON THE EUROPEAN COMMUNITIES

The English texts of the two Treaties of Rome and of the Treaty of Paris are available from Her Majesty's Stationery Office. HMSO also has catalogues of Community publications, many of which are available. Some of the more important are published in English but, in general, items not published in English are stocked by HMSO in the French language version.

The most important source of information on the Communities' activities is the *Official Journal of the European Communities* (not published in English). It is here that the official texts of all regulations, decisions, agreements and other legislative instruments governing the operations and activities of the Communities are first published authoritatively. There are about 200 issues a year and the annual subscription is £5.

Unofficial English translations of European Economic Community and European Atomic Energy Community regulations prepared by the Foreign Office from the official texts published in the *Journal Officiel* are published by HMSO. Full details of titles available can be obtained from HMSO in Sectional List no. 58. Prices vary from 3d. to 6s. per copy. Unofficial translations of some Regulations and of other official announcements from the *Journal Officiel* are also published from time to time in the *Board of Trade Journal.*

An account of the British and EEC agricultural systems, with detailed consideration of particular commodities, is given in a paper submitted by the Ministry of Agriculture, Fisheries and Food to the Select Committee on Agriculture, and published in Minutes of Evidence for 15 March (HMSO).

A brief description of EEC publications available is to be found in *Commerce, Industry and HMSO* (free from HMSO).

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