

## Report by the Commission of the EEC on the execution of the Treaty establishing the EEC, Trade in the industrial sector (1962)

**Caption:** In July 1962, the European Commission publishes a Report on the execution of the Treaty in which it welcomes, in particular, the introduction of the first measures to abolish customs barriers in the industrial sector.

**Source:** The first stage of the Common Market: Report on the execution of the Treaty (January 1958-January 1962). Brussels: European Economic Community-Commission, 1962. 115 p.

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## Report by the Commission of the EEC on the execution of the Treaty establishing the European Economic Community, *Trade in the industrial sector (1962)*

### I. The gradual creation of the Common Market

[...]

#### Industrial trade

2. While from 1958 to 1961 the economic situation within each Member State has been very satisfactory, it is the spectacular progress of trade between Member States that most clearly proves the reality of the common market. The volume of this trade has increased by an average of 21% per annum during the period 1959-1961. This steep increase in trade between Community countries has not, however, prevented a considerable rise in imports from non-member states.

The economic situation has doubtless played a decisive part in the expansion of trade within the Community, and this expansion has also been stimulated by the gradual elimination of quantitative restrictions and the reduction of customs duties between the Member States. However, as the first tariff reduction applied to imports from all countries and as the subsequent reductions were followed by the first approximation of duties applied to non-member countries on a common external tariff reduced by 20%, the importance of this factor should not be exaggerated. The Commission considers that the expansion of trade between Member States is attributable not only to the favourable economic situation and the direct effects of tariff and quota measures but also, and perhaps primarily, to the attitude adopted by businessmen who have been led by the prospects of increased competition to seek new outlets in other Member States.

The heads of business establishments, already thinking in terms of a unified European market, have often moved ahead of the rate at which the Treaty was being implemented, so that the first speed-up - decided on 12 May 1960 - looked in many respects like an effort to catch up on the advance made in business circles on the practical introduction of the common market.

The dynamic attitude of businessmen has been particularly evident in the field of specialization which has made remarkable strides, and also in the way investment has grown and holdings in foreign firms have expanded. Increasing specialization will probably remain one of the most important structural consequences of the common market. The growth of investment is apparently due in part to the streamlining made necessary by the opening up of the common market.

The favourable economic situation, the application of the first measures establishing the customs union and the will to adapt evinced by transactors have between them given the common market a send-off that could hardly have been foreseen.

#### Customs reductions and the first approximations to the CET

3. The implementation of the Treaty is everywhere linked with a time-table which for the establishment of a customs union is fixed but which is, within certain limits, more flexible for the common policies. Even in the first stage care was taken that there should be a balance between the various spheres in the proposed economic union, but the results achieved can be assessed more easily in those spheres where, as with tariff and quotas, a system was laid down in detail by the Treaty of Rome and has now been brought into operation.

4. The tariff reductions made on industrial products within the Community by the end of the first stage go beyond what is required by the Treaty.

As a result of the speed-up decision of 12 May 1960 the reductions in customs duties on industrial products amount on 1 January 1962 to 40%, on non-liberalized agricultural products to 35% and to 30% on those that have been liberalized.

As the reductions effected to date have been linear, the Treaty's requirement of a minimum cut of 25% in the basic duty on all products during the first stage has been more than met.

Under the terms of the Treaty the Commission must supervise the application of the standstill on the one hand and of the subsequent reductions on the other. The Commission can state that by and large the standstill has been respected and that the cuts have been duly made. In the few cases where a Member State has failed in one of its obligations, the Commission has been able to ensure that action was taken to put matters right.

5. While the first tariff reductions were being made between Member States, preparatory work began on the common customs tariff; the greater part was approved by the Council in its decisions of 13 February 1960, which covered duties established on the basis of the arithmetical average of national duties, and by the Member States in the decisions taken on 2 March 1960, which dealt with the duties to be levied on List G products. Petroleum products are the only group for which common customs duties are not yet fixed.<sup>(1)</sup> The speed with which the common customs tariff was settled made it possible for the Community to begin, from September 1960, re-negotiations pursuant to Article XXIV (6) of GATT and to take full part in the general round of tariff negotiations opened in May 1961 on the initiative of Mr. Dillon, at that time Under-Secretary of State in the State Department.

6. The speed-up decision of 12 May 1960 was led to a first alignment of national duties on the common customs tariff for industrial products, made on 31 December 1960; under the terms of the Treaty this need not have been done until 31 December 1961. The basis used for calculating the new duties was the common customs tariff reduced by 20%. Where national duties in force on 1 January 1957 were 15% above the common customs tariff, they were brought into line immediately. In other cases the gap between national tariffs and the common customs tariff was reduced by 30%. The alignment of duties on the common external tariff for the products listed in Annex II to the Treaty was carried out in conformity with the Treaty on 1 January 1962.

Various exceptions of no great importance were provided for in calculating the new rates, particularly for the products in List G. The Commission, called upon to give a ruling, decided that the alignment on the common external tariff should be made in accordance with normal procedure for products comprising 3 to 4% by volume of the imports made by the Community in 1957.

On the occasion of the first alignment there was a risk that Member States might make considerable use of the facilities offered by Article 26 of the Treaty, under which they may postpone lowering or raising duties if they encounter any special difficulties. The number of products in connection with which Member States have asked the Commission for the authorization required by this Article is limited, and in most cases the request has been based on reasons of commercial policy.

### **Tariff quotas**

7. Member States were also entitled, when making the first alignment of national customs tariffs on the common customs tariff, to resort to tariff quotas in order to restrict the effects of the alignment. The Commission was aware that for the Community these tariff quotas could involve a certain number of risks such as a breach in the unity of the tariff and failure to establish a complete customs union.

8. The Commission believed that the best solution would be to forestall recourse to tariff quotas by adapting customs duties to the realities of the economic situation in the Member States, and it therefore undertook both in 1961 and in 1962 a strict examination of the requests made to it, using criteria laid down in Article 25 (1 and 2) and in the Protocols annexed to the List G agreement of 2 March 1960. Its decisions or proposals to the Council took into account the fact that such quotas were not to exceed the limits beyond which the transfer of activities to the detriment of other Member States was to be feared.

Out of 159 requests, a number of which were later withdrawn, 78 were granted for 1961.

9. For instance, a particularly important problem was raised by requests for tariff quotas on tropical woods. These quotas, granted provisionally for 1961 to all Member States except France, were the object of considerable criticism from the associated African States, which insisted on the special importance to them of starting to establish a really preferential market.

This problem was resolved in two ways: by a Council decisions suspending until 31 December 1961 the duties of the common customs tariff on one important variety of tropical wood (obeche ) and by the action of the Member States concerned, which gave up the quotas granted by the Commission for 1961. An exception was made, however, in the case of Italy, for it was recognized that a renunciation of quotas would force her to apply a duty of 4.3 % on imports of tropical woods from non-member countries (other than obeche), while her partners would levy a duty of only 1.5% on these same imports. In view of the resultant disadvantages, the Commission granted this Member State a tariff quota as a duty of 1.5% for the period from 1 October to 31 December 1961 for tropical woods in the rough other than obeche.

### **Harmonization of customs regulations**

10. The effectiveness of the steps to abolish internal frontiers by eliminating tariffs and quotas will depend on the readiness of the customs authorities of the six Member States to respect common principles and to apply the same rules in taxing goods. The incidence of a rate of duty depends on many factors (value for customs purposes, effective date of the duty, payment credit, clearance procedure). Common rules will have to be worked out for exemption from duty, for suspending duties and for goods in transit.

Acting under Article 27 of the Treaty and in close collaboration with the national authorities, the Commission has started to put through a programme of harmonization based on a system of priorities. Some recommendations have been submitted to all the Member States. They refer to the tariff treatment of containers imported filled, the definition of dutiable weight, and the treatment of goods re-imported after temporary exportation for the purpose of processing, reworking or repair, the date to be taken into consideration for determining the rate of customs duty applicable to goods declared for consumption, and the levying of a flat-rate duty on small consignments of goods sent to individuals or carried in travellers' luggage. (The rate for this flat-rate duty was fixed at 10% by a decision of the Council dated 6 February 1962; it is a basic duty on which are calculated the cuts provided for in the Treaty, whether already applied or still to be applied in the future). Another recommendation submitted to the Member States concerns the rules for the duty-free admission of goods imported in small consignments of a non-commercial nature. Duty-free entry will also be accorded for consignments of this nature up to a value not exceeding twelve units of account.

Working out a set of customs regulations to apply throughout the Community seems to be essential if the progress made on tariffs is to be consolidated and the Community's customs policy defined.

### **The Community's rules for dealing with processing traffic**

11. On the other hand, the Commission laid down as early as 1958 Community rules for dealing with processing traffic. The system is intended to help those activities in the various countries which are concerned with exports; various methods are used to allow the duty-free import of foreign products, provided these are to be re-exported after processing. The advent of the Common Market raises this problem in quite new terms, as it is not possible to adapt the preferences between Member States to the presence in the goods being traded of "non-member" elements on which the appropriate duty has not been paid. To solve this problem the Commission has instituted a customs levy at a rate equal to a percentage of the national duty applicable to products imported from non-member countries. This rate goes up as the duties between Member States come down, till it falls into line with the relevant rate in the common customs tariff. For the period from 1 January to 31 December 1961 the rate was 25% . The levy had not been collected before 1 January 1961 because of the low incidence of the first customs reductions and their more or less general extension to non-member countries. After a transition period, "non-member" products will be free to circulate throughout the Community once the duty shown in the common customs tariff has been paid.

The formula for the levy caused no major difficulty from the point of view of customs technicalities, nor did it place any great burden on traders. A feature of the levy is that it will lead to the collection of the common customs duty, of which it is a percentage, well before the end of the transition period.

### **Elimination of quotas in the industrial sector**

12. As far as the elimination of quotas is concerned, suffice it to say that more has already been done than is required by the Treaty and that, as the result of the speed-up decision of 12 May 1960, the process of eliminating quotas on industrial products has at the end of the first stage almost ceased for lack of quotas to eliminate. The age of quantitative restrictions may be considered to be passed and in future trade will be carried on under the system of liberalization, except in agriculture and the sectors where the State intervenes directly in selling.

As early as 1958 a considerable part of trade between Member States was freed from all quantitative restrictions. Only France was an exception, but the policy of financial recovery instituted by the French Government at the end of 1958 has enabled the situation in France to be brought gradually into line with that in the other Member States.

Under Article 31 of the Treaty Member States have bound between themselves the level of liberalization and the lists of products liberalized by them within the framework of the OEEC on 14 January 1955. It is of course not possible to apply new restrictions on the imports of liberalized and bound products unless one of the safeguard clauses of the Treaty has been invoked.

From 1959 onwards a multilateral system was substituted for the previous bilateral system, when global quotas were opened on a non-discriminatory basis to other Member States. Three successive increases in the global quotas were made in 1959, 1960 and 1961. The acceleration decision included an additional increase on quotas for certain agricultural products in 1961, and industrial quotas were abolished on 31 December 1961.

This increase had a remarkable effect on the opening of markets for products that had enjoyed strict protection when the Treaty came into force.

During the first four years of the Community's activities, however, an appreciable part of the non-liberalized sector was outside the scope of the general rules on the gradual elimination of quantitative restrictions either because of the existence of a State monopoly of a commercial nature or of a national marketing organization, or because of the introduction of a minimum price system.

### **Progressive adjustment of State monopolies**

13. Member States have begun to carry out provisions of Article 37 which prescribes the progressive adjustment of the State monopolies which exist in the Federal Republic of Germany, in France and in Italy. Thus Italy has authorized imports of tobacco from the five other Member States without restriction on quantity, but the foreign supplier has to take the risks involved in marketing his goods. As for France, it has negotiated definite purchases with the German Federal Republic and Benelux for a trial period; the quantities purchased, however, do not represent more than 1% of the output of the countries concerned.

In return the Federal Republic has opened tariff quotas for tobacco at a rate which has been significantly reduced and corresponds approximately to an ad valorem import duty of 25%. The quantities involved are for Italy 3% and for France 4% of the quantities produced in 1961. The Benelux countries have made autonomous reductions which bring their duties down to 25%. It should be noted that duties on tobacco also give rise to problems which, although not directly connected with those of Article 37, make it necessary to examine both sets of problems together.

The Italian Government for its part has consented to make a big effort towards adjusting the monopolies in

salt, cigarette paper, lighters, flints, quinine, amounting in some cases to the abolition of the monopoly.

Pending its final decision as to the applicability of Article 37, the Commission has drawn the attention of certain Member States to the need for them to open or increase quotas for certain products, the most important case being that concerning French imports of petroleum products.

### **Recourse to safeguard clauses**

14. Recourse to the safeguard clauses provided by Article 226 of the Treaty has been limited as a result of the harmonious development of the customs union. Only Italy and Germany have requested authorization to take measures of safeguard. The Italian requests referred mainly to the products which have been the subject of negotiations in connection with List G; in most cases they constituted economic or social problems of regional importance. The German requests covered items manufactured from agricultural produce and not included in Annex II to the Treaty<sup>(2)</sup>. The Commission approved the applications made by the Italian Government in respect of sulphur, carbon sulphide, sodium sulphide, iodine, lead, zinc, citric acid and calcium citrate for varying but limited periods and has generally attached conditions for the re-organization of the sectors in question.

Recourse to safeguard clauses has made it possible in the last four years to reach an agreement on the import and export of certain processed agricultural products which takes account of their prices; the main products concerned are bread, fondant paste and quality wines in the wood for Germany. An arrangement of a more general scope was agreed on when the decisions of 14 January 1962 were taken.

[...]

(1) Duties for manufactured tobaccos were fixed by the Council at its session on 5 and 6 February 1962.

(2) See the decisions on the common agricultural policy taken by the Council on 14 January 1962, sec. 17 below.