

Letter from Christian Calmes to René Sergent (16 October 1957)

Caption: On 16 October 1957, Christian Calmes, Secretary-General of the Interim Committee for the Common Market and Euratom, writes a letter to René Sergent, Secretary-General of the OEEC, in which he sets out the position of the Six on the negotiations under way for the implementation of a free trade area in Europe.

Source: Negotiations for a European Free Trade Area, Documents relating to the negotiations from July, 1956, to December, 1958. London: Her Majesty's Stationery Office, 1959. 237 p. (Cmnd. 641). p. 44-48.

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Letter from the Secretary-General of the Interim Committee for the Common Market and Euratom

Interim Committee for the Common Market and Euratom

16th October, 1957

The Secretary-General

Sir,

The Interim Committee for the Common Market and Euratom has instructed me to send you the attached note on questions relating to the Free Trade Area.

I should be grateful if you would kindly circulate this note to the Members of the O.E.E.C.

I am, Sir,

Your Obedient Servant,

(Signed) C. Calmes.

Monsieur René Sergent,
Secretary General,
O.E.E.C.

Cover Note

(by the Secretary-General of the Interim Committee)

The Interim Committee for the Common Market and Euratom has prepared the attached paper in order to make a useful contribution to the discussion of the Council of Ministers of the O.E.E.C.

As the Ministers of the Six Governments signatory to the Rome Treaties are unable to meet until the 16th October, a few hours before the Ministerial Meeting of the O.E.E.C., the Interim Committee feels it would be useful to circulate the attached document immediately to members of the O.E.E.C.

Brussels, 10th October, 1957

Joint Note on Certain Questions Concerning the Free Trade Area

I

The Member States of the O.E.E.C. have decided to enter into negotiations for the establishment of a Free Trade Area in order to promote the balanced growth of world trade, pursue the objectives of the O.E.E.C. and broaden the scope of the work begun by the institution of the E.E.C.

On the other hand, the Six are bound by their signature of the Treaty instituting the E.E.C. They are resolved to implement this Treaty as soon as it is ratified and to ensure the functioning of the Common Market by progressively integrating their economies.

Article 238 of the Rome Treaty permits the establishment of a Free Trade Area constituting an association between the Economic Community considered as an entity and the other members of the O.E.E.C., as was

provided in the Resolution of the Council of O.E.E.C.

The Six Member States of the E.E.C. reiterate their resolve to find a procedure under which the countries of the Free Trade Area will also be enabled to benefit from the advantages of a larger market as a result of the removal of trade barriers.

It is in this spirit that they wish to draw the attention of their partners in the O.E.E.C. to a number of questions, so that the discussions may proceed and suitable solutions be proposed.

II

1. The provisions of the Treaty instituting the European Economic Community form a coherent whole. Those relating to the removal of trade barriers are closely linked with those concerning the liberalisation of capital movements and services, the free movement of persons, the right of establishment and the adoption of a common agricultural policy. The provisions concerning co-ordination of economic and monetary policies, co-operation in respect of general economic policy and the progressive establishment of a common trade policy are intended to ensure the equilibrium of the external position of Member States, by safeguarding their internal stability. Common rules of competition will ensure that the advantages accruing from the removal of trade barriers will not be jeopardised by the grant of government subsidies or by business practices, and that free competition in the future Common Market is protected. Finally, all these provisions are based on the institutional system.

2. The Six Member States take note that their partners in the negotiations do not seem ready to adopt in their entirety, for the Free Trade Area, the fundamental and institutional solutions provided by the Six in the Rome Treaty for the establishment of a Common Market.

If, however, the Convention instituting the Free Trade Area adopts only some of the rules of the Rome Treaty (for example the provisions concerning the removal of duties and quotas), this will certainly have definite repercussions on the structure of the Area.

3. To determine these repercussions, the following points will first have to be clarified:

(a) Can it be accepted as a principle that, in the Free Trade Area, *Customs duties and quotas* should be removed according to substantially the same rules and the same timing as in the Community and that a strictly defined period, not exceeding fifteen years, should be laid down within which all trade barriers must be removed?

(b) Is it considered possible that, in respect of the *movement of capital, services and persons*, it will be enough to continue with the O.E.E.C. system?

Or should a definite period (fifteen years) and an effective procedure be determined for carrying out the measures of liberalisation to be taken in these fields?

(c) Problems relating to the *right of establishment* have yet to be examined in detail during the Paris negotiations. Is it feasible, in the Free Trade Area, to renounce the progressive abolition of discriminatory practices as regards the right of establishment?

(d) What provisions should be made with regard to “*rules of competition*” in the Free Trade Area?

— As regards *ententes* and *monopolies*, are the other Member States of the O.E.E.C. prepared to accept the

basic rules of the E.E.C. Treaty and to provide for their enforcement by appropriate legal measures?

— Are the other Member States of the O.E.E.C. prepared to adopt in the Free Trade Area the *rules governing aids* provided in the Rome Treaty?

— Do the other Member States of the O.E.E.C. consider it is possible to do without provisions relating to the removal of factors distorting competitive conditions? In the affirmative, what will be the rights of Member States or enterprises whose competitive position is seriously threatened by such distorting factors?

(e) With regard to *agriculture*, the Six States are unable to contemplate that such an important sector of economic life should not be integrated in the Free Trade Area. Solutions must therefore be found which:

— will enable the Six to apply the provisions of the Rome Treaty in full,

— provide countries which export agricultural produce with a lasting guarantee that the advantages accruing from the Area will be shared on a satisfactory basis,

— enable these countries to avoid endangering their balance of payments,

— prevent distortions which would result from the fact that a common agricultural policy would not be adopted.

In view of these considerations, how do the other Member States of the O.E.E.C. propose to solve the problem of agriculture?

(f) When they concluded the Rome Treaty, the Six Governments of the E.E.C. had already made *coal and steel* subject to common rules under the E.C.S.C. Treaty. This Treaty is based on precise rules, particularly as regards equal access to resources and competitive conditions.

— Are the other O.E.E.C. countries prepared to agree that coal and steel should be included in the Free Trade Area, which would entail special provisions with a view to achieving a fair balance between the obligations of the various parties, ensuring that advantages are shared by all with a satisfactory degree of reciprocity, and guaranteeing that the E.C.S.C. will accomplish the tasks allotted to its institutions?

— What means do the other Member countries of the O.E.E.C. envisage in particular for guaranteeing, with equivalent effectiveness throughout the Area, equal access to sources of production, the abolition of dual pricing and discriminatory measures and practices, the prohibition of subsidies and special charges, the regulation of ententes and concentrations, fair supplies in the event of shortage and the practical solution of problems raised by recessions?

(g) The Six start from the principle that the Free Trade Area will only work *if it is possible, by means of a strict co-ordination of monetary, credit, and general economic policies* to ensure an adequate balance in the external economic relations of the Area countries (equilibrium of the balance of payments), while at the same time taking account of employment policy and development and modernisation plans. Steps should also be taken to maintain this equilibrium by means of an effective procedure.

— Are the other countries of the Free Trade Area ready to assume commitments in this connection in the Convention on the Area?

— What degree of importance are they prepared to assign to the pursuit of these objectives as compared with that they assign to the removal of trade barriers?

— How can the procedure of the O.E.E.C. be rendered more effective and what guarantees can be given regarding fulfilment of these obligations?

(h) As regards *trade with third countries*, the Member States of the E.E.C. considered that the full development of a Common Market presupposed a common external tariff and a common trade policy.

They consider that to restrict free movement to products originating in a Free Trade Area would make it necessary to retain all forms of control at frontiers within the area and that the maintenance of divergent trade policies in regard to third countries would lead to price disparities on the different markets of the Area. This might disturb the balance and pattern of trade on the market of the Area itself and threaten its stability and prosperity.

The Six consider that the formation of a Free Trade Area presupposes that effective methods have been devised to eliminate the distortions which are the result of these differences between trade policies and between tariffs.

— Do the other Member States of the O.E.E.C. recognise that, if it is desirable that the scope of the Free Trade Area should be as broad as possible and the controls which it presupposes as liberal as possible, such results cannot be obtained except in so far as it would be possible to devise effective methods of preventing the deflection of trade and the transfers of activity which would be the result of these disparities in tariffs and trade policies?

— What methods might be sought to eliminate or counteract completely and rationally the distortions mentioned above?

(i) *The institutional question* can only be envisaged in terms of the basic problems. It is, indeed, probable that the institutions will have to be made responsible for solving a number of problems which arise in the future, and for implementing certain provisions of the Convention.

— Does it appear satisfactory to apply in the Area the unanimity rule now applied to the decisions of the Council of the O.E.E.C., or should a majority procedure be devised?

It should be pointed out in this connection that when the E.E.C. Treaty was drafted, it was realised that the unanimity rule entailed the risk that progress towards the realisation of the Common Market would be prevented and its working impeded. It was thereupon decided to accept the principle of majority decisions for a large number of problems. In order, however, to provide Member States which would be in a minority with satisfactory guarantees, such decisions may only be made on the proposal of an independent and objective body.

— How can a system be envisaged in the Free Trade Area which would afford similar possibilities for progress and guarantees of objectivity?

In addition, institutional procedures must be determined under which the process of removing trade barriers and the achievement of the other aims of the Area, which are its necessary complement and counterpart, may be properly correlated.

Finally, it might prove necessary to adopt special institutional solutions for implementing, throughout the Area, specific rules concerning the coal and steel sectors.

(j) As regards the *relations of the European Economic Community with the other partners of the Free Trade Area*, the solution should be based on the dual necessity of achieving close and effective co-operation between the institutions of the Community and those of the Area, and of implementing the Rome Treaty to the full, the institutions of the E.E.C. continuing to carry out all the tasks assigned to them under this Treaty.

III

The nature of the obligations to be assumed and the system of stages for bringing the Free Trade area into being will depend on the replies given to these questions.

In any event, however, the transition from the first to the second stage in the Area cannot be made until the necessary conditions are fulfilled for the corresponding transition in the European Economic Community (Article 8 of the Rome Treaty).

It will probably be inevitable that, where solutions cannot be determined in advance, the Free Trade Area Convention will define certain objectives that the Member States will undertake to pursue.

— What procedure should be envisaged in the Convention for establishing whether these objectives have been attained?

— What would be the consequences if it were established that certain of these objectives had not been attained?

IV

Provision should be made for *escape clauses* in the event of balance of payments difficulties or difficulties which may occur in various economic sectors. The necessary rules in this matter cannot be determined until the most important questions raised in this memorandum have been settled.