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What Sort of Free Trade Area?

By Richard Bailey

The biggest difficulty in the way of closer economic co-operation between Britain and Europe is that nobody is sure what form it should take. The only known factors in the discussion are the Rome Treaty, the Government White Paper (Cmnd. 72) of February 1957, and the Report of Working Party 17 of O.E.E.C. The Rome Treaty signed by the Six* on 25 March sets out, without it must be admitted any great degree of precision, the terms under which the European Economic Community and the European Atomic Energy Community (Euratom) will be set up. The White Paper states the British Government's willingness to negotiate for a free trade area in manufactured goods in association with the European common market. The Report of Working Party 17 of O.E.E.C. "confirms the technical possibility of operating a free trade area in Europe which would include members of the Customs and Economic Union envisaged by the Messina powers".

Apart from these three documents there has been so much speculation and discussion that it has been said that there is already a free market in red herrings. Three working parties were set up by the O.E.E.C. to produce solutions for the problems of colonial territories, agriculture, and certificates of origin for goods entering the F.T.A. In July this year the working parties were not ready to report and further discussions were postponed until October.

The summer months have been taken up with the ratification debates in the national parliaments of the Six, and the preparations for the German elections. So far as the F.T.A. proposal is concerned there has been an interval filled by speculation as to its form and membership, on the one hand, and prophecies that it might never come into being, on the other. The bargaining position of the U.K. has steadily weakened, and that of the Six strengthened as the months have gone by. The question now is not whether Britain will decide to join a free trade area, but what sort of association the Six will agree to accept. It is believed that three topics are likely to be particularly critical in deciding how near this association will be to the F.T.A., as originally proposed. These are the institutional framework adopted for the F.T.A., the position of agriculture, and the question of the inclusion of the overseas territories of the member countries. There are of course other problems, such as that of certificates of origin, for which solutions must be found. These are likely, however, to be decided on technical grounds rather than on fundamental questions of principle, and are accordingly omitted from consideration here.

Institutional Framework

The White Paper makes four important assertions: (1) that the Government regard the F.T.A. as "a concept related primarily to the removal of restrictions on trade such as tariffs and quotas"; (2) that the F.T.A. should be "established within O.E.E.C."; (3) that “some departure from the unanimity rule will be necessary in certain carefully defined matters, for example, where a country seeks a release from one of the original obligations; or in procedures of a fact-finding or judicial nature concerned with verifying that a country is carrying out its obligations and with remedying any failure to do so"; (4) that "there should be close co-ordination between the institutions" of the F.T.A. and European Economic Community, to simplify administration and to help countries which are members of both to carry out their dual obligations.

Since the publication of the White Paper the pattern of the institutions for the European Economic Community has been set out in the Rome Treaty. Although based on the European Coal and Steel Community they will in fact be far less "supra-national". Many of the decisions of the Council of Ministers, especially during the early years, will require unanimous agreement. Later on "prescribed majorities" will be the rule. The Council of Ministers will have the task of deciding the many questions left open in the Treaty. The European Commission, the executive body, will arrive at its decisions by simple majority. While resembling the High Authority of the Coal and Steel Community at Luxembourg, in that its nine members are independent of the national governments, it is in fact free to act only in certain specified fields. The Court of Justice and the Common Assembly will be shared with the European Coal and Steel Community.

Although the institutions of the European Economic Community are not so strong as those envisaged in the Spaak Report, they nevertheless represent a considerably greater surrender of control over national policies than the British Government has shown itself prepared to contemplate. This is clearly demonstrated by their insistence that the rules for the F.T.A. should be negotiated within O.E.E.C. If this is done the rules will be embodied in a Convention. The fact that the F.T.A. will cover a range of economic and social problems affecting the livelihood of some 250 million people means that some central institutions with powers of independent action will be necessary. There will almost certainly be a Council of Ministers served by some kind of Executive Committee. There will also have to be a complaints organization with both fact-finding and judicial functions. The prospect of setting up an Assembly for the F.T.A. has not yet been discussed though it has been suggested that the Council of Europe might be adapted for this purpose. There are, however, obvious difficulties in the way of this apparently simple solution.

Agriculture

The exclusion of agriculture from the proposed F.T.A. has been the biggest cause of disagreement. Two separate problems are involved. First there is the fact that many Commonwealth countries rely on the preferential treatment given to their exports of food and raw materials in the British market. The other is the need to protect British agriculture. The opposition to the exclusion of agriculture has come both from the Six, especially France, Italy and Holland, and from potential members of the F.T.A. The proposal appears to continental eyes to be an attempt by Britain to have the best of both worlds — to keep Commonwealth Preference and have access to the European market. Now that the Rome Treaty has been signed the difficulties are increased. The Six now form a single unit for bargaining purposes with which it may be more difficult for us to reach agreement than if we had had to negotiate with six separate countries. Problems arise on both the import and export sides. Holland and Italy claim that they would be opening up their home markets to industrial goods from the U.K., Sweden, Austria and Switzerland, without securing any advantage in the export of their agricultural products. In the case of Holland agricultural products in 1956 formed 30% of total exports, and 34% of Dutch exports to O.E.E.C. countries. Of the exports to O.E.E.C. countries, 65% went to the other Messina countries, and 26% to the U.K. Britain took over half Holland's European exports of fruit and vegetables.

In Italy agricultural products make up 23% of total exports, and 33% of exports to O.E.E.C. The Six, especially Germany, are the biggest markets for Italy's fruit and vegetables, the main items involved. Britain took 18% of Italian agricultural exports to O.E.E.C. countries.

The position of France is very different. Agricultural exports represent only 14% of total exports and only 13% of French exports to O.E.E.C. The products involved are wines, cereals, fruit, vegetables and meat. Germany is again the principal customer, taking 30% of French agricultural exports — out of 56% to the rest of the Six. Britain is second with 25%.

The British market is by far the largest European market, outside the Six taken together, for the agricultural products of France, Italy and Holland. Import duties are already lower than those of some of the Six on the products involved. With European countries outside the Six the U.K. market dominates the trade in agricultural products. This is especially true for Denmark, where 63 % of total exports consisted of agricultural products in 1956. The U.K. took 55% of Denmark's exports of dairy produce to O.E.E.C. countries, and about 80% of her exports of meat products. The Six took 39% of total Danish agricultural exports. The external tariff on butter proposed by the European Economic Community is 24%. The advantage to Holland of this protection would create serious difficulties for Denmark, and it is, therefore, not surprising that the Danes are seriously considering joining the European Economic Community should agriculture be excluded from the F.T.A.

Commonwealth Preference

The second reason for the U.K. demand for the exclusion of agriculture is the desire to continue Commonwealth Preference. The relative size of the trade involved is important. Of the U.K. imports of agricultural products in 1954, 61% came from the Commonwealth, 9% from the Six, 10% from the other

O.E.E.C. countries. The Commonwealth products, valued at £870 million came in duty free, while the remainder, valued at £560 million paid duties of the order of 10-15%. Over a wide range of imports, however, for example tropical produce, there is no competition with the O.E.E.C. countries. On a further range, notably wheat, maize, mutton and lamb, the tariff is nil. In the range of some £403 million worth of agricultural imports where Commonwealth and O.E.E.C. countries are in competition, almost half, £194 million, already comes from the latter.

So far as the Commonwealth countries are concerned, protection may be a vital necessity for certain agricultural products. But the area of conflict does not appear to be great, and could be reduced to manageable proportions as a result of product-by-product and country-by-country investigations. Provided the hard core of products for which exception would have to be made is not too numerous, Commonwealth Preference may prove less of a barrier to the inclusion of agriculture in the F.T.A. than has been supposed.

Protection of Home Agriculture

The European Economic Community will reduce tariffs and quotas on agricultural products in accordance with the same general formula as for industrial products. But existing restrictions other than tariffs and quotas will be retained and various safeguarding measures are to be brought into play that will prevent the market getting too free. Minimum prices will keep out imports below certain agreed levels. Long-term contracts will be drawn up for selected products. Free trade in agricultural products is not contemplated and the common market may open the way for a system of bulk purchase and preferential trading between the Six. Could British home agriculture still be protected even if tariffs on agricultural products from the other members of the F.T.A. were abolished?

The answer is probably that this would not be nearly so difficult as it at first seemed. The question of closer co-operation in the agricultural policies of Western European governments is already under consideration by the Ministerial Committee for Agriculture and Food set up by O.E.E.C. in January 1955. The proposals put forward in the First Report of this Committee in June 1956 might be taken as a basis for discussion. The programme would involve expansion of intra-European trade by (a) increasing import quotas, (b) tariff reductions where import restrictions appear excessive, (c) limiting export aid and dumping practices, (d) consultation between member countries on difficulties in foreign trade in individual agricultural products, and (e) consultations with a view to coordinating price and income support policies.

None of the potential members of the F.T.A., except possibly Denmark, wants free trade in agricultural products. Negotiations could take place on the basis of the First Report of the O.E.E.C. Ministerial Committee for Agriculture and Food to explore the possibility of creating a managed market, acceptable to the Six, to Britain and to the other potential members of the F.T.A. It must be added that the negotiations would undoubtedly be long and difficult.

The Problem of Overseas Territories

When the British proposal for a F.T.A. was made the possibility of including overseas territories had not arisen. The Spaak Report contained no proposals for linking the overseas territories of the Six with the European Economic Community. At a late stage it was decided that this should be done. There are some twenty-five territories, differing greatly in structure, size, development and political stature. Some of them, including the Belgian Congo, Ruanda Urundi, French Equatorial Africa, the Cameroons, Togoland and Italian Somaliland are bound by international treaties, notably the Congo Basin Treaty, to continue open-door trade policies; but with these exceptions, exports from the overseas territories of the Six will enter the Common Market duty free after the end of the transition period of twelve or fifteen years. In return the overseas territories will gradually extend the favourable conditions now reserved for the Metropolitan country to the rest of the Six. A Development Fund for Overseas Territories has been set up to which the Governments of the Six will contribute for a period of five years. The fact that this fund will be available for investment in these territories only, has caused a great deal of criticism in countries that had hoped to benefit from overseas investment by individual countries. India in particular complains that German capital is being reserved for the development of French colonies. It is interesting to note that of the total of $581 million subscribed by the Six for the development of overseas territories, $511 million has been allocated to France.

The inclusion of overseas territories in the common market creates a new preferential trading area which will have to be agreed by G.A.T.T. The principal territories involved are in Africa and the exports they produce such as vegetable oil, oilseeds, cocoa, coffee and cotton are in competition with those of the British and Portuguese countries and territories there. Ghana, for example, sends some 30% of her total exports, principally cocoa, to the Six. The Central African Federation, Nigeria and Kenya-Uganda send them from 13% to 23% of their total exports. The Six have in fact been taking a far larger share of their imports from British overseas territories than from those of their partners in the common market.

When the European Economic Community comes into being the exports of the French African territories will enjoy a considerable advantage. Competing tropical products will pay tariffs of various rates. For example, cocoa beans 9%, coffee 16%, bananas 20% are three rates that have already been announced. It may not be possible to expand the supply of some of these products to satisfy the demand of the Six exclusively from over-seas territories linked to them; but the inclusion of these territories in the common market means that there is little hope of expanding imports from British territories in Africa and the West Indies.

Commonwealth Exports to the Six

But it is not only the British countries and territories that are in competition with the French African territories that will be affected by the common market. Canada, Australia, New Zealand and South Africa all export considerable quantities of foodstuffs and raw materials to the O.E.E.C. countries. Total exports of the overseas Commonwealth to the Six in 1955 amounted to £650 million. Some two-thirds of this total was accounted for by wool, jute, cotton, rubber and certain metals on all of which duties either do not exist or are nominal. The remaining products, which are likely to be the subject of price-fixing and quota arrangements, are wheat, meat, dairy produce, citrus fruits, and oilseeds. Products such as coffee, cocoa, maize and spices, as has already been noted, will be affected by the preferential tariff in favour of French colonial products.

Canada, in particular, is anxious to sell wheat to the Six; but it is by no means certain how wheat imports will be carried on when the European Economic Community comes into operation. Wheat importers among the Six will obtain their supplies from France at a guaranteed price under long-term bulk contracts. How requirements above what France can supply will be obtained, or at what price, is not known. This is a question of great importance to the Six because of its influence on the level of industrial costs. If high cost subsidized wheat produced on small farms were to be the main source of supply, the benefits of industrial free trade would be sacrificed to agricultural protection. On the other hand if the workers of the Six are to get their bread at a price determined by world wheat prices then Canadian and Australian wheat will have to be imported and the policy of agricultural self-sufficiency modified.

In the same way Australia and New Zealand are greatly concerned at the prospect that their dairy produce may be excluded from the European common market. In the past these imports have not been great, but it is in the European market that Australia and New Zealand were looking for increased sales. The Commonwealth countries are afraid that the Six may exclude the very products which should benefit from increased prosperity. For this reason they are strongly in favour of some form of association between Britain and the common market which will provide a Commonwealth link with Europe.

Conclusions

The hopes for an early negotiation of the treaty determining the relationship between Britain and the European Economic Community have improved with the setting up of the Ministerial Committee representing all O.E.E.C. countries with Mr. Maudling as Chairman. But a great deal of work lies ahead and some difficult obstacles must be surmounted. The only thing that appears at all certain about the form that this association will eventually take is that it will not be the Free Trade Area proposal set out in the White Paper. The stipulation for the exclusion of agriculture is one to which the Six, and the French in particular, show no signs of agreeing.

It looks as though the White Paper will have to be amended on three points. No one has suggested that there should be free trade in agriculture, but provided the British farmer is not asked to hand over the working out of the February Price Review to the Danes and the French, a compromise should be possible on the basis of the First Report of the O.E.E.C. Ministerial Committee. The second necessary amendment, is that the Commonwealth countries and territories must be included in the negotiations. This would mean that the present insistence on the exclusion of agriculture would have to be abandoned, and a system of marketing schemes and contracts negotiated. It has been shown that bargaining would be confined to certain clearly defined categories of products.

The remaining stumbling block is the problem of institutions. Up to the present the British Government has assumed that the F.T.A. will be a part of O.E.E.C. This proposal is opposed by the Six, again by the French in particular. If the Commonwealth countries are to be brought into the negotiations, O.E.E.C. will clearly no longer be the appropriate institution for this purpose. Indeed it is becoming increasingly clear that the only hope of securing British association with the European common market is by the abandonment of the narrow proposal for a free trade area and the putting in its place of an imaginative scheme that will bring the Commonwealth countries into association with Europe.

The logic of the White Paper, that Commonwealth Preference could be retained if agriculture were excluded from the F.T.A., has proved false. It now appears that a free trade area will only be possible if agriculture is included and Commonwealth Preference modified. A treaty negotiated on this basis could unite the trading interests of Britain, Western Europe and the Commonwealth to the advantage of all three.

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* The Six — France, Germany, Italy, Belgium, Holland and Luxembourg: called the Messina powers, after the place at which their first conference was held in 1955, though the formal title of this association of countries is the European Economic Community.