

Statement by the ICFTU on the Free Trade Area (16–17 May 1957)

Caption: On 16 May 1957, the International Confederation of Free Trade Unions (ICFTU) adopts a statement on the implications of the establishment of a free trade area in Europe.

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Statement of policy on the European Free Trade Area

1. The Treaty on the European Common Market, signed by the Governments of Belgium, France, the German Federal Republic, Italy, Luxemburg and the Netherlands, is open for accession to other European countries. It is, however, realised that some European countries, because of their particular difficulties, are not willing to make the surrender of sovereignty which membership of the Common Market involves, but might be prepared to associate themselves with the Common Market in a Free Trade Area.
2. Detailed proposals for the Free Trade Area are now being worked out by committees of the OEEC, but its broad outlines are already clear. Barriers to trade between the participating countries, in the form of tariffs or quotas, will be gradually reduced and eventually eliminated over a transition period of something like fifteen years. The United Kingdom proposed that the provisions of the Free Trade Area Treaty should not apply to manufactured and non-manufactured foodstuffs, feedingstuff, drink and tobacco. Other countries, however, did not agree with this exclusion and the OEEC committees are now considering this problem of agriculture as well as those of the peripheral countries (Eire, Portugal, Greece, Turkey and Iceland), which would like to be associated with the Free Trade Area but may be unable or unwilling to accept immediately the full obligations of membership.
3. The establishment of a Free Trade Area would open to the industries of the participating countries a market of some 250 million people, comparable in size with those now enjoyed by the United States and the Soviet Union. The European members of OEEC together account for 40 per cent of world trade and intra-OEEC trade has been expanding more rapidly than that of any other part of the world: it doubled between 1950 and 1956.
4. Although American experience cannot be applied without qualification to Europe, it seems reasonably certain that the creation of a market of this size would result in a greater degree of industrial specialisation between Western European countries: this should lead to higher productivity and higher living standards throughout Western Europe. The free trade unions of Europe are convinced that closer European cooperation has much to contribute in terms of higher and more equal living standards, improved social conditions generally, and the dissolution of national antagonisms — always provided it is carried through on realistic and progressive lines.

Full Employment

5. It is of fundamental importance that all Governments should recognise that one of the main purposes of a free trade policy must be to secure and maintain full employment in Western European countries. The trade unions regard this as an essential condition for the effective working of a Free Trade Area.
6. It is essential therefore that the Treaty should include not only an acknowledgement of the need for full employment but also a general statement on the methods which the member countries will, individually and collectively, adopt in furtherance of this aim. It should include provisions requiring member countries to draw up adequate plans for internal action to maintain full employment, and for joint consideration of the consequences on any member of a serious or abrupt decline in effective demand in other countries. In addition, the individual provisions of the Treaty should be framed to promote the objective of full employment.

Changes in industrial structure and employment

7. Although some sections of industry will undoubtedly encounter difficulties, the problems of change should not be exaggerated. In recent years considerable changes in the structure of Western European industry have taken place relatively smoothly. It must, however, be remembered that these changes generally took place in conditions of rising business activity and a rising volume of world trade. In consequence they were able to take place without causing major dislocation.
8. There is no way of exactly comparing past changes with the scale of the changes which might take place

if a Free Trade Area was progressively introduced over the next fifteen years or so, but assuming continued economic expansion it seems unlikely that the general scale of the shift in employment and investment required would impose an unbearable strain on the economies of participating countries. Nevertheless, the probability of difficulties in some localities and some industries makes it essential that Governments should be ready with plans to assist any displaced workpeople. These should include such provisions as adequate unemployment pay, retraining facilities, support during retraining and, where necessary, assistance to workers and their families to move to new areas.

Reduction of Tariffs

9. The general picture of the tariff structure of the main OEEC countries is one of a low tariff group of countries consisting of Switzerland, the Scandinavian and the Benelux countries (although there are important exceptions for particular products) and a high tariff group consisting of Austria, France and Italy, with the Kingdom and Germany in between.

10. The problems of adjustment for various industries should be alleviated by the length of the transition period over which the reduction and elimination of tariffs (and the removal of quotas) will take place. Provision for flexibility in the method of tariff reduction can also help to facilitate the changes required. In this the need to avoid a conflict between the provisions of the Free Trade Area Treaty and those of the Common Market Treaty must, of course, be borne in mind.

11. A reduction of tariffs according to a set scheme over the transitional period, with scope for variation in the rate of reduction of different tariffs at each stage, on the lines adopted in the Common Market Treaty, would both provide a degree of flexibility and also allow industry to know broadly what its commitments are and therefore to plan ahead. Trade union interests are likely to be affected by the possibility of making differential cuts for different industries, and one important aspect of this will be the criteria which Governments apply in arriving at their decisions on the amount by which particular duties should be cut. The trade unions will insist on being consulted by Governments when decisions are taken on the pattern of tariff reductions to be adopted at each stage.

Reduction of Quantitative Trade Restrictions

12. The proposal by the OEEC Working Party in their Report for the removal of quotas, and the suggestion that the principle should be progressive annual increases in the amounts of the quotas, and their complete abolition well within the transitional period, are acceptable. It is important that the right to impose quotas in balance of payments difficulties should be recognised, and countries should also have the right to exercise some selection in the priorities in which they remove quotas. To deter countries from resorting to restrictions too readily in case of alleged balance of payments difficulties, countries which are adversely affected should have the right to take compensatory action and restrictions should be subject to review by the competent authority. The knowledge that other countries will be able to retaliate if it is adjudged by OEEC to be acting unreasonably will probably be sufficient to deter any country from abusing its rights. While approval of trade restrictions in the case of balance of payments difficulties should be required, trade unionists will be opposed to any treaty provision which would make it possible to withhold such approval on the ground that, rather than applying trade restrictions, the country concerned should solve its problems by taking deflationary measures. Nor should there be any provision compelling a country in case of balance of payments difficulties to impose general overall trade restrictions rather than selective restrictions on imports of inessential commodities. There should also be provision for co-operation by member countries to promote balance of payments equilibrium, and the responsibility for taking action to correct disequilibrium should be placed on creditor, as well as debtor, countries.

Rules of Competition

13. Tariffs as well as import and export quotas are not only protectionist measures. There exist also other kinds of protectionist measures which are applied by governments and private concerns. As these restrictive measures are less subject to public control than are tariffs, there is less awareness of the danger that, as a

result of them, prices may be increased and the workers, in their capacity as consumers, may be adversely affected.

The trade unions therefore demand that rules of competition be included in the Treaty on the Free Trade Area. They should above all contain provisions banning international cartels and agreements aimed at increasing prices or at keeping prices at a high level; provisions prohibiting export subsidies and discrimination in favour of domestic industries by means of preferential prices of important raw materials; and provisions against unfair competition by means of protectionist transport tariffs.

Difficulties in specific sectors

14. The OEEC Working Party agreed that escape clauses should be permitted in the case of difficulties in specific sectors, and most members considered that the most appropriate form of assistance would be the temporary introduction of quantitative trade restrictions. This approach appears to be realistic, and some such type of assistance could help to mitigate any exceptional difficulties arising from the transition from protected markets to a Free European Market. Such difficulties should in any event be mitigated by the relatively slow nature of tariff reduction, and flexibility in the method of eliminating tariffs and quantitative trade restrictions should also help to overcome temporary difficulties in some branches of production.

15. The OEEC Working Party specifically limited their consideration of escape clauses to the period of transition. But a period of 15 years or so may not see the industries or economies of Europe completely adjusted to the new situation. The Treaty should therefore provide for escape clauses, both in relation to balance of payments difficulties and to difficulties in specific sectors, to be available, subject to appropriate safeguards, after the end of the transition period.

General Economic Problems

16. The essence of the Free Trade Area proposal is that it would permit the association with the Common Market of countries which are not prepared to accept the degree of economic integration that membership of the Common Market involves. Nevertheless, even though the primary emphasis in the Free Trade Area Treaty will not be on economic integration in the full sense, cooperation and consultation between the member countries with regard to such matters as multilateral payments arrangements, co-ordination of member countries' economic policies, movements of capital, movements of labour and the elimination of low labour standards will have to be continued and increased.

17. Multilateral payments arrangements. The effect of EPU has been to create an area of limited but increasing currency convertibility, bolstered by collective credit arrangements. Latterly the credit-granting aspect of EPU has been less important, and the main stress now lies on EPU uniting a large group of countries in a convertible-currency area and associating it with the sterling area. No doubt any demands on it arising from the formation of a Free Trade Area would successfully be met — providing its essential skeleton is retained — including possibly a regrowth of its function as a credit-granting agency. There may, however, be pressure to do away with the machinery altogether and it would be desirable to resist such pressure unless or until it is clear that the process of tariff reduction will not demand special credit or payments arrangements.

18. Co-ordination of economic policies. The special arrangements of EPU for dealing with credit and debit balances between members have led to pressure on some countries at times to increase their level of internal activity — or more often to reduce it. The special feature of tariff reductions might lead some countries into balance of payments difficulties even at socially undesirable low levels of activity and employment. It must be a principle of co-ordination that nothing in it should detract from the aim of high and stable levels of employment.

19. Movements of capital. Each country of the Free Trade Area should be primarily responsible for its own internal adjustments, and investment may well be more rather than less subject to internal direction if reorganisation of production is at all widespread. There may be a clash between what might be regarded as

the full ideal of the free movement of capital and the practical requirements of national administration; it should be possible to deal with this by international discussion, subject to the principle that Governments should be able to maintain full controls on private capital movements.

20. Movements of labour. Since the war there have been limited movements of labour between all the countries of Western Europe, and the introduction of the Common Market and the Free Trade Area will probably generate further pressure towards such movement both within and between the participating countries. While the Common Market Treaty provides for the free movement of labour between the participating countries, and for Government action to remove obstacles to such movement, the existing machinery within OEEC and the ILO should be able to play a useful part in assisting the movement of labour where necessary between the countries of the Free Trade Area.

21. Within the various countries Government action to influence the location of industry and so take jobs to workers will be of primary importance. The Free Trade Area Treaty should not therefore interfere with Governments' powers to control the distribution of industry and to do anything which is necessary to secure a balanced distribution of industry.

22. Low Labour standards. There are apparent differences in the general labour standards — including levels of wages, hours of work, and conditions laid down by social regulations — of the various countries of Western Europe. It is, however, recognised that differences in these respects are only partly responsible for differences in industrial costs: differences in productivity are very important and in many cases outweigh differences in labour costs and other social conditions. Differences in labour costs may, indeed, often reflect differences in productivity.

23. The Free Trade Unions are in favour of harmonization of social conditions in Europe towards the highest level. While the Common Market Treaty provides for the progressive harmonisation of certain social regulations, the obstacles to the harmonisation of social provisions increase in importance as the number of countries concerned increases: some countries have relatively high rates of wages but compare less favourably in other respects with other countries, e.g. in regard to holidays; a high rate of payment for overtime means less if normal wage rates are low. Moreover, there are important differences in the method of securing improvements in social conditions in different countries. Whereas in some European countries equal pay and holidays are determined by legislation, in others they are normally the subject of collective bargaining, and it is difficult to see how such countries could specifically undertake by Treaty to make improvements in such provisions unless the Governments concerned were to do it by legislation: the Trade Union Movements in these countries would have to consider the matter very carefully before they invited or agreed to greater Government intervention in the sphere of wages and conditions of work. They would have to take into account the danger, that, if it was committed by Treaty to harmonisation, their Government would be able to say that wage increases were increasing the disparities between the different countries, and that it might seek to bring pressure to bear to prevent them taking place. In other provisions (e.g. social security) the differences between the various countries in the system of benefits and the methods of financing are so wide that full harmonisation may be very difficult to obtain, but whatever is practically possible should be achieved.

24. The Joint ICFTU/ERO Social Integration Committee has concerned itself for several years with the problem of harmonising social conditions in Europe, and has drawn up lists of desirable minimum standards for certain aspects of working conditions (e.g. hours of work and holidays with pay) and collected comparative information about social security schemes. International trade union activity to level up standards in different countries (through the ILO, the ICFTU, the ITS's etc.) should continue, with the countries in the Free Trade Area being treated as a special case.

Agriculture

25. Most members of the OEEC Working Party considered that the Free Trade Area Treaty should cover all categories of goods that the OEEC countries produce and trade between themselves, although they recognised that trade in agricultural products might have to be governed by a special system: on the other

hand the United Kingdom for well-known reasons holds the view firmly that the Free Trade Area should not include agricultural products.

26. Countries which are heavily dependent on the export of agricultural products cannot be expected to welcome a proposal which would in effect mean that they would grant free entry to the bulk of other member countries' exports and have it denied to a substantial proportion of their own exports. It is obviously desirable that any Treaty should pay due regard to the legitimate interest of these countries in securing outlets for their agricultural products. On the other hand the real difficulties arising from the traditional protection of home agriculture by most European countries are reflected in the Common Market Treaty which provides for a regulated market for agricultural products, in contrast to the free market which is proposed for industrial products. The OEEC Committee which is considering the special problems of agriculture will have to take into account these different, and in many respects conflicting, interests.

The Association of Overseas Territories

27. The decision of the countries participating in the Common Market to associate their overseas territories with the Common Market raises the question of the association of these territories and the overseas territories of other participating countries with the Free Trade Area. The ICFTU has already asserted in its statement on the association of overseas territories with the Common Market that any decision arrived at must give full weight to the views of the peoples of the overseas territories. Any association of these territories with the Free Trade Area must be based on the principle of freely accepted co-operation.

The peripheral countries

28. Certain less developed European countries feel unable to accept the full obligations of the Free Trade Area, but nevertheless desire association with the Area. The issues involved are being examined by the third OEEC Committee. In its deliberations the Committee must give sympathetic consideration to the desirability of associating these countries with the Free Trade Area, but must have regard to the importance of preserving the principle of free trade. The first of these conditions might be satisfied, and the danger of weakening the advance to free trade minimised, by granting these countries a temporary waiver from some of the obligations of the Treaty, while committing them to ultimate acceptance of the full obligations.

Institutions

29. For the proper functioning of the Free Trade Area, a number of institutions will be necessary, even though their exact nature cannot be determined until the form and substance of the Area have been defined. (Close liaison on matters of common interest between the institutions of the Free Trade Area and those of the Common Market will, however, clearly be necessary.) At present all decision of the OEEC Council must be unanimous. It might be that in a Free Trade Area some departure from the unanimity rule would be necessary, but, as in the Common Market Treaty, the nature of the decision required (i.e. unanimous or majority) would vary according to the nature of the point at issue. This question can only be answered in relation to the specific provisions of the Treaty.

Conclusion

30. The establishment of a Free Trade Area holds out to Europe an opportunity of increasing productivity and living standards. Full use should be made of this opportunity, whilst the Free Trade Area must rest on the solid foundation of a fully employed expanding European economy, and the Treaty must recognise this as the primary aim of national and international economic and social policy. In such a framework the co-operation of the trade unionists of Western Europe in the establishment of a Free Trade Area will be possible and will be forthcoming. It is, moreover, imperative that, at every stage of the negotiations and (assuming that the negotiations are satisfactorily completed) of the implementation of the Treaty, Governments should be prepared to consult with the representatives of the free trade union movement and to take full account of the legitimate aspirations of the working people of Europe.