

# Position adopted by British industry on the Free Trade Area (London, April 1957)


**Caption:** In April 1957, the Federation of British Industries (FBI) publishes its position on the proposed European Free Trade Area, whilst attempting to assess the implications thereof for the British economy.

**Source:** European Free Trade Area. A survey for industrialists. Londres: Federation of British Industries, Avril 1957. p. v-viii ; 59-61.

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[http://www.cvce.eu/obj/position\\_adopted\\_by\\_british\\_industry\\_on\\_the\\_free\\_trade\\_area\\_london\\_april\\_1957-en-826f4548-7d2c-49f5-a434-c1be1023a013.html](http://www.cvce.eu/obj/position_adopted_by_british_industry_on_the_free_trade_area_london_april_1957-en-826f4548-7d2c-49f5-a434-c1be1023a013.html)

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## European Free Trade Area

### A survey for Industrials

#### Preface

The proposals for a European free trade area to which the United Kingdom would belong are of vital and far-reaching importance to British industry. They involve the dismantling of existing protection (both by tariffs and by import restrictions) against the import into the U.K. of industrial goods from Europe, and in return free entry for British exports to Europe. If it is put into effect this project will represent a change of course for British commercial policy comparable in significance, though opposite in direction, to the U.K.'s abandonment of free trade in the early 1930's.

The project was first seriously advanced when in the summer of 1956 it was realised that the aspirations of the Six countries — Belgium, France, Germany, Holland, Italy and Luxembourg — had developed into a definite resolve to form among themselves a customs and economic union. Their common market, if it came about, would confront the U.K. with an entirely new situation. No longer would it be possible to survey the U.K.'s commercial policy in terms of a choice between the *status quo* or something like it and various possibly desirable alternatives. The *status quo* was doomed. The Six, banded together in their common market in which their goods would move without impediment, would confront the U.K. as a bloc. Their home base would be widened from the territory of each individual country to the whole territory of the Six together, to the advantage of their competitive power. British exports to each of the Six would have to meet competition there from the rest of the Six on increasingly unfavourable terms: for example, British exports to France would have to surmount the tariff and then compete with German goods entering duty-free. Yet the U.K. could not join this common market, for it also involved a common external tariff and to adopt that would mean for the U.K. the end of the imperial preference system.

Faced with this dilemma, H.M. Government began to explore the idea of a half-way house. The U.K. might join with the Six and with other European countries in forming a wider free trade area in Europe, in which the members would dismantle the barriers to trade in industrial goods among themselves but maintain their own tariffs *vis-à-vis* the rest of the world.

The views of industry were sought about these ideas, and the question posed was whether or not, given that the Six were resolved to form their common market, the U.K. should enter negotiations for a wider association with them and others in such a free trade area.

It was not to be expected, nor was it found, that British industry would arrive at a common answer to this question. The consequences of such a project would differ greatly from industry to industry, and indeed from firm to firm in the same industry. Reactions would also depend upon the views taken of economic and commercial trends and prospects. Some considered that on balance, and on certain assumptions, they stood to gain more from the expansion of their exports to Europe than they stood to lose from increased imports, and that the U.K. could not afford to stand aside from the unified market planned in Europe. Others came to the opposite conclusion, especially those who for many reasons saw little prospect of compensating for increased competition from Europe in the home market by possibilities of increased sales to Europe, which they would not be well placed to exploit.

The F.B.I. made no attempt to formulate a common policy on this issue. It took exhaustive steps to discover the views of all its' members, and it presented a conspectus of these views to H.M. Government in its report of 31st October 1956.

Subsequently H.M. Government, influenced by political as well as economic factors, took the decision in principle to enter into a European free trade area in industrial goods, provided that acceptable terms could be secured in negotiation with the other possible partners. It has recently taken the lead in the O.E.E.C. in getting these negotiations going; they are now under way; and the Council of Ministers of the O.E.E.C. means to take decisions this summer. Meanwhile the Six signed their Treaty for the European Economic

Community in Rome on 25th March 1957; and their plans are now, for the first time, known in detail. The Treaty awaits ratification by the Parliaments of the Six.

The situation before British industry has thus changed again. H.M. Government is now committed to the project (with the official support of the Opposition) and is engaged in negotiations to bring it about. It is, therefore, now mainly a question of securing the best terms possible and of ensuring that the interests of British industry are protected and promoted.

Here again the interests of different British industries and firms diverge. The role of the F.B.I. is to do all it can to see that its members are made fully aware of the facts and issues that affect them and that they have every opportunity to put their views to H.M. Government so that they are understood and taken into account by the negotiators. The F.B.I. is in close and constant touch with H.M. Government with this object as the negotiations proceed.

The purpose of this Survey is to put before members as much as is now known which may help them to form their own assessment of what is or may be involved. Trade associations in particular will wish to study the likely effects on their own industries, so as to take up the points that are important to them with H.M. Government. Individual firms will wish to do this so as to plan their production, sales and investment policies to the best advantage in the new circumstances that are unfolding. In this context it is perhaps worth observing that the proposals will be slow to take effect; and the resulting changes, be they good or bad in any given case, will be felt gradually as the free trade area is progressively introduced during a transitional period of at least twelve years.

The Survey was embarked upon as soon as the French text of the Rome Treaty became available; and in order to acquaint members with the contents as soon as possible, it was sent to the printer before the English text was received and too soon for a considered assessment to be made. Moreover, as the negotiations proceed apace, fresh developments are constantly taking place. This accounts for any shortcomings, omissions or inaccuracies in the text.

The Survey is directed to the proposed free trade area and deals with the Rome Treaty only in so far as it is relevant to that. Considerable attention is given to the many conditions and safeguards that will undoubtedly be necessary if the project is to minimise the threat and maximise the opportunities that it offers to the U.K. These surrounding conditions will determine the effect of the project in practice; and it may be noted that even its most enthusiastic supporters in industry base their support upon certain provisos. It is now the responsibility of H.M. Government to secure in their negotiations that the conditions of the U.K.'s participation in the project are as acceptable as they can be made, and of British industry and its trade associations to ensure that they do not go by default.

The Grand Council of the F.B.I., advised by its Overseas Trade Policy Committee and its Working Party (and by its other standing Committees on matters in their fields), has the whole subject under regular review; and it is proposed to continue to keep members as fully informed as possible of developments through the F.B.I.'s regular channels of communication with members. Meanwhile, it is hoped that this Survey will be of assistance.

*April 1957.*

[...]

## **Chapter 8 — Action that may be needed in the U.K.**

If the European free trade area is formed with the U.K. as a member, British industry and commerce stand on the one hand to lose most of the direct and indirect protection *vis-à-vis* Europe that they at present enjoy in the home market and on the other to have greater scope for keener competition in Europe with Continental producers and traders. They are therefore likely to be more sensitive to any disadvantages, as compared with European competitors, under which they may labour and which can be attributed to

legislation, acts or policies of H.M. Government. They are likely to demand that if they are to compete they must be put in a position to do so on equal terms, so far as that lies within the power of H.M. Government.

It would be premature to try to foresee all the subjects which may prove to require attention in this way. They will emerge progressively as the free trade area comes gradually into operation over the next 12 to 15 years. Some of these points have been suggested above; others are briefly referred to below. Continuing study of these and similar factors will be required.

## **Taxation**

The taxation of industry and commerce in the U.K. is already in urgent need of thorough-going reform. Most of the recommendations of the Royal Commission on the Taxation of Profits and Income await action. In particular the problem of making adequate provision for replacement of fixed assets is already acute in view of the present taxation treatment of depreciation. The free trade area may be expected to lend added urgency to these problems in so far as there is reason to suppose that industry and commerce on the Continent are more favourably treated under their own systems of taxation. Comparative studies will be required.

## **Transport**

One of the main results expected from U.K. participation in the free trade area is a progressive and considerable expansion of trade in both directions between the U.K. and Europe. The question therefore arises whether the U.K.'s existing and prospective transport facilities are likely to prove adequate to handle this increased traffic. The point will be particularly important because efficiency and cheapness in the transport field will be vital to the U.K.'s competitive power. Additional facilities will therefore probably be needed; and the project for a Channel tunnel may well acquire a new significance. There is thus a strong case for H.M. Government now to set on foot a thorough study of the programme of development which needs to be planned.

## **Restrictive Trade Practices**

The 1956 Act represents a radical departure for the U.K. in the public supervision and control of restrictive trade practices. The new system is only now beginning to come into operation and it is not yet possible to assess its effects. Its central features are the public registration of agreements and their review by a judicial Court; the notification of export agreements to the Board of Trade, which has power to refer them to the Monopolies Commission and to act on its reports; and the prohibition of collective enforcement of resale prices accompanied by a new right of individual enforcement through the Courts. This system is probably more thorough and rigorous than that at present obtaining in most other European countries, although several of them are extending or strengthening their legislation on the subject. It remains to be seen, as the system takes effect and as the free trade area develops, whether the Act puts British industry and commerce at a disadvantage compared with their Continental competitors, and if so to study how any relative handicap can best be overcome.

## **Dumping**

The Customs (Dumping and Subsidies) Bill gives the Board of Trade the power to take action against dumping and subsidies affecting goods imported into the U.K. in cases where it appears to the Board, having regard to all the circumstances, to be in the national interest to do so. The goods will be regarded as dumped if their export price from the country of origin, or from the country of export to the U.K., is less than their fair market price in that country. Ministers have given assurances in Parliament that in appropriate cases these powers will be used with speed and determination so as to safeguard industry in the U.K. against genuine and harmful dumping or subsidies. Experience will show whether these powers will prove adequate or whether they will need to be strengthened when the lowering of import duties and restrictions gives potentially greater scope to dumping from the Continent.

## **Difficulties in Particular Sectors**

Even the most ardent advocates of the free trade area admit that some firms and some industries are likely to be hard-hit by the increase of imports from the Continent, and that they will not all be able to make good this loss by increased exports to the Continent. It will be the responsibility of H.M. Government to consider special measures of help in such cases designed to minimise the damage and ease the adaptation that will be required. The existing Development Area policy was not designed for such a situation. New measures will doubtless require to be worked out, and in time to be of avail. Firms and industries which consider that they stand to lose more than they stand to gain from the entry of the U.K. into the free trade area are entitled to demand more reassurances on this point than they have yet received.