

Analysis by the Netherlands Ministry of Foreign Affairs on the implications of the establishment of the European Economic Community (1957)

Caption: The Western Cooperation Department in the Netherlands Ministry of Foreign Affairs drafts an analysis on the short- and long-term implications of the establishment of the European Economic Community and the consequences for the Netherlands' political and trade relations with other countries.

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MINISTRY OF FOREIGN AFFAIRS
Western Cooperation Department

I. General
Introduction

It should be borne in mind that the problems involved in the creation of the EEC go far beyond those of commercial policies as such and of those which are the object of the GATT Treaty. In judging the Rome Treaty one should not lose sight of its far reaching character and certain specific issues should be considered within their wider context and against the background of the great political and economical reorganisation of Europe that is being embodied in the EEC. I say "great" because together with the Governments of the Federal Republic of Germany, Belgium and Luxemburg, France and Italy, the Netherlands Government has decided to initiate a step of real historical importance towards the political and economical integration of Europe.

1. Why European
Integration ?

W.-Europe since the war has been increasingly faced with the necessity to reorganise and adapt its political and economical structure to the realities of the new world which is emerging as a result of the great technological advancements and of the growing power that is concentrated in the great political and economical units of the world. If Europe wishes to survive, it will have to merge its diversity into unity. Politically our aim is and must be to put an end to all strife and opposition, to create a lasting community of interests, and to bring into concordance what has only too often been discordant.

The whole world has suffered the disastrous effects of Europe's discordance. By eliminating our political and economical rivalries the basic conditions are laid for a new and greater productivity and prosperity which will enable Europe to increasingly contribute to the peaceful development and progress of the World, which in turn cannot fail to bring about a great expansion of world trade.

2. European Inte-
gration in prac-
tice.

I may recall to your attention the creation of the Coal and Steel Company & Our efforts -which did not materialise- to create of European Defense Community and an Eur.Pol.Community. As a result of these failures we decided June 1957 at Messina to concentrate on our economical integration. After long and often difficult negotiations our efforts have been crowned by the signing of the Rome Treaty. Although limited to the economical sector its motives are to a great extent political.

II. The European
Economic Community

1. History

2. Meaning

The objective of the EEC is to lay the economical foundation for a political unity. The method chosen is the realisation of a wide common market not only by eliminating all customs and other barriers in mutual trade between the Six but also by establishing a common external tariff and means of a common economic policy to be laid down by common institutions equipped with the necessary powers. The main elements of this common market -as defined by the Treaty- are the free circulations of goods, persons, services

Scope

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and capital; the coordination of our economic, monetary, social and commercial policy, the setting up of a common basis for the economic development of our countries and the association of the overseas territories. All these elements are closely related and cannot be dissociated one from the other.

Procedure

However the complex nature of the problems involved and the need for a gradual adaptation of the different economies to the new conditions made it imperative that the realisation of the Common Market should be effected gradually.

However much we wish to bring about a quick and full implementation of our final objectives we have had to give full consideration to the various needs for adjustment. Even among countries which have achieved a comparable level of economic development a too sudden confrontation of their economies would lead to grave disturbances.

Transition Period

The fusion of the different economies is spread out over a period of 12 years divided into 3 stages of 4 years each, the duration of which can under certain circumstances be prolonged for a max. of 3 more years. Under no circumstances will this transition period be allowed to exceed a total duration of 15 years from the date on which the Treaty enters into force. This maximum period applies equally to all measures involved, to the establishment of the common tariff as well as to the elimination of the internal trade and tariff barriers, to the free circulation of capital and the free movement of workers. This knowledge will prove to be a powerful incentive for the responsible authorities and for those whose interests will be affected to take the necessary measures to adapt their economies and interests to the new situation.

Slow adaptation

This elimination of the economic frontiers between the signatory States cannot fail to bring about the very intensive economic cooperation which is one of the main objects of our Treaty. The wide market will produce a healthy competition and an industrial specialisation from which productivity and price levels can only benefit.

Institutions

The Treaty makes provision for the necessary Institutions, which will be responsible for the proper functioning of Common Market. Artt. 137 and following.

In the first place there will be a Council of Ministers which is primarily responsible for the realisation of the Common Market. Its task is further to ensure the coordination of the general economic policies of the member states. Its decisions will mainly be taken by a vote of majority.

Common character of
the Community

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The Treaty furthermore provides the creation of a European Commission; this is an organism of the Community which will function independently of the Council of Ministers or governmental intervention. Its task is to ensure the proper functioning of the Community and the proper application of the provisions of the Treaty.

A third institution to be created is a Parliamentary Assembly which will exercise the parliamentary control over the activities of the Community.

The respect of law in the interpretation and application of the Treaty will be ensured by a Court of Justice. This Court will also control the legality of the actions of the Council of Ministers and the European Commission.

Provisions have also been made for the establishment of a European Bank of Investment. The Bank's mission is to contribute to the balanced and smooth development of the Common Market by means of granting loans for the financing of certain projects of common interest.

Finally there will be created a Social European Fund the task of which is to favour within the Community the employment of workers and their geographical and professional mobility.

The European Commission together with the Council of Ministers will be the responsible policy makers of the Community. I cannot therefore prophesy with regards to the form and contents of this future policy, but I only wish to stress that this common economic policy will have to be in conformity with the general principles of the Treaty. Of these principles I should like to mention:

Principles of the Treaty

1. the continued validity of and respect for all previous rights and obligations; Art. 234.
2. the professed intention to contribute to the development of international commerce and to the relaxation and elimination of all restrictions on international commercial exchanges and to the reduction of custom barriers; (art. 110).
The obligation is on the European Commission to pursue an open trade policy, whereby it should have constant regard to the need to increase commercial exchanges with third countries. Art. 18 jo 29.
3. to make every effort in the course of the transition period to bring into line the different liberalisation lists with regard to imports from third countries on as high a level as possible.

Open character of the Community

In this context I should like to stress the open character of the Community. The Treaty specifies that the Community is open to all European countries

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furthermore provides that the Community can enter into specific relationships with third countries or international organisations Art. 237, 238.

As I have already mentioned previously, the Treaty contains the necessary provisions for the elimination of all obstacles for the free exchange of goods between the member states. All customs and fiscal tariffs as well as quantitative restrictions are to be abolished according to a progressive scale in such a manner that at the end of the transition period complete freedom will prevail. Details of the operation are contained in the GATT Memorandum.

In the field of Agriculture the problems were more complex as result of the complicated and complex forms of agricultural market organisations on the national and on the international level. It therefore is necessary that the different national regulations should be gradually replaced by common regulations. According to the requirements of the different products involved this international market regulation will take the form of either common competitive rules or a coordination of certain national market regulations or even that of a European market organisation. Until the replacement of the national market regulations has thus been completed the development of agricultural exchanges between member states can be effected by means of "long term contracts" which are limited to those products for which a member state has guaranteed an outlet to its national producers and for which other member states have import needs. The Treaty explicitly provides that in concluding these contracts due regard will have to be given to the traditional commercial pattern in these products. A further clause states that when a member state is dependent on the import of raw material for the manufacture of products to be reexported outside the Community, that in such cases these long term contracts may not constitute an obstacle for the import of these raw materials from outside the Community. I therefore have good reasons to hope that these safeguards will take away any apprehensions that may have arisen on this account. A last particularity in the system to be applied to exchanges of agricultural products between member states is that of the minimum prices, which during the transition period is an additional provision to enable the rules of the industrial sector to be applied to agricultural products as well. Thus in the agricultural field the elimination of customs tariffs and quantitative restrictions will, if necessary, be subject to an additional safeguard. Under these provisions each member state, in accordance with certain objective criteria, is authorised to introduce minimum prices below which the import of agricultural products from other member states are to be either reduced or prohibited.

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4. Some of the most important provisions affecting commercial exchanges with third countries.

I think I have now sufficiently dealt with the different internal aspects of the community and shall now touch on the most important provisions affecting the commercial exchanges with third countries.

a. Common External Tariff

The Treaty makes provision for the establishment of a common external tariff which will progressively replace the existing tariffs of the member states. This new common tariff will be fully applied at the end of the transition period. The GATT stipulates that the duties of the common tariff shall not on the whole be higher than the general incidence of the duties applicable prior to the formation of the Community. The conformity of the common tariff with the GATT provisions has been assured by the method we have chosen for the calculation of the new tariff, which as a general rule will be the arithmetic average between the existing tariffs. As a result of certain technicalities explained in the GATT memorandum the common tariff in certain instances will even be below this arithmetic average.

For certain groups of products the Treaty provides a maximum duty which the common tariff is not allowed to exceed. These ceilings are: 3% for raw materials; 10% for half products; 15% for inorganic chemical products and 25% for organic chemical products. However for a certain number of products the duty could only be established as a result of negotiations. For some of these products negotiations have not yet been completed. If no agreement is reached they will be determined by the Council of Ministers. The national tariffs will gradually be brought into line with the Common tariff by means of 3 successive adjustments which will each take place at the end of the 3 stages into which the transition period has been divided. The rhythm of adjustment is as follows. At the end of the first stage, that is at the earliest 4 years after the entry into force of the Treaty, the common tariff will apply to all those items which do not differ from the Common Tariff by more than 15% either more or less. For all other items the difference between the national tariff and the common tariff will be reduced by 30%. At the end of the second four year stage a new adjustment of 30% is to be made, and at the end of the transition period the Common Tariff will be fully applied.

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General level of
common tariff.
GATT.

Gradual effect;
easy adaptation.

Solution chosen

Principles and
features of the
association

6. The Association
of the Overseas
Territories

Reasons

Possible
Solutions

Although the general incidence of the new common tariff is in conformity with the provisions of the GATT Treaty, it must be admitted that the level of the common tariff with regard to certain specific items will be higher than that now applied in some of the participating countries. This applies in particular to the Benelux tariff. On the other hand the level of the common tariff will be lower for those items than the actual tariff in France and Italy. I wish, however, point out to those countries who fear that their interest might be affected by tariff increases on certain specific items, to take into account the following considerations. The common tariff will only very gradually be put into effect over a period of 12 to 15 years and the first initial changes will only be made after 4 at the earliest. This gives an ample time limit to all interested parties to adapt themselves to the new situation. Furthermore the Treaty provides that the Institutions of the Community may under certain conditions grant what we call "Tariff quota", whereby a country is authorised to import a certain quantity of certain products against a reduced duty or even exempted from any duty. These conditions are amongst others that the country requesting the quote is traditionally dependent on sources of supply outside the Community and that a change in the source of supply would have damaging consequences for the interested member state. As a result of these provisions the Benelux countries have already been granted a tariff quota for coffee during the transitional period. Consideration to which I should like to draw your attention is the possibility to enter into tariff negotiations with the Institutions of the Community with a view to reducing the tariff level on certain specific items.

The Association of the Overseas Territories is a last and most important aspect of the EEG. Our point of departure in considering this question must be the existing political situation. Of the Six member countries four are at present the administering and responsible powers of non self governing overseas territories. The existing links generally also involve a certain mutual preferential treatment with regard to the movement of goods, persons, capital and services. The creation of the common market faced us with the problem what we were to do with regard to these overseas territories to which we are linked. The most simple - and for the Six the most advantageous - solution would have been their complete inclusion in the common market together with all its rules and regulations. This solution

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could not however be adopted, as it would have been contrary to the interests of their underdeveloped economies. Their industry will continue to need protection over a longer period than that provided for amongst the Six. The predominantly fiscal character of their tariffs had also to be taken into consideration.

A second alternative was to have excluded these territories from the Community. But this would have meant a breaking off of their existing economic ties with the mother countries. This undoubtedly would have had the most serious repercussions on their economic and political development, which to a great extent is dependent on the assistance from and its relations with the mother country. Such a course of action would have been contrary to the solidarity which links the mother countries to their overseas territories and contrary to the responsibility which they have assumed for their welfare and development. The Six therefore were obliged to choose an intermediary solution -an association- whereby these overseas territories could share in the prosperity which will be the result of the merging of their economies into a single unit. U do not think these objectives are liable to meet with any criticisms. In drawing up the rules which will apply to this association, the Six have had regard to no other consideration than the requirements of the economic and industrial developments of these territories and the International Status, which applies to some of them.

Solution chosen

Principles and objectives of the association

The Treaty explicitly states that the object of the association is first and foremost the promotion of the economic and social development of these countries and territories and further the establishment of close economic relations between them and the Community as a whole (art. 131).

The member states have agreed to open their markets to these overseas territories in the same manner as they have done towards each other. In return they will only receive the same commercial regime as the territory applies to the mother country (art.132). Although the Six will gradually abolish their tariffs on imports from these overseas territories, the latter will only gradually lower theirs until they reach the level of the tariffs on imports from the mother country.

The Six have furthermore decided to give palpable and concrete evidence of their solidarity with their overseas territories by agreeing to contribute a collective sum of over half a billion dollars to a specially created Development Fund to be managed by the Institutions of the Community. This Fund will be managed by the European Commission. The responsible national authorities in agreement with the local authorities or with the local representative bodies of the populations of the territories involved will present the

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is requested. The size and method of distribution of this aid is laid down in a special convention which contains the modalities of the Association for the first five years. At the end of this 5 year period a new convention will have to be negotiated.

With regard to the fear that the EEG is creating a privileged position for itself in the markets of the overseas territories, it must be pointed out that the economies of most of these territories are only in an early stage of development and although their association and the financial aid involved will accelerate the present rhythm of development, the productive and consuming capacity of these countries will for a long time to come will not be of a sufficient importance to cause any serious disturbance in the pattern of world trade. And even in those territories where this might be the case the general increase in prosperity which is to be the result of the EEC and its extension to the overseas territories will prove to be beneficial to world trade as a whole. Furthermore important territories belonging to the conventional Congo basin will continue to apply a non discriminatory tariff policy in accordance with the treaties of St. Germain and Berlin. This contribution is complementary to that which is already accomplished by the mother countries. In making this important decision the member states have agreed to merge their individual commitments as administering powers into a European Commitment. This programme of financial and technical assistance is not an end in itself but an instrument of political, economical and social progress. This programme will not only accelerate their economic development but at the same time will be instrumental to the development of their political maturity and thus to their political autonomy or independence. It must however be strongly stressed that the whole process of political development remains the exclusive and full responsibility of the mother country. The preamble of the treaty reaffirms the solidarity, which binds Europe to its overseas territories and the determination to assure the development of their prosperity in conformity with the principles of the UN Charter. Thus the EEC has made it clear that it intends to manage its programme of economic assistance in a manner which is consistent with the legitimate political aspiration of the territories concerned. Far from being some new form of colonialism this mutual cooperation in building up the econ. and social infrastructure of the overseas territories is more in the way of decolonialisation. This assistance programme should not be confused with contributions to international schemes such as SunFed to provide the necessary capital to underdeveloped but independent and sovereign countries. There are of course certain points of resemblance between the two.

Effects expected

No alternative to
SunFed

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Both seek to increase the standard of living in the countries concerned, both are a contribution to their economic and social infrastructure. It must be admitted that the UN have so far failed to realise Sunfed or a similar scheme. For this failure the Netherlands bear no responsibility. Can the Six therefore be criticised for giving a practical solution to at least part of the problem? However, a decision to contribute to the former does not mean we intend to withdraw from the latter. What we are doing now within the framework of the EEC, is not a substitute for our contribution to any future international scheme such as Sunfed.

III. Concluding Remarks

In conclusion I wish to underline, that the great significance of the EEC does not, however, diminish the importance which the Netherlands Government continue to attach to the maintenance and development of political and commercial relations with other countries. This is clearly demonstrated by the fact that 60% of our foreign trade is with countries outside the Community. The Netherlands Government is convinced that a sincere and objective study of the provisions of the Treaty and the spirit in which it is conceived will convince all nations that this EEC will not affect their essential interests. On the contrary the general increase in prosperity, which is to be the result of the EEC and its extension to the overseas territories, will prove to be beneficial to world trade as a whole. The very gradual realisation of the Community over a period of 12 to 15 years gives all countries concerned ample time to adapt themselves to slowly changing conditions of their trade relations. The substance of the treaty provisions and the flexible nature of the institutional procedures enable the interests of third countries to be taken into full account.