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CABINET

EUROPEAN FREE TRADE AREA

MEMORANDUM BY THE PAYMASTER-GENERAL

The Cabinet invited me on 27th August to arrange for officials to undertake further studies of agriculture in the context of the European Free Trade Area (C.C. (57) 62nd Conclusions, Item 1). These studies have now been carried out and the result is set out in C. (57) 219 which I have circulated separately. In addition, I have circulated two other papers also concerned with the OEEC meeting due to take place later this month under the chairmanship of the Chancellor of the Exchequer in Paris (C. (57) 218—General Steering Brief; C. (57) 220—Implications for Dependent Overseas Territories). I have also circulated a fourth paper (C. (57) 221) concerned with the attitude the United Kingdom should take when the Treaty of Rome is examined in the GATT.

2. These papers indicate the range of the problems that have to be faced. They are complicated and often formidable. In most cases it seems likely that solutions can be found by negotiation, though this may be a difficult and protracted process. But there are some issues on which complete deadlock may be reached, and which may lead to a breakdown in the negotiations. The two most difficult of these problems at present, namely the treatment of agriculture and questions of origin, I discuss below.

3. The Common Market Treaty has now been ratified by France and Germany. Ratification by the other four Powers—Italy and the Benelux countries—can be certainly counted upon and we must assume that it will be put into effect on 1st January next year. If its provisions are implemented in full by the Six countries—and we should be unwise to assume that they will not be—the European Economic Community will develop into a single unified economy of great strength. The consequences for our important trade with Europe, and the more far-reaching threat of competition from this economic giant throughout the world, must be of grave concern. But no less important is the danger that if the European Economic Community pursues narrowly restrictive policies, as in the absence of a Free Trade Area it is likely to do, the whole movement towards freer world-wide trade and payments, which is fundamental to our economic policies, will suffer a fatal setback.

4. It is considerations such as these that led the Commonwealth countries at the Mont Tremblant Conference to recognise that the establishment of a Free Trade Area is of vital importance to the United Kingdom. The European countries themselves recognise the dangers, though they do so in differing degrees, and it is this recognition, allied to the serious political implications of a Little Europe under German domination, that furnish the most helpful aspects of the negotiations.

5. There is a wide divergence still between our views and those of the Six. We regard the Free Trade Area as an extension of the type of co-operation between independent States achieved in the OEEC and we are thinking in terms of achieving the elimination of tariffs and quotas on the lines of the familiar OEEC process of liberalisation. This practical objective of abolishing tariffs and quotas, coupled with the establishment of a system of rules to ensure fair competition, is about the full extent of our concept of the Free Trade Area. The European Economic Community, on the other hand, is as much a political as an economic project. It is designed to achieve genuine unification of the economies of the Six countries and many of its most enthusiastic supporters regard it as part of the progress toward ultimate political unification. The Treaty provides for a

SECRET

substantial surrender of national sovereignty in economic matters and it embodies in its provisions a carefully worked out balance between the economic interests of the various participants. Clearly it will not be easy to establish working arrangements between two economic systems based on such different principles. Yet we cannot subscribe to the European doctrines of integration; nor will they abandon the Treaty of Rome.

Agriculture

6. Here we have got ourselves into a false position. Our public attitude, to which we are committed, is that we cannot agree to include foodstuffs in a Free Trade Area. But the truth is that "Nobody asked you, Sir, she said." The Six countries are not proposing genuine free trade in agricultural products, and most of their Governments would run a mile from any such suggestion. All of them protect their agriculture in some degree and intend to continue doing so. The change will be in the means and method of protection, tariffs and quotas being replaced by planned marketing, bulk buying on long-term contracts, and a general system of producers' cartels with or without Government participation.

7. This, it seems, is what will in fact develop. But it is important to remember that the Rome Treaty provides (a) that tariffs and quotas must end after a defined transitional period, even if other arrangements have not been made, and (b) that Governments will surrender a degree of national sovereignty in these matters to an International Commission. Both these points will be pressed on us in the negotiations.

8. The Europeans are realists. They know we cannot abandon, or compromise on, the Commonwealth position, and, though they will grumble and haggle, in the end they will accept the fact. They will be less amenable about the protection of our own agriculture (and they know full well that they have a good deal of Commonwealth support in this). They do not expect us to drop all our barriers or to abandon our support policy—any more than they would themselves—but they feel that if they are to open their markets to our industrial products they must be able to show to their exporters of agricultural products something in the nature of a *quid pro quo*. Moreover, some provision must be made for the Danes, who will otherwise be totally excluded in practice from the marketing of agricultural products within the Rome Treaty area, to their very serious detriment.

9. In these circumstances I agree with the general line put forward in the officials' paper; this follows the general outline in C. (57) 188 which was felt by the Cabinet on 27th August to offer the possibility of a solution. We should offer the maximum co-operation in European agricultural institutions short of the surrender of any sovereignty. We should offer in principle to abandon quotas over a period (we are committed to this already in any case) and we should be prepared to accept a provision for the elimination of all tariffs, subject to a waiver for the United Kingdom. This in practice amounts to very little more than we would do in any case. But if we advance the proposal against the background of our liberal import policy and stress the argument that while not including foodstuffs in the Free Trade Area we are, in fact, agreeing to greater agricultural co-operation in Europe, we should be able to get the negotiations going. I certainly seek no authority to go further at this stage, though in the annex to the paper on agriculture (C. (57) 219) there are some preliminary ideas about possible courses that we might have to take if we are forced to go further. I think we shall in any case be faced with a demand for some undertaking about the future trend of our agricultural policy to the effect that it will not become any more protective than it is at the present moment. Our recent experience, where our traditional suppliers of eggs have been completely excluded, and we have indeed become exporters ourselves, has made a deep impression and there is a genuine fear that we may pursue similar policies in other products. We may also find it necessary at some stage to make offers on individual products, perhaps for example on the wine duties. If such a situation appears to be developing I will consult my colleagues.

Problems of origin

10. Agriculture is the most difficult political problem. Questions of origin pose the toughest technical problem. The difficulty arises from the fact that the members of the Free Trade Area will not have a common tariff against countries outside the Area. British traders will be able to sell their goods for example, in

SECRET

3

France in competition with French manufacturers, but in many cases the British manufacturers will have been able to obtain their raw materials duty-free whereas the Frenchmen will have had to pay the tariff charged by the members of the Common Market. The degree of difficulty which this problem will present in negotiation depends on the extent to which the Six countries propose to impose high tariffs on raw materials. It seems likely that the Germans, the Dutch and the Belgians will want to have low tariffs on imported raw materials, while the French, on the other hand, supported by the Italians, will wish to have high tariffs to protect home production. It is impossible to predict at this stage how matters will develop, but if the French should prove too intransigent and their partners in the Six cannot persuade them to modify their attitude, the danger of a breakdown of negotiations is very real. If France wants to wreck the negotiations here is a simple way of doing it.

Dependent overseas territories

11. We are not out of the wood on this question yet. I am sure that we ought not at the moment to make any change in our present position. We should seek to have dependent overseas territories excluded from all these European arrangements and should negotiate to secure mitigation for the damage which our own territories would otherwise suffer through the operations of the Treaty of Rome. We should play our hand at the forthcoming GATT meeting with this policy in mind. But, as C. (57) 220 points out, we may have to think again about this later on this year, though we should be under no illusions as to the immense difficulties which any other course would present.

Prospects for negotiations

12. I cannot at the moment venture any assessment of the prospects for the negotiations. The Six countries have been attempting to achieve a common attitude but apparently they have not so far been successful. I am visiting Brussels, Bonn and Rome this week and as a result of these visits I hope to be able to give my colleagues the best assessment I can of the current attitude of the Six countries. So far as this country is concerned, the attitude taken by Industry, led by the Federation of British Industries, is thoughtful and helpful. The Trade Unions, though wary, have been remarkably ready to see both the dangers and the possibilities of the plan. It does not appear from the Labour Party Conference that the Opposition are likely to vary the attitude they have adopted to date, which is one of cautious approval. Finally, it is to be hoped that the attitude taken by the Commonwealth countries at Mont Tremblant, which was made public in the communiqué, will help to sustain our position in so far as public opinion in this country is concerned. Though there is undoubtedly a genuine political desire throughout Europe for the establishment of a Free Trade Area and the avoidance of a division in Europe, in the long run what will determine the issue is whether the genuine political desire for unity will be sufficient to outweigh both the real technical difficulties and the many serious political drawbacks for the various countries involved.

13. I have no exaggerated hopes of what can be obtained at the Meeting of the OEEC this month. We shall no doubt hear the various national positions stated. I hope we shall be able to obtain general agreement that a Free Trade Area should be established, though each country will qualify that hope with the proviso that its own essential conditions will have to be met. I also hope we shall be able to agree to set up some machinery so that negotiations can start in earnest. Beyond this we are unlikely to settle anything very much, but that will suffice as a start.

Conclusion

14. I recommend that we approve the proposals put before us by officials and in particular the following points:—

- (1) Paragraph 16 of the General Steering Brief (C. (57) 218).
- (2) Paragraphs 7–16 of the paper on Agriculture (C. (57) 219).
- (3) Paragraph 11 of the paper on Colonial Implications (C. (57) 220).
- (4) Paragraphs 6–12 of the paper on the GATT (C. (57) 221).

R. M.

*Office of the Paymaster-General, S.W. 1,
3rd October, 1957.*

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