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CABINET**EUROPEAN FREE TRADE AREA**

MEMORANDUM BY THE PAYMASTER-GENERAL

The 17-Nation Committee in Paris have now held three meetings. We have been working on an agenda which I was asked, as Chairman, to produce, setting out some 40-odd questions that must be answered in the course of the negotiations. We have had a preliminary discussion of almost all these questions. The atmosphere has been generally good and there has been an excellent attendance of the responsible Ministers from all the European countries. Much detailed work and study has been set on foot.

2. But the fact is that so far there has not been much more than a statement of positions. Some possible obstructions have been cleared out of the way, but real negotiation is only just beginning. This must in the nature of things involve some concessions all round. We cannot expect to be wholly exempt from this process, though our aim must be to restrict our own concessions to the minimum.

3. So far the United Kingdom has had the initiative and we have been conducting our case on the basis of our own plan, which was tailor-made to suit our own requirements. By and large the general shape of this plan has been subject to surprisingly little challenge, save by the French, to whom I refer below. But certain points of major difficulty have now become apparent. These are:—

- (a) Agriculture;
- (b) The absence of a common external tariff and common commercial policy;
and
- (c) The attitude of France.

There are, of course, many other difficulties such as the position of dependent overseas territories, the treatment of coal and steel, or restrictive business practices. But while it will be a difficult problem to reach final agreement on these points and I shall have to consult my colleagues at a later stage on several aspects of them, I do not at the present moment envisage that they will prove in the long run insoluble.

4. The present position on the three main problems is as follows:—

(a) Agriculture

The Paris Committee have accepted our main proposals on agriculture as a suitable basis for negotiations. We incorporated them in a draft agreement which was discussed at the last meeting. Despite newspaper reports to the contrary, the reception given to the proposals was reasonable and they were recognised as a genuine effort to meet the difficulties. The trouble is that, while other European countries could find criticisms of our proposals, they could find no common ground between them on any alternative policy. The result was that little progress was made. The process of extracting ideas in this field, particularly from the "Six"—France, Germany, Italy and the Benelux countries—is rather like drawing teeth. I am, however, meeting the Six and the Danes in Brussels later this week and I will report to my colleagues orally on the results of this meeting. The basic problem is this: Everyone

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agrees that agricultural products cannot be treated on the same basis as industrial products, but our present proposals mean that, while all countries would have a definite obligation to abolish tariffs completely on industrial goods over a stated period, no such similar obligation is proposed for agricultural products. The processes of mutual criticism of policies, complaints procedure, and so on, which we have suggested go part, but only part, of the way to meeting this genuine difficulty of those countries whose exports are largely in the agricultural field. It is, for example, very difficult to sustain the argument that the Italians should abolish all tariffs on British industrial goods while we are not prepared to give any undertakings whatsoever about increasing the opportunities in the United Kingdom market for Italian fruit and vegetables.

(b) The Absence of a Common External Tariff and Common Commercial Policy

This difficulty goes to the root of the Free Trade Area concept. The problem it poses is that of the inequality of competition between manufacturers whose Governments pursue differing tariff policies on imported raw materials and semi-manufactures. As our policy is to have either no tariffs or very low tariffs in this field, our manufacturers generally will have the advantage compared with their competitors on the Continent whose Governments maintain more substantial protection. The common external tariff of the Six has not yet been fixed over a wide range of raw materials and semi-manufactures, but broadly speaking it will be a compromise between the high tariff ideas of the French and Italians and the low tariff ideas of the Germans and the Dutch. French and Italian manufacturers therefore argue that, in addition to seeing their tariffs reduced as part of the Common Market exercise, they will be faced with unrestricted competition from British manufacturers who will obtain their raw materials free of duty. The Dutch and the Germans, on the other hand, are beginning more clearly to realise the disadvantages of having tied themselves to a higher tariff policy under the Treaty of Rome and they will be particularly sensitive to the freedom that under our proposals we shall retain. This problem is one that is not capable of logical solution. We are tackling it by an exhaustive analysis of the products mainly affected. In practice the problem will only be a serious one in cases where there is a wide disparity of tariff rates and the raw material content of a finished product is relatively high. By exhaustive analysis, therefore, we may be able to break the problem down but it remains technically the most difficult of all.

(c) The Attitude of France

There is no support whatsoever for the Free Trade Area in France, in any quarter, on economic grounds. The attraction of a Free Trade Area to France can only be political and, while many Frenchmen and even some French Ministers recognise this, they have so far done little to bring it home to French public opinion generally. Two factors underlie the French attitude: the first is their traditional protectionism; they are not as a country export-minded and therefore, even more than our own most reactionary industrialists, they see all the disadvantages of competition from imports and none of the advantages of the opportunity for exports. The second factor is their satisfaction with what they have obtained from the Treaty of Rome. The fact is that their colleagues in the Six, and particularly the Germans, paid a very high price to France for the Agreement. M. Faure told me that in his view the greatest advantage to France of the Treaty of Rome was the fact that they had been able to place upon German shoulders such a high proportion of the cost of their Colonial territories. They believe, in addition, that they have obtained from the Germans undertakings to buy their agricultural produce at very favourable prices. These, however, are not the arguments they put forward in public. They say rather the following: first, that the Treaty of Rome is a balanced concept with the dangers of competition set against various guarantees; and secondly, that in the Free Trade Area we will have the great advantage of free access to the European market and preferential access to the Commonwealth market. There is some truth in the latter objection and the only answer I can find is to impress as much as we can upon the French that with the advantages of our Commonwealth connection we have also considerable disadvantages, e.g., free entry for

Commonwealth wheat, which they certainly would not be prepared to accept. On the question of guarantees, the French are still very vague and it remains to see what emerges when they produce the plan on which they are now working. Broadly speaking, their line is that either you can have a very vague agreement to which people are tightly bound, or a very tight agreement, of the kind we have in mind in the commercial field, with plenty of escape clauses. Alternatively, they would like to treat the whole thing as an experiment with a French right of veto after the first few years. We shall have to wait and see what emerges in the French plan. But they will have to obtain the agreement of their colleagues in the Six to their proposals and this I am sure they will find extremely difficult if their ideas are too far divorced from our original Free Trade Area concept.

5. I have become more than ever impressed by the dangers of failing to reach an agreement. The European Economic Community has now been launched; the Six countries are committed to forming one single economy based on 160 million hard-working people, including some of the ablest scientific and technological nations in the world. If no Free Trade Area agreement is achieved, this new industrial giant will increasingly overshadow our trading future throughout the world. The centre of gravity in European economic affairs will shift inexorably to Bonn (or Paris). The smaller Continental countries will have willy-nilly to come to terms with the Six. The attractions of the Continental market will grow in the eyes of the Commonwealth, and the power of the Six to compete with us in Commonwealth markets will steadily increase.

6. In political terms, at present virtually all those taking part in the negotiations are anxious for them to succeed; even the French Government seem to have reached the conclusion that something is going to emerge and that they must adopt a reasonably constructive attitude. Neither they nor anyone else wishes to be left alone in Europe with Germany, if they can avoid it. This is perhaps our greatest asset in the negotiations. But if the negotiations were to break down through what was regarded as unreasonable rigidity on our part, the political effect in Europe would be correspondingly great. Once again our whole attitude to Europe would be suspect and the revulsion would be such as to have very grave effects, not only on our trade but also on our political influence in the Western world.

7. I have not abandoned hope of getting agreement on our original proposals, more or less in their entirety. But the negotiations will be hard, and we shall be pressed more and more on many points. I am not at this moment asking my colleagues to give me any more elbow room in the negotiations. But I should warn them that the time may come when I shall have to do so.

R. M.

*Office of the Paymaster General, S.W. 1.
30th January, 1958.*