FREE TRADE AREA AND COMMON MARKET IN EUROPE

Talk given by Dr. R. FAESSLER, Economic Counsellor of the Swiss Embassy, on Wednesday, 11th June, at the Swiss Mercantile Society.

Before going too deeply into the subject I will explain in a few words the difference between the Free Trade Area and the Common Market, which are so much talked about in European governmental circles, the Press, the industrial world and the trade unions, and so little by the public at large.

The **Common Market** is a customs union in the traditional sense of the word, that is to say its member countries — France, Belgium, Luxembourg, Western Germany, the Netherlands and Italy — have undertaken to abolish all customs tariffs among themselves and to apply a common tariff to outside countries. This new organisation is administered by central institutions which in certain cases can impose solutions through a majority vote. A country that feels wronged can appeal to a common Court and must accept its decision.

The **Free Trade Area** is a much more flexible organism. Its members also undertake to eliminate tariffs among themselves, but are free to maintain their own national tariffs externally. Its controlling institutions do not have the same central power to impose decisions. The countries belonging to the Free Trade Area are to a very large extent free to shape their economic policies as suits them.

The last two world wars have shown that a divided Europe has little chance of survival between the pressure from the two big military and economic blocs, that is the United States and the Soviet Union. You will perhaps remember the failure of the efforts towards closer economic co-operation which were made in the thirties in the League of Nations, after the big economic depression. It was only at the end of the last war that the idea of economic collaboration took concrete shape, when the two exile governments of Belgium and the Netherlands decided to form the customs union that came into force but a few months ago. The end of the hostilities found almost all the European countries economically exhausted by the war effort, and it was the United States who, through generous grants, helped to surmount the first difficulties. But already at that time the European statesmen, and more especially the American General Marshall, who directed the distribution of American Aid to Europe, recognised that money alone could not be enough and that the European countries on their side, would have to make an effort to put their economies on a sounder basis if they were to restore their countries and their industries, and so avoid serious socal troubles. The Marshall Plan, which was launched in 1947, led to the creation in May 1948 of the OEEC, the organisation for economic co-operation whose task it was to distribute American aid and work out these new economic policies. It was followed by the establishment of the European Payments Union, which provided the instrument for multilateral clearing.

This European economic co-operation has had magnificent results. Trade among the seventeen countries belonging to OEEC expanded enormously, thanks to the widespread removal of bilateral quotas and the freer circulation of European goods that resulted. Let us just consider the example of our own country: From the thirties onwards Switzerland had had to rely on the conclusion with her European partners of bilateral agreements, which by their nature put a brake on, rather than encourage, the exchange of goods. Since the creation of OEEC our exports and imports have almost trebled, and even in the financial sphere there has been much relaxation.

It became obvious, however, that an average liberalisation of 90 per cent over all three categories — raw materials, manufactured goods and agricultural products — was inadequate, for the percentage remaining under bilateral quotas affected some essential sector in practically all countries, as for instance watches in Switzerland. Tariff disparities were enormous, too. On the one hand were the low-tariff countries, such as Belgium, the Netherlands, the Scandinavian countries and Switzerland, and on the other hand the big economic powers with protectionist tariffs, such as Great Brtain, Western Germany, France and Italy. All efforts in the OEEC to tackle the tariff problem remained fruitless, and it appeared more and more that some other means of closer collaboration must be sought.

By forming in 1950 the European Coal and Steel Community — which has its seat in Luxembourg — France, Belgium, Luxembourg, Western Germany, the Netherlands and Italy established a common market for steel products and coal. Great Britain, Switzerland and Austria, which for political reasons could not join this Montan Union, regulated their relations with it through bilateral agreements and were thus able to avoid being discriminated against. The politicians of the six countries which had set up the Coal and Steel Community did not stop there, but formulated at Messina, in July 1956, the idea of a general common market, that is to say of a free exchange of goods among the six countries, with no customs barriers among them and a common external tariff. The aim of this common market was of a political nature. After the failure of the efforts to create a European defence community it appeared easier to achieve European integration by economic means. The negotiations initiated since the Messina conference have led to the conclusion of the Rome Treaty, under which the common market entered into force on 1st January, 1958, and should show the first practical results from 1st January, 1959.

The Rome Treaty provides for the complete removal of quotas over a period of twelve to fifteen years, divided into three stages, with the first extending over four to seven years, the second and third over four years each. All rules for the first two stages are laid down in the Treaty; new consultations will take place to determine those for the third stage. At the same time tariffs will be gradually abolished: In the first year the average reduction will be 10 per cent, and the same percentage will again apply in the next two eighteen-month periods. Every tariff position should be lowered by at least 5 per cent, and those having hitherto exceeded 30 per cent by 10 per cent. During the first four-to-seven-year stage the duty for all merchandise should come down by at least a quarter. The same rules should operate during the second stage, which is to last four years. The common external tariff will be based on the averaged tariffs of France, Western Germany, Italy and the three Benelux countries, as valid on 1st January, 1957. As France, Western Germany and Italy, with their high tariffs, are preponderant in this new club, the new common tariff will be rather high.

Particularly in the United Kingdom and Switzerland it was realised that the creation of the Common Market might seriously endanger the continuation of European economic co-operation. That is why England conceived the idea of the Free Trade Area, which should complement the common market in Europe. The sponsors of the Free Trade Area also aimed at the abolition of tariffs and quotas, but within a much more liberal framework than is the case for the Common Market.

I should perhaps add here that the Common Market is conscious of the disparities of its members' national economies, and is therefore making an effort to foster as far as possble equal conditions of production. It is evident that, for instance, France, with an annual revenue per head of population of £740, would have to fear the competition of Italy, whose per capita revenue is only £310. The Rome Treaty thus provides for the harmonisation of wages, equal pay for equal work for men and women, the harmonisation of social charges, of credit terms; although not provided for yet, harmonisation in the monetary sphere and unification of the six countries' currencies will no doubt follow eventually.

The other OEEC countries did not want to go as far. As I have just said, they wanted to abolish tariffs and quotas, on the assumption that competitive forces, which would work far more freely in the wider area of the seventeen countries, would automatically lead to a harmonisation of economic, social and financial policies. This raised the first difficulties between the Six Common Market countries and the other OEEC members. Another obstacle resided in the fact that the Six planned for an organised market, not a free one, for the agricultural products, whereas England insisted from the start that these goods must be excluded from the Free Trade Area. Thanks mainly to the Swiss Government's efforts Her Majesty's Government has now just recently changed its attitude and has agreed to the setting up within the new organisation of a special committee, which will study how the agricultural policies of all European countries could be harmonised.

The chief difficulty in the establishment of the Free Trade Area comes from another side. The Six of the Common Market have a fairly high common tariff on raw materials, whereas that of most other European countries, which like Switzerland have no raw materials, is very low. In the opinion of the Six, this would make the conditions of production of the other countres much more favourable, and since their products could circulate freely in the Common Market countries the latter fear that their own corresponding industries may be jeopardised. For months and months the possibility was therefore examined of creating certificates of origin which would show to what extent the makng of the said products had benefited from better conditions than in the Six countries and which would enable the Six to ask for a sort of compensating tariff. These negotiations had still produced no results when the Italian delegate to the Six, Mr. Carli, put forward a plan providing for compensating taxes on certain products, where the difference in the duties on raw materials exceeds a 5 per cent margin. But in the Swiss Government's view the Carli plan would have for result the indirect harmonisation of the external tariffs, and that for the Free Trade Area too, which was certainly not the object of the exercise.

Where have the negotiations got to now? The Six had promised to produce by the beginning of April a joint paper on the creation of a free trade area. Because of the French governmental crises this document does not exist yet, and the French announced in Brussels two weeks ago that they would not be able to discuss any such paper before 1st July. But time is getting short, for if discrimination is to be avoided between the Six and the other OEEC countries the Free Trade Area should come into force at the same time as the Common Market, that is to say on 1st January 1959. Otherwise, there will be discrimination, since the Six will begin reducing their tariffs among themselves and the other countries will be left out.

The Swiss Government has let it be known many times in Paris that it could not accept such a discrimination but would have to take defensive measures. What means of defence is there? One could certainly revert to bilateral agreements establishing quotas on a *du ut des* basis, but there is yet another way. The liberalisation of European exchanges was made possible by the establishment of the European Payments Union, which derived a certain fund from American aid and set up a system of multilateral credits among participating countries. Switzerland, which was for a long time a creditor to the Union, became a debtor for the first time in February, and is mainly indebted to the Six countries for some £200 million a year. The Swiss Government has therefore declared that if there were discrimination on the part of the Six it would feel compelled to wthdraw from the Payments Union, thereby causing great difficulties to the Six, who could then no longer dispose of this £200 million surplus.

It is to be hoped that all the European governments will realise the serious danger of a new economic rift in Europe and that they will do their utmost to succeed in setting up a free trade area.