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COVER: Christmas illuminations in Essen, Germany.
PHOTO: Courtesy German Information Center

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The Political Process of Integration

THE NEW COMMISSION'S PROGRAM

FRANCO MARIA MALFATTI

THE TAST OF BUILDING EUROPE cannot be dissociated from a complex international background. The negotiations for a reduction in strategic nuclear weapons, the longed-for start of a negotiated solution in the Middle East, the recent signing of the Treaty renouncing the use of force between Germany and the Soviet Union, the renewed proposal for a balanced reduction of forces between the North Atlantic Treaty Alliance (NATO) and Warsaw Pact countries, and the improved prospects for a European security conference all represent opportunities that may accelerate the process of building Europe.

The political nature of our objectives and international problems define our action; not day-to-day administration. The activity of our institutions will be concentrated on:

- transforming the Community into an economic and monetary union
- negotiating the Community's enlargement
- enhancing the Community's world role
- strengthening our institutions and achieving political union.

Economic and Monetary Union

From January 1, 1970, in accordance with The Hague summit decision of December 1969, the Community was to move towards an economic and monetary union. The public welcomed The Hague communiqué as a statement that a new and fundamental option had been taken for the formation of Europe. This political option tallies with a tangible economic requirement. The achievement of a full customs union, increasing interpenetration of the six national economies, and the establishment of the main common policies have made common instruments necessary to ensure the Community's smooth development according to its own medium- and long-term strategy.

The plan for economic and monetary union and the procedures for carrying it out, provide the framework and common starting point for the Commission's present and future proposals.

Achievement of the increasingly ambitious objectives the Commission has set for itself depends partly on sustained economic growth and partly on economic stability in every area of the Community. Economic union will depend mainly on progress made in coordinating the member states' economic policies and strengthening their monetary solidarity.

By the end of 1970, the Commission plans to submit the draft third medium-term economic policy program. For each member country, quantitative guidelines will be set for economic growth that are compatible with the country's needs and with the needs of the Community economy. These guidelines will apply to the main economic indicators: growth rate, unemployment rate, rate of price increases, and balance of payments.

The Council announced in July plans to discuss this fall the Commission's proposals for medium-term monetary support system. Although monetary union must be founded on compatible and convergent economies, closer monetary solidarity makes it more likely that compatibility and convergence will be achieved.

This article was adapted from Commission President Malfatti's address to the European Parliament on September 15, in Strasbourg, outlining the new Commission's work program.

The Commission will urge the Council to adopt by the end of 1970 the phased plan for achieving economic and monetary union. The Commission will seek to ensure that specific measures can be carried out in certain priority sectors: coordination of economic policies; harmonization of tax systems; development of a European capital market, and strengthening of monetary solidarity, with the Community acting as a single group in international monetary bodies.

The Community should assert its personality when international monetary problems have to be solved. The member countries will consistently have to adopt Community positions, particularly in the International Monetary Fund. The Commission will therefore work for the definition of a joint position on plans to reform the international monetary system.

After World War II, the United States was the western world's sole economic, financial, and monetary prop. The situation has changed. Europe has rebuilt its economy, to become the world's foremost trading power. It is time for Europe to accept its world responsibilities. Its duty to do so will be more evident after the accession of the applicant countries. Economic and monetary union in Europe must allow it to establish an additional center of balance and growth in international economic and financial relations.

Industrial Policy

The Commission attaches importance to the execution of the industrial policy proposals it submitted last spring. They are intended to round off the single market, to unify the legal, fiscal, and financial framework in which firms operate, to help modernize companies, to organize the adaptations on which industrial progress depends, and to reinforce the Community's solidarity in its relations with non-member countries. A dynamic industrial market cannot be the result of a laissez-faire approach. We must take measures to ensure that industry's structure can be adapted to meet changes in private and public demand: development of new products through research policy; supervision of production through competition policy; improvement of trading conditions through commercial policy; modernizing infrastructure through transport, energy and long-range town-and-country planning policies.

Economic and industrial progress, and the ensuing urbanization, involve destruction of natural assets, a process that reduces the benefits of steady increases in wealth. Technological development and industrial growth must be controlled to protect the quality of life. The Commission intends to submit detailed proposals, based on the work already begun by its staff. In this field, an isolated campaign at national level cannot have lasting results. The Community provides the minimum scale for effective action; only the Community would have the weight needed to conclude the broader international agreements which will be necessary.

Agriculture

The common agricultural policy must be able to operate normally if there is to be a balanced, steady growth of the Community. There is a singular contrast between the breadth of the Commission's proposed agricultural reform and the limited range of the decisions so far adopted by the Council and its reluctance to discuss the substance of the current problems.

We must create a modern agriculture that dovetails with the rest of the economy and raise farm incomes and living standards to modern levels. The Commission therefore firmly endorses its predecessors' standpoint, that a policy on farm prices and markets is inseparable from a modern social policy and a coherent and courageous policy on landholdings.

Regional Policy

A policy of industrial and agricultural growth cannot be formed without a clear vision of the steps needed to develop the Community's regions. Inhabitants of less-developed Community regions must be enabled to improve their living standards. In addition, congestion and excessively rapid urban development must not be allowed to impair living and working conditions in the more industrialized regions.

Social Policy

A growth policy cannot succeed unless it is based on a more active social policy; the essential reason behind the economic and monetary union we are establishing is that it serves human and social ends. The Council's July 27 decisions of principle on the reform of the European Social Fund, constitute a considerable change after years of inertia.

An economic and monetary union means a gradual transfer to the Community institutions of responsibility for main economic policy decisions. Thus, discussions with representatives of labor, management, and technical staff must likewise be carried on at the level of the institutions and with their cooperation. The Commission intends to propose ways in which the Community institutions can provide these representatives with a suitable framework for comparing interests and establishing an economic and social balance.

External Relations

The Community's external relations are a dominant part of our life today and are of fundamental importance for the equilibrium and development of all nations.

Our Community now has association or preferential agreements with 28 countries. Negotiations for preferential agreements with four more Mediterranean countries (Algeria, Egypt, Lebanon, Malta) have been started or are nearing completion; negotiations are underway with the four candidates for membership (the United Kingdom, Ireland, Denmark, Norway); and talks are to take place this fall with the six European Free Trade Association (EFTA) countries that have not applied for membership. British membership could also affect our relations with some Commonwealth countries.

Here is proof of our Community's vitality, of its success, of the attraction it has for other countries. Here is proof that our Community is outward-looking and ready to consider the requests put to it.

Our Community is now the world's largest trading power, with imports and exports of some $40 billion a year. Our trade has outstripped that of the United States.

Increased responsibility flows from our position as the leading trading power. Our first priority should be to defend the principle of free trade to the bitter end. We must fight the temptation, evident in so many countries, to solve problems by introducing protective measures which could disturb the bases of world trade.

The development of trade with Eastern Europe contributes to increased liberalization, and to a détente in Europe. Despite occasional charges of discrimination leveled at the Community by these countries, Community imports from Eastern Europe increased by 262 per cent between 1958 and 1969, at an annual average growth rate of 11.5 per cent.

Developing Countries

A spirit of freer trade imbues our relations with developing countries too. We want to see that these countries get a bigger slice of the international cake.

Our policy of association or preferential agreements with countries in Africa and the Mediterranean basin and our contribution to the system of generalized preference for developing countries is evidence of this. Today, the Community provides developing countries with their main export market. Between 1965 and 1968 imports by countries in the Organization for Economic Cooperation and Development (OECD), excluding the Six, from the developing countries fell from 23.3 per cent to 22.5 per cent. By contrast, Community imports from these countries increased from 38.6 per cent to 39.4 per cent. The Community constantly runs a trade deficit with the developing countries, enabling them to cover a large part of their trade deficit with industrialized countries outside the Community.

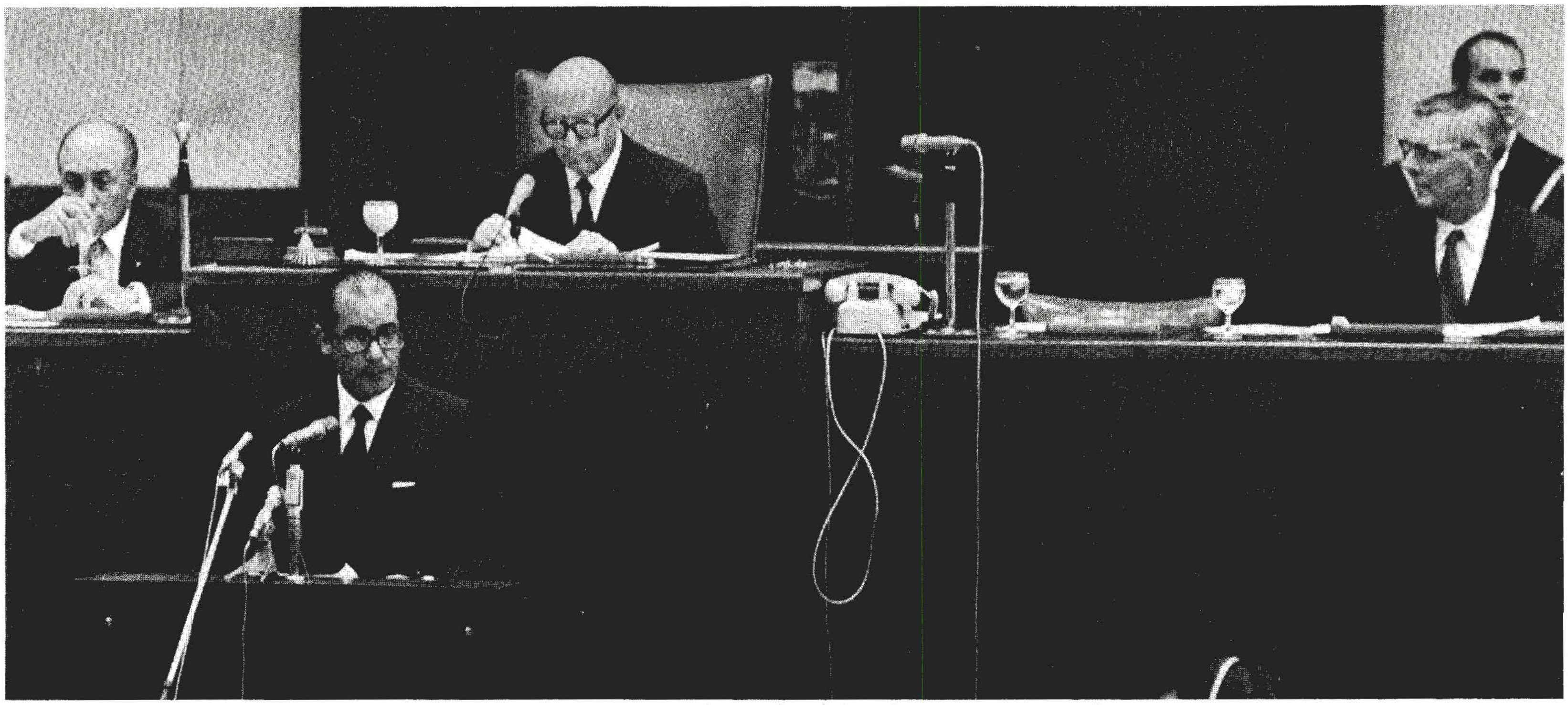
Our preferential agreements, especially with Mediterranean countries, are frequently under fire. Our Mediterranean policy, which ensures that all countries in that region receive equal treatment, strengthens the forces of peace in an area of vital importance.

Our policy of association with African countries has strengthened our historical links with those countries by giving them the dignity of a dialogue between equal partners. It has not injured the commercial interests of other developing countries. Between 1958 and 1969, Community imports from the associated African states increased by 6 per cent a year, whereas imports from developing countries as a whole increased by 7.1 per cent.

Member states' bilateral and multilateral financial aid and technical assistance represented an average of 1.15 per cent of the Community countries' gross national product in 1968, and in 1969 increased to 1.22 per cent.

Democratic Control

Fears that the Commission might be downgraded into a sort of Community secretariat are groundless. The Treaties clearly define the Commission's nature, powers, and role. Beyond the legal framework, a political movement is under way towards widening the roles of the Commission and the European Parliament. The Commission's functions will emerge fully as the Community pursues the objective of economic and monetary union, brings existing common policies into line with the proposed union or launches new ones, gives a fresh impetus to its research and development policy, manages its own budget, carries out the common commercial policy, or concludes the enlargement negotiations.



President Malfatti presents the new Commission's work program to the European Parliament, in Strasbourg, September 15.

The functioning of the Community's institutions will have to be improved. In collaboration with the Council and the European Parliament, the Commission should suggest ways of streamlining existing procedures. It should be possible to improve the output of the institutions and to speed up decision-making. During my official tour of Community capitals, I propose to discuss these problems, as a prelude to discussions with the Council itself.

At its June 8 meeting, the Council of Ministers said: "Economic and monetary union implies that the main economic policy decisions will be taken at Community level, and, consequently, that the necessary powers will be transferred from national to Community level." This raises the problem of democratic control. It is no longer a theoretical issue but rather a necessity.

Economic and monetary union is to be achieved step by step. Consequently, the institutions could be adjusted in phases to the requirements of a transformed Community. A proposal to increase the powers of the European Parliament will be put forward within the next two years; by the end of 1974 the proposal on the Parliament's legislative activity should come up for discussion. The Commission will promptly begin preparing these proposals. Perhaps the Parliament should re-examine the texts on direct elections, written some ten years ago.

Political Union

On political union we may comment on the timidity of the six foreign ministers' initial conclusions and we may sympathize with the disappointment felt in various political circles. Some positive elements also deserve attention. There was the will to set in motion a continuous process of consultation which should soon lead to new and more extensive results, and to a closer relationship with the Community.

The Commission is the main protagonist of the construction of the Community. Its participation in the building of a political union would improve its efficacy. The Rome Treaty gives the Commission a power of initiative in such politically essential areas as the common commercial policy, monetary policy, and the agreements which simultaneously raise economic problems and political options.

The process of economic and political unification are two sides of the same coin. Logically, there should be a certain parallelism between both aspects of the construction of Europe. As we advance, the lines of demarcation between the various sectors of activity blur. Budgetary, monetary and fiscal policies, important elements in the Community's transformation into an economic and monetary union, are political rather than economic issues. Foreign policy options will be increasingly influenced by our economic situation, since the Community is the world's largest trading power and the main importer of goods from the developing countries.

Europe is called upon to play a world role. The Commission for its part is ready to shoulder its responsibilities. Guardian of the Treaties and the motive force of integration, the Commission can accept the consequences of its two-fold task—exercising the vigilance that is needed to preserve us from the risks run by the venturesome and correcting any excess of vigilance which would lead to stagnation.

Enlargement

It is of the utmost political importance for the Community to speak with a single voice in the enlargement negotiations. Even in the opening phases, important and delicate tasks have been entrusted to the Commission. One involves the examination of a British document on the financial and other consequences of the application of the common agricultural policy to an enlarged Community. The Commission is also examining the changes in derived Community law that enlargement would make necessary. This involves a vast amount of material, including some 3,500 measures now in force.

A full appreciation of the great political importance of the negotiations should prevent us from getting bogged down, as happened in the past, in the discussion of minor issues of purely technical considerations.

Each of our countries has already made concessions or will have to make them to ensure that the work of building the Community can advance, bringing increased vitality to our countries and helping to solve problems with which it is increasingly difficult to cope in the narrow limits of a national framework. The dynamism which the existing Community has injected into our economies has profoundly changed everything; this process will be more marked in an enlarged Community.

The Brain Drain: European Headache?

THE BRAIN DRAIN, the migration of scientists to the United States from technologically less-advanced countries, has long been a favorite topic of those concerned with the so-called technology gap between Europe and the United States. Much has been said and written on the subject, but as far as the sponsors could determine, a conference held last spring was the first multinational meeting bringing together the main protagonists of the international migration of talent, those who had chosen to go abroad to pursue their professional interests.

This round table conference met at the Center for International Studies at Harvard University on April 24-25, 1970. The sponsors were the European Community Information Service, Washington, D.C.; the Center for International Affairs, Harvard University, Cambridge, Mass.; the Agnelli Foundation, Turin, Italy; *La Recherche,* Paris, France; and the *Science Journal,* London, England. The moderator of the discussion, Alessandro Silj, was Deputy Director of the Community's Information Office in Washington until joining the Ford Foundation last spring as International Division Program Officer.

Division Program Officer

In choosing the participants, an effort was made to secure a representative sampling. However, when the acceptances came in, there were, perhaps, too many physicists and too many residents of the Cambridge area in relation to the overall pattern of the brain drain. Among the 17 participants was one artist who had been invited to represent the arts and humanities, in a conclave that might otherwise have been inclined to think too highly of science and technology. The average age of the participants was 34.

Why Did They Come to the United States?

A recurrent theme in the reasons given for coming to the United States was the concept of the Atlantic as a river. "Why make an issue of being on this side or on the other?" Why not stay "where my capacities are being better used?" "If we're needed in Europe, why doesn't anyone try to get us back?"

Another participant thought the Atlantic put an ideal distance between himself and his mother-in-law, but the main reasons given for coming to the United States were of a professional nature.

Many of the participants had done graduate work here in science, or wanted to specialize in fields, such as astrophysics, in which job opportunities and research funding in Europe were either non-existent or limited at the time they emigrated. One participant said that part of his decision to come to the United States had been based on his image of America as "the promised land," and in his desire for "adventure," for "something new."

Said another: "I don't see myself living in any place in the world more than maybe ten years." Still another came "to fulfill the notion existing in Europe that you have to be in the United States for a couple of years to have a fast promotion in Germany." The same scientist admitted that he might have achieved the same professional status in Germany that he had here; but "it takes much longer. You have to wait until finally, by age not by qualification, you reach what you are after." The situation was similar in Italy, "to young persons who have just gotten their degrees, older 'professor types' never give any responsibilities, only fellowships. . . . Since no responsibilities were given, a young person could have no idea of what his real worth might be. In America, they do give you responsibilities. You either flub them or find out what you are."

Another participant put it succinctly: "Europe is wrong for institutionalizing things too early." A 35-year-old scientist added: "Maybe at an older age you might wish to get glory without winning it, but being young you want to struggle, hopefully to win. . . . Perhaps in ten years I may wish to stop doing, then I might return."

The Scientist: A Modern Nomad

The image of the scientist as a Twentieth Century intellectual and cultural nomad emerged from the reasons given for coming to the United States. His skills are internationally marketable. He goes wherever the most money and the best equipment are available in his field.

Language is a tool, not a barrier. There is nothing wrong with the international mobility of people, one participant said, "as long as it is understood that we are not 'draining' but rather communicating power from one country to another . . . contributing to the progress of science from which ultimately all countries benefit." The brain drain, in today's "information world," he continued, is a "non-zero sum in the sense that both players can win," not the "energy exchange" that it used to be considered in international relations. Once this idea is accepted, the emigré scientist or "brain drainee" cannot be considered, and does not have to consider himself, a "traitor" to his country.

On the negative side, the nomad scientist, though professionally secure, feels like a foreigner no matter where he resides. "Relatives . . . are not always bad. They often secure an emotional foundation for people who may try to evade those relationships." A Frenchman commented wistfully that one of his classmates had already become mayor of his home town in France, something that he, a foreigner, could not do in the United States. These things become important to you as you get older, he added. One scientist who had been 13 years in the United States was going back, because "life won't be the hectic, pounding-away situation that it is here now. Somehow one breathes easier over there." "That is a point which interests me," interjected the artist. "We all seem to like the position of the expatriot, which leaves us free."

Why Do You Stay?

None of the participants said he had definitely decided to stay in the United States. Many of them indicated that if given the same professional opportunities in Europe they would go back, because they had been "brought up in the European culture."

One German scientist, although not commited to staying here forever, said that many people who had gone back had told him it was "very difficult to develop the style of life you would like to live." Here, he said, "there are fewer restrictions, cultural or social. . . . I can find the things I appreciate in Europe, but I have learned to appreciate other things that I would not be able to find in Europe."

The Italian artist thought life in Europe was much more pleasant than in the United States, but that many of those who

Jaques Steininger, Massachusetts Institute of Technology (left) and Dr. Volker Mohnen, New York State University, Albany. PHOTO: *Michel Jaffrin.*

Left to right: Peter Brakman, J. F. Mitchell Foundation; Dr. Martin R. Reiser, University of Maryland; Peter Bommer, Hoffmann Laroche Lab.; Dermot Douglas-Hamilton, AVCO *Research Lab.*

stay here "renounce" those pleasures, feeling that by staying "they contribute to the betterment of the European situation more than they could in Europe, because there is no time and life is short. Here you are on a higher point of observation than you would be in Europe, even if the same opportunity were offered." "Here is where the action is, baby!" added a British, Harvard-educated scientist.

Financing Research

Discussion of funding in Europe and the United States brought out basic differences in the extent of centralized planning of scientific research. In the United States, most participants felt, it was easier to get money. There were many more sources, ranging from the National Science Foundation and the National Institutes of Health, to large companies and private foundations. However, a number of participants expressed reservations about the extent to which the military is involved in research and development in the United States.

A few participants enjoyed the freedom to seek funds anywhere in this country while others thought project elaboration and the effort to "sell" it a bother. Others pointed out that when a lot of money is available, this freedom did enhance creativity. However, "when money is tight, people have to choose between different research projects, and the lack of planning from the top sometimes puts an end to a very interesting research project on which a graduate or post-doctoral student was working." On the other hand long-term planning, as it exists in France, tends to over-regulate and to force research to fit into general plans for society."

A compromise between Europe's rigid funding structure and the United States' very flexible arrangements was thought desirable.

Is Communication Easier in America?

The ease of communication, both vertical and horizontal, was one of the things mentioned as making it easier for scientists to work in the United States than in Europe. A French scientist said that in France, many people don't publish for fear of giving away what is being done. "One of the reasons why Europe appears to be lagging in research is that scientists working there don't have the same incentive to publish as scientists here," he suggested. An Italian working in California said he had access to information and equipment even in "secret" labs.

On the other hand, so much scientific material is now being published in the United States that it is difficult to keep abreast of it by reading. This information explosion was one of the reasons cited for attending the many large conferences given here in specialized fields of science. A scientist can go, meet another scientist working in the same field or in an allied discipline, hear about what he is doing, and later remain in touch by telephone or letter. In seminars and meetings "people try to communicate, to exchange information. In France . . . you have a tendency to defend your research . . . and to defend yourself . . . from the criticism and malevolence of your fellow scientists."

Another scientist thought the ease of interdisciplinary communication in this country was "fascinating" and still practically non-existent in Europe. Working on an experiment, a scientist may discover something other than what he had expected to find. "In a few days, a few scientists (a high energy physicist, a nuclear physicist, and a couple of other guys) get together, do an experiment, and in two weeks the question is settled."

The close relationship between universities and industry was another attractive feature of doing research in America. Until lately, a German scientist said, application-oriented research was considered inferior to teaching or to pure research. Arriving in this country he discovered that his contract allowed him to set aside time for consulting work and his university encouraged him to do so. "While working in industry in Europe, I tried to establish relationships with my local university. It didn't work at all. They had money, authority, and everything I could not afford in my laboratory. Every time I gave them a subject it came back to me totally transformed, useless to both pure science and industry, a total loss." By contrast, he said, at Berkeley, General Electric used to review doctoral theses to pick out projects that interested them.

Some of the scientists present thought social communication in the United States more difficult than in Europe. "An American is much more reserved. At a party he won't talk to you about anything but stocks. Then after you get acquainted with him (it takes a year), you suddenly find out that in his home he has the most beautiful collection of Brahms. He just loves Brahms but never told you." This speaker had organized his social contacts as carefully as he had his professional contacts, joining local organizations of all kinds to have the widest possible exposure to people from among whom he will eventually select his friends, just as he would in Europe.

Is the University Structure Related to Brain Drain?

Part of the ease of communication in the field of science was attributed to the structure of the university, both physical and psychological. "Inter-disciplinary collaboration is the great strength of the American graduate school system," and the "greatest shortcoming of the European university." While different departments in European universities are often scattered about the city, American universities, even if they do not have campuses, do have faculty clubs where professors in different disciplines can get to know each other.

The flexibility of the U.S. curriculum was also greatly admired. One participant felt that in European universities professors who hold their chairs for life were sometimes tempted to teach what they felt like teaching rather than what their students would need to know.

However, several participants felt that an American Ph.D., even from the top ten or twenty schools in science, was often not as good as a European Ph.D. if under-graduate work was also done in the United States. Most participants agreed that "broader education on the under-graduate level" was needed in the United States.

Some of the participants who teach U.S. undergraduates also thought universities should be more selective in their admissions policies. If the United States could develop a technical school on the German model, giving a general education as well as training in a specific field of science, it might give some of the undergraduates who do not belong at the university a socially acceptable alternative, they suggested. At the same time, it would alleviate the chronic shortage of trained lab technicians, commented another researcher, who constantly had to face the problem of training his own.

For the aspiring European scientist, the ideal preparation was considered to be European education to the American B.A. level, followed by graduate work at an American university where the training was more specific. As for transplanting the American system to Europe, it was recognized that "changes have to come from within the European system with the help of people who go back with ideas." Cultural and social differences could not, and should not, be easily dismissed, and a simple transplant of the American system to Europe probably would not work.

Alesandro Silj (left), moderator of the "brain drain conference," with Joel de Rosnay, scientific attaché with the French Embassy.

Enlargement: The Soviet View

GEORGE SCHOPFLIN *specialist on East European affairs.*

MOSCOW'S HOSTILITY TOWARDS Western European integration and any step to strengthen "capitalistic" economies was predictable. Equally predictable, the European Community, the most successful and extensive form of integration so far, has incurred the strongest Soviet hostility.

In the early years of the European Economic Community (EEC), Soviet propaganda tended to dismiss it as an economic creation doomed to collapse under the weight of its own internal contradictions. When it did not, and the Community member states continued growing rapidly, the USSR responded with a new line of propaganda. "Discrimination" against trade with the Soviet Union, Eastern Europe, and the Third World was charged. Some weight was given to this accusation by the common agricultural policy's prejudicial impact on East European exports to the Six. However, trade in technology-intensive goods, the only products in which Soviet trade with the West has been great, has not been affected by the Common Market.

USSR's Main Fears Are Political

The Soviet Union's fears about integration in Western Europe and the Community's are first and foremost political, but the West's higher living standards have also caused the Russians some moments of embarrassment. The Communists have often acknowledged the West's higher standard of living, invariably adding that Western Europe started from a much stronger position in the first place.

Moscow considers a politically integrated Western Europe a major threat to the cohesion of its alliance system in Eastern Europe. Western Europe's economic, cultural, and political contacts have always been stronger with Eastern Europe than with the Soviet Union. Thus, political unity in the West would be regarded as an intensely disturbing factor for the loyalties of East Europeans. One reason for the Soviet invasion of Czechoslovakia in 1968 may well have been fears of closer economic links between that country and Western Europe. Close political cohesion in the West also makes the deployment of Soviet influence on world events much more difficult. Although the Soviet Union accepts the *status quo* in Europe, disruption of the Western Alliance remains a high priority.

The Soviet Union also fears that a united Europe would build its own nuclear force and that Germany would have a controlling voice in its use. Most Soviet objections to the Common Market are part and parcel of the overall East West confrontation in Europe.

Politically Oriented Propaganda

Soviet propaganda has frequently presented the Community as an economic facet of the North Atlantic Treaty Organization (NATO), while stressing differences of interest between Europe and the United States. On July 4 this year, Moscow Radio broadcast in English one of those curiously stilted discussion programs, during which considerable attention was given to the connection between the nuclear question and the Community. One participant said that at the June 30 opening of enlargement negotiations in Luxembourg, Anthony Barber, who was then chief British negotiator, "insisted primarily on expanding military cooperation within the framework of the Community," and favored "pooling the Community's nuclear effort." By a somewhat tortuous chain of reasoning, the speaker concluded "This is a plan to give the Bundeswehr access to nuclear weapons."

The Soviet Union has also commented adversely on the Community's plans for economic and monetary union. *Pravda*'s political commentator, Yuri Zhukov, warned last March that by authorizing the Werner Group to draw up plans for a monetary union, the Six were jeopardizing all-European cooperation. He thought that, on the pretext of solving technical financial problems, the Six were being forced to renounce their sovereign rights.

Membership Problems Stressed

Soviet propaganda has tried hard to dissuade the United Kingdom, Ireland, Denmark, and Norway from pursuing their applications for membership in the Community. Austria and Sweden are also warned regularly that an arrangement with the Community could violate their neutrality. (Switzerland seems to have been ignored.)

On British entry, Soviet statements play up the public's reluctance to join the Community. Sybilline warnings are issued about massive increases in the cost of living, especially food prices. Joining the Community will "prejudice Britain's vital interests" and bring with it prospects of Britain's "losing its independence."

Various commentators have also stressed the potential for dissension within an enlarged Community. As put forward on June 29 by *Tass*' London correspondent, this argument assumes that Britain wants a privileged position. Special arrangements for agricultural imports, if granted, would create unequal conditions of competition in an enlarged Community, and British entry would facilitate the penetration of U.S. capital into Europe. For these reasons, according to *Tass*, current Community members did not agree on the benefits of British entry.

Strengthening of U.S. Influence

Other commentators have dwelt on the support that British entry would afford "the representatives of extremism" in West Germany by strengthening U.S. influence which wants to "prolong the confrontation in Europe, perpetuate the Cold War and use the resources of the West European countries against the Socialist countries on the Continent." Soviet commentators seem undecided about which alternative they like least: the prospect of U.S. consolidation of its hold over Western Europe through unification or the prospect of a politically autonomous Western Europe with policies of its own, supposedly under West German domination.

Small Countries, A "Dumping Ground"

The Soviet attitude towards the membership of Scandinavian countries is substantially the same as toward British membership. The "doubtful economic value" of joining the Community is reiterated together with the dangers of being drawn closer to the "aggressive North Atlantic Bloc."

The Community's smaller member states are presented mainly as markets where larger members can dump their goods (*Izvestiya*, June 24, 1970). *Pravda* on June 3 stated that West Germany had a major political and economic interest in promoting the entry of the Scandinavian countries.

Signing of the Treaty between the Soviet Union and Germany in the Grand Kremlin Palace, Moscow, on August 12, 1970. Seated at the table (l. to r.): German Foreign Minister Walter Scheel, German Chancellor Willy Brandt, Soviet Premier Alexei N. Kosygin, and Soviet Foreign Minister Andrei Gromkyo. PHOTO: *Courtesy Novosti Press Agency.*

Finland's problem is special. It is common ground between Finland and the Soviet Union that any close institutional link between Finland and the Community would prejudice Finnish neutrality. However, reports from Moscow in July, seemed to indicate that the Soviet Union might countenance negotiations leading to a trade agreement.

Austria: "Cold Anschluss"

Austria, which has greater political freedom than does Finland to negotiate with Brussels, has been subjected to a propaganda campaign since the early Sixties, in an attempt to dissuade it from concluding an association agreement with the Six. The Soviet Union maintains that "the rulers of the Common Market seek to involve Austria in a dense network of commitments which would do away with the country's sovereignty, drastically restrict its freedom of action, and subjugate the country to the will of the six EEC states" (Moscow Radio in German, July 24, 1970). This course of action would, in fact, undermine Austria's neutrality.

Secondly, these warnings stress the political and economic perils that Austria runs by allowing itself to be taken over by West German "monopoly capital." This process eventually would undermine Austria's political independence, contradicting Article 4 of the State Treaty with Austria prohibiting union with Germany in perpetuity. The threat of what has been termed "cold Anschluss" has been a feature of Soviet propaganda on Austria and the Community.

The Soviet Alternative

As an alternative to political integration around the Community nucleus, the USSR offers pan-European cooperation within a framework such as a European security conference. This demand was raised most strongly at a meeting of the Warsaw Pact Foreign ministers in Prague on October 30-31, 1969. The concept of all-European economic cooperation, however, dates back to the beginning of the present phase of the Soviet Union's security policy, the Bucharest meeting of the Warsaw Pact Political Committee in July 1966. East-West cooperation on the pan-European plane, according to the Prague declaration, would include scientific and commercial as well as economic cooperation. As *Pravda* wrote shortly after Prague (November 13, 1969) "there is no doubt that the safeguarding of European security would make it possible to release great material and human resources and might provide the opportunity to carry out a number of major all-European projects."

Other proposals included all-European gas and oil pipelines, an integrated waterway system for the Continent, joint research in medicine (cancer research) and, climbing on to a fashionable bandwagon, the combating of pollution of Europe's rivers and seas. (The last proposal is especially interesting, in view of the total lack of concern with which Soviet planners have polluted Lake Baykal, for example.)

The Politics of All-Europeanism

Soviet and East European arguments in favor of all-European economic cooperation rest on three main grounds. First, extending the "economic discrimination" issue, the Soviet Union claims that the division of Europe into competing blocs is the result of Western policy and that only all-European cooperation can overcome the consequent obstacles to European unity.

According to the second argument, only through cooperation with Western Europe can the Warsaw Pact countries attempt to bridge the enormous and everwidening technological gap between West and East. This argument is presented as if the

Soviet Union were offering its technological resources to Western Europe to help it meet the American challenge. Soviet anxiety about the relative poverty of its technological contribution, except in a few field, is also evident in other moves, particularly the surprisingly rapid conclusion of the Soviet-West German Treaty of August 12 for the renunciation of force and the agreement for scientific cooperation on September 28. Soviet leadership must have concluded that access to West German technology could contribute more to the Soviet Union's national interests than could the propaganda value of accusing West Germany of *revanchism*.

The third strand in the argument for all-European cooperation runs: because such cooperation would not be supranational, it would safeguard the national independence of all European countries from the encroachments of "West German monopoly capital" and "American economic imperialism." Linked to these themes is the proposition that both by tradition and by geography the Soviet Union is as much as a European country as those to the west of it.

Benefits of East-West Venture

Some of these arguments were expounded by Nikolay Patolichev, the Soviet Foreign Trade Minister, in *Pravda* on June 17, 1970. His general thesis was that all Europe would benefit greatly from East-West economic cooperation; it would also underpin political security. Mr. Patolichev emphasized the value of Soviet technology for Europe, enthusiastically but with a certain underlying defensiveness.

The Soviet Union, in his view, is one of the world's greatest trading powers. Relations with the West had been growing wider and more diversified, especially with France, and this was singled out for a pat on the back. As a result of the reasonable attitudes of the French Government and French business (not "monopoly capital"), mutually profitable contacts had been increasing.

However, Mr. Patolichev thought that artificial obstacles still hindered East-West cooperation. "These obstacles are the aggressive policy of NATO, the continued ban on exporting certain "strategic" goods to Socialist states, quotas imposed by Western countries on imports from Socialist states, and the existence of exclusive economic groupings, especially the European Common Market, which has erected protectionist barriers against countries which are not its members." Of course, the real villian of the piece was "pressure from U.S. imperialist circles."

The Trade Picture

Statistics suggest that trade between the Soviet Union and the Community has not, on the whole, been hampered by political obstacles. Between 1958 and 1968, the Soviet Union increased the proportion of its trade with the Six from 5.6 to 8.4 per cent; the figures for other Comecon members are similar. With the major exception of agricultural produce, the EEC countries have pursued a relatively liberal trade policy towards Eastern Europe, and the total turnover of East European trade with the Community has grown from $1,789 billion in 1958 to $5,181 billion in 1968. The equivalent figures for Soviet trade with the Community were $493 million and $1.66 billion.

The long-term outlook for trade between the Soviet Union and the Community is not unfavorable, but the East's main difficulty in expanding their exports to the Community will lie in the limited range of industrial goods they can offer the developed industries of the West. Even if the Soviet Union's projects for pan-European cooperation never get off the ground, Soviet industrial needs will keep trade at least at its current level. Political détente, no matter how limited, would favor trade expansion.

The East's main exports are likely to continue to be primary produce and raw materials in exchange for sophisticated, technology-intensive manufactures from the West. Trade expansion will also depend on how far Soviet and East European planners modernize their production methods and make their industrial products competitive on world markets. On the whole, outlook for increased industrial efficiency and productivity have not been favorable, because economic reforms seem to entail political reforms as well.

The lesson of Czechoslovakia, where the Dubcek liberalization program grew directly out of Ota Sik's new economic model of 1967, has not been forgotten elsewhere in Eastern Europe. Economic considerations seem to point towards the abandonment of the various neo-Stalinist planning mechanisms still employed in Eastern Europe, but so far only Hungary has adopted a comprehensive program of economic reform. Hungary's lead is hardly surprising, in view of its heavy dependence on trade. The Soviet Union, on the other hand, which still sets the pace of reform and establishes the limits beyond which experimentation becomes dangerous, is self sufficient. Thus, the Soviet leadership's readiness to introduce an extended reform program may depend on assessments of current requirements for industrial goods that can be obtained only by trade. The answer should be self-evident, but the history of Soviet politics has demonstrated how easily economic rationality can be subordinated to political imperatives.

The Annunciation Cathedral of the Kremlin in Moscow. PHOTO: *Courtesy Novosti Press Agency.*

The Commission in the Court

THE LEGAL SERVICE HANDLES LITIGATION FOR THE COMMISSION

PETER GILSDORF *assistant to the director general of the Commission's Legal Service.*

THE U.S. DEPARTMENT OF JUSTICE is to the President as the Commission's Legal Service is to the Commission.

Apart from giving legal advice, representing the Commission in litigation is the Legal Service's chief function. A legal adviser, appointed through the Commission President, conducts all litigation involving the Commission. As the Commission's "attorney" he is directly responsible to the Commission for conducting the case, signing the pleading, and usually arguing the case in court. Although the attorney is given all necessary powers to conduct the case, his freedom of action is limited, as he must consider the Commission's reasons for making the contested decision and cannot deviate from the Commission's legal interpretations. The attorney does, however, decide whether or not to ask another Commission agency for technical help and whether or not to consult his superiors.

Litigation Before National Courts

Article 211 of the Common Market Treaty states: "The Community shall in each of the member states possess the most extensive legal capacity accorded to legal persons under their respective municipal law; it may, in particular, acquire or transfer movable and immovable property and may sue and be sued in its own name. For this purpose, the Community shall be represented by the Commission." Thus, the six national courts as well as the European Communities Court of Justice can hear law suits involving the Commission.

The Commission has already appeared before national courts as an ordinary party in cases concerning property rights, labor legislation, and copyright. There was, for instance, a dispute over the use of the title "European Community" by private publications. Other typical cases are claims by the Commission against a third party for damages sustained by a Community official in the line of duty and for which the Commission has to bear the costs. The former High Authority[1] of the European Coal and Steel Community (ECSC) had to conduct numerous cases against debtors who did not pay their contributions under the scrap-metal price equalization agreement.[2] Some of these cases still have not been concluded.

Litigation Before the Communities Court

The Legal Service spends most of its time in court in Luxembourg before the European Communities Court of Justice. Both the number of cases (now more than 650) and the importance of their subject matter make them the Legal Service's main court activity. In cases before the High Court, the Commission can be the plaintiff, the defendant, or a legal expert offering opinions on questions involving the interpretation of the Treaties.

• **The Commission as plaintiff.** The Treaties empower the Commission to sue member states or the Council of Ministers. This year, the Commission brought its first action against the Council, about institutional jurisdictions in international road transport negotiations. *(See European Community No. 136, page 17.)*

By the end of April 1970, the Commission had filed 26 cases against member states for violating the Treaty or failing to fulfil their obligations. Such litigation is the last stage of a protracted dispute between a member state and the Commission. This action against infringements of the Treaty exemplifies in its most concrete form the duty of the Commission as "guardian" of the Treaty. While the number of such cases reaching the Court may, at first, seem small, they are merely the tip of the iceberg involving several hundreds of cases. The small number of cases brought to the Court cannot be ascribed to the Commission's reluctance to sue, but rather to the success of preliminary procedure specified by the Treaty: negotiations to settle disputes between member states and the Commission. Disputes reach the Court only after all other means, both legal and political, fail.

When negotiations fail the member state is not necessarily guilty of unfriendly conduct towards the Community. Disputes often arise from genuine difficulties interpreting the law which can only be clarified by the Court of Justice. For this reason, the Commission has used its power under Article 169 to ask the Court to decide questions of precedent and to clarify points of law. Most cases of violating the Treaty have involved the free circulation of goods among the member states.

• **Commission as defendant.** The Commission can be brought before the Court of Justice as a defendant by member states, companies, and to a lesser extent, individuals. By May 1, 1970, member countries had brought 34 cases against the Commission in the High Court.

The Paris Treaty creating the European Coal and Steel Community (ECSC) empowered the High Authority (now the Commission) to make legally binding decisions which the member state may challenge as being an infringement of Treaty rights. The Common Market Treaty reversed the roles of plaintiff and defendant. As a result, the Commission can act both as plaintiff and (in its capacity as successor body to the High Authority) defendant in the same case. This situation arose in the dispute between the Commission and the French Government after France enacted fiscal measures to counter its balance-of-payments crisis in 1968.

In many cases, the Commission has refused, or has given only a limited authorization to safeguard or support measures requested by member states in exception to the normal rules of the Treaty. Last year, for instance, Germany complained because of the Commission's refusal to allow Germany to impose a compensatory export tax on farm products after letting the German mark float. As in cases of Treaty violations, here too the Commission was trying to protect the rights of the Community against infringements by member states.

Although the member states have rarely challenged Community regulations, this legal procedure remains meaningful with all the characteristics of a constitutional litigation.

[1] *The High Authority, the Common Market Commission, and the Commission of the European Atomic Energy Commission were merged into the Commission of the European Communities in July 1967.*

[2] *In March 1954, the Community members, mainly Italy, had to import 2.7 per cent of their scrap metal requirements at world prices which were higher than Community prices. Instead of letting the main importers of scrap metal operate under unequal competitive conditions, the Community members agreed to divide the extra import costs among all consumers of scrap metal who were to pay a percentage or premium into the Equalization Fund.*

The new Commission takes the oath of office before the Court of Justice at Luxembourg, July 10, 1970. President Malfatti is at the microphones.

Companies, Main Plaintiff Against Commission

Most of the cases against Community institutions handled by the Legal Service have been directed at the Commission and brought by private individuals, mainly companies. These cases (319 by May 1, 1970) have involved claims of damages, questions of jurisdiction, and challenges of the validity of judgments. Because decisions and rulings by the ECSC High Authority directly affected many individual firms, its activities led to many disputes. Companies often challenge Commission decisions under the Community's rules of competition. The number of these cases has risen sharply recently as the Commission increased its activities in this field. Articles 173 and 175 of the Common Market Treaty limit an individual's opportunities to sue the Commission before the Community Court of Justice in other fields: the appeal must normally be lodged within two months, and the decision appealed must directly involve the plaintiff.

Regulations, decisions, recommendations, and other legal acts by Community institutions rarely concern the citizen "directly and individually." Therefore, cases by individuals disputing such matters as Commission rulings on agricultural policy, have generally failed on the grounds that they were outside the Court's jurisdiction.

The Commission's Legal Service also handles disputes between the Community institutions and its employees. By May 1, 1970, there had been 190 such cases, a relatively high figure that reflects the difficulties of building up multinational administration. These cases have resolved important questions of principle in the law of litigation and in administrative law. Some of these judgments have become landmark decisions in the growing body of common principles of national juridisprudence.

Interpreting the Treaties

The Commission may take part in cases heard by the Community Court of Justice without being either plaintiff or defendant. The most important instance of this role occurs when a national court, before deciding a case involving a principle of Community law, asks the Court for a preliminary ruling on the interpretation of the Treaty or on the validity and interpretation of acts of Community institutions. More than 80 cases of this kind have been submitted.

National courts are responsible for Community law in all cases that the Treaties do not expressly put under the jurisdiction of the Community Court of Justice. National courts, for instance, are reponsible for protecting the individual against illegal acts of the Community, an area in which the Community Court of Justice has limited powers. An individual challenging national measures executing Community legislation can appeal to the Community Court, the court of last instance. The Court's decision is binding, thus assuring the uniform application of Community law within the six national court systems.

A preliminary, or "prejudicial," ruling on the Treaty's interpretation is not litigation but rather a procedure for collaboration between national and Community jurisdictions. Such a hearing could be held without the participation of the parties which originated it. The Court's constitution, however, stipulates that not only those who are parties to the dispute before the national court but also the member states, the Council of Ministers, and the Commission may give legal opinions. Member states have rarely, and the Council never, used this right. The Commission, on the other hand, has always felt duty-bound to bring its views on important questions of interpretation of Community legislation to the Court, thus indirectly influencing national jurisdiction.

Preliminary rulings have been given on such questions as the jurisdiction on self-executing decisions which apply directly without the introduction of laws by the national legislatures or regulations by the Commission. They have also been given on the precedence of Community law over subsequently adopted national legislation, legislation on cartels and patents, the Common Market Treaty's highly complicated tax regulations and regulations affecting the social security of migrant wrokers.

Technically, the Community Court's rulings on interpretation are legally binding only on the national courts which appeal to it, but in practice they are effective for all national and Community authorities, as a result of the Court's eminent status. The Court's decisions complement Community legislation and are of profound importance, not only for ensuring uniformity in this legislation but also for its future development.

Economic and Monetary Union by the

THE COMMON MARKET has released a plan for full economic and monetary union, possibly including a common currency, by the end of the Seventies.

The Council of Ministers of the European Communities, meeting in Luxembourg on October 19, made public the text of the Plan known as the "Werner Report" after Luxembourg Prime Minister Pierre Werner, chairman of the committee that prepared it. The report urges that the first stage of the plan begin on January 1, 1971.

The Imperative for Monetary Union

The Common Market Treaty provides for economic, but not monetary union. The need for revision to include monetary union, beyond the current provisions for "mutual monetary assistance," has become apparent from recent monetary crises resulting from the uncontrolled spread of inflation.

In trying to dampen inflation the Six found that measures applied by one member quickly affected all. Limited interdependence served to decrease the autonomy of national economic policy makers without substituting effective economic and monetary policy coordination at the Community level. Quantitative targets for the main national economic indicators, jointly decided upon and synchronized for the whole Community, were vital for this coordination.

The currency crises of 1968 helped convince the Six that differences in their growth policies could jeopardize all by shaking common policies, especially those for trade, agriculture, and capital movements. In addition, if sharp differences in their growth rates persisted, monetary upheavals could occur at any time.

On February 12, 1969, the Commission, the Community's policy initiator, sent to the Council of Ministers a memorandum pointing out that, to preserve the Community's achievements, the Six would have to complete their economic union and add monetary union to the goals set forth in the Treaty.

Prepared under the direction of Commission Vice President Raymond Barre, the memorandum contained a recommended course of action:

- coordination of the member countries' medium-term economic policies
- coordination of their short-term economic policies
- creation of machinery for short- and medium-term monetary aid to a member country in balance-of-payments difficulties.

Plan Requested at The Hague Summit Conference

The plan for achieving a full economic and monetary union and monetary union in stages, as the Commission had advised in its memorandum, was formally requested last December in The Hague at the summit meeting of the Community members' heads of state or government. In the communiqué issued after the meeting, the Six:

> ". . . reaffirmed their readiness to further the more rapid progress of the later development needed to strengthen the Community and promote its development into an economic union. They are of the opinion that integration process should result in a Community of stability and growth. To this end they agreed that . . . a plan in stages should be worked out during 1970 with a view to the creation of an economic and monetary union. The development of monetary cooperation should depend on the harmonization of economic policies." They ". . . agreed to arrange for the investigation of the possibility of setting up a European reserve fund in which a joint economic and monetary policy would have to result."

These words marked the member governments' political acceptance of the Commission's recommendations.

The Werner Report

In its report the Werner Committee outlined the ultimate goals to be achieved by movement toward economic and monetary

Luxembourg Prime Minister and Finance Minister Pierre Werner, chairman of the Committee that prepared the plan for full economic and monetary union for the Six.

union, but it set no precise timetable for their achievements. Specific guidelines were proposed for the first trial stage beginning in January, 1971, and extending for three years. A review at the end of the trial period would assess progress and determine a timetable for the future stages.

Movement toward economic and monetary union, in the opinion of the Committee, would serve as a catalyst for the development of political union. The transfer of responsibilities from the national to the Community level and the creation of corresponding Community institutions would "represent a process of basic political significance which entails steady growth in political cooperation," the Committee said. Final union should "ensure the Community's internal growth and stability and, by making the Community a center of stability, enhance its contribution to world economic and monetary stability," it added.

Economic and monetary union would have the following goals: the full and permanent convertibility of currencies; the elimination of margins of fluctuation among Community exchange rates, with permanently fixed relations to parity; complete freedom of capital movements, and the establishment, in the last stage, of a center of decision for economic policy and of a Community system of central banks. Optimally, a single currency would also be adopted. The institution determining centralized economic policy for the Community would have the power to make its decisions binding and would be politically responsible to a European parliament with full parliamentary powers.

Guidelines for the Trial Period

The first stage of development toward union envisions a greater degree of consultation and cooperation in economic and monetary policy planning, expansion of the functions performed by the Council of Ministers, the Commission, and the Committee of Bank Governors, and revisions of the Common Market Treaty to permit full economic and monetary union.

Obligatory consultations would be held among member countries before any action is taken in medium-term economic policy, or in growth, budgetary, and monetary policy. Arrangement for the rapid convening of high level representatives of government and of the central banks, and procedures for consultation between the Commission and representatives of organized management and labor would also be established.

The Council of Ministers would meet at least three times a year to set general guidelines for economic policy at the Community level and quantitative guidelines for the main items in member countries' public budgets. The Council would also present to the European Parliament and the Economic and Social Committee an annual fall report on the Community's economic situation.

The report forecasts for the Committee of Central Bank Governors an increasingly more important role in coordinating monetary and credit policy. The Committee would be able to address opinions and recommendations to member countries and to the central banks, and opinions to the Council and the Commission. During this trial period, central banks would be invited to keep exchange rate fluctuations among themselves within narrower margins than those for the dollar. Fluctuations would gradually be further narrowed in later periods. An

Possibly a common currency by the end of the 1970's. . . .

"agent" would meanwhile keep statistics and give out information and opinions to facilitate exchange rate activities.

In the fiscal field, the value-added tax rate, taxes on capital movements, and corporate taxes would begin to be harmonized. Capital market integration would be intensified.

At the end of the trial period, the Council of Ministers would assess progress and determine a timetable for subsequent steps toward monetary and economic union, to be completed by 1978 or 1980. An intergovernmental conference would adopt Treaty revisions to permit monetary union.

During a second stage, the activities undertaken during the first would be continued on a number of fronts and in more exacting forms: setting global economic guidelines; coordinating growth policies through monetary and credit policy and budgetary and fiscal policy; adopting Community structural policies; integrating capital markets, and progressively eliminating fluctuations in the rates of exchange between the member countries' currencies.

Quick Action Urged

The Werner Committee has urged adoption of this policy before the end of this year, so that the first stage of the plan for economic and monetary union could begin on January 1, 1971.

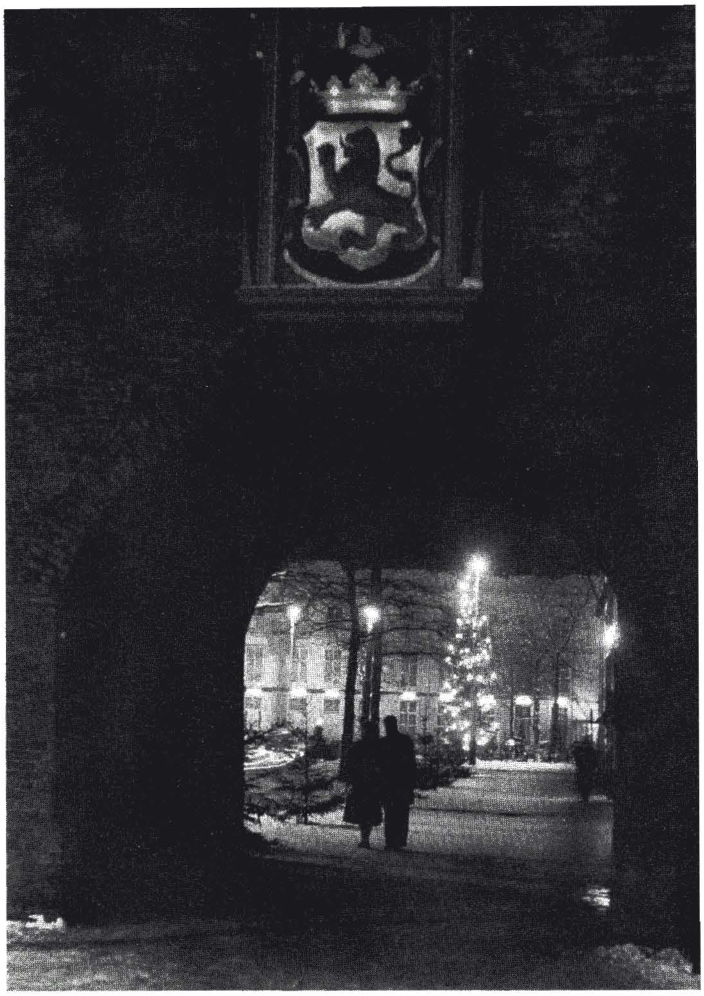
By defining an "acceptable" rate of inflation in numerical terms, enactment of the Medium-Term Economic Policy Program would clear the way for agreement on arrangements for medium-term monetary support, complementing the short-term arrangements activated in February. These monetary aid systems would disappear once the Six had achieved full monetary and economic union.

If the Werner Committee's suggestions are followed, monetary and wider economic powers will be transferred to the Community, and the Six will have a "European Reserve Fund," operating in much the same way as the U.S. Federal Reserve System. If they do not have one currency, the solution favored by the Werner Committee for practical as well as psychological reasons, the relationships between their currencies will at least be fixed.

After a favorable response to a preliminary report from the Werner Committee last June, the Council of Ministers now must decide if it will follow through with a favorable decision.

Europe's Holiday Season

Holland is known as the land of St. Nicholas, paying tribute to the "Old Bishop" and his servant Black Peter on December 5 with parties and presents. Christmas day is celebrated more like Thanksgiving in America—as a time for feasting but not for parties or presents. PHOTO: *The Netherlands Information Service.* →



Grand Place Brussels. In Belgium the holiday season starts with the feast of St. Nicholas, patron saint of children, on December 6, and lasts through Christmas to New Year's. Belgian children write annual letters to St. Nicholas and leave carrots and bread in the chimney corner for his donkey.

Paris City Hall. Christmas in France is essentially a time of family dinners—oysters, paté, roast goose or turkey, bombe glacé and fine wines. PHOTO: *Courtesy French Embassy Press Service, N.Y.*

On New Year's day in Luxembourg, parents and relatives customarily give children gifts of money. Decorated shopwindows and illuminated streets are seen everywhere during the holiday season.

Once a year the police in Germany are given presents by grateful drivers. In the last days before Christmas, bottles and tobacco are piled at the traffic policeman's feet.

PHOTO: *Courtesy German Information Center.*

In Rome on New Year's eve, they literally throw out the old. Plates, crockery, bottles, anything breakable is tossed out into the street to bid farewell to the old year. PHOTO: *Courtesy Agenzia Italia.*

The Six at the Bank and Fund

IMF-WORLD BANK MEETING FOCUSES ON FLEXIBILITY, INFLATION

INFLATION WAS SINGLED OUT by the Common Market governments as the major problem facing the international monetary system at the joint annual meeting of the International Monetary Fund (IMF) and the World Bank in Copenhagen, September 21-26. Discussion centered on the desirability of increasing the flexibility of the exchange rate system, an assessment of the success of special drawing rights (SDR's), and the increasing need among the developing countries for financial aid. SDR's, the new "paper gold" that has taken its place beside the dollar and gold as a reserve currency, were activated earlier this year to increase world liquidity.

The Common Market governments expressed their commitment to reduced exchange rate fluctuations among themselves as a step toward economic and monetary union, while holding open for further study the question of greater flexibility within the international monetary system as a whole. Movement of Common Market currencies in greater unison in a wider band against the dollar might, it is thought, reduce the risk of importing inflation from abroad.

Because currencies other than gold are pegged to the U.S. dollar, variations in the dollar's real value, as reflected in the demand for dollars on the forward exchange market, are immediately transmitted under a system of fixed exchange rates to other currencies, including those of the Common Market. A wider band would permit Community currencies to vary more than the current 1 per cent from par value, thus insulating them from dollar variations caused by U.S. inflation or by the creation of surplus dollars to finance U.S. deficits.

The international monetary system established at Bretton Woods 25 years ago has passed from last year's crisis of short-term capital movements to the threat of continued inflationary trends. Mario Ferrari-Aggradi, the Italian Minister of the Treasury, attributed this development to the parity changes which set the main European currencies "at more realistic parity levels," the new and important measures of international cooperation, such as activation of special drawing rights, the expected quota increase of the International Monetary Fund, and the agreement with South Africa for the sale of newly mined gold. He said that the IMF countries were now "fighting the inflationary pressures which since 1969 have been spreading in all the industrial countries."

The Dangers of Inflationary Spread

Karl Schiller, German Federal Minister for Economic Affairs, stressed the dangers of inflation in his statement at the joint annual assembly. Inflation, he said, tends to create maladjustments in the economic structure, making a general breakdown possible. It is socially unjust, causing "an undesired redistribution of real wealth from the weaker to the stronger part of our populations." Inflation feeds upon itself: "incomes are expected to grow at an ever-increasing pace, savings decrease, debts are incurred more readily, price increases are demanded and accepted more easily." Mr. Schiller also emphasized the problem of discovering acceptable anti-inflationary policies and pointed to the effect of current trends upon the developing states: "Capital markets are not able to cover the needs of both the industrial and the developing countries. . . . Our challenge is to fight against world inflation . . .without hampering progress in free trade and convertibility of currencies."

Managing Director of the Fund Pierre-Paul Schweitzer traced the source of current international monetary difficulties more directly to the U.S. balance-of-payments deficit. To finance the large deficit there was a sizable expansion of U.S. dollar reserves in the first half of 1970, he said. "A sustained improvement in the U.S. balance of payments" is of major importance, he stated, adding: "Until the payments position of the United States is brought into balance, it is important that the deficit should be financed by the use of U.S. reserve assets to the extent necessary to avoid an excessive expansion of official holdings of dollars by other countries."

Giscard d'Estaing, French Minister of Economy and Finance, "unreservedly supported the opinion of the Managing Director of the IMF that the restoration of the U.S. payments position is the most urgent task still to be accomplished in the sphere of international payments." "The more important the country is, the more appreciable are the effects of its monetary situation on the international community. Nations whose currency is widely used in the world thereby have increased responsibilities," he said.

The Need for Reform

In the words of H. J. Witteveen, Minister of Finance for the Netherlands, the Bretton Woods system has worked well in view of its initial purpose: "to combine as much as possible stability in exchange rates with essential freedom for internal policies." It has prevented competitive devaluations similar to those which plagued the interwar period, while permitting necessary and orderly devaluations according to the concept of fundamental disequilibrium, requiring exchange rate adjustment.

However, said Mr. Witteveen, "We now live in a different world . . . ," troubled by deflation rather than inflation. Some countries have managed to fight inflation despite "enormous inflationary pressure because exchange rates were kept stable too long." Revaluations have come about "infrequently and after long delay." The use of appropriate upward parity adjustments to protect internal equilibrium against world inflation now calls for much more attention," he suggested.

The Case for Greater Flexibility

Greater flexibility of exchange rates has been suggested as one means of bringing about more timely adjustments of the exchange rate without imposing excessive trade restrictions or risking inflation to maintain external balance.

As a focus for the discussion of changes in the international monetary system to meet the threat of inflation, the Executive Directors of the IMF submitted a report to the annual meeting on the role of exchange rates in the adjustment process. Under the current monetary system, recurrent or progressive deficit or surplus in a country's balance of payments may be corrected by a shift in the exchange rate for its currency only if the imbalance reflects a situation of fundamental disequilibrium that will not correct itself. For all other purposes, the exchange rate will be fixed.

The report of the Executive Directors offered a study of alternative solutions for increasing exchange rate flexibility under the "crawling peg", "wider band", or "floating exchange rate" proposals. The basic principles of fixed exchange rates would remain, but greater leeway would be permitted within the system for variations from the pegged value or for shifting the pegged exchange rate closer to its real par value.

The crawling peg would permit gradual parity adjustments of up to 2 per cent a year in the real par value of the currency, as measured on the forward exchange market. The wider band would permit exchange rates to vary 2-3 per cent above or below parity, rather than the current 1 per cent band. Some countries want a band as wide as 5 per cent on either side of parity, for a total margin of 10 per cent as compared to the U.S. dollar. Temporary floating exchange rates, as used successfully by both Canada and Germany in the past, would permit a currency to float to its real level according to market demand and supply.

The United States has sought greater rate flexibility than now exists, although U.S. Secretary of the Treasury David Kennedy stated: "I do not believe the techniques of limited exchange flexibility can provide any kind of a substitute for effective policies on our part to deal with our inflation and balance of payments. As in the past, the dollar must be strong and stable to play a key role in the monetary system, alongside gold and, now SDR's."

The Common Market and Flexibility

The Common Market governments (France, Italy, Belgium, and the Netherlands) that expressed opinions on flexibility at the IMF meeting were careful to add that a common European Community position had yet to be agreed upon. Mr. Schiller stated that more prompt adjustments should be encouraged in a disequilibrium situation. The German Government has not yet taken a position on the flexibility proposals.

The statement of Baron Snoy et d'Oppuers, Belgian Minister of Finance, was typical: "The attitude of the EC countries toward flexibility in the international monetary system will . . . be largely influenced by the system they are going to establish among themselves. Any flexibility could only exist outside this system, and, furthermore, their position in response to any external flexibility will necessarily be a common one. At all events, the technical adjustment required for the reinforcement of stability within the EC must be put into effect before any greater external flexibility can be envisaged." The Common Market governments have agreed to reduce the parity band fluctuations among themselves to .75 per cent above or below par. The existing band of 1 per cent relative to the par value of the dollar permits a total possible variation of 4 per cent between Community currencies. The eventual goal of economic and monetary union would require no fluctuation at all.

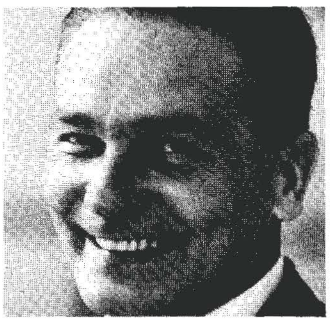
With regard to the IMF system as a whole, Mr. Ferrari-Aggradi favored flexibility, noting: "The introduction of a moderate degree of flexibility could produce a number of advantages for the system" including prompter parity changes to [avoid the protraction and the worsening of the imbalance]. A widening of the margins would "facilitate the conduct of monetary policy as well as the absorption of the impact caused by short-term capital movements which would otherwise fall entirely on reserves." The incentive to speculate would be lessened. It would be "easier to pass to another parity or to defend the existing one."

Mr. Giscard d'Estaing stated that he remained unconvinced

Headquarters of the International Monetary Fund (IMF) *Washington, D.C.* PHOTO: *Courtesy the* IMF.

Valéry Giscard d'Estaing, French Minister of Finance. PHOTO: *Courtesy French Embassy Press Division, N.Y.*

Karl Schiller, German Minister for Economic Affairs. PHOTO: *Courtesy German Information Center.*



Mario Ferrari-Aggradi, Italian Minister of the Treasury. PHOTO: *Courtesy Italian Cultural Institute.*

H. J. Witteveen, Dutch Minister of Finance. PHOTO: *Courtesy the Netherlands Information Service.*

by the arguments for greater flexibilty as a counter to inflationary spread, contending that this would transfer the burden of adjustment from disequilibrium countries to countries with stable currencies, causing them to revalue. If the proposed reforms were accepted, he said, they could "aggravate discrimination between the different currencies. One cannot imagine some of them being regarded as sacrosanct while others, of their very nature, would remain tainted with the original sin of an adjustable par value." He said that small but frequent changes of exchange parities according to the crawling peg proposal would also add uncertainty to the difficulties of the development countries. If permitted to be carried out without IMF control, they would undermine the principle of fundamental disequilibrium and risk a return to competitive devaluations.

France is more receptive to the wider band proposal, if moderate and if introduced only after progress toward greater monetary and economic union within the Common Market has taken place. Mr. d'Estaing summed up: "Minimum flexibility and maximum stability."

Special Drawing Rights

Opinions of the Common Market countries about the success of the new SDR's varied, as did their desire to link the future creation of SDR's to the need of the developing countries for financial aid.

Mr. d'Estaing stated: "The implementation of the special drawing rights is, to our mind, an interesting improvement to the mechanisms for creating international liquidity. It should be used without allowing stimulating to take precedence over stability. A realistic evaluation should therefore be worked out of the medium-term needs of the world economy for liquidity, and should be compared annually with the concrete evolution of the deficits of reserve currency countries."

According to Mr. Schiller: "The special drawing rights have successfully stood their first test . . . , but the development of some balances of payments did not completely correspond to the lines we assumed when activating the SDR's. . . . I do not consider it advisable to burden the new instrument with additional functions it was not designed for. SDR's cannot be a medium to finance capital aid."

The Netherlands and Belgium agreed with Germany's position on the relation of liquidity creation and development aid, but Italy differed. Mr. Ferrari-Aggradi stated: "The fact that the SDR's have been used by practically all countries, both industrial and emerging, with full respect for the rules of the game induces us to be optimistic about the future role which SDR's will play in the system. If at the end of the first basic period this tendency were confirmed, consideration could be given to proceeding to a second phase in which the unconditional character of SDR's could be accentuated by reducing, or even eliminating, the obligation of reconstitution and by increasing permissible uses."

Development Aid

Commenting on the economic progress of the developing nations, Mr. Schiller noted that "the per capita rate of growth of developing countries has matched growth in industrial countries as a group." The terms of trade of the developing countries have considerably improved over the past year, he said. Capital, however, has become scarce. To facilitate the flow of funds to the developing countries, Mr. Schiller suggested that "more should be done to mobilize the growing potential of private capital for promoting economic growth" and that "more attention [should be paid] to proposals advocating an international agreement for the protection of foreign investments."

Mr. Ferrari-Aggradi stated: "Convinced as we are of the opportunity of transferring multilaterally an ever increasing share of resources to the emerging countries, we fully supported the proposal for an increase in the quotas and in the capital of the Bank."

Mr. Giscard d'Estaing commented that "proposals such as the one advocating that inequalities in bilateral aid efforts be corrected through multilateral aid" threatened to divert attention from the essential question of increasing the global volume of aid. He supported the African and Malagasy suggestions aimed at the stabilization of prices for primary products.

Mr. Witteveen welcomed the fact that "the Executive Directors are paying careful attention to the recommendations concerning this subject addressed to the Bank Group in the Pearson report", particularly regarding the use of export credits. He favored untying aid to developing countries.

Finally, Baron Snoy et d'Oppuers noted that "the Bank Group proposed to increase its support to lending institutions or development banks. . . . Since these establishments supply the funds to productive private enterprises, they act as a highly fruitful multiplier. I feel that the increased assistance of the Bank Group to these institutions should be encouraged."

Direct Elections

POPULAR ELECTIONS TO EUROPEAN PARLIAMENT COULD SPREAD "EUROPEAN" IDEAL

ENID LAKEMAN

The heads of state or government of the European Community countries, meeting in The Hague last December, decided to increase the European Parliament's budgetary powers and to study the method for "direct elections" of its members. In this article, Mr. Lakeman, Director of the Electoral Reform Society of Great Britain and Ireland, discusses some of the pro's and con's of various systems for these elections.

Direct elections appeared on the agenda of the Council of Minister's meeting in Brussels on September 29 when the Council President reported on a meeting with on June 26 with a delegation from the European Parliament. The Council decided to "maintain regular contact with the President of the European Parliament" to exchange views on studies being made by both institutions.

Herbert Kriedemann,
German-Socialist.

Giorgio Amendola,
Italian-Independent (Communist).

Raymond Triboulet,
French-European Democratic Union.

Hans Furler,
German-Christian Democrat.

THE METHOD SELECTED for electing members of the European Parliament will greatly influence its development and should be chosen only after deciding upon the purposes of the elections and considering every possible system for achieving them.

Direct elections are pointless unless they give the electors a direct influence on the composition of their parliament, a wide choice, and an assurance that the choice they express will be effective. Electors and members of the European Parliament should be encouraged to think "European," thus minimizing, rather than exaggerating, differences between member states. The future Europe-wide party structure cannot be planned; it must evolve.

Single-member constituencies on the British or American models would meet none of those requirements. Both systems limit the voter's choice to two or three candidates, each selected for him by a party. If the elector votes for one of the national parties, he cannot express his opinion about a European matter which may cut across party lines. Moreover, his limited choice is as likely as not to have no effect on the result. In any British general election or American presidential election, nearly half of those who vote elect nobody, and many voters are in that position in every election. Any system giving representation only to the largest group exaggerates differences.

Continental System More Representative

There must therefore be representation, not only of the largest group but also of substantial minorities in each locality. The proportional systems common in Continental Europe do represent these minorities within the established parties and do give the great majority of the voters a real voice in electing a representative. However, the elector does have to vote for one of several defined parties.

At the beginning of a Europe-wide political system these parties will almost inevitably be the national parties, which are not necessarily relevant to European affairs. There may be some choice of candidates within a party but this scope is small compared with what exists under the other form of proportional representation.

The Single Transferable Vote Form

The single transferable vote, a form used extensively in the Republic of Ireland, is far more suitable for a new and developing organization, for it entails no presumptions about parties. The elector chooses freely from among all individuals seeking his vote and can make his choice on any lines he pleases, party or other.

As in any proportional system, several representatives must be elected together, each by a quota of the votes. A voter numbers candidates in the order of his preference, thus instructing the returning officer to give the vote to the candidate marked 1, but, if it cannot help to elect him (because he has the quota without it, or because he has no hope of election), to give it instead to the candidate that the voter has marked 2; if it cannot help him either, to the candidate marked 3, and so on. If one quota of voters vote first for all the candidates of some particular kind, their votes will accumulate on the one most popular candidate of that kind, thus electing him. It does not matter whether those candidates form an organized party.

National to European Bias

In the single transferable vote form, a party normally runs more than one candidate in a constituency. Thus nobody can support the party without deciding which of its candidates to put first, and the voter is invited to take account of shades of opinion on European matters, or personal merits. Moreover, a voter who numbers all the candidates of his own party can do it no harm by going on to other candidates; he is encouraged to notice that similar views on certain points exist in other parties. This makes it easy for a party structure beginning on national lines to evolve along others, and leaves the way open for unlimited developments such as candidates of different nationalities in the same constituency.

The single transferable vote is new to all Continental European countries, but European elections are new too. Novelty should be no bar to choosing the most suitable system.

An offshore drilling platform for use in the Bay of Biscay. PHOTO: *Courtesy Standard Oil Co. (N.J.).*

Common Market's Continental Shelf

OIL DRILLING and other continental shelf activities pursued by member countries are subject to Common Market regulations, according to the European Communities Commission. The exercise by member states of their sovereign rights to explore, exploit, extract, and consume goods on the shelf and also to freedom of establishment are considered subject to the Common Market Treaty.

In a memorandum to the Council of Ministers on September 10, the Commission formally confirmed these views. It based its reasoning primarily upon the 1958 Geneva Convention on the Continental Shelf and the current practice of member states and concluded that the areas over which member states claim sovereign rights determine the geographical extent of the Common Market Treaty's application.

The Geneva Convention

The United States was the first government to lay claim to portions of the continental shelf. On September 28, 1945, President Harry S Truman declared that the United States would consider the resources of the shelf adjacent to its territory subject to its jurisdiction and control. Other maritime states followed, some adopting the American position, while others limited their jurisdiction to that part of the shelf lying within their territorial waters.

The essential question became one of defining the geographic extent of state sovereignty over the shelf. To resolve this and other maritime problems, a conference was convened in Geneva under United Nations auspices. The work of this conference ended with the drawing up, on April 29, 1958, of four conventions dealing with the law of the sea. The one on the continental shelf came into force on June 10, 1964, after ratification by 22 states.

Flexible Definition

The Convention on the continental shelf recognized that the coastal state exercises sovereign rights over the continental shelf for the purpose of exploring and exploiting its natural resources but gave the shelf no precise geographical limit. The shelf was vaguely defined as the seabed and subsoil of the submarine areas extending from the boundary of the state's territorial waters (as defined by the state) to the point where the seabed lies 200 meters below the surface, or alternatively to whatever depth it is physically possible for exploitation.

As a result, the sovereign territory of a state can increase as technology permits exploration of the ocean floor at ever greater depths. Finally, to protect the interests of a state that has not exercised its rights, those areas of the shelf not yet explored, but physically capable of exploration, were considered to remain subject to jurisdiction of the adjacent state.

Current Interpretation and Practice

In the opinion of the International Court of Justice (February 20, 1969) the continental shelf constitutes a natural extension of a state's territory under the sea. Sovereign rights over the shelf exist *ipso facto,* therefore, and independently of any specific exercise of those rights. Each of the maritime Common Market members proceeded to enact legislation in accordance with these interpretations of their rights, aimed at the exploration of the seabed and the exploitation of its natural resources.

The Common Market's Commission has consistently viewed these activities as subject to the Common Market Treaty and to Community rules. These would include previous Council directives requiring freedom of establishment and freedom to furnish services for non-salaried activities in the extractive and oil and natural gas-drilling industries (the major activities currently underway on the shelf), and the common fisheries policy when it comes into effect (*see page 24*).

In accordance with this interpretation, the Council ruled on June 28, 1968, that products extracted from the soil or subsoil situated outside the territorial water, in pursuit of a member state's exclusive claim to sovereignty in the area, would be considered products of internal origin. By the same reasoning the Commission, in its decision of October 16, 1969, relating to aid granted to the German oil industry, stated that the directives excluding Community investment projects from subsidies also apply to these portions of the shelf.

Reference to the Common Market Treaty

To clarify the legality of these acts, the Commission refers to the Common Market Treaty. The Treaty stipulates that any exercise of sovereign power on the part of a member state must be subject to the Treaty wherever it directly affects the exercise of economic activity covered by the Treaty. This stipulation applies to the entire territorial area within which the state exercises sovereignty. If the member states claim sovereignty over areas beyond their territorial waters, therefore, the Treaty becomes applicable to their control in these areas, and former acts of the Community apply to the claimed portions of the continental shelf, unless exceptions are granted.

The Commission's reasoning is clear. The fact that the Netherlands and France are the only two members of the Common Market who have ratified the 1958 Geneva Convention on the Continental Shelf—and that France has done so with lengthy reservations—appears to have limited relevance to the reality of current activities on the shelf. Although the geographic extent of a state's portion of the shelf may in the future be contested, the existence of shelf activities undertaken by member states, whether contested or not, brings them under the jurisdiction of Community regulations.

COMMUNITY NEWS

SIX EXPRESS CONCERN OVER U.S. TRADE BILL: DAHRENDORF IN WASHINGTON FOR TALKS

Shoes and textiles have become the subject of a "substantial difference of opinion" between the European Common Market and the United States, reflecting conflicting economic interests that many warn may lead to a trade war.

The Council of Ministers of the Common Market formally notified the United States on October 27 of its deep concern about protectionist aspects of the trade bill before Congress, which would place quotas on shoes and textile imports and could lead to quotas being placed on a number of other products.

The declaration delivered to Ambassador J. Robert Schaetzel, head of the U.S. Mission to the European Communities, was approved by the Council of Ministers following a report by Mr. Ralf Dahrendorf, member of the Commission responsible for trade and external affairs. Mr. Dahrendorf had returned from a round of talks on October 15 and 16 with U.S. Administration officials on trade issues affecting the United States and the Common Market.

The Council expressed its fear that the U.S. trade bill might lead to cumulative mutual trade restrictions contrary to the principles of free trade, and that it would hurt efforts to help developing nations increase their export revenues. While the Council said that the Community was prepared to take any necessary measures to safeguard Community interests, it also offered to make further efforts towards a constructive solution to world textile problems. It hoped that the United States would take the Community's expression of concern into consideration when it took a final position on the proposed legislation.

Common Market Interests Affected

Quantitative restrictions on U.S. shoe and textile imports would have a direct effect upon the Common Market. Community exports of these products to the United States in 1969 were equivalent to approximately 550 million dollars. Other restrictions if put into effect would affect many other products traded between the United States and the European Community.

At a joint press conference in Washington with the U.S. spokesman, Deputy Under Secretary of State for Economic Affairs Nathaniel Samuels, Mr. Dahrendorf stated that the U.S. trade bill, if passed with the proposed amendments, would cause considerable injury to the European Community. He noted that the Community was looking for a trade bill more in keeping with U.S. traditions of free trade.

The U.S. View: Protectionism Abroad

Mr. Samuels stated that both he and Mr. Dahrendorf had agreed that cooperation was necessary to avoid a trade war, and that nations should endeavor to follow a liberal trade policy. He noted, however, that protectionism in the United States was being fed by what he considered to be protectionist policies in other parts of the world. For example, Mr. Samuels commented that there was a "substantial difference of opinion" over the preferential trade agreements which the Common Market has negotiated with most of the Mediterranean states. He said the agreements violated some of the provisions of the General Agreement on Trade and Tariffs and clashed with the most favored nation principle. They have hurt the United States in the past and will continue to do so.

Mr. Dahrendorf replied that the preferential trade agreements "are legitimate attempt to discharge our political responsibilities in that (Mediterranean) region." There was no comparison between the volume of trade affected by the preferential trade agreements and by the proposed U.S. trade bill, he said.

Visit to The University of North Carolina

During his visit to the United States Mr. Dahrendorf attended a Conference on the Relations of the North Atlantic Nations, at the University of North Carolina, Chapel Hill, North Carolina. There he delivered an address, October 14, on "Europe's Emerging Role in World Politics."

He said: "The European Community is a developing reality. As it grows in membership, and in substance, it will become less rather than more pre-occupied with its internal relations. The common external tariff is not the whole truth of Europe. Indeed, if the European Community was no more than a free trade zone, we might as well disband it tomorrow. There may be many uncertainties about the Community . . . But it is clear that rather than close itself to the outside world, the Community is going to promote free trade.

COMMUNITY NOTE TO U.S. ON TRADE

The European Communities Council of Ministers formally notified the United States of its concern about the U.S. trade bill. Following is the text of the declaration which was delivered to Ambassador J. Robert Schaetzal, head of the U.S. Mission to the European Communities, in Brussels, October 27:

"The Community follows with great concern the present evolution in the United States of the debates relating to the adoption of new trade legislation.

"The Community fears that the enactment of such legislation would upset the development of international trade relations. In fact, adoption by an important industrial country of protectionist measures, contrary to the principles which govern international trade, could trigger a cumulative process of restrictions to trade. The Community observes that, whatever the methods of implementation of such legislation would be, a substantial part of its exports to the United States is likely to be affected.

"The Community will carefully follow the development of this situation and is ready to take necessary measures to safeguard its interests in the case that these would be threatened.

"In order to avoid such a situation, the Community is ready, in a constructive spirit, to search for a positive solution to the concrete problems which exist in the field of textiles.

"The Community stresses the necessity for each of the large international trading partners not to undertake any action which might compromise the progress which has been achieved in the field of liberalizing trade and not to thwart the efforts already undertaken to permit countries to increase their export revenues.

"The Community hopes that the Government of the United States will take into account these considerations when adopting its final position on the proposed legislation."

Commissioner Ralf Dahrendorf (second from left) meeting with U.S. officials at the State Department, Oct. 16. PHOTO: *Courtesy U.S. Department of State.*

COMMON FISHERIES POLICY TO COME INTO EFFECT FEB. 1971; COUNCIL SETS OLIVE OIL, PORK PRICES

The European Common Market succeeded in completing work on a common fisheries policy before the November 1 deadline set for itself by the Council of Ministers on June 30. The policy, part of the task of completing the European Community's common agricultural policy, will come into effect on February 1, 1971.

Meeting in Luxembourg October 19 and 20, the European Communities Council of Ministers adopted the basic regulations on fisheries, and also set prices for olive oil and pork for the 1970/71 marketing year.

The common fisheries policy consists of a regulation establishing a common organization of the market in fisheries products and a regulation establishing the structure of the fishing industry. Before December 31 the Council will have to adopt further implementing measures regarding such areas as prices and quality of fisheries products. The essential objectives of the market organization are to adopt supply to market demands and to ensure a fair income to producers.

Important Role Given Producers Groups

An innovation of the new regulation is the important role assigned to producer groups for providing production outlets and applying marketing and quality rules. Provision has been made to help in the establishment and management of these bodies, which will be partially financed by the Community. Member states will be allowed to grant aids to these organizations, but these will be transitional and phased out over a five-year period so that producers will take on a steadily increasing share in the financial responsibilities.

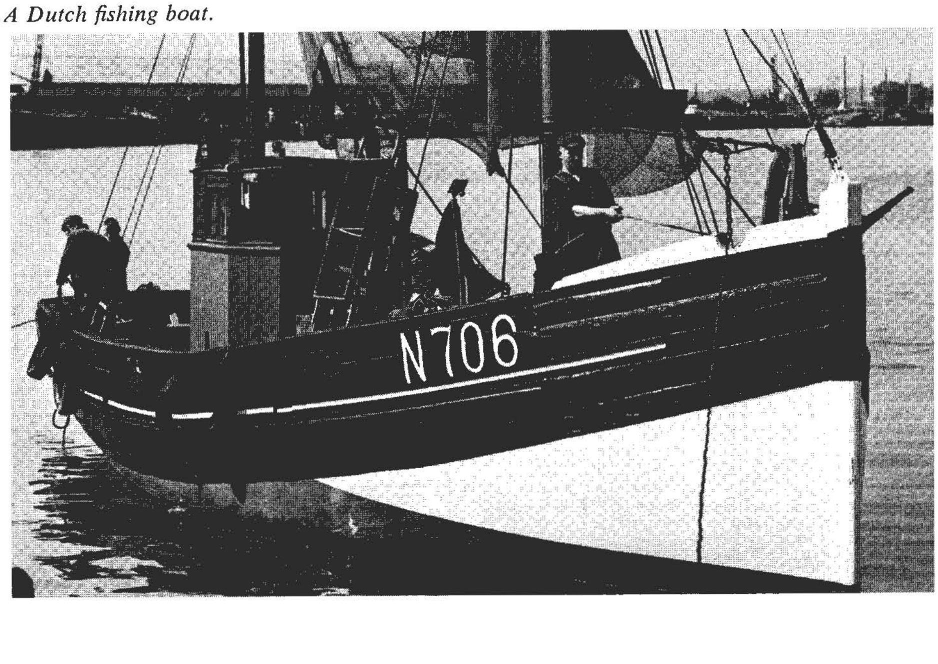
The price system will vary according to type of fish—fresh, frozen, and tuna. A guide price will be set for fresh fish, of particular importance for producers' incomes. Based on representative Community prices over the previous three years, these prices will determine the levels triggering market intervention operations. Producer groups will carry out the market intervention and will be able to withdraw their members' produce if prices fall below the withdrawal price, fixed within a range of 60-90 per cent of the guide price. Producer group action will be supported by Community compensation equal to 80 per cent of the guide price, or 55 per cent of the guide price in the case that the withdrawal price is between 60 per cent and 65 per cent.

In the case of a sudden price drop for certain deep frozen products, producer aids will be allowed for private storage. Another special case is the allowance of compensation to tuna producers if a drop in import prices for the canning industry threatens Community incomes.

Quotas Abolished in Trade

The system of trade with third countries, based on reference prices for imports, will make it possible to abolish import quotas for most products and to apply only the common customs tariff. However, a safeguard clause has been included to protect the Community market from outside disturbances. For herring and tuna, the Community has completely suspended the common customs tariff. An optional grant, under certain conditions, has been allowed for rebates on fish products exported to third countries.

A Dutch fishing boat.



Five-Year Transition for Territorial Waters

The structures policy compliments that of the common markets organization and has to take into account the fact that deep-sea fishing has a long-standing social structure and involves conditions unique to marine exploitation. The regulation's aim is to ensure the fishermen in the Community equal access to fishing grounds and equal rights to operate in maritime waters coming under the jurisdiction of the member states. Not only should fishing vessels be able to fish in any country's territorial waters, but they should also be able to unload their cargo in any Community port. However, an exception will be allowed for a five-year period for coastal fishing within a three-mile limit, to favor local inhabitants whose activity depends on this type of fishing.

The regulation also fixes as an objective Community measures to safeguard existing resources in the waters involved, which may include restrictions on catching certain species, on fishing grounds, periods, and on fishing techniques and vessels.

The member states will have to give information to the Commission each year on structures, planned improvement measures, and research and technical programs. Based on this data, the Commission will submit a report annually to the European Parliament and the Council on the structure of the fishing industry for possible Community action. Member states will be authorized to grant financial aid for carrying out the regulation and common action may be decided and financed by the Community, for such purposes as modernization of vessels.

Olive Oil and Pork Prices

The Council renewed the prices for olive oil of the previous season and approved implementing regulations more or less identical with those in force during 1969/70. The Council also provided for a rise in the basic price of pork of 1 per cent.

FRENCH COMMUNISTS WIN EC REPRESENTATION

The French Communist Labor Union, the Confédération Générale du Travail (CGT), has won its campaign for representation within the European Community's institutions.

When appointments to the Economic and Social Committee were announced on August 24, two members of the CGT were on the list: CGT Executive Committee member Oswald Calvetti and CGT Secretary Livio Mascarello. The Italian Communists also picked up a seat, raising total (French and Italian) Communist representation on the 101-man Committee to five.

TRANSITION PERIOD FOR U.K. AGRICULTURE KEY MEMBERSHIP ISSUE

Britain has requested three years for its industry and six years for its farmers to adjust to Community regulations after Britain joins the Six. It has also stated that the financing of the Community's expenditures (about 95 per cent for the common farm policy) should be distinct from the question of transition periods for industry and agriculture. Britain's negotiators would also like separate arrangements for New Zealand lamb and dairy produce, and for Commonwealth sugar.

The deputy leader of the United Kingdom delegation, Sir Con O'Neill, formally proposed the six-year transition period for agriculture at a negotiating session in Brussels on October 14. Sir Con explained that Britain wished to avoid dislocation of her farm production while adjusting to Community prices and structures. Britain had to make arrangements for its traditional suppliers as sources of supply were changed and time was needed to absorb the price rises. Reports suggest that Britain envisages a full six-year transition period mainly for those products with a strong effect on the cost of living, or those of which Britain is a major producer. The adjustment could be carried out more quickly for other products, e.g. olive oil and certain fruits and vegetables. Further discussion of the United Kingdom suggestion was postponed, and the Community asked Britain to submit its request in writing.

Earlier, on September 16, Britain told the Six that it would like its industry to benefit from a three-year transition period, including a one-year initiation stage. The transition period would enable the United Kingdom to align its tariffs on the Community's external tariff and gradually abolish its tariffs on industrial exports from other member states.

Sir Con told the Six that Britain would cut its tariffs on industrial exports from EC partner states by 40 per cent at the end of the initiation stage, and by 30 per cent at the end of the second and third years after joining the Community. The initial 12 months would enable Britain to get ready. He said Britain could join the Coal and Steel Community and Euratom in a year's time.

Aware that the joint negotiating position adopted by the Six stipulates an "adequate parallelism" between the transition period for agriculture and industry, Sir Con said the parallelism should apply to the advantages rather than to the dates. This has emerged as a key issue in the negotiations.

Sir Con also said that the United Kingdom Government wanted to limit the negotiations to important questions; minor points could be settled between the signature and ratification of the Community Treaties.

He warned against the hasty internal development of the Community during negotiations especially in sectors of special interest to the candidates. Sir Con cited fisheries and the right of establishment for insurance firms as examples. British public opinion would not understand it if the Six raised further barriers against the four candidate countries while at the same time negotiating with them.

Other proposals made by the British delegation were:

- an annual review, on British lines, of farm prices by the Government and farmers representatives;
- association status for the British dependencies. It is thought that the Six reacted favorably to this, but that they would wish to negotiate special arrangements for Hong Kong, because of its low cost of manufactured goods.

Commission's Views on Reduced-Duty Quotas

The Commission in September suggested changes to the British request that it be granted special duty-free or reduced-tariff quotas for imported raw materials after joining the Community. The British Government submitted a list of the products for which it wanted tariff quotas, shortly after membership negotiations opened in July. It pointed out that the products concerned, ranging from raw aluminum to newsprint, at present entered the United Kingdom duty-free and that British industry would have to bear considerable extra costs if the common external tariff were to be applied.

The Commission did not reject the British request for special treatment for the 12 products; but it said that any tariff quotas, or other interference with the common external tariff, must be organized on a Community basis, not for Britain alone.

Ireland—Scheel Gives Assurance

At the first round of ministerial-level negotiations between Ireland and the Community, on September 21, Patrick Hillery, the Irish Foreign Minister, stated that Ireland would ideally like a long transition period for industry and a short one for agriculture, but that it was prepared to settle for an arrangement by which the transition period was the same length for the two sectors.

He said the Irish did not want to be kept out of decisions that might be taken at meetings between Britain and the Six, but which would affect Ireland as well. He received an assurance from the Community spokesman, German Foreign Minister Walter Scheel, that any decisions taken at a bilateral meeting with the British would be regarded as provisional until they had been approved at wider meeting with the other candidates.

Denmark: Short Transition Sought

At the opening round of ministerial-level negotiations between the Community and Denmark, on the morning of September 22, the Danish Minister for Economics, Poul Nyboe Anderson, indicated that his country did not seek a transition period for any sector. Otherwise, as short a period as possible would be preferred. (Unlike Britain, Denmark, as a major food exporter, has a strong interest in quickly gaining access to the Community agricultural markets where its market share has stagnated for some products and fallen for others, such as poultry. Denmark's farm exports, two-thirds of her total agricultural output, bring in nearly $1 billion a year.)

For the Community, Mr. Scheel said that the final decision on the length of the transition period would be taken at a joint meeting with all four candidate countries. He also said that the Community would inform them in advance of important developments, such as a common fisheries policy and economic monetary union.

Norway: Concern About Fisheries Policy

At the opening ministerial meeting with Norway (on the afternoon of September 22), the Community declared that as a question of principle it could not agree to the candidate countries taking part in the discussions on a common fisheries policy. The Community agreed in July to have a common fisheries policy ready by November. As Europe's principal fish-producer, Norway—represented at the negotiations by Foreign Minister Sven Stray—had expressed dissatisfaction at the Community's position, which was that, if Norway were to take part in the current talks on the details of the policy, this would set an unacceptable precedent.

The candidates countries pointed out that the Six would be setting up a fisheries policy based on the needs of the existing Community, and not on those of an enlarged one. Last year the total fish catch of the Six was about 1.7 million tons; that of the four candidates was 4.8 million tons. The existing Community has an annual deficit of about 500,000 tons and the four candidate countries have a surplus of 700,000 tons of fish; an enlarged ten-nation Community would have a surplus of some 200,000 tons. The Norwegian catch alone is larger than that of all the Six put together. The Norwegians said that it was totally unrealistic to establish a fishing policy based on a deficit situation and then apply the same policy to a Community in which there was a surplus.

Another issue raised by Norway was that of territorial waters. Under the Six's present plans, national control over inshore waters would have to be abandoned after a transition period of perhaps five years. The French in particular are seeking a transition period as protection for their vulnerable Breton fishermen. But even five years would be too short for the Norwegians, who said that north Norway's coastal waters must remain protected for as long as the small Norwegian fisherman's livelihood depended on them.

The problem is also serious for the Irish who have no deep sea fleet and rely on inshore fishing. Only the Danes, whose fleet is mainly concentrated in the North Sea, accepted the Six's position.

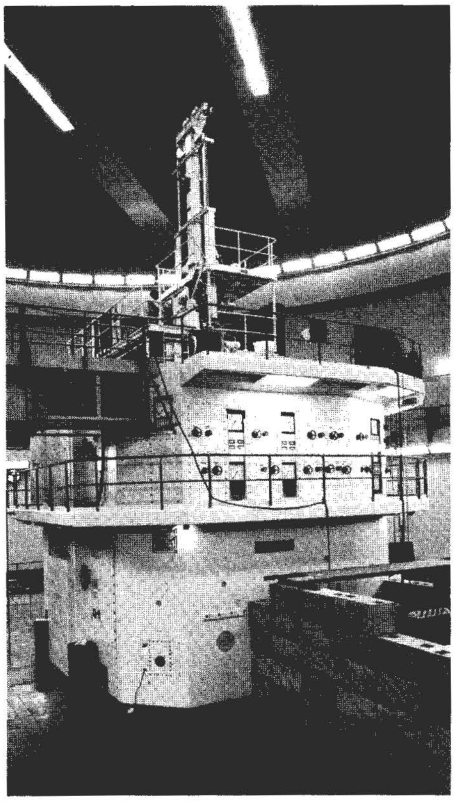
Ireland, Denmark, and Norway in turn said that they accepted the Rome Treaty and its political aims, and the Community measures taken since the Treaty came into force on January 1, 1958. Ministerial-level negotiationing sessions with the three countries will be held every three months. Deputy-level sessions will be held monthly.

The opening rounds have shown that a major problem is reaching a compromise on the length of the transition period (or periods).

Other difficult issues appear to be:

- Norway's high farm prices. Adoption of the EEC's common prices would mean an average fall in revenue of 40 per cent for Norwegian farmers; for Danish and Irish farmers it would mean an average increase of 20 per cent and 30 per cent respectively. As Norway's farm output would represent 1 per cent of an enlarged Community's production, Norway might ask for permanent exceptional treatment to enable its marginal farmers to remain on the land.
- Given Ireland's remoteness from the Community's densely-populated regions, the Irish Government may insist on retaining its tax and other incentives to attract new industries.
- Norway's industries benefit from energy costs that are far lower than those in the Community. Community producers, particularly of paper, aluminium and some metal products, are worried about the cost advantage this would give their Norwegian competitors.
- Denmark and Norway want to continue their economic cooperation with their Nordic partners, Sweden and Finland. France, in particular, fears that if this is conceded, it could lead to the EEC customs union being "diluted" into a free-trade zone. It may, however, be possible to work out preferential trade agreements to avoid this.

DEBATES ON EURATOM BUSY COUNCIL MINISTERS



The FR-2 reactor at the Karlsruhe nuclear research center, Germany.

Meeting in Luxembourg on October 13, 1970, the European Communities Council of Ministers announced that the amount of funds allotted to Euratom's research and training programs in 1971 will not exceed 1970 levels. The Euratom budget for 1970 totaled $59 million, half of which came from independent groups.

The Council's decision to merely extend previous budget levels another year and not to raise them was again the result of the failure of the ministers and the Commission of the Community to settle the question of the Joint Research Center's reorganization.

The Council discussed whether the Joint Research Center, Euratom's complex of four nuclear research centers, should gain total autonomy from the Commission, a solution which would leave the member governments in control of the JRC and require a revision of the original Rome treaty. Another view was that the Council and the Commission commit themselves to limiting their roles in the formulation of JRC programs. The Council agreed to continue study of the JRC problem at its next meeting, planned for December 1.

Also discussed were possible conditions under which JRC facilities could be opened to organizations outside the Community by means of contracts drawn up between Euratom and such organizations. Regarding personnel, Euratom's Service Regulations could serve as a framework. The Council noted that Euratom would be unable to finance the creation of new research facilities that had the sole aim of making them available to third parties for nonnuclear research.

The Commission was authorized by the Council to begin exploratory talks with the U.S. Atomic Energy Commission on improving conditions of supply of American enriched uranium to the Community. No decision was reached regarding possible association of British experts with Community studies on enriched uranium.

Proposals submitted in June 1970 for research by Euratom in the field of biology-health protection were commended by the Council. It considered them a good basis for preparation of a multi-national program in the areas of biology-health protection and fusion physics. *(See European Community, No. 138, page 21.)*

INDEPENDENT EUROPE SEEN AS RESULT OF LARGER EC

Enlarging the European Community to ten members is only the first step to re-establishing an independent Europe, according to Albert Borschette, member of the Commission of the European Communities.

Mr. Borschette, the Commission member in charge of information policies, was addressing the Congress of the Association of European Journalists in Luxembourg on October 16, 1970.

He envisioned a European Community of ten linked by preferential trade agreements to 12 other European countries. Association with 29 African nations and with 13 other non-African countries and non-European countries would complete the renewal of Europe's independent position.

Urging the greatest degree of integration possible, Mr. Borschette cited monetary union as the most efficient means of widening the Community. As a tool of short-term economic policy and of policy for joint development, monetary union would be the first step towards political union.

TRADE PACTS IN FORCE FOR EC, SPAIN, ISRAEL

Preferential trade agreements between the European Community and Spain and Israel went into effect on October 1, 1970.

Spain and Israel are the sixth and seventh countries to conclude special trade agreements with the Community.

Both agreements provide for tariff reductions on a wide range of industrial and agricultural products. *(For a summary of the Spanish agreement, see European Community, No. 137; for terms of the Israeli agreement, see European Community, No. 133.)*

INVESTMENTS, LOANS GREW IN '69, SAYS EIB REPORT

1969 was a year of unusually rapid expansion for Community investments, according to the twelfth annual report of the European Investment Bank.

The report was approved by the EIB Board of Governors at its annual meeting in Luxembourg on September 9.

In the summary of the report, the EIB noted that the growth of investments had been plagued by difficulties such as a scarcity of capital, sharply increased interest rates, rising prices, and external imbalances. These imbalances sparked upheavals on the capital market and forced readjustments of monetary parities.

Good Business Climate

Investment financing suffered from a shrinkage of resources, due to stepped-up demands on medium- and long-term borrowing. Still, profiting from the good business climate, the Community managed to absorb the rise in wage costs and secure wider profit margins in several countries.

Community borrowings from external financial intermediaries rose, while the number of bond issues fell in comparison to 1968 figures. Rising interests rates in most European financial markets were largely responsible for this development, the report stated.

Loan Applications Up

1969 witnessed a sizeable increase in the number of loan applications to the Bank. Italy led with 15 projects, followed by France and Germany, with three and two projects, respectively.

Overall loan policy focused on financing major infrastructure projects, chiefly in economically disadvantaged areas of the Community and in the field of intra-Community communications. The Bank also intensified its funding of projects furthering industrialization, particularly those involving several member countries. The report made special mention of the development of small and medium-sized business.

Loans Totaled $321.8 Million

During 1969, the Bank signed 13 loan contracts totaling $321.8 million, up more than 50 per cent over 1968 activities.

The Bank approved 39 loans, a new high, for a total amount of $305.5 million.

Of the member countries, Italy received 15 loans, totaling $141 million. Five loans went to France, for a total of $66.1 million. Two loans to Germany totaled $10 million, and the Benelux countries were granted three loans, totaling $28.1 million.

Of the six loans granted to Turkey, for a total of $41.7 million, three will finance public industrial projects, one will fund private small and medium-sized industrial projects, and two will supplement the financing of vital infrastructure projects, chiefly the construction of bridges, roads, and dams.

To the Associated African and Malagasy States and Overseas Countries and Territories, the Bank has granted three ordinary loans for a total of $3.5 million. These loans are in addition to the four to be financed through the European Development Fund.

Limited Bank Borrowings

Because of the rise in the cost of money, the Bank limited its issues in 1969. Borrowings amounted to the equivalent of $146 million as compared with $212.5 million in 1968.

Despite difficult financing conditions, the German financial market provided the Bank with the better part of its resources in 1969. In addition, a bond issue of $25 million was placed on the international market towards the end of October, immediately following the revaluation of the mark.

UNIONS SEEK FIRST EUROPE-WIDE LABOR PACT

Non-Communist trade union leaders from the Six announced on September 3 that they had made their first proposals for a European-level collective agreement with a multinational firm, Holland's big electrical company, Philips. Collective bargaining accords in Western Europe have hitherto been made only on a national scale.

The meeting took place on September 2 at Philips' head office, in Eindhoven, Holland. It was the third of a series. Fritz Philips, chairman of the board of directors, spoke for the company. Guenter Koepke, Secretary of the European Committee of Metal Unions, led a 15-man labor delegation. It included representatives of Socialist labor organizations from Holland, Belgium, France, Germany and Italy, and spokesmen of Christian unions from Belgium and Holland.

Mr. Koepke told a news conference that the group hoped to sign an international collective bargaining contract with Philips, which has 285,000 employees in more than 150 European plants. Eventually, he said, such a contract should cover working conditions, including wages and hours, but he said that in a first stage he would expect the accord to deal only with general principles. He would not say how long it would take to get an agreement, but that "we're not prepared to wait for years."

Mr. Koepke said the ten-point memorandum he had submitted was not a draft for an agreement. Philips had also put forward some points, he added, and had agreed to consider the question of establishing a permanent contact group.

Mr. Koepke suggested that a good deal could be done by oral agreement, as had been the practice in Britain and the United States. He had promised at an earlier meeting to consult with his group in advance if it should be necessary to move many Philips plants from France to Germany. The need had not arisen, he explained, because business had been good all over Western Europe.

Philips had been in general agreement with his memorandum but raised objections to some points, Mr. Koepke said. He reported that Philips disagreed with his statement that there was a "central management for all the Philips plants, with identical viewpoints." Philips had pointed out that its organization in each country had full autonomy over wages and hours. Mr. Koepke said Philips had agreed that "it is indispensable to avoid laying off workers, as far as possible, and in case of transfers, wages and social security contributions must be guaranteed for at least six months, with special protection for workers over 50." Mr. Koepke said it was not clear how far this agreement was binding.

INDIA SEEKS TRADE AGREEMENT

India, on September 22, asked for a trade agreement with the European Community. India would like to reduce its trade deficit with the Six, and has asked the Commission in general terms for discussions on how its marketing position in the Community could be improved. The Six already grant certain concessions to India on products such as textiles, silks, handicrafts, and jute.

India is reported to have distinguished between the problems it would face if Britain joined the Community, involving the Indo-U.K. trade agreement and Commonwealth preferences, and the basic trading problems which already exist. India would like to reach a trade agreement with the Six before tackling the implications of the Community's enlargement.

AUSTRIA-EC DISCUSS STEEL AND RESEARCH

Austrian and the European Community officials met in Brussels on September 10-11 to discuss matters pertaining to the European Coal and Steel Community (ECSC).

Conditions and trends in the European and international markets and research were the main topics discussed. These consultations have been taking place since 1958.

EC TECHNICAL STANDARDS FOR CAR HORNS AND DOORS

Technical standards for automotive horns and doors, applicable throughout the European Community, were set on July 27 when the Council of Ministers passed two new directives on automotive vehicles.

These new rules supplement others passed in February and March dealing with measures to control air pollution by exhaust fumes from internal combustion engines, specifications for fuel tanks and rear bumpers, and the location of rear license tags. (*See European Community No. 134 page 20.*) The Council still has before it draft specifications for turn signals and brakes.

EC Seal of Approval

The directive on horns prescribes Community-wide standards for construction and installation as well as acceptance tests. The noise level must be between 105 decibles and 118 decibels. The horn must function for at least 50,000 one-second beeps. The directive also provides for a European Community seal of approval, consisting of a rectangle enclosing an "E" and the number of the country certifying compliance with Community standards.

A horn that meets Community standards will not have to undergo any other tests in the member countries if they bear the EC seal of approval, meaning that they meet the construction and performance standards specified in this directive.

Doors for Easy Entry

The directive on automotive doors specifies that they must be built to allow easy entry. If the opening is more than 700 millimeters off the ground, the vehicle must have a running board, for which standards are also given. Standards are also provided for the location and construction of locks and hinges.

Rear View Mirrors

On September 10, the Common Market Commission proposed modifications in its August 1968 draft directive on technical standards for automotive rear view mirrors, area of visibility, and windshield washer and wipers.

According to the modified directive, rear view mirrors must be adjustable, meet specific dimensions and mounting requirements, and be sturdily attached. A minimum of two mirrors is required, one internal and one external. Standards are also given for the visibility through the rear view mirrors.

EFTA, EC RELATIONS CLOSER THAN EVER IN '70

Closer contacts and stepped-up trade have keynoted relations between the European Free Trade Association and the European Community over the past year.

The tenth annual EFTA report, covering the period from July 1969 through June 1970, notes that negotiations formally opened on June 30, 1970 between the EC and Denmark, Norway, and the United Kingdom, the three EFTA countries which have applied for Community membership. The Six had agreed to initiate negotiations at The Hague Conference last December.

Mutual Agreements Sought

The remaining five EFTA members (Austria, Iceland, Portugal, Sweden, and Switzerland) and associated Finland will try to find ways of reaching agreements acceptable to the Community and to EFTA as a whole. In addition, Sweden is considering the possibility of joining the Common Market as a full member, if terms compatible with its neutrality can be worked out.

The original seven EFTA members (Iceland was admitted only this March) and all EC members are currently participating in a 17-nation conference on the negotiation of a European patent agreement. Other contacts have included the exchange of views between EFTA and the Six on Community proposals for cooperation in seven different fields of research and technology.

EFTA-EC Trade Up

In the realm of trade relations, EFTA exports to and imports from the Community increased 18.5 per cent and 12 per cent, respectively, in the past year. As a result, EFTA's deficit on trade with the Common Market was reduced to $3.75 billion. This drop in the EFTA deficit continues an improvement begun in 1968 in EFTA's balance of trade with the Community. From 1964 to 1968, EFTA imports from the EC had risen much more than its exports to the Community.

TRADE NEGOTIATIONS WITH LEBANON OPEN

The European Community opened negotiations with Lebanon for a preferential trade agreement, in Brussels on September 30. A second session was held October 13-15.

In addition to a tariff reduction of more than 55 per cent on industrial goods, the Lebanese are seeking an arrangement on textiles and tariff reductions for citrus and other agricultural products, such as strawberries, cucumbers, tomatoes, and artichokes.

EUROPEAN INDUSTRIES CAUTIOUS ON ENLARGEMENT

The acceptance of new members should not be permitted to endanger Common Market unity or past achievements, cautions the Community manufacturers' association in Brussels.

In a statement released on September 10, the Union of Industries of the European Community (UNICE) said it favored the enlargement of the Community, provided that the accomplishments of the past ten years were preserved and that the integration of the four applicants proceeded hand-in-hand with internal consolidation. Enlargement should neither turn the Community into a free trade area nor delay its progress toward economic and monetary union.

UNICE stressed that the candidates must accept the Community Treaties as well as the decisions and regulations adopted since the beginning of the Common Market. Strict respect for the decision mechanisms provided by the Treaties is particularly vital, UNICE said.

To prevent practical difficulties in Market functions, distortion of agreements or diversion of trade that might impair the Community's efficiency, agreements with new members must come into force simultaneously, UNICE said. The transition period should be short, with commitments and their effective dates specified.

Enlargement under these conditions will permit the Community to play not only an economic but also a political role in the world, UNICE concluded.

PROPOSAL TO REPLACE COW SLAUGHTER PREMIUM BY DISPOSAL SUBSIDY

A proposal to replace the European Community's current slaughter premium on cows with a disposal subsidy was sent by the Commission to the Council of Ministers on September 14.

To reduce the size of dairy herds in the Community, the new subsidy would be paid to farmers who dispose of their entire herds and agree not to return to dairy farming for five years. For the first 10 cows, the farmer would receive $200 a head; for disposing of additional cows, he would receive $130 a head.

The Commission also proposed that the Community retain its subsidy to producers who withhold milk and milk products from the market. The non-marketing subsidy ranges from $130 to $250 for cows giving 317 gallons to 740 gallons of milk a year.

AFRICAN ASSOCIATES FEAR EC TARIFF CUTS FOR OTHERS

Talks on tariff adjustments, a generalized preference system, and ratification of the second Yaoundé Convention highlighted the tenth annual meeting of the Association Council of the European Community and the Associated African and Malagasy States (AAMS).

Meeting in Brussels on September 30, 1970, the Council discussed Community plans to lower tariffs on about 20 tropical products, including unroasted coffee, cocoa, and palm oil. AAMS countries expressed their fear that such tariff reductions would diminish their preferences in the Common Market, while benefiting other developing nations. The Six agreed to maintain existing tariffs on some lesser products such as China oil, and will reduce only minimally the tariff on cinnamon.

Africans Approve Preferences

The Community proposal to set up a generalized system of preferences for developing countries was approved by the African states.

Administered by the U.N. Conference on Trade and Development, the system would protect trade preferences for third world countries in general, and AAMS countries in particular. Because of outside competition, the African countries requested that tapioca be excluded from the list of products to be regulated by the new system; the Community did not follow up this request.

New Yaoundé Convention

Consultations on the new Yaoundé Convention centered around the Council definition of the idea of "products of origin." The Association must decide on this point before preferential measures set up by the Convention can be implemented.

Also discussed was the common legislation on public works contracts to be financed by the European Development Fund. The Council must work out fiscal and customs arrangements for the AASM, regarding such contracts.

Already ratified by all Association members but Italy, the new Yaoundé Convention is expected to take effect in January 1971.

AUSTRIA - EC TRADE PLAN DECIDED

The European Communities Council of Ministers on October 27 authorized the Commission to negotiate an interim trade agreement with Austria. The arrangement would last until a solution was arrived at for the members of the European Free Trade Association that are not candidates for Community membership. The agreement is expected to provide for a 30 per cent industrial cut, abolition of quotas against Austrian goods, and concessions for Austrian farmers.

CARIBBEAN CONTACTS WITH THE COMMUNITY

Seven Caribbean states would seek relations with the Community as one unit, should Britain decide to join the Community, it was officially announced in Basseterre, St. Kitts, on October 9. The seven are the associated states of Antigua, Dominica, Granada, St. Lucia, St. Kitts, St. Vincent, and the British colony of Monserrat.

EUROPEAN INDUSTRY FEARS TRADE WAR

European industry warned that a trade war might be eminent if the U.S. Congress passed the trade bill's proposed protectionist amendments.

The Permanent Conference of the Chambers of Commerce and Industry of the European Community passed a resolution on October 15 warning that charges of protectionism between the main partners of world trade have caused a significant deterioration in the climate of relations among them. Of particular concern to the Conference were the trade bill amendments before the U.S. Congress calling for textile and shoe import quotas and permitting similar quotas on other products "in jeopardy" at the President's discretion.

The Conference noted that pressures from many sectors of the U.S. economy had led to the introduction of the amendments by the House Ways and Means Committee. The amendments would also institute a tax privilege for a new type of company (DISC: Domestic International Sales Corporation) as a means of subsidizing exports, the resolution said.

In the opinion of the Conference, U.S. difficulties in the textile and shoe industries are of a regional and structural nature and the solution of these difficulties should not be found in restrictive trade measures. The proposed agreements of "auto-limitation" would run counter to the fundamental principles of the General Agreement on Tariffs and Trade, it said. They would also risk slowing the necessary structural adaptation of these industries, while setting a precedent for protectionist actions in other sectors and artificially limiting export possibilities in a way that would hinder the economic development of some developing countries.

The Conference suggested that the European Community intervene with U.S. authorities to stress the "serious inconveniences" that passage of the amendment would entail. It also proposed that the United States, Japan, Great Britain, and the European Community start new negotiations as soon as possible to reduce tariff and non-tariff barriers to international trade.

SIX TO SIGN PACT WITH MALTA

Malta and the Six are expected to sign an association agreement in Valetta, Malta's capital, later this year. The Council of Ministers approved the agreement on September 29.

Under the agreement, Malta and the Community will become a customs union after ten years (in conformity with the rules of the General Agreement on Tariffs and Trade). During the first, five-year stage, the Community will make a single, 70 per cent cut on its imports from Malta, with the exception of some textiles which will be subject to tariff quotas.

Malta will gradually reduce by 35 per cent its duties on imports from the Six. Because Malta has practically no raw materials, it will be allowed to export to the Six transformed products (e.g. some forms of spaghetti, even though Malta has imported the wheat). Malta imports goods worth $30 million a year from the Six, and exports goods worth $3 million to them.

Negotiations on details of the second stage will begin 18 months before the end of the first stage.

TREE COUNT PROPOSED TO CUT FRUIT SURPLUS

Recent difficulties in fruit marketing, stemming from excess production, have prompted the Common Market Commission to suggest a count of fruit trees in the European Community.

The Commission's proposed directive, submitted to the Council on September 29, calls for a count of apple, pear, peach and orange trees every five years. The tree count would help forecast future fruit production for the entire European Community.

Not only the number of trees but also their age would be noted in order to arrive at accurate estimates. The first survey, to be held in the winter of 1971 would also note the results of the current grubbing campaigns being conducted in the various member countries.

NEW PLAN TO TAX AIR POLLUTERS

A plan for harmonizing European Community taxes on hydrocarbon fuels as part of an air pollution control project is taking shape.

The Commission announced this project on October 13, 1970, answering a written question from Adriaan Oele, Dutch Socialist member of the European Parliament.

Turnover taxes and excise taxes paid by users of hydrocarbon fuels would be harmonized.

EC DIRECTIVE GIVES NEW FREEDOM TO FILM-MAKERS

A Council of Ministers directive spells new freedom for European Community filmmakers.

Issued in Brussels on September 29, 1970, the directive, which will take effect next April 1, abolishes restrictions on movie producers who wish to make films in EC member countries other than their own. The directive covers producers' freedom of establishment and right to offer services.

This is not the first Council directive which deals with the movie-making industry. Three previous directives have helped to eliminate obstacles, in the fields of: film import quotas (October 1963), right of establishment and freedom to offer services in cinemas, and dubbing films (May 1965), and the right of establishment for non-salaried activities in the distribution of films (October 1968).

Typical of current discrimination to be eliminated by the directive are:

- Films made in Belgium must have Belgian producers.
- Movies filmed in France receive subsidies from the French Government only if the producer is French.
- Films made in Italy must have an Italian producer or an Italian producing company.
- Foreign producers in Luxembourg can receive only temporary permission to make films.

In addition, the Commission has suggested to the Council that the Six subsidize full-length feature films made in other countries. The three major film-producing members, France, Germany, and Italy, would subsidize at least five movies a year made within the Community, while the Benelux countries would provide aid for a minimum of two films a year.

The Commission hoped that member countries would each year increase the number of films to receive aid. Eventually the Commission would take steps to transform national aids into a single Community aid system.

The Commission has also asked EC governments to facilitate the showing of films in other member countries, and to begin work on harmonizing various national credit plans for the production of films.

EDF ADDS SCHOLARSHIPS TO LIST OF AID PROJECTS

Commitments made by the European Development Fund since 1964 were raised to $710,202,000 by financing decisions made during July.

The following decisions, involving a total amount of $6,395,000 were made on July 22:

Dahomey: $600,000 as a supplementary grant for the repair of the Hillacondji-Cotonou road. This road, built in 1968 with Community aid, has been badly damaged by floods.

Fairs: $210,000 to extend two earlier programs to encourage the participation of the Community's African associates at trade fairs and exhibits within the Community.

Scholarships: $4,600,000 for 4,500 scholarships (including 2,000 correspondence courses) for nationals of overseas departments or countries associated with the Community. This grant may be supplemented by $250,000 from the Community's operating budget. An additional $750,000 will be provided when the new EDF aid monies become available.

Seminars: $65,000 for the organization of seminars to acquaint nationals of associated and non-associated African countries and overseas departments with the nature of the Community's association agreements.

Internships: $27,000 to bring nine officials from the overseas departments and countries associated with the Community to Brussels for training at Commission headquarters from September to February.

Cameroon: $28,000 to pay the salary of a mathematics teacher on loan for the 1970-71 academic year to the International Statistical Training Center in Yaoundé. Students from African countries associated with the Community study at the Center, built with Community aid in 1965.

Ivory Coast: $65,000 to pay the salary of two teachers on loan for the 1970-71 academic year to the Abidjan School of Statistics.

Investment studies: $800,000 to finance investment and feasibility studies for projects submitted to the EDF for financing. Some of the funds will also be used to finance a few general development studies in Africa.

Dredger for Pointe Noire

Approved on July 28 was a grant of $1,337,000 to cover the purchase of a stationary discharging suction dredger for the port of Pointe Noire, the Congo (Brazzaville). This port is the main external outlet for the Congo (Brazzaville), Gabon, Chad, and the Central African Republic. The Community has already contributed $5,573,000 to its development by building two berths for ships.

U.S. EXPORTS TO COMMON MARKET SOAR IN 1970

U.S. exports to the Common Market during the first half of 1970 climbed 29 per cent over the same period last year, according to figures released in Brussels October 18 by the Commission of the European Communities.

The United States sold $4.46 billion in goods to the Common Market during the first six months of 1970 as compared to $3.47 billion in 1969.

During the same period, the European Community's exports to the United States increased by only 9 per cent, increasing in value from $2.84 billion to $3.09 billion.

Thus the Common Market's half year trade deficit with the United States reached a record $1.4 billion. The heavy trade surplus enjoyed by the U.S. with the Common Market in the first half of 1970 equals the trade surplus for the entire year of 1969, which stood at $1.37 billion.

COMMON TEST FOR TRUCK DRIVERS DRAFTED

A common test of bus and truck drivers' skills to be given throughout the European Community is outlined in a draft directive which the Commission sent to the Council of Ministers on July 28.

The test was designed to determine whether a driver's theoretical and practical knowledge made up for his lack of experience. It is part of the Community's long-term plan to harmonize working conditions in transport throughout the Community.

A certificate of professional aptitude would be compulsory for 18-20-year-old drivers of trucks weighing more than 16,535 pounds (7.5 metric tons). But drivers would have to be at least 21 years old and meet one of the following prerequisites:

- one year's experience driving trucks bigger than 7,700 pounds
- one year's experience driving a bus on a run of up to 31 miles
- possession of a professional aptitude certificate.

VEGETABLE ICE CREAM BAN TO BE LIFTED?

The ice cream dispute that divided the Common Market is melting.

Freedom of consumer choice between ice creams with milk or vegetable fat bases has been proposed in the Commission's September 7 draft directive. If approved by the Council of Ministers, the directive would require Germany, France, and Luxembourg, all butter-surplus countries, to remove restrictions on the importation of ice creams containing vegetable oils.

The draft directive contains a common system of classification for ice cream according to the type and quantity of ingredients. Additives would be restricted. The directive would also establish procedures for manufacturing, controlling the bacteria content, labeling, and shipping ice creams for consumer protection.

Meeting in Brussels on September 28-29, the Council of Ministers agreed to consult the European Parliament and the Economic and Social Committee about this proposed directive.

HOURLY WAGES SOAR THROUGHOUT COMMUNITY

Hourly wages have risen sharply throughout the European Communities since 1964.

According to a comparative study of hourly earnings between April 1964 and October 1969 in Community countries, published by the Community's Statistical Office, earnings increased most sharply in the Netherlands (58 per cent).

Allowance for increases in the cost of living, however, cut the Dutch rate of increase in real hourly wages almost in half, to 26 per cent. This was the pattern throughout the Community. Hourly wages in France rose by 53 per cent, but 24 per cent in real terms; in Belgium by 51 per cent and 24 per cent, respectively; in Germany by 51 per cent and 26 per cent; in Italy by 44 per cent and 22 per cent; and in Luxembourg by 34 per cent and 15 per cent.

IVORY COAST, DUTCH FIRM RECEIVE EIB LOANS

The European Investment Bank in September, awarded two loan contracts to the Republic of Ivory Coast, to raise cotton output and develop the fishing port of Abidjan, and one loan contract to a Dutch navigational research firm.

In addition to the EIB loans, the Community will provide a grant of $4.44 million to the Ivory Coast. This grant, to raise cotton production, will be supplemented by an Ivory Coast Government contribution of $2.66 million.

The first EIB loan, totaling $1.67 million, will help finance a project to raise cotton output in the northern savanna area of the Ivory Coast. The other loan of $1.08 million will help fund construction of a 300-yard-long wharf and of new berthing facilities in the fishing port of Abidjan.

The Nederlandsch Scheepsbouwkundig Proefstation of Holland will use its loan of $2.8 million to help finance construction in Ede, Gelderland, of an experimental basin for the study of cavitation (the formation of vapor pockets in regions of very low pressure). The installation will be used to study the effects of cavitation on the propelling devices of ships.

68 DANES OUT OF 100 FAVOR EC MEMBERSHIP

Sixty-eight Danes out of 100 favor their country's joining the European Communities, according to a public opinion poll by the Danish magazine "NB," published by the Institut Scan Test.

The results of this survey were reported in *Agence Europe* on September 3 from Brussels.

The strongest endorsement for Denmark's bid to join came from rural dwellers (74 out of 100). Of city-dwellers, 64 out of 100 wanted Denmark to join. Seventy-four per cent of the Danes interviewed in the survey were under thirty years of age.

According to the Danish Constitution, an agreement between Denmark and the Community has to be submitted to a popular referendum. Forty-nine per cent of the Danes questioned were for a referendum, 46 per cent against it.

Fifty-nine per cent of the Danes questioned thought too little information was published about the Communities.

EC COMMISSION SETS UP FRAUD CONTROL SYSTEM

A proposal to create a European Community system to safeguard its Farm Fund against fraud is under consideration.

The European Communities Commission announced the project to protect the European Agricultural Guidance and Guarantee Fund, in Brussels on October 19.

Agencies in each member country responsible for making EAGGF payments would cooperate closely with the Commission. The new regulation would also control liability for incorrect disbursements.

The Commission wants to know what official body in each member country is empowered to recover money which should not have been disbursed. It would also require comprehensive information from all EC countries about all suspected and proven irregularities.

In supervising the clearance of reimbursements to the EAGGF, the Commission hopes to keep EC governments better informed regarding fraudulent practices in general in the Community.

PUBLICATIONS AVAILABLE

EUROPEAN COAL AND STEEL COMMUNITY FINANCIAL REPORT FOR THE YEAR 1969, No. 15. Commission of the European Communities, Brussels, April 1970, 34 pages ....free

Annual report, on the seventeenth year of the European Coal and Steel Community's financial operations.

ADDRESS BY FRANCO MARIA MALFATTI, PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES BEFORE THE EUROPEAN PARLIAMENT. Commission of the European Communities, Brussels, September 15, 1970, 33 pages .... free

Mr. Malfatti's first major address as President of the Commission of the European Communities on issues now facing the Community.

STATEMENT MADE AT THE CONFERENCE BETWEEN THE EUROPEAN COMMUNITIES AND THE STATES WHICH HAVE APPLIED FOR MEMBERSHIP OF THE COMMUNITIES. Commission of the European Communities, Brussels, June 30, 1970, 40 pages ....free

Includes statements by Gaston Thorn, Luxembourg Minister of Foreign Affairs; Pierre Harmel President in Office of the European Communities Council; Jean Rey, President of the European Communities Commission; Anthony Barber, Chief Negotiator for the United Kingdom; P. J. Hillery, Irish Minister for External Affairs; Nyboe Andersen, Danish Minister of Economic Affairs and European Market Relations; and Svenn Stray, Norwegian Minister of Foreign Affairs. Also contains a memorandum submitted by the Danish Delegation.

REPORT ON THE CONTRIBUTION OF PENSION FUNDS TO THE CAPITAL MARKETS OF THE EEC. *Economic and Financial Affairs Series* No. 7, Commission of the European Communities, Brussels, 1969, 71 pages $2.40

Report prepared for the Commission by Anthony de Jasey, Director of Eurofinance. Describes the 1965/66 status of pension funds and their assets, analyzes their possible growth in 1975 and 1980, and discusses possible reforms to foster the security and growth of pension funds and their contribution to capital markets.

NOMENCLATURE GENERALE DES ACTIVITES ECONOMIQUES DANS LES COMMUNAUTES EUROPEENNES (NACE—1970). Statistical Office of the European Communities, Luxembourg, January 1970, 181 pages $2.50

French/German text. Classification and grouping of production units according to their activity or economic function rather than by their product. Explanatory notes to the nomenclature are included.

EUROPEAN INVESTMENT BANK ANNUAL REPORT 1969. European Investment Bank, Luxembourg, 1970, 164 pages ....free

Gives an overall picture of the general economic evolution in 1969 in the Community, and the Community's associates. Describes the Bank's activities in 1969 and recapitulates the operations performed since its foundation. Concludes with a chapter on the role of the Bank in the Community's frontier regions.

FINANCING THE COMMON AGRICULTURAL POLICY AND THE COMMUNITY'S OWN RESOURCES. *Newsletter on the Common Agricultural Policy* No. 5 1970, Commission of the European Communities, Brussels, May 1970, 20 pages ....free

Explains the Community's regulations and decisions for financing the common agricultural policy and replacing the member states' direct financial contributions with the Community's own resources. Includes a section on the European Parliament's budgetary powers and a statistical annex on future expenditures.

LES JEUNES ET LA COMMUNAUTE EUROPEENNE: ACTES DU COLLOQUE. Commission of the European Communities, Brussels, June 12-14, 1970, 179 pages ....$.25

Proceedings of the Conference on "Youth and the European Community" organized by the Commission and held in Brussels on June 12-14, 1970. Includes all papers presented at the conference, all resolutions passed or rejected and a list of the participants and their affiliations.

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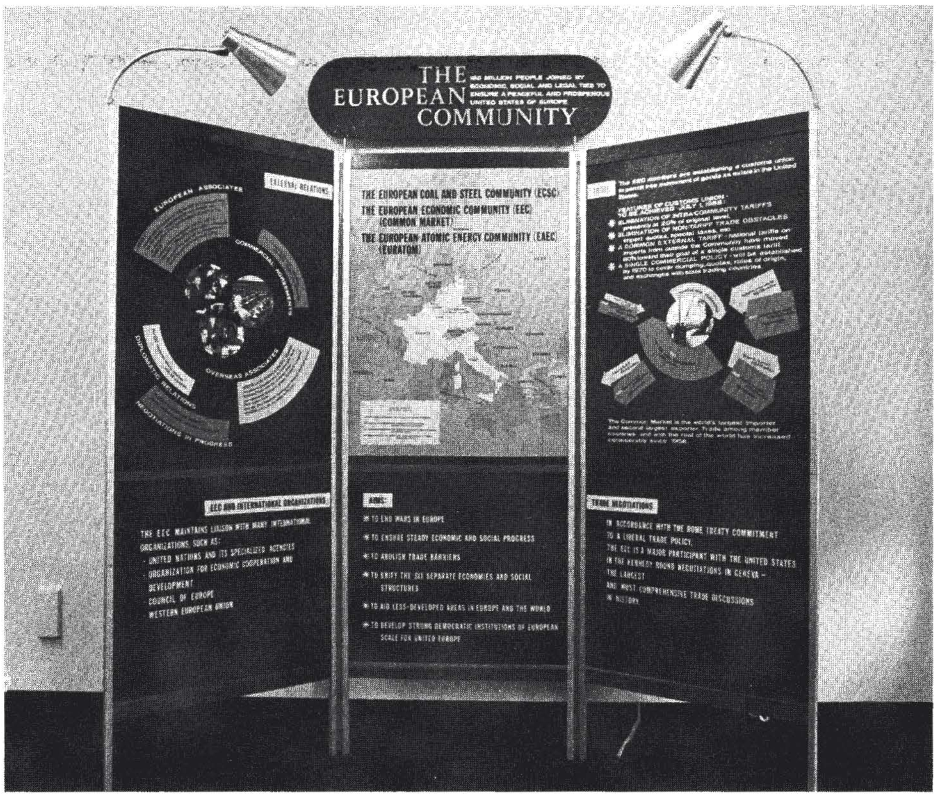

The European Community Information Service will lend schools, libraries, civic associations, and other interested organizations this exhibit on the Community, free of charge; but reservations should be made early. Panels show different aspects of Community affairs: external relations, trade, nuclear energy, and the Community's association with Africa. Standing, the display measures 28 inches deep by 70 inches wide. It is 7 feet 4 inches high, including the headboard and lights. Panels, lights, and frame fit into a wooden crate especially built for safe shipment.

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