THE EUROPEAN COMMON MARKET

Address by Leonard Rist

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It is indeed a pleasure to address a group such as this, particularly on the subject assigned to me. Your daily concern is new business. If I speak about the Common Market and what it may mean in terms of new business and particularly new business relations, I can at least count on a favorable prejudice on your part. In view of the short time available I shall concentrate on policy problems rather than on figures.

I should however say, at the outset, that I feel some humility at the thought of talking about the European Economic Community in the presence of Mr. Paul Hoffman. His achievements in Europe are well known to all of us. But one of them deserves to be singled out today. His enthusiasm for international cooperation, his faith in the productive capacity of the European economies, his conviction that the wounds of war could heal if business activity and hopes for better living could be stimulated, and the warmth with which he conveyed his ideas are directly responsible for the rather bold concepts which underlie what we call the "Common Market."

The manner in which Mr. Hoffman has directed American economic aid to Europe has achieved two great moral results: (1) he helped restore the self-confidence of the nations which American contributions were assisting, and (2) he helped restore the self-confidence of the business community in the same countries. The Common Market treaty is a direct consequence of this truly spiritual change. Those of you who, over the last five years, have travelled through Europe must remember the self-reliance which characterizes the European entrepreneur today, and his readiness, sometimes even his impatience, to meet the challenge of increased international competition. This is in essence the philosophy of the European Economic Community: an increased challenge to production, to marketing, and, generally, to inventiveness on a broader international scale.

The word "integration" has often been used to describe the process now under way. If literally interpreted, this is perhaps too ambitious a description. Strictly speaking, the word integration may imply in the mind of many people deep political consequences; it implies substantial surrender of sovereignty in the field of internal and external policies; it implies some kind of a merger of nationalities. Neither the Benelux Customs Union, nor the Coal and Steel Community, the two predecessors of the Common Market, reach outside of the economic field. And the European Economic Community does not go further, nor does it need to go further. It rests on the common realization that, given the elimination of the main points of political friction, which has now been realized, a broadening of trade competition would be to the advantage of all and should lead to accelerated economic progress. How far the advance of economic integration may facilitate further rapprochement in the political field is wisely left for the future to determine. At present, the point is that there are enough common interests in the purely economic sphere for economic expansion to be considered a common goal, worth some sacrifices.

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Belgium, France, Germany, Holland, Italy and Luxemburg are now the six members of the Community. In fact, they form only four customs groups since Belgium, Holland and Luxemburg are already associated in Benelux. The main features of their agreement are well known: (1) over a period of 12 to 15 years they will abolish tariffs and other trade restrictions between themselves; (2) during the same period they will establish a common tariff with the outside world. A few technical details are in order at this point.

The internal elimination of trade barriers is to be brought about in three four-year periods - a breathing spell may be granted if necessary. Each four-year period can be extended provided all extensions together do not prolong the total over 15 years. By next January 1st each member will cut each of its duties by 10%. Further reductions must be achieved by successive stages so that the overall tariff level of each state will be lowered by at least 30% at the end of the first four-year period. In order to ensure that all duties are being reduced and not only those whose reduction would hurt least, the minimum reduction for any single duty during the first stage would be 20%. At the end of the second stage, which will also be progressive, the total reduction should reach 60%, the total reduction on any single duty being at least 35%. At the end of the third period of four years, all remaining duties will have been abolished as between the members.

It should also be mentioned that export duties and equivalent taxes will be eliminated by the end of the first stage.

We know all too well that tariffs are not the only form of restriction on commercial trade - quantitative restrictions are today quite important. The Treaty provides that they, too, shall be progressively abolished over the three stages.

Finally, to the extent there exist export restrictions, they will have to be eliminated by the end of the first year.

So much for the trade among the Six. The trade of the Six with the rest of the world will eventually be subject to a single common external tariff which, at the end of the 12 or 15-year period, will be - unless otherwise provided - the arithmetic average of the rates applied by January 1st 1957. There are exceptions to this rule: some duties will be higher and some lower than the arithmetic average. A number of them have already been fixed. More generally, duties on raw materials cannot exceed 3%, those on semi-finished products 10%, for inorganic chemicals 15%, and for organic chemicals 25%.

This common tariff, as well as other commercial policy features, will be subject to international negotiations like any established tariff is now, but the negotiations will be conducted by one group representing the Six countries. And it is not irrelevant to point out that during the recent discussions at GATT, one single group of delegates spoke on behalf of the Common Market and not on behalf of individual countries.

Some additional features are worth noting. A common agricultural policy is to be followed. Its purposes, to be sure, are those which are traditionally ascribed to agricultural policy: equitable standards of living for the agricultural population, stabilized markets, guaranteed supplies, reasonable prices, etc. If one takes account of the protectionist tradition which prevails in most member countries, it seems clear that one of the ways by which the sacrifices of the members may be minimized would be through common marketing arrangements. It is, however, much too early to forecast how much and how quickly agreement can be reached in the vexing field of agriculture.

There are others where the same is true, where the Treaty involves more than a mere broadening of markets. Take social policy. Over the period of 12 to 15 years, complete freedom of movements of people and freedom of establishment is to be realized within the Common Market. This is just as important for labor in search of work - and Italy is vitally interested in this - as for businesses in search of a proper location. Furthermore, working conditions will be equalized to a certain extent: equal paid holidays, equal wages for men and women are to be generally established in the second four-year period. In addition it is realized that some enterprises will be hurt by increased competition. They may have to close down or be transformed; this would entail unemployment and resettlement problems. A special social fund has been created for that purpose which would share in the support expenditures of the country thus affected.

This description would not be complete without a mention of the Overseas Territories - this means mainly French and Belgian Africa. These territories will be associated with the Common Market in this way: the metropolitan members will progressively abolish their tariffs against imports from the associated Overseas Territories; the territories, however, may continue to impose duties on imports from the Six in order to meet their development and industrialization needs. It should be mentioned that in order to facilitate this very development, a common fund has been created which over five years will allocate $580 million to investments both social and economic in the Overseas Territories. The French territories are to be the main beneficiaries since out of this total they will receive some $500 million, while the contribution of metropolitan France is only $200 million.

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We have already drifted into finance. This is a subject of some importance. In the first place, transfer restrictions are to be abolished progressively between the members and this, as the Treaty specifically indicates, involves elimination as far as possible of all obstacles to capital movements within the Market. Coupled with the freedom of establishment, this ought to be over the years a strong incentive to the creation of new enterprises in the location most suited to them.

In the second place, realizing that private capital movements may not satisfy all the urgent needs, a European Investment Bank has been established with a capital of one billion dollars, for the purpose of financing within the Community general investment projects of a public character as well as for the modernization or reconversion of industrial plants and, last but not least, for the development of underdeveloped areas, a clear hint to Southern Italy.

In the third place, the monetary implications of the Common Market are not always properly appreciated. True, there are escape clauses which allow in case of need for an interval of a year or two to separate the various stages. True also, there are escape clauses which provide that if a country finds itself in a serious payment crisis, it can take safeguarding measures, and this probably means a return to some form of import restrictions. But the use of the escape clauses is subject to the approval of the governing bodies of the Community. Moreover, the country concerned is not free to chose the nature, extent or duration of these measures without the same approval.

This can only mean one thing: it is generally recognized by the members of the Community that they cannot have widely divergent fiscal and monetary policies. The Treaty provides for a continuous consultation on these matters. But, more effective even than consultations, the member countries will be subject to a considerable element of constraint by the mere fact that they have accepted to discard the traditional defensive weapon against the effects of unwise monetary policies in their relations with one another.

It is often said that a degree of convertibility not only within the Community but with the rest of the world is an indispensable condition for the proper working of the Common Market. This is undoubtedly true, but one may just as well say that the very existence of the Common Market will force upon its members fiscal and monetary policies which should result in external equilibrium, and hence in a certain degree of convertibility.

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What then can we expect the consequences of this set up to be? Some of them would affect the 160 million people living within the area; some of them the rest of the world. So far as the area itself is concerned, the likely developments are clear enough. It is the ambition of the Six countries to facilitate the improvement of the welfare of the 160 million inhabitants by enlarging the prospects of all of them. For many years, the European countries have looked at the United States with some envy and admired the effect of broader markets on the productivity of American industry. The purpose of the Treaty is to achieve the same thing in Europe. With a reasonable degree of monetary stability, with easy movements of people and capital, with progressive and even more important - predictable reductions and abolitions of trade barriers, enterprises can plan ahead today. This means that they will plan, and already plan for more specialized, more efficient production, that they will invest in the hope of selling more widely. Some of them will suffer but, as I indicated before, this challenge has been consciously accepted.

What does it mean to the outside world? For some commodities, such as raw materials or foodstuffs which are not readily produced in the area or in the overseas territories, it obviously means increasing imports into Europe. If the optimistic forecast made by some of the advocates of the Common Market comes true, and if industrial production and standard of living continue to rise at the remarkably quick rate at which they have risen for the last five years, in these countries, this may mean that the demand for raw materials and foodstuffs will increase even more quickly in continental Europe than elsewhere. But that is only part of the picture. The challenge which the six European nations are accepting, they are also offering to the other countries. They will compete in their own territories with imports of manufactured goods and they will also do so in third markets.

It is impossible to state in general whether imports of manufactures will be subject to higher or lower tariffs in the end than they are now. This depends on the product in question; it depends also on the amount of trade which the specific manufacturer has now with high or low tariff countries. It can be said in very broad terms that Benelux has on the whole a low tariff, while France and Italy have higher ones, but generalizations of this kind are of little significance in the long run. It is, therefore, not possible to know today whether at first the demand for manufactured goods imports will tend to increase soon or not. But two things seem certain. One is that the increase in income which we can expect to take place in Europe will, by itself, bring an increased demand for more manufactured products, including foreign manufactures. The second, is that it will be tempting for a number of foreign manufacturers to establish themselves in Europe, bringing their patents, their capital and their know-how, in order to enjoy a free access to a market not of 40 or 50 million people only but to a market of 160 million.

All of you know how many firms in the United States are already studying European conditions to find out where a plant would be best located. Many of your have probably also heard of the tendencies evidenced by those firms which are already established in Europe to prepare for specialization of their production in the different branches or subsidiaries which they may already have abroad, and this is truly in the spirit of the European Community. And incidentally, with more products to merchandize, more specialties to bring to the markets, the advertising trade should find a bright new field to exploit.

But that is not all. If one is thinking of expanding one's activities in six countries, one cannot help thinking also of extending them in third markets. There, the Common Market manufacturers will tend to compete with the traditional suppliers. If they really manage to lower their costs on the basis of more efficient production, their desire to export in third markets will be stimulated.

Some people have looked askance at the great demand for capital which Europe itself will inevitably experience and have concluded that the Six will not be a source of capital for investment abroad. Some Latin American countries seem to have expressed particular concern on this point. Unless, however, the Common Market brings about so much disillusionment that it can be considered a failure, the very fact that it is a success should mean that, after a while at least, both income and savings will tend to increase in the Six countries, and that, therefore, investment opportunities outside Europe have a fair chance to attract capital of European origin. This ought to be particularly true if export trade is thereby facilitated. There is, thus, no reason to believe that the underdeveloped areas of the world - which are the great hope of future exporters - will be less of a market in the future than they are now simply because the European Community has come to life.

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The picture, thus, seems to round itself up: stimulation within the area, including an invitation to foreign investment, increased import demand accompanied by increased exports. But is that all? To be fair, one should add one or two remarks. The future role of the European Economic Community in international trade will depend to a considerable degree on its ability to avoid high costs of production. This, in turn, implies that the cost of living, including the cost of agricultural products, should not rise unduly. This point is so obvious that it requires no comment, except to emphasize that every country knows how difficult it is to combine a low cost of foodstuffs to the consumer with sufficient incentive to encourage higher productivity in the fields.

The other condition is that the Community should not be satisfied with competition only within the area itself, that it should be accessible to trade negotiations with others and that it should seek to enlarge its own markets. This is exactly the problem involved in the present negotiations concerning the Free Trade Area.

The Free Trade Area would consist of the Six Common Market countries and the other members of the OEEC, i.e. the United Kingdom, Austria, Switzerland, the Scandinavian countries, Ireland, Portugal, Greece and Turkey.

A Free Trade Area differs from a customs union in that the Free Trade Area members retain their own tariffs vis-a-vis third countries while abolishing all internal trade restrictions within the Area.

Why did the Common Market not seem attractive to some members of OEEC? Various reasons can be given for various countries. For some, such as Switzerland, a simple customs union appears to mean giving up part of their political sovereignty rights. The United Kingdom, as the center of the Commonwealth, also considers a full participation in the Common Market incompatible with her present Commonwealth arrangements. The Scandinavian countries have been contemplating a customs union of their own for a long time, and are still not sure whether their specific problems would not warrant a specific, meaning "Scandinavian," solution. Moreover, many countries have a relatively low tariff for manufactures and would prefer to keep their freedom of decision in this field, a freedom which is preserved in the Free Trade Area system.

All the OEEC countries, however, realized right from the beginning that a closer cooperation in the field of trade and economic policy with the Six would be highly desirable, and that a Free Trade Area might well be the proper way to achieve this goal.

The negotiators have run into some very intricate problems. The United Kingdom wishes to exclude the agricultural sector from the Free Trade Area, and at the same time wants to safeguard its preferential trade arrangements with the other Commonwealth nations. Denmark is torn between the desire to have orderly market arrangements for its agricultural products and wide outlets for its industries. Greece and Turkey suggest special dispensations, and additional financial assistance for underdeveloped areas. And for all prospective Free Trade Area members together, the problem of how to prevent low-duty imports into one country from being shipped duty-free to other members also presents a hard nut to crack from a merely administrative standpoint. Moreover, just to mention one more stumbling block, diverging tendencies have made themselves felt within the Common Market itself. Some feel that the expectation of still wider markets makes it worthwhile opening the territory of the Six to foreign competition on free entry terms. Others feel that unless conditions are absolutely equal, as is the case within the Common Market, the game is not worth it.

The controversy has at times been quite bitter. Suggestions were heard to the effect that the Common Market would tend to turn into a protectionist area. Let me just comment that it is hardly fair to predict such developments at the very time when the members of the Community are preparing for the first lowering of their mutual tariffs. How this step will affect them may give us an indication of their future behavior. We cannot forget that Italy - traditionally considered rather protectionist - has liberalized its foreign trade over the last few years at a remarkable rate in spite of strong objections on the part of some of its own citizens. The beneficial effects of this liberalization have been convincing enough to erase the doubts expressed in earlier years. Only time will tell whether more or less liberal tendencies will dominate in the Common Market as a whole, and this in turn may depend in part on whether reciprocal concessions as between the Six and their trade partners can bring about an expansionist rather than a restrictionist climate.

It would be surprising, however, if some acceptable solution were not arrived at. The closer economic cooperation among Free Europe achieved over the last ten years in the framework of the Organization for European Economic Cooperation has - as Mr. Hoffman had so often predicted - proved profitable for each individual country and for world trade in general. A few figures may illustrate this point. Between 1948 and 1956, for instance, total imports of the OEEC countries from all other OEEC partners have risen from $7.9 billion to $19 billion: this represents an increase of almost 150%. In the same period, imports of the Free Trade Area from the

Common Market have almost trebled. Exports of the rest of the world, including the United States and Canada, to the Free Trade Area have also gone up substantially. It should be assumed that this upward trend would continue even more energetically if the market prospects were enlarged not only to 160 million people but to a territory of 240 million.

A second indication is given by the desire of the major industries in the Free Trade Area countries to arrive at some agreement. A joint statement by the industrial federations of the Scandinavian countries, Britain, Austria and Switzerland, recently released, provides evidence of their solidarity and common desire to establish the Free Trade Area.

What has been said of the beneficial effects of the Common Market applies equally to the Free Trade Area with its vastly greater human and material resources. There can be little doubt that both intra-European and world trade would gain from a higher degree of specialization, a more economical use of resources and consequently a higher income and demand for commodities and services of all kinds. No doubt either the incentives to international investment would be increased.

And if I may end on a more personal note, there can be no doubt that the ability and resourcefulness of the advertising profession are going to be called upon to help in this expansion. Ever greater flexibility and imagination will be necessary to carry old and new products to old and new markets. Appeals in many languages will be needed, adjusted to diversified national psychologies. This is still another challenge decidedly outside the scope of my competence - but decidedly within yours.

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