

The "Outer Seven" Trade Plan

The draft plan for a European Free Trade Association accepted in principle by Ministers from seven countries meeting in Stockholm in July was presented to Parliament the same month as a White Paper (Cmd. 823) which is here summarised.

THE declared object of the proposed European Free Trade Association ("The Seven") is to strengthen the economies of its members by promoting expansion of economic activity, full employment, a rising standard of living and financial stability.

The countries are: Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

Once established, the Area would attempt to secure removal of trade barriers between the non-communist countries of Western Europe. To this end it would initiate negotiations with the European Economic Community (the "Common Market") and other members of the Organisation for European Economic Co-operation.

At the Stockholm meeting, Ministers instructed officials to prepare a draft Convention, for submission to them by October 31, covering the following points:—

Elimination of Tariffs. Tariffs on goods originating in the Area are to be progressively reduced and completely eliminated by not later than January 1, 1970. The first reduction of 20 per cent will be made on July 1, 1960. Further reductions of 10 per cent. will be made on January 1, 1962, July 1, 1963, and January 1, 1965, and thereafter annually on January 1. Any member may reduce its tariffs more rapidly.

Revenue Duties will not be affected but any protective elements on goods covered by the Convention will be eliminated.

The **base date** for determining the tariff rates which are to be progressively reduced will be January 1, 1960.

Drawback of duties will be abolished during the transitional period. This is a complex matter requiring further consideration. The advice of experts will be needed.

Quantitative Restrictions on Imports. Simultaneously with the reduction of tariff duties, each Member country will progressively increase the quota of goods permitted to be imported from other Member countries. All quota restrictions between the Seven are to be removed by not later than January 1, 1970. Quantitative restrictions will not be used to create a preferential system between Members. Where at present quotas are either very small, or particular imports are prohibited, appropriate quotas will be established in July, 1960, and progressively increased.

Escape Clauses. If a Member country finds itself in serious balance of payments difficulties, or if increased imports from other Members lead to an appreciable increase in unemployment in a particular industry or region, it will be allowed to apply certain "defensive measures". One would be to freeze imports for not more than eighteen months at the normal level then ruling.

Origin. Goods will be regarded as having originated

within the Area if 50 per cent. of their value has been added in the Area. Certain basic materials (to be listed) will be treated as if they had originated within the Area. The same procedure will be adopted in the case of goods from third countries which have undergone certain processes within the Area. These have yet to be determined. For **textiles**, more restrictive arrangements will be devised. Any country will be free to adopt more liberal **Origin** rules and all Member countries will be obliged to liberalise the rules wherever possible. No Member should do anything to cause "deflection of trade".

Rules of Competition. No Member may take or permit action which would frustrate the benefits which other countries expect to derive from membership. There will be a complaints procedure with provision for redress against, or compensation for, any practices having that effect, whether they are undertaken by Member countries or by private firms in Member countries. Specifically, "restrictive business practices are incompatible with a free trade area". So are the use of "public undertakings and commercial State monopolies as an instrument of protection and trade discrimination on grounds of nationality." Member countries should neither subsidise, tax nor restrict exports to other countries within the Area.

Dumping. Members will be free to apply anti-dumping rules against each other, and to re-export "dumped" goods to the Member country from which they have been shipped or in which they originated.

Freedom of Establishment. A Member country will not discriminate against a national of another Area country who wishes to establish a business in its territory.

The foregoing rules apply to all products **except** agricultural and fish and other marine products.

Agriculture. Increased inter-Area trade in farm products is accepted as desirable. It would be the subject of a special agreement. This would take into account present agricultural policies and the need for reciprocity. Delegations promised to consider carefully the Danish representations.

Marine Products should be treated as a separate, independent problem. The Austrians, Danes, Portuguese and Swedes endorsed a Norwegian proposal that some types of industrially processed fish, etc. should be treated as industrial goods. The British delegation refused to accept frozen fillets or frozen crustaceans and molluscs as industrial goods but conditionally promised to "give sympathetic consideration" to the balance of Norway's plea. The British could not contemplate duty-free treatment of "non-industrial" sea foods.

Institutions. These will be kept as simple as possible. Decisions will be taken by a Council of Ministers who will maintain close contact with the O.E.E.C. Voting

methods and whether a permanent secretariat is needed will be considered later. Membership of the Association will be open to other countries ready to assume its obligation.

The **Danish proposal on agriculture** is published as an annex to the White Paper. It urges that each Member country should agree to adapt its import and support policies so that other Member countries are able to maintain their traditional markets and to obtain a fair increase in their share of the market. Tariffs should be reduced or abolished in respect of agricultural products in which a Member country has an export interest *vis-a-vis* other Members. Quantitative restrictions and similar measures should be stabilised and, by agreement, either removed or increased imports permitted. The harmful effects on trade of production subsidies should be gradually eliminated; and, by agreement between interested Members, certain specific subsidies which are of particularly harmful effect to food-exporting Member countries should be gradually eliminated. A programme for the abolition of subsidies which foster agricultural exports should be established by the Council before the end of 1961.

The **Norwegian proposal for a special agreement on fish and other marine products** is also published as an appendix. It calls on Member countries to bring about freer and increased trade in these commodities and thus "ensure that production factors shall be used in a rational manner". If this provoked serious economic or social disturbances in a Member country, it should be permitted to take temporary, non-discriminatory protective measures after consultation (wherever possible) with the Council. On request, it should negotiate with Member countries adversely affected with a view to alleviating any material damage its action might cause.

How the West Can Help Asia

Extract from the Chairman's Statement to the Annual
General Meeting of The Chartered Bank

IT IS generally recognised that the developing of the natural resources of the South East Asian countries and the raising of the standard of living there is of vital importance to future peace and progress in the world.

This challenge is being accepted by the Western Powers in a most understanding and generous manner and the extent to which aid and credit is given to the newly independent nations of the area is staggering. Very few of the countries concerned would survive economically were it not for the tremendous infusion of assistance they receive and one can only hope that wise counsel and incorruptibility within these countries and a tolerant direction from the donors will help attain the objective of self-supporting economies with ever increasing exports.

This objective cannot be reconciled with a western fear

of Asian competition and attempts to avoid that competition and, in this connection perhaps too little significance has been given to the attitude of the United Kingdom Government in acquiescing in limitations on the textile shipments from Hong Kong to the United Kingdom.

This particular issue raises a principle of major importance in matters of international trade. The communiqué issued last October at the conclusion of the Commonwealth Trade and Economic Conference at Montreal "recognised how important it is that obstacles should not be placed in the way of the export of manufactured goods of the underdeveloped members of the Commonwealth and agreed that Commonwealth governments will give full weight to this consideration whenever decisions are necessary concerning the terms of access of such goods to their markets."

The distinguished economists who compiled for G.A.T.T. the Haberler report on *Trends in International Trade*, which was published the same month, consider that "it may be a natural and economic development that relatively poor countries with high population densities, like India and Hong Kong, should export cheap labour-intensive manufactures." They therefore suggest that "it is of great importance that the highly developed countries should refrain from protecting their domestic industries from such imports."

It seems regrettable, therefore, that many in this country who in theory are in favour of raising Asian living standards have not felt it inconsistent also to argue in favour of imposing such restrictions on the grounds that goods produced by what they term cheap labour compete unfairly with those manufactured at higher cost in the United Kingdom.

This sort of reasoning strikes at the very root of international trade and if it were to gain wide acceptance, might well be invoked, to take an important example, to justify the virtual exclusion of British manufactures from the United States market.

It cannot be too strongly emphasised that what is by standards in this country, relatively cheap labour, need not be exploited labour and that in the case of Hong Kong the government has taken already active steps to improve working conditions.

In this context it is perhaps ironical that in a recent announcement the United Kingdom government pledged itself to support Hong Kong fully in resisting the attempts of American manufacturers to force Hong Kong into voluntarily restricting its textile exports to the United States.

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Readers are asked to note that our address is 177 Vauxhall Bridge Road, London, S.W.1. Many letters are still being sent to our previous address in Great Smith Street—now a cleared site—and to 117 Vauxhall Bridge Road.

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LAND AND LIBERTY