EDITORIAL COMMENTS

The Monnet Committee Reports

The Reports submitted to the meeting of the Monnet Committee at its meeting in Brussels last July were clearly of the highest importance in any new assessment of the problems and opportunities surrounding a possible expansion of the European Communities; the Reports have been studied in Britain during the summer and must now be read in conjunction with the views of the Commission of the EEC (in a revised version of its 1967 survey of the British application for membership of the Community) which have just been submitted to member Governments of the Six. The Monnet Committee Reports were prepared by M. Edgar Pisani (on agriculture), by Signor Carli and Professor Triffin (on monetary policy), by Professor Hallstein (on the institutions of an enlarged Community), and by Lord Plowden and Dr. Carl Winnaecker (on technological collaboration). M. Pisani explained why Britain must change over to the levy system and accept the principle of joint financing of a common agricultural policy, and also why the Community should, as a matter of urgency, undertake the structural reform of its own agriculture along certain of the lines of the Mansholt Plan. The reports by Signor Carli and Professor Triffin see the negotiations for British entry as necessarily providing opportunities for reform of the international monetary system, and for strengthening the co-ordination between economic and monetary policies. They do not place weight on the arguments that the reserve role of sterling or the extent of Britain's short- or medium-term indebtedness are obstacles to British candidature. Professor Hallstein's views on the institutional achievements of the Community, and on the future institutional path toward greater interdependence between the members of an enlarged Community, are of the greatest interest. He asks a number of pertinent questions which should receive the closest attention within the Community and within the candidate countries. How best can the independence and the effectiveness of the Commission be secured? Should it be dependent on investiture by the European Parliament? Should it perhaps be reduced in size to a body of nine members even though not every member State would then be represented? How best may majority decision-making in the Council be achieved? Here he suggests the Parliament might have the responsibility of taking both legislative and budgetary decisions, amongst the former, decisions on proposals for whose adoption a qualified majority would be sufficient, and on which the Council had failed to agree within an appropriate time-limit. Professor Hallstein's over-all view remains that of a Community moving gradually toward a federal union and assuming a two-tiered structure, with the Parliament elected by direct suffrage and the Council evolving into a Senate-like body representative of the States. Of these projections one can only say that, especially in the light of recent events, the Community still has need of its visionaries. The report on technological collaboration contains some illuminating comparisons between the problems of industrial sectors within Britain and the Six, and comes to the conclusion that:

> " So far as technology is concerned, nothing stands in the way of Great Britain entering the European Economic Community. On the contrary, the scientific and industrial contribution of Britain within an enlarged and integrated Community could reinforce appreciably the potential of the Six."

The latest statement of views by the Commission is due to be discussed by the Council of Ministers on October 17, as part of the preparations for the November " summit " meeting at The Hague. It appears to re-affirm the view that negotiations should be opened without delay between the Community and Britain, Ireland, Denmark and Norway, and to contain a general statement of the Commission's attitude toward the need for strengthening the Community's institutional mechanisms and rethinking the economic and political aims of the grouping at a time when not only its size, but also its whole future path, is in the balance. The Monnet Committee reports will materially assist this rethinking.

Nordek and the Communities

When the six Common Market countries, in December 1967, could not agree amongst themselves to start negotiations for membership of the Communities with the applicant countries, it became clear that the latter had to look for alternatives to take care of their interests in relation to their most important trading partners. Thus the Danish Prime Minister, Mr. Baunsgaard, launched an initiative to expand the Scandinavian co-operation already existing in a number of fields into a Nordic economic union. On the basis of a preliminary report drawn up by a Committee of High Officials in the beginning of this year, a draft treaty has now been published to establish an organisation for Nordic Economic Co-operation (Nordek) between Denmark, Norway, Sweden and Finland. At the outset the preamble makes clear its origin as a provisional measure, *i.e.*, as a means to facilitate the signatories' participation in, or co-operation with, an enlarged European market. Furthermore, in view of the differing commitments of the member States in the international scene, it is provided that their economic co-operation shall not affect their foreign and security policies. The first object of the draft treaty is to create a customs union. To this end it is foreseen that a common customs tariff for industrial products will enter into force on January 1, 1972. At that date all import duties and quantitative restrictions between the member States on these products must be abolished. For agricultural and fisheries products a special régime is foreseen which requires further implementing measures on the part of the ministerial Council. In these areas no agreement could be reached at this stage as to the specific obligations to be accepted, except for the creation of Agricultural and Fishery Funds. The main purpose of these funds will be to finance structural changes. However, the respective contributions of the member States to these funds remain yet to be fixed. Going beyond the free movement of goods, the draft Treaty also aims at liberalizing the movement of persons and capital. Here again no fixed time-limits are foreseen, and in the case of establishment and services, no agreement could be reached on the privileges which would be granted to citizens in the respective countries. As far as the harmonization of economic policies is concerned, the draft Treaty is even more vague. The contracting parties agree simply to discuss their economic development with each other, but leave the formulation of binding decisions to a later stage.

Although Denmark had expressed a preference for a stronger institutional structure, along the lines of the EEC Treaty, to accomplish and develop the co-operation foreseen in the treaty, the other governments insisted upon a strictly intergovernmental machinery. The main decision-making organ is a Council of Ministers, consisting of one member of each of the Governments, which will decide by unanimity. Certain decisions may be delegated to a Permanent Committee of government officials, except where legislative measures are required. An independent Secretariat under the leadership of four directors is foreseen, with the right to submit proposals to the Council of Ministers.

Whether or not the Nordek plans will ever come into operation depends substantially upon the outcome of the political processes, currently under way both in Britain and in the Six, which are concerned with an expansion of the Community. On the British side all three political parties have recently re-affirmed their support for policies which aim at bringing Britain into the Community, although the reservations expressed in the conferences of the two major parties indicate strongly that the final battle has not yet been won. On the Continent there is a growing realisation that the internal strengthening (the so-called *achèvement* and *approfondissement*) of the Communities is inextricably linked with the *élargissement*, the decision on the adhesion of new members. The coming summit meeting in The Hague may in this respect be decisive. The Commission has, in its latest advice to the Council,[1] indicated the road to be followed should negotiations be started. On the one hand it insists upon the admission of all four candidate countries being effectuated at one and the same time, on the other hand it explains that priority must be given to negotiations with Britain, since on the outcome of these will depend the adhesion of Denmark, Norway and Ireland. The Commission proposes to play a central role during the first phase of the negotiations, in which the formulation of both present and future Community policies would be discussed; it is only during the second phase that the member States, within the framework of the Council, play a leading role in negotiations on the more specifically political questions, such as the general consequences of an enlargement, the institutional structure, and the adaptation of the Treaty texts. One

[1] COM (69) 1000, September 30, 1969 (updating the advice of October 1, 1967).

may certainly agree with the Commission that in this way negotiations could be conducted more efficiently than was the case in the abortive attempt made in 1962–63.

Should negotiations for an expansion of the Community succeed, the Nordek plans may become superfluous; in the light of what has been said above, one may question whether this would be a matter for regret.

Devaluation and revaluation : an evaluation

The monetary decisions taken in recent months by two member States, France and Germany, have demonstrated once more that the European Community has still a long way to go before a solid economic union can be achieved. Although in a number of fields, policies have been harmonized or even unified, the life of these common structures remains largely dependent on the will and skill of the member States to abide by the principles of the game laid down in Articles 104 *et seq.* of the EEC Treaty. When France, due to serious balance of payments difficulties, announced the devaluation of the franc, it was clear that this change in parity would not leave the common price system in agriculture untouched, expressed, as it is, in units of account based on the existing currency parities. In effect the choice had to be made between either modifying the unit of account in order to adjust it to the new national French price level, or to permit the sale of French agricultural products at lower prices in the Common Market, thereby distorting the careful balance of economic competition between farmers of the Six. When, for politically understandable reasons, the Council could not agree on the first solution, the second was equally unacceptable. Therefore, a third measure had to be envisaged, permitting the nationally beneficial efforts of the devaluation to continue while reducing as much as possible the danger of adverse consequence to the agricultural markets of the other Member countries. Finally, a decision was taken to isolate for a year—and possibly longer—the French market from those of the other member States.

This storm had hardly subsided when a new crisis occurred, this time in Germany. For reasons contrary to those of the French, the outgoing German Government decided to order the Bundesbank to suspend its interventions on the gold and dollar markets on behalf of the German mark. The net result of this decision was that the parity of this currency was henceforth determined solely by supply and demand. In the agricultural field, this meant that imports into Germany would become cheaper; maintaining the target and intervention prices at the fixed parity would have attracted such a surplus from elsewhere in the Common Market as would have diminished the German farmers' income. Thereupon the German Government unilaterally decided—contrary to the French solution —to impose a levy on the import of all products affected by the common agricultural market organization; the purpose of this operation being to protect the German farmers. In fact this decision achieved exactly the contrary effect on the balance of payments to that desired by the German

Government when it established a floating rate for the mark, *viz.*, to allow an increase in imports from other countries. Quite naturally the European Commission in Brussels could not accept this situation. It took advantage of the Federal Government's request for an application of Article 226 of the EEC Treaty and issued a decision, temporarily authorizing the German Government to suspend imports into Germany for a limited number of agricultural products and expressly excluding any other unilateral measures. In this way the Commission took the initiative in its own hands, forcing the German Government either to break the law openly or to bring the matter into court. Even though the latter course was followed in summary proceedings held on the Sunday, the European Court saw no reason to grant the German request to suspend the application of the Commission decision—by this time it had become clear that only a political decision by the Council of Ministers could alleviate the tensions resulting from this violent clash between Community and national interests. The Council, in a meeting held the day after the session of the court, officially expressed its sympathy for the German decision to keep the parity of the mark temporarily floating but at the same time stated that this situation was incompatible with the existence of the Common Market. It insisted that as soon as possible the new parities should be fixed and that prior consultations should be held to this end. The German member of the Council agreed with this declaration. Under these circumstances the Commission expressed its willingness to issue a new decision permitting certain levies to be applied temporarily, as a measure more compatible with the operation of a Common Market than a complete ban on imports. Nevertheless, it agreed to the suggestion in so far as the levy would apply to a far more limited group of products than originally envisaged by the German Government and secondly in that the amount of the levy should be a maximum of 5 per cent. (and for certain products $3\frac{1}{2}$ per cent.) instead of $5\frac{1}{2}$ per cent. as requested. In this way another hectic week in Brussels ended in which practically the whole machinery of the Community was involved in an effort to prevent too much damage to the operation of the common agricultural policy and to rectify a clearly illegal situation, while taking into account the interests of German farmers.

The political lessons to be drawn from these monetary exercises are clear. The point has been reached at which the member States must be prepared to accept a higher level of integration of their monetary and economic policies than at present exists, if they want to prevent the Community from gradually dissolving into a structure which can be called the "Common Market" in name only, but which is, in fact, no more than the sum of the six separate economies. This time the common agricultural market was not to blame but the patent inadequacy of national sovereignty to deal with problems on a larger scale.

One may hope that the Ministers of the Governments of the Six will have the political insight to face this fact when they meet in The Hague.