

REPORT ON THE EUROPEAN COMMON MARKET

The following report on the European Common Market discussions which took place at the Commonwealth Prime Ministers Conference in London from 10th to 19th September, 1962, is submitted for the information of this Honourable House.

2. The primary purpose of the Commonwealth Prime Ministers Conference this year was to discuss the implications for the Commonwealth of Britain's application for membership of the European Economic Community.

3. In the Common Market discussions, the United Kingdom opened the debate with a statement of the reasons which have led it to apply for membership in the EEC. These reasons were both political and economic. The United Kingdom is of the view that politically it cannot afford to remain outside of Europe and that a closer association with Europe is the only way in which rivalry in Europe can be curtailed and the prospect of further European wars diminished. In the economic field, the large unified market being created in Europe has provided a base for the expansion of European industry which in a short while would overshadow similar industries in the United Kingdom.

4. Many of the older Commonwealth members are of the view that Britain would lose its identity in Europe.

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In their view not only would membership in the Common Market weaken Britain but it would also automatically weaken Commonwealth ties. All Commonwealth members, however, whilst expressing their fears or disagreement with the assessment made by the U.K., conceded that the decision to join the E.E.C. was the responsibility and prerogative of the United Kingdom only.

5. For practical purposes, therefore, we in Jamaica must examine the proceedings in the Conference on the assumption that Britain will join.

6. On this assumption, the effect on Commonwealth trade was examined by a number of working groups each dealing with a broad but homogeneous range of problems. The first group dealt with temperate products. It is quite clear that Canada, Australia and particularly New Zealand, will suffer damage to their trade because the duty-free entry into the U.K. market which they have enjoyed up to now will cease, and production of temperate foodstuffs within the Community will be protected by tariff and by managed agricultural markets. The second broad group concerned India, Pakistan and Ceylon - the three countries embracing vast tropical and sub-tropical areas, but which the Community is unwilling to regard as eligible for associate status. Britain has been able to negotiate special arrangements in respect of some of the exports of these countries, and an especially favourable arrangement has been made for tea which will be admitted duty-free into the Community. The main hope of the Asian group, however, rests on the offer by the Community to negotiate a trade agreement before 1964. The Jamaica delegation took no part in the deliberations of these two groups.

7. The third group dealt with tropical products, raw materials and the question of association of overseas territories with the enlarged Community. There were several sub-groups which held discussions on a commodity basis. Since, however, the attitude to the treatment of commodities by the enlarged Community is largely influenced by the decision to be taken by the country concerned as to whether it will accept association, it is best to examine first the

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question of association.

8. Provision is made under Part IV of the Treaty of Rome for the grant of associate status to certain countries, dependent or independent, which can be regarded as under-developed and which have enjoyed a close association with the members of the Community. At present there are 16 such countries, mainly in Africa, who have this association which so far involves the following:-

- (1) duty-free entry into the markets of the Community of all the products of the associates;
- (2) duty-free entry of exports from the Community to the associates, save that the associates are free to levy revenue duties and duties to protect nascent industries when necessary: where such duties are imposed they must not discriminate between the members of the Community.
- (3) Development Fund: The members of the Community subscribe to a Development Fund from which grants and loans are made to the associated territories;
- (4) Institutions: There are certain institutions which have been set up to provide for the carrying out of the treaty of association.

With regard to (1) and (2) it must be observed that duty-free entry into the Community, and into the associated territories, is a position which will be reached in 1970 at which time the internal tariffs of the Six and their AOT's are scheduled to be eliminated. The present position is that the original tariffs of these countries have already been reduced by 60%; and it is now expected that the duty-free level will be reached before 1970.

9. The present association arrangements expire in December of this year. The Six and the existing Associates have been discussing a renewal of the association treaty for a further 5-year period. It is understood that agreement has been reached on most points save the size of the Development Fund. The new arrangements would follow substantially the previous arrangements except that, since so many of the African countries have become independent since the first treaty was signed, the Institutions will now provide that equal status be enjoyed both by representatives of the Associated Territories and by members of the Community. The U.K. reported that it had gained the agreement of the Six that should the U.K. be admitted to membership of the E.E.C. the British dependent territories with certain exceptions, notably Hong Kong and Aden, and the independent members of the Commonwealth in the Caribbean and Africa would be entitled to association if they so wished. The association would/

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would be on equal terms with the existing associates save that the British associates would not be entitled to draw on the Development Fund already set up by the existing members of the Community. The U.K., for its part, gave an undertaking that it would subscribe independently to additions to the Fund for use for the benefit of British members. The U.K. also hoped that members of the Community which previously had no association with overseas territories, e.g. Germany and such new members as may join with Britain, e.g. Norway and Denmark, would contribute to the Fund which would be available to British associated territories.

10. The African members of the Commonwealth, with the exception of Sierra Leone, all indicated that they would not wish to become associated territories because they feared that this would be a derogation from their political independence and, further, it would stand in the way of their efforts to develop African unity and a common market in Africa. The Government of Trinidad was in favour of association, whilst the Government of Jamaica stated that it would wish to reserve its position because -

- (a) the final treaty of association had not yet been completed and it would be necessary to know the full terms;
- (b) it wished to obtain a clearer picture of the future position of some of its commodities, notably bananas, citrus and sugar; and
- (c) it had given an undertaking that it would not commit itself before a full report was made to the Cabinet and Parliament in Jamaica.

11. In view of the attitude of the African members of the Commonwealth to association, the position taken by them in the commodity discussions was directed to having a reduction of the common external tariff and to the whittling down of any protection for producers situated within the Community or their associated territories. It is important to realise that should Jamaica wish to be a member, every concession made to the African point of view would be contrary to our interests; because quite clearly if we have association and therefore duty-free entry, the higher the common external tariff the more would Jamaica be protected. It is well to consider what would be Jamaica's economic future should U.K. decide to join and Jamaica decide not to join. For example, if the protected market for our bananas in the U.K. which we now enjoy is affected by Britain's entry our non-association will not solve the problem. In such event our position would appear to be more difficult. We submit that the only attitude

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Jamaica should currently take is to assume Britain's entry as an accomplished fact, and to examine what would be then best for us. Seeing that we do not share the political fears of the Africans, we can consider the situation purely from a standpoint of economics. In the commodity discussions, the Jamaica representatives constantly retained this fact as the guide for action.

COMMODITY DISCUSSION

BANANAS:

12. The position here is complicated by the fact that Jamaica bananas are protected in the U.K. not just by tariff but by quota restrictions, and the latter are far more important than the tariff. We would need at least 40% tariff protection were there no quota restriction. Our position in the discussion therefore was directed not only to the maintenance of a high common external tariff but to the preservation of a restricted market in our favour. Fortunately for us the French and Italians continue to maintain a restricted market in favour of their associated territories and the U.K. has undertaken that so long as the French and Italians continue to do so it will on its part impress on the Community that she also must be allowed to maintain a restricted market in favour of territories previously associated with her. It was felt that such a request would be reasonable and would no doubt be granted. If this position is obtained our position would appear to be protected in so far as the British market is concerned, much in the same manner as it now is, and we would also have the possible added advantage of duty-free entry into the markets of Germany, Belgium and any other members of the Community where quota restrictions do not apply.

CITRUS:

13. The present position is roughly the same as in Bananas, that is, our Citrus enjoys protection in the U.K. market much more as a result of import restrictions than by tariff. The U.K. proposed that there should be an increase in the common external tariff in order to provide protection for West Indian citrus producers. Jamaica pointed out that such an increase would not by itself be sufficient to protect the Jamaica citrus industry and that what we really were interested in was the maintenance, if possible, of dollar restrictions in the U.K. market. The U. K. representatives said that under the Treaty of Rome, until there was a common commercial policy which is unlikely to materialize before the end of the transition period in 1970, it will be possible for individual countries to maintain restrictions on dollar quotas on
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specified imports: the U.K. could therefore legally continue to apply such restrictions. There are, however, two points to be noted here. The first is that whilst dollar fruit will be kept out of the U.K. market, fruit from other members of the Community and their AOTs would not be so affected and could therefore enter the British market duty-free. Secondly, the continued application of dollar quotas is not a matter which rests with the U.K. only. It can be expected that very great pressures will be brought to bear by the U.S. to have these restrictions removed. Indeed, both in the case of Citrus and Bananas, Britain has for some time been under such pressure and had already notified us to anticipate removal of this form of protection.

SUGAR:

14. The position with Sugar is that not only do we enjoy a protected market but we also enjoy a premium price which is paid under the Commonwealth Sugar Agreement. Our efforts here were directed to ensuring that the Commonwealth Sugar Agreement remains intact until 1969, which is the date when it is due to expire, and that thereafter, if it cannot be renewed provision should be made for roughly similar benefits to countries of the Commonwealth which had hitherto benefited from the Commonwealth Sugar Agreement. In addition the Jamaica delegation requested that there should not be two levels of prices for beet and cane sugar, and that beet acreage be not increased.

15. As regards any special arrangements which it will be possible to make for Bananas, Sugar and Citrus, it is important to bear in mind that the U.K. representatives were of the view that such special arrangements would only be possible for an associated territory. In other words, the view was expressed by the U.K. that if Jamaica does not accept association it would be most unlikely that their Common Market partners would agree to any special arrangements being made for commodities like sugar purchased from a non-associate. This is obviously an important point in arriving at any future decision.

16. The other products of interest to Jamaica were not in the same category as the three mentioned above because they do not now enjoy any special protection outside of the tariff protection, and the main consideration therefore was to look at the common external tariff which was proposed.

BAUXITE, ALUMINA and ALUMINIUM are, however, in a special position in view of the fact that a large proportion of Jamaica's exports of alumina reaches Britain via Canadian exports of aluminium ingot to her. The proposed common external tariff on both alumina and aluminium is 9% and would apply equally to Britain in ECM instead of the nil tariff that now obtains. The Canadians are of the view that this tariff is too high and will result in a deflection of trade from Canada to other sources of alumina within the Community. Our attitude here/

here was to join with Canada in trying to have the common external tariff reduced to as low a duty as possible in view of our alumina sales to Canada. It would seem to be in Jamaica's interest to be an associated member if there is a tariff on alumina since we would at least have duty-free entry for our alumina into the Community, for processing into aluminium by a Community member. If Britain joins Norway is also likely to join and she is an aluminium producer. On the other hand if we are not associated, our alumina would become subject to the 9% import duty since alumina bears the same rate of duty as aluminium. The position with the Swedish market is somewhat complicated because Sweden may not become a full member of the Community but may become associated under Article 238 of the Treaty of Rome (not to be confused with association under Part IV). The Jamaica representatives pressed that, if Sweden becomes associated, arrangements should be made for Jamaican alumina to be admitted into Sweden duty-free. Here again it is more likely for Jamaica to have duty-free entry into Sweden if Jamaica is an associated territory than if we were not associated.

CIGARS:

17. As regards cigars, the Jamaican industry at present concentrates on high grade handmade cigars made primarily from indigenous leaf. The bulk of our cigar exports (about 85%) goes to the United Kingdom. Little appears to have been done in recent years to expand the export sale of our high grade cigars to other markets, although quite recently there has been some quickening of interest in the market in the U.S.A.

The present United Kingdom preference on cigars is only 3/- per lb. or about 4% on an ad valorem basis. Our main protection stems from quota restrictions which limit the quantity of cigars entering the country from Cuba - our chief competitor. Britain, however, so expanded Cuba's quota as to heavily reduce our potential.

On the other hand the common external tariff on cigars is an extremely high one of 80%. If we had associate status the level of tariff would afford us very effective protection against Cuban cigars; and we would of course have duty-free access to a much larger market.

RUM:

18. With regard to rum about half of our exports go to the United Kingdom, where the margin of preference is infinitesimal (2/6 in a duty of £10. 11. 2 per proof gallon). Moreover we also send 22% of our exports to ECM countries. If we get associate status, the common external tariff of 23/- per gallon will put us in

a more favourable position in the U.K. market than now obtains, and we will also be able to sell to better advantage than at present in the markets of the Six.

COCOA:

19. The Jamaica position in Cocoa should improve if we become associated because the common external tariff of the Six would be somewhat higher than the tariff preference we now have in the U.K. market. The world market price for cocoa is low, but Jamaica should be able to compete on the basis of quality.

20. As regards Coffee, Pimento and other crops, the Jamaica position should improve if we become associated because in the majority of cases the common external tariff would be higher than the present U.K. Most Favoured Nation tariff. We are competitive in these commodities and we will have the benefit of a greatly enlarged market in which to sell.

21. Finally, as regards manufactured goods, we should as an associated territory enjoy duty-free entry for all our exports of manufactured goods not only in the U.K. but in the markets of the enlarged community. At the same time we will not be prevented from levying protective duties aimed at protecting our growing industries.

22. There are other aspects of association which clearly will have to be considered. For example, it seems clear that the new associates will have to accept the new Treaty as given and they will not be allowed to participate in the negotiations before they become associated nor would they be able to change the terms which were negotiated before they joined: They would, however, be aware of what was agreed prior to joining. It is doubtful whether this will be a real restriction, since so far as we can see the terms of the Treaty are as variable, in so far as the associates are concerned, as we can reasonably expect. We know also that although the re-negotiation is not yet completed the only outstanding matter is the question of the size of the Development Fund.

23. Honourable members are asked to note particularly the expression of Jamaica's position in this matter as set out in paragraph 10 above.