

Memorandum of Conversation between the United Kingdom and the United States (Washington, 8 December 1959)

Caption: On 8 December 1959, a British Delegation arrives in Washington for talks on the establishment of a free-trade area in Europe.

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Memorandum of Conversation

London, December 8, 1959.

SUBJECT

Six and Seven

PARTICIPANTS

U.K.

Mr. Selwyn Lloyd, Foreign Secretary

Sir Paul Gore-Booth, Deputy Under Secretary, Foreign Office

Sir John Coulson, Deputy Under Secretary, Foreign Office

Mr. Heathcoat-Amory, Chancellor of the Exchequer

Sir Roger Makins, Joint Permanent Secretary, Treasury

Lord Perth, Minister of State, Colonial Office

Sir Dennis Rickett, Third Secretary, Treasury

Mr. R. W. B. Clarke, Third Secretary, Treasury

Mr. Roger Jackling, Deputy Under Secretary, Foreign Office

Mr. Reginald Maudling, President, Board of Trade

Mr. John Robinson, Foreign Office

Sir Frank Lee, Presently Permanent Secretary, Board of Trade; after January 1, Joint Permanent Secretary, Treasury

U.S.

Mr. Dillon, Under Secretary of State

Ambassador Whitney

Messrs. Beale, Evans, Leddy, Bean, Greenwald

[...]

Mr. Maudling reviewed the history of the FTA negotiations in the OEEC, supporting the Chancellor's comment on the importance of the OEEC in strengthening Europe politically and economically. He said that the U.K. had originally had mixed feelings about the Common Market and at first had misjudged the strength of "federalism" in the Six. They felt, however, that the Common Market would be good for Europe. When the Rome Treaty came into effect, the U.K. looked at the situation and seized upon a free trade area as the right solution which would hold Europe together and allow the Common Market to develop. They had gotten very close in the OEEC to agreement on a free trade area. But when they failed, they looked around for something else which would forestall the economic disintegration of Europe and the isolation of the U.K. Again the only way open in GATT seemed to be a free trade area. The organization of the Seven outside countries served to avoid a further fragmentation of economic relations in Europe and also provided a better basis for negotiations with the Six.

The main problem as Mr. Maudling saw it was to maintain the OEEC principle of non-discrimination through some kind of association which was consistent with the GATT. As far as the U.S. attitude was

concerned he thought the major issue was whether we wanted to preserve a system of European economic cooperation within the GATT framework. If we agreed on this objective, then he was sure the means could be found.

Mr. Dillon expressed his appreciation for the full and frank exposition by the U.K. Ministers. He would be equally frank in presenting these U.S. views. There was, he thought, no basic difference in objectives but we may be operating from different premises and evaluations.

The EEC, Mr. Dillon said, clearly has more political content than the EFTA. It had been the result of a series of efforts to achieve full European integration which would tie Germany and Italy very closely to the other countries of Western Europe. After the failure of the EDC, the economic path was chosen as the route to ultimate political union. Strong U.S. support for the Common Market stemmed basically from these political considerations which overcame the short run economic disadvantages for the U.S. We felt in the long run Europe would be economically and politically stronger and that was important in meeting the Communist threat. Also with complete economic integration within the area, the U.S. expected that there would be long run economic benefits. These considerations made it possible to present the EEC to the Congress and the U.S. public as being in our national interest. The U.S. did not feel that the establishment of the Six should lead to a "split" in Europe or NATO. It was hoped that the NATO structure and joint U.S.-U.K. influence could prevent the Common Market from leading to any political or economic difficulties. Mr. Dillon recognized, however, that the FTA row last year made for bad feelings in Europe. He thought that this had come about because some leaders in France and Germany felt that the FTA was incompatible with the development of the Six; only when the Common Market was further along in consolidating itself could negotiations with outside countries be undertaken. It was felt that the FTA was a real challenge and threat to the Common Market and under these circumstances the US could not actively press for a wider association.

Part of the difference in the evaluation of the effect of the Common Market on European cooperation stemmed from differences in U.S. and U.K. estimates of the prospects for a liberal trade policy in the Common Market. The U.S. feels that the Six will evolve into a liberal trading group. Mr. Dillon agreed that protectionism had been firmly rooted in France, but noted that there are now forces moving in the other direction. While the U.S. may not have pressed adequately for liberal policies on the part of the EEC in the early stages, we felt that as the Community became more firmly established it would be possible to apply more pressure to get them to adopt "outward-looking" policies. Once they are "permanently on the road" then we can press for a more liberal trade policy without jeopardizing the Community and our political objective.

The U.S. intends to start this process now and would welcome U.K. cooperation. Mr. Dillon acknowledged that the EFTA has been useful in inducing the Six to adopt more liberal policies.

Regarding the EFTA, Mr. Dillon said the U.S. had not opposed its formation and would not oppose it in the GATT. If the EFTA helps to bring down the Common Market external tariff that will be a very useful development. At the same time it should be recognized that public opinion in the U.S. has not received the EFTA with the same enthusiasm as the Common Market because there is no apparent political connotation. The EFTA appears merely as a commercial reaction to the Common Market which has a discriminatory effect against U.S. exports even though it may conform to the GATT. The U.S. pulp and paper industry, for example, has already complained that it will be adversely affected by the EFTA. The U.S. recognized the EFTA as an established organization and was not against it. Our position may have been misunderstood because we did not stand up and cheer about it.

On relations between the Six and Seven, Mr. Dillon thought that it should be possible to solve some of the problems of the smaller countries on an M-F-N basis. There is difficulty with the negotiations of a broader European arrangement because the Six still feel that it will upset the Common Market. The talk about a "bridge" between the Six and Seven does not arouse any enthusiasm in the U.S. because it appears to involve a series of preferential arrangements which discriminate against the rest of the world. The U.S. would be opposed to such a preferential arrangement. Mr. Dillon said he understood that it was not the U.K.'s intention to work out a preferential agreement inconsistent with GATT.

Mr. Dillon said he was in full agreement with the comments which had been made about the fine work done by the OEEC. He said that the U.S. felt the OEEC should be preserved and we are turning over in our minds the idea of reorganizing the OEEC, with the U.S. playing a more active role. One possibility was that the OEEC could be used as a forum to talk about over-all development assistance policies.

Mr. Dillon said he was delighted to hear that the U.K. is considering with its EFTA partners the possibility of negotiating with the Six in the GATT tariff negotiations. He felt this was a very important practical way of ensuring that the Six will be less protectionist. He also felt that as the Six became stronger they would not need as much tariff protection and they should be able to make unrequited reductions in the external tariff. Similarly, we would propose to ask them to do more in the tariff negotiations than the U.S. could do in return.

On the question of a broader FTA, Mr. Dillon expressed our interest in maintaining the political cohesion of the Six. At the same time due consideration must be taken of the interest of outside countries and the U.S. would want to participate in any discussions which may take place between the Six and the Seven. He was skeptical about the possibility of negotiating a broad free trade area with the Six at this time.

Mr. Maudling responded to the comment about the relative political content of the EFTA and the EEC by comparing the continental and Anglo-Saxon approaches. He said that the U.K. followed the inductive method, starting with a little bit and building up on a pragmatic basis. There are also, he said, the political consequences of the absence of any agreement between the Six and Seven. Mr. Maudling then reiterated his request for a statement as to whether the U.S. thought there should be a specifically European organization. In other words, he asked, would the U.S. adhere to its original position that if a European free trade area consistent with GATT could be negotiated, it would be a good thing, or does the U.S. now oppose the idea of a purely European economic arrangement which would necessarily involve some discrimination against the U.S.

Mr. Dillon replied that he thought many of the European trading problems could be solved on an M-F-N basis. Also the U.S. did not attach the same political importance as the U.K. to the need for a wider European trade arrangement. However, if an over-all concept does come to pass, the U.S. administration would be prepared to accept it, albeit not with "unbounded enthusiasm." A major consideration in the U.S. position at this time is the changed balance-of-payments situation. Mr. Dillon cautioned that no matter what the U.S. Government felt, the development of a new European free trade area might stimulate an adverse public reaction which would in turn affect the continuation of a liberal U.S. trade policy. There are dangers at home in continued discrimination against U.S. trade and this is why we are pressing so hard to get discriminatory restrictions removed. Thus even if the European wide arrangement were in accordance with the GATT, it would not be welcomed in the U.S. Mr. Dillon added that some experts have doubts about whether the EFTA will in fact lead to complete free trade among the Seven countries. He specifically mentioned the escape clauses in the EFTA convention which may be used a good deal if governments of the EFTA countries succumb to domestic pressures for protection. Although there was probably no intention to make wide use of these escape clauses, the provisions were in the treaty and might in the future result in turning the free trade area into a preferential area.

Mr. Maudling said he was heartened that the U.S. did not oppose a wider European agreement in principle. He said this was important because other countries have been using the argument that the U.S. is opposed to any European agreement to challenge the EFTA and to impede progress toward a wider solution. On the question of M-F-N solutions to specific trade problems, Mr. Maudling cited the problem of Swiss machine tool manufacturers selling in competition with German producers who would have no tariff barriers against them. He did not see how an M-F-N solution short of complete free trade could solve this problem. Mr. Dillon replied that a reduction in the Common Market tariff to all outside countries would reduce the margin against Swiss products. He also pointed out that in some cases, such as automobiles, European tariffs, could be reduced or eliminated without substantially benefitting imports from outside Europe.

The Chancellor said he understood how things now looked different to the U.S. in the light of its changed

balance-of-payments situation. He welcomed the idea of the U.S. participating more actively in European trade discussions. He thought this would be very useful and indicated that the OEEC framework might be appropriate for this purpose.

In connection with prospects for negotiations between the Six and Seven, Mr. Dillon said he thought it depended very much upon whether the Six felt such negotiations would interfere with the development of the EEC. In this connection, he welcomed the U.K. effort to convince the Six that they were not hostile to the EEC. The Foreign Secretary said he could not understand why the U.K. was accused of trying to undermine the Common Market, but he was certainly trying to dissipate this suspicion. He asked Mr. Dillon whether the current French protestations of liberalism were words or deeds. Mr. Dillon replied that it was probably a little of both. They have in fact reduced discrimination against dollar imports and Mr. Pinay has said that in two years all quotas will be gone. This, Mr. Dillon felt, was an entirely new point of view for France and a very welcome development. Nevertheless, there would still have to be further action in connection with reducing the common external tariff and establishing low duties on List G items. Sir Frank Lee underlined the importance of List G since higher raw material costs in some countries result in different cost structures which impede the development of a wider free trade area arrangement.

The Foreign Secretary asked what we should aim at now. There are a number of proposals for getting negotiations underway. One possibility was to re-open discussions in the OEEC; the Germans have suggested discussions among the Six, the Seven and U.S. and Canada; and the Italians have proposed that a couple of countries from each group carry on discussions. Mr. Dillon said he was under the impression that the U.K. was in no great hurry to re-open full scale negotiations and, in his view, when the proper time came there would be advantages in a smaller group than the full OEEC. Before the full negotiations were reopened, the special problems of the small countries outside the Six could be considered perhaps in the context of the GATT tariff negotiations. In any event Mr. Dillon said the U.K. should not miss the opportunity to negotiate in GATT for a reduction in the Common Market tariff. In the ensuing discussion of how the smaller negotiating group might be made up, some doubts were expressed by the British side as to whether the European Commission could really represent the Six in negotiations with the Seven. Not only do their instructions tend to be very rigid, but the Commission frequently has difficulty getting Ministers to agree to its proposals. It was clear that if the negotiations involved special problems of individual countries those countries would have to be represented in the discussions.

In trying to look ahead to the next steps the Chancellor observed that it may be necessary for the U.K. just to be patient and wait. Mr. Dillon felt this was the right approach and the thing to do was to watch List G and see what could be done next July 1 when the internal tariff cuts were to take place. Mr. Leddy said that a problem at that time would be whether the internal tariff reductions should be generalized.

In response to Mr. Dillon's request for the U.K. reaction to the Hallstein proposals, Mr. Maudling replied that, although it was not clear what would really happen, the U.K. did not see much in them. Quotas should be eliminated in the near future anyway and so they do not present a problem. Tariff reductions will only go down to the level of the common external tariff and this merely means speeding up the action required by the Treaty of Rome. Mr. Maudling added that any liberalization action on the common tariff or List G would be much more significant.

On the role of the OEEC, Mr. Dillon suggested that we work together and keep the OEEC going so that it can be used when the time comes. The Chancellor said there would be an opportunity at the January Ministerial meeting to discuss further what could be done in the OEEC. Mr. Maudling noted that the French do not like the OEEC and we may have trouble selling them the idea of using it as a forum for negotiations. Nevertheless, Mr. Maudling suggested that it would be better to "refurbish" the OEEC than to scrap it. The Foreign Secretary added that some people in the Common Market consider the OEEC a divisive element because the Six speak there separately rather than as a unit.

Mr. Dillon asked whether the U.K. would be seeking a GATT waiver for the EFTA, particularly for the agriculture arrangements. Mr. Maudling replied that there may be some controversy on the point but the U.K. felt that a GATT waiver was not required. The Danish-Swedish agreement may be particularly

troublesome but the U.K. still hopes that it will be changed to bring it more in conformity with GATT. Mr. Leddy expressed some doubts as to whether the exclusion of agriculture from the EFTA and the accompanying agricultural arrangements between the U.K. and Denmark and Denmark and Sweden could be considered consistent with GATT. Sir Frank Lee commented that there might be some difference of opinion regarding GATT theology on this point. Mr. Dillon said he had found a good deal of concern in the Commonwealth about the agricultural provisions. Sir Frank Lee noted that the Commonwealth was losing its European markets because of increased productivity in Europe and it was, therefore, very sensitive about any proposals which might cut them out of what was left to them.

In concluding the discussions, the British Ministers again expressed their appreciation for the clarification of the U.S. position and expressed the opinion that we were very close together. Mr. Maudling said that it was most important to make known the true U.S. position and it was agreed that an attempt might be made to work out some wording which could be used with the press. Mr. Dillon thought that the confusion about the U.S. position might have resulted from the fact that many people in the Six consider that the FTA would destroy the Common Market and so the U.S. position must be opposed to an FTA. The Foreign Secretary said it would be very useful if Mr. Dillon could say during his visit on the Continent that the U.K. is really not opposed to the Common Market. This is a deep-seated suspicion, which the U.K. has not yet been able to eradicate. The Foreign Secretary also hoped that Mr. Dillon would make clear that the U.S. recognized the existence of the EFTA, even though it may not be enthusiastic about it. The Six must also accept the Seven as a going institution. Mr. Dillon asked that nothing be said publicly about the U.S. working out closer relations with the OEEC.

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