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THE SIX AND THE SEVEN.

A talk given by Monsieur R. Faessler, Commercial Counsellor at the Swiss Embassy, on Wednesday, 11th May, at the Swiss Mercantile Society.

It is now nearly two years since I spoke to the same circle about the problems of the European Economic Community (EEC) and what was then the big Trade Area. On that occasion, I did express the hope that it might be possible to find a solution for harmonising the interests of the EEC and the other OEEC countries. Unfortunately, however, these hopes were not fulfilled, for in December, 1958, the talks for the establishment of the big Free Trade Area in the so-called Maudling-Committee broke down, owing to the attitude of a single member of the EEC countries, in spite of the fact that earlier on all the interested had decided, in principle, in favour of the establishment of a European Free Trade Area. The EEC countries came out of these fruitless talks strengthened, and endeavours are now being made to reduce the transition period of twelve to fifteen years of the Rome Treaty, according to the so-called Hallstein Acceleration Plan, out of which a quicker discrimination would result for the nations not belonging to the EEC.

On the other hand, seven other European countries, namely Great Britain, the three Scandinavian countries Sweden, Norway and Denmark, Austria, Portugal and Switzerland, after short talks, have joined together to form the European Free Trade Association (EFTA). On 3rd May this year, all documents of ratification were deposited in Stockholm, and there is a possibility that Finland, too, may join this new organisation in one form or another. A permanent EFTA Secretariat has been established in Geneva, after the French Government had refused an application for this Secretariat to be installed in Paris. The seven governments which joined EFTA have declared from the beginning that there could be no question of forming a second European economic group, which would be in constant opposition with the EEC, but that in their eyes the EFTA should be regarded as an instrument which would facilitate a so-called bridge between the two. Of course, this division into two groups of the majority of the former OEEC nations has had an influence on the OEEC proper, and talks are at present going on for enlarging what was formerly a purely European organisation, by including also the United States, Canada, and later on possibly other countries as well.

To enable me to describe the position of Switzerland in the EFTA, and to explain also the relation between the Six and the Seven, it is necessary for me to give you a short historical background on Switzerland's economic structure, on the development of negotiations for the creation of a big free trade area, as well as the efforts to establish a wider OEEC.

As you know, Switzerland has no raw materials, and the country's original economic activity, which was agriculture, is carried out under such unfavourable conditions that it is unable to compete successfully against other countries, and therefore needs protection. Contrary to common belief, Switzerland was a poor country for a very long time. Her citizens carried on a trade in mercenaries already in the early Middle Ages. Only a few industries were established in the country before Napoleonic times, such as the watch industry, the linen and silk industry. The country was divided up into wholly independent cantons, which imposed customs duties to each other on the traffic of goods. Switzerland being a republic from earliest times, it had no influential and rich aristocracy of its own, and commerce and industry were concentrated in the few towns; but the wealth which the citizens acquired thereby, was almost completely swallowed up again as a result of the Napoleonic occupation. Until the year 1848, when the first Federal Constitution came into power, a big national source of revenue was from foreign military service. An intensive industrialisation of the country only started after the proclamation of the Federal State in 1848, and especially after the revision of the Federal Constitution in 1874. Switzerland being dependent on imports for all her raw materials, she was at the same time obliged to establish a keen export trade, and in order to achieve this, she had to adopt liberal economic principles, which meant also a low customs tariff.

As Switzerland has been closely linked with the world markets since the beginning of her industrial activity, she has, of course, also felt all the economic crises and suffered from them. Parallel to this liberal economic policy, a conservative finance and money policy was applied, with the result that the Swiss currency has always remained convertible, and like the dollar has been called a hard currency. This had positive as well as negative effects.

On the positive side it can be said that the Swiss franc has remained stable, which also permitted a stable economic activity. When the dollar and most other currencies were devalued in the thirties, Switzerland followed suit, and this not for technical reasons, but solely because without this measure our goods would have become too expensive. The negative effects of the stability of the Swiss franc were that many nations felt forced to impose import restrictions on Swiss goods, and the enforcing of protective duties which were adopted in most parts of the world after the first world war made things even more difficult for us. These facts forced the Swiss industries already many years ago to open up new factories in foreign countries. In other words, it can be said that Switzerland has established comparatively early the industrial bridge-heads, about which so much is being said in the conflict between the Six and the Seven.

Switzerland has always been a neutral country. This neutrality, which was originally regarded only as a political and military one, was confirmed by the Congress of Vienna in the year 1815. As a result of this neutrality Switzerland not only did not get involved in foreign conflicts, but also tried on the economic side to do trade with all nations, although this is not an absolute principle of neutrality. A breach in this economic neutrality occurred when Switzerland, as a member of the League of Nations, was forced to adopt economic sanctions against Italy during the time of the Abyssinian war. Shortly before the second world war it was, however, possible to obtain exemption from the League of Nations. Also after the second world war, neutrality has continued to be the dominant influence in Swiss politics, and this was one of the reasons why we did not join the United Nations. On the other hand, the state maxim was enlarged by the present President of the Confederation, in which he is of course supported by the whole Government, in the sense that it can be called to-day, "Neutrality and Solidarity". On this principle, Switzerland has become a member of most of the technical organisations of the United Nations, and it was again in the same spirit that she decided to join the OEEC, this organisation being completely separate from the political associations such as NATO, and later the Western European Union, etc. When, in the year 1947, General Marshall, in his now famous speech to the Harvard University, explained his programme for helping Europe, on the basis of which the OEEC was founded in 1948, Switzerland was at once ready for active collaboration. The OEEC was established originally to distribute Marshall Aid. Switzerland was the only member nation who renounced this aid, which she had all the more reason to do by virtue of the fact that she came through the last war without devastation, and her economy had remained intact.

However, our political neutrality does not mean that we are not interested in European and world affairs. On the contrary, we welcome every effort which is being made in order to eliminate the causes which brought about the last two world wars. And we welcomed, therefore, the joining-up of the six countries of the European Economic Community, as in the long run this will certainly help to stabilise the good relations between our biggest neighbours, that is to say Germany, France and Italy. The question can be raised as to why Switzerland has not joined the EEC, as surely our most important economic interests are concentrated in this area. One of the reasons for standing aloof must be seen again in our neutrality, as particularly at this moment, when economy and politics are so closely interwoven, we must try to keep our freedom of action. A further reason for not having joined is the political structure of Switzerland. On the basis of our Constitutions of 1848 and 1874, the jurisdiction between State and Cantons is strictly defined. The Rome Treaty, on the other hand, contains many regulations which in Switzerland fall within the jurisdiction of the Cantons, and the State or the Federal Government would, therefore, have no possibility of enforcing these regulations without changing the Constitution. As Switzerland is made up of three different races, and four official languages are spoken, while three different cultures strongly influence our national life, we must do everything possible to safeguard the individuality of the Cantons.

The ratification of the Agreement of Stockholm for the establishment of a European Free Trade Association forms only one link in the political and economic integration of the Western European nations. The first impulse came, as I have mentioned already earlier on, from General Marshall in the Spring of 1947, when most European countries were economically ruined and it was feared that they would not be able to recover from the war devastations without outside help. The first task of the seventeen member nations of OEEC, to which Spain joined later on, was to co-ordinate Marshall Aid within the European framework, and to make it completely effective by means of national, but mutually

well-balanced, reconstruction programmes. The second task of the OEEC was the re-establishment of the free movement of inter-European traffic of goods and services, and in connection with this a realistic European division of labour. The results were very encouraging. On the basis of the so-called Code of Liberalisation, it was possible to a large extent to free the exchange of goods in Europe. The present average of liberalisation for the three groups, namely raw materials, agricultural produce and manufactured goods, is 90 per cent, and in none of the three groups is the liberalisation of less than 75 per cent permitted. Several countries even exceeded the 90 per cent. At the same time, the circulation of money and services was considerably facilitated by the creation of the European Payments Union, which was followed by the European Monetary Agreement at the end of 1958. The European Payments Union had at its disposal a considerable fund, which was established with the American economic aid, and which permitted the exchange of payments on a multi-lateral basis, combined with an automatic credit facility to the member countries. Several attempts were also made by the so-called low tariff nations to bring about a reduction of the inter-European customs tariffs. As you will probably know, these attempts were unsuccessful because of the attitude of the United Kingdom, who was afraid that her relations with the Commonwealth might be affected through a reduction of the preferential privileges.

A first breach in the solidarity of the OEEC occurred when the six members who later also formed the EEC, created the Steel and Coal Community on the basis of the Schumann proposals of 1951, and founded within this framework a customs union for coal and steel, which took effect in February 1953. When the same six nations, probably to their own surprise, laid the foundations for the Rome Treaty during the Messina Conference in 1955, it was again the United Kingdom who opposed these efforts. The founding of EURATOM followed, and on 1st January 1958 the EEC came into being. Its aims are, as you may know, a complete customs union with a common outer tariff; common economic policy, common agricultural policy, the free movement of labour, of capital, of enterprises and of persons; common anti-cartel and anti-trust regulations; the harmonising of the economic, fiscal and social policies; the co-ordination of the policies relating to economic trends; the creation of a European Investment Bank for the development of the under-privileged areas; the creation of a European Social Fund to facilitate the adaptation of enterprises and labour to the economic changes brought about by the customs union; the association of the member countries with overseas territories and countries by trading facilities, and the common provision of capital for development.

Already before the ratification of the Rome Treaty, some of the other member nations of the OEEC, under the leadership of Great Britain, took the initiative in trying to establish a connection between the EEC and themselves within the framework of OEEC. As GATT, of which most OEEC countries are members, knows only two kinds of economic associations, that is to say customs union and free trade area, the latter way was chosen. The difference between free trade area and customs union is, that the members of the first keep their national external duties, whilst the second group possesses common external duties. A consequence of the retention of the national external duties could have been that goods could be imported into the European area via the countries with the lowest customs tariff. In order to prevent this it would have been necessary to specify precisely

the origin of these goods. One member country of the EEC was of the opinion that the accomplishment of such a plan would be impossible, and made this a pretext to wreck the talks which were going on to create a European Free Trade Area, in December 1958. But it has been proved by the members of EFTA, during their negotiations and their decisions, that the problem of definition of origin can be solved. The basic rule is that a commodity is regarded as of national origin when the addition to its value is of at least 50 per cent, or when a commodity has undergone a process of transformation which resulted in a complete change. Special rules have, in addition, been set up for a number of products. As all later attempts for a reopening of negotiations remained without success, seven member countries of the OEEC were forced to establish the European Free Trade Association. The consequence of this is that to-day we have two separate economic blocks in Western Europe, which will discriminate against each other. It is said, and with a certain right, that as far as figures are concerned, the area of the EFTA with only 99 million inhabitants, as against the 166 million of the EEC, is less important. But, on the other hand, it is a fact that nations with a higher standard of living belong to the EFTA. Although the population of the EFTA countries amounts to only 53 per cent compared with the countries of the EEC, the former's social product is 68 per cent. Both the member countries of EFTA as well as the EEC have to consider to-day what consequences will arise out of the existence of two separate economic blocs. The problem is not as weighty for the United Kingdom as it is for Switzerland. A comparatively small part of the British exports goes to the EEC countries. As, however, British exports and imports with the Commonwealth countries are, generally speaking, on the decline, Great Britain will try to find additional markets in Europe. I do not have to point out the reasons which made the United Kingdom decide not to join the EEC. The most important one is that she wants to continue her independent economic policy, and that furthermore the United Kingdom in her relationship with the Commonwealth, has to take into consideration the existing preferential tariff system. Switzerland as one of the countries with the highest import and export figures per head of population in Europe, is in a much more difficult position. 38 per cent of our exports go to nations of the EEC, and only 15 per cent to EFTA countries. As 47 per cent of our external trade is being done with the rest of the world, it is an absolute principle for Switzerland that she must be able to shape freely her trade relations with these countries. Being a nation without raw materials and with very expensive labour, she must buy the raw materials where they are cheapest, and must try, furthermore, to apply low customs duties. With this in mind, Switzerland has from the outset applied the import facilities granted to the members of the OEEC to most other countries in the world as well.

It is extremely difficult to predict at this stage what the consequences will be of the division of Europe into two separate economic units. The EEC claim that, through the higher standard of living to be achieved by means of their customs union, an additional market will also be opened up for outside nations, in spite of the fact that they are discriminated against through higher import duties. This may possibly be correct theoretically. But the fact cannot be ignored that the establishment of two separate economic blocs will have considerable psychological effects, as no doubt an increased solidarity will crystallise itself in both areas. In other words, in the long run it will probably be thus, that one prefers to buy a certain product in one's own

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economic organisation, even if the quality may not be quite as high as in the other blocs. Furthermore, it may well be proved in many cases that the result is not an increase in trade, but merely a shifting of trade. In addition, the industries in the countries belonging to the same organisation will no doubt work together more and more closely, and in this way reach, in the long run, an increased division of labour. In this sphere, it will be necessary for the members of EFTA to increase their efforts, as they do not possess such a strong and centralised organisation as the EEC with the European Commission and the Ministerial Council in Brussels, to be followed later by a European Parliament. Whilst the EEC have an organisation with several thousand officials who no doubt exercise a control down to the smallest detail of their economic planning, the EFTA only has a small secretariat with about twenty officials. The remaining contact must be maintained through occasional meetings either of the competent ministers or the high officials or industries. One of the consequences of the central organisation of the EEC will probably be, in the long run, that the economically powerful members, i.e. France and Western Germany, will be controlling the whole body, and that the smaller nations, as can already be seen to-day in some instances, will lose their right to voice their own opinions. This was another reason why Switzerland has kept away from the EEC.

And now a last remark on the OEEC. The OEEC offered the great advantage to the small countries in that they were treated as equals, and in consequence their influence was considerable. Although the OEEC applied the principle of unanimity, it has been possible to solve quite a large number of inter-European problems. In our opinion, the OEEC still has its right to live. Although most of the inner-European problems have to-day disappeared with the increasing economic well-being, it is quite possible that at a later date a new economic crisis or recession will make a European solution necessary. When, in December of last year, the four statesmen decided to try to include also the United States and Canada as full members of the OEEC, and the Dillon Conference of 12th and 13th January 1960 took a corresponding resolution, Switzerland agreed to this experiment, though her attitude was a little more reserved than that of some other member countries. In our opinion, it would have been necessary to build the successor organisation to OEEC in two levels, in the sense that the original body would have continued to deal with the European problems, whilst the United States, Canada, and possibly later on other nations as well, would have

been called in for dealing with all problems of world-wide importance. However, the report of the Four Wise Men on the reorganisation of the OEEC did not give any consideration to our suggestion. Legally speaking, the old body will be maintained, but all the resolutions taken by it in the past will be discarded and have to be discussed anew. This means in other words that all members of the new organisation will receive the right of veto, and that in future we shall have to adjust ourselves to the American timetable, which, as you know, is slower than that of the European nations. As in addition many of the economic and trade problems, which in our countries come within the jurisdiction of the government, have to be submitted to Congress in the U.S.A., a great element of uncertainty will be created. The American measures of protectionism as well as the strong influence of several branches of industry on the Congress still being effective, all efforts for a world-wide trade agreement, either through the Charter of Havana or the O.T.C., have so far failed because of the resistance of the Congress. It is true that time and again, the American Government as well as the different ministries have tried to arrive at a more liberal economic policy. Several concessions were granted within the framework of GATT, and even to-day President Eisenhower has the power to agree to customs reductions of up to 20 per cent through GATT. As, however, several peril points exist, the average tariff reductions within GATT negotiations would amount to only about 5 per cent. The successor-organisation to OEEC, proposed by the Four Wise Men, to be called "Organisation of Economic Co-operation and Development", would, in principle, have the possibility of dealing with the problems of the Six and the Seven. But the OEEC not having succeeded in bringing a reconciliation between the two blocs, the prospects are slight also for the new body, all the more so as the U.S.A. have taken a one-sided position in favour of the Six. Conclusive for this attitude was the fact that the EEC aims at a political integration, which seems very opportune to the United States, as this would mean that the old conflicts between Germany and France could be eliminated once and for all. It is for the same reason that the Americans are in favour of the acceleration plan of Professor Hallstein, which would advance the economic and political integration of the six members even more. The EFTA countries, on their side, have made a counter-proposal on the basis of their Vienna talks, which would amount to a kind of armistice. We have proposed that the 20 per cent tariff reduction, which comes into force between the EFTA members on 1st July, would be extended to all the GATT members, on the condition that the

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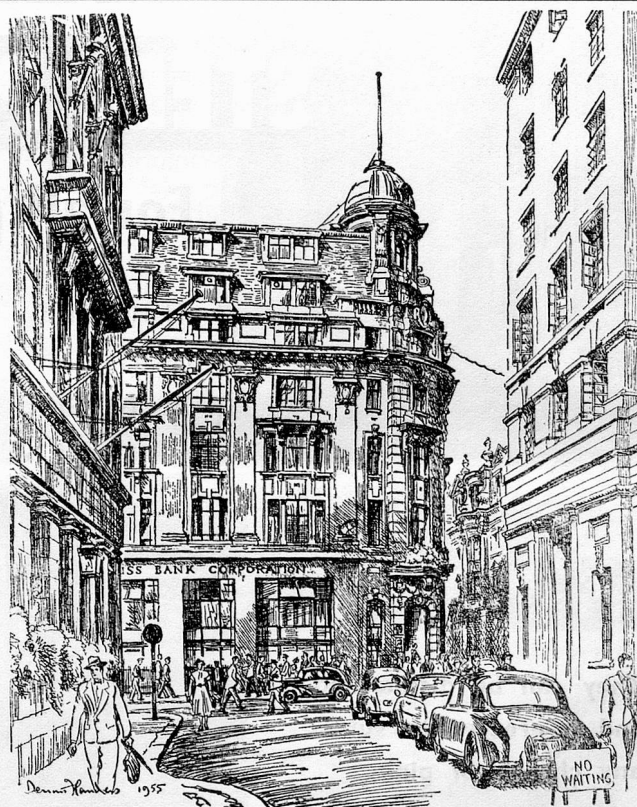
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Hallstein acceleration plan be dropped, and that similar concessions could be obtained for the EFTA nations through GATT negotiations. Although this proposal has not yet been formally refused by the Six, there are indications that it will be. The big danger of the Hallstein plan is, as said before, that the discrimination will be speeded up and at the same time increased. Although on the one hand the high tariff countries, such as France and Italy, would be forced to come down, quicker than foreseen, to the common external tariff, which would possibly be reduced by 20 per cent, Germany on the other hand, would have to cancel her autonomous tariff reduction of 25 per cent granted in 1957, and would at the same time have to raise her basic tariff towards the level of the common external tariff. The same would apply to the Benelux countries. If the Hallstein plan is introduced, the EFTA nations will probably have to accelerate their internal reductions, which would also mean an additional discrimination. It is likely that we shall have to put up with discrimination for a considerable time. But it will have to be considered at the same time, how goods can be sold to the EEC countries in spite of the discrimination. This means that we shall have to specialize more and more, in order to bring out a better product, that the industries must be modernised and automatised, which, however, can only be done in larger enterprises, or that we transfer our factories into the territory of the EEC, which, from the economic viewpoint, can be costly, and could, therefore, again be done only by the larger and financially strong firms. In a country like Switzerland, where the medium-sized and small industries play a prominent part, this way out cannot be taken by many firms. It is precisely these medium-sized and small industries which carry on most of their trade with the neighbouring countries, and who will suffer most from the discrimination. The danger is not so acute for the larger Swiss enterprises, as these, as a result of the protective policy in the twenties and the thirties, had been forced already at that time to open up factories abroad. As an example I would only mention one Swiss firm, which owns about 170

factories all over the world, 17 of them in England and Scotland alone.

To end, I wish to express my hope, that in spite of the unfavourable omens, a compromise can be reached between the Six and the Seven. Although Switzerland for herself is opposed to the political integration of Europe, she has a sincere desire that, through economic collaboration, all the causes which in the past led to the innumerable conflicts, should disappear. Furthermore, it is to be hoped that the United States will realise the fact that there are other countries in Europe besides the Six, who want to increase the economic potential of their continent, but who do not want to abandon their national culture and traditions. Our way of thinking does not only include our own country, but the whole of Europe, which was the cradle of many cultures, and will remain, we hope, a bulwark of civilization also in the future. The latest news coming from Germany and also from Luxembourg, where the Six are meeting this week, sound a little less gloomy, and it is possible that the outcome of this conference and the result of next week's meeting of the EFTA members in Lisbon will provide a basis for new discussions, or even new negotiations.

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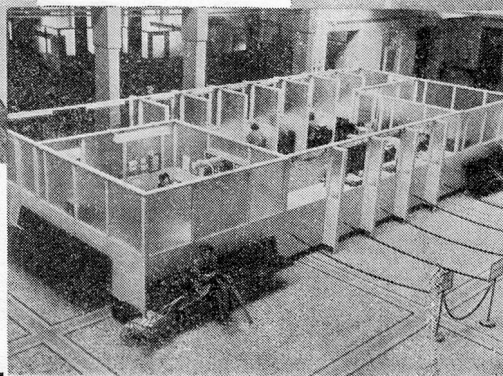
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