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Intereconomics

*Suggested Citation:* Groebe, Hans (1968) : The EEC is now a Customs Union, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 8, pp. 226-229, <https://doi.org/10.1007/BF02930556>

This Version is available at:

<https://hdl.handle.net/10419/137998>

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# INTERVIEW

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## The EEC Is Now a Customs Union

Interview with Hans von der Groeben, Member of the Commission of the European Communities in Brussels

The Customs Union among the member states of the European Economic Community has come into force on July 1, 1968. Its main effect has been the eradication of the ultimate 15 per cent that had remained of the original internal rates of import duty on industrial products between member states and the complete application of the joint tariff of the Community to industrial imports coming from outside the area. Farm produce, which is not subject to import duty but to "Abschöpfungen" (levies) will in future be governed by a unified system of import control. Recently, it has not always been a true community spirit that ruled the fate of the EEC because, in many countries, national selfishness seems to recover ground. This renders more indispensable than ever for the Community a successful completion of the Customs Union, which is thought to be the first big step towards closer political cooperation in Europe.

**QUESTION:** Herr von der Groeben, in contrast to the predictions of some pessimists, the European Customs Union has become operative on July 1, 1968. Which were the main difficulties that had hampered the carrying out of this design?

**ANSWER:** Strictly speaking, the path towards the Customs Union was not strewn with major difficulties. As you know, we had originally planned to bring the customs union into being at a date eighteen

months later, which means that it has become a reality more rapidly than foreseen. Admittedly, we met with obstacles occasionally in such countries as France and Italy, where people had been used to relatively high tariff protection, but such difficulties referred only to individual branches of production. But broadly speaking, all member countries have been able to observe that free competition within the Community, free especially from the distorting effects

of a tariff system, has led to vigorous growth of business. We expect that all Common Market countries will obey the decision of the Council of Ministers and dismantle all internal tariffs, whilst at the same time adopting the common unified external tariff. Even France has declared its willingness to do so, and we hope that our French partner will be able to do away with the remaining tariff barriers and to put into practice the tariff adjustments.

### HANS VON DER GROEBEN

was born in East Prussia in 1907. Now a member of the Commission of the European Communities, he contributed to the drafting of the fundamental treaty of the EEC. In the Commission, which he entered in 1958, he was in charge of the policy for the safeguarding of competition within the EEC. He played a decisive part in the carrying-out of the EEC's principles for the marketing policy. In the present-day Commission von der Groeben's many responsibilities are in the field of unifying the national law, harmonising the tax systems, of securing the liberty of domicile for citizens and companies within the EEC area, and of regional policy. His was the initiative towards a common added-value-tax. He is also responsible for the spadework in laying down the statute for a European Company Law.

### Agrarian Market Regulations: Subject of Heated Disputes

**QUESTION:** We all hear negotiating common market regulations and concluding these talks on May 29, 1968, were supposed to be the last step before the Six entered the Customs Union. What connection is there, in your view, between agrarian market regulations and the Customs Union?

**ANSWER:** There is indeed a link between agrarian market regulations and the tariff system for industrial goods. There is not one among the member countries where there is a completely free and

competitive market for farm produce. All of them operate systems of state control. For this reason, it would not have been sufficient to dismantle all tariffs and other trade obstacles, but it was necessary, in addition, to set up unified market controls for the major products of the Common Market area. Because of the considerable differences between individual EEC members both in the fields of farm and of industrial production, there have not only been close economic but also political links between setting up unified controls of farm produce markets and building a customs union. Some of our member states were more keenly interested in obtaining access to wide-open markets for their farm produce, in others the salient interest was focussed on dismantling import duties levied on industrial products. And this was the reason why the ultimate step which we were able to do in the agricultural sector was an indispensable prior condition for overthrowing the last remnants of protective internal tariffs in the field of industry. Politically speaking, it may therefore be stated that the last obstacle on our march towards a customs union was overcome on May 29.

**QUESTION:** Do you personally believe that agricultural market controls as they have now been introduced represent a final and genuine solution to your problems, or do you think that they will have to be reviewed and adjusted at a later date?

**ANSWER:** Agricultural market controls have just now become the subject of fierce debates in all member countries. Farmers denounce them as too weak, whilst people actively interested in foreign trade charge them with being far too protectionist, and consumers in general are always inclined to accept price reductions as a matter of course, whereas they will always blame the Common Market for any price increase. In addition, there have already been growing difficulties through overproduction of individual branches of agriculture, because the prices

fixed by our Ministers of Agriculture have put a premium on certain production, especially on all dairy products and animal and vegetable fats. Some critics of our farm price controls demand price cuts in order to eradicate all incentives for increased production. On the other hand, influential voices are raised, among them that of my colleague, Sikko Mansholt, against using interference with the price mechanism as the only instrument of controlling farm output. They advocate an overall structural and regional treatment of European farming. I believe that it will be necessary to think over afresh all the questions that are in any way connected with these problems, and to find solutions, so that our farmers will be enabled to adjust themselves gradually, and not hastily, to living in our Common Market, whilst at the same time not forming a burden preventing industrial progress to higher productivity.

#### **Not Yet a "Home Market"**

**QUESTION:** Everybody seems to talk about a completion of the Customs Union. Is it a fact, or is it not, that now there are no longer any import duties to be paid?

**ANSWER:** Apart from a few agricultural products, for which no market control system has yet been worked out, there is indeed a complete customs union in force. On the other hand, completely free movements of goods will only be guaranteed after certain rules and regulations of tariff law, and definitions of dutiable value, are harmonised. We cherish hopes that are not unfounded, of being able to arrive at such harmonisation. The Council of Ministers has already adopted a number of new decrees, and after national legislation in the member countries has incorporated them—a process that may take another few months—the customs union will be completely in force.

But even this will not mean that the Common Market area will already be an enlarged home market, since it is not only tariffs which hamper the movement of goods across na-

tional frontiers but a whole series of taxation laws, currency regulations, and the differences in technical definitions and procedures. A market in which goods are completely free to circulate will not come into being before the frontiers between different systems and rates of taxation and other trade obstacles have all been done away with and member states give up customs inspections. In order to reach these targets, a big political effort will still be required, which will have to be sustained over a number of years.

**QUESTION:** As taxation will remain different in different countries, do you not think it conceivable that protectionism by taxation might replace national protective tariffs?

**ANSWER:** No, I do not believe that, for it would be rather difficult to use taxation for protectionist purposes on a very broad front. Moreover, I do not believe that any member state of the Community is aiming at such protectionist policies under the guise of national taxation. There remains, of course, the question whether member states are able fully to resist the temptation to grant tax preferences to individual branches of industry. Such measures are always feasible, and it will never be possible to prevent them completely. What matters is rather to keep such preferential taxation within strict limits, so that this could not falsify competition between the industries of member states. Limited differences in taxation between member countries will even be acceptable under the Common Market. It will be the Commission's responsibility to prevent such differences from operating to the disadvantage of individual national industries or of entire regions.

#### **European Industries are Competitive**

**QUESTION:** Setting up a customs union does not only mean suppression of all internal tariffs but also the introduction of a common external tariff. The alterations in the rates of duty will be different from one member country

to another. Do you expect these differences in the size of adjustments to affect adversely certain industries of member countries?

**ANSWER:** Countries that were used to a relatively high degree of tariff protection will of course feel it to be more difficult to introduce the common external tariff, because the necessary tariff cuts will be larger in their cases against those of other countries. In addition to the adoption of the common external tariff, we intend to go through the first two stages of the Kennedy Round, which also provide for cuts to our tariffs. The possibility of certain difficulties arising from such a big single drop in external duty rates cannot be completely excluded. In some countries, industries may be exposed to competition even more strongly than up to now. But I do not see a dangerous risk in all this. For ten years, we have been preparing for such a situation, and by and large, European industry has shown great competitive strength. Naturally, this does not mean that there will never be any difficulties of adjustment in some branches of industry, nor in some districts or regions. But the necessary adjustment ought not to be postponed—which would be the case should high tariff protection be maintained. It should rather be facilitated by foresight, special assistance through credits, through aiding a change of economic structure, and through financing and helping in the redeployment of redundant labour.

#### **No Doors Have Been Locked**

**QUESTION:** Is it not possible that the common external tariff may strengthen the effect of which it has been accused, namely to bar the entry of certain goods even more tightly, and thus provoke measures of retaliation from third-party countries?

**ANSWER:** No, I do not believe in such effects. The charge that has often been levelled against the external tariff of the EEC of being highly protectionist has no basis in fact. The Treaty of Rome provides for the adoption of the

arithmetic mean between all the rates of duty actually charged, not between those laid down theoretically on paper. From the time of creating the European Common Market, these external rates of duty have been twice reduced—once through the Dillon Round, with an average reduction of 7 to 8 per cent, and the second time in the Kennedy Round, which resulted in an average cut of between 35 and 40 per cent. These are the true facts—and they do not spell protectionism. It is, of course, correct that third-party countries are not quite as favourably placed in trade with the members of the customs union as these members one against another. But it is just this which causes rapid progress of trade within the Common Market, and this effect will be multiplied within the Customs Union. However, we are also justified in underlining the fact, with proud satisfaction, that trade with third-party countries likewise developed in an extremely favourable way over the same period. There is no question of having barred any door. On the contrary, the Customs Union has had an enormous promotion effect on international trade. And this is even true of most farm produce.

**QUESTION:** And you really do not believe that the high import duties and equalisation payments charged on imports of farm products of third-party countries will not have a considerable effect of repelling imports?

**ANSWER:** I incline to the view that this effect, of which the Customs Union is accused, is hardly due to the strength of agricultural protection, though it is true that equalisation payments, as a system, have the effect of variable import duties and thereby do exclude certain imports more effectively than fixed rates of duty. But a far more effective force of protection is based on the relatively favourable growth of farm production within the Common Market area. Naturally, there is the assertion that this has only been due to very strong protection surrounding the European farms, but I am in-

clined to preferring a different type of explanation: that crop raising and animal husbandry carried on in the context of a highly industrialised economy will evolve to very high levels of productivity and thus be able to repel competing imports. This situation will not change before underdeveloped countries which themselves need large quantities of farm produce gain the capacity to buy more, which means not before their internal economies grow more vigorous and self-reliant.

#### **France Is Able to Maintain Stability**

**QUESTION:** Do you believe that the state of economic and political instability from which France is now suffering may endanger the Customs Union and the progress made towards integration in the EEC?

**ANSWER:** I am of the opinion that a project of such difficulty—to integrate six member states economically and politically, and later, it is to be hoped, also the United Kingdom and other applicants for membership—requires as an indispensable qualification a certain measure of stability. The tasks which we have set ourselves are completely new, and they could not be tackled without a certain measure of continuity and stability in the economic and political development of all the states taking part in this great experiment. The Commission, as it has recently stated again, holds the view that France owns the economic and currency basis in order to be able to maintain future stability and to play its full part in the Common Market.

**QUESTION:** What comment have you, if any, in regard to speculations that one ought to use the currently weak French position in order to press the French for concessions, e.g. regarding further political integration of Europe, or the admission of new members to the EEC?

**ANSWER:** I do not think it compatible with the spirit and purpose of our Community to exploit the

difficulties of individual member states. On the contrary, what is needed in such situations is solidarity. It is naturally clear that strengthening the Common Market till it becomes a fully integrated economic and currency union is a problem which is inseparably bound up with political questions. But solidarity ought not only to consist of assistance now but also of joint work, voluntarily undertaken and not under pressure, for the future evolution of the EEC. I am fully convinced that economic and political solidarity within the Community will be of advantage to every single member state and could make a contribution towards overcoming their individual difficulties.

#### **More Common Policies are Required**

**QUESTION:** Do you believe that completing the Customs Union may bring forth more joint actions and will push into the background confrontations of opposing national interests?

**ANSWER:** In order to promote further developments of the Common Market, stronger orientation towards common interests will be indispensable. We cannot mark time and leave it at that, that we have now a customs union and a farm market union. The Common Market is a constantly evolving process, whose aim is a complete economic and currency union. To reach this target, we need more and not fewer common policies, and in the main, these should deal with three bundles of problems.

Firstly, in the framework of general economic and cyclical policies, we must provide for overall demand in the member states being in equilibrium with the production potential. Such overall, macro-economic management is no longer possible on a national basis only, since the national economies of EEC member states have become so closely interdependent. Economic events in any one of the member states will cause developments in the other member states as well, and also the economic policies of these six states influence one another strongly.

Secondly, during the further evolution of the Common Market, national currency policies, so I believe, must be more closely coordinated. What is above all indispensable is the setting-up of a European capital market, which ought to be achieved as quickly as possible, in order to enable national industries to cooperate across national frontiers and to provide them with sufficient finance for this purpose.

Lastly, I think it inevitable that we must come to a common policy on economic structures and regional development, even though this may begin only with coordination along the grand lines of action, leaving the hammering out of detailed guidelines to a later date.

#### **Measures Towards an Effective Programme**

**QUESTION:** Have you already elaborated a list of priorities which are to be observed on your way towards a complete economic union?

**ANSWER:** We have already submitted a number of proposals to the Council of Ministers. Among them are proposals for transforming the Common Market into a true home market, for abolishing frontiers between national taxation systems, for harmonising indirect taxation and technical definitions for fiscal purposes, and for adjusting food control rules and regulations, and veterinary precautions. All these measures are required for doing away with frontiers and lifting all frontier controls.

In the second instance, the Commission has laid before the Ministers of Finance a number of definite suggestions for a common currency regime, which more or less follow the ideas publicly presented at several occasions by the Prime Minister of Luxembourg, Herr Werner. During the next few weeks, we intend also to bring out new proposals about the taxation of the capital market and about simplification of fiscal treatment in cases of multi-national cooperation of companies. I am of the opinion that the time has come for

combining all these proposals in an effective economic programme, and for pressing the Council of Ministers for a decision that these measures are to be introduced within a given period.

#### **The Community Must Be Speedily Democratised**

**QUESTION:** The economic union towards which you are now setting your course marks an important step towards a future political union. Have you any idea about the shape and forms of such a political union?

**ANSWER:** I believe that, by pressing on towards transforming the Common Market into an economic and currency union, we are acting in a highly political way. But we must be clear that such political progress will not be possible unless the Community is at the same time being democratised to a certain degree. The main problem is how to obtain democratic cooperation in the legislative processes of the Community, e.g. as a first step, when drafting and voting the budget. If we run our economic and trade policies progressively as a community task, we must not blind ourselves to the fact that this will inevitably also mean increased consultation on foreign and defence policies, in order to act in closer agreement. I do not believe that you can make a clear cut between economic policies and policies in general, because there is an inseparable connection between all the important questions. The results of all our work, to date, have only laid the first foundations for a more comprehensive political community. Over and above that, I believe it to be imperative that we tell the general public and especially the younger generation that we are in the Common Market not only for pure economic gain, for what we can get out of it materially, but that it will help us to solve vast political problems. The Community could play a big part in the relationship between East and West, and any European security system could not dispense with a large and unified economic potential.