

the participating countries which would involve discrimination against non-participants. Discriminatory quotas could be justified only on the ground of balance of payments difficulties. Discriminatory tariffs entailing some departure from most-favoured-nation principles and perhaps reducing the value of preferences enjoyed by the Commonwealth might also be involved. Discriminatory tariffs would be permissible under existing international obligations only in the case of a full Customs Union. Indeed, it might, in practice, be found, if the adjustments required under this policy were really substantial, that it would be easier to bring them about if something very nearly approaching a Customs Union existed. If so, we could not avoid the difficulties inherent in a Customs Union although, in so far as the alternative arrangements had a smaller scope, the difficulties would be confined to a smaller range of industries.

15. To proceed on these lines would not involve a definite rejection of the Customs Union plan as a long-term solution. But we are continuing, without of course entering into commitments, to proceed with the Study Group in Brussels and propose to try to ensure that its work is closely co-ordinated with the studies of the Joint European Plan which are being initiated in Paris. This would, we hope, result in attention being concentrated on the more urgent and practical steps to be taken to facilitate European collaboration rather than on the particular method of a Customs Union. The progress of these studies during the winter should enable the United Kingdom Government to form a more definite view on the Customs Union proposals in relation to alternative schemes for expanded economic collaboration between the countries of Western Europe which the United Kingdom Government might sponsor, and to consider how far such a plan of collaboration might need to contain elements of the Customs Union method as well as other approaches to the problem.