

intended to give a clear and uniform basis for the studies; they do not prejudice the eventual solution of the problem. The results of the United Kingdom studies, referred to in paragraph 2, show the degree of difficulty which might arise as regards preferences in respect of particular commodities.

#### *Sterling Area Arrangements*

10. To go as far as full Economic Union would involve a limitation on our freedom to settle our own exchange rate or, at least, a measure of pooling of exchange reserves. In practice this would mean that a Commonwealth country which was a member of the sterling area would find that its financial relations with the United Kingdom were extended into relations with the Union as a whole. If, for example, it was felt, say, that Australia had too much sterling the responsibility of correcting this by reducing imports, so far as it now falls upon the United Kingdom, would fall on the Union, although the United Kingdom (as the principal consumer of Australian goods) would take the lead. This would mean rationing on the lines appropriate to scarcity of any non-Union currency. Similarly, if Australia found herself short of sterling she would restrict her imports, and financially it would make no difference to anyone whether imports from the United Kingdom or the rest of the Union were in question.

11. The same conversion of relations with the United Kingdom into relations with the Union would presumably take place in regard to the supply to the Commonwealth of non-Union currencies—primarily the dollar. Commonwealth countries would, presumably, have to accept rationing by the Union in the same way as they accept it at present, tacitly or formally, by the United Kingdom. This would probably be very difficult. No doubt the United Kingdom could act as an intermediary and perhaps receive an over all dollar ration for the whole Commonwealth. But in the last resort the Commonwealth would become dependent on the Union for its supply of dollars.

#### *Strategic Considerations*

12. We have not examined the strategic considerations but they are obviously of great importance and would have to be examined carefully before we contemplated entering a Customs Union. The economic studies of the Brussels Study Group are being made without reference to strategic considerations which would fall to be examined at a later stage of the Group's work.

#### *Alternative means of economic collaboration*

13. In view of the difficulties inherent in a full Economic Union with Western Europe to which a Customs Union would almost certainly lead if it were not to be a sham, and the fact that such a Union could not come into operation for some time and would contribute nothing immediately to the solution of the problems of the viability of Western Europe, we have considered whether it would not be better to pay more attention to alternative means of economic collaboration which would be more immediately effective and at the same time be an earnest to the Americans of our seriousness in promoting European co-operation. What we have in mind is the development of the tentative discussions initiated in Paris in connexion with O.E.E.C. regarding the integration of production in Western Europe. These discussions might be developed with the aim of examining, as regards selected industries, how far the Western European countries could plan new investment in particular countries in the interests of Western Europe as a whole, and how far, by Government action, existing sources of production could be expanded and the free exchange of goods in Western Europe facilitated through the gradual relaxation of quantitative restrictions, tariffs and other barriers to trade. Progress along these lines would be by no means simple. It might involve, without the excuse of a Customs Union, discrimination against non-participants and the repercussions of this on the international economic obligations of the United Kingdom and other European countries would require very careful consideration. Centralised planning would certainly not be easy or readily acceptable to some of the Governments concerned. Moreover, integration might tend to be confined to a few industries in which the difficulties of collaboration were least acute. No really effective collaboration could be brought about without more or less painful adjustments in particular industries.

14. As indicated in paragraph 13, to be effective a plan of this kind would probably necessitate adjustments of United Kingdom tariffs and quotas between