

The second difficulty, the so called "problem of origin", arose from the fact that, in the proposed free trade area, countries were to retain their individual tariffs against the outside world and not to weld them into an external tariff like that which would eventually surround the European Economic Community. Since all tariffs within the area were to be progressively abolished, it was evident that goods from third countries (for example Canada) might be shipped to a member country with a low external tariff and thence, either immediately or with a very small amount of further processing, gain access to the free trade area as a whole, thus frustrating the purpose of another member country maintaining high tariffs against that same product in order to protect a domestic industry. In this way there could theoretically arise serious "deflections of trade", situations in which the processing industries of the low tariff countries would drive the protected (and thus probably higher cost) industries of other member countries out of the market. A similar problem could of course arise as a result of the Commonwealth preferential system, since here too each country retains control over its external tariffs, and in practice it is solved by a system of certificates of origin which indicate whether the product has a sufficient percentage of "Commonwealth content" (either raw material or the added value of processing) to qualify for the preferential tariff. In the view of the United Kingdom, this system was capable of being adapted to meet the needs of a free trade area and would have sufficed to prevent deflections of trade. But some other countries participating in the negotiations, particularly France and Italy whose economic policies were traditionally protectionist, were not convinced that the system would be adequate to prevent serious deflections of trade and accordingly demanded some "harmonization of tariffs" (i.e. external tariffs) at least for the benefit of especially vulnerable industries.

The two different approaches to the "origin" question really sum up the difference between an "outward looking" free trade area and an "inward looking" one. In the first, the participating countries would expect to increase their trade and other economic exchanges with their partners but not at the expense of their exchanges with other countries which, it was hoped, would also increase. For the second group, the prime objective would be, at least at first, to increase the economic cohesion—and therefore bargaining power—of the free trade area countries as a group.

It is easy to see that the "inward looking" free trade area is a more political concept; it leads to the third problem which is itself a group of problems relating to the central idea that countries which had not accepted the same degree of economic integration as those of the EEC and had therefore not made the same "sacrifice" of national sovereignty, should not expect to reap the same benefits. There was also of course the argument that the European Economic Community, which was meant to form the basis for developing political cohesion, might be weakened if it were to incorporate a number of members whose economies were in widely different states of development, and who did not subscribe to the presumptive political goals of the European Economic Community.

### **Crisis in Negotiations**

Of all the countries of the Community, it was France that had the greatest difficulty in accepting the concept of a free trade area as proposed by the United Kingdom. In addition to the reasons already given, there were