

ANNEX E

ATTITUDE OF THE UNITED KINGDOM GOVERNMENT TO A
WESTERN EUROPEAN CUSTOMS UNION

1. At Paris on 12th September, 1947, the United Kingdom Government, together with other Governments now members of O.E.E.C., agreed to a declaration that they would "create a Study Group for the purpose of examining the problems involved and the steps to be taken in the formation of a Customs Union. . . ." As has repeatedly been stated, this declaration and participation in the Study Group set up in Brussels involves no commitment to enter a Customs Union. The United Kingdom Delegation to the Study Group has throughout made it clear that the purpose of the study was merely to provide the evidence on which Governments could base a decision whether or not to enter a Union. The other participants agreed with this United Kingdom view.

2. Observers from various Commonwealth countries have attended most of the main meetings of the Study Group, and Commonwealth Governments have been kept generally informed of the various lines of enquiry which the Study Group has been pursuing, in particular, the study of a common tariff and of the effect on certain sectors of industry, including agriculture, of the creation of a Customs Union. It is now possible to give some information about the studies which have been made on the possible effects of a Customs Union on various industries. The studies which the United Kingdom submitted to the Study Group in Brussels showed that in the case of about two-thirds of the industries examined a Customs Union would be likely to cause some degree of damage to United Kingdom industry or have an unwelcome effect—not always great—on trade covered by preferences accorded by the United Kingdom. Examples of commodities in respect of which a Customs Union would be liable to cause some interference with trade at present facilitated by imperial preference arrangements, were maize, pears, dried fruits, *i.e.*, currants, sultanas and raisins, wines, butter, cheese, bacon and ham, sugar, motor vehicles and pneumatic tyres. These studies, together with the studies submitted by other countries, were considered by technical sub-committees in Brussels in September. The reports of the sub-committees in general confirmed the conclusions reached in the studies submitted by the United Kingdom.

The international political aspect

3. A decision in favour of a European Customs Union would go a long way to convince the Americans that we were in earnest in our attempts to make E.R.P. a success, and would therefore assist in the passage of the future appropriations. It is, however, worth noting that Mr. Finletter, head of the Economic Administration Mission to the United Kingdom, has emphasised that it would be mistaken policy for the United Kingdom Government to embark on a project of this nature if they were not convinced that it was sound, and that they should not do so merely to please United States opinion. On the other hand, if we refuse to join a Customs Union, we shall be accused of damaging the prospects of O.E.E.C. and we shall give the impression that we do not really mean business when we advocate a Western Union.

Economic considerations

4. At present the real obstacle to expanded trade among European countries is not tariffs, but the quantitative restriction of imports dictated by balance of payment difficulties. A Customs Union in which such restrictions between members continued would be meaningless. On the other hand, to abolish them in present circumstances would mean going beyond a Customs Union to a more or less full Economic Union which would involve some measure of control by a Union authority over the economic and financial policies of the members. In particular, it would involve a measure of Union control over exchange rates combined with a system of Union rationing of "hard" foreign currencies and with inter-member credit facilities going some way, but not necessarily the whole way, towards a pooling of monetary reserves and a possible right of the Union to intervene in domestic policy in the event of substantial inflationary or deflationary developments in the economies of particular members having severe repercussions on the economies of other members. Some degree of Union control