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**ADDRESS GIVEN BY Dr. R. FAESSLER,
COUNSELLOR OF LEGATION,
at the meeting of The Swiss Economic Council
on Thursday, 10th January, 1957.**

Mr. Chairman, Monsieur le Ministre, Gentlemen,
Normally one expects of an after-dinner speaker that he should say amusing things and thus help to lighten the consequences of the good meal and excellent wines. I am sorry to tell you that tonight I shall have to leave flippancy alone, for our Chairman has asked me to say a few words about Switzerland's attitude towards the project for the establishment of a free trade area in Europe. When I accepted to talk on this subject, I was hoping that our Government's attitude would by now have somewhat crystallised, but unfortunately such has not been the case.

You will perhaps remember that, during the last session of our Parliament, Federal Councillor Hohenstein made a short statement, expressing the great interest taken in this project by the Swiss Government, who nevertheless consider that its possible consequences for the Swiss economy will yet require careful study. This task will, I think, be greatly facilitated because of the absence from the new scheme of the agricultural element, which will not this time call for the special protection that this particularly important branch of our economy has always needed.

You will also recall that after the second world war the fear of an economic depression was widely spread. Everybody remembered the short boom and the great economic crisis that followed the first war. Many were the historians and politicians, too, who thought that these two wars, both of which had begun among European countries and become world conflicts, had their profound causes less in political questions than in economic problems, and that, almost before any thought be given to a re-unification of Europe on the political level — which appeared extremely difficult because of hostile and vindictive feelings between former belligerents — a form of economic collaboration should be found, and political unification would then follow almost automatically. These last few years have indeed shown that the different organisations dealing with economic problems have done, at least for the time being, more useful work than the political organisations.

The free trade area scheme owes its origin to several ideas, some of which have been realised while others remained on paper. In the first category I would mention the Organisation for European Economic Co-operation, which was set up to distribute Marshall aid and implement the plan known under that name. This organisation is concerned in the first place with the elimination of the quantitative obstacles lying in the way of freer trade among the member countries. It has been complemented by the creation of the European Payments Union, which provided for the first time since the winding-up of the Latin Union and the abolition of the gold standard an instrument for multilateral financial settlements on a broad basis. The OEEC has undoubtedly borne considerable fruits, since almost 90% of the European trade has now been liberalised. The ultimate goal, however, is almost unattainable, for in the unliberalised 10% every country includes its most

vulnerable products. I need only take the example of Switzerland, who has liberalised her imports of raw materials to 100%, of manufactured goods to 98%, but of agricultural produce to only 67%.

If many other ideas have also become realities, as for instance the European Steel and Coal Community, it is mostly owing to the initiative of a few Statesmen like M. Schuman — known for several plans bearing his name — M. Spaak and Chancellor Adenauer, who have all earned for themselves the title of European. Efforts were made to set up a green pool, which would have provided a similar solution in the agricultural sphere, but they failed. Within more regional limits, however, we have the Benelux and Uniscan, both of which operate satisfactorily. The same can unfortunately not be said about the customs union concluded after the war between France and Italy; this never worked, again primarily because of the agricultural produce.

The countries that already formed the CECA decided at a meeting held in Messina in July, 1955, to create what are now called the common market and Euratom. The idea behind the common market was to create a free trade area among the Benelux countries, France, Italy and Western Germany, to abolish within 12 to 15 years all obstacles to free trade and in particular all customs tariffs, and to adopt a common customs tariff towards third countries. Euratom, which was bound up with the common market project, sought to establish close collaboration among the six countries in the use of nuclear energy for peaceful purposes.

The final text of these two agreements should be ready by the 15th of this month, and be ratified by

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the six national Parliaments already in the course of the summer. As in the case of the CECA, the two new organisations will have a single "authority", empowered to issue directives, in well-defined spheres, to the Governments of the six participating countries.

For reasons of neutrality and sovereignty Switzerland declared at the outset that she could not become a member of the new community. All she could envisage was to seek a form of collaboration similar to that established with the CECA.

The British Government were at first also opposed to the two projects, even incurring the reproach, in the common market countries, that they did their utmost to wreck this economic unification. The Secretary-General of OEEC propounded the idea of establishing a European free trade area at a Meeting of Ministers on 19th July, 1956. The idea was then taken up again by the Chancellor of the Exchequer, and one can say that Great Britain is now one of the most fervent promoters of this plan. As you know, the big political and industrial organisations of this country have examined it, and all have approved it, with some reservations. This is what it consists in:

The realisation of the common market and of Euratom should be left to the six countries that participated in the Messina meeting. A form of collaboration should then be sought with these two organisations, not on a bilateral basis, but on a multilateral one, within OEEC. There would thus be a nucleus composed of the six countries, with a unified customs tariff, to which would be associated some neighbouring third countries, forming the free trade area whose object would be to abolish all obstacles to free trade and particularly the customs tariffs existing among the member countries. These would, however, maintain their national customs tariffs towards third countries, and thus protect their economy, where needs be, against competition from outside the area. This solution would enable Great Britain to keep the system of imperial preferences, which is so important to the Commonwealth countries; their exports are mostly agricultural produce, which — as said before — will not form part of the scheme for the free trade area.

This solution should appear sufficiently attractive to Switzerland, who has always aimed at the fullest possible liberalism in her economic policy, except where agricultural interests are concerned — these are of such primary importance, for political reasons, that their protection was even embodied in our Constitution a few years ago. The Swiss hesitations

may then seem difficult to understand, but here are two points that we criticise:

The first one is that the studies carried out so far bore mainly on the commercial aspect and not enough on the financial one, for, in our view, free trade can be attained only if there is also convertibility of currencies. This convertibility has to a large extent been achieved in the European Payments Union, whose members have had to accept or grant a certain amount of credit. The proportion of credits to gold or dollar payments is at present 25% of the former to 75% of the latter. Despite these gold and dollar payments a few positions, either on the credit or the debit side, have become extreme; among the creditor countries I might mention Germany and Belgium, and among the debtors the United Kingdom and France. Before a free trade area could operate, it would thus be necessary to eliminate the causes that led to these extreme positions, with the result that the member countries would have to more or less unify monetary policies. And here one touches a point on which all Governments are extremely sensitive.

Our hesitations arise yet from another source:

It is clear that in view of the disparities among the economies of the member countries all the Governments could not be compelled to introduce measures of liberalisation at the same time and on the same scale. There would thus be several countries that are going to ask for what is called a waiver, that

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is to say a claim to exceptions, as for instance for reasons of balance of payments or the protection of a particularly vulnerable industry. Within OEEC had been established the rule of unanimity, which enabled a country to maintain restrictions against the opposition of all the other members. A majority vote is, however, being thought of for the free trade area. Decisions so taken should then be accepted by all the countries, which means that an international authority could compel our Government to take such or such a measure, although we may think it against the interests of our country.

Numerous obstacles would also arise at practical level:

To arrive at free trade one should try to create equal conditions and production costs in all the countries participating in this new scheme. You know yourself how many factors are taken into account in production costs, and so I will mention only a few: salaries, social contributions, cost of raw materials, and of money, taxes, working hours, depreciation of investments, etc., etc. Another problem, to which there will never be a solution, is productivity per man hour, which varies not only in different countries but in one and the same country.

France has already set a whole lot of conditions to her participation in the common market. She has, for instance, asked Germany to reduce working hours, to grant equal pay for equal work to men and women, to increase social contributions, and also to increase taxes. All those are factors arising from the internal policies of each country, and it will be extremely difficult to assimilate them to the conditions in other countries from one day to the other. Until now the French Government have tried to counter these alleged disparities through special import taxes and export subsidies, and they insist on continuing to do so in the common market, until such time as the disparities are no longer there. It is, however, extremely dangerous to leave to a Government the possibility of having recourse to such measures, which would enable them to protect certain industries indefinitely.

In the long run there should be an international sharing of work, that is to say that each country should produce solely the goods which particularly suit its industry. We have already gone through this process in Switzerland, except again where our agriculture is concerned. I would not mention the embroidery and lace industries in Eastern Switzerland, which for the most part closed down or were transformed after the depression that followed the first world war; or the production of private cars, where costs were too high to make exports possible, and the internal market too narrow to enable the industry to survive. A similar experience is being made at the moment with agricultural tractors. This industry was considerably expanded during the war but now cannot stand up to foreign competition. In spite of its usefulness for our agriculture in war time, our Government have decided to stop protecting it, which will no doubt lead to its disappearance. This sort of thing, however, is only possible where only a small part of the working population is likely to be affected. I could not imagine that we might kill our watch industry if one day Germany or another country swamped all the markets with good-quality watches less expensive than our own.

There may be many reasons militating against joining the free trade area, but there are just as many, if not more, which speak in its favour. It is this thought, I imagine, which led the British Government to seek a form of collaboration, when they saw that the common market would become a reality. Indeed, were but the bare conception of the common market applied, all the participating countries could exchange their goods without paying duty; thus, the exports of all the other countries to the common market area would come against fairly high tariff barriers, whereas the prices of goods produced by the member countries would no longer be increased by customs duties. Not only would there be this near impossibility of exporting to the common market countries, which would be freely exchanging their products among themselves, but some of their industries might become so strong that they could in the long run export to third markets at more favourable terms.

It is envisaged that the lowering of customs duties within the free trade area should take place automatically and periodically, the process being spread over a period set by agreement. One must not presume, therefore, that all obstacles will disappear within the near future; maximum freedom will be reached only after 12 to 15 years.

I have explained to you some of the problems springing from the creation of a free trade area. The practical obstacles undoubtedly appear nearly unsurmountable, but personally, I am convinced that the great idea behind this project will lead all Europe, not only economically but also politically, towards a better future. Once this plan has been realised, we shall have a unified economic community of 250 million people, capable of competing under better conditions against both the American and the communist economies, while enjoying greater political independence from these two blocs.

Though Europe may sometimes appear politically and economically weak, we possess cultural and spiritual values which are worth defending and for which we must all work.

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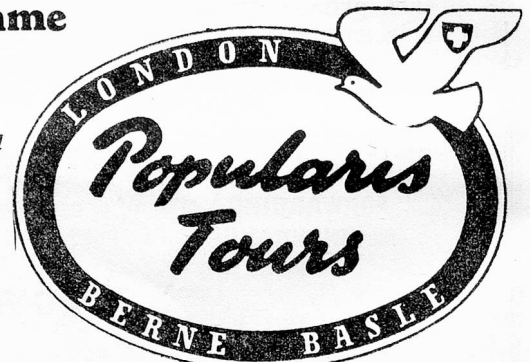
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