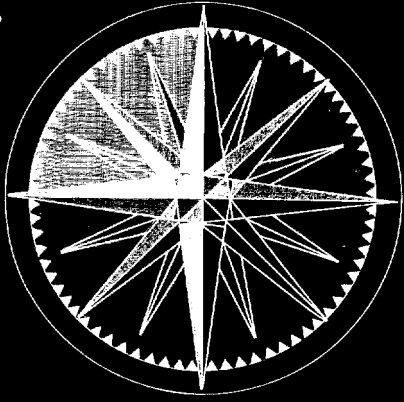


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CURRENT INTELLIGENCE WEEKLY

SPECIAL REPORT

EXTERNAL RELATIONS OF THE EUROPEAN ECONOMIC COMMUNITY

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EXTERNAL RELATIONS OF THE EUROPEAN ECONOMIC COMMUNITY

The European Economic Community has treaties of association with 18 independent African states and with Greece and Turkey. In addition, the EEC has concluded nondiscriminatory trade agreements with Iran, Israel, and Lebanon. These specialized arrangements --and the others which seem likely to follow--stand greatly to complicate the community's foreign relations.

The convention just signed with Nigeria and other preferential agreements under consideration each have unique circumstances and problems. Some of them are at variance with the principle of nondiscriminatory international trade. Some of the complex organizational ties and economic commitments involved may complicate the community's internal economic and political development.

Completion of the pending special arrangements will be a slow process, however, and their shape can thus still be influenced considerably by other developments. Notable among these would be a successful outcome to the Kennedy Round trade talks--which might make trade preferences less imperative--or a British initiative to join the Common Market--which for a time, at least, would overshadow the EEC's other external negotiations.

Nigeria

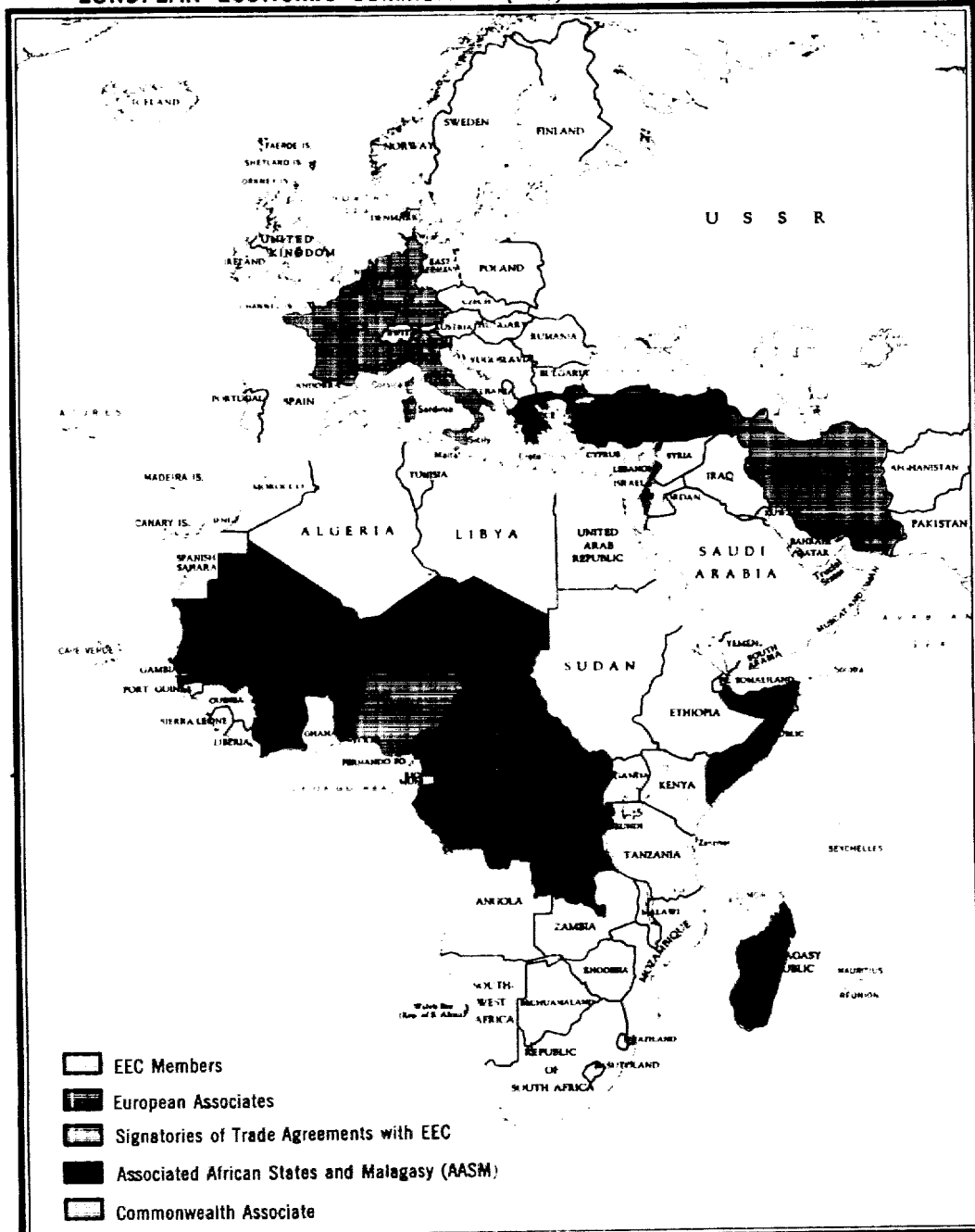
The association agreement between Nigeria and the EEC signed in Lagos last week follows two years of negotiations. The agreement comes up for renewal in May 1969, at the same time as the Yaoundé Convention which links the EEC with the 18 Associated African States and Malagasy (AASM). The Nigerian agreement is the first reached with an African state not formerly a colony of one of the EEC members and may spur other non-AASM states to seek special

trade ties with the Common Market. Kenya, Uganda, and Tanganyika have in fact held discussions with officials of the EEC Commission, and in the past Sierra Leone has also shown interest. The Nigerian association casts some doubt on the EEC and African arguments that the Yaoundé Convention, with its provisions for reciprocal preferences, was a uniquely sanctioned derogation from most-favored-nation trade principles, necessary only in order to ease the transition from a colonial relationship to economic independence.

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EUROPEAN ECONOMIC COMMUNITY (EEC) AND ASSOCIATED MEMBERS



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Nigeria's attitude toward the EEC has shifted several times, and is indicative of the ambivalence of Africans about close ties with Europe. Initially favorable to association following its independence in 1960, Nigeria in 1962 turned away on the ground that association would represent a continuation of colonialism. Nigeria's objectives in again opening the door in 1964 were limited to gaining trading concessions similar to those of the AASM, conceding a minimum of preferential access to its markets by the EEC, and keeping to a minimum the institutional framework for the association. Nigeria has substantially achieved these goals, largely because of the negotiating skills of its representation in Brussels and to the high value placed by the Six on extending the community's influence in Africa beyond the original associates.

Nigeria's trade with the EEC does not suffer at the present time because of the preferences enjoyed in the Common Market by the AASM. Nigeria's interest in "equal status" with these states is based rather on concern over the long-term effects of such preferential access on Nigerian exports. The new agreement provides that tariffs on Nigeria's exports will be the same as those applied to trade within the EEC--and between the Six and the AASM. Nigeria's major AASM-competitive exports, however--cocoa beans,

plywood, palm oil, and peanut oil--are granted only tariff-free quotas, with normal community tariffs due on exports in excess of the quotas. Unlike the EEC's arrangements with the AASM, the Nigerian agreement provides for no financial assistance from the EEC.

More important than any immediate economic benefits, from the Nigerian point of view, is the prospect of renegotiating with the EEC alongside the AASM in 1969. If EEC preferences to the AASM are not then in the process of being "phased out"--the stated intention of the community--Nigeria will also be in a position to insist on a continuation of its privileged status with regard to the EEC. Nigeria has argued that, despite its desire to see all less developed countries given preferential treatment by the developed countries, it must for the "near future" seek arrangements where it can find them.

AASM attitudes toward Nigerian association are generally favorable, and fears of Nigerian competition in the EEC market seem largely to have evaporated. The AASM have always been concerned, to some extent about their own association with the community because of uneasiness over charges of "neocolonialism" and because of the Yaoundé Convention's potential effect of dividing the French- and English-speaking nations of Africa. Now,

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the AASM may see in Nigeria's association an opportunity rather than a danger. The Nigerian agreement might be taken as a model for renegotiating the Yaoundé Convention on a less formal basis; at the same time it holds out a promise for a larger grouping of African states. At a recent conference of EEC and AASM parliamentarians in The Hague, a Senegalese delegate stated that the AASM "unreservedly" endorsed Nigerian association, and that African unity would be strengthened if Kenya, Tanzania, Uganda, Algeria, Morocco, and Tunisia also became associated.

Economic considerations have apparently played a minor role in motivating the Six to conclude an arrangement with Nigeria, even though the community--principally, although not exclusively, because of French insistence--successfully demanded preferences in the Nigerian market for a limited list of its exports. The Nigerians, in fact, are pleased that they succeeded in limiting the items covered by these "reverse preferences" to two percent of their imports from the community.

The EEC acknowledges, but tends to minimize, arguments that a preferential arrangement with Nigeria may violate most-favored-nation trading principles to the detriment of the General Agreement on Tariffs and Trade (GATT). Officials of the Six

admit their political interest in extending the EEC's influence in Africa beyond the French-speaking states, and the Germans and Dutch regard the agreement as an opportunity to "break the French hold" on community-African relations. Even the French, who appeared reluctant throughout the negotiations with Nigeria, are probably not averse to the EEC's encroaching on Commonwealth preserves. Once it was clear, moreover, that Nigerian association would provoke no serious reaction from the AASM, Paris in fact used the prospect of association as an instrument in quietly restoring relations broken by Lagos when France conducted its third nuclear test in the Sahara in January 1961.

Maghreb

The type of limited association accorded Nigeria may stimulate efforts by the Maghreb countries (Morocco, Algeria, and Tunisia) to reach an agreement with the EEC. In June 1965, the EEC Council authorized the Commission to open negotiations, separately, with Tunisia and Morocco "on commercial subjects." As the talks have progressed, however, it has become evident that greater coordination among the Maghreb countries themselves may be necessary to ease negotiations with the community. Relations with Algeria are still under study within the community.

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The Maghreb countries' desire for special arrangements with the EEC arises from concern over the eventual loss of the privileged markets deriving from their colonial relationship to France. They would also like to reach agreements permitting free movement of their workers into the Common Market and assuring EEC development aid. Morocco especially is concerned about retaining export markets in the AASM--a manifestation of how ties with the EEC are also seen as replacing former links within the French colonial network. Algeria, which under special community provisions deriving from its former relationship to France is allowed to benefit from internal EEC reductions of tariff barriers, is apparently less immediately concerned than Tunisia and Morocco about establishing new arrangements with the community.

Although they want to retain an advantageous relationship with Western Europe, the Maghreb states are wary of close political ties. They have thus placed their bids for new arrangements in the context not of "full association," but rather of a free-trade area "with added special privileges."

Reflecting Paris' desire to have the EEC assume part of its burden in the Maghreb, the French representative in Brussels said last year that France wanted an arrangement which called for the community as a whole to extend to Morocco and Tunisia the same preferences now given by France, "plus a little more." Also desirable would be "some modest reciprocal

preferences" and an EEC commitment to provide some aid.

Concerned about its relations with the Arab world, West Germany is receptive to the Tunisian and Moroccan requests for EEC ties, and would also like to legitimize Algeria's special status with the EEC. Bonn is apparently aware, however, of the danger in arousing excessive Maghreb hopes. An official from the German Ministry of Economic Cooperation, for example, at a symposium held in Tunis last April on the EEC, stressed that the Federal Republic, "though deeply interested in Tunisia's future and anxious to assist it, could not hope to take the place of France as Tunisia's major trade and aid partner."

The Mediterranean Area

The EEC's North African problem is part of the larger issue of its ties in the Mediterranean area as a whole. Since talks began with Tunisia and Morocco, Spain has renewed its bid for community attention, and Israel has indicated dissatisfaction with its present EEC arrangements. Rome has taken a special interest in the prospective extension of the EEC's commitments in this area inasmuch as Italy's traditional agricultural exports often compete with those of the other Mediterranean countries.

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Italy insisted at the outset of talks with Tunisia and Morocco that the EEC Council exclude from its negotiating mandates to the Commission any discussion of the products of principal export interest to those two countries: vegetable oils and fruits and vegetables. This has made it impossible to carry the negotiations very far, and all parties have now agreed that the community's own policy on these products must be resolved before negotiations are resumed.

The Commission is attempting to use this stalemate as an opportunity to push for an EEC-Mediterranean "orange agreement." Although in substance such an agreement could turn out to be protectionist from the point of view of nonmembers--and of community consumers--it can be regarded as an attempt to remove a major obstacle to agreements with prospective Mediterranean "associates." The Commission's initial proposal was turned down by the Six, reportedly because it would discriminate against Israel and Spain and because it contained the notion of production controls--considered by the Six an unacceptable precedent for the EEC's agricultural policy. The Commission will probably offer a revised version, however.

In any case, the Council is now committed--as part of the "package" agreements reached in May on financing the EEC's agricultural policy--to "take into consideration...in...negotiations with countries of the Mediterranean basin" a 1964 Italian

memorandum which asked that the community agree on guidelines on association policy. If the Italians succeed in forcing a general debate on association policy, this might push the Maghreb states as well to seek a common approach to the EEC--possibly along with other Mediterranean countries. Although such coordination is scarcely imminent, it might eventually become a significant factor for relations around the Mediterranean. For the present, it is apparent that any pressure on Mediterranean countries for common approaches must come from the EEC.

Spain

The Commission seems likely also to use a June Council decision requesting a report on exploratory talks held with Spain as a reason to raise the issue of Mediterranean policy. The Council decision is largely the result of Spain's recent intensive diplomatic campaign to get community action on its bid for links with the EEC.

At the time of Madrid's first application in 1962, Spain envisaged as its goal something like the EEC's association agreement with Greece--which conceived of association as an interim phase leading to membership. The Council, however, in giving the Commission a mandate in 1964 for discussions of the "economic problems" between Spain and the community, anticipated that a commercial treaty--not association--might be the result. Spain is now in effect pressing for a revised and expanded Council mandate.

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Madrid apparently has deliberately left vague the precise form of relationship it seeks with the Common Market. Wary of the opposition still existing within the community to political ties with the Franco regime, it has suggested it would be satisfied with something less than associate membership provided it was more than a mere commercial agreement. The Spanish foreign minister has also spoken, however, of the "Austrian model" as a satisfactory precedent. Presumably he had in mind an arrangement which--unlike the EEC's agreements with Greece and Turkey--would not allude to the possibility of ultimate full membership.

Spain's economic argument for special consideration is essentially that its trade deficit as well as its trade with the community is growing. Two years ago the government claimed that the success of its development plans--the second of which is now being drawn up--depended on Spain's maintaining and extending its markets in the EEC, the country's largest single trading partner. Since then, Spain's deteriorating balance of payments has probably given added urgency to its trade relations with the community. Madrid fears its traditional agricultural exports may eventually fall victim to EEC restriction or be hurt by an EEC agreement with other Mediterranean countries. Moreover, Spain's exports of workers to the community's labor market is highly beneficial to the Spanish econ-

omy, and Madrid would like to assure continued access as well as get equal treatment for these workers, both in terms of pay and such fringe benefits as social security and training. Madrid's other important objective is to induce more EEC capital into Spain.

Spain's short-run economic needs probably do not wholly explain its recently increased diplomatic activity toward the EEC. The end of last year's EEC crisis coincided with a new uncertainty over Europe's future look, brought about largely by the crisis in NATO, but also by the ambiguous settlement of the Common Market dispute itself. In addition, Madrid apparently sensed a lessening of ideological antagonism partially because of the weakened influence in the Belgian and Dutch governments of the Socialist parties which have led the opposition to Franco.

Madrid deems the present as good a time as any to bargain for a better defined relationship to the Six. It may believe that the US is sufficiently concerned about its own defense agreement with Spain--up for renewal in 1968--to be more susceptible to Spanish overtures that it exert its influence with the Six on behalf of Spain. Madrid also has let Germany know that the present undefined status of German overflights--required for links with the German base at Beja, Portugal--cannot be taken for granted.

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Germany has been Spain's strongest supporter among the Six and, recently, has taken the lead in sounding out its partners' views on Spanish association. The communiqué issued at the time of Foreign Minister Schroeder's visit to Spain last March stated that Germany would "seek to obtain a rapid and effective development of the current negotiations between Spain and the community." Subsequently in the Bundestag, Schroeder warded off a question as to why Spanish political liberalization could not be a price for EEC entry by responding that Spain was not seeking a full membership which would entail participation in EEC decision-making.

The Netherlands, whose trade and political interests require it to place a high priority on settlement of EEC relations with the seven-member European Free Trade Association (EFTA), would like to link this problem with that of associating Spain with the community. In particular, they wish to avoid a form of association with Spain involving institutional arrangements and, hence, one having political ramifications. Nevertheless, although prepared to agree to "some sort of trade agreement," even the Dutch concede that Spain's problems cannot be met by the type of most-favored-nation agreement the community has with Israel and Lebanon.

France has not taken an active role in promoting Spain's case, but has appeared to favor at least some sort of commercial

relationship. At various times, however, De Gaulle has alluded to Spain's entry together with that of Britain, thus raising the suspicion that the Spanish issue could eventually become involved in a French attempt to change the structure of the community along with its membership.

Italy's past opposition to Spanish association has been on both economic and political grounds. Spain's oranges and olive oil compete with Italy's; and Italian Socialist distaste for Franco's Spain is still a factor. The development of Italy's own economic ties with Spain, however, especially in nonagricultural fields, is tending to soften economic opposition; and Foreign Minister Fanfani has taken a more equivocal line than have previous Italian governments on the possibility of a community link with Madrid. During his July visit to Bonn, Fanfani expressed opposition to Spanish membership or formal association with the EEC but said he could favor an "informal economic association." The Italians have nevertheless made it clear that they still want the EEC to agree on a "theory of association" to be broadly applied to all countries seeking a link with the community.

The EEC Commission is opposed to Spanish association, and has been annoyed by the Spanish "pressures" in recent approaches to member states outside the framework of consultations between Spanish and Commission officials. The US mission reports that the Commission regards a

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commercial treaty on a most-favored-nation basis as the only immediate solution but one which could perhaps lead in time to association and eventual full membership.

Austria

Austria is the only European country actively negotiating with the community for associate status or special ties. Austria's effort is a legacy of a general attempt in the early 1960s by it and its six EFTA partners (Denmark, Norway, Portugal, Sweden, Switzerland, and the UK) to overcome the split between the Six and the Seven. Now, the "Austrian model"--designed to cope with Austria's special status as a neutral state--is being looked at with interest by some of the other EFTA members, particularly neutral Switzerland. Whereas the somewhat cumbersome institutional apparatus devised for the Greek and Turkish associations is intended as an interim measure on the way toward full membership for these countries, the Austrian negotiations envisage a permanent semiautonomous joint council--a possible precedent for associating other European states while keeping them at "arm's length."

Based on a March 1965 Council mandate--the Austrians having first requested negotiations in December 1961--the talks with Austria have been conducted by the Commission, along with member-state "observers," in a series of meetings which adjourned last February. The Commission submitted its report to the Council

in April and is awaiting the further mandate it requires to continue the negotiations.

Given the inherent difficulties, the discussions have made considerable progress. The Commission, in particular, seems to have shown considerable willingness to meet the special circumstances involved in an Austrian agreement. Many ticklish problems remain, however, even in the strictly trade areas on which Austria and the Commission have reached understandings in principle. Moreover, some of the principal areas of disagreement have been set aside until later stages in the negotiations.

The underlying problem for the community is to ensure that Austria keep in step with EEC policies and actions without breaching its neutrality. If required to comply with EEC decisions, Vienna would be subordinating its sovereignty--and possibly also its neutrality. If on the other hand, Austria is allowed to decide whether to adhere or not to adhere to community policy, the very concept of the association would be undermined, risking both economic and political damage to the community. The legal issues involved have given the lawyers in Brussels and Vienna many headaches, and if the association finally comes off, the convention will almost certainly contain an intricate maze of safeguards for both sides. Not the least of the political problems is what body will adjudicate differences between Austria and the community.

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That Austria must apply the EEC's common external tariff to the EFTA members, thus divorcing itself from the free-trade grouping, is a sine qua non for the community. There is little doubt that Vienna understands this position; yet--probably for internal political reasons--public statements by the government have frequently been equivocal on this point. A difficult time may come this fall, when Austria must decide whether or not to go along with EFTA's scheduled elimination of internal tariffs. Similarly, Vienna--publicly, at least--professes to see little difficulty with the ultimate acceptance by the Soviet Union of an Austrian tie to the Common Market. Soviet statements, nevertheless, continue to condemn any such link.

The Germans and French have fully supported Austria's desire for EEC association, but the French may yet prove sensitive to Soviet objections or, on the other hand, even attempt somehow to use an agreement as an element in Paris' policy of East-West detente. Before De Gaulle's recent Moscow trip, the French told the Austrians that, if questioned, De Gaulle would support the Austrian position. He would not, however, bring up the question himself. The Dutch are concerned about possible agricultural competition from Austria, but possibly more important will be the Dutch assessment of the effect of Austrian association

on the other EFTA members' prospects for eventual EEC membership.

Although Rome has gone along with the Commission's limited mandate to discuss association, it is probably still lukewarm toward close EEC-Austrian political ties. One problem is Italy's fear of Austrian competition for its fruits and vegetables, and this difficulty may be mitigated if the Italians get adequate safeguards in the EEC agricultural policies now being decided in Brussels. However, Italy might conceivably find it politically difficult to welcome Austria if the contentious issue of South Tirol (a largely German-populated region of northern Italy) remains unsettled between the two countries. Moreover, Rome has shown considerable interest in expanding its trade with Eastern Europe and might look askance at exceptions to community tariff procedures permitted Austria for its Eastern trade, especially since the community has shown no signs of being able to agree on common rules for its own commerce with the East. Italy--along with the Netherlands--is likely at some point to raise the question of what effects Austrian association would have on the political efficacy and supranational character of the Common Market. Rome may suggest that, as in the case of Spain, further community decisions regarding Austria await a general debate on association policy.

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Prospects and Problems

The list of outside claimants for community attentions seems likely to grow, but even the present list suggests the economic and political importance of these developing links.

Whatever the economic disadvantages for other areas, the agreements with the Africans have provided a mechanism for continued European involvement in the African continent. The convention with Nigeria is, despite its preferential character, one way to lessen the discriminatory impact of the EEC's arrangements with the AASM. A limited agreement between the EEC and the Maghreb countries could bring political advantage for the West in this area.

The associations with Greece and Turkey may become a politically more significant tie between them and Europe if in the future the NATO ties become less binding. Spanish ties to the community could initially constitute another drag on the EEC's advance toward political unity, but they would offer an additional possibility for reinvolving Spain in Europe. An association with Austria has potentially broad implications for the future of East-West relations because of Austria's trade connections with the countries of Eastern Europe. At the same time, Austria's case involves some risk of weakening community institutions as the price of the EEC's expanding its coverage.

Even the present arrangements do not appear to be frozen in their present form, however, and the ponderousness of community procedures will retard the proliferation of special arrangements. If at the same time such global trade-liberalizing efforts as the Kennedy Round and, possibly, the United Nations Conference on Trade and Development (UNCTAD) show greater promise, the number or at least the nature of applications for community links could be altered.

All of the agreements under consideration would clearly be overshadowed by early negotiations with Britain for entry in the Common Market. With the UK negotiating for full membership, most of the other prospective EFTA candidates would probably follow. Moreover, all of the intra-European relations potentially involving the EEC would be seen in a new light and a debate over the community's organizational effectiveness--already implicit in the present or contemplated association agreements--would seem unavoidable.

British entry would also compel another look at the EEC's extra-European relationships. With the UK's world-wide special trading ties at issue, a resolution of the question of whether to extend community preferences or phase them out--either through global preferences or movement toward free trade--would be made more imperative than ever.

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