

Department of History and Civilisation

**TRADE AND POLITICS ACROSS THE ATLANTIC: THE EUROPEAN ECONOMIC
COMMUNITY (EEC) AND THE UNITED STATES OF AMERICA IN THE GATT
NEGOTIATIONS OF THE KENNEDY ROUND (1962-1967)**

By

Lucia Coppolaro

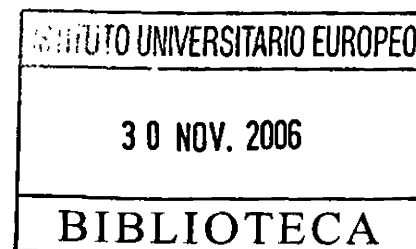
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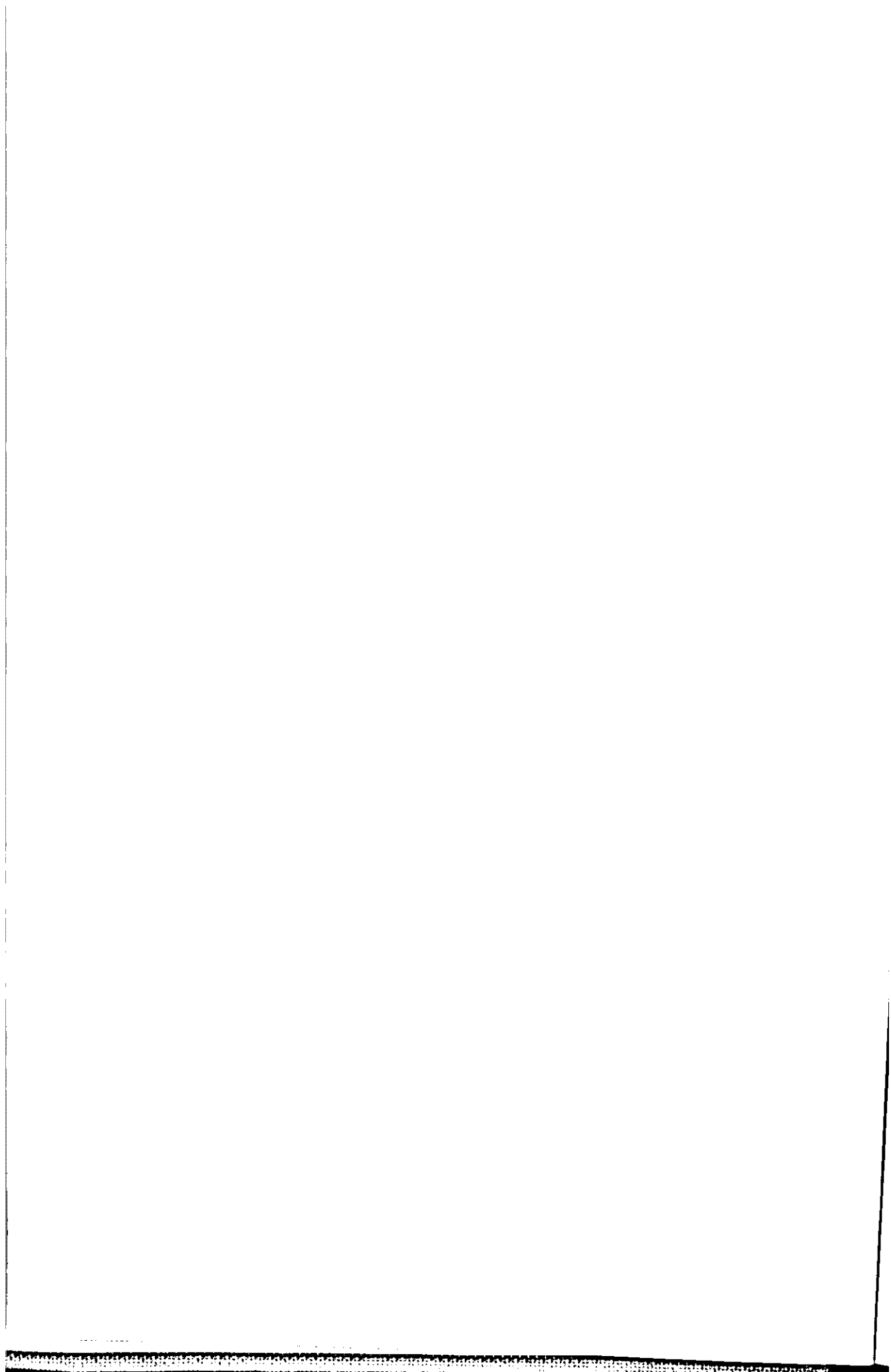
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**Thesis submitted for
assessment with a view to obtaining
the degree of Doctor of the European University Institute**



Examining jury:

Professor A. Milward, EUI and UK Cabinet Office, London (supervisor)
Professor P. Winand, European University Institute
Professor T.W. Zeiler, University of Colorado at Boulder
Professor A. Varsori, Università di Padova



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Abbreviations and Acronyms

ASP	American Selling Price
BTN	Brussels Tariff Nomenclature
CAP	Common Agricultural Policy
COREPER	Committee of Permanent Representatives
EC	European Community
EEC	European Economic Community
EFTA	European Free Trade Association
EPU	European Payments Union
EU	European Union
GATT	General Agreement on Tariff and Trade
IMF	International Monetary Fund
IWA	International Wheat Agreement
ITO	International Trade Organization
LDC	Less-developed countries
LTA	Long-Term Agreement on Cotton Textile
MDS	Montant de soutien
MFN	Most-favored nation
NAFTA	North Atlantic Free Trade Agreement
NATO	North Atlantic Treaty Organization
NTB	Non-tariff barrier
OECD	Organization for Economic Cooperation and Development
OEEC	Organization for European Economic Cooperation
QR	Quantitative restriction
QMV	Qualified Majority Vote
SITC	Standard International Trade Classification
SSR	Self-sufficiency rate
RTA	Regional Trade Agreement
TEA	Trade Expansion Act
TNC	Trade Negotiation Committee
UGPs	Unified Grains Prices
UNCTAD	United Nations Conference on Trade and Development
US SRTN	US Special Representative for Trade Negotiations
WTO	World Trade Organization

Key to Archives

AN	Archives Nationales Contemporaines, Fontainebleau (France)
AAPD	Akten zur Auswärtigen Politik des Bundesrepublik Deutschland
AECB	Archives European Commission, Brussels
CM	EC Council of Ministers, Brussels
DDF	Documents Diplomatiques Français
EM	Personal Paper Edoardo Martino
HAEC	Historical Archives European Community, Florence
FRUS	Foreign Relations of the United States
JM	Personal Paper Jean Monnet
JFKL	John Fitzgerald Kennedy Library
LBJL	Lyndon Bains Johnson Library
MAE	Ministero Affari Esteri (Italy)
MAEF	Ministère des Affaires Etrangères (France)
NA	National Archives (NARA)
OW	Personal Paper Olivier Wormser
PPJR	Personal Paper Jean Rey
PRO BT	Public Record Office, Board of Trade
PRO CAB	Public Record Office, Cabinet
PRO FO	Public Record Office, Foreign Office
PRO PREM	Public Record Office, Premier
PRO T	Public Record Office, Treasury
WHCF	White House Central Archives

Introduction and Basic Arguments

General Aim, Levels of Analysis and Method

This thesis concerns relations between the United States of America and the European Economic Community during the Kennedy Round of the General Agreement on Tariffs and Trade (GATT) negotiations which took place in Geneva, Switzerland from 1963 to 1967. The Kennedy Round was promoted by the Administration of American President John F. Kennedy in 1962 and became the largest trade negotiation hitherto undertaken, concerning 80% of world trade, the attendance of forty-eight governments and an average reduction of the tariffs between the US and the EEC of 35%, considerably more than had been achieved through previous negotiations. For the first time in GATT history, moreover, agriculture and non-tariff barriers (NTBs) were addressed as well as the problems of less-developed countries (LDCs). The Kennedy Round (subsequently referred to in this thesis as the Round) clearly marked a climax of post-World War II international trade cooperation and its results set the tone for international trade for the following years.

A history of the Round can tell us more than how and why trade was or was not liberalised, for it was much more than a commercial negotiation; it also speaks to us of the history of the EEC in the 1960s, EEC-US relations, and American responses to European integration. The Round was fundamentally important to the EEC. Not only was it the first major trade negotiation the EEC attended which required a clear definition of its commercial policies and whose outcome determined its position in world trade; the negotiation was also bound up with other dimensions of the EEC, such as the 1963 and 1967 British applications to join the Community and the French vetoes that opposed them, the definition and settlement of the Common Agricultural Policy (CAP), the Empty Chair Crisis and the Luxembourg Compromise, and the role of the European Commission in the European integration process. The Round played a similarly key role in transatlantic relations and US policy towards the EEC. It was launched by the Kennedy Administration as an instrument to further liberalize international trade, reduce the discriminatory effects of the EEC's regional trade agreement and to enhance economic and political interdependence across the Atlantic. The Round, therefore, was a very intricate and complicated negotiation whose importance extended well beyond trade.

Books on the Kennedy Round have already been written. Johns Evans in his *The Kennedy Round in American Trade Policy: Twilight of the GATT?* focuses on American trade policy, the functioning of GATT, and the impact the Kennedy Round had on GATT.¹ Thomas Curtice and John Vastine in *The Kennedy Round and the Future of American Trade* also describe American trade policy and provide a detailed account of each major trading sector discussed in Geneva, the main obstacles to trade liberalization and the results achieved.² Ernest Preeg in his *Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations under the GATT* goes beyond a discussion of US trade policy and GATT history, to describe the negotiations that took place in Geneva and the main results of the Round.³ Thomas Zeiler in his account of US trade policy and

¹ Evans, J.W. *The Kennedy Round in American Trade Policy: Twilight of the GATT* (Cambridge, Mass: Harvard University Press, 1971).

² Curtice, T.B. and Vastine J.R.jr, *The Kennedy Round and the Future of American Trade* (New York: Praeger, 1971).

³ Preeg, E. H. *Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations under the GATT* (Washington, DC: Brookings Institute, 1970).

the Kennedy Round, *American Trade and Power in the 1960s*, complements his discussion of American trade policy with an analysis of the ability of American power to dictate its vision of trade relations to, above all, the Europeans.⁴ Steven Dryden in *Trade Warriors: USTR and the American Crusade for Free Trade* focuses on the role of the agency responsible for conducting trade negotiations, the U.S. Special Trade Representative, its relations with the other branches of government and its ability to support free trade in Geneva.⁵ Alfred Eckes Jr., in addition to his classical book on US trade policy *Opening America's market: U.S. foreign trade policy since 1776*, edited an oral history dedicated to American trade policy and, in particular, to the Kennedy and Tokyo (1974-1979) Rounds, *Revisiting U.S. Trade Policy: Decisions in Perspective*, in which some of the actors who elaborated American trade policy and some negotiators who participated in these two rounds provide insight into the American strategy.⁶ Despite the different vantage points from which these books address the Kennedy Round, they all share a common dominator: that is, they present the negotiations exclusively from the American point of view, either because they were written by American officials who participated in the Kennedy Round in different capacities, such as Preeg, Evans, Eckes and Curtis and Vastine, or because they were written using American archival sources, such as Zeiler and Dryden. None of the above cited books fully consider the question of US policy towards the EEC and European integration, despite the fact that this was a basic component of US trade and foreign policy since the end of World War II and came to have an important impact on the US position in the Round.

Gian Paolo Casadio in *Transatlantic Trade: USA-EEC confrontation in the GATT negotiations* attempts to provide a broader vision of the Round by also investigating the position of the EEC; however, as his account was written in 1973 it was not grounded in archival sources, an essential foundation for providing a full account.⁷ More recently, two other books have been published that, following Casadio, try to go beyond the American point of view. Donna Lee in *Middle Powers and Commercial Policy: British Influence at the Kennedy Round* has investigated the influence of the British government on American stances in the Kennedy Round.⁸ Sophie Meunier in *Trading voices: The European Union in International Commercial Negotiations* has analysed the role of the EEC and the Commission in international trade negotiations and dedicated a section to the agricultural negotiations of the Kennedy Round but, astonishingly enough, grounded her analysis in a handful of American archival sources, rather than European sources, meaning that, even in a book that purports to focus on the European Union, once again, only the American point of view is represented, leading to an often misleading depiction of the EEC and European Commission's stances in the Kennedy Round.⁹

Even though the literature on the Kennedy Round may appear vast, a comprehensive history that investigates the positions of the EEC has not yet been written, despite the fact that the EEC was one of the main protagonists of the

⁴ Zeiler, T.W. *American Trade and Power in the 1960s* (New York: Columbia University Press, 1995).

⁵ Dryden, S. *Trade Warriors: USTR and the American Crusade for Free Trade* (Oxford: Oxford University Press, 1995).

⁶ Eckes, A. E. Jr. *Opening America's market: U.S. foreign trade policy since 1776* (Chapel Hill : University of North Carolina Press, 1995); Eckes, A. E. Jr, *Revisiting U.S. Trade Policy. Decisions in Perspective* (Ohio, Ohio University Press, 2000).

⁷ Casadio, G.P. *Transatlantic Trade: USA-EEC confrontation in the GATT negotiations* (Farnborough: Saxon House, 1973).

⁸ Lee, D. *Middle Powers and Commercial Policy. British Influence at the Kennedy Round* (New York: St. Martin's Press, 1999).

⁹ Meunier, S. *Trading Voices. The European Union in International Commercial Negotiations* (Princeton and Oxford: Princeton University Press, 2006).

negotiations. In short, accounts of the US-EEC negotiations have been written solely through American eyes, a full account of US policy towards European integration in the context of US trade policy is lacking, as is an account of EEC participation in this important trade negotiation despite the significance and impact of the Kennedy Round on the history of the construction of the EEC. A void in the literature of both the history of transatlantic relations and European integration is clearly apparent.

By analysing the relations between the US and the EEC in the Kennedy Round, this thesis intends to fill that void. In the following pages I focus on the process of liberalization of international trade, the overlapping of negotiations among the six governments (the Six) of the EEC on the position the EEC was to occupy in world trade with simultaneous negotiations underway in Brussels, and transatlantic relations. As the above description suggests, this thesis contains three levels of analysis and addresses three major issues. The first level concerns the relations among the Six, the role of the European Commission in the elaboration of a common commercial policy, and its conduct of negotiations in Geneva with third countries. Here I aim to illustrate the importance of trade relations in keeping the Six together despite the many quarrels among them and how the Six pooled their sovereignties into one common commercial policy in the Kennedy Round, thus shedding some light on the origin of the EEC as a global actor. I show that the Kennedy Round had a major impact on the construction of the EEC as it defined its position in world trade and was the first important framework through which the EEC acted as a unit constituting, I argue, its first act of foreign policy.

The second level of analysis concerns transatlantic relations and US policy towards European integration. Since the end of World War II the United States had supported European integration at a regional level as a means to strengthen Western Europe in the context of the Cold War. The US subordinated its trade interests to its security aims and was prepared to accept European trade discrimination. Here I focus on American efforts to shape its policy towards the EEC through the Kennedy Round, the problems posed by the subordination of foreign trade to security policy and how American support for European integration influenced American stances in the Round. The third level of analysis deals with the foreign trade policies of the US and the EEC and the liberalization of international trade, illustrating how these trade policies shaped the patterns of international trade and attempting to answer questions concerning why trade was liberalised in the industrial sector but not in the agricultural sector and whether the EEC represented a stumbling block or a stepping stone to the liberalization of international trade at the end of the Round.

The method used in the composition of this thesis is that of historical narrative. Adopting this method is necessary because the participation of the EEC in the Kennedy Round was such a complicated and intricate affair, linked to simultaneous negotiations and events in Brussels, and given an added layer of complexity by the state of EEC-US relations. The first, fundamental and, at the same time, difficult task of this thesis is to provide an account of the still unexplored participation of the EEC in the Kennedy Round and to get the historical facts straight. This task appears to be of crucial importance as no account yet links EEC participation in this GATT Round to other events taking place in Brussels. Therefore, a *simple* description and analysis of the EEC's participation represents a major contribution to the history of the EEC, transatlantic relations and international trade. This implies that the scientific method of political and social science has been intentionally put aside as an inadequate to frame for this thesis. Yet, it does not mean that this thesis does not offer the opportunity to generalize about EEC participation in the Round, US-EEC relations, and how trade was

liberalized. On the contrary, this thesis aims to meaningfully contribute to the theoretical debate taking place at each of the three levels of analysis. To reach this goal, the following sections present the theoretical framework for each of the three levels in order to set this thesis in context. After the facts have been reconstructed, in my conclusion, I try to draw theoretical lessons from the historical narrative.

The Kennedy Round: an American attempt to manage globalization?

The first level of analysis presented concerns the liberalization of international trade. Keeping the experience of the 1930s in mind, when floating rates and trade protectionism were seen to have encouraged destabilizing speculation, competitive depreciations and discouraged trade and investments, well before World War II was over the American and British governments tried to organize the world economy to favour currency stability and an open world trading system in order to enhance economic growth and full employment. This was the aim of the Bretton Woods Agreement of 1944 and its institutions, the International Monetary Fund, the World Bank and the International Trade Organization and, after its failure, the GATT, which was created in 1947.

Under the impulse of the United States, a process of increasing economic interdependence was initiated, a process currently defined under the term globalisation. In effect, the United States engaged in promoting an open, non-discriminatory international economic system that favoured economic interdependence. In this context, GATT had the crucial role of promoting and, at the same time, regulating the internationalisation of the world economy and its growing interdependence, thus favouring a process that had been active up to the early years of XXth Century. Thus GATT and its multilateralism were conceived as an intergovernmental framework to regulate international trade and manage its globalisation.

This means that GATT was not designed as a forum to pursue a radical liberalization of international trade, but rather as an instrument to liberalise, multilateralize and also regulate and manage it. In addition to rules that promoted free trade, such as the basic most-favoured-nation (MFN) rule, GATT also had rules that allowed states to protect their market from foreign trade competition. States could maintain quota restrictions and tariffs if they had a balance-of-payments deficit; they had the right to restrict imports of agricultural products when necessary in order to implement measures to restrict domestic production; further, they were allowed to refuse to extend MFN treatment to other contracting parties in such circumstances; finally, under article XXIV, they were allowed to establish a regional trading area, creating an exception from the MFN rule. GATT was, therefore, a flexible instrument that made rules for of liberalization and multilateralization of trade more acceptable to contracting parties. It represented a balance between free trade and protectionism. In this way, GATT pursued what fully deserved to be called *embedded liberalism*.¹⁰ GATT was compatible with the trade policy of the United States, where the push for free trade coexisted with requests for protectionism, and also with that of European countries, where requests for protectionism at the end of WWII were more accentuated than in the US. In fact, the rejection of the radical protectionism of the 1930s and the

¹⁰ For a definition of embedded liberalism see Ruggie, J.G. "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order" in Krasner, S.D. (ed) *International Regimes* (Ithaca, NY: Cornell UP, 1983), pp. 195-232. Concerning the flexibility of GATT see Zeiler, T. W. *Free Trade, Free World: The Advent of GATT* (Chapel Hill: University of North Carolina Press, 1999).

careful move towards liberalization that had to lead to “economic goals of the post-war consensus inevitably also endangered the position of the some elements of that consensus and it was this which gave the commercial policies of the period their peculiar mixture of liberalism and protectionism”.¹¹

This major aspect of GATT has two crucial implications. Since the beginning, GATT was not dominated by a confrontation between free traders and protectionists. Rather, it was characterized by the effort of each government to favour the liberalization of sectors in which it was more competitive and, at the same time, to require protection for the sectors likely to be damaged by an increase in international competition. This is the key for interpreting the history of the liberalization and non-liberalization of international trade during the GATT and, subsequently, World Trade Organization (WTO) years.

The second implication is that governments maintained an important role in managing international trade and conducting foreign trade policy. International trade was not left to the functioning of market rules and, in what concerns foreign trade policy, governments calculated more than pure commercial interests, also taking security and, more broadly, the general aim of promoting perceived national power and wealth into consideration. Thus, while governments stressed their support for liberalism, in practice they played an active role in the global market through trade policy and subordinated their support for liberalism to other considerations such as domestic requirements and diplomatic and security issues. As a result, trade policy was determined by a combination of these factors.¹²

The elaboration of US trade policy deserves special attention here, as it was the United States that launched the Kennedy Round. US trade policy is the “result of confrontation and compromise between the nationally and internationally oriented foreign policy executive and the more parochial representative element” rather than the product of interest group positioning or the workings of global economic relations. Therefore, rather than viewing US policy makers as passive against the pressure of interest groups, “decision making entails the White House corralling social interests in order to achieve the nation’s mercantilist and internationalist objective of increased wealth, political unity and national security”. Foreign trade policy, in this way, results from a bargain between “the foreign policy executive and the representative element *under* government direction, and *for* the national interest”.¹³ This bargain allows the US President to navigate the conflict between liberalism and protectionism in trade policy, that is to say between the foreign policy executive and representative elements. As Zeiler notes, “this dualism undergirded the Kennedy-Johnson trade policy through a concept referred to as the ‘fair-trade doctrine’”. Thus the US executive would promote tariff reductions and free trade in light of national and international interests while, at the same time, protecting sectors hurt by imports. A reduction of trade barriers would boost exports, thus fostering domestic growth, financing the military and aid commitments abroad, and, therefore, strengthening the West in the Cold War context.

¹¹ Milward, A.S. *The European rescue of the nation-state* (London: Routledge, 1992 and paperback edn.2000), pp. 129-130.

¹² For the role played by states in setting trade policy as elaborated by the *statist theory* see Zeiler, T.W., *American Trade and Power in the 1960s*, pp. 1-20. Zeiler, who interpretes the elaboration of American foreign trade policy in the framework of the *statist theory*, also usefully synthesises *market and class conflict* theories which oppose the *statist theory* in explaining how US trade policy is set. For the *statist theory* see also Ikenberry, J.G., Lake, D.A., Mastanduno, M. “Introduction: Approached to Explaining American Foreign Economic Policy” in Ikenberry, J.G., Lake, D.A., Mastanduno, M. (eds.), *The State and American Foreign Economic Policy* (Ithaca, NY, Cornell UP, 1988).

¹³ This reconstruction of the elaboration of US foreign trade policy is grounded on Zeiler, T.W. *American Trade and Power in the 1960s*, pp. 17-20. Quote is from p. 17.

Such liberalism was tempered by the need to protect social interests and, in fact, the US government would not hesitate to protect trade sectors and restrict imports, especially when the imports threatened a voter constituency. Thus mercantilism, protectionism and liberalism coexisted in US foreign trade policy.¹⁴

It is against this backdrop that the history of liberalization – and non-liberalization – of trade during the Kennedy Round must be considered. At the heart of this thesis is the argument that the Round represented an initiative of the US government in 1962 that aimed to support the process of favouring an open and non-discriminatory trading system in order to increase world economic interdependence. This initiative became ever more urgent because of the existence of a regional trade agreement in the multilateral system: the EEC. At the end of World War II, the US tried to foster interdependence through a global and open system of trade and payments. In this context, the EEC could be accepted if it contributed to achieving US political objectives in the area – above all the containment of Germany and the Soviet Union – and if it remained open to world trade. Thus, the Round and the sweeping liberalization of international trade the US government proposed was rooted in the American need to favour an open and multilateral trading system, to regulate international trade, to enhance economic interdependence among the USA, the former British colonies, Western Europe, Japan, Latin America and the LDCs, and, finally, to integrate the EEC in the multilateral system. US aim was to strengthen interdependence, at the time when European regionalism was taking form, through the multilateral institution of GATT. And given that EEC regionalism also extended to agriculture, the US resolutely moved to include this sector in the Round for the first time in GATT history in order to decrease European discrimination in agriculture and to manage the world exchange of foodstuff. Thus in the US attempt to enhance economic interdependence and manage globalization GATT came to have a paramount importance.

The response of the EEC to the US initiative was mixed. In the industrial sector – albeit in varying degrees – the Six unanimously agreed to reduce protectionism. While the aim was to protect certain sectors, they were disposed to reduce tariffs in order to enhance their exports to European Free Trade Association (EFTA) countries and to attack US tariffs. They surely aimed to maintain common external tariffs at a level that would give substance to the EEC regional area, but they also determined it was in their interests to increase economic interdependence across the Atlantic and in Europe. The Six's reaction concerning the agricultural sector was totally different. An analysis of the way agriculture was dealt with in the Round is of crucial importance as we are still struggling with the consequences. In fact, this issue has contemporary resonance: agriculture remains a stumbling block in the Doha Round initiated in 2001.¹⁵ The American proposal to include agriculture in the Round hit on one of the most important common policies of the EEC: the Common Agricultural Policy (CAP). The Six had decided to set up a strictly protected and regulated regional agricultural market supporting agriculture as a kind of welfare policy using protectionism to maintain living standards for farmers. In truth, there were differences between the positions of the Six. France considered the EEC a preferential market for its foodstuff, while Italy, Germany and the Netherlands hoped to use the Round to maintain their imports of cheap food from outside the EEC. However these differences were not enough to undermine the

¹⁴ Zeiler, T.W. *American Trade and Power in the 1960s*, p. 18.

¹⁵ For an account of the negotiations in the Doha Round over agriculture see Das, D.K. "The Doha Round of Multilateral Trade Negotiations and Trade in Agriculture" in *Journal of World Trade*, Vol.40, No.2, April 2006, pp. 259-291.

interest all Six had in maintaining the regional approach of the EEC in the agricultural sector.

In light of this situation, I show that the US lacked bargaining power to reduce EEC protectionism. In fact, Washington also had agricultural products to protect, such as the meat and dairy products for which it had enjoyed a GATT waiver since 1955. The US demanded liberalisation from others while offering too little itself. This prevented the US from presenting itself as a free trader in agriculture in Geneva and impeded their strategy to push the EEC in that direction. The US also lacked bargaining power to support the products it aimed to export to the EEC, above all grains, as it had no meaningful concessions to offer the EEC in exchange for a reduction of protectionist measures. This sheds light on the basic argument that the GATT works like a bazaar. Governments reduce protectionism only when they can obtain a valuable concession from another participant in the Round in return. It is, therefore, the bargaining power each government brings to the table that can induce the others to reduce protectionism by offering something valuable in exchange that matters. During the Kennedy Round, the US could not offer the EEC anything that would weaken its regional stance on agriculture because the EEC had a critical interest in maintaining regionalism and no critical interest in enhancing its agricultural exports to the US. The US exported a substantial number of agricultural products to the EEC, but the EEC had no relevant exports to the US. Pressure for liberalization is closely related to exports-dependence and the EEC had no dependence in this area. As a result, I argue, the EEC strongly preferred trade regionalism to the world interdependence promoted by the US and ended the Round as a major regional stumbling block.¹⁶

I demonstrate that the Round was not a confrontation between free traders and protectionists. Each government asked for liberalization in some sectors and, at the same time, for protectionism in others. These requests were dictated by the position each government occupied in the multilateral system, their broad interests, and the interests of each specific trade sector. This is precisely what happened in Brussels when the Six had to decide which sectors they wanted to exclude from liberalization. This is also precisely what happened in Geneva in the bargaining among the EEC, the United States and other Kennedy Round participants. Having promoted the Round, Washington made a major effort during all negotiations to bring the Round to a successful conclusion. Yet, this does not imply that it firmly pushed for the liberalization of international trade across the board. Washington too had sectors it desired to protect both in the industrial (for example, textile) and agricultural (for example, meat and dairy products) sectors. The liberalization of trade went hand in hand with protectionism and regulation.

Thus my basic argument is that the Kennedy Round achieved meaningful results by significantly reducing tariffs in the industrial sector, in this way contributing to the internationalisation of the economy that the US had been promoting since the end of World War II. However, it did not lead to the erection of a liberal international system across the board. Tariffs remained a major obstacle in some industrial sectors, such as textiles and chemicals, and non-tariff barriers were not meaningfully included in the negotiations, while agriculture was a failure because not only was it not liberalized, but no agreement was reached on how to regulate it either.

¹⁶ Meunier, on the contrary, focuses her explanation of why agricultural trade was not liberalized on the EEC unanimity vote procedure and the lack of latitude granted to the EEC Commission, above all after the Empty Chair Crisis. As shown in the rest of the thesis, Meunier's analysis totally ignores the patterns of trade between the EEC and the USA and the misinterprets the effects of the crisis on the Commission and on the EEC voting procedure. Therefore her interpretation is not accepted in this thesis. See Meunier, *S. Trading Voices*, pp. 74-101.

The Kennedy Round, the US and European Integration

As noted, the Kennedy Round also tells the story of Atlantic interdependence and the US approach to European integration. This section aims to develop a conceptual framework for analysing relations between the EEC and the US in the 1960s, this thesis' second level of analysis. More specifically, it aims to provide a key to interpreting the US approach to European integration and, in this way, to shed further light on how US trade policy was elaborated and the degree to which the US stance towards European integration influenced the negotiations and the results of the Round.

Concerning the US approach to European integration, the most reliable interpretive key is provided by the "empire to integration" argument of Lundestad. This scholar makes a comparison between the policy of the US and the other Great Powers in the areas the US dominated. He argues that the US promoted the integration of Western Europe and by promoting "the unity of the most important area under its influence, it behaved rather differently from other leading power in history. Throughout history empires have been ruled from an imperial centre. This imperial centre has almost always tried to guard its special position and if there was one development it feared, it was the emergence of anything that looked even remotely like an alternative centre. Divide-and-rule was an important imperial technique in keeping the empire subjects in their place." Thus, by favouring and supporting European integration, the US certainly acted differently than other Great Powers. The second and crucial argument Lundestad makes is that while American support was in this sense unique, Washington still aimed to exercise "some form of control over Western Europe". In the course of the Twentieth Century, the US intervened twice to prevent Europe from being dominated by a hostile power. Through its desire to control Western European developments, the US was protecting its own interests. Thus, while the American aim was not so different from that of other Great Powers, its method for maintaining control was certainly different. Lundestad specifies that unlike traditional empires, most of the countries under American influence were independent. At the same time, however, the US maintained a predominant role. "In the looser sense of the term, the American sphere of influence could be called an 'empire'". On the one hand, the US organized its "empire" in a different way than other Great Powers: it supported the establishment of a supranational Europe and, consequently, the possible development of an alternative political centre, but, on the other hand, it also "protected its prominent position". This was clearly reflected in the US position towards European integration. The United States favoured integration, not for the sake of Europe, but in the service of its own interests, most notably to contain Germany and the Soviet Union. However, Europe could not become an independent "third force"; US support for European integration was subordinated to maintaining an integrated Europe in the wider Atlantic framework of NATO and GATT, "Through this Atlantic framework, the United States would presumably be able to protect its leading role within the Western world, although this could not be a *guaranteed* once a supranational Europe had been established".¹⁷

Lundestad's interpretation of the US approach to European integration represents the starting point of this thesis for analyzing the US stance towards the EEC in the Kennedy Round and also sheds some light on initiatives for a new Round. My basic argument is that the specific aim of the Round was both reducing EEC trade discrimination and maintaining the EEC in the Atlantic framework of GATT and

¹⁷ Lundestad, G. "Empire" by Integration. *The United States and European Integration, 1945-1997*, (Oxford, Oxford University Press, 1998), pp. 1-4.

NATO. In the interdependent framework the US shaped at the end of World War II, the six Western European governments opted for a new form of cooperation: integration. The US supported and encouraged this, but at the same time needed to control the process and influence its development in a direction that would be favourable to American interests. The reduction of EEC discrimination became the focus of US foreign economic policy and an instrument to increase Atlantic trade and political interdependence. The new GATT Round was considered a tool to obtain these goals. The US had structured its relations with Europe through the creation of an Atlantic framework composed of NATO, GATT and European integration. European integration was not conceived in opposition to Atlantic interdependence, but, on the contrary, was closely connected to it. The problem would be if the EEC adopted inward-looking and protectionist policies. The US used GATT to address and manage European integration. In this way, the new Round was the response of the United States to the creation of the EEC, its prospective enlargement between 1961-1963, the general need to address different aspects of European integration and strengthen the Atlantic alliance. In this sense, GATT was a major economic pillar in US Cold War strategy.

At the same time, the US maintained support for European integration. One of the basic arguments of this thesis is that this support conditioned US foreign trade policy and the stances of American negotiators during the Kennedy Round. The US's serious interest in European integration and the way it would condition US trade policy was demonstrated as early as 1958 when the Treaty of Rome was approved by GATT despite its inconsistency with GATT rules due to the support of the Eisenhower administration, which held that the economic problems caused by the EEC should be addressed only after the EEC was established. Consequently, the elaboration of the US political response to the creation of the EEC and the resulting new pattern of transatlantic interdependence was shifted to the Kennedy Administration, which initiated a sweeping reduction of protectionism. However, Kennedy and, following him, Johnson's trade policies were too influenced by US support for European integration. I demonstrate that, while one of the US's fundamental aims was to reduce EEC discrimination in agriculture, this aim was weakened by US support for the principle of the CAP, one of the EEC's most important common policies which played a key role in favoring EEC integration. I also demonstrate that US trade policy was influenced by European integration again during the Empty Chair Crisis when the US position was dictated by the need to keep the Kennedy Round alive and to preserve the Round as a framework where the European Commission could play a major role and the Six could regain unity, despite opposition from the US Department of Agriculture. Thus, as argued in the previous section, US foreign trade policy came under the influence of geopolitical requirements and the Cold War, while at the same time, remaining precisely the policy through which Washington pursued its security aims.

This thesis further traces the evolution of US support for European integration from the Eisenhower to Nixon administrations, as it was during this last administration that the reductions agreed during the Round were implemented. Since the outset, European integration was both an opportunity and a challenge for the US. I show that, with the passing of the time, concerns that European integration was becoming more of a challenge than an opportunity were increasingly voiced in the US Congress and, then, within the Johnson and Nixon administrations. These concerns emerged out in the open when the Six paved the way for EEC enlargement in 1969, potentially increasing trade discrimination towards the US at a time when the US was experiencing serious economic difficulties. I show that Nixon maintained support for integration, but this support became more pragmatic. The American position towards the EEC became less

conciliating and more confrontational and, I argue, as American support turned hostile, their support for British entrance in the EEC also weakened.

The Kennedy Round, the Six and European Integration

Analysing EEC history from the point of view of GATT and trade relations, this thesis aspires to make a major contribution to the history of European construction and, consequently, to the existing debate in the field. The aim of this section is to provide a schematic analysis of the major theories of European integration and to place my thesis in this broader field of investigation.¹⁸ The debate over the dynamics and reasons for the process of European integration was introduced by American political scientists when the European Coal and Steel Community (ECSC) and then the EEC were created in the 1950s. Two different explanations developed and still dominate the debate: institutionalism and intergovernmentalism. Among the institutional theories, neofunctionalism has been the most relevant. It was elaborated by American scholars based on the experience of the ECSC and EEC, placing institutions at the centre of European integration. Neofunctionalism predicted that economic integration in one functional area would almost certainly spill over into other sectors as integration embodied the most rational form of organising an economy. As a result of functional pressure and the underlying inability of governments to provide solutions to economic problems in the national framework, nation states would be pushed towards integration. At the same time, labour and business interest groups, aiming to maximize economic welfare, would redirect their allegiance to supranational institutions and, as a result, the supranational level would become the new centre of power. In this spill over process, supranational institutions and the European Commission in particular would have the opportunity to push the integration process ahead through the method of linkage. Finally, as a consequence of the integration process, Western European countries would form a federal Europe. It was from this neofunctional and federalist point of view that the history of European integration was narrated.¹⁹ The basic shortcoming of neofunctionalism was that it failed to predict the events of the 1960s and the further evolution of the EEC as it became clear that not only did governments remain in full control of the EEC, they also expanded their functions. No spill over mechanism, moreover, was in effect and interest groups did not necessarily ask for further integration.²⁰ An opportunity to revive neofunctionalism came with the more active role of the Commission under the Presidency of Jacques Delors (1985-1996), who seemed more capable of moving European integration ahead.

While neofunctionalism put institutions at the centre of European integration, intergovernmentalism, first promoted by the realist school of international relations theory in the 1980s, considered national governments the main actors of the European integration dynamic. Pressure for integration came from the political interests of the nation states that firmly controlled the EEC. According to this framework, supranational

¹⁸ For a brief but exhaustive description of theories of European integration see Rasmussen M. *Joining the European Communities : Denmark's road to EC-membership, 1961-73* (Florence: EUI PhD thesis, 2004), pp. 4-19 and Dinan, D. "The Historiography of the European Union" in Dinan, D. *Origins and Evolution of the European Union* (Oxford: Oxford University Press, 2006), pp.297-324. For a full account see Rosamond, B. *Theories of European Integration* (Basingstoke, Hampshire: Macmillan; New York: St. Martin's Press, 2000).

¹⁹ The basic works of neofunctionalism theory are those of Haas, E.B. *The Uniting of Europe: political, social, and economic forces 1950-1957* (Stanford, Calif.: Stanford University Press, 1958) and Lindberg L.N. *The Political Dynamics of European Economic Integration* (Stanford, Calif.: Stanford University Press, 1963)

²⁰ For a critic to neofunctionalism and federalism as theories to explain the European integration see Milward, A.S. and Sorensen, V. "Interdependence or Integration?" in Milward, A.S. and others (eds.) *The Frontier of National Sovereignty* (London, New York: Routledge, 1994), pp. 1-32.

institutions were considered instruments to further national interests.²¹ The intergovernmentalism approach was boosted by Alan S. Milward's theory of European integration.²² Milward attempted to answer the question of why nation states, after they recovered from World War II, were becoming more powerful in the postwar period while, at the same time, surrendering sovereignty to supranational institutions. Milward concluded that there was no antithesis between the nation state and the supranationalism of the EEC and "that the evolution of the Community since 1945 had been an integral part of the reassertion of the nation state as an organizational concept".²³ His basic thesis was that national governments went beyond traditional international interdependence and surrendered sovereignty to supranational entities in key policy areas with the aim of ensuring their survival and strengthening themselves. Therefore nation states chose to go beyond traditional interdependence when it suited them. Far from undermining nation states, as neofunctionalism and federalism did, European integration was an essential instrument used to enhance the authority of nation states.

In Milward's theory, the process of European integration was part of the historical development of European nation states. At the end of World War II, a general consensus emerged according to which European States had to provide welfare for all major social groups in order to attract the allegiance of citizens, and to accomplish this they had to increase their power and function. Higher rates economic of growth, in this context, were a major concern because they would allow an expansion of welfare programmes and the reaching of full employment. Such economic growth, it was held, depended on an increase the trade of manufactures in Western Europe. During the 1950s, an increase in intra-European trade took place and this was centred on the German market, "The policies of national development sustained this pattern and required it to endure. At the same time, the same policies also demanded an increasingly selective and sophisticated form of protection for newly developing industrial sectors as well as, on occasion, for sectors becoming uncompetitive. The outcome was a search for a new form of neo-mercantilist commercial policy which could combine a more rapid trade expansion with more selective and more easily adjustable forms of protection".²⁴ At the 1944 Bretton Woods Conference, the US and the UK had laid down the principles of a more open framework of interdependence. However, out of the lengthy discussions on the way tariffs and quantitative restrictions could be "mutually and co-operatively adapted to the perceived common interest of sets of western European countries with similar industrial and commercial objectives, there emerged a rejection of the inherited framework of interdependence" by Italy, Germany, France and Benelux, who chose a "new form of international framework – integration." The objective of binding access to Germany and further liberalizing it within a regional integrated framework was the main motivation that led to the formation of the EEC and its customs union. Moreover, "behind the protection of a common tariff [...] they forged an instrument both protectionist and expansionist which have all of them part of an increasing share of the trade within the common market until the 1970s".²⁵ In this way, the regional integrated framework of the EEC was an instrument to face the increased internationalisation of trade and the world economy while, at the same time, offering the

²¹ For the first proponent of intergovernmentalism see Hoffmann, S. "Reflections on the Nation State in Western Europe Today" in *Journal of Common Market Studies*, Vol. 21 No. 1, 1982.

²² Milward, A.S. *The European rescue of the nation-state* (London: Routledge, 1992 and paperback edn.2000) and *The Frontier of National Sovereignty*, op.cit.

²³ Milward, A.S. *The European rescue of the nation-state*, pp.2-3.

²⁴ Milward, A.S. *The Frontier of National Sovereignty*, pp. 8-9.

²⁵ *Ibidem*.

future security that would come from binding Germany in a safer framework than that provided by interdependence, thus resolving the greatest political problem of European interdependence: the future of Germany.²⁶

The main goal of the nation state to provide a welfare policy – and therefore to strengthen itself – was not pursued in a national framework, but, rather, an international one, more precisely, at the regional level of the EEC through European integration and the surrender of sovereignty. It was through European integration and the formation of a regional market that the member states were able to strengthen themselves.²⁷ This “surrender” provided a set of advantages for member states which were lacking in the merely interdependent framework, making it more attractive. First, the irreversibility of the process could guarantee the certainty of the bargain agreed upon, that is access to one another’s markets for manufactured goods and a permanent arrangement for agriculture. The agreed upon bargain of the member states was institutionalised through the Treaty of Rome and, subsequently, the *acquis communautaire* and a centralized legal system that would make the promises irreversible and guarantee member states a certain control over the integration framework they had established. Moreover, the formation of the customs union strengthened the bargaining position of the EEC in negotiations with third countries, above all through their ability to exclude third countries from the customs union.

Thus, as Milward put it, “the rapid evolution in the structural pattern of foreign trade between western European states was a powerful stimulus to further integration by means of trade, in spite of the unwillingness of politicians to leave such vital matters for decisions to technocratic functionaries meeting away from their national capitals”. The continuity in EEC history was provided by “nation-state’s use of the supranational integrationist institutions to strengthen and secure policy choices which had been taken domestically”.²⁸ The drive towards integration was propelled by member states and their national interests. This implies that supranational institutions were not the motor of integration but rather instruments used to forward the interests of member states, enjoying no independent role. In fact, the task of policy making was allotted to the Council of Ministers which kept control over the future development of the EEC in the hands of member states.²⁹

Milward’s theory of European integration, with its emphasis on the importance of the regional dimension of the EEC, the key role of trade, and the central position of nation states, furnishes the interpretative framework for an analysis of the commercial and political stance of the EEC in the Kennedy Round. The customs union and common commercial policy together with the CAP were the two most important features of the Treaty of Rome, requiring the liberalization of trade among the Six and a common commercial policy and, it follows, a common external tariff towards third countries. At

²⁶ Milward, A.S. *The European rescue of the nation-state*, pp.44-45.

²⁷ Ibidem, p. 133 and Milward, A.S. *The United Kingdom and the European Community*, p. 134.

²⁸ Milward, A.S. *Economics and Politics in the history of the European Union* (London: Routledge, 2005), pp.35-36.

²⁹ Milward’s approach to European integration gave way to subsequent scholarship, among which Andrew Moravcsik’s work. This author redefined Milward’s approach by focusing solely on the commercial interests of big EEC member states. With his “liberal intergovernmentalism” approach, Moravcsik indicated commercial interests as the only interests that dictated the preferences of member states and relegated geopolitical interests and federalist ideology to a secondary and marginal plan. Using theories of political science and political economy, Moravcsik used a three-step process to define his theory. Moreover supranational entrepreneurs, as the European Commission, basically played an irrelevant role. Moravcsik developed the concept of the integrationist machinery of the EEC/EU emphasising that it permitted member states to play a two-level game in which domestic political actors working within the bounds of rational choice theory could pursue policy choices, some of which emerged as national preferences which were then bargained for intergovernmentally at the supranational level. Moravcsik, A. *The choice for Europe: social purpose and state power from Messina to Maastrich* (Ithaca, N.Y : Cornell University Press, 1998).

the same time, the Treaty required the development of a single voice towards third countries in order to be effective. Article 111, in fact, assigned the Commission the exclusive right to negotiate tariffs with third countries in GATT for the transitional period (originally set for 1958-1970) and, therefore, pooled external representation of the EEC for tariff affairs. Article 111, however, did not give a free hand to the Commission; it was to be assisted by the 111 Committee whose members were appointed by EEC member states.

This thesis aims to make a leading contribution to the history of the EEC and, in particular, the development of its commercial policy. This thesis analyzes the bargaining among the Six that took place in Brussels for setting the common positions to be presented in Geneva, how EEC institutions worked in international trade negotiations, the reasons that led the Six to move from six national commercial policies to one common commercial policy and from six single voices to one single voice and how the process occurred, and, finally, the different trade interests of the Six and how and why they were reconciled. This thesis also focuses on the role of the Commission in this intergovernmental bargain which led to the elaboration of the common commercial policy. In this way, this thesis traces the evolution of the EEC decision-making mechanism for the elaboration, and then conduct, of the common commercial policy, showing how and why the EEC became a single important actor in world trade and, finally, illustrating the place the EEC regional area retained in world trade and the multilateral system which emerged out of the Round.

All Six were interested in attending the Round as a way to reduce discrimination in Western Europe, which was divided into two trading blocs – the EEC and the EFTA – and to attack American barriers. Above all, the Six had a major interest in attending the Round as a trading unit, emanating from the political and trade interests that had led to the creation of the EEC and the development of a common commercial policy. Post-war policy had led the Six to choose to face the internationalization of trade with a regional agreement, thus allowing a new form of international cooperation to prosper, notably integration. EEC regionalism was an instrument to face the multilateral framework and world interdependence. This choice required the maintenance of EEC regionalism within GATT and, consequently, to negotiate as a unit in the new Round. The maintenance of unity required, however, a major effort as the Six had to reconcile their often divergent trade interests in both the industrial and agricultural sectors of the Kennedy Round. But, again, the need to defend their regionalism and negotiate as a unit led them to compromise. I also argue that a dichotomy existed between the foreign and trade policies of Germany, Italy and the Benelux countries. In the confrontation between de Gaulle and the American government, these five countries were always keen to voice their support for the United States and for Atlanticism in general; however, when it came to trade, they sided with the French, as all Six shared common interests in this field.

A study of the EEC position in the Round also permits to shed light on the internal bargain that took place among the Six in Brussels on crucial topics related to the Round, such as the CAP, and to analyze relations among the Six and the reasons they had in joining the EEC. I argue that France was not only interested in the agricultural common market, as is often maintained, but also had an important critical interest in joining the EEC to enhance the exports of its industrial goods. Moreover, I argue that the representation often cited in accounts of the Kennedy Round of France as the major troublemaker and protectionist actor as President de Gaulle conducted policy in opposition to US interests is wrong. In fact, the other five EEC countries also had sectors to protect. The Germans almost put the Round in danger with their agricultural

protectionism and were not of as much help in moving the Round forward as the Americans had expected. Moreover, analyzing the history of the EEC from the point of view of the Kennedy Round shows that the CAP also had an external dimension and was not negotiated in isolation in Brussels. I argue that the content and pace of its elaboration was dictated by the EEC's need to attend the Geneva negotiations and was also eased by US support for European integration. The study of the Kennedy Round also consents to approach another event which has been broadly debated in the EEC history, the Crisis of the Empty Chair and the Luxembourg Compromise. My basic argument is that the Crisis and the Compromises had no effect on the EEC commercial policy and its adoption, because already before the Crisis erupted in June 1965, the Six had agreed that no government was to be put in minority position on issues of crucial importance, among which lay the Kennedy Round and the CAP. I also show that one of the governments that refused majority vote as firmly as France was Germany.

As noted, the Commission was attributed the role of negotiating agent by the Treaty of Rome. Member states were actually not so eager to relinquish the authority to negotiate with third countries to the Commission, above all when they faced a major negotiation with an important partner like the US as in the Kennedy Round. Therefore, they wished to attend the bargain and to allow third countries to have negotiating and speaking rights, implicitly undermining the negotiating role of the Commission and the EEC's united position. Through a description of the relations between the Commission and the member states, their bargain to set a common EEC position in Brussels, and the role of the Commission as negotiating agent on behalf of the EEC, this thesis desires to make a contribution to a heavily debated issue, the role of the supranational body in the elaboration and conduct of the EEC's common commercial policy and, more broadly, in the European integration process. My central argument is that the Commission was not independent in pursuing its role. Any final decision on the positions of the EEC in Geneva was firmly in the hands of member states, while the Commission had to negotiate in Geneva under the surveillance of the 111 Committee. However, I argue, this lack of independence did not mean that the Commission was a passive actor; on the contrary, it played an important role. Under the Treaty of Rome the Commission had the right to make proposals to the Council of Ministers to set EEC positions in Geneva. It was through this authority that the Commission was able to influence the decisions of member states and, thus, the elaboration of the common commercial policy. The Commission, moreover, was able to influence the outcome through its technical skills and its mediating role among the Six. As a result, it played an important role, enhanced its authority, and became an important actor at the negotiating table in Brussels, an actor the Six were eager to put their trust in. The EEC position in Geneva, and therefore its commercial policy, also owed to the proposals of the Commission and its very vision of the common commercial policy. This was above all true for the agricultural section of the Kennedy Round in which the EEC negotiated along the lines elaborated by the Commission and accepted by the member states. The Council of Ministers and the Commission were hence locked in an interdependent relation, in which the final policy was set by the Council, but the Commission remained a significant actor in the elaboration of the common commercial policy.

In addition, I argue that the Commission was also able to influence the EEC's position through its negotiating role in Geneva where it negotiated under the mandate received from the Council of Ministers and with the assistance of the 111 Committee. The mandate was initially quite strict and the 111 Committee attended the negotiations with third countries. Member states had a rather pragmatic approach to the Commission, shaping their position according to one principle: how well their interests would be

represented and defended. When they held that it was in their interests for the Commission to represent them, they did not oppose it; however, if they believed their trade interests would not be defended, or when their views differed with those of the Commission, they did not hesitate to contest it and to reclaim authority for the conduct of trade policy with third countries. This applied to all of the Six: to France, where President Charles de Gaulle was always keen to voice his dislike for the supranational institution; and also to Germany and the Netherlands, two countries traditionally vocal in their support for supranationalism. Over the course of the negotiations, the need to effectively bargain with third countries and to defend their trade interests spurred the Six to allow the Commission to play the role of sole negotiating agent as this unity brought the strength necessary to defend EEC trade interests. In the final phase of the Round, the Commission was able to rid itself of the presence of member states and to negotiate with more freedom and flexibility outside the strict mandates received from the Council of Ministers. The Commission was able to establish itself as the sole negotiating agent and saw its role amplified both internally and externally. I show that the Commission was able to achieve this aim rightly after the Crisis of the Empty Chair, which is commonly considered as having weakened the Commission. On the contrary, I argue, the Crisis had no effect on the role of the Commission in the elaboration and conduct of common commercial policy.³⁰ Member states resigned themselves to the fact that to effectively negotiate in Geneva and defend their trade interests, the EEC needed to be represented by a single actor. Thus the Six's trade interests and their need to maintain the EEC's regionalism favored the Commission's role, confirming that this institution was instrumental to the interests of member states.³¹

Attending a GATT Round was very important for the EEC. Through participation in the Kennedy Round, the Six defined the EEC's position in world trade. One of the motivations for the creation of the EEC was rightly to favor a freer trade at the regional level in Europe through a new form of international cooperation, that is integration. Against this background the US launched a new Round of multilateral negotiations to further liberalize international trade through the traditional mechanisms of international cooperation in both the industrial and agricultural sectors. This required that the Six agree on a direction for EEC external trade relations by defining how open to world trade the EEC was to be. Defining the EEC's position in Geneva required that the Six define a common agricultural and industrial policy in Brussels. The Kennedy Round coincided with this definition and, at the same time, pushed it. I show that the EEC ended the Round as a liberal actor in the industrial trade, despite the fact that it had its protected sectors also in this field, but as a major protectionist actor in the agricultural sector with major consequences on world trade.

The Kennedy Round was crucial for the EEC because it marked the EEC's existence as a single powerful trading actor on the world stage. The exordium had taken place in 1958 when the Six had to defend the consistency of the Treaty of Rome with GATT in Geneva. But it was at the end of the Round that the EEC, by demonstrating the ability to participate in a major negotiation with a single voice, became one of the leading commercial actors in the international and multilateral system. Its participation in the Kennedy Round gave the EEC an international political identity and, it can also be said, represented the first manifestation of an EEC common foreign policy. Rightly so,

³⁰ Meunier says, but does not prove it, that the Crisis weakened the negotiating role of the Commission. See Meunier, S. *Trading Voices*, pp.74-101.

³¹ For an account of the Commission role as negotiating agent see Pollack, M. *The Engines of European Integration: delegation, agency, and agenda setting in the EU* (Oxford; New York: Oxford University Press, 2003).

it was in the arena of international trade and through the implementation of a common commercial policy that the EEC confirmed its existence and became an international actor.

Sources for the Thesis

This thesis rests on extensive archival research. From the perspective of EEC participation in the Round, this thesis aspires to be a history of the EEC and not only of the Six; it aims to go beyond the national framework and to depict the EEC as a single actor. The position of the EEC in Geneva, moreover, was the outcome of intensive bargaining in Brussels attended by the Six and the Commission. For these two reasons, major attention has been focused on studying the archives of the EEC – the Council of Ministers, COREPER, the 111 Committee and the Commission – both in Brussels and in Florence so as to compile a leading source of research. The historical archives of the European Union in Florence were also useful to study the personal archives of individuals such as Jean Monnet and Max Kohnstamm, Edoardo Martino, Emile Noël who were not involved in the Kennedy Round but were in constant contact with participating officials. In Brussels, research was also conducted in the personal archives of the Commissioner responsible for the Kennedy Round, Jean Rey, deposited at the Université Libre de Bruxelles.

The major attention given to EEC sources does not imply that no consideration was given to the Six's national archives. However, research in national archives has required making a choice based on the languages the author speaks and the availability of the archives. As a result, this thesis is grounded in German and French archival sources, but, unfortunately, not in Italian, Luxemburgish and Belgian archives, which remain closed, and Dutch archives, because the author does not speak Dutch. In an attempt to overcome this limitation, a careful and prolonged study has been conducted in British archives – the Public Record Office – which have been useful in completing the picture of the positions of the Six and the Commission. As a matter of fact, German, Italian and Benelux officials involved in the Kennedy Round had the good habit – good, that is, for the sake of this study – to inform London of the debate taking place in Brussels, negotiations in the Council of Ministers, and the elaboration of the single position of the Six and the Commission. These accounts, while obviously partisan, were very frank and open in tone and have allowed me to complete the information I acquired from the EEC and national archives. The British archives, moreover, provided a most useful and neutral description of relations between the Americans and the EEC. On top of this, the British held a key position throughout the round dictated by their relevant place in world trade and their willingness to join the EEC, so an account of the Kennedy Round is significantly enriched by a study of British archives.

For what concerns the American side, I have undertaken research at the Kennedy and Johnson Libraries and at the US National Archives and Records Administration in College Park, Maryland. A careful study has also been conducted of the volumes of the Foreign Relations of the United States (FRUS) dedicated to the Kennedy, Johnson and Nixon Administrations. In my study of the American sources, I have paid attention to materials dealing with the Kennedy Round, and have gone beyond this to further investigate materials concerning US policy towards European integration. I have conducted a careful analysis of hundreds of telegrams and general correspondence exchanged between the US government and US Ambassadors to the capitals of the Six, London, and the smaller EFTA countries, concerning both the Kennedy Round and EEC-US relations in general. This has allowed me to highlight the close relationship that existed in US policy among the Kennedy Round, the CAP, European integration

and the Cold War. As with the British archives, the American sources have been useful for completing the picture of the EEC's position. Germany, Italy and Benelux also had, as in the British case, the good habit of informing the American government and negotiators in Geneva of the position of the Six and what was happening within the EEC.

Chapter One

The background to the Kennedy Round: the USA, GATT and European Integration (1944 – 1962)

Introduction

Chapter one describes the background to the Kennedy Round, in order to place it and the trade relations between the USA and the EEC, in a wider perspective. The period analysed stretches from 1944 to 1962. The former date has been chosen, as in 1944 the American and the British governments gathered in Bretton Woods (New Hampshire) to draw up the fundamental principles for governing world economics after the end of WWII. The latter date has been chosen, as in 1962 the Dillon Round, the trade conference preceding the Kennedy Round, was concluded in Geneva. In dealing with this period, this chapter focuses on US goals in shaping the international trading system at the end of the war and US support for European integration.

This chapter is divided into three parts. The first part describes the aims of America in implementing a multilateral and open trading system, in order to emphasise the importance which the Democratic leaders attached to the multilateral institutions, considered essential elements in promoting national and international security. It describes how the Cold War, and the need to integrate the Federal Republic of Germany, led the USA to support European integration and the latter's trade discrimination, and further explains the foreign security role that regional trade agreements acquired within US foreign policy in the context of the GATT, notwithstanding the latter's supposed multilateralism. It analyses, therefore, how the USA adapted its foreign trade policy to the context of the Cold War, along with the former's support for European integration. The second part describes GATT activities from 1947 to 1958, and highlights that, in the GATT system, liberalisation of international trade coexisted with protectionism, and that it was exactly this factor, that kept GATT alive. The third part deals with the creation of the Treaty of Rome, establishing the EEC in 1957, and the presentation of the Treaty to the GATT Contracting Parties in 1958. It emphasises that it was thanks to the US support for European integration that the Treaty was accepted despite its inconsistency with GATT rules, and it explains how the Eisenhower Administration, after having supported the Treaty, moved to launch a new GATT Round so to reduce EEC discrimination, integrate it into the multilateral system and keep it open to world trade. This part also illustrates that, even if the Treaty was a crucial milestone towards Western European integration, its immediate consequence was to produce a fracture among the OEEC countries. Indeed, it would be rightly this fracture, confirmed by the French veto to British membership of the EEC in 1963, that increased European interest in the new GATT Round launched by President Kennedy in 1962.

1.1 American foreign trade policy at the end of WWII and the creation of GATT

Well before the end of World War II, President Roosevelt and Secretary of State Cordell Hull were convinced that the lack of an open world economy during the 1930s had been one of the causes of the war. Therefore, it became imperative that the

protectionism and unilateralism that had characterised those years be prevented from reappearing. To this aim, new international and multilateral institutions had to be created to ensure the stability of monetary relations, facilitate an increased exchange of goods, and to establish an open and multilateral world trading system, as a means of promoting broad international and national aims. The underlying belief was that it was not feasible to have a strong international trading community without also having strong national economies. Running parallel to this was the belief that these institutions would strengthen national economies by ensuring the freer flow of trade on a multilateral basis and a viable international monetary system, and by restricting the ability of governments to resort to unilateralism. The requirements of nations and the requirements of a world economy were thus inextricably linked. Thus, the original American position in favour of multilateralism and freer trade – while undoubtedly compatible with the American economic interest of expanding its trade, considered necessary to the achievement economic growth and full employment – was informed by the belief that pre-war protectionism had been a leading cause of the Second World War. The correlation between multilateralism and security was firm in the minds of Democratic leaders and represented a fundamental issue in US foreign policy.¹ Trade policy was thought to make an important contribution to the achievement of fundamental American national goals – economic growth, full employment, and rising per capita real income.

To enforce the envisaged multilateral system, and to perform the key functions of regulating international trade and payments in the post-war economic system, the creation of three new key international institutions was envisaged. The international Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank) were established at the international conference of Bretton Woods in 1944, while the International Trade Organization (ITO) was finally drafted in 1948 at the Havana Conference on Trade and Employment (November 1947 - March 1948), as a Specialised Agency within the structures of the United Nations. Drafted under the leadership of the US Department of State, the ITO contained principles of multilaterally agreed open markets and the disapproval of discrimination. As such, the United States engaged in reconstructing the world economy by attempting to stabilize exchange rates and liberalise international trade through the implementation of a multilateral system based on non-discrimination and the unconditional most-favoured nation rule (MFN rule).²

While waiting for the final draft of the ITO and of the Havana Charter, the key actors in international trade, the United States and the United Kingdom, chose to immediately conduct a round of negotiations to reduce tariffs. Needing a trade agreement to conduct the negotiations and then to eventually regulate the results, they adopted the existing draft of the Charter's "Commercial Policy" Chapter, reformulating it as a separate trade agreement. This separate and provisional treaty, the General

¹ Gardner, R.N. *Sterling-Dollar Diplomacy: the Origins and the Prospects of Our International Economic Order* (New York: Columbia University Press, 1980). See also Introduction. United States foreign trade policy, January 14, 1969 – Administrative History Office of the Special Representative for trade negotiations – Box 1, LBJL.

² For a description of the Bretton Woods negotiations and the creation of the monetary system in addition to Gardner, R.N. *Sterling-Dollar Diplomacy*; see Triffin, R., *Europe and the money muddle : from bilateralism to near-convertibility, 1947-1956* (Westport, Conn : Greenwood Press, 1976); Eckes A.J. *A Search for Solvency: Bretton Woods and the International Monetary System, 1941-1971* (Austin: Texas University Press, 1975) and Cohen, B.J. *Organizing the World's Money*, (New York: Basic Books, 1977). For a comprehensive description of the Havana conference see: Brown, W.A. *The United States and the Restoration of World Trade: an analysis and appraisal of the ITO Charter and the General Agreement on Tariffs and Trade* (Washington, Brookings Institution, 1950), Diebold, W. *The End of ITO* (Princeton: Princeton University Press, 1952) and Zeiler, T. *Free Trade, Free World: the Advent of GATT* (Chapel Hill: University of North Carolina Press, 1999). Zeiler also describes the relation between GATT and the Cold War from 1948 to 1953. The description that follows on the ITO is taken from these books.

Agreement of Tariffs and Trade (GATT), was signed on 30 October 1947 by some 23 major trading countries.³ GATT had the temporary status as a forerunner of the ITO and came into force on 1 January 1948, as the principal international instrument used by its members to negotiate reciprocal reductions of tariffs, and to ensure that trade restrictions other than tariffs did not impair or nullify the concessions negotiated in 1947-1948.

The two main purposes of the General Agreement were to provide, firstly, a set of rules for the orderly functioning of world trade, and, secondly, a framework for continuing negotiations on the reduction of trade barriers. It could be reduced to three essential facets. First, it contained tariff "schedules", or lists of concessions (named products for which specific tariff treatment has been agreed upon), with separate schedules for each participating country or "contracting party". Second, there was a code of agreed rules, or "general provisions" to guide the import and export trade practices of the contracting parties. Third, through periodic meetings of representatives of the participating countries, GATT provided a broad international forum for discussion and the settlement of common problems within international trade.⁴

GATT soon established itself as the key international agreement dealing with international trade, given that in 1950 it became clear that the US Senate would not ratify the ITO. While, following the State Department's lead, the US government attempted to obtain worldwide agreement on the ITO, this international agreement advocating open markets and the disapproval of discrimination seemed to be out of touch with the real practices of international trade, and American trade practices in particular. In effect, in the United States there was not clear-cut support for liberal trade. Farmers lobbied for a decrease in imports of foreign goods and protested against other countries' export subsidies, while the textile industries asked for import quotas on foreign goods, claiming that the rise in imports of textile products would cause falls in production and employment. Congress responded to requests of protection by qualifying its commitments to liberal trade. First, tariffs would be reduced only on a reciprocal basis, while in 1947 protective clauses were attached to the Reciprocal Trade Act, which authorised the US government to enter into trade negotiations to reduce tariffs under the GATT. Congress adopted the escape clause – which permitted the withdrawal of a tariff concession that might injure an industry – as a legitimate device in trade negotiations, while the peril point provision – which set a point at which a tariff concession could hurt a domestic producer – became a stable part of the Reciprocal Trade Act. As such, in the USA, support for freer trade went hand in hand with protectionism. Moreover, Latin American states were more interested in import substitution than in free trade and made crystal clear their opposition to the ITO.

³ This chapter and the all thesis refer to the GATT 1947. This agreement has now been incorporated into the GATT 1994, one of the Agreements making up the World Trade Organisation (WTO). The countries were: Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, Cuba, Czechoslovakia, France, India, Lebanon, Luxembourg, the Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Syria, South Africa, United Kingdom and the United States.

⁴ Hine, R.C. *The Political Economy of European Trade: An Introduction to the Trade Policies of the EEC* (Sussex and New York: Wheatsheaf Books, St. Martin's Press, 1985), p. 39 and United States and the world trade in perspective. Seventh Annual report of the President of the United States of trade programme. September 1963 – 1969. LBJL Administrative History Office of the Special Representative for trade negotiations – Box 1.

⁵ For a description of the ITO and of the GATT system see: Curzon, G. *Multilateral Commercial Diplomacy: the General Agreement on Trade and Tariffs and its Impact on National Commercial Policies and Techniques* (New York: Praeger, 1965), Kock, K. *International Trade Policy and the GATT 1947-1967* (Stockholm, Amlquist and Widsell, 1969) Jackson, J.H. *The World Trading System. Law and Policy of International Economic Relations* (Cambridge, MA, MIT Press, 1992) Anderson, K. (ed.) Blackhurst, R. (ed.) *Regional Integration and the Global Trading System* (London: Harvester, Wheatsheaf, 1993); Hudec, R.E. *The GATT Legal System and World Trade Diplomacy* (New York: Praeger, 1975), Hoekman, B.M. Kosteci M.M. *The Political Economy of the World Trading System. The WTO and Beyond* (Oxford: Oxford University Press, 2001).

Needing allies, and reluctant to allow the USSR to exploit these quarrels, the US government showed itself unwilling to push hard for the approval of the ITO.

With the failure of the ITO, only the apparatus of the GATT was left to the US government, and the world trading system, to reduce discrimination and liberalize trade. In truth, its tariff reduction procedure was cumbersome, making any sweeping reduction in protectionism difficult. In fact, governments bargained bilaterally and then, if agreement was reached, the tariff reduction was multilateralized. Moreover, despite its strong proclamation of free trade, it allowed for discrimination. However, as Zeiler notes, GATT alone survived because it was able to combine a shrewd mixture of political and economic interests, of free trade principles and protectionism and, in this sense, it accurately embodied US interests.⁵

1.2 GATT and the role of regional trade agreements in the containment policy of the United States

The General Agreement was based on comparatively few basic principles, the most important of which was *non-discrimination*. The non-discrimination principle was grounded on the *most-favoured-nation* (MFN) rule, which provided the foundation for the multilateral trading system: each contracting party was bound to apply tariffs on imports coming from all other members at MFN rates, that is to say, "any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties". The drafters, under the pressure of the United States, gave a prime position to this principle, as a way of putting an end to the use of preference systems, curbing the practices of economic nationalism and establishing the credibility of the MFN rule from the outset.

At the same time, exceptions were allowed in certain special circumstances. Among these exceptions, the most noteworthy one would turn out to be of great importance in the creation of the EEC in 1957, namely article XXIV. This article permitted the contracting parties to form a customs union and a free trade area, giving preferential treatment to imports coming from other member countries of the regional agreement, under certain conditions, without extending this treatment to the other GATT contracting parties.⁶ Initially, the Havana Charter had only a short section on regional trade agreements (RTAs), and American support was confined only to customs union. When GATT was drafted as a provisional forum for tariff reductions, the negotiators expanded this section to stress the importance and legitimacy of customs unions and, almost at the end of the negotiations, on the insistence of Syria and Lebanon, they included the notion of a *free trade area*. These two regional trade agreements were to be clearly differentiated from discriminatory systems like

⁵ Zeiler, T. *Free Trade, Free World*; see also Diebold, W. *The End of ITO and Baldwin*, R. Krueger A.O. *The Structure and Evolution of Recent US Trade Policy* (Chicago: University of Chicago Press, 1984), p. 12.

⁶ For a description of Article XXIV of GATT 1947, in addition to books mentioned in the previous footnotes, see WTO, *Regionalism and the World Trading System* (WTO: Geneva, 1995); for a legal history of Article XXIV see Mathias, J.H. *Regional Trade agreements in the GATT/WTO. Article XXIV and the Internal Trade Requirements* (The Hague: TMC Asser Press, 2002), Dam, K. W. *The GATT. Law and International Economic Organisation* (Chicago and London: The University of Chicago Press, 1970), p 274-291. For an assessment on the issue multilateralism versus regionalism see also De Melo J (ed.), Panagariya (ed.) *New Dimensions in Regional Integration* (Cambridge; New York, NY, USA: Cambridge University Press, 1993).

Commonwealth preferences, which were zealously censured by the United States, and excluded from the charter because protectionist.⁷

In order to grasp the aims of the United States regarding RTAs, it is worthwhile to analyse article XXIV. This article allowed customs unions and free trade areas if (1) trade barriers after integration did not rise on average; (2) duties and other restrictive regulations of commerce were eliminated with respect to *substantially all trade* between the constituent territories of the regional agreement, and, for the customs unions, substantially the same duties and other regulations of commerce were applied by each of the members of the union to the trade of territories not included in the union. Article XXIV made it clear that the aim of a customs union, or free trade area, was to facilitate trade between the member countries rather than to raise barriers to trade with other GATT members. The drafters, while condemning "soft" regional agreements, approved the "all or nothing" approach of total discrimination of customs unions and free trade areas, because it was thought that these increased global economic welfare and avoided the rise of preferential areas.⁸

Article XXIV reflected the position of the US government towards regionalism and multilateralism: these RTAs were stepping-stones to freer global trade. The underlying belief was that there was a movement towards freer trade every time internal tariffs were eliminated on substantially all commerce. As Clair Wilcox, deputy chief of the American team in Havana, put it "*A customs union creates a wider trading area, removes obstacles to competition, makes possible a more economic allocation of resources, and thus operates to increase production and raise planes of living.*"⁹

Today, this view has turned out to be too simplistic, and the drafting of the Article too vague; too simplistic because the formation of RTAs created after the end of WWII has demonstrated that they did not automatically bring about an improvement in the allocation of world resources, and too vague because the provision "*to substantially all trade*" between members of the RTA was so imprecisely drafted that, it was unclear whether the members of RTAs had to reduce all their tariffs by, for instance, 80%, or whether they had to eliminate all barriers covering 80% of their trade. Because of this ambiguity, the Article became a source of never-ending debate, when in 1958 for the first time a major RTA, the EEC, was presented to the GATT.¹⁰ Though, what is relevant here is that for the American drafters of the GATT, multilateralism and regionalism were part of the same process of liberalising international trade, regionalism being one fundamental component in the establishment of an open and multilateral trading system.

⁷ Evans, J. W. *The Kennedy Round in American Trade Policy: Twilight of the GATT?* (Cambridge, Mass: Harvard University Press, 1971), p. 40, Wilcox, C. *A Charter for World Trade*. (New York: Macmillan, 1949), p. 70-71 and Asbeek Brusse, W. *The Americans, the GATT, and European Integration, 1947-1957: a Decade of Dilemma* in Heller, F.H., Gillingham, J.R. (Ed.), *The United States and the Integration of Europe. Legacies of the Postwar Era*. (New York: St. Martin's Press, 1992), p. 224

⁸ Mathias, J.H. *Regional Trade agreements in the GATT/WTO. Article XXIV and the Internal Trade Requirements* (The Hague: TMC Asser Press, 2002), p. 2. As R.H. Snape notes "The exception rules were constructed so as to discourage all preferential schemes less than (almost) full preferences, so as to discourage the proliferation of preferential agreements: the political cost of negotiating preferences thus was deliberately made high. It is argued that an abundance of partial preferential agreements is more likely to damage the development and maintenance of a liberal, multilateral trading system than is a small number of almost complete preferential agreements" R.H. Snape "History and Economics in GATT's Article XXIV" in Anderson, K. (ed.) Blackhurst, R. (ed.) *Regional Integration and the Global Trading System*, pp. 273-291. Quote from p.287.

⁹ Wilcox, C. *A Charter for World Trade*. (New York: Macmillan, 1949), p. 70.

¹⁰ As Kenneth W. Dam writes it is not possible to reproach the draftsmen of the Havana Charter and then GATT for being bad economists. Jacob Viner published his book on customs unions only in 1950, and it was only following his book that professional economists started investigating the conditions required to bring about such improvement as a consequence of the creation of a RTA. See Viner, J. *The Customs Union Issue* (New York: Carnegie Endowment for International Peace, 1950) and Dam, K. W. *The GATT. Law and International Economic Organisation* (Chicago and London: The University of Chicago Press, 1970), p. 274-283.

The start of the Cold War represented a fundamental, historic change regarding the way in which American leaders wanted to shape international trade after the end of WWII, as it broke the universalistic perspective of a multilateral trading system, with the consequence that multilateralism had to be adapted to the new bipolar strategic perspective.¹¹ Most importantly, the beginning of the Cold War pushed Washington to favour European integration. As early as during World War II, the US government had considered the question of whether to encourage such integration and, in particular, a European customs union, as a way of facilitating the removal of trade barriers and, consequently, enhancing the access of US goods. A customs union would also promote European efficiency and prosperity that would, in turn, advance political stability. However, it would also house German economic resources and integrate the latter economically and politically into the European continent, so fostering the stability of the area. The break out of the Cold War definitely moved Washington to support European integration as a way of reinforcing Western Europe politically, integrate and maintain West Germany in the Western camp and bring to an end the rivalry between France and Germany. Washington also retained the economic reasons to support European integration. An economically unified Europe represented a more economically efficient market than the single markets of the individual countries and, by fostering economic growth, it could provide a bigger market for outsiders' exports. Moreover, the creation of a mass market and the acceleration in the growth-rate of income in the dynamic European market could enhance demand for American products. In the long run, once economic recovery was achieved, the European regional group could turn into an active player in the multilateral trading system, representing an open market for American exports, and bearing its share of the common defence burden.¹²

The Cold War transformed the role of RTAs, assigning them a geopolitical profile and the context of security policy. It was in this new context of the Cold War, and in the attempt to reconcile American plans for the future of Western Europe with the support for multilateralism, that the Democratic Administration amended the General Agreement's rules, expanding the section related to RTAs and emphasising their well-founded and legitimate role, as mentioned above. Then, in the context of the *containment policy*, the United States got ready to also accept the creation of discriminating trading blocs, in order to stimulate regional discriminating self-help groups, with the political goal of creating a strong bulwark against Soviet expansion. It was against this background that, in the same year that the Truman government signed the Havana Charter for the worldwide ITO, it also consented to the agreement for the Organisation for European Economic Co-operation (OEEC). While the ITO symbolised American support for a multilateral, non-discriminatory, and global trade system, the OEEC endorsed the principle of discrimination by the recipients of the Marshall Plan, which promoted the unity of Western Europe on a regional basis.¹³

Thus, the aims of containing the Soviet threat, strengthening Western Europe and bringing to an end the rivalry between France and Germany pushed Washington to support European integration and made possible the supporting for a discriminating trading bloc. By establishing the foundations of a future customs union, the Marshall Plan sought to pave the way to European political union, and the USA accepted

¹¹ On Cold War and GATT see Kostecki, M.M. *East-West trade and the GATT system* (London: Macmillan, 1979).

¹² Asbeek Brusse, W. *The Americans, the GATT, and European Integration, 1947-1957*, p. 224.

¹³ Milward, A.S. *The reconstruction of Western Europe, 1945-51* (London: Methuen, 1984); Milward, A.S. "Was the Marshall Plan necessary?" in *Diplomatic History* 13 (1989) 231-253. Asbeek Brusse, W. *The Americans, the GATT, and European Integration, 1947-1957*, pp 243-244; Lovett, W.A., Eckes, E.A. JR. and Richard L. Brinkman, R.L. *U.S. trade policy: history, theory, and the WTO* (Armonk, N.Y.: M. E. Sharpe, 1999), p. 76-77 and Zeiler, T.W. *Free Trade, Free World: the Advent of GATT*, p.137.

European discrimination as the price for this unity. The Cold War and the Marshall Plan meant that any general principles averse to West European governments' own reconstruction principles were pushed into the background.

1.3 Negotiation rounds 1947 to 1956 and the treatment of agriculture in GATT

It was in this context that GATT started its activities. Between 1947 and 1956, four tariff rounds of multilateral negotiations were held within the legal framework of the General Agreement. These were the Geneva Tariff Conference (1947), the Annecy Tariff Conference (1949), the Torquay Tariff Conference (1950-1951) and a second Geneva Tariff Conference (1956).¹⁴

The first round took place between April and late October 1947 and was held at the same time as preparations for the final agreement of the ITO. As the power of the American executive granted by Congress under the Reciprocal Trade Agreement Act (RTAA) to reduce tariffs expired on 30 June 1948, the Truman Administration was eager to start the negotiations as soon as possible, and without waiting for the ITO to come into existence in order to achieve a substantial reduction of tariffs and elimination of preferences, and notably the Commonwealth preference. This latter goal resulted to be problematic because the British had no intention of dismantling preferences and, in fact, the round was threatened by a breakdown due to the differences in opinion between the USA and the UK. Under the RTAA, the US government lacked the authority to achieve the sweeping reductions of tariffs and non-tariff barriers that would have pushed the British and the Commonwealth countries to eliminate their preferences. The US Congress kept its strict control over the tariffs and the RTAA – firmly grounded on the traditional American practice of a piling of bilateral, product-by-product tariff agreements, which could be altered by various Congressional safeguard clauses and “peril point” conditions – did not offer a convincing opportunity for long term bargains. Consequently, the United Kingdom aimed at maintaining its preferences as a bargaining chip for future negotiations, hoping to get the bargain it most sought, notably guaranteed easier access to the American market. At the same time, Commonwealth countries had no intention of giving up their preferences on the British market while the US Congress kept Commonwealth agricultural exports out of the American market.¹⁵ The conference was rescued by the decision of the American delegation to accept small British concessions on the preferences that the UK enjoyed in the Commonwealth, while the other Commonwealth countries agreed to make greater reductions. In addition to keeping discrimination, the first Round also established the future method for GATT working, consisting of more than 100 separate, carefully bilateral negotiated accords that could be then multilateralized.¹⁶ Thus, this first round proved to be a test for the functioning of the MFN rule technique of negotiating, and it achieved satisfying results: an average reduction of tariffs of 19%.

¹⁴ For description of these four rounds, in addition to sources mentioned below, see Kock, K. *International Trade Policy and the GATT 1947-1967* p.70-86, Hoekman, B.M, Kostecki, M.M. *The political economy of the World Trading System*, p.100-104, Hoda, A. *Tariff Negotiations and renegotiations under the GATT and the WTO. Procedures and Practices*. (Cambridge: Cambridge University Press, 2001) and Evans, J. W. *The Kennedy Round in American Trade Policy*; Asbeek, B. W. *Tariff, Trade and European Integration 1947-1957. From Study Group to Common Market* (New York: St. Martin Press, 1997) and Zeiler, T.W. *American Trade and Power in the 1960s* (New York: Columbia University Press, 1995).

¹⁵ On British economic policy at the end of WWII see Milward, A.S., Brennan, G., *Britain's place in the world import controls 1945-60*, (London: Routledge 1996).

¹⁶ Zeiler, T. *Free Trade, Free World: the Advent of GATT*, p. 55.

The Annecy and Torquay conferences were held relatively soon after the creation of the General Agreement and consisted of accession negotiations. The first was convened to enable negotiations to take place between existing contracting parties and eleven governments that had requested accession, of which nine eventually became contracting parties. At the end of the round, the average tariff cut was fixed at 2%. At Torquay, negotiations took place between the contracting parties and six governments that had applied for accession, the largest being the Federal Republic of Germany, and among the contracting parties themselves to negotiate additional concessions. The Round resulted in an average reduction of 3%. The unwillingness of the Commonwealth countries to reduce their preferences led to the result that no tariff cuts were obtained between the United States on the one hand, and the United Kingdom, Australia and New Zealand on the other.

The Geneva Tariff Conference of 1956, the fourth round, was fairly unique. Only 25 out of 39 contracting parties agreed to participate and, among these, concessions were agreed upon only by twenty-two. However, as all the major trading nations attended the negotiations and exchanged concessions, this tariff conference is generally regarded as a round of multilateral negotiations. The average tariff cut of the round was 2%. At the end of the second Geneva conference, the weighted-average tariff of the main industrialised countries had been reduced to some 15 percent since 1947.¹⁷

Table 1: Negotiating rounds 1947 to 1956

Year	Name of the round and number of attending countries	Average Depth of Tariff Cuts in % Ad Valorem in the industrial sector	Outcome: Number of concessions exchanged
1947	Geneva 23	19	Concessions on 45,000 tariff lines
1949	Annecy 29	2	5,000 tariff concessions
1951	Torquay 32	3	8,700 tariff concessions
1956	Geneva 33	2	2,700 tariff concessions

Source: Hoekman, B.M., Kostecki, M.M. *The political economy of the World Trading System*, p. 101 and Asbeck, B. *W. Tariff, Trade and European Integration 1947-1957*, p. 118.

The greatest part of these tariff reductions was made in the industrial sector. GATT did not distinguish between agricultural and non-agricultural goods, calling for equal treatment for all goods entering world trade. This lack of distinction can be explained by considering the trade interests of the countries that drafted the General Agreement. The United States and the United Kingdom, who were responsible for the bulk of the drafting, represented the interests of large exporting countries. The United Kingdom, having always kept its market open to the importation of foodstuffs, and bearing in mind the interests of the big exporting countries of the Commonwealth, such as Canada, Australia and New Zealand, could not have taken a different position. The United States, one of the largest exporters of foodstuffs, had increased its domestic production during WWII, and therefore needed to remove or outlaw trade barriers to its exports. However, at the same time, the United States asked from, and obtained, the right to restrict imports of agricultural products when necessary to implement measures to restrict domestic production (article XI of GATT). As for the other non-European countries, they also supported equal treatment given the fact that they were exporters of agricultural commodities and would have not signed the Agreement without the assurance that their agricultural exports would be treated as favourably as non-agricultural exports. The only potential opposition could have come from the area that before WWII had been the stronghold of protectionism in agriculture, Western Europe. However the interests of the European countries were too variegated to oppose the equal

¹⁷ Hoekman, B.M., Kostecki, M.M. *The political economy of the World Trading System*, p. 103

treatment in GATT. Moreover, they were mostly concerned with acquiring the right to use quantitative restrictions for balance of payments purposes, which they obtained.¹⁸

Notwithstanding this equal treatment, from the very beginning, agriculture was actually exempted from key GATT rules, and all the four Rounds dealt, for the most part, with non-agricultural goods, thus leaving agriculture outside of the efforts to reduce barriers to trade. Both the United States and Western Europe extensively used machinery for supporting domestic agricultural production set up from the 1930s. Moreover, in 1955, the United States, facing a surplus of domestic agricultural production, requested a waiver from GATT contracting parties to impose restrictions on imports of a number of products. The GATT membership was forced to approve an open-ended waiver requested by the US to enable it to apply the Agricultural Adjustment Act which had been approved by the US Congress in 1954/1955. The Act imposed on the administration the introduction of quantitative import restrictions (QRs) on a range of agricultural products whenever such a form of protection was needed to implement domestic US agricultural policies.

In truth, the reduction of tariffs achieved in the four rounds concerned also those agricultural products protected by tariff devise, but quota restrictions and the domestic farm policies of the contracting parties, which for the most part protected the agricultural sector, had not been touched. As a result, at the end of the 1950s, reduction of protectionism for agricultural products lagged far-behind that for manufactured ones. Thus, even though GATT's stated purpose was to lower trade barriers to create an open free market between its members, with its many exceptions to non-discrimination and liberalization, it proved to be a flexible instrument able to adapt to the protectionist requirements of its contracting parties. In this sense, there was a large embedded element in GATT that, more than liberal trade, favoured 'embedded liberalism'.

Despite this flexibility, at the end of the second Geneva round in 1956, GATT did not seem to be in a healthy condition: the impetus to reduce tariffs had fallen since 1947, while agriculture had only been marginally touched by the liberalising efforts. When six governments of continental Europe – the Federal Republic of Germany, France, Italy, Belgium, Luxembourg and The Netherlands (hereinafter the Six) – decided in 1955 to try to achieve trade liberalisation at regional level, some thought that the GATT concept had essentially failed.¹⁹ The General Agreement allowed regional trade agreements, but with GATT activities clearly languishing, and because of the importance the six countries had as a bloc in the context of world trade, it seemed that the end had arrived. As it is shown in the following chapter, this fear proved to be short sighted as the appearance of a regional trade agreement in Western Europe led the General Agreement to play a crucial role which gave it new impetus: to integrate regional trade areas into its multilateral framework.

1.4 US support for European integration in GATT: the presentation of the Treaty of Rome to the GATT Contracting Parties

Since the Marshall Plan, the United States had supported the European integration process. As such, when, in 1955, the Six decided to start negotiations leading to the EEC, the Eisenhower administration gave its support. From a political

¹⁸ This description of agriculture treatment in GATT is taken from Curzon, G. *Multilateral Commercial Diplomacy*, pp. 166-208; Josling, T.E, Tangermann, S., Warley, T.K. *Agriculture in the GATT* (London: Macmillan/St.Martin Press, 1996) and Avery, W.P. (ed.) *World Agriculture and the GATT* (Boulder: Lynne Rienner, 1993) and Evans, J. W. *The Kennedy Round in American Trade Policy*, pp. 60-86. For a fuller description of the treatment of agriculture in GATT see chapter 11.

¹⁹ Curzon, G. *Multilateral Commercial Diplomacy*, p. 208

point of view, it was hoped that the EEC would strengthen Western Europe in the context of the Cold War, end the rivalry between France and Germany and link West Germany to the Western camp. While from an economic point of view, the EEC would reinforce Western Europe economically and so, finally, would make possible the realization of the multilateral trade and payments system. It also assumed that the EEC, by raising the growth rate of the six members and representing a more efficient market than the respective individual markets of the Six, could enhance American exports. To this aim, the EEC had to develop into an open regional agreement integrated into international trade. Washington feared that the EEC could become inward looking, a trade bloc closed to foreign exports and whose trade would be centred in on itself. The EEC was not only a bulwark against communism, and an expanding market, but also a customs union that would pass from the separate national tariff schedules of the member countries to the common external tariff of the EEC, and which would dismantle tariff barriers to internal trade. At any rate, Washington believed that the political advantages that European integration provided were worth some trade discrimination, and that it would be possible, once the EEC established, to ensure that the EEC evolved into an open regional area.²⁰

This political and economic support for the EEC led the Eisenhower administration to have a conciliatory and tolerant attitude towards the inconsistency of the Treaty of Rome with GATT. The US priority to have the EEC fully settled pushed the Eisenhower administration to postpone any doubts on the potential discriminatory effects of the Treaty of Rome and any negotiations on this, its most controversial aspect, until after the EEC was firmly established. In truth, not all the Eisenhower Administration shared this line. The Treasury and Agricultural Departments focused on the discriminatory effects of the EEC, and held that any negotiations with the Six after the Treaty of Rome had gone unchallenged in Geneva might be too late to change it, leaving the Six free to unalter their position. The State Department, however, was in full control of the relations with the EEC and was therefore able to ensure that its line prevailed. As a result, as Romero put it, "this new, crucial advancement of European integration was allowed to entrench itself behind the shelter of the USA's friendly diplomacy". In Geneva the Six could count on Washington to have the Treaty of Rome approved.²¹

Under article XXIV of GATT, contracting parties entering into a customs union were required to present to the other contracting parties the implementing treaty, to ensure that it was conformity with the provisions of the General Agreement. Recommendations by the other contracting parties could lead to reconsideration and revisions in the customs union treaty. Following these provisions, the Treaty of Rome establishing the European Economic Community (EEC) was submitted, in order to discuss its conformity, to the General Agreement. The discussion resulted to be the first significant test for the relationship between multilateral and regional trade in the GATT framework, and led to the acceptance of a treaty establishing a customs union that evidently contravened GATT rules, in spite of the opposition of Canada, New Zealand, Australia and, above all, the United Kingdom.²²

²⁰ On the attitude of the Eisenhower administration towards the EEC see Winand, P., *Eisenhower, Kennedy and the United States of Europe*, (Basingstoke, Macmillan, New York, St. Martin's Press, 1993); Lundestad, G. "Empire" by integration: The United States and European Integration, 1945-1997, (Oxford, Oxford University Press, 1998).

²¹ Romero, F. "Interdependence and integration in American eyes: from the Marshall Plan to currency convertibility", in Milward, A. S. *The Frontier of National Sovereignty. History and Theory 1945-1992* (London; New York : Routledge, 1994), pp. 155-182. Quote from p. 171.

²² In addition to sources mentioned below, this reconstruction of the study of the conformity of the Treaty of Rome to the GATT rules is grounded on Kock, K. *International Trade Policy and the GATT 1947-1967*, p.122-131, *GATT Basic Instruments and Selected Documents, Sixth Supplement* (Geneva 1958) and, in particular, Alkema, Y. *Regionalism in a*

When the Treaty of Rome negotiations started in 1956, the six future members of the EEC guaranteed to the other GATT members that the other Contracting Parties would be notified of the Treaty, in accordance with paragraph 7(a) of Article XXIV, after its signature, but prior to its ratification. At the end of March 1957, while notifying Geneva of the Treaty of Rome, the EEC representative, Baron Snoy et d'Oppuers, underlined the compliance of the Treaty with GATT, adding that "as long as the Six would remain contracting parties to the General Agreement they would scrupulously observe their obligations under this agreement".²³ The Treaty of Rome contained many references to GATT, stating that the customs union and commercial policy would be implemented in conformity with the Geneva rules and that the institutions of the EEC would maintain all appropriate relations with the United Nations, its specialised agencies and with the GATT itself (see Articles 9, 110, 116 and 229).

In 1957, at the twelfth GATT session, a special Committee was set up to decide on the conformity of the Treaty of Rome. The Committee was supposed to analyse four aspects of the Treaty: the arrangements provided with respect to tariffs; the use of quantitative restrictions; trade in agricultural products; and the associations of overseas countries and territories. Notwithstanding the formal assurances regarding its conformity, the Treaty of Rome, in its most characterising features – implementation of Common External Tariff (CET) and Common Agricultural Policy (CAP), associations of former colonies, and quantitative restrictions – did not comply with the GATT at all.

Concerning tariffs, in order to establish a customs union as an essential element of the European Economic Community, the Treaty of Rome had set the level of the Common External Tariff (CET). The CET was determined not by negotiations between the members over the rate of duty to be charged on each product, but by the application of the standard formula, set out in Article 19 of the Treaty of Rome. This required the CET to be fixed "at the level of the arithmetical average of the duties applied in the four customs territories covered by the Community" on 1 January 1957. As a result, high French and Italian duties were averaged with low German and Benelux ones. For a few sensitive products (List G products), where adjustment difficulties were anticipated, the rates of duties were determined by negotiations.²⁴ As noted above, the poor drafting of article XXIV:6 provided that the common external tariff on the whole had not to be more restrictive than the general incidence before the creation of the customs union, and that, where the common external tariff involved an increase in any rate previously bound in GATT by a member state, a release had to be negotiated with the other contracting parties that were beneficiaries of that binding. Being so vaguely drafted, these paragraphs became sources of everlasting debate. The EEC member states asserted that they had incorporated GATT provisions into the Treaty of Rome, as outside countries would be compensated for any increase in the low tariffs by the simultaneous reductions of high tariffs. The other contracting parties did not share the EEC position, rightly and obviously pointing out that the volume of trade affected by the changes in the duties had also to be considered.

No less problematic was the issue of quantitative restrictions. GATT rules were quite clear: member countries of a customs union should eliminate all restrictive regulations between them. But the question of how quantitative restrictions should be

multilateral framework. The EEC, the United States and the GATT. Confronting trade policies, 1957-62. (EUI Ph.D Dissertation), pp. 65-117. For a portrayal of the legal basis between the General Agreement and the Treaty of Rome, see Hilf, M., Jacobs, F.G., Petersmann, E.U. *The European Community and GATT* (Deventer, the Netherlands; Boston: Kluwer, 1986).

²³ Cited in Hilf, M., Jacobs, F.G., Petersmann, E.U., *The European Community and GATT*, p. 34.

²⁴ See Hine, R.C. *The Political Economy of European Trade*, p. 76. For a description of the negotiations on the way of calculating CET see: Asbeek, B. W. *Tariff, Trade and European Integration 1947-1957*, pp. 143-184 and Frank, I. *The European Common Market. An Analysis of Commercial Policy* (New York: Preager, 1961).

treated when third countries were involved was less clear. According to the Six, they could remove quantitative restrictions among them, without extending the liberalisation to non-EEC members. The other contracting parties could not agree with this position, supporting the idea that quantitative restrictions also had to be eliminated against third countries.

Concerning agriculture, this sector was included in the Treaty of Rome, but as there was no agreement among the Six on how to regulate this sector, no details were given: thus, on the one hand, it was not possible to say whether on this aspect the Treaty of Rome complied with GATT. On the other, it was precisely this vagueness about the treatment of agriculture which was considered as contravening GATT, and much comment focused on this elusiveness. Furthermore, the fear that a common agricultural policy could lead to the exclusion of all, or a large part of, trade in the agricultural sector was in the air in Geneva. Among the countries most opposed to the EEC's position were Australia and Canada.

The greatest conflict between the Treaty of Rome and the GATT rules arose over the Treaty's provisions for associated overseas territories, and this issue represents the clearest example of American unwillingness to oppose the EEC. The Association Agreement – by which each member's colonies, that is to say those of France and Belgium, would enjoy a preferential trading arrangement with the entire Community – turned out to be the most debated part of the Rome Treaty. Critics of the Association Agreement correctly argued that it did not establish a free trade area, which would have complied with Article XXIV, but an old system of preferences, and therefore contravened GATT on a point of maximum importance, i.e. colonial preferences.

From the start of the debate over the Treaty of Rome's conformity, two questions troubled the work of the GATT Committee: the extremely diverging positions of the actors involved into the discussion, and the weight of the EEC. The EEC member states uncompromisingly asserted they had incorporated GATT provisions into their Treaty, and that it therefore complied with the General Agreement; in stark contrast, the other contracting parties, in particular the United Kingdom, Canada, New Zealand and Australia, firmly disagreed. Fearing a contraction of their trade with the EEC, the other contracting parties considered the legal assessment of the Treaty as a way of obliging the Six not to apply certain measures considered damaging to the former's trade. Unlike the United States, they did not consider the EEC as a stepping stone towards the realisation of the multilateral trading system or as means to strengthen Western Europe in the Cold War, but rather as a discriminating regional bloc, harmful to their trade. Consequently, for them, it was necessary to prove the conformity of the Treaty of Rome from a legal point of view, in order to reduce any negative effects of the EEC to a minimum.

However, the core obstacle to the work of the Committee was that even if, from a legal point of view, it made sense to verify the Treaty of Rome's conformity, from a practical point of view, the size and weight of the EEC made it impractical to make its existence depend upon the Treaty's legalistic conformity to the General Agreement.²⁵ Furthermore, the Treaty was the result of strenuous bargains between the Six, and in many cases the compromises arranged by them were the result of a violation of GATT rules. Hence, for the EEC, making concessions to the other GATT members under Article XXIV meant reopening the negotiations for the Treaty of Rome. And no one in the six capitals of the EEC had the intention of so doing; on the contrary, the Six had

²⁵ Hudec, R.E. *The GATT Legal System and World Trade Diplomacy*, p. 196.

made it clear that a finding that the Treaty was inconsistent with Article XXIV would result in their withdrawal from the GATT.²⁶

Against this backdrop, the risk Washington wanted to avoid was that the EEC could be faced with the choice of renegotiating the Treaty of Rome – which was impossible – or being declared in formal violation of the General Agreement. Facing these risks, in Washington the necessity emerged of finding an ad hoc political solution, which could resolve the problem in a pragmatic way, so to reconcile the unwillingness of the EEC to compromise with the mistrust of the other contracting parties and with the credibility of GATT itself. In America's policy, the construction of the EEC was as important as the existence of the GATT, as the EEC was the cornerstone of the American Atlantic policy and a stepping-stone towards a multilateral trading system, while the GATT represented that multilateral system, which had to accommodate the regional one. For this reason, a settlement that did not put the very existence of the EEC and GATT at risk was indispensable.

Thus, after a year of tough negotiations between the contracting parties with no result, under the pressure of Washington it was decided to put all the legal problems aside and to use a *pragmatic* approach. In the words of the Committee: *"It would be more fruitful if attention could be directed to specific and practical problems, leaving aside for the time being questions of law and debates about the compatibility of the Rome Treaty with Article XXIV of the General Agreement."*²⁷ The Committee decided to opt for a political and pragmatic solution, deciding that rather than to look for a legalistic confrontation between the Treaty of Rome and the General Agreement, a practical solution would be preferred. As a result, no formal decision on the compatibility of the Treaty of Rome was acquired, even if the Treaty was, in many cases, in violation of GATT rules.

The pragmatic solution was accepted due to the support of the American government who had particular reasons to support the Treaty of Rome, and had the political preoccupation of "getting the Community off to a flying start", as Curzon wrote.²⁸ In Geneva, the Americans underlined that it was necessary to ensure that the EEC would develop an outward-looking perspective, and, to this purpose, the role of the GATT was to verify whether the Treaty of Rome could lead to the implementation of a customs union, in a reasonable period of time, and not to analyse, article by article, the entire Treaty.²⁹ As such, the Eisenhower administration believed that the role of GATT should be to monitor the development of the EEC, so as to keep it open to world trade and to integrate the commerce of the Six members into the world economy.

At this point, it is important to explain how this pragmatic approach worked. As there was no way of reconciling the two opposing positions regarding the CET, it was pragmatically decided to maintain contact with the EEC so to monitor its tariff policy, and to look for the possibility of obtaining compensation from the EEC in future negotiation rounds. As for quantitative restrictions, the pragmatic solution was that the Six extended unilaterally to other GATT members half of the first 20% increase in global quotas between themselves, making further steps conditional on negotiations and compensations. As for agriculture, the GATT contracting parties could do nothing more than wait for the Six to start elaborating the CAP, however they obtained the promise that the Six would send reports on the state of approval of this policy. As for association

²⁶ Snape, "History and Economics in GATT's Article XXIV" and Hoekman, B.M, Kostecki, M.M. The political economy of the World Trading System, p. 353.

²⁷ Cited in Kock, K. International Trade Policy and the GATT 1947-1967, p.123.

²⁸ Curzon, G. Multilateral Commercial Diplomacy, p.280.

²⁹ Snape, R.H. "History and Economics in GATT's Article XXIV" and Hoekman, B.M, Kostecki, M.M. The political economy of the World Trading System, P. 353.

of former colonies, the debate that followed was animated, but the EEC knew it could count on the support of the United States and, as such, the association was tacitly accepted. This decision stored up future troubles for free trade, both because the desire to obtain a position of equality with the EEC's associates represented one of the reasons which led to the developing countries' demand for the Generalised System of Preferences (GSP), and then to the whole pyramid of the EEC's preferential trade agreements.³⁰

For the EEC, its entrance into the world trade arena was extremely positive: the Treaty of Rome, even if in clear violation of GATT provisions, went into effect without legal scrutiny, and with the support of the United States. For Washington, the negotiations demonstrated that the GATT could be a means to support broader American foreign policy objectives of promoting European integration. At the same time, if the one hand, Washington kept a soft and sponsoring position towards the EEC during the 1958 negotiations, on the other, it also realised that EEC discrimination had to be reduced, as it could hurt American exports and the multilateral trading system. The uncompromising position of the EEC in the negotiations proved to Washington that the commercial policy of the Six had to be carefully monitored, and fully integrated into the GATT. With this aim in mind, a fifth negotiating round was thought to be necessary. It was for this reason that the Eisenhower administration decided to promote the Dillon Round (1961-1962). With currency convertibility achieved by the leading European countries in 1958, which came to symbolise the final economic recovery of Europe, the United States thought that the moment had arrived for the EEC to play its part in the multilateral system, assuming all the consequent responsibilities.

1.5 The economic division of Western Europe

Before casting our gaze on the American initiative to set up the new round of GATT negotiations, it would be helpful to consider developments that were taking place in Western Europe and which, as explained in the remainder of this thesis, influenced the Kennedy Round.

When, in 1955, the negotiation leading to the Treaty of Rome started, one thing was certain in London: the United Kingdom would not take part to a European common market. London wanted to keep its commercial and political ties with the Commonwealth and its *special relations* with the United States, it had an inferior proportion of trade with the continent in comparison to that which it had with the Commonwealth, and was anxious about competition from German producers.³¹ After having rapidly decided not to join, initially London's policy towards the customs union project was to ignore it, hoping the project would fail. But, since the United Kingdom exclusion's from a European bloc could damage its trade position, when it appeared that the negotiations among the Six had some chance of success, London felt that an alternative had to be elaborated so that the implementation of a European customs union could be embraced without weakening the other ties the United Kingdom had. Thus in October 1956, the British Chancellor of the Exchequer, Harold Macmillan, officially the idea of a pan-European free trade area (FTA) under the auspices of the OEEC.³²

³⁰ Pomfret, R. *The Economics of Regional Trading Arrangements* (Oxford: OUP, 2001), p. 108

³¹ For the British position towards the European integration process and the FTA initiative see Milward, A.S. *The United Kingdom and the European Community. The Rise and Fall of a National Strategy* (London: Portland, OR: Frank Cass, 2002) and Ellison, J. *Threatening Europe: Britain and the creation of the European Community, 1955-1958* (New York: St. Martin's Press, 2000).

³² Fauri, F. Italy and the Free Trade Area Negotiations 1956-1958 in *Journal Of European Integration* (1988, 4/2), 47-66, p. 49.

The UK argued that a FTA should be formed between the Six and the rest of the OEEC: each member of the FTA would reduce barriers to trade with the other members, while keeping an independent customs policy towards non-members. The suggestion excluded agriculture, as London wished to protect this sector from European competition. The bulk of Britain's food was imported from the Commonwealth, and this flow of trade could not be turned away by purchases on the European market. Therefore, from the British point of view, had the advantage of balancing the interests towards the Commonwealth with those towards continental Europe.

In elaborating the FTA project, however, little attention was paid to the interests of the Six, which immediately considered the FTA a way to allow United Kingdom to keep its advantages in trading with the Commonwealth – cheaper food and raw material imports from that area – whereas the Six would bear the cost of increased competition within the FTA in the industrial sector. France and Italy did not want a deal excluding agriculture: they aspired at exporting foodstuffs to the United Kingdom and a proposal aimed at keeping French and Italian exports out from the British markets, while opening France and Italy to British and German competition in the industrial sector, could not receive their support. The FTA, lacking the protection system elaborated in the EEC, exposed French and Italian producers to increased foreign competition without the safeguards offered by the common external tariffs and the common agricultural policy. The same position prevailed in The Hague, where the Minister of Agriculture, Sicco Mansholt, thought his country needed new foodstuff markets to join the FTA.³³

In West Germany, the representatives of the industrial sector generally endorsed the British proposal: the FTA could add to the advantages of the common market between the Six, the advantage of preventing any future discrimination against German exports by Scandinavian countries or other important OEEC markets such as Switzerland. In the 1954-1957 period, 30% of the growth in value of German exports was directed to European countries outside the Six. Among these countries were Sweden and Switzerland, who supported the FTA. At the same time, there were also sectors that could lose from Scandinavian competition, like non-ferrous metal and paper producers, while the textile sector was not happy about strengthening competition from India, Pakistan and Hong Kong, caused by a closer association with the British Commonwealth. As the sectors of the German industry that could gain from the FTA could also gain from the EEC, it was not difficult for Chancellor Adenauer to defend the Treaty of Rome and the relation with France, while treating the FTA only as an added bonus.³⁴

When de Gaulle came to power in June 1958, he did not take long to realise that France had more to gain from the Treaty of Rome than from the FTA. The Common Market guaranteed France an area where its industrial sector was able to compete with the industrial sectors of the other five members, while its agricultural exports could be directed to the huge German market and be financially supported by the EEC. Of course, this required that the envisaged common agricultural policy had to be implemented in a way which was favourable to French farmers. Adding these commercial considerations to the political ones, in November 1958 France ended negotiations for the FTA, stating that without single external barriers, without the harmonisation in the economic and social spheres, and without the inclusion of the agricultural sector, it was not possible to create a FTA.³⁵

³³ Fauri, F. *Italy and the Free Trade Area Negotiations 1956-1958*, p. 47 and Milward, A.S. *The United Kingdom and the European Community*, p. 256 and p. 296.

³⁴ Milward, A.S. *The United Kingdom and the European Community*, p. 276-277.

³⁵ On de Gaulle's acceptance for the Treaty of Rome and rejection of the British FTA see Lynch F.M.B. "De Gaulle's First Veto: France, the Rueff Plan and the Free Trade Area" in *Contemporary European History*, 9, 1 (2000) 111-135.

The breakdown of the FTA marked the end of the collaboration in Western Europe that had existing since the Marshall plan in 1947. The OEEC was now split, and a trading bloc, the EEC, existed within it. From a trading point of view, the failure of the FTA meant that deep discrimination would be put into practice not only within Western Europe but also in global trade because the EEC member states still had colonial empires, and, hence, were attached to the developing world. For Britain – the biggest European trading nation at that time – this split also meant that it had lost a forum in which it could exercise its political influence over Western Europe. This loss of influence in the OEEC context should be considered along with the British inability to have a leading role in the GATT discussion over the conformity of the Treaty of Rome in 1958.

After the GATT discussion on the Treaty of Rome, and the end of the idea of the FTA, the implementation of the Common Market could begin. From 1 January 1959, the Six started reducing their internal barriers under the timetable laid down in their Treaty. This date was critically regarded in London, where the Treaty was seen as bringing about a major change in the relations with continental Europe. However, on the Six's side, attention was given to setting up the customs union in a less challenging way towards third countries. The first scheduled tariff reduction among the Six was generally granted to the all GATT contracting parties, and the general increase of 20% on import quotas applied to EEC trade was granted to all OEEC members.³⁶ Thus, while appearing intransigent in stressing its determination to implement the common market, in practice the EEC showed comprehension for the discriminatory effects on the other countries. The different trade interests inside the EEC helped in formulating this position: West Germany and the Netherlands wanted to protect their trade relations with the non-EEC members and, in particular, with the OEEC countries.

Although the EEC tried to make its first move towards the customs union as uncontroversial as possible, the issue of trade relations between EEC and the other OEEC members was still seen as critical in Western Europe. In November 1959, the French Foreign Minister said that it was not possible to treat such an issue only from a European point of view: on the contrary, the matter had to be considered in a wider context, taking the trade interests of the United States into consideration. By 1958-1959 France had grasped that to keep the access to West German agricultural market it was better to consider trade problems on a multilateral basis in order to avoid any preferential link, such as an agreement within the OEEC.³⁷ The same view had been taken by the European Commission of the EEC in February 1959, when, in a report on this matter, the argument "Europe first" was put aside, and it was stated that the forum where the European Commission wished to tackle trade negotiations was the GATT. This viewpoint was not shared by the other five members of the EEC, who yearned for some forms of collaboration with the European non-EEC members, independently of GATT.³⁸ However, nothing could be agreed upon and no understanding was elaborated and, in practice, Geneva remained the only arena available for dealing with the trade division of Western Europe. This was also because the United States firmly opposed any bridge building across Europe. It could accept the EEC trade discrimination for its political implications, but it had no intention of tolerating the trade discrimination of the bridge building solution, which had no political relevance for America.

³⁶ Shonfield, A. *International economic relations of the Western World, 1959-1971 Vol.1, Politics and trade* (London: Oxford University Press for the Royal Institute of International Affairs, 1976), p.7.

³⁷ Alkema, Y. *Regionalism in a multilateral framework*, p. 184.

³⁸ Milward, A.S. *The United Kingdom and the European Community*, p.315 and Shonfield, A. *International economic relations of the Western World*, p.12.

In any case, while the Six discussed what to do, the initiative was taken by countries that had not joined the EEC. On 4 January 1960 the Stockholm Convention instituting the European Free Trade Association (EFTA) was signed by the United Kingdom, Denmark, Sweden, Norway, Portugal, Austria and Switzerland. The aims of negotiating such an Association were, first, to form a minor version of the FTA – only in the industrial sector – which, if successful, might attract the EEC members, so putting pressure on the EEC in case the latter was not working because of the French obstructive behaviour; second to obtain compensation for the discriminating effects deriving from the EEC.³⁹ Thus, in 1957, a first trading bloc, the EEC, had been created; in 1958 a proposal to “bridge building” between this bloc and the non members, the FTA, had failed; another trading bloc had been agreed upon in response in 1960. As a result, the process leading to the trade division of Western Europe was complete.

1.6 The Dillon Round of Trade Negotiations (1960-1962) and British bid for EEC membership: paving the way to the Kennedy Round

As illustrated, the signing of the Treaty of Rome and the development of the GATT discussions over the this Treaty in 1958 led the Eisenhower administration to promote a new Round, with the aim of reducing both the discrimination of the EEC and, more broadly, barriers to international trade. In the State Department strategy, once the EEC had been established, negotiations could start with the Six to decrease the discriminatory effects of the EEC on US trade and the multilateral system. The proposal for a new round was another piece of that pragmatic solution invented for fitting the EEC into the GATT, and it has to be seen against the backdrop of the role which the GATT was to have in supervising the development of the EEC. At that time, the General Agreement was the only organisation which offered the United States the possibility to monitor the evolution of the commercial policy of the EEC.⁴⁰ A new GATT Round was also important for GATT and multilateralism. In the 1950s, Western Europe had showed more interest in the OEEC than in the GATT. Then the EEC was set up and the British reacted with the pan-European FTA. All this could overshadow the Geneva institution and its multilateralism, at a time when US had no other forum to discuss trade matters with Western Europe. With this in mind, a new round could reinforce the primary role of GATT and, offering the possibility of reducing tariffs at multilateral level, kill any prospect of bridge- building in Western Europe.

On top of this, the State Department had received objections from the Departments of Agriculture and Commerce. Being more concerned with the future of American trade than with European integration, Agriculture and Commerce feared the protectionist aspects of the EEC – in particular of the CAP – and wanted the Eisenhower administration to act to alleviate the discriminatory effects. Moreover, at the end of the 1950s, the USA started experiencing a growing deficit in the balance of payments, coupled in 1958 with a decrease in the trade surplus. Thus, Washington felt that a new Round could be an instrument to enhance its exports. Tariff reductions were thought to lead to an expansion of world trade and, in particular, of trade in more

³⁹ Milward, A.S. *The United Kingdom and the European Community*, p.308. See also Corbet, H., (Ed.) Robertson, D. (Ed.) *Europe's free trade area experiment: EFTA and economic integration* (Oxford: Pergamon P, 1970).

⁴⁰ Only in 1960, with the transformation of the OEEC into the OECD an alternative forum was created in which the United States could discuss commercial problems with the West European countries. As M.P. Kams put it, the United States were obliged to use GATT as it “remained the only game in town for promoting and maintaining a relatively open global system”. See Kams, M.P., Mingst, K. *The United States and multilateral institutions: patterns of changing instrumentality and influence* (Boston: Unwin Hyman, 1990), p. 168.

competitive American goods, accordingly helping to reduce the American monetary problems caused by the deficits in the balance of payments.⁴¹

Given the fact that the Six would start implementing the customs union with the first 10% internal-tariff cut on 1 January 1959, the Eisenhower Administration felt it necessary to act as soon as possible. In June 1958, the American government authority to conduct international trade negotiations under the RTAA was due to expire and Eisenhower requested its renewal for five years from Congress with the intention of starting a long-term trade negotiation in the GATT framework as soon as possible. On 20 August 1958 Congress renewed the RTAA for three years. In truth, even if the American executive was granted the authority to reduce tariffs by up to 20% over a four-years period, the available bargaining power was modest because of the existence of the escape clause and peril-point procedures and because no reduction of more than 10% could be made in any one year. At the GATT ministerial meeting of October 1958, armed with the new authority of the RTAA, Under-Secretary of State for Economic Affairs, Douglas C. Dillon, officially suggested a round of multilateral tariff negotiations, which eventually came to bear his name.

The Six received the American suggestion in a mixed way. On the one hand, they already had a busy agenda, occupied with the schedule to reduce tariffs at EEC level and ongoing negotiations to reduce barriers on at European level. On the other, though, they saw the proposed negotiations as a possible way of ending the disapproval of the GATT contracting parties with regard to the Treaty of Rome. Aware that formal acceptance of the CET from Geneva was impossible, the Six knew that the only possibility was to attend a GATT tariffs conference where the other contracting parties could claim that the CET was too high, but, by accepting to negotiate their reduction, *implicitly* recognising it. In any case, since the results of the previous rounds had been rather meagre, and given the fact that Washington lacked authority to substantially reduce tariffs, the new Round did not promise serious reductions in tariff duties, so putting in danger the existence of the CET. As such, no major reason existed to reject the US proposal. France and the European Commission also looked at the American suggestion from another point of view: a new GATT round would offer the possibility of pushing to a definitive end the Free Trade Area negotiations, and all plans for dealing with the issue of the division of Western Europe. The Commission had its own peculiar reason to favour the new round. Article 111 of the Treaty of Rome conferred to on this institution the authority to negotiate tariff reductions. Thus, for the Commission, the Geneva negotiations were an opportunity to start affirming its role on the international stage.

The decisive move for EEC participation and, consequently, for the participation of all the OEEC members, came from Paris on 14 November 1958 when the French announced that they would not join the FTA. This decision totally changed the picture of European trade relations. For one thing, the United Kingdom and the other non-EEC members of the OEEC started considering the possibility of multilateral negotiations as a way of alleviating the discrimination coming from the Common Market. Further, West Germany and the Benelux countries started supporting the multilateral framework as a way of diminishing the negative effects on their trade stemming from the implementation of the CET, which had raised their tariffs, in particular on intermediate goods. Therefore after the failure of the FTA, which was supposed to soften the discriminatory effects of the EEC at European level, attention turned to the multilateral

⁴¹ Shonfield, A. *International economic relations of the Western World, 1959-1971* Vol.1, Politics and trade, p. 168 and Evans, J. W. *The Kennedy Round in American Trade Policy*, p.14. The issue of the US balance of payments deficit is discussed more in detail in the next chapter.

forum of GATT to find a way out of the problem of the Western European economic split.⁴² The problem of the trade division of Western Europe, accentuated by the creation of the EFTA in 1960, was moved into the multilateral arena of the General Agreement and the issue would be dealt with at the same time as trade relations between Western Europe and the United States.

For the United States to conclude the round by 1961. Firstly, the power to negotiate of the US president was due to expire on 30 June 1962; secondly, the EEC members would start adapting their national tariffs to the CET on 1 January 1962, and this entailed that the negotiation under Article XXIV:6 – which required the EEC to compensate exporters negatively affected by higher duties raised by the adjustment of the Six's national rates to the common external tariff on 1 January 1962 – had to be accomplished before that date.⁴³ Moreover, since the EEC could not attend a GATT negotiation until the exact level of the CET was fixed, it was necessary to open the new round with the XXIV:6 negotiations. Therefore, after spending 1959 agreeing on procedures, the round was officially opened on 1 September 1960. The first part of the Conference (Compensatory phase) was devoted to conducting renegotiations under Article XXIV:6 with the EEC, while the second (Reciprocal phase) to holding a general round of negotiations between contracting parties for new concessions.⁴⁴

The first phase, which in fact turned out to be a confrontation between the EEC and the other contracting parties, took place between September 1960 and May 1961. It had been scheduled to end four months earlier, but difficult haggling dragged on until the Common Market made concessions acceptable to other GATT parties. Quarrels over broken "bindings", or previously agreed upon tariff levels, proved to be one in a string of disputes between all the contracting parties – but primarily between the USA and the EEC. The Six had broken bindings on prior tariff commitments, amounting to 1,100 rates valued at \$2 billion worth of imports, after its members had averaged their tariffs together. The GATT made obligatory certain compensatory concessions through EEC duty reduction on other products, but the Six resisted. In setting their external tariff, the Six averaged the high French and Italian rates with the lower German and Benelux ones. This procedure, the Six declared, as they had in 1958 discussion, lowered the overall aggregate tariff level of the EEC, while the increase of German and Benelux tariffs was balanced with the decrease of French and Italians tariffs and thus compensated outside exporters neatly.

The other GATT contracting parties objected, asserting that what was significant was not the EEC internal balance between the decreases and increases of tariffs, but the position of each supplying country before and after the implementation of the CET. There was not considered to be compensation if a supplier to the German market saw the German tariff increase, even if the Italian one decreased. After much quibbling, American obtained concessions on bound duties in the EEC totalling \$ 1.6 billion on 991 tariff rates, less than Washington had first sought. However, the Six refused any further cuts, and this phase of the talks, having already been extended four months past its initial deadline, ended in the autumn of 1961 with America's grudging acquiescence.⁴⁵

⁴² Shonfield, A. *International economic relations of the Western World*, p. 168-169.

⁴³ Article XXIV:6 states that if, in the process of establishing the common external tariff "a contracting party proposes to increase the rate of duty inconsistently with the provisions of Article III [the binding of schedules], the procedures set forth in Article XXVIII shall apply [Modification of Schedules]. In providing for compensatory adjustment, due account shall be taken of the compensation already afforded by the reductions brought about in the corresponding duty of other constituents of the union".

⁴⁴ Shonfield, A. *International economic relations of the Western World*, p. 169.

⁴⁵ Zeiler, T.W. *American Trade and Power in the 1960s*, p. 59-60. For a detailed description of this phase of the Dillon round see Shonfield, A. *International economic relations of the Western World*, p. 169-171.

With the bulky procedure of bilateral item-by-item negotiations, and within the modest authority granted to the American delegation by the RTAA 1958, the second task of the conference was a reciprocal reduction of the tariffs of all participants. It was in this second phase of the conference that the major confrontation between the United States and the EEC continued.⁴⁶ The EEC initially offered an across-the-board 20% cut in its common external tariff, subject to reciprocity. Used internally by the Six in reaching their common tariff, this approach of across-the-board tariff cuts on all products in major categories of goods could replace the bulky method of negotiating on each item. Yet, the source of the EEC offer was mainly internal. In 1959 France and Italy had suggested accelerating the tariff-cutting schedule of the Community. As West Germany and the Benelux countries were hesitant about increasing trade within the EEC at the expense of trade with non-members, they demanded a 20% reduction of the CET. France and Italy responded negatively to a unilateral reduction of the CET, and Belgium suggested that the reduction had to be offered to the GATT contracting parties on the basis for reciprocity.⁴⁷

However, under the RTAA, the United States lacked the right to proceed with 20% linear reductions, as its negotiating authority was severely limited by the peril point procedure. Thus, the Six attached exceptions to the linear provision because Washington could grant concessions on only one-fifth of the Common Market's requests on manufactured goods. The US offer, because of this limitation, fell far short of the 20% across-the-board figure, and a massive pullback of offers by others was avoided at the last minute when President Kennedy, "at his peril", authorised the American delegation to go beyond the peril points on \$76 million of US imports. Nevertheless, the average reduction in industrial tariffs was only about 10% for the EEC and slightly less for the United States.⁴⁸

Although the United States could not match the original offer of a 20% linear reduction, it was the inadequacy of the EEC's position on agriculture that was the chief stumbling block as the bargaining intensified in 1961. Among the four issues that had dominated the 1958 GATT negotiation on the conformity of the Treaty of Rome, the agricultural issue remained the most problematic not only for the US-EEC relations but also for EEC-EFTA and EEC-Commonwealth relations. By 1961, the Six and the Commission had started elaborating their CAP, which, with its variable levy system, threatened to reduce imports to this area. Consequently, foodstuff-exporting countries such as Denmark, Canada, Australia and New Zealand had the firm intention of making agriculture the major issue of the Dillon round.⁴⁹

Levy
system

Soon, the biggest puzzle for the agricultural negotiations became the EEC variable levy. The EEC wanted to withhold from the Round certain items such as grains, rice, poultry, dairy products, and meat on the ground that, on these items, it planned to establish common agricultural policies based on variable fees and could not negotiate before the CAP had been settled. In contrast, the United States wanted concessions from the Six because agriculture represented the sector where trade barriers were most expected to rise as a result of the CAP. Washington asked for interim quantitative assurances to cover the period before the establishment of a common agricultural

⁴⁶ This portrayal of the Dillon round has been made using as mainly sources: Alkema, Y. Regionalism in a multilateral framework., Preeg, E. Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations under the GATT (Washington, DC: Brookings Institute, 1970) and Zeiler, T.W. American Trade and Power in the 1960s.

⁴⁷ Shonfield, A. International economic relations of the Western World, p. 174.

⁴⁸ Preeg, E. Traders and Diplomats, pp. 40-41

⁴⁹ Essentially this guaranteed that certain European farm products would not be undersold by non-EC agricultural importers. A "levy" or imports tax would be put on these farm imports so as to ensure that their price in the European Community was not competitive.

policy.⁵⁰ As a minimum, Washington wished to receive from the Common Market a concrete pledge that grains, poultry, rice and other products covered by the variable levy would not face prohibitive barriers in the EEC. It is worth noting that Washington did not choose to oppose the variable levy system on the ground that it was inconsistent with GATT rules. The CAP and the variable levy system were considered the price the USA had to pay for the growth of the EEC and European integration. An open challenge to the CAP was considered a challenge to the EEC, as well as to European integration. And the USA, as had already been demonstrated in 1958, did not want to openly oppose the EEC and endanger its existence. After all, the EEC was founded on economic integration, which also presupposed a common agricultural policy.⁵¹

The Six, arguing that the EEC was still in the process of constructing its agricultural policy, refused to provide any concessions. Moreover, they claimed that the variable levy system would not be operated in such a way as to damage US exports. In reality, the EEC assurance was not so reassuring, as the aim of the variable levy system was to prevent competition from outside the EEC. After tough negotiations, and after the US Department of Agriculture had suggested suspending the trade talks to signal American displeasure, thus risking the collapse of the entire round, the negotiations were settled, even if only for the time being, thanks to the Department of State's decision to outdo those voices in Washington asking for greater agricultural concessions by the EEC as a condition to conclude the Round. Anticipating what would then happen in the Kennedy Round, tough debate took place between Orville Freeman, Secretary of Agriculture, and Under Secretary of State, George Ball, but in the end President Kennedy sided with the State Department. Thus, the EEC and the USA formally agreed that Washington had "*unsatisfied negotiations rights*", acknowledged in the "standstill" agreements under article XXIV that froze existing tariff levels for hard wheat, maize, sorghum, ordinary wheat, rice and poultry. The EEC pledged not to increase protection on these products until the CAP was implemented, and undertook not to implement any restrictive or import controlling system. Mostly important, while implementing the CAP, the Six agreed to open negotiations with the United States to discuss the state of the American exports included in the standstill agreements.⁵²

Thus the stalemate on agriculture was broken when the USA assented to completing negotiations without satisfactorily resolving the deep problems created by the emerging CAP through maintaining the right to seek satisfactory compensations under GATT article XXIV. But the US's acquiescence was merely considered the end of a first phase. In January 1962, the Kennedy administration took the initiative for a new Round that had to meaningfully include agriculture in the liberalising effort, and a major confrontation between the USA and the EEC over agriculture seemed merely postponed.

⁵⁰ NA 59 State Department, CDF 1960-1963, box 721, Memorandum of conversation between French officials Clappier, Wahl, Corson, Kojève, and American officials Weiss, Ioanes, DeFelice in the framework of the Dillon Round negotiations, 10 October 1961.

⁵¹ Dryden, S. *Trade Warriors: USTR and the American Crusade for Free Trade* (Oxford: Oxford University Press, 1995), p. 40-41. In Dryden's opinion "on the surface, the American demands looked hypocritical and selfish. Just as the United States had done in the New Deal era, so too the EC was erecting a system of government intervention to ensure that its farmers would be protected from the vagaries of the marketplace. In 1961, the United States put quotas on farm imports, utilised exports subsidies, and supported prices. American producers that year enjoyed a five-to-one surplus in farm trade with the EC, selling those countries about \$1.1 billion in agricultural goods. Nevertheless, the farm policy germinating in Europe more flagrantly violated the fundamental free trade principle of comparative advantage, and the US department of Agriculture believed the discriminatory system would only get out of Europe American exporters in the years ahead."

⁵² NA Congressional Records - House, "The Kennedy Round and future of US trade policy" by Thomas Curtis, 10 April 1967.

The Dillon Round ended on March 7, 1962. The results were not wholly fruitless, although the gains in term of trade were only modest. The talks on agriculture had won a promise from the Common Market to maintain the status quo on farm imports, and stimulated efforts to reach agreement in the future. Both sides made concessions on manufactured goods, reducing tariffs by 20% on average: the Six on transportation equipment, electrical and industrial machinery, and chemicals, and the United States on machinery, electrical apparatus, steel, and automobiles. Agricultural products – excluded few products covered by tariffs – ECSC products, and List G products – whose CET level had been set in February 1960 and the Six did not wish to change them again – were not included in the Dillon Round. Chemicals were excluded because the US delegation had no authority. As a result, the 20% reduction concerned only one third US-EEC trade, so reducing by 7% the average protection for all sectors.

The Dillon Round was a success for the Six. The other contracting parties had come to terms with the CET and the implementation of the CAP, even if criticised, was safe for the time being. Thus, the Six discovered that the General Agreement and the multilateral dimension could serve their national interests. Second, like the 1958 debate on the Treaty of Rome, the Dillon round showed where the strength to dictate GATT lay, namely in Washington and Brussels. The negotiations crystallised around the quarrels between the EEC and the USA and once these two actors reached a deal, the other contracting parties had had no choice but to accept the agreement. In this way, the negotiations over agriculture were settled when the USA and the EEC agreed to settle, and countries like Canada, Australia and New Zealand had no other option but to bow to the agreement.

More than one aspect illustrates the unexceptional results of the Dillon round. The first factor concerns the method of negotiating the lowering of tariffs: the Dillon round proved that the utility of the item-by-item method of negotiation had come to an end.⁵³ In previous rounds it had been functional, even if cumbersome, because tariffs were so high that they were not difficult to reduce. However, because the nature of this method of negotiating inevitably focused on selected industries, with the passing of rounds it had become increasingly time-consuming, above all with the increase in number of the contracting parties attending the rounds. Moreover, for governments it was becoming increasingly difficult to convince an industry to accept a reduction in tariffs, while other industries remained untouched by the reduction. Some industries began to challenging a system in which other firms' gains were paid for by their losses. Hence, for a government the only way to appear neutral towards industries was to adopt a linear approach. This was true above all for the EEC. Just as this method concentrated its effects on a selected industry for the tariff reduction, it also focused its effects on a specific country, making it appear that an EEC member was gaining at the expense of another, and thus altering the delicate equilibrium within the Community.⁵⁴

A second factor illustrates the difficulties in reaching a deal in Geneva, and consequently explains the mediocre achievements of the round: the inadequacy of the power of the US executive. Under the RTAA, the American government was grievously short of bargaining power, and US government finally became aware that it was not possible to negotiate effectively under the limitation of this Act. President Kennedy felt that a new trade bill was needed to attend GATT multilateral conference in the future.⁵⁵

The Dillon round highlighted that the US and the EEC – the two major trading blocs – had not yet found a mutually beneficial basis for the long-term economic

⁵³ Curzon, G. *Multilateral Commercial Diplomacy*, p. 100.

⁵⁴ Shonfield, A. *International economic relations of the Western World*, p. 175.

⁵⁵ Zeiler, T.W. *American Trade and Power in the 1960s*, p.64-65.

relations critical to both regions, as many decisive problems were still on the agenda. This need, linked to the awareness that the item-by-item bargaining had outlived its utility, and that a new kind of authority was required to negotiate effectively in Geneva, steered Washington to believe that a new multilateral conference of a different kind was necessary in order to reduce the discrimination of the EEC and to defend American interest. Thus the results of 1960-1962 negotiations proved to be a for subsequent negotiations.

Other causes of the modest results of the Dillon round should be looked for in factors external to, and independent from, the General Agreement and its procedures, namely in the British application to join the EEC in 1961. In July 1961, while, in Geneva, negotiations between the EEC and the USA dragged on, Prime Minister Harold Macmillan stepped in, announcing that the United Kingdom would apply for EEC membership. London was then followed by Ireland, Denmark and Norway. The perspective of the UK joining the Common Market changed the substance of the round. Firstly, when the round started, Western Europe had just been divided and the GATT was seen as a forum to deal with trade problems on a European level. Then, while the governments' teams were negotiating in Geneva, Macmillan made his announcement. Suddenly the chance arose once more that the Western European market could be unified thanks to the entrance of Britain and the other EFTA members into the EEC. In the EEC, the requests of applications diminished the interest in the burdensome discussions in Geneva: Germany and The Netherlands had pushed for EEC participation in the Dillon round as a means of diminishing discrimination among the OEEC members. With the EEC enlargement, the split in Europe seemed on the verge of healing and there was no longer any impetus to negotiate in Geneva. Moreover, the first phase of the Brussels negotiations for new EEC membership took place contemporarily with the last phase of the Dillon round, and even if the round was obviously not interrupted as such by the British application, and the negotiation teams were left in Geneva, events in Brussels absorbed more of the attention of the involved governments than did the time-consuming GATT talks.

Secondly, the British request for EEC membership also had an important impact on the other side of the Atlantic Ocean, changing the perspective of the country that had suggested the hold of the multilateral conference. Washington had launched the Dillon round to also deal with the discriminatory effects of the EEC. With the possibility of Britain and other EFTA countries joining the Common market, the EEC would become a bigger market and the discrimination effects on non-members could be accentuated. The Kennedy Administration came to the conclusion that the Dillon round was not sufficient to resolve this issue, and a new and large multilateral negotiation had to be set up, to cope with the negative trade effects on American trade that could derive from the enlargement of the EEC. As such, Washington lost interest in the Geneva discussion and the urgency to conclude a successful round was lost.

The state of agriculture also triggered the American loss of interest in the Dillon round. The CAP had been a matter of concern since the 1958 debate. This concern grew after July 1961 when Washington had to consider not only the discrimination from the CAP formed by six countries, but also the discrimination arising from the potential new link between the EEC and the Commonwealth. Immediately after Britain announced its application, the American delegation in Geneva tried to attain an arrangement with the EEC before the British entrance. When Washington realised that the Six were inflexible on their refusal to grant more concessions to American exports to the EEC market, President Kennedy understood that in order to settle the agriculture question within the

GATT, a new approach would be required.⁵⁶ The Dillon Round was not sufficient to deal with the developments that were taking place in Europe and a bold new start to deal with the EEC and European integration was necessary.

Conclusion

This chapter has described the US stance towards multilateralism and regionalism. It has explained how the United States supported the European integration process and the EEC as a means of unifying Western Europe politically. However, at the same time, Washington feared that the EEC could become restrictive and inward-looking, a trade bloc closed to foreign exports and whose trade would be centred on itself. Therefore, after having defended the EEC, the Eisenhower administration decided to promote a GATT Round – the Dillon Round – in order to decrease the discriminatory effects of the EEC. In this sense, the multilateral framework had to play the crucial role of integrating the EEC.

The difficulties in negotiating crystallized during the Dillon negotiations due to the cumbersome tariff-reduction procedure and to the lack of authority of the US President, and the British application to join the EEC led President Kennedy to launch a following round. In this sense, the Dillon Round opened the way for the Kennedy round: the need for new US trade legislation, the anachronistic nature of the item-by-item negotiating approach, and the crucial question of agriculture combined with the UK application to become a member of the EEC, and led to the American initiative for new multilateral conference. The British request to join the EEC changed the policy of Washington towards the ongoing Geneva talks and the scenario of the future of intra-European trade. Hence, the British decision represents an external cause of the modest results of the Dillon round, but at the same time, it also contributed to the elaboration of President Kennedy's policy. The Americans needed a bolder policy to deal with the EEC and European integration.

⁵⁶ *Ibidem* pp.61-62.

Chapter Two

The American initiative for a new GATT Round: strengthening Atlantic interdependence

Introduction

In the first chapter we described the American policy of reorganising the international economic system at the end of World War II and its effort to set up a multilateral and open trading system. We also illustrated how the US government tolerated European economic discrimination as a means of strengthening Western Europe and unify it politically, and how it also favoured the creation of the OEEC, and then of the EEC. In this framework, GATT would serve as to means to *pragmatically* decrease European discrimination and integrate the EEC into the multilateral trading system. We concluded that, however, by the early 1960s, with the success of the EEC and its envisaged enlargement, the US government realised that a new policy was needed to deal with Europe and that the first area in which a broader initiative was needed was, indeed, that of international trade, as the difficulties of the Dillon Round had demonstrated.

In this chapter we shall analyse America's response to the success of the EEC and its subsequent development. While the Eisenhower administration reacted to the creation of the EEC with strong and open support, with its major preoccupation being to set the EEC "off to a flying start", the Kennedy administration, on the other hand, had to face up the Community's success, as well as its envisaged enlargement. Kennedy needed a policy towards Western Europe which could address the changes that were taking place. The aim of this chapter is to show that Kennedy's trade program, and his initiative for a new Round, set the direction and the tone of the American response to European developments. The USA was aiming to diminish the discriminatory effects of the EEC through multilateral trade liberalization, while at the same time strengthening the links between the two sides of the Atlantic. The new trade initiative was part of Kennedy's Grand Design to establish an Atlantic Partnership between equals, aiming not only at strengthening the link between the USA and the EEC, but had also at reaffirming the importance of the Atlantic alliance as the only framework in which European integration and the EEC could develop. Thus the Kennedy administration, just as the Eisenhower administration had tried to do with the Dillon Round, used the multilateral GATT forum for dealing with problems raised by European integration and regionalism.

2.1 Problems across the Atlantic

After having urged Europe to unite, in 1957 Washington watched the EEC's coming into existence and its establishment as a trading area. The USA had supported the unity of Western Europe, because of the fact that it strengthened the area politically and it formed an expanding market for American exports. But, at the same time, a united Europe was also perceived as a potential threat to the Atlantic alliance, due to the risk that the former could develop in an inward-looking way, completely independent of the USA. As such, there existed the danger that the two sides of the Atlantic could become two rival blocs in the economic, military and political fields. By 1960 the EEC

was successfully established, and this success gave rise, in the Eisenhower, and then Kennedy, administrations, to the concern of preventing the EEC from forming a separate commercial and political force with policies independent of those of the United States. The European unity process had American support, but the latter felt it necessary to maintain it within the multilateral system and Atlantic alliance. At the end of the 1950s, the US government concluded that transatlantic relations had to be restructured in order to deal with the developments that were taking place in Europe.

The need to prevent an independent and discriminating Europe was more urgent than ever due to the policy of French President, Charles de Gaulle. US relations with France were becoming strained, above all due to issues concerning NATO and nuclear strategy. The French President was trying to develop an independent defense policy which Washington perceived as a threat to NATO and to American leadership. Next, while Washington supported an EEC as a supranational group with an open border to the outside world, and in particular with the United States – so requiring the UK join of the EEC – de Gaulle advocated a French-led EEC based on the nation state. As noted by Lundestad, de Gaulle represented the main political challenge to the “primacy of the Atlantic framework, or, more directly expressed, the American-dominated framework”¹

Problems in transatlantic relations also stemmed from other sources. During the 1950s the United States ran an almost continuous balance of payments deficit. This was the more or less intentional consequence of an international policy aimed at rebuilding the economies of Western European countries and reducing their dollar shortage, the so-called “dollar gap”. In so doing the USA was acting as the residual source of world liquidity, financed by deficits in its own balance of payments and the linchpin of the monetary regime based. In 1958 the persistent American deficit began to increase dramatically, seemingly as a result of the combination of economic recession in the USA, overseas military spending, American investments abroad, and a sharp decrease of the trade surplus (Table 1).

Table 1. Selected US balance-of-payments figures 1957-1962 in \$ millions

	Overall trade balance	Direct Military Expenditure Abroad	Direct Investments Abroad
1957	6271	-2,841	-2,447
1958	3462	-3,135	-1,181
1959	1265	-2,805	-1,372
1960	4892	-2,753	-1,674
1961	5571	-2,596	-1,598
1962	4521	-2,484	-1,654
1963	5224	-2,304	-1,976
1964	6801	-2,133	-2,328
1965	4951	-2,122	-3,468

Source: Survey of Current Business (United States Department of Commerce, Bureau of Economic Analysis), October 1972 and June 1975.

The deficit in the balance of payments became a major issue for the Eisenhower Administration at the end of the 1950s, when the European dollar gap became a dollar glut, and these dollars were increasingly cashed in for gold, and US gold holdings started to fall dramatically. From 1950 to 1960 the American gold supply fell from \$22 billion to \$17 billion, which represented the pre-war level, and in 1960, for the first

¹ Lundestad, G. “Empire” by integration: The United States and European Integration, 1945-1997, (Oxford: Oxford University Press, 1998) p. 61. On De Gaulle’s policy, among the many scholars who have dealt with the issue, see Vaisse M. *La Grandeur: Politique Etrangere Du General De Gaulle, 1958-1969*. Paris: Fayard 1998) and Bozo, F. *Two strategies for Europe: De Gaulle, the United States and the Atlantic Alliance* (Lanham: Rowman and Littlefield, 2001).

time, foreign dollar reserves exceeded American gold reserve. The erosion of US gold holdings, combined with deficit in the balance of payments, undermined the credibility of America's pledge to convert any dollar into gold, and these factors began to cause concern on both sides of the Atlantic, as the situation could threaten the strength of the dollar and the entire international monetary system.² In this context, the combination of EEC discrimination against US exports, the growing competitiveness of European producers and the capital outflow of US investment in Europe could no longer be considered as favourably as when the US balance of payments did not represent a problem and the gold reserve seemed unlimited.³

Within the Eisenhower Administration, the deficit in the balance of payments and the gold outflow sparked debate on the cause of the deficit, as well as on US foreign military policy. In addition to foreign investments, Eisenhower and the Treasury Department pinned the blame squarely on USA military expenditure abroad, and in Western Europe in particular. Therefore, either the US had to reduce its military commitments, or the Europeans, under the American defense umbrella, had to collaborate in some way to reduce the deficit. In 1960, Eisenhower put pressure on the European allies, and on German Chancellor Adenauer in particular, to increase their spending on military commitments, without success, however.⁴

Thus, signs that the relations with Western Europe had to be in some way reformulated were clear during the Eisenhower administration's final years. In fact, plans to reshape them were already afoot. In August 1960, the report "The North Atlantic Nations. Task force for the 1960s. A report to the Secretary of State" was prepared by Robert Bowie, a policy planning official, for the Secretary of State Christian Herter. The report addressed a broad range of problems in the economic, political and military fields that the countries of the Atlantic Alliance were envisaged to face in the 1960s. Inter alia, it suggested nuclear sharing arrangements between the Americans and the Europeans, and that a multilateral conference should be held to substantially decrease barriers to trade in order to stimulate US economic growth by increasing American exports, to increase trade integration between the two sides of the Atlantic and to soften discrimination arising from the economic divide in Western Europe and to give more markets to the LDCs. To achieve these major trade aims, a major revision of US trade legislation was needed. The report also underlined the need to avoid the fragmentation of the Atlantic alliance and to strengthen its unity in the context of the Cold War, as well as the need for the Atlantic alliance to coordinate its

² The literature on monetary problems for this period is vast. See, among the others, Strange, S. *International Monetary Relations of the Western World, 1959-1971* (London; New York: Oxford University Press, 1976); Cohen B. J. *Organizing the World's Money: the Political Economy of International Monetary Relations* (London: Macmillan, 1978); James, H. *International Monetary Cooperation Since 1945* (Washington, DC: International Monetary Fund: 1995); Stern, R.M. *The Balance of Payments. Theory and Economic Policy* (London: Macmillan, 1973); Bordo, M.D. and Eichengreen, B.J. (eds.) *A retrospective on the Bretton Woods System: Lesson for International Monetary Reform*, (Chicago: University of Chicago Press, 1993).

³ Borden, W.S. "Defending Hegemony: American Foreign Economic Policy" in Paterson, T.G. *Kennedy's quest for victory: American foreign policy, 1961-1963* (New York: Oxford UP, 1989), p. 61 and Zoumaras, T., "Plugging the Dike: the Kennedy Administration Confronts the Balance-of Payments Crisis with Europe" in Brinkley, D. and Griffiths, R.T (Eds.) *John F. Kennedy and Europe* (Baton Rouge: Louisiana State University Press, 1999), p. 170-171. Benoit, E. *Europe at Sixes and Sevens. The Common Market, the Free Trade Area Association and the United States* (New York: Columbia UP, 1961), p.123-127.

⁴ On the Eisenhower and Kennedy administrations' debate over the deficit in the balance of payments and the link with the security issue, see Zimmermann, H. *Money and Security. Troops and Monetary Policy in Germany's Relations to the United States and the United Kingdom, 1950-71*, (Cambridge: Cambridge UP, 2002) and Gavin, F. J. *Gold, Dollars, and Power. The Politics of International Monetary relations, 1958-1971*. (Chapel Hill and London: University of North Carolina Press, 2004).

economic and monetary policy. Finally, the report put forward the idea of an Atlantic partnership of equals.⁵

As the Eisenhower mandate was coming to an end, the responsibility of solving the balance of payments problem, of encouraging Europe to pay more for defence, and, in general, of shaping relations with the other side of the Atlantic was passed on to the Kennedy administration. Thus, while Eisenhower had to deal with the creation of the EEC, Kennedy was the president who had to deal with the many problems that were emerging between the two sides of the Atlantic. For Kennedy, it became paramount to develop a policy to deal with the evolution of the relationship between Europe and the United States which would recast the Atlantic alliance keeping a way that would guarantee the continued existence of Atlantic unity and American leadership.

2.2 In search of a policy for Europe and the European allies: towards a new GATT Round

Kennedy's elaboration of a policy towards the European allies and the EEC remained along the same lines as that elaborated by Eisenhower, and ideas already mooted by Bowie. In the Kennedy administration, Under Secretary of State for Economic Affairs, George Ball, was to have a prominent role in economic and European affairs. Immediately after Kennedy's election to the White House in November 1960, Ball sent the new President a report advocating a long-term policy in the context of a unified Western Europe that should reflect Ball's major concerns: NATO, Western Europe and the trade relations of the Atlantic alliance. Ball proposed long-term policies for NATO, nuclear cooperation and economic development that reformulated Bowie's suggestions. In the trade field, his plan was to provide the government with new and greater powers to develop commercial policy, enlarging the authority of the US President to reduce tariffs in order to grant him the power essential to maintain the unity of the Atlantic Community through a sweeping liberalization of trade. Ball drafted comprehensive foreign economic legislation that gave the President authority over a five-year period to reduce tariffs by 50 per cent across-the board. On top of this, the future Under Secretary suggested that a plan for a "partnership Between a United Europe and America within a Strong Atlantic Community" be proposed. Ball therefore considered US foreign trade policy an essential element in maintaining the interdependence of the two sides of the Atlantic.⁶

Kennedy backed the report, and during the interregnum Ball received the assignment of organising and chairing task force on foreign economic policy for the new administration. The report produced by Ball's task force suggested concentrating the administration's trade program on a new and bold trade initiative aimed at tackling the Common Market. The EEC had to be used as "a justification for a major new round of trade negotiations and a precedent for reducing tariffs by percentage cuts across the board rather than the tradition item-by-item haggling". The President had to be equipped with a trade law able to bargain down the CET to a level that would permit outsiders to compete in the Common Market. It was felt that a failure to reciprocally reduce tariffs with Europe could cause the fragmentation of the Western economy and

⁵ For a full description of this report see Winand, P. *Eisenhower, Kennedy and the United States of Europe* (New York: St. Martin's Press, 1993), p. 161-173.

⁶ The report was named the Stevenson report as Ball wrote it on behalf of Adlai Stevenson. See Ball's memories *The Past has Another Pattern* (New York: Norton, 1984), p. 159-165 where the importance Ball attached to trade is also illustrated by the fact that he describes his entrance to the State Department as "the tradesman's entrance to foreign policy". See also DiLeo "George Ball and the Europeanists in the State Department, 1961-1963" in Brinkley, D. and Griffiths, R.T. (eds.) *John F. Kennedy and Europe*, pp. 263-280.

the multilateral system into separate trading blocs. At the same time, the desired increase of US exports through a far-reaching liberalization of international trade, would foster economic growth and, by increasing the trade surplus, would help to close the balance-of-payments deficit. And with this latter aim in mind, Ball also made clear his views on the responsibilities of the Europeans: "any surplus countries accumulating foreign exchange [...] should accept a responsibility to take measure to increase its imports of goods and services" from the USA. Therefore, in addition to reducing EEC protectionism, the US President had to be provided with legal authority to set up a new GATT Round for far-reaching liberalization of international trade in order to favour the expansion of exports seen as crucial in stimulating economic growth and, by increasing the trade surplus, ending the deficit in the balance of payments. In this sense, trade policy was to serve broader American foreign and domestic interests.⁷

Ball transformed his suggestion into an active policy when he was appointed Under Secretary of State for Economic Affairs in January 1961, and oversaw the drafting of the Trade Expansion Act which authorised US President to start a new GATT Round for a sweeping liberalization of international trade.⁸ The expiring of the RTAA in 1962 gave Ball the opportunity to put into practise his ideas, and from January 1961 Ball worked on preparing a trade bill with a totally new approach. Ball called for a "grand design", as he put it, along the lines of his reports, to conduct an effective foreign policy and address the changes that were taking place. Domestic prosperity depended on a new approach to Europe, as US internal growth and a wealthy and secure Free World could be ensured only through the development of a new economic policy in collaboration with the allies. For this reason, the country needed "a comprehensive economic policy bill" that would reformulate American foreign and trade policy towards Western Europe. With this aim in mind, it was necessary to seek Congress's approval for a new trade bill that, through a new GATT Round, would not merely provide trade liberalisation for its own sake, but which would rather in fact encourage the establishment of a rational organization of the Western world economy. In Ball's policy, trade represented a decisive component in the US relationship with Europe and the EEC, and had the role of ensuring the survival of the Atlantic Alliance, given the fact that trade created a interdependence between nations.⁹

The issue of the US balance-of-payments deficit remained crucial in transatlantic relations, and to be inextricably linked to the US trade programme and the latter's policy regarding the EEC and the Atlantic allies. For Kennedy, solving the deficit remained a priority as he deemed that this factor, and the threat to the supremacy of the dollar, threatened the United States' overall position in the world and its capacity to have effective policies in the context of the Cold War. One of the first and most important tasks he set himself was to adopt measures to close the deficit and stop the gold outflow which threatened the strength of the dollar and, as a consequence, the international monetary system.¹⁰

However, building a consensus in this policy area was not an easy task for the Kennedy administration. Treasury Secretary Douglas Dillon strongly advocated the withdrawal of

⁷ Report to the Honourable John F. Kennedy, dated 31 December 1960. Pre-presidential papers-Transition files, Task Force reports, Box 1073, JFKL. Ball chaired also the task force on balance of payments and the OECD.

⁸ Ball's central role in the formulation of trade policy is also mentioned in the oral history of the Kennedy Round reported in Eckes, A (ed.) *Revising US Trade Policy. Decisions in Perspective* (Athens: Ohio University Press, 2000).

⁹ George Ball memo to Dean Rusk, January 1961. General Correspondence Folder, 48-164, B General, 1 January -31 March 1961, Box 12 JFKL.

¹⁰ Zoumaras, T., "Plugging the Dike: the Kennedy Administration Confronts the Balance-of Payments Crisis with Europe", p. 174. For a full account of the monetary policy of the Kennedy Administration see Zimmermann, H. *Money and security and Gavin F.J. Gold, Dollars, and Power.*

US troops from Western Europe and saw the reduction of American military commitments as the easiest way to resolve balance of payments problems. Dillon was convinced that the deficit was not caused by the role of the dollar as the main source of liquidity in the growing world economy, and that adjustments and interventions in other fields, such as capital outflow and overseas expenditure, would allow the international monetary system to be preserved. On the contrary, the State Department, and in particular Ball, strongly rejected the solution of withdrawal on the ground that it would undermine Western European confidence in NATO, and damage America's willingness and capacity to defend Europe. Ball, believing that the deficit was the result of a flawed international monetary system, developed plans to provide new source of international liquidity, even if this implied restraint or ending the dollar's role as a reserve currency. This debate betrayed the split regarding perceptions of what the causes of the deficit were, and, as a consequence of what remedial measures were required. These factors hampered Kennedy's ability to tackle the issue. The President identified America's security commitments to Western Europe as the main cause of the deficit. However he was hesitant in reducing American military commitments to Europe for fear of the serious consequences this move could have on relations with the European allies. At the same time, Kennedy was also reluctant to follow Ball's reforms which would have a major impact on the standing of the dollar, and whose effects could not be guaranteed. As a result, the response that emerged to the problem of the balance of payments was not made up of structural measures such as the withdrawal of US troops from Europe or the reform of the monetary system. Instead, it consisted of a set of less dramatic measures which, taken as a package, were targeted at ending the deficit. Thus, certain initiatives were taken to reduce the capital outflow, as well as stabilize the dollar and reduce gold drain, and achieve rapid, non-inflationary domestic growth. Furthermore, America set out to convince the Europeans, and above all Germany, to share the US military burden.¹¹

This burden sharing had to take place not only through increased European military spending, but also in the context of trade. As already noted, it was felt that expansion of US exports was needed to stimulate US domestic growth and, by increasing the trade surplus, had to help to reduce the deficit in the balance of payments. The Kennedy Administration aimed at increasing the already favourable trade balance to a level high enough to compensate for military commitment and investments in Europe. NATO allies had to share this burden by accepting more imports from the USA as a form of 'compensation' to the US. The USA needed a substantial increase in exports, unless it was to make fundamental changes in foreign commitments.¹²

In the Kennedy Administration, foreign trade policy and a new GATT Round came to have numerous fundamental objectives. A far-reaching liberalization of trade was seen as essential in increasing the interdependence between the two sides of the Atlantic, as well as in reducing EEC discrimination, stimulating US growth and helping to rectify the deficit in the balance of payments. It was with these aims that the Kennedy

¹¹ On the different initiatives taken by the Treasury in this field, such as the Gold Poll of 1961, the "Roosa Bonds", the General Agreement to Borrow, the Operation Twist and Interest Equalization Tax (IET) see Block, F.L. *The Origins of International Economic Disorder. A Study of United States International Monetary Policy from World War II to the Present* (Berkeley: University of California Press, 1978), pp.177-181.

¹² FRUS 1961-1963 Vol. IX. Foreign Economic Policy, 2/19. Memorandum From the President's Deputy Special Assistant for National Security Affairs (Kaysen) to the President's Special Assistant for National Security Affairs (Bundy), 21 January 1963. Zoumaras, T., "Plugging the Dike: the Kennedy Administration Confronts the Balance-of Payments Crisis with Europe" p.172-176. For a specific analysis of US initiative for a new round and the link with the issue of the deficit in the balance of payments see Coppolaro, L. "Trade, GATT and the US balance of payments in the 1960s" in Adrews, D. *Revisiting Bretton Woods* (Ithaca: Cornell UP, 2007).

administration framed its trade policy and regarded a new round of GATT negotiations to reduce barriers to trade as a necessity.

2.3 The impact of the EEC on US trade

Before continuing the inquiry into the reasons which led the Kennedy Administration to launch a new Round, we should first focus on US trade patterns with the EEC, in particular from 1959, when the implementation of the EEC customs unions began, to 1962, when the Kennedy Administration formally suggested a new Round, as well as examining the main features of the EEC of which the US government was most apprehensive due to their perceived potential impact on US and world trade.

The United States was not as dependent on foreign trade as the European states. In 1950 exports accounted for 3.6 percent of GNP, for 3.9 percent in 1955, for 4.1 percent in 1960 and 3.8 percent in 1962. Moreover, only 8 percentage of US industrial output was exported, and 15% of farm production went abroad.¹³ As illustrated, however, trade surplus had a crucial weight in the balance of payments.

Table 2: US exports 1954-1962 (in thousands of US\$)

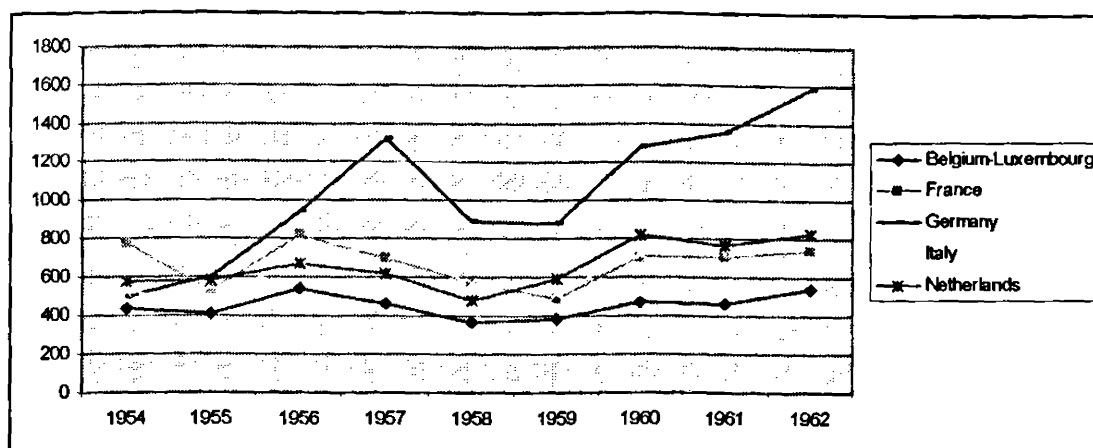
	1954	1955	1956	1957	1958	1959	1960	1961	1962
World	14699	15418	18870	20609	17841	17569	20532	20954	21614
Industrial countries	8387	9021	11363	11875	9763	10384	12617	12928	13283
Western Europe	4495	4675	5989	6262	4964	5110	6852	6821	7152
United Kingdom	798	995	969	1145	905	1100	1492	1212	1130
EEC	2806	2597	3663	3867	2871	2869	3987	4170	4577
Canada	2950	3383	4130	4017	3540	3827	3813	3838	4053
Asia	1184	1427	1855	2069	1907	1671	2182	2232	2455
Japan	691	680	995	1317	987	1080	1451	1841	1574
Western Hemisphere	3096	3021	3551	4314	3892	3408	3634	3817	3649
Developing countries	5740	5814	6864	7982	7525	6742	7686	8009	8316

Source: Direction of trade statistics historical, 1948-1980 (Washington, D.C.: International Monetary Fund, 2002)

As Table 2 shows, the EEC was a major market for in US exports, and in 1960 it became America's first market, overtaking Canada. The beginning of the implementation of the EEC customs union did not prevent the USA from increasing their exports to the Six. American exports to the Six increased from a total value of \$2,869 million in 1959 to \$4,577 million in 1962. As such, despite the customs unions, not only did American imports not suffer, they in fact increased in volume. Table 3 illustrates that among the Six, Germany was the largest export market for the United States. Notwithstanding the beginning of the implementation of the customs union, American exports to Germany rose and did so by a faster rate than to the other five members of the EEC.

¹³ United States Bureau of Census, The Statistical History of the United States. From Colonial Times to the Present (New York : Basic Books, 1976) Series U 201-206 Foreign Trade Related to Various Measures of Production: 1869-1970, p. 887. Just to make a comparison, in 1962 in Italy exports accounted for about 12 percent of its GNP, in Germany about 15 percent and in the United Kingdom over 16 percent.

Table 3: US exports to the Six 1954-1962 (in thousands of US\$)



Source: See table 2

Trade with the Six was important also from the point of view of the trade balance. As Table 4 illustrates, a considerable part of the US's surplus stemmed from trade with the EEC.

Table 4 US trade balance 1954-1962 (thousand of US\$)

	1954	1955	1956	1957	1958	1959	1960	1961	1962
World	4024	3561	5522	6730	3349	789	4362	5218	4092
EEC	1800	1356	2113	2178	1039	266	1530	1767	1929

Source: See table 2

It should be noted, though, that the fact that the start of the implementation of the EEC customs union did not impede to the USA from increasing its exports and trade surplus with the EEC was not particularly reassuring for Washington, as in 1962 the customs union's implementation was only just beginning.

In 1956-1957, in supporting the EEC, the USA had assumed that a system based on European preferences would increase intra-EEC trade more rapidly than trade with other areas. Indeed, the threat that the implementation of the customs union posed was that of altering trade patterns by increasing intra-European trade in a way disproportionally higher to trade with other areas, and this risk was seen as greater with the final part of the implementation of the customs union between the Six. The only way to avoid such a risk was to set the CET as low as possible.

This was a major goal for Washington. Higher economic growth among the Six was of great interest to Washington, as this factor was expected to offset EEC trade discrimination, as it would increase demand for foreign products, and hence for competitive American exports.¹⁴ Again, this would only follow, however, if tariffs walls against non-member suppliers could be kept low. For the United States to exploit European growth and dynamism – one of the reasons which had led to American support for the EEC – the essential condition was that the CET had to be set at low

¹⁴ The GNP of EEC from 1957 to 1963 increased at an average rate of more than 5 %, as compared with a rate of 3% in the United States and about 2,5% of the United Kingdom.

level, thus permitting efficient exports of third countries entry into the EEC at competitive prices and in sufficient quantities.¹⁵

Just as the CET had to be kept low in order to ensure the existence of an outward-looking EEC, the other common policies that the Six would eventually implement also had of a nature which ensured that a close Common Market did not develop. Among these policies, a prominent position was certainly held by the CAP in this regard. Although its exact impact on world trade was difficult to predict, both in terms of trade and production, Washington feared that it could lead to an uneconomic degree of EEC self-sufficiency which could work to the detriment of traditional, efficient agricultural exporting nations, as the United States, Canada, Australia and New Zealand, thus causing problems not only for the USA but for the entire multilateral trading system.¹⁶

To better analyse the issue of agriculture it is helpful to look at some data. In 1954, American agricultural exports accounted for 10.2 percent of total farm income, and in 1962 this figure had risen to 15.0 percent.¹⁷ Among the American sectors, it was the farmers who were most reliant on exports. In the 1950s both the US Department of Agriculture and producer organisations became increasingly oriented towards commercial exports sales as it became clear that the domestic productive capacity exceeded the domestic capacity to absorb production. Moreover, expanding agricultural exports would increase farm incomes, thus permitting the government to reduce its financial support to agriculture and cut federal spending on farm programmes. This factor greatly influenced US commercial policy at the beginning of the 1960s, when Washington began to vigorously look for overseas markets for its farm products, and in particular for wheat, feedgrains, oilseeds, poultry and tobacco. However, the potential importer countries had protectionist agricultural policies that limited American exports.¹⁸

Among the countries that had protectionist agricultural policies there were the Six, which were negotiating their Common Agricultural Policy. Although the Six already had protectionist national systems, the harmonisation of agricultural policies had the potential to move towards an even greater level of protection, which could drastically reduce imports from outside suppliers. In 1961, American exports of agricultural products to the EEC represented about a quarter of total American exports of agricultural products and, most importantly, half the US trade surplus with the EEC originated from agricultural exports, which ran at the rate of almost five times US imports from the same area. In 1958 US agricultural exports to the Six represented 31.4 percent of total exports to the area. In 1962 this figure had risen to 32.4 percent. US agricultural exports to the EEC were an important factor in both US foreign and domestic policies, as the EEC was the most important US market for agricultural exports. The USA retained the largest and most diversified export interests for agricultural products, and but as table 5 shows, major exported commodities were feed grains, soybeans and tobacco.

¹⁵ Narrative History of the Special Representative for Trade Negotiation, Vol. 1, p. 2, 1969, Administrative History of the Office of the Special Representative for Trade Negotiations, Box 1, LBJL.

¹⁶ United States and the world trade in perspective. Seventh Annual report of the President of the United States of trade programme. September 1963, p. 1-7. Administrative History Office of the Special Representative for trade negotiations - Box 1 LBJL.

¹⁷ United States Bureau of Census, The Statistical History of the United States. From Colonial Times to the Present (New York : Basic Books, 1976) Series U 201-206 Foreign Trade Related to Various Measures of Production: 1869-1970, p. 887. For the data on US agricultural trade see Foreign Agricultural Trade of the United States, US Department of Agriculture, Economic Research Service (March 1970), pp. 18-19.

¹⁸ Warley, T.K. Western Trade In Agricultural Products in Shonfield, A. International economic relations of the Western World, p. 320-322.

Table 5 US Agricultural exports to the EEC 1958-1962 (thousands of US dollars)

Commodity	1958	1960	1961	1962
Variable-levy commodities				
Wheat	79000	46332	173039	50606
Feed grains	158000	197146	194012	336457
Rice	5854	6894	15035	14247
Beef&veal meat	31	38	49	64
Pork	400	418	561	341
Lard	2100	2326	3401	2134
Dairy products	2890	2997	2084	3603
Poultry and eggs	364	28551	45835	53479
Non variable-levy commodities				
Fruits & vegetables	71631	57665	69952	93070
Oilseeds (soybeans)	71052	120245	134294	174028
Unmanufactured tobacco	96452	97003	97384	106609
As % of total US exports	31.4%			32.4%

Source: SITC Classification. Source: OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000) and OECD Exports, Series B, 1958 and 1960.

With the prospective implementation of the CAP, which stimulated European production, Washington feared that American exports to Europe could diminish and that Europe could become self-sufficient in temperate agriculture, with the result that patterns of world trade in wheat, feed grains, meat and dairy products would radically altered.¹⁹ Even more than industrial trade, European protectionism in the field of agriculture represented the biggest headache for Washington, even above industrial trade, as the general lines of the CAP's basic structure had been made know, and did not reassure the USA. As such, it appeared indispensable to hold negotiations with the EEC on this area, in order to prevent a fall in American exports, and EEC autarky.

The State Department recognised that American support for European integration required support for a common commercial policy not only for industry but also agriculture. As such, it did not attempt to maintain US agricultural exports at the expense of destroying the CAP. Further, American farmers themselves also received subsidies, so it was not possible to request that Europe abandon their envisaged protectionist system while the USA kept its own. State Department policy consisted more in encouraging a liberal implementation of the CAP, so that, rather than embracing autarky, it moved towards economic rationalism, providing expanding markets for imports. Thus, the State Department and the US government as a whole did not contest the right of the Six to have a common agricultural policy, but were fearful that feared that this policy it would in fact prevent virtually all imports, and thus felt it necessary to prevent certain protectionist excesses of the CAP.²⁰ In contrast, the Department of Agriculture, logically being more interested in supporting the interests of US farmers than European integration, and having to face the very well organized

¹⁹ FRUS 1961-1963, IX, Section 11/230 Memorandum From the Under Secretary of State for Economic Affairs (Ball) to President Kennedy, 23 October 1961.

²⁰ Agriculture and the Trade Negotiations, paper written by M. Blumenthal, 2 August 1963, C.A. Herter. Papers, Box 7 JFKL and NA State Department, CDF 1960-1963, box 721, Memorandum of conversation between French officials Clappier, Whal, Corson, Kojève, and American officials Weiss, Ioanes, DeFelice in the framework of the Dillon Round negotiations, 10 October 1961.

lobbies in Congress, was particularly vociferous in asking the American government to protect American agricultural exports in Europe, and in the Dillon Round it openly showed its opposition to the CAP itself. The GATT Article XXIV negotiations of 1958 and then Dillon round had showed the State Department how thorny it was to negotiate on agriculture, not only because of the obvious clash with the Six, but also because of the tough opposition to an accommodating stance towards the CAP coming from the Department of Agriculture.

In addition to the customs union and the CAP, there was a third element of the EEC that concerned Washington, that is the trade preferences extended by the EEC to the member countries' former colonies. Washington feared that these preferential agreements could discriminate against Latin America and less-developed countries excluded from the preferential system, increasing the pressures on the United States market, or pushing these countries towards increasing trade with the Soviet bloc.²¹

Through the customs union, the CAP and the Association agreements the EEC could easily become a major inward-looking trading bloc in the multilateral system that the United States had helped to shape at the end of WWII. Thus Washington deemed as urgent the EEC's integration into the multilateral trading system. If the EEC were to form into a closed trading bloc, the system could disintegrate into a polycentric combination of competing trading blocs. In this sense, the EEC represented a challenge not only for US-EEC trade relations, but also for the multilateral trading system as a whole. Thus, the Kennedy administration had to deal with those aspects of the EEC still unresolved – the impact of the CET, the CAP and of the preferential agreements – already discussed in Geneva in 1958 and in Dillon round. In 1958, Washington had supported the EEC for political reasons, while in the Dillon round American negotiators unsuccessfully tried to negotiate with the EEC a lowering of barriers. In 1961, a new bold initiative appeared essential.

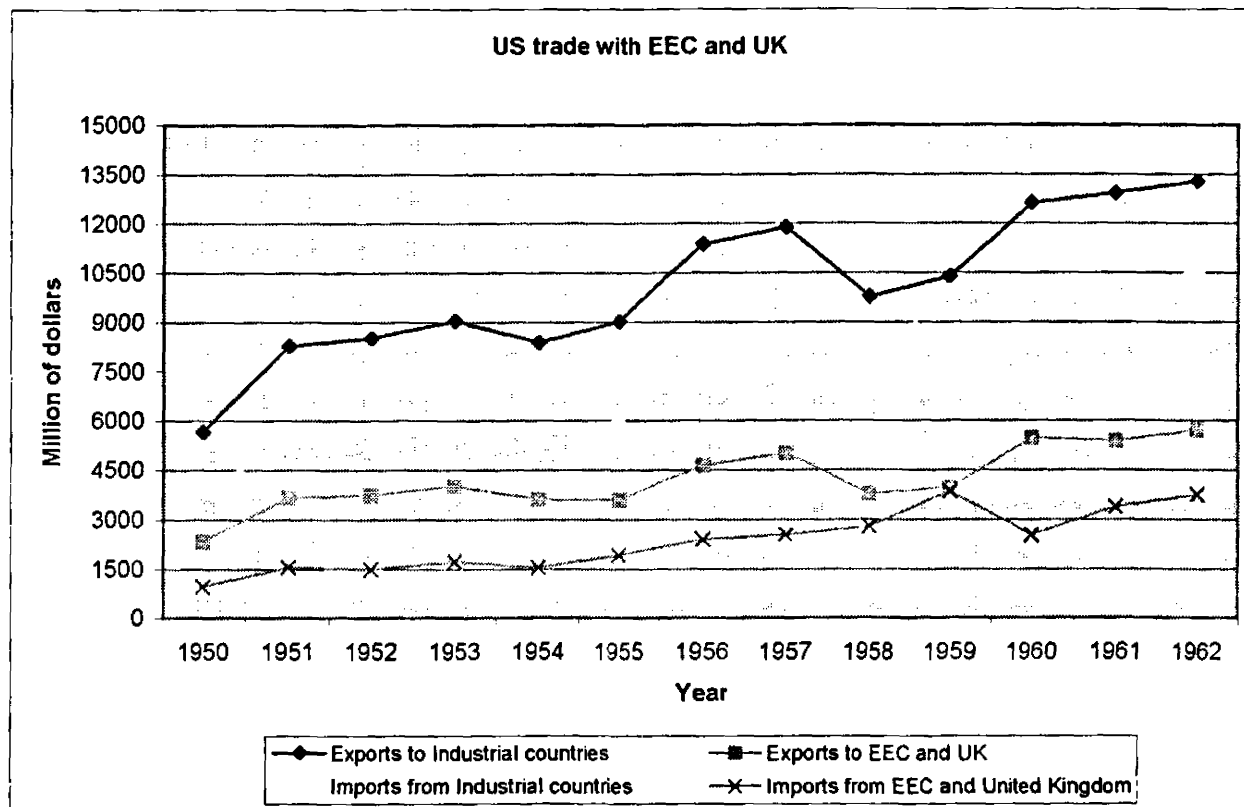
2.4 Accelerating the decision: the British bid to join the EEC

Until April 1961, the EEC continued to raise the same concerns in Washington as since its creation. After this date, however, an additional factor was introduced. In April 1961, Prime Minister Harold Macmillan informed Kennedy of his intention to seek EEC membership, which was then formally announced in July of the same year. The initiative was welcomed by Washington due to its political significance: the entry of the United Kingdom would strengthen Western Europe and would counterbalance de Gaulle's nationalism, and thus strengthening the transatlantic relations. From an economic point of view, the United Kingdom and other EFTA countries joining the EEC would put at an end the economic division of Western Europe. Further, the enlargement was seen as favourable American trade. London could impede the EEC from becoming inward looking and could support liberal trade. The British rate was inferior to the EEC average, and membership could potentially stimulate British growth, and consequently American exports. Ball seemed to be rather keen on this argument, for in his opinion the EEC enlargement could increase the level of exports of American industrial goods rather than lower it. As for agricultural products, the problem of ensuring fair access to the EEC for American products existed independently of British entry, and Ball claimed the latter eventuality could even reduce the level of discrimination coming from the CAP, since, traditionally, the United Kingdom was

²¹ FRUS 1961-1963, IX, Section 11/227, Paper Prepared by the President's Special Assistant Petersen, Proposal for 1962 United States Foreign Trade and Tariff Legislation, 4 October 1961.

committed to low food prices. In this sense, British membership could be beneficial and, as such, the British initiative was welcomed by the United States.²² While the enlargement of the EEC, on the one hand, had to potential of bringing about the positive effects described above, nonetheless the prospect of the UK joining the Common Market created economic concerns for the United States, and further increased the need to act to prevent any discriminatory effects which would affect the performance of American exports. As table 6 shows, US exports to the EEC and UK represented a considerable share of American exports to industrial countries, and Washington considered it necessary to protect this flow of exports.

Table 6 US imports and exports by to EEC and UK



Source: see table 2

It was on these difficulties that the State Department, and Ball in particular, concentrated. First of all, an increase in the number of members of the EEC customs union would obviously amplify its discriminatory effects. Second, even if it was true that British entrance could moderate CAP protectionism, this result could not be taken for granted as given, as a more protectionist line could prevail in Brussels. Thus Washington looked with apprehension at the prospect that Britain, the world's largest agricultural product importer, would adopt the protectionist system of the CAP, so reorienting the area of origin of its imports, causing further discrimination against US exports. Third, if Commonwealth preferences were extended to the enlarged EEC, an increase of discrimination against American temperate agriculture and manufacturing, and Latin American tropical and temperate agriculture could take place. Moreover, the prospect was not merely of a Common Market enlarged to include the UK and, through

²² FRUS 1961-1963 XIII West Europe and Canada. Economic and Political Integration. 16 Memorandum for the President "UK adherence to the European Common Market" by George Ball, 23 August 1961.

a preferential agreement, to its Commonwealth, but of regional trading bloc composed of most Western European countries, as the British decision was expected to be followed by other EFTA members, which would ask for either membership or for association. As a result, effective discrimination against outsiders would be increased. In 1960, the United States sent one third of their exports to OEEC countries, thus the maintenance of access to Europe's markets was imperative if it wanted to avoid a fall in its merchandise trade balance, and diminish the incentive to large flow of US direct investment in Western Europe aimed at avoiding the CET.²³

Washington ran the risk of facing discriminatory effects arising from a huge EEC regional bloc, potentially with preferential trade arrangements with the British Commonwealth and with the less-developed countries linked to the EEC by Association agreements. For Washington it became paramount to avoid the fragmentation of the multilateral trading system and to cushion the impact of the growing discrimination coming from Europe, affecting itself and others.²⁴

Therefore, while accepting and openly supporting the EEC enlargement, it placed conditions in some specific areas: Any agreement between the EEC and the UK had to maintain reasonable access for third countries' goods. Moreover it uncompromisingly opposed the extension of Commonwealth preferences to all the EEC. The State Department reminded the British that the elimination of any preferential agreement had to be the ultimate objective of UK-EEC negotiations and made it perfectly clear to the Six and to the United Kingdom that it would strenuously oppose any trade agreement that would extend Commonwealth preferences to the enlarged Common Market. The Europeans were not the only ones to be warned. Indeed, Washington also made its opposition perfectly clear to Canada, Australia and New Zealand.²⁵ Furthermore, Washington stated its opposition to the extension of association status to the three neutral members of the EFTA, Austria, Switzerland and Sweden, who would not join the EEC, as the former generally opposed any development of preferential areas and because, in this specific case, the three neutral countries would have enjoy preferential treatment without accepting the political implications of the Community; as Washington was ready to accept some discrimination but not where this did not foster the attainment some political goal. Lastly, the Europeans had to reformulate the system of special trade relations with the LDCs with a view to eliminating discrimination between regional sources of supply by the introduction of arrangements on a global basis. Thus, Washington was seeking solutions at global level to problems raised by EEC enlargement, so that the interests of members and third countries alike were taken into account.²⁶

If these conditions were met, the United States could agree to the enlargement and welcome it as a major contribution to the creation of an Atlantic Community and the strengthening of the Western world. To be sure, Washington was aware that putting

²³ NA 59 Department of State, Central Files, 375.800/8-761 Memorandum by Ball to President Kennedy 7 August 1961, FRUS 1961-1963 XIII West Europe and Canada. Economic and Political Integration. 16 Memorandum for the President "UK adherence to the European Common Market" by George Ball, 23 August 1961. FRUS 1961-1963, IX, Section 11/227, Paper Prepared by the President's Special Assistant Petersen, Proposal for 1962 United States Foreign Trade and Tariff Legislation, 4 October 1961.

²⁴ FRUS 1961-1963 XIII West Europe and Canada. Economic and Political Integration. 17 Circular Telegram From Department of State to Certain Missions in Europe (London, Brussels, Paris, Rome, Luxembourg, The Hague and Bonn) by Dean Rusk, 5 September 1961.

²⁵ FRUS 1961-1963 XIII West Europe and Canada. 19 Telegram from the Department of State to the Embassy in the United Kingdom, 17 October 1961; *ibidem* 23 Memorandum of Conversation between Ball, Schaetzel, Harrop and Figgures (Secretary General of EFTA) and Burras (EFTA Washington Information Office), 6 November 1961.

²⁶ *Ibidem*; NA State Department CDF 1960-1963 box 721 Memorandum of Conversation between Ball, Tuthill, Couve de Murville and Wormser, Paris 17 November 1961. On this problem see also Balassa, B. Trade Liberalisation Among Industrial countries. Objectives and Alternatives (London : McGraw Hill, 1967), p. 27.

pressure on the allies in order to push them to follow trade policies it desired was not enough. Initiatives to avoid all the negative consequences of the EEC enlargement appeared urgent.²⁷

The EEC/enlargement did not only pose problems for American trade and the multilateral trading system. British entrance could fortify Western Europe and the Atlantic alliance, but it could also endanger the unity of such alliance. The existence of the EEC and its prospected enlargement raised in the Kennedy administration the question of whether the tremendous economic potential of this area would be used in harness with the United States toward common political and security aims, or whether the enlarged EEC would be form a separate commercial and political force. Commercially, the issue was the role the EEC would assume in the multilateral context: a regional agreement open to world trade, or a protectionist bloc? By the same token, from a political viewpoint, the issue was whether the economic strength of Western Europe would lead to the old continent developing aims and policies independent of those of the United States, so weakening rather than strengthening the Atlantic alliance and the Western world in general, or, in contrast, Europe would continue to toe Washington's line. As such, the EEC, from a commercial perspective, had be kept from causing the multilateral system to fragment. From a political one, had to be kept from weakening the Atlantic framework by strengthening the Western European one, and it was on the condition that the EEC fortified the former that Washington could support the EEC enlargement and European integration.²⁸

Washington supported an enlargement of the EEC that would diminish trade division in Western Europe and would empower it politically. But the United States did not want the Europeans to diminish trade discrimination among themselves and buttress Europe at the expense of US trading interests and the Atlantic alliance. The enlarged EEC could not be allowed to develop into an enormous regional trading system centred on Europe, but rather be fully opened to American exports and integrated in the multilateral system. Moreover it had to remain fully integrated within the Atlantic alliance, as the exigency of the Cold War mean that fragmentation of the Atlantic alliance into two pillars with different policies vis-à-vis the Soviet bloc, had to be avoided. Only at on these conditions could European integration result in being advantageous for the United States, and thus receive the latter's support. The EEC represented a new element in Atlantic relations, and it became crucial to find a way to mutually sustain European integration and Atlantic solidarity, the existence of the EEC and the multilateral system.

The necessity to redefine the relations between Europe and the United States in the light of the existence of the EEC existed well before the British decision seek EEC membership. With this aim in mind, a GATT Round for a sweeping liberalization had already been envisaged. However, the British announcement at the end of July intensified the urgency of a GATT round of this kind. It appeared more critical than ever to act in order to avoid a dangerous economic split developing within the Atlantic community and increased discrimination against US exports, as well as to prevent any discriminatory agreement between the EEC and the Commonwealth, thief these two parties ignored American opposition to this.²⁹ In the context of this aim, the US

²⁷ FRUS 1961-1963 XIII West Europe and Canada. Economic and Political Integration. 17 Circular Telegram From Department of State to Certain Missions in Europe (London, Brussels, Paris, Rome, Luxembourg, The Hague and Bonn) by Dean Rusk, 5 September 1961.

²⁸ FRUS 1961-1963, IX, Section 11/227, Paper Prepared by the President's Special Assistant Petersen, Proposal for 1962 United States Foreign Trade and Tariff Legislation, 4 October 1961.

²⁹ FRUS 1961-1963 XIII West Europe and Canada. Economic and Political Integration. 20 Circular Telegram From Department of State to Certain Missions in Europe by Dean Rusk, 27 October 1961.

government needed new trade legislation that would allow the setting up of the new GATT Round. As Ball put it, "the proper road to the defence – and indeed, the advancement – of our trading interests is to pursue liberal trade policies ourselves and to insist that the Common Market do likewise. This means that we must be in a position to reduce our own tariffs on a reciprocal basis."³⁰

It is worth noting that Washington did not choose to deal with the EEC and its enlargement on a bilateral basis, or in the context of the OECD. The EEC enlargement would have global consequences on world trade, as it concerned not only the United States and the other Western European countries, but also the Commonwealth members, the LDCs and the entire multilateral system. Consequently, the proper forum to deal with issue was the global one of GATT. Hence, the answer to EEC enlargement was a new GATT round to further reduce barriers to trade and to try to globalise, on a MFN basis, any preferential agreements with by the enlarged EEC.³¹ The aim was to use the multilateral arena of GATT to influence the evolution of the EEC regional agreement towards more liberal trade.

The success of the EEC and its envisaged enlargement led the Americans to anticipate developments in Europe and to suggest that a new round be held in order to influence the enlargement process of the EEC and affect its results. In this sense, the decision to launch a new round represented the culmination of multilateralism. Washington responded to events in the EEC regional trading bloc by invoking multilateralism. "It was as if the ghost of Cordell Hull had returned to preside over American policy".³²

2.5 A new bold trade bill with the Europeans in mind

The Kennedy administration concluded that a new GATT round with broader aims than the previous ones represented a suitable solution to face the challenges which the EEC brought, by seeking to influence its future developments before that the levels of CET and the CAP were definitely set. After deciding that a new round was indispensable, it followed that a new trade bill was required and, with the RTAA of 1958 expiring in 1962, the next step was to agree on a trade bill to be presented to Congress.

The State Department, and Under Secretary Ball in particular, played a crucial role in elaborating the policy to be adopted towards the EEC, however, once the decision regarding the new approach had been taken, Kennedy was reluctant to leave the State Department to its own devices in terms of the new bill's elaboration. In order to ensure the bill's passage through congress, he needed to give the impression of that it was the White House calling the shots, without much influence from the State Department, as Congress considered the latter an agency that often traded away American commercial interests due to foreign policy concerns. On top of this, the President needed to gain bipartisan support for his trade bill. With this aim in mind, right after Macmillan's announcement of the British application, in August, Kennedy appointed moderate Republican Howard Petersen White House Adviser for Economic Affairs, with the task of elaborating a new trade program. Nonetheless, the bill's elaboration did not entirely exclude Ball. In fact, Petersen strictly cooperated with State

³⁰ FRUS 1961-1963 XIII West Europe and Canada. Economic and Political Integration. 16 Memorandum for the President "UK adherence to the European Common Market" by George Ball, 23 August 1961.

³¹ Ibidem.

³² Calleo D., Rowland, B. M., America and the world political economy: Atlantic dreams and national realities (Bloomington: Indiana U P, 1973), p. 82.

Department, and the architect of the final result, the Trade Expansion Act, remained Ball.³³

In October, the internal debate over trade policy intensified. Two particular issues were debated: first, whether the new legislation had simply to be a request of renewal of the RTAA with some modifications, or, in contrast, whether a completely bold new law was needed; second, the suitable time to present the bill to the Congress: in 1962 when UK was negotiating with the EEC and an electoral year for the United States, or in 1963, after the elapse of the RTAA, when it was hoped that the UK would have become a member of the Common Market and after American elections.

Petersen judged that slightly modifying the existing RTAA would be enough to achieve the goals of the Kennedy administration. The President would receive renewed authority over a five-year period to negotiate in Geneva a 50% duty reduction within the legal framework of a modified RTAA. The peril point and the escape clause provisions, and the procedure by which these were applied, had to be changed because they limited the power of the President to effectively bargain in Geneva. This would be particularly significant if the United States were to negotiate across the board. However, even if changed so not to limit the authority granted to the President, they had to remain beneath a level which would cause Congress alarm. Petersen recognised that such limited authority may not be sufficient to set up a sweeping liberalization of international trade, but he seemed convinced that not much could be obtained from Congress. Petersen also suggested that adjustment assistance should be granted to firms and workers injured by imports. Regarding timing, given how crucial the existence of the EEC was in the shaping of the trade program, he suggested 1962, rejecting the alternative of deferring submission of a trade bill until 1963. He recognized the persuasive arguments in favor of 1963, the full implications of the enlarged EEC would be better understood in 1963 than in 1962 and the negotiating situation between United kingdom and the EEC would be much clearer in 1963, and, consequently it would be much more evident what legislative powers the United States needed in order to deal with the EEC.³⁴

Despite the persuasiveness of this view, Petersen rejected delaying the presentation of the new bill until 1963 on the grounds, first, that any delay would be interpreted as indecisiveness regarding the trade bill; in the meantime groups in support of liberal policies in the foreign economic field would lose momentum, while the protectionists would gain in strength. If the USA was were not already in motion towards closer economic ties with the EEC, Congress could easily take a dangerous isolationist and nationalist stance. Second, to keep close economic ties with the EEC, the US leadership had to makes it policy known clearly and early-on. Third, Petersen did not share the view that the United States would be in a better position to estimate its negotiating needs in 1963 than in 1961-1962. United States had already been dragged into various aspects of the EEC with or without powers of negotiation. Therefore, the notion that Washington could hold aloof from the EEC negotiations for another twenty-one months seemed grossly unrealistic. As for the election-year versus election-off year timing issue, in Petersen's view the point was not particularly decisive: all years were

³³ Zeiler, T. W. *American Trade and Power*, p. 56. The link between Petersen and Ball was strengthened by Petersen's deputy Myer Rashish, who had been secretary to the Ball task force. "The real father of the Trade Expansion Act [...] is George Ball. Without George Ball non of this [the TEA] would have happened" said some thirty five years later W. Michael Blumenthal in Eckes, A. E. *Revisiting U.S. Trade Policy. Decisions in Perspective*, p. 49.

³⁴ FRUS 1961-1963, IX, Section 11/229. Paper Prepared by the President's Special Assistant (Petersen), transmitted to Ball under cover of an October 18 memorandum from Petersen, 17 October 1961.

bad years for trade legislation, and the new Congress could be poorer in composition from the viewpoint of liberal trade.³⁵

Petersen's approach was criticized by Ball who labeled it as "too little and too soon".³⁶ Ball, supported by the State Department, thought that the utility of the RTAA had come to an end, and that a new completely bill was made necessary by the changes in the rest of the world. Moreover, asking Congress to pass another renewal bill, which would have involved tough fighting, only to secure very small changes, was senseless. A completely new approach and trade bill were indispensable therefore, above all bearing in mind the ongoing Dillon round negotiations, where the American delegation clearly lacked bargaining authority, the consequences that EEC enlargement could have on international trade.³⁷

A clean break was required, as unless a law that in its language and spirit suggested some form of progress was approved, tariff reductions of any significance would simply not be feasible. The US President had to hold out for a strong starting position: broad tariff reduction authority, no peril point, and adjustment assistance to injured firms as normal response. The United States would then have to negotiate international trading arrangements in a number of key agricultural products. Such goals required a totally new trade bill, thus doing away with the RTAA, because the ultimate goal was not to simply cut tariffs between the two sides of the Atlantic, but rather, in Ball's eyes, to maintain the unity of the Atlantic Community through increasing trade between the two areas.³⁸

As for the timing of the negotiations, Ball's plan was to announce in 1962 the general directions of a new policy appropriate suited to the new conditions of the trading world, and to hold off the drafting and introduction of an explicit legislative proposal until 1963, which would not be an election year. The Under Secretary held that 1962 should be spent preparing the ground for major changes and their implications in the trade law within the administration and trade sectors. Then, in the spring of 1963, Kennedy would ask Congress for the necessary legislation with a far greater chance of success. Moreover, Ball feared that by presenting to Congress in 1962 a trade bill so clearly dictated by the developments in Western Europe, the Kennedy administration would become engaged in a Congressional debate on the position to take regarding European integration, a prospect the State Department wanted to avoid so to maintain as much maneuvering room as possible in order to avoid taking a position on European integration that ran counter to American long-term interests, both political and economic. On top of the considerations already mentioned, Ball also took into account the mixed feelings that existed in the United Kingdom towards EEC membership. Ball supported such membership and wanted to avoid the danger that announced tariff reductions in the framework of GATT might prevent UK entry: London could be caused to believe a new GATT round would be sufficient in alleviating EEC discrimination.

³⁵ Ibidem.

³⁶ FRUS 1961-1963, IX, Section 11/230 Memorandum From the Under Secretary of State for Economic Affairs (Ball) to President Kennedy, 23 October 1961.

³⁷ FRUS 1961-1963, IX, Section 11/230 Memorandum From the Under Secretary of State for Economic Affairs (Ball) to President Kennedy, 23 October 1961. Diebold, W. jr. and Stalson, H. L. "The Background of the Decisions to be made". Background paper n.1 for meeting of 20 November 1961, Council on Foreign Relations, Discussion Group on United States Foreign policy. The Chairman of the group was Willard Thorp. Among its members there were: Richard Gardner, Raymond Vernon, Jack Behram, Robert Schaetzel, Myer Rashish, Howard Petersen and W. Michael Blumenthal.

³⁸ FRUS 1961-1963, IX, Section 11/228. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Trezise) to the Under Secretary of State for Economic Affairs (Ball) "Comments on Petersen's Trade Legislation Proposals" 10 October 1961 and ibidem 230 Memorandum From the Under Secretary of State for Economic Affairs (Ball) to President Kennedy, 23 October 1961.

Therefore, he felt that the trade bill should be presented to Congress only in 1963, when it was hoped that the Brussels negotiations would be almost at an end.³⁹

It was against this set of considerations that Kennedy had to take his final decision, balancing a number of major considerations in addition to American trade interests, such as the effect of his choice on the course of the UK-EEC negotiations, the interests of third countries in American commercial policies and the reaction of Congress.⁴⁰ Kennedy too had had doubts about presenting a trade bill during an electoral year, but events in Geneva and in Brussels convinced him it would not be wise to wait. The Dillon Round was clearly demonstrating American lack of authority to engage in major liberalization of trade and in bargaining with the EEC. In Brussels, the Six were contemplating the implementation of a CAP that aimed at self-sufficiency, and were negotiating for the enlargement of their Community that would extend protectionism to the new members. Events on the other side of the Atlantic led Kennedy to eventually make up his mind that the RTAA had to be abandoned and that the initiative for the new and bold trade law had to be taken in 1962, while Washington still had time to influence the EEC, pushing it towards being a more liberal trading bloc. Kennedy decided that "the evidence is clear, that events might pass us by, and that the fierce fight [with the Congress] which even a simple extension would entail might be better fought, and fought only once, for a wholly trade instruments". Thus Kennedy adopted the bolder approach supported by Ball, but with Petersen's timing.⁴¹

Kennedy's decision to look for Congress's approval in 1962 raised in Ball the concern that the United Kingdom could lose interest in joining the EEC, and that the opposition to membership in country could be strengthened by the prospect of gaining better access to the EEC market merely attending a GATT round. The Macmillan government had justified the decision to seek EEC membership by citing the discriminatory effects of economic exclusion from the EEC. But if such discriminatory effects could be diminished through a GATT round, justifications for membership would lose sway and the UK could again prefer "one world" achieved via GATT to EEC membership.⁴² In order to ensure that Kennedy's decision would not hamper British membership, Ball decided to insert into the draft of the trade bill the technical safeguard of the "dominant supplier" that, as shown in the next chapter, would mostly surprise the Europeans.⁴³ According to this clause, the US President would have the authority to reduce to zero tariffs on those products for which the USA and the EEC together accounted for more than 80 percent of world trade. The EEC was defined as those countries which had agreed to achieve a common external tariff on the date when the United States started formally preparing negotiations. If the United Kingdom joined the EEC, tariffs could be cut to zero on a large range of items, and if not the clause would apply only to aircrafts and margarine. Ball's move was grounded in British willingness to sharply reduce tariffs worldwide and it was aimed at preventing London from losing interest in membership.

³⁹ Ibidem and Ball, G. *The Past Has Another Pattern*, p. 198-199.

⁴⁰ FRUS 1961-1963 XIII West Europe and Canada. 21 Telegram From the Department of State to the Embassy in the United Kingdom, 30 October 1961. Telegram drafter by Schaetzel, approved by Ball and sent by Bowles. Also sent to Brussels.

⁴¹ Sorensen, T. *Kennedy* (New York: Harper and Row, 1965), p. 411.

⁴² For British support for "one world" see Milward, A.S. *The United Kingdom and the European Community The Rise and Fall of a National Strategy* (London : Portland, OR: Frank Cass, 2002).

⁴³ Ball, G. *The Pattern Has Another Patter*, p. 198-199 and footnotes. Even prior to Kennedy's final decision, Ball was thinking of an initiative to stop the new Round from being used in Britain to oppose the UK entrance into the EEC. See FRUS 1961-1963 XIII West Europe and Canada. 21 Telegram From the Department of State to the Embassy in the United Kingdom, 30 October 1961. Telegram drafter by Schaetzel, approved by Ball and sent by Bowles.

At the same time, as it is more carefully described below, the dominant supplier clause not only had the function of encouraging British membership, but also the purpose of obtaining maximum advantages from the EEC enlargement, as it was aimed at extensively cutting tariffs across the Atlantic and at setting up a free trade area between the US and the EEC for industrial goods. The commodities touched by the clause – chiefly machinery, railway equipment, automobile, and organic chemicals – were the most advanced technical goods entering world trade, for which the USA held an advantageous position in their manufacture. For these items American capacity to compete was demonstrated by the fact that their exports to the EEC and UK were substantially greater than imports.⁴⁴ The clause had the advantage of enabling the United States to negotiate down the CET of the enlarged EEC, so reducing discriminatory effects on third countries and cutting off the prospects of special bilateral arrangement with the EEC. This approach would show the determination of the United States to adopt a trade program aimed at the free movement of industrial goods, and could encourage the EEC to remain open to world trade during its critical enlargement stage, and could enhance the commercial unity of the Atlantic alliance. Therefore, with its trade bill, the Kennedy administration intended not only to respond to developments in Europe but also to anticipate them.

2.6 The approval of the Trade Expansion Act

After deciding to present Congress with a completely new trade bill, giving the executive broad authority to reduce tariffs, the Kennedy administration had to come up with a strategy to win the approval of the legislative body. It had to carefully study how to sell Congress a departure from the RTAA and the increase of government authority to drastically reduce tariffs. The chosen strategy consisted of coordinating legislative hearings, expert testimony and press conferences in order to build support, hopefully bipartisan, and co-opting the opposition.⁴⁵

In aid of the Kennedy administration came Dean Acheson and Will Clayton, but also Christian Herter, Eisenhower's secretary of State. At the hearings before the Ways and Means Committee of the House of Representatives, they all emphasized the need for a new trade bill to win the Cold War. Being a Republican, Herter's support was of utmost importance, also because the former Secretary of State was able to gain the endorsement of Eisenhower, who in mid-December, gave guarded support to Kennedy's initiative, so providing the much needed bipartisan support. On top of this, Kennedy personally campaigned to get the approval of the reduction of tariffs by the trade sectors to whom he presented his program by dramatizing and simplifying issues, and indicating those factors which were likely to help gaining support. Kennedy put forward an open and direct link between trade, monetary and security issues. A trade negotiation with the EEC had to enhance American exports and reduce investments to the area, so to foster economic growth and increase exports to a level adequate to compensate for military expenses. "I do not want the United States pulling troops home because we are

⁴⁴ Balassa, B. *Trade Liberalisation Among Industrial countries*, p. 30.

⁴⁵ The Kennedy administration's campaign to get Congress's approval, and the approval itself, have already been fully described by many authors, therefore only relevant aspects for a full comprehension of the Kennedy Round are given recounted here. See Zeiler, *American Trade and Power in the 1960s*, pp. 64-168; Dryden, S. *Trade Warriors*: pp. 47-49 and Preeg, E H. *Traders and Diplomats*, p. 46 on which this account is mostly grounded.

not able to meet our problems in other ways", claimed Kennedy. Reactions were less skeptical than expected, though no firm commitment was made.⁴⁶

In the meantime, the Kennedy initiative for a new Round was also favoured by developments in Geneva. At the GATT ministerial meeting of November 1961, the Contracting Parties agreed that further work on trade liberalisation had to be so as to include also non-tariff barriers and agriculture, which had not really been dealt with thus far. Moreover, disaffection was expressed with the cumbersome item-by-item reduction of tariffs, and a linear approach was invoked, while developing countries expressed their disapproval of the GATT, seen as unproductive and unreflective of their trade interests. Pinpointing the lines that Contracting Parties had to follow, as shown in the following chapters, the November 1961 meeting provided a major source of impetus in the direction of the Kennedy Round.⁴⁷

Favoured in this way by developments in Geneva, the trade bill became the centerpiece of the Kennedy administration's legislative effort of 1962 and the prime objective of White House lobbying action, having priority over almost all other bills. On 11 January 1962, Kennedy made his State of the Union address and officially announced his intention to present a new trade bill to Congress. As he had already done while seeking for the approval of trade sectors, Kennedy underlined elements in his program likely to gain Congress approval. He first focused on the Atlantic Alliance, stressing that one of the basic sources of American strength lied the "united strength of the Atlantic community" whose members were no longer concerned purely with military aims but were also partners in aid, trade, defense and monetary affairs. However, most crucially, he stressed how the increase of US exports was necessary to reduce the deficit in the balance of payments and to support military expenses. It was against this background that Kennedy announced his intention to send to Congress a new five-year bill to drastically reduce trade barriers.⁴⁸

On 25 January the text of the trade bill was sent to Congress. In order to underline the break with the RTAA, the bill was named Trade Expansion Act (TEA). In his message transmitting the proposed legislation, Kennedy listed five "fundamentally new and sweeping developments which have made obsolete our traditional trade policy: the growth of the European Economic Community; the growing pressures of the US balance-of-payments positions; the need to accelerate US economic growth; the Communist aid and trade offensive; the need for new markets for Japan and the developing countries."⁴⁹ Against these developments, extensive new tariff-cutting authority was necessary to promote the implementation of a liberal trading system so to meet US interests. It was through a reduction in trade protection on a multilateral basis, and the following increase of US exports, that economic growth could be fostered, the deficit in the balance of payments could be redressed and military commitments could be maintained. Kennedy indicated above all the EEC and its faster economic growth as the area to which the USA had to increase exports. The essential condition was that Western Europe remained open to external trade, and this required that the USA accepted a reciprocal reduction in its own tariffs. To this aim, the President had to be conferred new and flexible authority to lower American tariffs and keep the EEC open

⁴⁶ "New Perspective on Trade Policy: Address by President Kennedy to the National Association of Manufacturers, New York 6 December 1961" reprinted in Stebbins, R.P. (Ed.) Documents on American Foreign Relations (New York: Harper and Row, 1962). 110-121.

⁴⁷ FRUS 1961-1963, IX, Section 11/ 215. Editorial Note; Preeg, E. Traders and Diplomats, pp. 41-42.

⁴⁸ The text of the message is reprinted in Stone, R. A. (Ed.) John F. Kennedy 1917-1963 (Dobbs Ferry, New York: Oceana Publications, 1971), p. 39-52.

⁴⁹ President's message to the Congress, H.R. Doc. No. 314, 87th Congress, 2nd Session; reprinted in Hearings Before the Committee on Ways and Means of the House of Representatives on H.R. 9900.

to US exports. In this context, the dominant supplier clause had particular relevance, which could liberalise trade across the Atlantic to the advantage of the United States because, claimed Kennedy, the American goods concerned were the most competitive ones in the world. As for agriculture, considering the importance of the Western European market for US farmers, Congress had to give the US government increased authority to negotiate with the EEC in order to keep the latter open to American exports. Lastly, noted Kennedy, the expansion of world trade would also increase LDCs' trade, so aligning them with the Western world.

To push Congress to approve his trade bill, Kennedy also stressed its political implications. After the creation of NATO and the OECD, claimed Kennedy, it was time "to write a new chapter in the evolution of the Atlantic community. The success of our foreign policy depends in a large measure upon the success of our foreign trade, and our maintenance of Western political unity depends in equally large measure upon the degree of Western economic unity". For this reason, Western Europe was invited to pool its resources in an "open trade partnership" with the United States. Somewhat rhetorically, Kennedy emphatically claimed that "The two great Atlantic markets will either grow together or they will grow apart. [...] As NATO was unprecedented in military history [this bill] is unprecedented in economic history. [...] This bill, by enabling us to strike a bargain with the Common Market, will "strike a blow" for freedom." As such, to ensure Congress' approval, Kennedy presented the trade bill as a tool to establish the necessary trade partnership to guarantee the strength and cohesion of the Atlantic alliance, and as an instrument in the new arena of international economic competition and in the fight against communism, and, therefore, not simply as an economic issue but also a political and security one.

In March 1962, the Trade Expansion bill came under scrutiny at the hearings of the House Ways and Means Committee. Big corporations such as IBM, Gillette, Ford, Caterpillar and Pillsbury, prospective beneficiaries of the bill through increased exports, backed the proposed legislation, while small companies, textiles, glass and other sectors and firms affected by imports opposed the liberalization program. It was in this context that Kennedy was pushed to negotiate an international agreement setting quota restrictions to protect the textiles industry and appease potential opposition. Even if this was not the only reason that led to the agreement, whose process had commenced well before Kennedy's decision to present Congress a new trade bill, the result was that the textiles industry represented in Congress was kept from opposing the bill.⁵⁰ Moreover, Kennedy chose to invoke the escape-clause provision and ordered the tariff increases for carpets and glass recommended by the Tariff Commission in order to reduce opposition of both textiles and glass sectors, in an effort to show the priority he attached to the defense of American interests. The Europeans did not particularly appreciate the move: the Dillon round had ended only twelve days earlier, and the US President had raised duties. Obviously the EEC retaliated, but for Kennedy the priority was to illustrate that safeguards remained active to protect domestic interests. Unsurprisingly, ten days after Kennedy's move, the American Cotton Manufacturers Institute issued a resolution supporting the Trade Expansion bill. As for other sectors, the Chamber of Commerce worked in general support of the TEA to gain access for US firms to the EEC market, while the AFL-CIO supported the passage of the bill mostly because of the extended unemployment benefits and retraining provisions of the Trade Adjustment Assistance

⁵⁰ Diebold, W. Jr. "A Watershed with Some Dry Sides" in Brinkley, D. and Griffiths, R.T. (Eds.) John F. Kennedy and Europe, p. 250-251.

program provided by the bill. The National Association of Manufacturers, representing both export- and import-oriented businesses, chose to remain neutral.⁵¹

However, the position of the agricultural sector, which gave Kennedy a mixed support, remained critical to win the support for the TEA. The need to maintain and possibly expand American agricultural exports to the EEC had been one of the arguments presented by Kennedy in the campaign for the TEA, and the Farm Bureau Federation, which sought for greater access to the EEC, gave its support in view of this goal. However, the House Ways and Means Committee, under pressure from the American Farm Bureau Federation, approved an amendment prohibiting the concession of benefits to those countries that maintained non-tariff barriers, including variable import fees, against American goods. The amendment was aimed mainly at the CAP and was seen as a useful instrument against eventual EEC unwillingness to include agriculture in the envisaged new round of GATT negotiations. The amendment, whose application was in any case left to Presidential discretion, was reluctantly accepted.⁵²

The amendment on agriculture was not the only one to be introduced. Congress's dissatisfaction with the State Department led the House to push for the introduction of a major change. Congress considered the State Department indifferent and unresponsive to domestic interests. Having delegated much power at Kennedy's request, Congress wanted to be sure that American domestic interests would be defended and that the negotiations would be tough and not compromised by foreign policy considerations. In short it wanted to allocate the authority to negotiate away from the hands of State Department. Therefore, Wilbur Mills, Chairman of the Ways and Means Committee, suggested the creation of a special official with ambassadorial status, within the executive branch, with the task of representing the USA in the trade negotiations, who reported to the President and not to the State Department. Kennedy, who did not wholly trust State Department in any case, judged Mills' proposal as a fair price to pay for the broader negotiating authority he was asking. Therefore, despite Ball's predictable opposition, he decided to accept the amendment and put the special negotiator in the White House.⁵³

Finally, in June, the House passed the Trade Expansion Act with a vast and bipartisan majority. After the House's approval, the bill reached the Senate. Again, Kennedy tried to appease key opponents with special measures. To senators from the North West disappointed by Canadian competition in lumber, Kennedy replied with governmental loans to the lumber industry. To neutralize the opposition coming from the oil sector, the Administration kept the RTAA provision that placed oil in the category of "national security" goods not subject to tariff cuts. Kennedy was criticised for these measures on the ground that he was appeasing powerful interests. However, they proved successful in co-opting the opposition.⁵⁴

Like the House, the Senate too attached amendments. It approved Mills' amendment on the negotiating authority, as the sentiment against the State Department

⁵¹ For an account of the positions US trade sectors took on the TEA see Kaplan, E.S. *American Trade Policy 1923-1995*, p. 71-72 and Eckes, A.E. Jr, *Opening American Market. US Foreign Trade Policy since 1776* (Chapel Hill and London: The University Of North Carolina Press, 1995), pp.185-190.

⁵² Baldwin, R. E. Krueger, A. O. *The Structure and Evolution of Recent US Trade Policy* (Chicago: University of Chicago Press, 1984) p. 13, Pastor, R.A. *Congress and the Politics of US Foreign Economics Policy 1929-1976*, p.111. Kaplan, E.S. *American Trade Policy 1923-1995*, p. 73. For broader description of the business attitude towards the bill see Bauer, R.A., De Sola Poll, I. Dexter, L.A. *American Business and Public Policy. The Politics of Foreign Trade* (Chicago : Aldine Atherton, 1972) and Zeiler, T.W. *American Trade and Power in the 1960s*, p. 139-152.

⁵³ Memo, Ball to President Kennedy, 6 May 1962. NSF box 305/309, JFKL. Destler, I.M. *American Trade Politics*, (Washington, DC: Institute for International Economics; New York, NY: Twentieth Century Fund, 1992, Second Edition), p. 107. For a full investigation of this issue see Dryden, S. *Trade Warriors*.

⁵⁴ Zeiler, T.W. *American Trade and Power in the 1960s*, p. 73-129.

was just as strong as in the House. Further, the Senate issued a resolution underlying that US negotiators in the prospected GATT negotiations had to ensure the maintenance of American agricultural exports to the EEC.⁵⁵ Both this resolution and the House amendment prohibiting the concession of benefits to those countries that maintained non-tariff barriers clearly illustrated the key position held by the agricultural sector in the United States, and should be borne in mind in understanding the US position when the Round started. From the moment that the resolution to launch a new GATT round was taken by Kennedy, US farm leaders and Congress made it clear that negotiations had to allow the USA to increase agricultural exports. This was one of the conditions on which Congress approved the TEA.

The provision that received the most controversial acceptance in Senate, just as in the House, was the dominant supplier. The Senate opposed the administration's purpose the clause as an instrument to push the UK to join the EEC, thus making an important part of the bill dependent on a foreign policy aim and its unpredictable outcome. As a result, Senator Douglas proposed an amendment, based upon a proposal of representative Reuss, which permitted all EFTA countries, and not only the UK, to be counted along with the USA and the EEC in the 80 percent. The President would have the authority to negotiate the elimination of duties on any products in which these three regional blocs together accounted for 80 of world trade, even if the UK did not join the EEC. Ball opposed the amendment on the ground that it would be considered an interference with the UK-EEC negotiations or, more dangerously, because London could see it as an alternative to EEC membership. After tough bargaining, the amendment passed in the Senate, but in the conference committee that settled differences in the bill between the Senate and House, Ball succeeded in having it deleted.⁵⁶

In the middle of September, the Senate approved the bill with a 78 to 8 majority and on 11 October Kennedy signed the bill stating "This is the most important international piece of legislation [...] affecting economics since the passage of the Marshall Plan. [...] By means of agreements authorized by the act, we can move forward to partnership with the nations of the Atlantic Community". Thanks to the ability with which the law was worked through Congress, and Kennedy's persuasion campaign in favour of the bill, the act was passed with strong bipartisan support. However, it is also true that the Trade Expansion Act was approved because there existed in Congress a support for liberal trade in favour of a reduction EEC tariffs on a reciprocal basis so to foster American exports.⁵⁷

Despite the strong bipartisan strong majority, in some parts of the administration it was felt that the Trade Expansion Act had been oversold, not only to the detriment of domestic programs, but also in terms of what could eventually be accomplished from international negotiations. Critics felt that exports were not enough to stimulate domestic growth and decrease the deficit of the balance of payments, as they had only a limited impact on employment and business activities. Economist Seymour Harris and John Kenneth Galbraith questioned whether economic expansion in Europe would occur fast enough to draw in enough American exports so as to offset other losses.⁵⁸

⁵⁵ Preeg, E. *Traders and Diplomats*, p. 144.

⁵⁶ FRUS 1961-1963, IX, Section 12/251. Circular Telegram From the Department of State to Certain Diplomatic Missions, 27 September 1962 and Pastor, R.A. *Congress and the Politics of US Foreign Economics Policy 1929-1976*, p.115.

⁵⁷ Taber G. M. *John F Kennedy and a uniting Europe*, p. 70 and Zeiler, T.W. *American Trade and Power in the 1960s*, p. 152-153.

⁵⁸ It was also the atmosphere of crusade that caused annoyance, inside and outside the Kennedy Administration. Schlesinger observed that the trade bill acquired a "mystique" and its supporters were promoting the bill with "an

Yet, what mattered was that the TEA had been approved and that the Kennedy Administration had been provided with the legislative authority to set up a new Round of GATT negotiations for a sweeping liberalization of international trade.

2.7 The Trade Expansion Act: a fair trade act to deal with Europe

In order to better analyze the aims of the Kennedy administration in setting up the new Round and then in conducting it, a description of the TEA is necessary. The TEA was a totally new type of law in US trade legislation.⁵⁹ As for the tariff-cutting authority, due to expire on 30 June 1967 and along with it the mandate of the American negotiators, it TEA gave the President:

- a) General power to reduce duties by half, and to eliminate duties of 5% or less.
- b) Special power to eliminate duties in negotiations with the EEC:
 - i) On items where the exports of the United States and the EEC together account for 80% or more of total free world exports to the free world (dominant supplier clause);
 - ii) On agricultural commodities, if the agreement maintained or expanded United States exports of the same commodity;
 - iii) On tropical and forest products, if the EEC provided comparable access for such products from the free world and the products were not produced in significant quantities in the United States.

For tropical and forest products, the purpose of this authority was to open the EEC to primary products from Latin America, so reducing the discrimination of the association agreements. Latin American countries exported cocoa, coffee, bananas and sugar to Europe and the United States was interested in maintaining the level of exports of these products in order to maintain the well-being of Latin America and, at the same time, to reduce the pressure for US imports from the area. This factor seemed more urgent than ever because of the possibility that the United Kingdom might join the EEC, extending preferential treatment to LDCs of the Commonwealth. However, the actual authority of this TEA provision was more apparent than real because the US had already granted duty-free treatment to commodities such as coffee and bananas, while sugar was substantially produced in the United States and could not be subjected to the authority. The Six could clearly see that the provision had been drafted above all to push them to change their association agreements so to accommodate Latin America.

The TEA did not eliminate protectionist measures. The peril point had been eliminated, but the Tariff Commission still had to report on the economic consequences of all contemplated concessions before negotiations, even if the President was not in anyway legally bound by its advice. Further, the escape clause was also much improved. If the Tariff Commission found that a United States industry was suffering serious damage, it could recommend a tariff increase. With the TEA, the President could declare a lower increase, or no increase at all, and could instead make available "adjustment assistance" in the form of financial aid to firms or workers. In any case, if he did not accept the full

evangelic mood". Schlesinger, A.M. *A thousand days*, p. 847. Tough reactions came also from part of the press. In March, Oscar Gass, an economist who had been adviser to Henry Morgenthau, wrote an article titled "The Crusade for trade". The economist lamented that "The dish is being wildly over-advertised". What seemed to irritate Gass was the enthusiasm put into a campaign to lower US tariffs, which in his opinion were already low. "Trade Liberalization had become a Holy Cause. Decent people are prepared to lie for it. [...] How could intelligent people in the America of the 1960s come to think of a question affecting some customs duties on merchandise as a great crusade?" Dryden, S. *Trade Warriors*, p. 50.

⁵⁹ This description of the TEA is grounded on Administrative History-Office of the SRTN - Narrative History Box 1 LBJL and S.D. Trade Agreements and the Kennedy Round, (Fairfax, Virginia: Coiner Publications, 1964).

tariff increase, he could be overruled by a simple majority of both Houses of Congress. The Act repeated practically verbatim the RTAA provision under which no action was to be taken to reduce or eliminate tariffs when the President determined that such action would threaten to impair national security. As for safeguards for domestic industries and labour, for the first time, the new Act empowered the President to provide adjustment assistance to injured industries, firms, or workers as an alternative or supplement to imports restrictions. In this sense, the TEA, while undoubtedly increasing US government authority to reduce tariffs and liberalise trade, continued the American traditional trade policy made up of protectionist features to deal with domestic political problems, as was also reflected by Kennedy's protectionist concessions made to the different trade sectors, that the President preferred not to clash with, to ensure the passage of the TEA. US trade policy, therefore, remained a peculiar mix of liberalism and protectionism, even if the TEA reinforced the liberal aspect. Thus, rather than promoting free trade, Kennedy was supporting *fair* trade and neo-mercantilism. This stance should be borne in mind to understand US positions in the Round when the negotiations started in Geneva and the US negotiators, while calling on the other Round participants to drastically reduce trade barriers, had problems in so doing in certain sectors because of the strong opposition of those sectors domestically.⁶⁰

The TEA modified the manner in which trade negotiations were conducted. For the first time, a single official directly responding to the President had the responsibility of serving as chief representative of the United States in trade-agreement negotiations. It created the position of Special Representative for Trade Negotiations as an agency in the executive office of the President, and provided that he was to be appointed by the president with the advice and consent of the Senate and was to have the rank of ambassador extraordinary and plenipotentiary. At the middle of November 1962 Christian Herter was appointed as STR.⁶¹ Herter was a fervent Atlanticist, had political experience acquired serving as Massachusetts governor and as Eisenhower's Secretary of State, and as former member of Congress, Herter would not be seen as an outsider on Capitol Hill.⁶²

TEA most far-reaching clause, the dominant supplier, deserves more attention. The clause was clearly drafted with the aim of encouraging British membership of the EEC, and to not use GATT to bypass membership and, at the same time, of providing a solution to discriminatory effects that this could have on American trade. However, it was not clear what the expectations the Kennedy administration had of it. The clause was surely well suited to integrating the EEC into the multilateral system, as it would have created a kind of Atlantic free trade area between the USA and the EEC, but enlarged to all nations through the MFN rule, so extending the liberalisation of trade to the all entire multilateral system and world economy. The dominant supplier clause had to bring together the two big markets across the Atlantic, and represented the commercial tool of the Kennedy Grand Design for an Atlantic partnership. However, from the outset there were strong doubts about the actual possibility of its implementation, as it was doubtful whether, once the negotiations for the new round had

⁶⁰ On fair trade see Zeiler, T.W. *American Trade and Power in the 1960s* (New York: Columbia University Press, 1995).

⁶¹ Kennedy's first choice was John McCloy, who had been postwar commissioner of Germany. When McCloy refused the offer, upon Rashish's suggestion and with the support of Ball, Christian Herter's name was put forward and on 14 November, Kennedy formally offered the post to Herter. The former Secretary of State, who a few weeks before had criticised Congress for establishing the SRTN saying "I defy the Administration to find anyone of sufficient prestige who knows the subject", immediately accepted. Taber G. M. *John F Kennedy and a uniting Europe*, p. 73.

⁶² As noted by Dryden, the choice of Herter had also an ironic aspect: a former secretary of state would be take up a post created by Congress to dilute influence of the State department over trade policy. Dryden, S. *Trade Warriors*, p. 57 and Ball, G. *The Past Has Another Pattern*, p. 198-199. For a description of Herter's appointing see Dryden, S. *Trade Warriors*, p.55-59. See Dryden and Destler, I.M., *American Trade Politics* for an account of the USTR office history.

started, the American cutting zeal would be so drastic as to go beyond the 50 percent general authority.⁶³ It was equally doubtful whether the Six would have been so interested in implementing a free trade area with the United States, in particular France, who four years before had said 'no' to the British Free Trade Area proposal. Maybe a more realistic explanation for this clause was given by Metzger, one of the drafters of the TEA, who claimed that, in reality, the clause aimed more at presenting the TEA as completely new trade program and at showing American willingness to liberalise trade, than being a real instruments to bring tariffs down to zero.⁶⁴

The Trade Expansion Act was clearly a watershed in American foreign trade policy, and a considerable improvement on its predecessors, though the legal limitations on the powers of the executive to reduce tariffs were still greater than in most other countries. It contained specific innovations, and had potentialities that made it a tool of foreign policy. It introduced those changes necessary for the president to reduce trade barriers in the new context of the 1960s, with the EEC was emerging as powerful trading bloc. All the legal innovations singularly considered – the power to cut tariffs by 50 percent, to eliminate duties that were already 5 percent or below, the elimination of the peril point, the increase of the president's discretion in the use of the escape clause, adjustment assistances measures to protect employment and the dominant supplier clause – were not particularly striking. But, as noted by Diebold, taken together these changes increased the President's authority, and made possible a major innovation in American trade policy: they gave the President the power to cut tariffs across the board. The law did not spell out this power, but the Administration had made it clear that its intention was to move in this direction. In this sense, the TEA's major innovations and improved government authority conferred on Kennedy instruments to treat trade as a part of his foreign policy.⁶⁵

The most innovative aspect of the TEA was that it named partners whose agreement was necessary in order to implement some clauses. Most specifically, it clearly spelled out the name of the EEC, and it is worth noting the extent to which Washington drew on some of the most important provisions of the EEC. The dominant supplier clause, provisions in agriculture and for tropical products showed that the TEA was framed, and then approved, bearing in mind the EEC and its enlargement, and considered all its elements that could effect international trade, notably the CET, the CAP and the association agreements. Focusing on the EEC, the TEA reaffirmed the connection between US trade program, on the one hand, and political and security aims on the other.⁶⁶

2.8 The TEA and the Grand Design for an (asymmetrical) Atlantic partnership between equals

In order to assess the place of Trade Expansion Act in Kennedy's policy, and the link between trade and security issues, it is crucial to enlarge the field of analysis and place the economic questions in the wider political context of the Atlantic "interdependence" referred to by President Kennedy and the prospects for what came to be called the *Atlantic partnership*. As described above, the TEA was the result a double set of exigencies: first, the domestic need to stimulate economic growth through the

⁶³ This point of view is shared also by Diebold, W. Jr. "A Watershed with Some Dry Sides", p. 244

⁶⁴ Metzger, S.D. Trade Agreements and the Kennedy Round, p. 27.

⁶⁵ Diebold, W. Jr. "A Watershed with Some Dry Sides", p. 241.

⁶⁶ Ibidem, p. 243-246 and p. 249.

expansion of American exports to an area characterised by higher rate of growth, and the exigency to protect the dollar and help to resolve the balance of payments; second, the need to have the authority to negotiate a lowering of trade barriers with the EEC, in order to fully integrate the latter into the multilateral system. Furthermore, the USA wanted the EEC to share the Cold War burden or, *tout court*, wanted the Europeans to pay for it. While in the military field they required the Europeans to pay more for defence costs, in the area of trade they wanted the Europeans to be integrated into international trade, not only for the well-being of that multilateral system but also to ensure an increase in American exports as a way to recompensing the United States for the Cold War burden.

The TEA was also the commercial tool of the Kennedy administration in shaping relations with Europe after the creation of the EEC and its prospected enlargement. Against the developments that were taking place in Western Europe, the objective of the Kennedy administration was to strengthen European unity and to keep it in a strengthened Atlantic framework under a firm American leadership. The Kennedy Administration's answer to the need to keep the alliance united under American leadership was the Grand Design for an Atlantic partnership between equals. The whole idea of partnership sprang from the fact that a new world actor was emerging, and that the EEC and the USA were interdependent, economically and politically. The ultimate goals of the Atlantic partnership were to enlarge the EEC in order to bolster European unity, and to bring together in an Atlantic partnership two separate but equal entities in order to adjust differences and then combine their force to hold communism at bay, and to develop the global South. Thus, the Atlantic partnership was considered an instrument to assist USA-Western Europe relations in finding a framework for the long-run development of economic and political relations, and to contain changes brought about by the existence of the EEC on the Atlantic alliance.⁶⁷ In his very well known Interdependence speech of 4 July 1962, President Kennedy presented his design for an Atlantic partnership between equals to operate in the economic, political and military fields and welcomed the dawn of an era of interdependence between American and a Europe increasing in unity and considered not as a rival but as a partner. The United States and Europe would share responsibility for the principle tasks devolving upon the free world.

Kennedy asserted that he had asked and received authority from Congress to reduce tariffs not merely to deal with trade in order to expand markets for American exports, but also to set up "new reciprocal trading arrangements which measurably contribute to the economic, political and military strength and solidarity of the free world".⁶⁸ The partnership concept applied to trade consisted in linking the two sides of the Atlantic into a low-tariff area in order to strengthen their unity through greater economic interdependence. In this sense, a far-reaching attack on barriers to trade was needed in order to build the economic foundation of the Atlantic partnership.⁶⁹ As such, the TEA had to launch the Atlantic partnership by diminishing trade discrimination between the two sides of the Atlantic and putting establishing a firm economic basis for the partnership. It had not to be viewed merely as an instrument for expanding international trade, but as a political act taken in recognition of the interdependence between the two sides of the Atlantic.⁷⁰ Simply put, the TEA was the trade tool in

⁶⁷ Kraft, J. The Grand Design, p. 20-21.

⁶⁸ Letter From President Kennedy to Christian A. Herter, 15 November 1962, Herter's paper box 14, JFKL.

⁶⁹ Narrative History of the Special Representative for Trade Negotiation, Vol. 1, p. 2, 1969, Administrative History of the Office of the Special Representative for Trade Negotiations, Box 1, LBJL.

⁷⁰ Ball's speech in San Francisco of 7 August 1962 taken from PRO FO 371/172311 As/Pol (15) 32, 1963 p.8.

Kennedy Grand Design to set up an Atlantic partnership. As Ball put it "The TEA was conceived as an instrument by which the United States – through the encouragement of trans-Atlantic trade – could bring about a greater degree of common economic interest and policy within the Atlantic framework, and as a further step toward the creation of the Atlantic partnership". In order to achieve this partnership, the GATT negotiations had to create interdependence in the economic field, while the creation of a multilateral nuclear force (MLF) had to be achieved so to favour US control of European developments in the military and nuclear fields, and the United Kingdom had to join the EEC, thus strengthening both Western European unity, but also links with the USA.⁷¹

In truth, contradictions existed in this partnership between equals. As Winand notes, the Kennedy administration while "insisting that the partnership should be equal, continued to speak of the indispensable leadership role of the United States".⁷² Hence, Washington pronounced partnerships between equals, but really meant American leadership; it said Atlantic framework but meant, as Lundestad would put it, American-dominated framework. Furthermore, the United States seemed willing to share the burdens of being a super power, but not the power. It asked EEC to accept more American exports as a way of giving recompense for the military costs of defending Europe, and as a way of cooperating in decreasing the deficit in the balance of payments; but then repeated the necessity of an American leadership.

As a result, the partnership between equals initiative resembled more a cosmetic cover to keep the EEC firmly in the Atlantic framework, to make the Europeans pay more and to maintain the American leadership, than an instrument to really set up a partnership between equals and to share power. A united Europe had to be fitted into the wider Atlantic framework of NATO and of GATT. Only in such a framework could the United States continue to support the European integration process. As noted by Lundestad "to a large extent this 'Atlantic framework' was a code phrase for overall American leadership. There was never any real doubt that Western Europe belonged to the American 'empire'"⁷³

2.9 An anticipation of the Round: the Poultry War

As a way of closing this chapter, and to pave the way for the next one, it is worthwhile dealing at this point with the Chicken War, the first commercial war between the EEC and the USA during which the two sides of the Atlantic quarreled about the levy system introduced on poultry by the CAP, just as they would then fight about the entire CAP during the Kennedy Round. In this sense, the Chicken War was a Kennedy Round on a smaller scale. Hence, in spite of the fact that a quarrel over poultry can appear not of only limited relevance in the history of US-EEC relations, and that many other trade wars occurred during the years that followed, the Poultry war is significant not only because it was the first trade war between the two partners, but also because it concerned as a crucial subject as the CAP, and because of its impact on American exports and world trade in general. As it is often the case with trade wars, behind an arcane issue as poultry lay important political and commercial questions.⁷⁴

⁷¹ Components of a Strategy for the Kennedy Round written by George Ball, Preliminary Draft, December 10, 1963. Herter Papers, Box 7 JFKL.

⁷² Winand, P. Eisenhower, Kennedy and the United States of Europe, p. 191.

⁷³ Lundestad, G. "Empire" by integration: The United States and European Integration, 1945-1997, p. 40.

⁷⁴ The best account of the Poultry War remains Talbot, R.B. The Chicken War. An International Trade Conflict between the United States and the European Economic Community, 1961-1964 (Ames, Iowa: Iowa State University Press, 1978) which considers not only the trade aspects but also the political ones and tries to give a fair description of the impact of the CAP on American exports. The following data is taken from this book.

These are the facts. Thanks to technological and managerial developments, American production of frozen broilers of chickens increased from 1.2 billion pounds to 6.8 billion pounds between 1948 and 1962. Such an expansion pushed American producers to look for markets abroad and, in particular, in Western Europe. There, it was Germany with its rising rate of consumption that was the most attractive market. US exports of broilers to Germany jumped from 3.5 million pounds in 1956 to 122 million by the end of June 1962. Although US exports also went to the other EEC countries, Germany received 56% of US exports in the period June 1961-June 1962. American exports did not impede EEC producers from increasing their production, also thanks to the same technological developments that had taken place in the 1950s in the USA.

In January 1962, the Six adopted Regulation 22 establishing a common market for poultry with a variable levy to operate on this commodity from 1 July of the same year. Washington looked with apprehension at the negative effects the Regulation could have on American exports to the EEC, as it feared that the CAP would make the EEC self-sufficient in agriculture, beginning with chicken. While until July 1962, the United States could only forecast the effects of the CAP, after that date it could start seeing the practical consequences. In fact, the pace of exports of broilers drastically changed when the variable levy system on poultry was introduced. The GATT-bound duty of 15% doubled, and was to be increased by 70% in the following years, with the result of pricing US poultry out of Community countries' markets; in the first nine months under the levy system, US exports of broilers to Germany decreased by 40% compared to the previous year, whereas imports from France and the Netherlands increased dramatically.

American Secretary for Agriculture, Orville Freeman, was under the considerable pressure of the American poultry industry, which pushed the Secretary to defend American interests in the market of the Six. Freeman met EEC Ministers for Agriculture in Paris and Brussels and expressed his dislike for the CAP, claiming that his government would act to protect American exports to the EEC. On the ground that the levy on poultry was inconsistent with the GATT-bound duty, Freeman asked the EEC to reduce the levy and to start a program to limit production. The message that Washington wanted the Six to receive was that they could not apply their variable levy system without considering the negative impact on third countries or considering the reaction of the latter. The problem, therefore, was not, or not only, chickens, but the entire agricultural policy of the EEC and its impact on world agriculture. The destiny of American poultry exports to the EEC became a test case of the impact that the CAP could have on third countries for other commodities and of Washington's willingness to protect its economic interests. In addition, the issue of poultry became a symbol in the American agricultural sectors of the US government's effort to protect the interests of farmers.⁷⁵

The EEC refused to follow the line indicated by Freeman, and particularly outspoken in underlining his opposition to the American protest was the French Minister for Agriculture, Edgar Pisani, who declared that he "whished le *père* Freeman would stop claiming a divine right to dispose of American food surplus in an area which, with the French technological revolution in full swing, was rapidly acquiring

⁷⁵ FRUS 1961-1963, XIII, Section Economic and Political Integration, 53. Memorandum from Secretary of Agriculture Freeman to President Kennedy, 26 November 1962 and FRUS 1961-1963, IX; Section 13, 260 Letter From Senators Warren G. Magnuson, Henry M. Jackson, and Clair Engle to President Kennedy, 20 February 1962; Memorandum from D. Gale Johnson to Governor Herter on "Trade negotiations issues involving agriculture - some preliminary comments and questions", 17 January 1963 Herter's papers, Box 2, JFKL.

surplus in its own".⁷⁶ Pisani even claimed that the USA was trying to undermine the Common Market. With this neat refusal of the Six to take into account the difficulties that the levy system was creating to the United States, the Chicken War broke out.⁷⁷

In reality, the problem was not only caused by the effects of the CAP but also by the fact that, as in the United States during the 1950s, a technological revolution for agriculture was taking place in Europe, which, as a result, was moving towards mass production. The EEC's basic position was that the sharp increase of US broilers exports to Germany that had taken place from 1956 to 1962 was artificial and would be lost when EEC producers caught up with American technology. As a consequence, it was logical that imports from third countries would decline. The Six had their own surplus to be allocated and could not be expected to think about American production of broilers. On top of this, the EEC claimed that US government gave a disproportionate relevance to the issue for domestic reasons and that, actually, the USA had a surplus in their trade balance with the Six which did not justify American irritation.⁷⁸

For the USA, the poultry issue was a sharp warning of the effects of the CAP and confirmed that the new Round would be crucial in alleviating the discriminatory effects of the CAP and in impeding the EEC from setting its common policy without taking into consideration effects on third countries. As 1962 came to an end, and the USA was ready to propose the new Round, a trade war across the Atlantic had just broke out.

Conclusion

The rapid economic growth of Western Europe and the establishment of the EEC changed economic and political relations within the Atlantic alliance. This new situation caused Washington to reformulate its policy on US-Western Europe relations, putting emphasis on partnership and cohesion between the two sides of the Atlantic. The origin of the American suggestion to launch a new GATT round can be traced back to the economic success of the EEC and to its prospected enlargement, which drove the Kennedy administration to believing that trade liberalisation on a multilateral basis was the appropriate instrument the extent of discrimination arising from the EEC. At the same time, trade liberalisation also had the political objective of establishing an Atlantic partnership. Therefore, economically and politically it was the existence of the EEC that inspired the American move to set up the GATT round and the Grand Design. To the developments caused by the EEC, its prospected enlargement and European integration in general Washington responded using the multilateral GATT forum to deal with European integration and regionalism, stressing Atlantic interdependence and trying to strengthen the Atlantic framework.

Trade negotiations had to secure numerous goals at once. First, they represented a way of increasing exports to the EEC, and this was particularly important for the agricultural sector, as the Poultry quarrel was showing, and to slow American foreign investments to the EEC that affected the balance of payments. Second, they represented an instrument to keep the regional trading area of the EEC well inside the multilateral

⁷⁶ Cited in Taber G.M. John F. Kennedy and a Uniting Europe: the Politics of partnership (Bruges: College of Europe, 1969), p. 143.

⁷⁷ FRUS 1961-1963, XIII, Section Economic and Political Integration, 53. Memorandum from Secretary of Agriculture Freeman to President Kennedy, 26 November 1962. Freeman reported to Kennedy that the French were intractable.

⁷⁸ FRUS 1961-1963, XIII, Section Economic and Political Integration, 75. Memorandum of Conversation between Kennedy, Freeman, Bal, Kaysen, Tuthill, for the United States and Mansholt and Mozer for the European Commission, Washington, 9 April 1963 and Brussels BAC 118/83 845 Conseils des Communauté Européennes – Secrétariat général, Feuille Documentaire 161/63 «Les Relations Economiques entre l'Europe et les Etats-Unis», Discours prononcé par John W. Tuthill à l'Association belgo-américaine 12 October 1963.

system in order to reduce discriminatory effects, both in the industrial and agricultural sectors, not only on the USA but also on other areas, such as Latin America and LDCs. In this sense, the Round was an instrument to set the tone of international trade. Third, the GATT negotiations had a political implication as they had to maintain the Atlantic framework, preventing the EEC from becoming politically independent of Washington, through the setting up of Atlantic partnership.

However, the American approach did not lack contradictions. First, on the one hand Washington, and above all, the State Department, supported the European integration process and recognised that the CET and the CAP were the elements that would fortify the unity of the EEC. On the other hand, it promoted the dominant supplier clause of the TEA that aimed at reducing to zero duties on a wide range of goods and at establishing an Atlantic free trade area. In this sense, the line between making the EEC outward-looking and weakening its internal ties was rather slight.

Second, the three pillars of the Atlantic partnership were trade liberalisation, the MLF and British EEC membership. Regarding liberalisation, after the refusal of the British FTA, it was not clear on what grounds Washington expected the Europeans, and above all the French, to be receptive to an Atlantic free trade area. In the military field, from the start it appeared clear that the implementation of a MLF would not be trouble-free, while the outcome of the UK-EEC negotiations was equally uncertain. As such, from the very beginning the foundation of the Atlantic partnership appeared to lack solidity.

Beyond this, the way in which the whole affair was presented by Kennedy was a rather simplistic, and not always entirely convincing. From the American point of view, the envisaged round of negotiations had to respond to the challenges of the EEC, to the problem of developing countries and of their search for new markets, and it had to be a stimulus for higher rates of American domestic growth and a solution to the problem of the balance of payments. An Atlantic partnership would be implemented and in the end the superiority of the capitalist model over the communist one would be demonstrated. As noted by Curtice and Vastine,

"The Kennedy Round seemed to promise something for everybody: for the Atlanticists dedicated to the grand design of an Atlantic Community; for those concerned about the growing breach between the Common Market and the rest of Europe; for those who believed in the importance of integrating the world's developing economics more closely with the industrial ones along economic patterns different from those of nineteenth-century colonialism; and for those doctrinally committed to free trade".⁷⁹

However, Washington was soon to discover that between its aims and their achievements lay the interests of its European allies, who did not share the same views on trade negotiations or on the Atlantic partnership.

⁷⁹ Curtice, T.B. and Vastine J.R., Jr, *The Kennedy Round and the Future of American Trade*, p. 7.

Chapter Three

The reaction of the EEC to the American initiative: EEC regionalism against US Atlanticism

Introduction

In chapter two we outlined the reasons that led the Kennedy Administration to launch a new GATT Round aiming at a sweeping liberalization of international trade to include both the industrial and the agricultural sectors. We concluded that Kennedy's trade program set the direction and the tone of the US response to European developments to come: it aimed at favouring an outward-looking EEC with a strong American connection through a new GATT Round which had both political and economic implications. The new Round represented an ambitious effort to liberalise world trade, and a tool to strengthen the ties between an outward looking and enlarged European Community and the United States within an Atlantic partnership of equals. As such, the prospective Round was intended to set the tone for future world trade, and to encourage the EEC to integrate into the GATT and the Atlantic alliance.

In this chapter we shall analyse the reaction of the EEC to the American initiative. When the TEA was presented to Congress in January 1962, the Six were busy negotiating on the issues which had pushed Washington to launch a new Round: the enlargement of the EEC, the implementation of the customs union, the Association agreement and the CAP. In short, the EEC was establishing the pattern of its world relations. After the Kennedy administration had made clear its intention of starting a far-reaching liberalisation of international trade, the ball arrived in the court of the Six: now it was up to them to respond, whether, and how, they intended to attend the Round, and to what extent they would support Washington's declared intention to drastically reduce, or even eliminate, duties. The Six had to choose how their Community was to fit into the multilateral trading system and into the Atlantic alliance. The answer the Six got ready to give had decisive importance: the EEC was the world's largest trading unit and its position in world trade was dependent on its stance in the prospective negotiations, and so therefore was the future of world trade itself.

Chapter three first describes the framework in which the Six elaborated their answer to the American initiative for a new Round in order to explain the relevance of the regional dimension of the EEC for all the Six, and how this regional dimension was considered essential for economic growth and social stability.

This chapter illustrates how the Six reacted to Kennedy's initiative in the brief but crucial period spanning from 1962 until the start of 1963, that is to say before the French veto to British entrance into the EEC. It focuses on the reaction of France to the Kennedy program. Special attention to this country is necessary: from the outset France showed itself to be the EEC country leading the negotiations with the United States and put precise conditions on EEC participation in Geneva, conditions which were often approved by the Five. In the context of the favourable provisions the Treaty of Rome granted to the French economy, Washington had proposed a new GATT Round in order to decrease or even bring to zero the CET; maintain the level of agricultural exports to the EEC; reduce the discrimination that the Association agreement would have for other developing countries; increase American exports to the EEC in order to redress

American balance of payments; push the United Kingdom to join the EEC; set up an Atlantic partnership between equals whose contradictions were not difficult to identify in Paris and, finally, to implement a free trade area across the Atlantic. The regional dimension of the EEC seemed to be challenged by the American initiative for a new Round, both from an economic and a political point of view. Therefore, Paris looked with suspicion and apprehension at the Kennedy trade program and had every intention, in a way or another, of limiting the impact the new trade conference could have on the EEC. There is also an additional reason to attach importance to the French stance. After de Gaulle's veto to the British bid to join the EEC in January 1963, it was feared that the French President would also veto the new Round. France tactically exploited this fear to extract concessions from the other EEC members and the USA, while in fact never having any intention of vetoing the Round. The chapter then describes the view of the other members of the EEC in order to highlight how the Six shared a common outlook, consisting in refusing to drastically cut down or eliminate duties across the Atlantic, in order to preserve the regional dimension of the EEC, considered essential by all the Six. None of the Six had the intention of diluting the EEC in an Atlantic free trade area; all of them were interested in attending a new Round, but gave priority to the regional dimension of the EEC. The chapter also describes the doubts the Six had regarding American goals in promoting a new Round, which seemed to hide a hegemonic plan to dominate Europe economically.

This chapter also deals with the United Kingdom and the Kennedy Round. The British bid for EEC membership had been the reason the Kennedy Administration had hastened the suggestion of holding a new Round. An account of the background phase of the Kennedy Round would not be complete without a description of the British reaction.

The chapter ends by explaining how the period under review represented a first informal and preliminary phase of the Kennedy Round during which events occurring in other areas influenced the forthcoming Round: casting his veto on British membership in January 1963, de Gaulle killed the dominant supplier clause of the TEA and the prospect of setting up a transatlantic free trade area, limited the American authority to cut tariffs and reduced the impact of the Kennedy Round. Therefore, a first important *round* of the Kennedy Round ended in January 1963.

3.1 The importance of the regional dimension of the EEC for the Six

As noted by Milward, the Federal Republic of Germany had a vital role in Western European trade. From 1951-1958 Western European countries' exports to Germany grew much faster than exports to the rest of Europe, and the Federal Republic became the pivot of Western Europe's prosperity: "The advantages of expanding trade with the Federal Republic were precise and indispensable to the process of industrialisation, modernisation and growth [of Western Europe]. The Federal Republic had to be embraced in a commercial and political clasp from which it could not readily escape". Germany was not only the most important trade partner of most western European countries, but it also represented a source of stability for the area, as exports to Germany protected the region from American economic recessions. Exports to Germany were crucial for their balance of payments surplus and for that modernization of manufacturing which all Western European governments were struggling to generate. In this sense, the creation of the EEC embodied the solution to the problem of how to guarantee the expansion of intra-European trade, and how integrate the key German market in a European regional market. European security, in a broader sense, depended

on the German market and, consequently prosperity, in such a crucial way that a commercial policy to guarantee access to that market became an essential element of any policy to integrate the Federal Republic to Western Europe. Along with the centrality of Germany, another factor should be pointed out: while German markets had an essential function for most Western European countries, the Federal Republic had a more variegated trade network. From 1951 to 1959 its exports to the rest of the world increased faster than those to Western Europe, and, after 1956, North America was the market to which German exports grew at the strongest rate. As such, the pivot of Western Europe was the Federal Republic which, however, itself had major trade interests also outside Europe. An additional important pattern should be highlighted. Well before the formation of the EEC, the Six represented a trading network. In fact from 1954 onwards, foreign trade between them grew faster than foreign trade elsewhere in Europe. Therefore, the relevance of the regional dimension of trade between the Six had already appeared before 1957, and the Treaty of Rome, while surely leading to the increase of trade which took place between them from 1959 onwards, continued a trend established previously.¹

The peculiar pattern of trade of the Federal Republic described above became crucial in the German domestic debate on the EEC in 1956-1958. For security reasons Chancellor Adenauer preferred to side with France and to opt for the "small Europe" of the common market of the Six rather than with the British proposal for a FTA. In accepting the Treaty of Rome, Chancellor Adenauer had to resist the opposition of the German Minister of Economy Ludwig Erhard who feared that the Six's customs union was too small and could hurt German exports elsewhere, was unhappy about the *dirigiste* and protectionist features of the Treaty of Rome, and was worried about the effects of the trade division of western Europe, and therefore favoured the British proposal for a FTA. Support for the FTA came also from German industry represented by the BDI (Bundesverband der Deutschen Industrie, Federation of German Industry), which favoured the Treaty of Rome as a first step towards a FTA in the OEEC framework. At the same time, a number of German economic sectors – textile, pulp and paper, non-ferrous metal industries – fully supported the Treaty of Rome for the protection it gave against other European competitors, and for the bigger export opportunities to France and Italy. It was on these sectors that Adenauer could count in getting the Treaty of Rome approved and the FTA rejected, as the potential costs of failing to achieve a FTA were smaller than the actual gains made on the markets of the other five partners of the EEC.² Erhard and the BDI remained the strongest advocates of the FTA and after its failure they looked with apprehension to the establishment of the EFTA for fear that it could cause a reduction in German exports to the area. The German Minister and the BDI sustained that the EFTA markets were much more important for the economy of their country than the EEC, and continued to repeat that the division of Europe would not only harm German exports but also hinder liberalisation at European and world level. In spite of the fact that aggregate trade patterns showed that in 1959-1963 none of the major industrial sectors suffered from the

¹ Milward A. S., *The European Rescue of the Nation-State*, (London; New York: Routledge, 2000), chapter 4 "Foreign trade, economic and social advance, and the origins of the European Economic Community", p. 119-223. Quotation is taken from p.134. See also Milward, A.S. *The reconstruction of Western Europe 1945-1951* (London : Methuen, 1984)

² Schulte, M. "Industrial Interest in West Germany's Decision against the Enlargement of the EEC. The Quantitative Evidence up to 1964" in *Journal of European Integration History*, 3, 1 (1997) pp. 35-61; Milward, A.S. *The European rescue of the nation-state*, p. 196-198; Milward, A.S. *The United Kingdom and the European Community*, p. 276-277; Benoit, E. *Europe at Sixes and Sevens*, p. 86-88.

creation of the EEC or, then, of the EFTA, Erhard and the BDI managed to keep the issue of Europe's division high on the German political agenda.³

In France, after the initial reticence in the negotiations leading to the Treaty of Rome that pushed the other five negotiators to succumb to French demands in order to ensure French participation, the regional dimension of the EEC was fully embraced. As Lynch claims, "The period 1944-1958 marked in France a transition from highly protected and controlled imperial economy, which was dependent on the United States for national security and financial assistance, towards a more independent state which was linked to neighbouring states at similar level of economic development in a set of legally binding arrangements under the Treaty of Rome."⁴ The Treaty of Rome well reflected French economic interests. It implemented a customs union for manufactured goods, in which French goods could compete in a smaller framework compared to the multilateral one of GATT. It implemented a common agricultural policy thanks to which French farmers could be subsidized and French goods had assured protected outlets in the markets of the Five and, above all, Germany. It contained provisions allowing France to retain links with the French Union and the setting up the Association agreements. With foreign trade starting playing a growing role in French economy, the Treaty of Rome gave France the opportunity to modernise its economy within a regional area protected from international competition, and represented an excellent intermediate solution to resolve French economic problems which could not find a solution at national level. Protectionism was considered a barrier and the strategy accepted was "to expose the French economy to a degree of competition within a common market of the Six in Europe. In doing so the French government also managed to share its problems of modernising agriculture and its empire with its partners in the Common Market".⁵ Although throughout the 1950s de Gaulle had clearly stated his opposition to any loss of sovereignty, when he returned power in 1958, he did not reject the Treaty. On the contrary, he approved the devaluation of the franc, the return to convertibility and the Rueff plan which allowed France to cope with the increased competition derived from entering the EEC. In fact, De Gaulle continued the Fourth's Republic policy of strengthening the French economy through the EEC.⁶

As for the other four members of the EEC, Italy fully shared France's idea of favoring liberalization of trade in a protected market: it appreciated the market opportunities provided by the Treaty of Rome, and wished to open its market in a framework smaller than those of GATT or the British-proposed FTA, and which did not include agriculture.⁷ The Benelux countries were traditionally more liberal, having low

³ Schulte, M. "Challenging the Common Market Project: Germany Industry, Britain and the Europe, 1957-1963" in Deighton, A. Milward, A.S. (Eds.) *Widening, Deepening and Acceleration: the European Economic Community 1957-1963* (Baden-Baden: Nomos, 1999), pp. 167-183. See also Ambrosius, G. "The Federal Republic of Germany and the Common Market in industrial goods in the 1960s." in Perron, R. (Ed.) *The Stability of Europe. The Common Market: Towards European Integration of Industrial and Financial markets? (1958-1968)* (Paris: Presses de l'université de Paris-Sorbonne, 2004), p. 47-61.

⁴ Lynch F.M.B. *France and the International Economy: from Vichy to the Treaty of Rome* (London; New York : Routledge, 1996), p. 211.

⁵ Ibidem p. 215. See also Milward, A.S. *The European rescue of the nation-state*, p 133 and Milward, A.S. *The United Kingdom and the European Community*, p. 481.

⁶ On de Gaulle's acceptance of the Treaty of Rome and rejection of the British FTA see Lynch F.M.B "De Gaulle's First Veto: France, the Rueff Plan and the Free Trade Area" in *Contemporary European History*, 9, 1 (2000) 111-135. See also Vaisse M. *La Grandeur: Politique Etrangere Du General De Gaulle, 1958-1969*. Paris: Fayard 1998.), p.164.

⁷ For Italy and European integration see the many works of Fauri, Ranieri and Varsori. For Fauri, F. see *Italy's Commercial Strategy and Industrial Expansion in the Context of the Attempts to Further European Integration* (EUI Ph.D Thesis, Florence 1994); "Free but Protected? Italy and the Liberalisation of Foreign Trade in the 1950s" in Griffiths, R.T. (Ed.) *Exploration in OEEC History* (Paris: Organisation for Economic Co-operation and Development, 1997), pp. 139-148; "Italy and the Free Trade Area Negotiations 1956-1958" in *Journal Of European Integration* (1988, 4/2), pp. 47-66; *L'Italia e l'integrazione economica europea 1947-2000* (Bologna: Il Mulino, 2001). For Ranieri, R. "Italian industry

duties. They supported the Treaty of Rome as a means of ensuring a market for their exports, but they wished to keep the EEC open to world trade. The government in The Hague, in particular, after having promoted trade liberalization in the wider contexts of GATT and OEEC until the mid-1950s with no results, embraced the smaller EEC. However, after the completion of the Treaty of Rome, some Dutch circles believed that the Dutch idea of a liberal EEC had been watered down. The Hague was aware that the structure of Dutch imports – mainly semi-manufactures and end-products from non-EEC countries – made it essential to have a EEC open to international trade in order to avoid a shift in the source of imports from third countries to more expensive EEC goods. As such, The Hague favored an EEC which was liberal towards non-members.⁸

One thing is worth underlining. For all of the Six, the regional dimension of the EEC was essential because of the market opportunities it gave and the protectionism it provided against third countries. This was true for Italy and France, but was true also for the Federal Republic and the Benelux countries. For sure, Bonn and The Hague favored an outward-looking EEC and wanted to protect trade with third countries, however, notwithstanding the differences the Six had on how much the EEC had to be open to trade with third countries, they all fully recognized and agreed upon the importance of the regional dimension of the EEC, not only for geopolitical reasons, but also because it favoured an increase in trade, considered essential for their economic and income growth.

Tables 1 to 5 highlight how important trade at the regional level of the EEC was for the Six, and how dramatically intra-EEC traded increased in the period from 1959 to 1962. They also show how the dismantling of internal barriers strengthened the process of regionalisation of trade that had already begun in 1954. Table 1 concerns Germany and shows that with the beginning of the customs union's implementation, it increased its exports to the five EEC Member States in a dramatic way with the result that in 1962 the EEC took 34,1 % of German exports, rising to 37,4% in 1963. At the same time, the Federal Republic had relevant trade interests outside the EEC: EFTA countries imported a considerable share of its exports, a share that continued to rise in value even after 1959, while exports to the United States decreased in 1960 and 1961, and only in 1962 did they started to increase again.

Table 1 German exports by destination 1954-1962 in millions of US dollars

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
World	5226	6096	7308	8515	8761	9766	11382	12651	13236	14585
Austria	247	325	338	420	440	467	582	670	692	738
Sweden	352	425	467	517	540	545	618	652	670	748
Switzerland	299	364	446	526	491	574	713	902	1002	1076
United Kingdom	205	245	300	335	348	396	511	528	491	555

and the EEC" in Deighton, A. and Milward, A.S. (eds.) *Widening, Deepening and Acceleration: the European Economic Community 1957-1963* (Baden-Baden: Nomos, 1999), pp.185-198. For Varsori, A. *L'Italia nelle relazioni internazionali dal 1943 al 1992* (Roma; Laterza 1998); Varsori, A. Ballini, P. (Eds). *L'Italia e l'Europa 1947-1979*, (Soveria Mannelli: Rubbettino, 2004); Varsori, A. Romero, F. *Nazione, Interdipendenza, Integrazione. Le relazioni internazionali dell'Italia (1917-1989)*, (Roma: Carocci, 2006). For an account of the reaction of the Italian industry to the EEC see Petrini, F. *Il liberismo a una dimensione: la Confindustria e l'integrazione europea, 1947-1957* (Milano: FrancoAngeli, 2005).

⁸ The change of attitude of the Dutch government is described in Milward, A.S. *The European rescue of the nation-state*, p. 173-196. For the position of the Netherlands on the Treaty of Rome see also Griffiths, R.T. "The Common Market" in Griffiths, R.T. *The Netherlands and the integration of Europe 1945-1957* (Amsterdam : NEHA, 1990), pp. 183-208 and Asbeek Brusse *Tariffs, Trade, and European Integration, 1947-1957 : From Study Group to Common Market* New York: St. Martin's Press, 1997). For Benelux position see also A.G. Harryvan, Kerstens, A.E. "Benelux and the relance européenne" in Serra E. (ed.) *Il rilancio dell'Europa e i trattati di Roma* (Brussels: Bruylant, 1989), pp.125-158.

Denmark	220	212	244	252	260	338	392	419	458	447
Norway	152	143	198	204	254	247	279	315	283	296
Portugal	49	58	73	84	83	82	107	109	96	107
EFTA	1524	1772	2066	2338	2416	2649	3202	3595	3692	3967
As % of total	29,2					27,1			27,9	27,2
France	347	435	586	678	668	788	1001	1188	1363	1612
Netherlands	492	578	686	773	714	825	1003	1184	1224	1435
Italy	318	342	395	477	442	525	678	843	1029	1369
Belgium-Luxembourg	377	413	502	576	585	593	689	813	899	1039
EEC	1534	1768	2169	2504	2409	2731	3371	4028	4515	5455
As % of total	29,3					27,9			34,1	37,4
United States	295	387	498	601	643	913	897	870	966	1051
As % of total	5,6					9,3			7,3	7,2

Source: Direction of Trade Statistics Historical, 1948-1980 (Washington, D.C.: International Monetary Fund, 2002).

Table 2 concerns France. Comparing to it Germany, France also had a large proportion of exports going to the EEC (38,3% in 1963), but had a lower percentage of exports going to the EFTA countries and to the USA. This does not mean that France was not interested in trade outside the EEC, but rather that compared to Germany, France had somewhat less relevant, though still important, trade links outside the EEC.

Table 2 French exports by destination 1954-1962 in millions of US dollars

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
World	3631	4454	4236	4735	4786	5350	6854	7209	7345	8065
United Kingdom	241	358	278	280	250	251	347	367	348	398
Norway	33	37	39	42	46	39	39	50	69	62
Portugal	23	34	35	43	39	39	55	54	59	60
Switzerland	162	210	225	233	194	232	314	364	427	502
Sweden	89	91	71	73	82	99	118	104	125	133
Austria	24	40	39	40	35	45	55	59	64	78
Denmark	44	58	41	50	38	55	71	83	84	80
EFTA	616	828	728	761	684	760	999	1081	1176	1313
As % of total	17					14,2			16	16,3
Germany	352	505	475	546	535	736	943	1096	1272	1341
Belgium-Luxembourg	286	340	356	381	325	379	513	600	634	735
Italy	164	190	187	205	173	267	401	489	554	748
Netherlands	105	145	131	141	104	145	186	238	254	269
EEC	907	1180	1149	1273	1137	1527	2043	2423	2714	3093
As % of total	25					28,5			36,9	38,3
United States	156	210	226	246	304	470	401	417	426	421
As % of total	4,3					8,7			5,8	5,2

Source: see table 1.

Table 3 portrays Dutch exports. With the implementation of the customs union, the Netherlands considerably increased their exports to the Five. As was the case with the Federal Republic, the EFTA markets took a considerable share of Dutch exports. Ranking the EEC members' interests in trade with EFTA measured by share of exports to the area, the Netherlands were second only to Germany. On the contrary, exports to the United States were less significant and rather instable.

Table 3 Dutch exports by destination 1954-1962 in millions of US dollars

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
World	2351	2632	2804	3038	3189	3579	4007	4260	4556	4934
Sweden	107	128	134	148	146	151	191	191	195	190
Switzerland	56	64	74	81	79	85	92	110	128	124
Denmark	62	57	59	81	85	91	103	112	114	92
United Kingdom	277	332	335	337	383	387	441	426	485	477
Norway	55	53	46	64	74	79	68	74	69	77
Portugal	12	10	11	13	13	16	20	19	17	22
Austria	15	22	25	28	32	38	43	46	48	54
EFTA	584	666	684	752	812	847	958	978	1056	1036
As % of total	24,8					23,7			23,1	21
Germany	379	458	516	572	611	780	909	991	1112	1284
Belgium-Luxembourg	336	372	406	480	482	529	575	647	675	744
Italy	48	66	73	84	88	97	129	137	165	227
France	99	133	161	151	156	191	237	267	304	391
EEC	862	1029	1156	1287	1337	1597	1850	2042	2256	2646
As % of total	37					44,6			49,6	53,6
United States	158	159	179	159	181	209	196	192	200	203
As % of total	6,7					5,8			4,3	4,1

Source: see table 1.

As for Italy, table 4 shows the strong increase in exports to EEC members. The table also shows that Italy had major interest in exports to EFTA and, at the same time, a considerable share of exports went to the United States.

Table 4 Italian exports by destination 1954-1962 in millions of US dollars

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
World	1615	1833	2118	2511	2556	2876	3636	4178	4660	5039
Norway	15	15	13	17	21	21	25	23	29	28
Austria	57	69	77	85	73	81	111	116	128	149
Denmark	20	19	18	20	20	27	35	49	59	51
Portugal	9	11	13	22	17	18	21	27	25	35
Sweden	49	50	53	71	68	68	73	100	108	100
Switzerland	118	135	160	195	196	210	244	288	336	326
United Kingdom	130	134	139	159	175	217	250	282	281	270
EFTA	398	433	473	569	570	642	759	885	966	959
As % of total	24,6					22,3			20,7	19
France	97	108	154	162	135	173	276	320	432	525
Germany	184	233	288	356	363	470	602	749	911	907
Belgium-Luxembourg	39	50	49	62	58	73	94	116	136	183
Netherlands	36	45	53	55	52	76	107	128	160	184
EEC	356	436	544	635	608	792	1079	1313	1639	1799
As % of total	22					27,5			35,1	35,7
United States	129	160	202	231	255	345	387	382	441	480
As % of total	8					12			9,4	9,5

Source: see table 1.

As table 5 reveals, among the Six it was Belgium-Luxembourg to have the highest rate EEC-destined exports, the latter, already accounting for 46,4% of exports in 1959, rising to 61% by 1963.

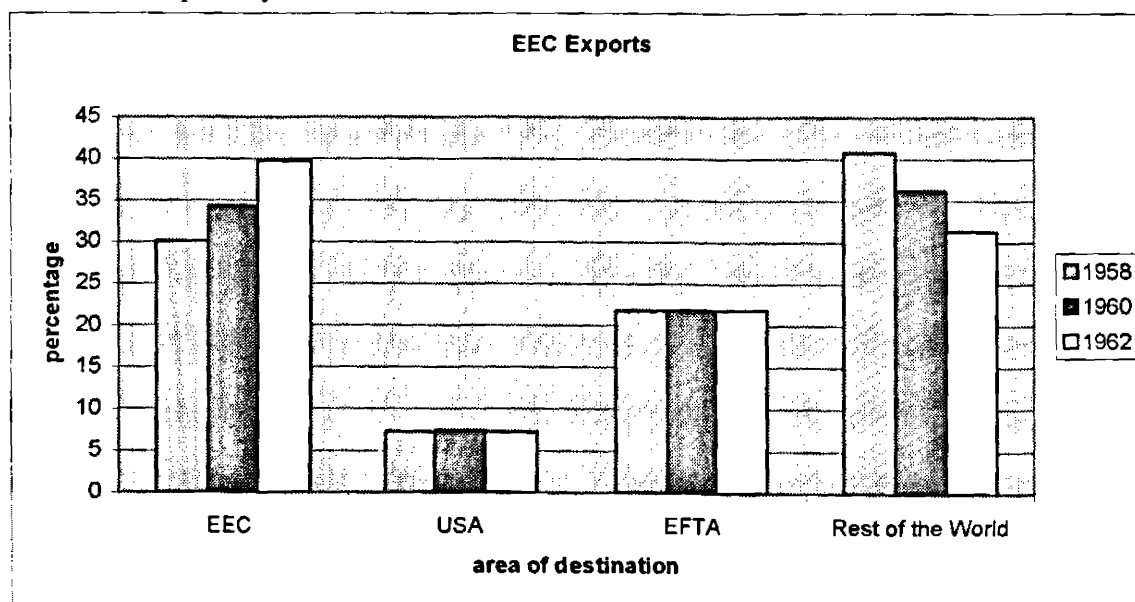
Table 5 Belgium-Luxembourg exports by destination 1954-1962 in millions of US dollar

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
World	2278	2747	3130	3154	3019	3279	3766	3912	4313	4824
Austria	15	18	17	19	19	26	26	28	34	32
Denmark	53	58	53	51	50	55	70	69	74	64
Norway	37	47	45	41	39	35	42	44	46	43
Portugal	25	31	28	30	34	31	44	55	22	25
Sweden	83	96	96	105	81	91	110	117	98	95
Switzerland	65	76	96	91	89	91	105	114	130	138
United Kingdom	145	179	202	178	174	195	210	206	216	277
EEFTA	423	505	537	515	486	524	607	633	620	674
As % of total	18,6					16			14,3	14
France	222	278	338	351	323	294	392	441	536	704
Germany	222	327	321	326	352	442	596	603	764	896
Italy	64	61	64	67	69	86	116	126	172	248
Netherlands	483	575	693	724	630	700	803	919	986	1093
EEC	991	1241	1416	1468	1374	1522	1907	2089	2458	2941
As % of total	43,5					46,4			60	61
United States	191	246	304	267	287	444	358	371	414	411
As % of total	8,3					13,5			9,6	8,5

Source: see table 1.

Tables 6 and 7 give an idea of EEC trade patterns as a whole. Table 6 concerns the destination of EEC exports. From 1958, the year before implementation of the customs union began, to 1962 the exports of the Six to the EEC came to represent from 30,1 to 39,7 % of EEC total exports. The share of exports to the USA and EFTA remained more or less stable, while the share to the rest of the world decreased from 40,8 to 31,1%.

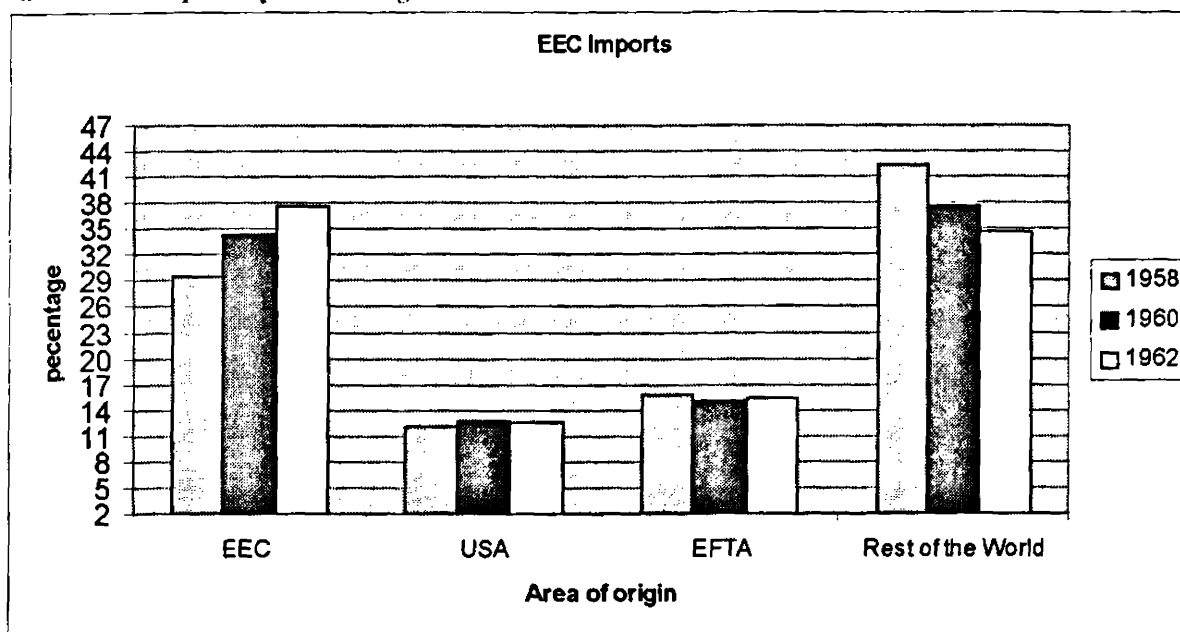
Table 6 EEC exports by area of destination in % of total



Source: Direction Of Trade Statistics Historical, 1948-1980 (Washington, D.C.: International Monetary Fund, 2002).

Table 7 concerns the source of imports of the Six as share of the total. In 1958, 29,6% of EEC imports came from the EEC itself, while this share had increased to 37,5 by 1962. The share of imports from the USA was stable, while the share from the EFTA decreased slightly. Along with exports, imports also dramatically decreased from the rest of the world: while in 1958 they represented 42,5%, by 1962 they decreased to 34,6%.

Table 7 EEC imports by area of origin in % of total



Source: see table 6

The setting up of the customs union, together with the establishment of a common agricultural policy, was the single most important undertaking of the EEC. To be operative it required an effective common external policy. The different conceptions the Six had regarding the relationship between the EEC and third countries emerged with the implementation of the customs union which necessitated the dismantling of barriers to intra-EEC trade, and a common external tariff (CET) imports from third countries. From 1959 onwards the six started removing quota restrictions to intra-EEC trade, and in May 1960 they decided to remove all quotas in the industrial sector by the end of 1961. For tariff barriers, the customs union required the elimination of duties applied on intra-EEC trade on 1 January 1957 according to a fixed schedule agreed in the Treaty which established a three-phase calendar for dismantling them by the end of the transitional period (31 December 1969). The dismantling process was based on across-the-board cuts, with the exception of some products for which other methods were retained. The first stage would take place from 1 January 1958 to 31 December 1961 during which internal duties had to be reduced by 30%.

The Treaty of Rome also established the general rule of the arithmetic average of duties applied in 1958 in the four customs unions of the EEC. In fact, the CET was formed by averaging the high tariffs of France and Italy with the much lower tariffs of Germany and Benelux (see table 8). As a result, low Benelux and German duties were raised while high French and Italian duties were lowered. A list of products, representing 15,7% of imports from third countries, were excluded from this general

rule and put on a list – List G – for which the CET was negotiated by the Six by March 1960.⁹

Table 8: Average *ad valorem* percentage incidence of imports duties of the Six in 1958

SITC	Products	Benelux	France	Germany	Italy	CET
5	All Chemicals	7	16	8	17	12
61	Leather manufactures	11	11	12	18	12
62	Rubber manufactures	17	17	10	19	18
63	Wood and cork manufactures, except furniture	11	19	7	22	16
64	Paper and Board manufactures	14	16	8	18	15
65	Textile, except clothing	14	19	11	20	16
66	Non-metallic mineral manufactures	12	16	6	21	13
67	Silver, platinum, gems, jewellery	5	13	3	7	6
681	Iron and steel	5	13	7	17	10
6841	Primary aluminium	0	20	0	25	9
691	Ordnance	9	14	7	17	11
699	Manufactures of metal	11	20	10	23	16
71	Machinery other than electric	8	18	5	20	13
72	Electric machinery	11	19	6	21	15
73	Transport equipment	17	29	12	34	22
81	Building parts and fittings	15	19	8	25	17
821	Furniture	13	23	8	21	17
84	Clothing	20	26	13	25	21
851	Footwear	20	21	10	21	19
86	Instruments	13	25	8	20	16

Source: Political and Economic Planning: Atlantic Tariffs and Trade (London: George Allen and Unwin, 1962)

The Treaty then established the schedule for the implementation of the CET. In cases where the difference between the CET and the national tariffs was not higher than 15%, the CET had to be established by the end of 1961. In the other cases the Treaty required a progressive rapprochement of the national tariffs and the CET according to the three phases of the transitional period: the margin of difference between national tariffs and the CET had to be reduced by 30% at the end of 1961, by a further 30% at the end of 1965 and by 40% at the end of 1969.

After the first reduction of 10% on intra-EEC tariffs of January 1959, the intra-EEC volume of trade increased by 20% and this led the Commission to consider an acceleration of the implementation of the customs union. France supported the Commission's proposal, but hinted that if intra-EEC trade barriers were dismantled ahead of schedule, it was also necessary to accelerate the implementation of the CET. The Federal Republic, and in particular Erhard, as well as the Benelux countries, did not oppose acceleration for reducing internal barriers, but they resisted the acceleration of the CET as they were against increasing discriminatory effects on third countries since joining of the CET for them implied a rise of their duties. Moreover, they wanted any step towards the implementation of the CET to be accompanied by reduction in the level of the CET itself in order to reduce discrimination against third countries. The Netherlands also wanted the acceleration of the dismantling of intra-EEC barriers to take place for agricultural products, but they encountered the tough opposition of the Germans (see next section). In the end, after tough bargaining, a compromise between

⁹ For a more in-depth discussion of List G and the implementation of the CET see Nême, J., Nême, C. *Economie Européenne*, (Paris : Presses universitaires de France, 1970), pp.58-61.

those who gave priority to the EEC internal market and those other who considered extra-EEC trade was found. In May 1960 the Council of Ministers decided on a further reduction of 10% on internal tariffs for non-agricultural products at the end of the first stage on 31 December 1961. The first step towards the CET would take place on 31 December 1961, a year ahead of the original schedule, but the CET had to be reduced – following a Dutch suggestion – by 20% in order to lessen discriminatory effects on third countries, contingent on reciprocal concessions by the GATT members in the Dillon Round. As for agricultural products, it was decided that, by 1 January 1961, progress also had to be made in this sector. In May 1962, the Council decided on a further decrease of 10% on internal tariffs on 1 July 1962, with the result that by 1 July 1962 EEC internal tariffs on non-agricultural products were reduced by 50%, while a 5% further reduction was scheduled for agricultural products by 1 July 1962.¹⁰ Thus the Six had different positions regarding the pace of the implementation of the different elements of the customs union, but were in any case able to find an agreement that balanced these different interests.

3.2 The EEC regionalism in agriculture: the Common Agricultural Policy

As noted, one of the most fundamental undertakings of the Treaty of Rome, in addition to the customs union, was the elaboration of a common policy for agriculture. It is worthwhile describing the interest of the Six in setting up a common policy in this sector. In fact, Washington had made it crystal clear that it wanted agriculture to be included in the new Round and, as will be shown in the following chapters, the Round was influenced by the pace of the CAP's elaboration and, at the end of the negotiations in 1967, it was indeed disagreement on this issue that almost caused negotiations to collapse in a welter of acrimony between the two sides of the Atlantic.

Agricultural protection and the preservation of an adequate level of income in agriculture had become essential policy goals of all the European governments. They pursued interventionist policies aimed at improving the living standard of farmers through instruments that protected them against competition from third countries and world price instability. At the same time, however, support for agricultural income also meant support for agricultural output which, consequently, led to food surpluses and higher prices compared to those outside Europe. Already in 1950, attempts were made to create a common European framework to regulate agriculture as it appeared that a solution which was broader than the national framework was required if domestic policies in support of farmers were to be maintained. In view of the conclusion of the Treaty of Rome, there was no possibility that the regulation of agriculture would remain outside the scope of the EEC. In particular, agricultural exports were crucial to Dutch export earnings, and to a lesser extent for Italian earnings, while France, in order to achieve economic progress, had made expensive efforts since 1945 to favour agricultural exports for which it wanted a guaranteed outlet in 1957 and aimed at

¹⁰ The pace of elimination of intra-EEC duties and of the definition and implementation of the CET is described, with useful tables, by Nème, J., Nème, C. *Economie Européenne*, p. 48-86. See, in particular, p.53 for a list of products which were excluded for the linear reduction at different time. For an account of the implementation of the customs unions through the 1960s see Ranieri, R. "The Origins and achievements of the EEC Customs Union (1958-1968) in Varsori, A. (ed) *Inside the European Community. Actors and Policies in the European Integration 1957-1972* (Baden-Baden, Nomos, 2006). See also Gerbet P *La Construction De L'Europe*. Paris: Imprimerie Nationales Benoit Europe at Sixes and Sevens : the Free Trade Association and the United States New York : Columbia U P, 1961 and Willis 1968 #2304, pp. 282-287. For Erhard's opposition to the acceleration see W. Kaiser "Challenge to the Community: The creation, Crisis and Consolidation of the European Free Trade Association, 1958-1972" in *Journal of European Integration History*, 3, 1 (1997) pp. 7-33.

sharing the financial burden of supporting its farmers.¹¹ In fact, the establishment of a common market for farm and food products and of a common agricultural policy were among the aims of the Treaty of Rome, and were considered by the Six as a measure to improve incomes in the agricultural sector or, as Milward notes, a kind of "extended public welfare".¹² Hence, the all Six were interested in setting up a common policy to regulate agriculture at the regional level of the EEC with the result that this sector was included in the Treaty of Rome, and the establishment of a customs union for farm and food products, and of a common policy, became one the major aims of the EEC.¹³

Creating a common market for agriculture was much more difficult than for manufactured goods. It was not only a question of liberalize exchanges, but also required the replacement of the separate respective policies of the Six with a common policy. In addition, the Six had to reconcile their conflicting interests inside and outside the EEC, as differences existed regarding how to organize this common policy and relations with third countries. Among the Six, the stronger supporters of the CAP were the two exporting countries of the Netherlands and France. The Dutch, with an efficient agricultural sector, above all for dairy and livestock products, aimed at liberalising intra-EEC exchanges, and wanted low support prices and moderate external protection in order not to alter its trade with markets outside the EEC. France, a larger and more efficient producer of most agricultural products than the other member states, claimed that given the fact that it opened its industrial market to the exports of the five members, it had to be recompensed with outlets in the EEC and above all Germany. Paris aimed at moderate prices and high protection from overseas exporters. The big difference between France and The Netherlands, however, was that The Hague favoured a CAP embracing the "regulations in common of outputs, prices and sales" while Paris would have satisfied "with preferences for its wheat, sugar, dairy and meat exports[...]. It was the primacy of the industrial common market that finally forced France to cede to the wishes of its partners for a genuine supranational regulation of agricultural outputs and sales rather than merely a preferential scheme".¹⁴ Italy was a relatively efficient producer of fruits and vegetables and hoped to increase exports to the Five and gain access to structural funds to support its agriculture. At the same time Italy longed for a CAP that allowed them to maintain its meat and grains imports from outside the EEC, and in particular from Argentina.¹⁵

With a highly protected and inefficient agricultural industry, Bonn wanted to maintain its high prices and the bilateral arrangements it had with its five partners and with third countries and aimed hoped to maintain its cheap food imports from outside the EEC. Thus, Bonn was never particularly enthusiastic about the establishment of a

¹¹ Milward A.S. *The European rescue of the nation-state*, pp. 224-225. See chapter 5 of this book for a description of the attempts made at European level to organize agriculture and the origin of the CAP. On the attempts made to organize agriculture see also Griffiths, T.R., Brian Girvin, G.,(eds.) *The green pool and the origins of the common agricultural policy* (London: LP, 1995).

¹² Milward, A.S. *The reconstruction of Western Europe*, p. 229.

¹³ The most recent and complete account of the negotiations leading to the CAP from 1958 to 1964 is Knudsen, A.C. *Defining the Policies of the Common Agricultural Policy. A Historical Study* (EUI PH.D thesis, Florence 2001). By the same author see also "Creating the Common Agricultural Policy. Story of Cereals Prices" in Loth W. *Crises and Compromises : the European Project 1963-1969*. Baden-Baden/Bruxelles : Nomos Verlag; Bruyant 2001., pp. 131-154. The following account is based above all on these two works. See also T. K. Warley "Western Trade in Agricultural Products" in Shonfield, A. *International economic relations of the Western World, 1959-1971 Vol.1, Politics and trade* (London: Oxford University Press for the Royal Institute of International Affairs,1976), p.287-402; Pearce J. "The Common Agricultural: The Accumulation of Special Interests" in Wallace, H. Wallace, W. and Webb, C. (eds) *Policy-making in the European Community* (Wallace Policy-Making in the European Community Chichester ; New York : Wiley, 1983) 2nd edition; Tracy, M. *Government and Agriculture in Western Europe* (New York: Harvester Wheatsheaf, 1989).

¹⁴ Milward A.S. *The European rescue of the nation-state*, pp. 283-284.

¹⁵ On Italy and the CAP see Galli, R., Torcasio, S. *La partecipazione italiana alla politica agricola comunitaria* (Roma, Bologna: IAI, Il Mulino, 1976).

comprehensive common agricultural policy that could run contrary to its commercial interests outside the EEC. In the end, it reluctantly accepted to push forward with in the setting up of this policy in order not to cause problems within the EEC and in relations with France, the country whose participation in the EEC was essential. However, as shown in the next chapter, by 1963 Germany started to increasingly challenge the CAP.¹⁶

During 1956-1957 negotiations leading to the Treaty of Rome, the Six governments could not reach an agreement on the specific elements of the CAP and to successfully conclude the negotiations they simply agreed that a common market for agriculture had to be created together with the common market for manufactures, without entering into details, thus postponing the formulation and establishment of CAP to the transitional period. The job of shaping a specific policy from the rather vague Treaty of Rome mandate was left to the Commission. Yet it soon became apparent that formulating an agricultural policy acceptable to all of the six member nations would be a formidable task, as the Six had rival interests that had to be conciliated within a common policy.

Negotiations began in 1958 with the Stresa conference at a very slow pace. On 30 June 1960, the European Commission put forward to the Council of Ministers the adoption of a common agricultural policy based on free circulation of products, central market organization for products with prices to be progressively unified and guaranteed in order to stabilize the agricultural market at the EEC level and regulating imports, a variable levy system to protect European products from competition from third countries to replace the old system of tariff and quota protection, as well as a financial support system.

The implementation of this program was strongly supported by the Commission, the French, the Italians and the Dutch, while the Germans were opposed. As a common market organisation meant common prices for their products, the Six had to set up unified target prices, starting from the basic commodity of grains. The focus of the negotiations became the common price of grains, which turned out to be a particularly thorny issue, which also had consequences also on for the GATT negotiations, until December 1964 when it was eventually set. France, the largest and most efficient producer among the Six, had the lowest prices, the Federal Republic had the highest one, while the other four were somewhere in the middle. France and the Netherlands asked for a timetable to agree on a common price level, while Germany refused to commit itself. The Federal Republic maintained an inefficient and greatly protected agricultural sector and argued that it would be difficult to agree on a common price level within a short time, if this implied lowering the grain price and consequently, claimed the Germans, the level of income of farmers. For this same reason, Bonn also opposed the shortening of the transition period for the agricultural sector. The situation was made worse by a tense domestic political situation in which the German government was scared of losing political support if it were to allow the grain price to fall. German farmers were well organised and able to influence the Christian Democrats governments of Adenauer and Erhard by controlling the Minister of Agriculture. Under this control, the Federal Republic vigorously opposed a reduction of grain prices and claimed that the common price had to be set at the German level. This position was categorically refused by France which indicated that only an agreement moving the price about one quarter of the way towards the German level would be acceptable. This level could encourage French agriculture to develop unexploited capacity, thus enabling

¹⁶ Ludlow, N.P., *The European Community and the Crises of the 1960s: Negotiating the Gaullist Challenge* (London: Routledge, 2006), chapter 1.

France to increase production. But if the common price was set at too high a level, other less efficient EEC farmers would have an incentive to increase their production, thus operating against French interests. High prices would also generate inflation, creating a burden on the French industry's competitiveness.¹⁷

As stated above, the decision taken on 12 May 1960 to accelerate the implementation of the customs union for industrial products was linked to progress to be made on the common agricultural policy by 1 January 1961. Hence in December 1960, the Council of Ministers adopted the principles of free circulation and common prices and the Commission started working on these principles to adopt the first regulations. In May 1961, the Commission proposed common market organisation for cereals together with a mechanism for target prices which included a framework but did not mention an exact level. The Commission proposal was rejected by the German Minister of Agriculture, Schwarz, who maintained this opposition, and even hinted that the decision taken in May 1960 by the Council of Ministers to accelerate the implementation of the Treaty of Rome did not concern the agricultural sector but merely the industrial one. The German declarations were badly received in the capitals of the Five and the French repeatedly warned against what was perceived as a German attempt to delay the implementation of the CAP. The French and the Dutch strongly pushed to make progress, but no agreement could be reached. At the end of 1961 a major clash seemed around the corner: France made it clear that it would block moving to the second stage of the transitional period, supposed to start on 1 January 1962, if progress towards a common agricultural policy was not accomplished.

At the end of December 1961, no decision had yet been taken and the Six decided to pretend it was still 31 December and to negotiate until an agreement could be reached, which eventually happened on 14 January 1962. The Council adopted the first regulations for cereals, pork, eggs and poultry that would come into force on 1 July 1962. A schedule was agreed upon for the regulations for dairy products, meat and sugar. It created the European Agricultural Guidance and Guarantee Fund, with a financial regulation valid until June 1965. Farms incomes were to be ensured by a price support policy, excess of supply above demand would be bought by Community agents and a preferential system of levies protecting products of the Six at the EEC frontiers would be established. Third countries' products entering the EEC were subjected to a variable levy system aimed at guarantying that they would enter at a price level higher than the prices set for EEC products. Consequently, third countries' products would inevitably end up being more expensive than the Six's products that, therefore, did not need to fear external competition. By the same token, when EEC products were exported, the gap between lower world market and artificially higher EEC prices was filled by subsidies. In this way price stability could be guaranteed, competition from third countries was undercut, and EEC products could compete in the international markets thanks to subsidies. However, no decision on common prices was taken. It was merely agreed that for the time being prices would be frozen at their current level and harmonisation of prices would begin in 1963. Another part of the CAP had been added, but other issues had still to be agreed on in order to implement the CAP: regulations for other products, the definitive financing system and the level of common prices starting from grain.

As noted, the issue of grain prices was critical. In 1962 France set its average grain price at \$ 2.09 per bushel, Germany at 2.85 and the United States at 1.91. The

¹⁷ Hendriks, G. "The creation of the Common agricultural policy" in Deighton, A, Milward, A. S. Widening, Deepening and Acceleration, pp. 143-148 and "Problems and Trends in Atlantic Partnership II" Staff Study prepared for the use of the Committee on Foreign Relations, United States Senate. (Washington 1968), pp. 35-41.

United States and the other big exporters looked with apprehension at the quarrel over grain prices. The United States had a clear interest to see the EEC common price fixed at the lowest price level possible, near to the French one. A high price would represent an incentive to increase EEC production and surplus, consequently reducing American exports, and illustrated the implementation of a definitively protectionist CAP. A relatively low price could enable the USA, which in 1962 was the EEC leading grain supplier, and other low cost producers, like Canada and Australia, to compete.¹⁸ The level of the common price, however, was only one aspect of the consequences that this common policy could have on third countries. Through common prices higher than world prices, and the levy system which guaranteed that no imports could compete with EEC goods, the CAP was developed in tension with international trade: the Six were setting up an EEC market for food and farm products, the cost of which was passed on to third countries' suppliers. The Dutch and the Germans claimed that the CAP had to take into account the consequences for third countries: obviously these positions were not merely influenced by the willingness to take into consideration the impact of the CAP but also by mercantilist reasons. Germany had bilateral quota agreements with third countries to import cheaper food and hoped to retain them. The possibility of guaranteeing quantitative assurance to third countries was categorically opposed by France on the grounds that they were in conflict with the entire CAP, although, in reality, it was because such assurances would retain third country competition which the French wanted to exclude. The Netherlands claimed that the price policy of the EEC had to take into account third countries and be lowered in case of disruptive consequences, but this option was opposed by Bonn who had the highest prices among the Six.¹⁹ As a result, the CAP promised to be more protectionist than the six national policies of the EEC member states because it represented the sum of all the protectionist requirements of the Six. At the same time, the CAP promised to be a very tricky negotiating issue in Geneva where the various interests of the Six had to be reconciled with the interests of the USA.

3.3 A new Round but on French terms: French reaction to Kennedy trade program

When, at the end of November 1962, Ball met French Foreign Affairs Minister, Maurice Couve de Murville, to inform him that Herter had been appointed as American negotiator for the future GATT conference, Couve de Murville replied: "Vous vous y prenez longtemps à l'avance".²⁰ This piece of conversation anticipated and set the tone for French and American behaviour regarding the new Round: the Americans were dreadfully concerned about putting forward the trade program they had elaborated, the French had not the same concern.

In explaining the French reaction to the American initiative it is necessary to bear in mind the broader context of Franco-American relations. In elaborating his policy towards Europe, President Kennedy had to deal with the charismatic figure of Charles de Gaulle who, unfortunately for Washington, had a different conception of the Atlantic Alliance and its policies, and of the position of the EEC and France in the Alliance. As

¹⁸ "Problems and Trends in Atlantic Partnership II", pp. 35-41 and Memorandum from D. Gale Johnson to Governor Herter on "Trade negotiations issues involving agriculture - some preliminary comments and questions", 17 January 1963 Herter's papers, Box 2, JFKL.

¹⁹ CM2 1963/540 Extrait du PV de la réunion restreinte, tenue à l'occasion de la 117^{ème} session du Conseil de la CEE, 2-3 December 1963 R/1123/63.

²⁰ HAEC, MAEF Secrétariat Général, Entretiens et Messages, Vol 17 Reel 208, Réunion chez le Ministre entre Couve de Murville and George Ball, 26 November 1962.

has been described by the many scholars who have written on Franco-American relations in the 1960s, along with the critical issue of decision-sharing within the Alliance, "Kennedy and de Gaulle disagreed over the governance and structure of the West's nuclear deterrent, the response to the Berlin crisis, policy on Germany and Vietnam, the nuclear test ban treaty, long-range cold war strategy, and monetary affairs."²¹ Together with all these issues that already put under considerable strain Franco-American relations, another one was to be added to the list: the commercial policy of the Atlantic alliance. De Gaulle did not support the liberalisation of trade as suggested by Kennedy and had every intention of preserving the EEC as an independent and regional trading unit.

The French government kept a close eye on Kennedy's trade initiative, and following the presentation of the TEA to Congress it attentively examined the impact it could have both on the EEC and the Brussels negotiations with the British. In February 1962, French ambassador in Washington, Hervé Alphand, expressed to George Ball his appreciation for a law that increased the authority of the American government to negotiate in Geneva. However, together with this appreciation, which also represented a criticism regarding the lack of authority to negotiate in the undergoing Dillon Round, Alphand spelled out his reservations. The bill put the United States in a more advantageous position compared to Europe: the escape clause and the peril point procedure allowed Washington to use a system of protection other countries did not have, while, concerning tropical products, it was easy for Washington to offer eliminations of duties it did not itself apply. Thus a GATT Round along the TEA could have a negative effect on the EEC, which would lose much of its tariff protection, while the Americans would retain their protective safeguards. But most importantly, Alphand claimed, some of the TEA provisions and, in particular, the dominant supplier clause could hurt the regional dimension of the EEC, and could be misused affect the Brussels talks.²² The clause envisaged the implementation of an Atlantic free trade area whose effects were opposed in Paris. France had supported the regional dimension of the EEC for its economic development, thus the same reasons that had led de Gaulle to put to an end the FTA negotiations with the British, in 1958, pushed France in 1962 to categorically refuse an Atlantic free trade area in which the regional dimension of the EEC would be watered down and French products would have to struggle with more competitive American ones. Moreover, the possibility of the dominant supplier clause being applied even if the United Kingdom did not join the EEC bothered Paris, and in particular Olivier Wormser, Director of Economic and Financial Affairs at the Ministry of Foreign Affairs, one of the people responsible for French policy towards the EEC who was also to have a crucial role in formulating the French stance towards the proposed Round. Without becoming a member of the Common Market, the United Kingdom could attend the suggested Round, the result of which could potentially be the same as joining the Community, namely reducing tariffs to zero on a wide range of manufactures and reducing discrimination coming from the EEC. In this way the British would accomplish what they sought in 1958 when they advanced the FTA proposal, which excluded agriculture and which did not question trade relations with the

²¹ Costigliola, F. "Kennedy, De Gaulle, and the Challenge of Consultation" in Paxton, R.O. and Wahl, N. (eds) *De Gaulle and the United States. A Centennial Reappraisal* (Oxford; Providence, R.I: Berg, 1994), p. 169. For de Gaulle's foreign policy I have also relied on Bozo, F. *Two strategies for Europe: De Gaulle, the United States and the Atlantic Alliance* (Lanham: Rowman and Littlefield, 2001), Costigliola, F. *France and the United States, the Cold War Since World War II* (New York: Twayne, 1992), Vaisse, Maurice 1998

²² MAEF, DE/CE 1961-1966 GATT 949 Alphand to Quai d'Orsay, Telegram 1061/64, 3 February 1962, p.91. The telegram reported «Les indications suivantes ont été recueillies concernant les risques d'une exploitation détournée de certaines disposition du projet de loi sur la politique commerciale». PRO T 312/325 UK delegation to EFTA, Telegram 95 Cohen to Foreign Office, 31 October 1962.

Commonwealth. A further advantage could be attained by the British: thanks to the opening of the American market, the United Kingdom would become the only country whose products could enjoy the duty-free treatment of the EEC, the United States and the Commonwealth. Therefore France had enough good reasons to look with apprehension and suspicion at Kennedy's trade policy.²³

Ball tried to reassure the French that the general aim of the TEA was to give the American negotiators full authority to bargain in Geneva. In order to gain Congress' approval, the American executive had to show that the bill gave more advantages to the United States than to the Europeans. In previous negotiations, the United States had to bargain with partners less powerful than it, and this had led to American tolerance towards discrimination. But in 1962 Washington faced an economic unit as strong as the United States, the EEC, and consequently a different approach was needed: if Congress was to be convinced to follow a liberal trade policy, provisions like the escape clause, the peril point and the exclusion of some categories of products from the negotiations had to be maintained in order to reassure the legislative body. As regards the British and the dominant supplier clause, Ball made clear to Alphand that the possibility of reducing tariffs by more than 50 percent could be applied only to negotiations with the EEC and only if the United Kingdom became a member. It was categorically out of the question to use the clause if the United Kingdom did not join. Ball underlined that the aim of the provision was to push London to join the Community thanks to the fact that, through the MFN rule, it could simplify the problems of the EFTA members not entering the EEC for which the United Kingdom felt to be responsible. The aim was to avoid giving a non-EEC United Kingdom the opportunity to take advantages of the effects of a free trade area.²⁴

No matter what the American aims were in putting forward the dominant supplier clause, the fact is that it stunned the French, who opposed the elimination of tariffs across the Atlantic. On 20 February, speaking at the American Club in Paris, Couve de Murville claimed that the EEC would be willing to reduce its tariffs in a bargain with the United States on the basis of complete reciprocity but, hinted the French Minister, the EEC would be reluctant to eliminate tariffs with the USA altogether for an important range of manufactures. Even if the EEC had to be open to the outside world and avoid tending towards autarky, it had to preserve its essential European character and therefore needed a common external tariff against the outside world to maintain its unity. Couve de Murville made clear that complete free trade was incompatible with the Common Market whose aim was to build up a political union: the customs and the economic union were means to attain this end.²⁵

The Minister of Finance Valéry Giscard D'Estaing shared the view of the Quai D'Orsay. Giscard D'Estaing felt that the American initiative was "précipitée", dictated by developments in Europe and wrongly timed: the American economy was predominant, while France was already reducing barriers at the regional level of the EEC and it was not possible to think about further drastically reducing barriers in the wider context of GATT, which would thus expose French goods to their more competitive American counterparts.²⁶ However, Giscard D'Estaing, while perhaps less

²³ MAEF, DE/CE 1961-1966 GATT 949 Telegram 2220/2226 Wormser to Alphand, 8 February 1962. Wormser was worried also because "Il me revient de bonne source que M. George Ball était, in fine, hostile à la formule qui a été finalement retenue par le Président Kennedy contre son avis [...]". » The contrast between Ball and Kennedy shows that, as written in chapter three, the way the "dominant supplier" clause was elaborated is not clear.

²⁴ MAEF, DE/CE 1961-1966 GATT 949, Telegram 1061/64 Alphand to Quai d'Orsay, 3 February 1962 and Telegram 1146/54 from Alphand to Quai d'Orsay, 15 February 1962.

²⁵ The New York Times, 21 February 1962, "Common Market Held Cool to Kennedy Tariff View" p. 9.

²⁶ Interview of the author with Valéry Giscard D'Estaing, Florence, 27 October 2004.

than enthusiastic, did not go as far as opposing the setting up of a new Round, to prove that France favoured a liberal commercial policy, and to boost French exports. In effect, foreign trade had not previously played much role in the French economy, but in 1962 it was doing so at an increasing rapid pace, as the rise of French exports and imports in those years demonstrated. What Giscard D'Estaing categorically opposed was the dominant supplier clause and the consequent implementation of an Atlantic free trade area, as the CET had a fundamental role in preserving the regional dimension of the EEC. Moreover the TEA, through the safeguards measures, gave the US negotiator advantages the other governments did not enjoy and allowed Washington to withdraw a concession made in Geneva, so causing an uncertainty around reductions made by the Americans and an unbalanced situation with the GATT contracting parties. The same was true for American non-tariff barriers like the customs valuation system of the American Selling Price which allowed American governments to considerably raise duty on a given product and precluded European exports. Hence, the new Round had to be an opportunity to harmonise commercial rules at the international level so to give all countries the same advantages. Giscard D'Estaing did not oppose the suggestion of a new Round, considered similar to the FTA British initiative, but what mattered to him was to be wary in responding to the American move, and protecting EEC and French interests.²⁷

For Paris "en fait sous l'invocation d'un partnership atlantique, il s'agit de la riposte américaine au succès du marché commun et à la constitution en Europe de ce qui pourrait devenir un bloc concurrent". The aim of the United States was to place American and the European industry into the same conditions of competition in order to allow American industries to benefit from their great competitiveness, to favour American exports to the EEC and find a remedy for the problem of the balance-of-payments deficit. And it was to these American goals that the French had to find an answer.²⁸

Following the TEA's approval, the French decided on the line to be presented in Brussels to the five partners and in Geneva to GATT members. The French noted that the liberal provisions of the TEA – general authority to reduce tariffs by 50 percent, dominant supplier clause, elimination of duties for tropical products and of duties inferior to 5 percent – were part of a more protectionist framework characterised by the peril point and escape clause provisions, and customs valuations system. As a result, the TEA was not a balanced act, for it would cause a reduction of CET of the EEC, which lacked the protectionist devices of the TEA, while leaving intact most American protectionist tools. In this way, the United States would increase its exports to the Six, while the Six would continue to face US non-tariff barriers. In the context of this situation, two courses of action could be formulated. The first consisted in testing Washington's actual cutting zeal by making a counter-proposal more radical than the American one and suggesting the total elimination of tariffs, extending the Treaty of Rome to the Atlantic area. The second course of action consisted in considering the American proposal for what it simply was: an offer to reduce barriers just like, the one presented in 1959 that led to the Dillon Round, even if broader in its aim this time. In this case, the Six had to keep in mind two goals: to point out the weak and unbalanced aspects of the TEA and to obtain the appropriate modifications. The first course of

²⁷ NA State Department CDF 1960-1963 box 720 Memorandum of Conversation between Ball, Schaetzel and Giscard D'Estaing, 30 March 1962 and ibidem Telegram 4599 from Paris to State Department, 30 March 1962 reporting Giscard D'Estaing speech to American Club.

²⁸ MAEF GATT 930 Note du Quai D'Orsay "Kennedy Round" undated document but surely written after 1 April and before 8 May 1963.

action was dismissed because totally unrealistic: it implied the total abandoning of the Treaty of Rome, a route that no-one in France wanted to pursue, and it would be seen in Geneva, Brussels and Washington for what it really was, a way of obstructing the Kennedy program. Therefore, the only suitable possibility was the second course of action, which required the modification of the unequal aspects that existed between the means of action of the Six and those the TEA gave the American negotiators.²⁹

It is worth noting that the French did not consider a third alternative: rejecting the Round altogether. A French refusal would have increased the strain within the Atlantic Alliance between France and the United States, and would also have caused a tough reaction from the Federal Republic and the Netherlands, who wanted the EEC to attend the new Round, thereby provoking a serious crisis among the Six. Moreover if the new Round could be brought within precise limits and reduced in its scope, if it could simply be a trade negotiation rather than a challenge to the Treaty of Rome and a way of implementing an Atlantic free trade area, Paris had every reason to attend in order to boost exports to EFTA countries and to the United States, above after the years 1959-1962 had proved that French products could compete in wider context than the national one. Therefore, the French were not opposed to the initiative for a new Round. The EEC had to participate, but the TEA had to be corrected to lead to a balanced trade conference and to preserve EEC regionalism.

By December, the Ministry of Foreign Affairs has set out the French position towards the American initiative. It is worth dealing in detail with this stance since it was subsequently adopted by the EEC in Brussels. Paris felt that with the invocation of Atlantic partnership, the Americans produced a solution similar to the British answer to the Treaty of Rome with in the guise of the suggestion of the FTA. For the time being the American trade law could not be treated as a normal proposal for tariff bargaining, merely considering effects that reduction of duties could have on imports and exports. In fact, trade negotiations such as those which could develop from the TEA had a much broader impact and concerned the positions of the EEC in world trade. The hypothesis of completely free exchange under the dominant supplier clause together with the prospect of reducing tariffs by 50 percent could be enough to radically alter the competition between European and American products. At the same time, Paris doubted that, under the pressure of domestic economic sectors, the American government could really propose such drastic tariff cuts in Geneva, as were allowed by the TEA. However, even if it was likely that the plan for tariff disarmament suggested by Kennedy, just as with other initiatives launched with the same solemnity – Alliance for Progress, Years of the United Nations for development – would, in practice, be considerably reduced in content, for the time being the TEA had to be considered for what it presented itself as being, a “revolutionary” answer to the “challenge” to the United States represented by the success of the Common Market and, above all, by its future development and enlargement.³⁰

Paris accepted to continue with the preliminary explorative work requested by the Americans to set up the Round, as the relevance Washington attached to the envisaged Round clearly suggested that it should do so. But, during this preliminary

²⁹ MAEF, DE/CE 1961-1966 GATT 949 Direction des Affaires Economiques et Financières. Note 174/CE Loi américaine sur le commerce et les future négociations tarifaires, 17 October 1962.

³⁰ For the elaboration of the French position see MAEF, DE/CE 1961-1966 GATT 930, Direction des Affaires Economiques et Financière, Note 217/CE 19 Novembre 1962; *ibidem* GATT 949 Direction des Affaires Economiques et Financières, Note 238/CE Les Etats-Unis et la Communauté Economique Européenne, 10 December 1962; *ibidem* GATT 930 Aide-mémoire à l'attention de M. le Secrétaire Général 1962; *ibidem* GATT 930, Direction des Affaires Economiques et Financière –Service de Coopération Economique, Note 14/CE Offre américaine de négociation tarifaires, 18 January 1963.

phase, and prior to any start of the Round, the Six had to let the Americans know what conditions had to be granted in order to have a large, but equitable and balanced negotiation. The first condition identified by the French concerned an issue which would turn out have centre-stage in the Kennedy Round, the *disparity problem*. In the American tariffs structure there were some very low duties and other extremely elevated, sometimes even prohibitive ad valorem duties of 100 and even 200 percent. On the contrary the CET, being already an average, was more uniform and moderate. The United States had suggested the reduction of all duties by a uniform percentage, but a uniform reduction would clearly have different effects on low and high duties respectively: a reduction of 50 percent on a duty of 200 percent or 100 percent would maintain a very high duty a high level, while would meaningfully reduce moderate ones, and almost bring to zero low duties. A solution had to be devised to lop off the peaks in the American tariffs and to harmonise tariffs across the Atlantic. The second condition was the necessity to also negotiate on some American non-tariff barriers, such as customs valuation systems and sanitary and phyto-sanitary regulations whose existence reduced the magnitude and meaningfulness of tariff cuts.

The French government then underlined the necessity of harmonisation of competitive conditions: Paris doubted whether the drastic tariff reductions put forward by Washington could be achieved without being accompanied by a certain degree of coordination of economic and social policies across the Atlantic. The example of the Common Market, and the failure of the FTA, illustrated that this request for coordination reflected a genuinely fundamental principle of French policy, rather than dubious or phony argumentation. If this idea was not shared by the American government, then such a sweeping reduction of tariffs needed a safeguard clause to correct negative consequences of tariff concessions, allowing their withdrawal or the implementation of quantitative restrictions.

As for the crucial issue of agriculture, the United States had not yet indicated how it wished to include agriculture in the Round, but a basic point was clear in Paris: one of the France's aims in signing the Treaty of Rome had been to ensure outlets for its agricultural products, above all Germany, hence no negotiation in Geneva should impede this fundamental goal. France had many agricultural products which were uncompetitive on the world market, such as cereals, but competitive on EEC markets. Therefore, it was unsafe to negotiate on agriculture in Geneva while the CAP was not yet fully agreed in Brussels. Only once the CAP had been fully approved could negotiations in Geneva begin. With this fundamental position in mind, the French did not oppose the inclusion of agriculture in the Round. On the contrary, the Round could constitute an opportunity to deal with problems affecting world trade in the agricultural sector, and to consider the impact on world trade of the domestic policies of the big exporting countries.

The conditions indicated by the French, aiming at a more balanced negotiations, widened the scope of the Round, making it more complex and articulated. French conditions required the modification of GATT rules on the safeguards clause and, above all, of the TEA, which did not authorize the American government to negotiate on the non-tariff barriers.

Paris then went on to consider the link between the new Round and the Brussels negotiations. If all the conditions which were advanced in order to have a balanced Round could be met, it would be necessary to determine, bearing in mind the result of talks with the British, the extent to which trade negotiations would be economically and politically desirable. The concrete American offer to negotiate would be conditioned by the result of the Brussels negotiations. The accession of the United Kingdom would

make a new reduction of tariffs necessary, in order to reduce discrimination coming from the enlarged EEC; at the same time, in the case of the negotiations' failure, it would be the case that a broad tariff disarmament would become an indispensable replacement. As such, Paris questioned the usefulness of discussing a new Round without knowing whether concessions would replace membership or accompany it. The timing was in this respect unfortunate, and it seemed reasonable not to further complicate the membership talks with an early start to the new Round; the conclusions of the Brussels talks should be known first.

Paris did not oppose the American move to have a new GATT Round, on the contrary it was perceived as an opportunity to boost French exports. However, at the same time, it wanted negotiations on French terms, not simply a Round following the lines of the TEA which, after all, was an American law. European participation was made conditional on the acceptance by the United States of precise demands and on bringing the Round into precise limits which would make the reductions of trade barriers more bearable. The regionalism of the EEC had to be protected and the implementation of an Atlantic free trade area was out of the question. Hence, the dominant supplier clause had to be made harmless, in a way or another. Then, once the results of the negotiations with the British were known, a new Round could begin.

3.4 The Six's reaction: EEC regionalism against US Atlanticism

On 8 January 1962, Erhard met Kennedy and Ball in Washington and conveyed his full support to the Americans. The German Minister defined the Kennedy trade program as "well designed to cope with the dangers of discriminatory actions such as threaten to grow out of, for instance, UK membership in the Common Market". Erhard promised to do everything in his power to support a reduction in world discrimination and claimed that a liberalisation of international trade would be the only way to keep the EEC from becoming inbred. The German Minister shared Kennedy's aims in launching a new Round and understood the role that a large reduction in tariffs at multilateral level could have keeping the EEC outward-looking. With the EEC setting up its customs union, there would be "bickering with third nations who feel discriminated against" claimed Erhard. Therefore, it was necessary for the EEC to listen to grievances, seeking to appease and reach compromises. The only way to improve the situation "was to follow the lead indicated by President Kennedy by adopting an extremely liberal policy which would place the entire no-Communist world on one and the same footing" concluded the German Minister.³¹ In September 1962 Erhard again expressed his support for Kennedy's trade policy, defining it "a fine development", and advocated a rapid start for the new Round.³²

Erhard's complete endorsement for the American initiative, which seemed to also include support for the dominant supplier clause, came as no surprise. The German minister was a convinced free trader who liked to repeat that he had reduced German tariffs unilaterally in the 1950s. He had opposed the Treaty of Rome, considered too small for the Federal Republic, had supported the FTA initiative of 1958 and, after the creation of the EFTA, had favoured a wider trade arrangement between the EEC and the EFTA to reduce discrimination in Europe. Then, in 1961, Erhard fully supported British

³¹ FRUS 1961-1963, XIII, Section Economic and Political Integration, 26. Memorandum of Conversation. Meeting at the White House Between President Kennedy and Professor Erhard, German Minister for Economic Affairs, 8 January 1962.

³² FRUS 1961-1963, XIII, Section Economic and Political Integration, 49. Memorandum of Conversation. Meeting with Vice Chancellor Erhard 14 September 1962.

membership, considered a means to achieve a more open EEC.³³ Against this background, Erhard's full backing for a new GATT Round to liberalise European and international trade was coherent and predictable.

However, together with Erhard's enthusiasm a general hesitation existed in the Federal Republic about the effects that a GATT Round following the TEA's lines could have on the German economy and on the EEC. Chancellor Adenauer looked with apprehension at the dominant supplier clause, and maintained a reserved stance on the whole Kennedy trade program which seemed to have as a goal the invasion of Western Europe by more competitive American goods. Adenauer's fears were shared by German industry which, by 1962, "came to appreciate the blessings of the EEC both in terms of increased protection against other European competitors and in terms of increased exports opportunities to France and Italy". Those negative effects on trade between Germany and EFTA countries which had been predicted by Erhard had failed to materialise. German exports to EFTA increased from \$2,649 million of dollars in 1959 to \$3,967 million in 1963. What is more, the same industrial sectors that had opposed the FTA also opposed the idea of an Atlantic free trade area and a drastic reduction of duties across the Atlantic.³⁴ Therefore, even if the need to keep the EEC open to world trade and to solve the economic divisions of Western Europe were still seen as important in Germany, by 1962 the regional dimension of the EEC had come to be appreciated by German industry, and the idea of an Atlantic free trade area raised distrust. One thing was to alleviate the effects of the division of Europe and to create opportunities to boost German exports to the United States, to achieve these objectives by such a radical solution as drastic reduction of tariffs worldwide that could cause an invasion of Germany and to Europe by American products was quite another.³⁵ Hence, Bonn not could support the idea of eliminating barriers between the two sides of the Atlantic, because the regional bloc of the EEC was now also fundamental for German trade as well. A new GATT Round was supported as a means to reduce discrimination worldwide and in Europe but, apart from Erhard, no-one backed the far-reaching eliminations of tariffs envisaged by the TEA, which would lead to the dilution of the regional dimension of the EEC which, by 1962, had clearly shown itself to bring trade advantages to the Federal Republic.

The Dutch stance was not very different. A reduction of barriers in Geneva was seen as a means of keeping the EEC open to world trade and to lower its discrimination. The Hague was quick to convey its support for the approval of the TEA; its hope was that the American law could contribute to reducing duties of developed countries, and it wanted the EEC to fully cooperate with the United States.³⁶ However, together with this support, there also remained certain worries regarding the most radical provision of the TEA: the point was that not even the traditionally liberal Dutch aimed at seeing their Community disappear in an Atlantic Free Trade Area. They wished to keep a liberal EEC, as this was in conformity with the trade structure of the Netherlands, but this wish did not extend to the point of dissolving the EEC. It is overly simplistic to think that it

³³ The economic policy of Erhard is described in Lappenkueper, U. "Ein Europa der Freien und der Gleichen". La politique européenne de Ludwig Erhard (1963-1966). Loth, W., (ed.). Crisis and Compromises: the European Project 1963-1969. Nomos Verlag/Baden-Baden: Bruylant/Bruxelles; 2001) pp. 65-91.

³⁴ Schulte, M. "Industrial Interest in West Germany's Decision against the Enlargement of the EEC", pp. 36-37.

³⁵ "Problems and Trends in Atlantic Partnership II", p. 41-45.

³⁶ MAEF, DE/CE, 1961-1966 GATT 930 Direction des Affaires Economiques et Financières, Note 183/CE Déclaration du Conseil sur le Trade Expansion Act, 22 Octobre 1962.

wa only de Gaulle who refused the idea of an Atlantic free trade area; the Dutch and the Germans, traditionally more liberal than France, did not favor it either.³⁷

The Commission's position was relatively similar. This institution saw the participation of the EEC in the trade negotiations as a way of affirming the role of the EEC in world economics and trade. Above all it saw these negotiations as an opportunity to affirm its role as the sole negotiating agent on behalf of the EEC. The Treaty of Rome gave this institution the exclusive right to negotiate with third countries in respect of common external tariffs, even if with the assistance of a special Committee – article 111 Committee – appointed by the Council of Ministers. However, as early as in the Dillon Round, member states had showed a lack of eagerness to entirely delegate the task of negotiating to the Commission. Thus the latter looked at the proposed round as an instrument to strengthen its position both internally and externally. However, beyond this general aim, doubts existed. The institution studied the consequences that a sweeping reduction could have on the CET and on the EEC assuming UK membership. The TEA and, above all, the dominant supplier rule were seen with suspicion and reservations began to appear regarding the possibility of across the board negotiations. The Commission seemed to be scared about the impact of a drastic reduction on the CET on the EEC customs union, and had doubts whether such a reduction could take place without parallel measures dealing with competition, economic cooperation, social and transport issues, just as the French had claimed. The question of tariff disparity was pointed out, and qualms were raised regarding the possibility that a simple linear reduction could lead to a balanced reduction of tariffs, especially if the United States retained their discriminatory regulations. On top of this, the Commission did not want the CAP, one of the most important features of the EEC, to be challenged by the GATT Round. Thus, agriculture could be included agriculture in the Geneva talks, but without putting this common policy at risk. At the same time, the Commission did not object to the Round or the new increase in competition or the consequent economic efficiency it could bring to the EEC market. What mattered was to harmonise policies across the Atlantic, and that the regionalism of the EEC was not challenged.³⁸

The first official reaction of the EEC to the Kennedy trade program arrived on 22 February 1962, when the EEC Commission representative in Geneva read to GATT Contracting Parties a declaration issued by the EEC Council of Ministers. Influenced by the events of the Dillon Round, the declaration expressed its support for Kennedy's initiative, but was also a not particularly veiled criticism of the United States for not having authority to negotiate in Geneva. The EEC Council "having taken cognisance of the statement by President [Kennedy] and having been informed of the status of the [Dillon Round] hopes that further progress will be made in the reduction of customs duties". Recalling the conclusion of GATT Council of November 1961, putting forward the suggestion to negotiate across the board, the EEC Council expressed its conviction that "the essential requirements for the effectiveness of any further multilateral endeavour undertaken in the future in the tariff fields is that all the parties concerned should have equivalent powers from the legal point of view". More than an enthusiastic

³⁷ PRO T 312/621 Telegram 3, from United Kingdom Delegation in Brussels to Foreign Office, 21 January 1963. The telegram reports a conversation between a Belgian official in the EEC Council of Ministers' Secretariat and Sir A. Tandy of the British delegation in Brussels. The Belgian official was described as "the second senior official in the Council of Ministers' Secretariat".

³⁸ AECB BAC 118/83 845 EEC Commission – direction Générale des Relations Extérieures CPC/I/4/62 rev. 8 mai 1962; ibidem BAC 62/1980 49 DG Note de la DG des Relations Extérieures, 22 October 1962. AECB BAC 62/1980 49 DG Relations Extérieures, Comité de la politique commerciale, PV de la 12ème reunion, 12 December 1962.

welcome of Kennedy's trade program, the EEC's reaction seemed a criticism of Washington for not having had sufficient bargaining power in the Dillon Round.³⁹

Following the TEA's approval, a first significant discussion between the Six took place at the end of November 1962, and all the concerns that had been expressed at national level were brought up. On 30 November 1962, the COREPER sent a note to the Council of Ministers based on reports of the 111 Committee and the Commission. The document was remarkable for the stance it took – a trade negotiation along the lines of the TEA was dangerous for the regional dimension of the EEC – and for its similarity to the positions which the French had expressed since February 1962.⁴⁰ The note suggested that a new Round could in some way influence negotiations for EEC membership and association and considered it inopportune for the Community to open a new front before knowing the result of these negotiations. In any case, the note stressed the urgency for the Six to reach a common position, necessary to maintain the indispensable cohesion in relation to the United States.

Attention was drawn to economic and political problems that negotiations as envisaged by the TEA would create for the EEC, and the main problems on which the Six governments had to focus in order to elaborate their common position were explained. The Six remarked that the economic and financial potential of the EEC was not equal to that of the United States, and that the EEC lacked the natural resources of the US. It was wondered what position the EEC could occupy in an industrialised world where the potentiality of its internal market could not be achieved because of a drastic reduction of tariffs. Tariff protection did not have the same meaning on the two sides of the Atlantic, since the CET constituted an important element of cohesion for the Six. Moreover the note warned that a drastic reduction in tariffs could not only hamper the European integration progress, but could also hinder the development of the less developed regions of the Six.

As for agriculture, the Six agreed to include it, but this agreement did not necessarily bode well for Washington or for the conclusion of the Round. Agreeing to deal with agriculture in Geneva did not necessarily mean acquiescing to American requests for market access. As noted, the French approved the inclusion of agriculture in order to discuss the policy of the exporting countries rather than to ensure market access, and this position was shared by the COREPER note. Moreover, as noted, for the Six, the CAP was a form of welfare, and they were unable to endanger it by accepting the US proposals to include agriculture. Therefore, agriculture had to be subject to a parallel or successive negotiation, with the aim of examining all problems affecting international trade for temperate agricultural goods, along the lines followed in the Brussels negotiations between the EEC and the United Kingdom. In truth, as was to become apparent in the course of the negotiations in Geneva, differences existed among the Six. The Germans and the Dutch, and to a less extent Italy, wanted to use the new Round to ensure that they could continue to import cheap food from third countries, a goal in opposition to French interests. However, in 1962, the Six made clear to underline in accepting the inclusion of agriculture was that the CAP had not to be brought into question. As for tropical products, the TEA provision on the elimination of duties had the aim of eliminating the preferential system on which the Association agreements relied. In fact, the United States had no duties on the most important tropical products like coffee and cacao, while sugar was produced in the United States

³⁹ GATT L/1733 26 February 1962, HAEC OECD 134 Annexe TC/M (62) 1 and CM2/1963 32, PV de la réunion restreinte tenue à l'occasion de la 61ème session du Conseil de la CEE, 5/6 February 1962, R/95.

⁴⁰ CM2/1963 946 Note S/628/62 (Comer 17) and annex 2 «Éléments qui pourraient faire l'objet d'études ultérieures au sein de la Communauté», 30 November 1962.

and hence was excluded from the provision. However, the EEC could not bring into question the Associations agreements.

In addition, the TEA gave the Americans certain advantages over the Six. It financially supported firms hit by foreign competition, while the effects of tariff concessions were reduced by the protection of non-tariff barriers, such as the customs valuation system of the American Selling Price, the escape clause, and the exclusion of some products which amounted to almost 12% of American imports. As such, the existence of a disparity in the tariff structures of the EEC and the USA meant that a simple linear reduction would lead to an unbalanced level protection on either side of the Atlantic.

The note represented only a first attempt to identify problems the EEC would face in having to deal with a sweeping liberalisation along the TEA's lines, and contained all the doubts that had been pointed out by the French. For the Six, it was not easy to reach a common position while the outcome of the Brussels negotiations remained uncertain, and their representatives were busy in negotiating with London. The trade situation was too fluid to allow them to assume a definitive position. Nonetheless, certain basic positions were clear: first, the Six agreed to a GATT Round to further liberalise international trade on a multilateral basis, but they, and by no means only the French, had no intention of eliminating the CET. The CET had to be preserved to defend European industry and to give an identity to the EEC. On this aspect there existed a unity among the Six.

The Six did not want a Round which worked exclusively to the advantage of the USA, and instead aimed at a Round which would allow the EEC to increase its exports to the USA. For this reason, they had proposed certain conditions to ensure a certain quantum of balance in the negotiations. Given the fact that US tariffs were higher than the CET, the disparity issue had to be resolved if tariffs were to be cut across the board. By the same token, American non-tariff barriers which hampered European exports had to be eliminated.⁴¹

The aim of setting up a balanced set of negotiations was particularly crucial for the Six. In fact, as table 9 shows, each of them imported from the USA more than they exported in the other direction.

Table 9 Trade of the Six with the United States 1954-1963 in millions of US dollars

		1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Germany	<i>Exports</i>	295	387	498	601	643	913	897	870	966	1051
	<i>Imports</i>	532	764	952	1351	1005	1094	1423	1516	1758	1988
Italy	<i>Exports</i>	129	160	202	231	255	345	387	383	441	480
	<i>Imports</i>	299	405	522	684	526	373	668	863	884	1028
France	<i>Exports</i>	156	210	226	246	304	470	401	417	426	421
	<i>Imports</i>	381	458	682	831	563	429	746	737	775	901
The Netherlands	<i>Exports</i>	158	159	179	159	181	209	196	192	200	203
	<i>Imports</i>	336	435	521	540	410	435	599	566	607	649
BLEU	<i>Exports</i>	191	246	304	267	287	444	358	371	414	411
	<i>Imports</i>	263	314	409	426	310	325	391	375	451	471

Source: see table I

The question of the EEC trade deficit with the USA concerned the crucial issue of the burden-sharing emphasised by Kennedy. The Six, and not only the French but

⁴¹ CM2 1963/946 Note Introductive S/24/63. Premières conclusions du Comité spécial de l'Article 111, 14 Janvier 1963.

also the traditionally more liberal and Atlanticist governments of The Hague and Bonn, refused to undertake a sweeping liberalization of international trade to receive more imports from the other side of the Atlantic in order to rectify the US balance of payments, caused, Kennedy claimed, by US investments and military commitments in Europe. While the US president held that responsibility was to be shared, the Europeans did not want more responsibility, and felt that they were already helping with the American trade deficit. The United States already enjoyed a favourable trade balance and US exports to the EEC were growing at a faster rate than US imports. In any case, the US balance of payments was not caused by European trade policy, but had a US domestic origin, hence solutions had to be sought elsewhere and, more specifically, in the internal economic policy of the United States and in the monetary system. With this refusal to agree to solving the balance of payments problem through trade, the TEA dominant supplier clause came to be looked with particular suspicion. None of the Six wanted to set up an Atlantic free trade area whose purpose appeared to be that of rectifying the US balance of payments.⁴² The Six did not wish to see the total elimination of tariffs, considered "an integral and essential part of the structure of the Community [and] did not wish to see their Community dissolved in an Atlantic free trade area, the purpose of which would be to enable the Americans to rectify the deficit in their balance of payments at the expense of Europe."⁴³

The Six were undoubtedly taken by surprise by the dominant supplier clause. They questioned the feasibility of an Atlantic free trade area without implementing harmonising measures, like those applied by the Six in establishing the CET, and a safeguards clause. Above all, however, they deemed it a challenge to the existence of EEC, rather than as a device of the Kennedy Administration to get authority from Congress to negotiate in Geneva and to push the United Kingdom to join, as Ball had explained to Alphand. It was not merely that American products were considered more competitive than European ones, that the categories of products which met the world-exports value were the categories where, to a very large extent, the United States exported more than it imported from that EEC, and that a drastic reduction or even elimination of tariffs could harm European industry. It was also that the CET was seen as one of the elements of European identity and a fundamental and necessary part of the Community, still not sufficiently developed that it could afford the loss of such an important feature. Therefore, the clause raised doubts about America's goals in relation to the European integration process, and caused the Six to wonder whether America's intention was to challenge the very existence of the EEC.⁴⁴

The Six regarded the Atlantic partnership to be built up through the new Round with suspicion. The United States had not stated with any precision what the substance of the proposed "partnership" would be, and this reluctance or incapacity caused the Europeans to fear that what the United States was in reality aiming at was some form of economic supremacy. The slogan of partnership seemed to hide an American economic hegemonic design to be implemented through a liberalisation of international trade which required the dismantling of tariffs, but without the relinquishing of other trade barriers, more effective than customs duties in preventing European exports to the USA. The TEA was judged more as a mercantilist law to

⁴² PRO T 312/621 Telegram 3, from British Delegation in Brussels to Foreign Office, 21 January 1963; HAEC, MAEF Secrétariat Général, Entretiens et Messages, Vol 19, Rencontre entre Pompidou et Erhard, 21 November 1963.

⁴³ PRO T 312/621 Telegram 3, from United Kingdom Delegation in Brussels to Foreign Office, 21 January 1963 reporting words of Belgian officials to the British. The Belgian official "specifically added" that the Dutch neither wanted to see the dissolution of the EEC into an Atlantic free trade area.

⁴⁴ HAEC- CEAB 5/1169 Lettre de Wehrer, de la Direction des Relations Extérieures, à Van Kleffens, de la Délégation de la Haute Autorité auprès du Gouvernement du Royaume-Uni, 4 March 1963.

increase American exports than a law to liberalize international trade. As a result, doubts regarding American aims in putting forward the TEA engendered doubts about the notion of an Atlantic partnership between equals. The combination of these factors fostered an atmosphere of distrust and pushed the Europeans to doubt Washington's aims in putting forward its policy of trade liberalization and its proposal for an Atlantic partnership, and to enter the new Round with great caution.⁴⁵

The reaction of the five partners of France showed that a dichotomy existed between their respective security and trade policies. While in the first field they relied on Washington and hence supported the Atlantic dimension and NATO, in the trade field they preferred the regionalism of the EEC to American Atlanticism. In the security field they supported Washington, but in the trade field they sided with Paris.

To sum up the European reaction to the American initiative, it is worth underlining that the Six felt that a drastic reduction of the CET would probably damage the cohesion of the EEC, as it could chip away the cement which bound it together at a critical period of its development. The EEC was grounded on the CET which was a solid tie giving endurance and strength to the EEC itself. For the EEC, the CET was like a *constitution* which usually identifies nation states.⁴⁶ Moreover, the Six's preoccupation with maintaining EEC cohesion and trade regionalism, considered essential for their economic growth, corresponded to the American preoccupation with trade liberalization and strengthening transatlantic interdependence. Therefore, they could not accept the drastic liberalization of trade suggested by the US. Above all, they were unable to accept it while they were still negotiating on British entrance which, if successful, would have an even larger economic impact than the GATT round. The negotiations with the British were already a GATT Round on a European basis, and the Six could not accept conducting two rounds at the same time. In concluding this section dedicated to the first response of the EEC, it is worth underlying that the six member governments of the EEC shared a common view of the American trade program, hence at the end of November 1962, Paris accurately concluded that there existed no appreciable divergences with the five partners.⁴⁷

3.5 The positions of the economic sectors of the EEC towards the new GATT Round

When the American suggestion to have a new Round was formulated, it was not only the EEC that began to formulate a position in response. With the prospect of a new Round, the European economic sectors also started reacting. They were also asked to do so by the European Commission, which felt it necessary to have a clear picture of the state of the different industrial and agricultural sectors.⁴⁸ The French Patronat, the Conseil national du Patronat français (CNPF), accepted in principle the a new trade conference, but categorically opposed the Atlantic free trade area, and made it conditional on to the elimination of disparities, of non-tariff barriers and full reciprocity of concessions between the developed contracting parties. The Paris section of the French Chamber of Commerce also accepted the principle of a new GATT liberalization

⁴⁵ Ibidem

⁴⁶ For this function of tariffs see Milward, A.S. "Tariffs as Constitutions" in Strange, S., Tooze, R., (eds.) *The International politics of surplus capacity: competition for market shares in the world recession* (London; Boston: Allen & Unwin, 1981), pp.57-66.

⁴⁷ MAEF DE/CE GATT 930 Direction des Affaires Economiques et Financières – Coopération Economique, Note 113/CE The Trade Expansion Act, 26 April 1963. The note reassumed the situation before the French veto the British membership.

⁴⁸ AECB PV 213 20 January 1963.

which, however, had not to endanger the cohesion of the EEC, and had to be subordinated to resolving the problem of disparity and to the removal of American non-tariff barriers so that equality in import conditions could be achieved before any tariff disarmament was undertaken. As such, French industry showed itself to be less protectionist than expected, and considered the new GATT Round an opportunity to achieve a reduction in American trade barriers. It asked for time to absorb the substantial tariff cuts made since the creation of the EEC, and looked with apprehension at the suggestion that the CET had to be cut by 50%, while French industry was still adjusting to increasingly free trade within the EEC. However, on the whole they did not resist the Round root and branch, but wanted to be sure that French interests were pursued, and that a fair and reciprocal bargain was to be struck.⁴⁹ In truth, there were also sectors such as the mechanical industries which felt themselves most endangered. Automobile builders thought that after the reduction of duties agreed upon in the Dillon Round, no further reductions should be made.⁵⁰

In Germany, the BDI and the Chamber of Industry and Commerce favoured the new GATT talks and the prospect of opening the EEC to more international trade. German industry in general supported the new GATT Round as a means of reducing tariffs worldwide and, after January 1963, looked upon it as a means of overcoming the failure of the negotiations with the British. However, like the French Patronat, it also requested the reduction of the peaks in the American tariffs and American non-tariff barriers. The idea of some tariff harmonisation was favourably received by German industry. The steel industry, for example, held that the reduction of the relatively low German and EEC tariffs by the same percentage as the reduction of the higher rates in the US tariffs was unfair.⁵¹ The same was also true for the Netherlands, where harmonizing tariffs had attracted considerable support from business sectors, while the equal linear cut was also considered as biased in favour of the US.⁵²

The UNICE (Union des Industries de la Communauté Européenne, grouping the central industrial organizations of the Six countries) adopted a favorable position towards the American initiative. Success in the negotiations had to be encouraged to bring the economics of the EEC closer to those of remaining industrial countries of the Western world, and to demonstrate the liberal attitude of the EEC. The new Round was also considered an instrument to decrease the discrimination in Western Europe and to

⁴⁹ MAEF GATT 931 Direction des Affaires Economiques et Financières – Coopération Economique, «Note. Préparation de la Conférence Kennedy. Opinions des producteurs français», 5 February 1964. The note reports a statement of the CNPF issued on 18 January 1963; ibidem GATT 930, Direction des Affaires Economiques et Financière – Service de Coopération Economique, Rapport adopté par la Chambre de Commerce et d'Industrie de Paris, 9 Mai 1963.

⁵⁰ Na 59 State Department Central file subject numeric, box 3488 Telegram n. A-500 from US embassy in Paris to State department, 31 August 1963.

⁵¹ Telegram n.A/2422 from Edwin Cronk, Minister for Economic Affairs in American Embassy in Bonn to Secretary of State, 15 May 1963, Herter's papers, Box 11, JFKL and NARA State Department Central file subject numeric 59-250-5-8-4 Box 3489 FT US-WGER XR ECIN 3 EEC Telegram n. 289 from the American Embassy in Bonn to the State Department "German attitude toward expansion of trade within Atlantic Community", 9 May 1963. This last telegram reported on a dinner in honor of Ambassador Tuthill attended by prominent Ruhr industrialists. Germans industrialists present at the dinner expressed their support for the integration of the whole of Western Europe because of the importance of the EFTA markets for German exports. However when directly asked by Tuthill on what it was possible to do to bring the United Kingdom in the EEC, the industrialists claimed that Germany had to pay attention to its internal problems and that it was too early to form plans for bringing in the British. First it was necessary to see the results of the British election of 1964 and of the Kennedy Round in order to determine what steps were possible. All the industrialists defended the Franco-German treaty. See also "Stellungnahme der deutschen Landesgruppe der Internationalen Handelskammer zu den Dokumenten der IHK Nr. 102/20 betr. Zolldisparitäten und Nr.102/21 Nichttarifäre Handelshemmnisse", January 1964. PA, B53-III-A2, N.276 taken from Dür, A. Protecting exporters: discrimination and liberalization in transatlantic trade relations, 1932-2003 (Florence: EUI Ph.D Thesis, 2004).

⁵² NA Department of State, Central Files, FT 4 US/TEA Telegram from the Department of State to the Mission to the European Communities signed by Rusk, 17 May 1963. The telegram was also sent to the EEC capitals and Geneva. NA 59-250 Airgram 319 from Munich to State Department, 7 February 1964 reporting the declaration of support for the Kennedy Round of Ernst Schneider, president of the German Chambers of Industry and Commerce.

reduce trade barriers with the EFTA countries. However, the UNICE also imposed conditions. First of all, it was important to consider the important effect of liberalization of trade on the structure of the EEC, and the limits that such a structure imposed on the liberalization. Second, the negotiations had to aim at boosting the exports of the EEC, particularly to the United States since the commercial balance of the EEC was in deficit with the United States. Third, the disparity issue had to be resolved, finding some corrections to the linear method and harmonizing the duties, cutting off the tops of American high duties. Fourth, non-tariff barriers were to be included so as to achieve the removal of the American customs valuation system, and the EEC had to dispose of safeguards measures just as the USA already had. What the UNICE also asked that, parallel to the obstacles to imports, the EEC ensured the realization of an economic union and the implementation of the common commercial policy in particular towards countries producing products at abnormally low cost and towards non-capitalist countries. In any case, the UNICE reserved itself the right to refine its position as the work progressed in the preparation for the negotiations. Therefore, what the UNICE asked was that together with the reduction of the CET, the EEC strengthen should commercial policy as a way of offsetting the reduction in tariffs.⁵³ The economic sector of the industrial field, broadly speaking, were therefore generally favourable towards a new Round, but not all sectors favoured liberalization and, as shown in the following chapters, with the progress of the Kennedy Round, the establishment of the negotiation rules and the beginning of bargaining in November 1964, their opposition crystallized.

For the UNICE, trade negotiations along the TEA's lines would be a mismatch between the USA and the EEC, because parallel reductions of tariff duties would not have the identical consequences. The UNICE referred in particular to the high level of American duties, which after being cut by 50% would still constitute a high protection for the American market. In stark contrast, the CET was already modest and the 50% reduction would bring it to a pure symbolic level. For this reason, the Americans had to make a unilateral reduction of their very high duties, and it was necessary to find some modification to the linear method in order to harmonize duties, by drastically reducing unusually high American duties. In short, for the UNICE, the trade negotiations had to allow for an increase in exports from the Six to the United States, and only with some kind of harmonization and safeguards measures equal to those which Washington reserved for itself would this be possible.

Totally different was the reaction of EEC farmers. French farmers were mainly interested in establishing a European common market in order to open up the German market, and in keeping out American exports, and were wholeheartedly against the reduction granted by the CAP.⁵⁴ The position of their German counterparts, Deutscher Bauernverband, (DBV), was along the same lines; they did not want the new Round to increase competition in Germany, and a similar position was shared by the farming sector at European level.⁵⁵ The Comité des Organisations Professionnelles Agricoles de la CEE (COPA) was very clear in its opposition to all decisions that could prejudice the vital interests of European agriculture. The CAP was not yet defined in terms of its principles, nor implemented, and its future development could not be endangered.

⁵³ AECB BAC 62/1980-53 UNICE Premiers observations à la suite de l'adoption par les Etats-Unis du TEA, 18 February 1963. IA CM 1.824.52 Prise de position du Conseil des Présidents de l'UNICE au sujet des négociations tarifaires multilatérales au GATT, 11 December 1963, 14 A.4/10 A.4.

⁵⁴ Na 59 State Department Central file subject numeric, box 3488 Telegram n. A-500 from US embassy in Paris to State department, 31 August 1963.

⁵⁵ Dur, A. Theorizing the Contagious Effect of Regionalism: European Integration and Transatlantic Trade Relations, 1957-1963. European University Institute Working Paper SPS No. 2003/8, pp. 40-49 and Dür, A. Protecting exporters, 118.

Moreover, tariff negotiations were not capable of resolving the problems of international trade in agriculture. The COPA brought attention to "la nécessité de placer le problème sur un plan plus large, c'est-à-dire de la confrontation des politiques agricoles et de l'assainissement des marchés agricoles mondiaux, de façon à assurer aux agriculteurs une rémunération équitable". Hence the position of COPA was clear: if the inclusion of the agricultural sector in the new Round was unavoidable, the liberalization of the sector was out of question. Only a coordination of domestic policies was acceptable.⁵⁶

3.6 The UK and the GATT Round: mixed feelings

Washington perceived the TEA as a means of encouraging British entry into the EEC, and, at the same time, as a device to alleviate the economic discrimination which would result. Because of the centrality of British entry into the EEC in the American trade program, it is necessary to present London's reaction to the American initiative and its interest in a new Round.

The creation of the EEC, the failure of the FTA of 1958, and then the establishment of the EFTA had divided Western Europe in two trading blocs whose discriminatory effects had not been alleviated by the meagre results of the Dillon Round. When, in 1961, the United Kingdom, followed by Denmark and Ireland sought to join the EEC, Western Europe seemed once again to be market in the process of unification. With the American initiative, the United Kingdom found itself involved in three commercial negotiations at the same time: with the Six members of EEC, with the Commonwealth and EFTA countries to appease their fears about commercial consequences of the British entry, and in the framework of the GATT, first with the Dillon Round and then with preliminary phase of the new Round which started at the end of November 1962.⁵⁷

Following its presentation to Congress in January 1962, London expressed a general welcome and appreciation for the Trade Expansion Act and the powers it gave President Kennedy to pursue liberal trade policies. The British assured the Americans that they "[would] play their part to the full in any tariff negotiations which [would] result from this Act".⁵⁸ London aimed at taking advantage of the fact that the US had the power to reduce tariffs on a multilateral basis in order to expand the trade of developed countries and prepared to work for the widest possible exchange of concessions on tariffs affecting industrial products and for a liberal approach to international trade.⁵⁹

However, these were not the only reasons that pushed London to support the American move. A sweeping multilateral reduction of tariffs would lead the Six in the direction of outward-looking policies and could reassure the Commonwealth and the

⁵⁶ CM 1A 1.824.52 CEE Conseil, Lettre de Deleau à Calmes (Secrétaire Général du Conseil de Ministres de la CEE), 17 Mai 1963 R/410/63 (COMER 83) 21 May 1963.

⁵⁷ On the commercial policy of the United Kingdom in the decades preceding the Kennedy Round, and more generally, on British attitude towards the European integration process from 1944 to 1958, see A.S. Milward, *The European Rescue of the Nation-State*, chapter 7 "Britain and Europe" pp.345-424. For a fuller investigation, including also the first British bid for EEC membership, see Milward, A.S. *The United Kingdom and the European Community. The Rise and Fall of a National Strategy*. On the Brussels negotiations see also Ludlow, N. P. *Dealing with Britain. The Six and the First UK Application to the EEC* (Cambridge, Cambridge University Press, 1997); Wilkes G. *Britain's Failure to Enter the European Community, 1961-1963: The Enlargement Negotiations and Crisis in European, Atlantic, and Commonwealth Relations*. (London: Frank Cass: 1977).

⁵⁸ PRO FO 371/172308, INTEL n. 172, From Foreign Office to certain of Her Majesty's Representative, 2 November 1962.

⁵⁹ PRO T312/325 Confidential document of the Treasury, 17 October 1962 and T 312/620 Draft: Trade Expansion and the Kennedy Round, undated and unsigned document.

members of EFTA which were not applying to the EEC. These countries feared trade discrimination that British membership into the regional bloc of the EEC could cause, and put pressure on London to ensure favourable treatment for their products. In this sense, a new Round heading to the liberalisation of international trade had the potential to ease the relations between the UK and the countries reducing discrimination on a multilateral basis, thus helping the British in dealing with the problems UK membership would create in the context of the Commonwealth and the EFTA. For the same reason, London supported the inclusion of agriculture in the new Round, as it was hoped that some limitations on the price policies and protective measures of the EEC would reassure the Commonwealth and provide acceptable conditions of access to world markets for agricultural products.⁶⁰

However, after considering the positive impact of the new Round, London also looked at its negative aspects and revealed itself to have doubts regarding the American trade program, and to be annoyed by the timing of the initiative. The British were sceptical about the American cutting zeal showed by the dominant supplier clause, and felt that it remained to be seen how far the President would be able to use his power with any real or significant effects by managing to overcome considerable protectionist interests within the United States. The British doubted whether the US government would really use the authority of the dominant supplier clause, as this would create a plethora of problems in the relations between the US government and the trade sectors on which tariffs were brought to zero.⁶¹

Moreover, London found it difficult to adopt a clear stance towards the Kennedy program since it could not yet know whether it would be negotiating in the new Round in partnership with the other EEC countries on the Common Tariff or whether, in the case of failure of the Brussels negotiations, it would be negotiating separately on its existing tariffs. The British attitude regarding coverage and regarding some of the individual items would vary according to whether the United Kingdom was a EEC member. On top of this, beginning the Geneva negotiations, before the completion of the negotiations with the Six, would embarrass British negotiators in Brussels if the agricultural exporting countries of the Commonwealth attacked the common commercial policy of the EEC in Geneva. Thus, the Kennedy Round had not to get under way until the Brussels negotiations had been concluded.⁶² But these were not the only reasons which pushed London to think that a new Round before the end of the negotiations with the Six could have serious consequences. Since the passage of the TEA, France had put pressure on the British, claiming that the position of the London government took regarding the American trade program would be examined in Paris to test British sincerity in seeking to join the EEC, that is to say whether the British were *good Europeans*.⁶³

However, even if the Geneva trade conference began after a much-hoped happy ending to the Brussels negotiations, the Round could be harmful to British interests, since it could affect the Community's behaviour in the membership talks: if, on the one

⁶⁰ PRO T312/325 Confidential document of the Treasury, 17 October 1962 and T 312/620 Draft: Trade Expansion and the Kennedy Round, undated and unsigned document and FO 371/172308, INTEL n. 172, From Foreign Office to certain of Her Majesty's Representative, 2 November 1962.

⁶¹ Ibidem.

⁶² Ibidem; T 312/620 Draft: Trade Expansion and the Kennedy Round, undated and unsigned document, 1962 and T 312/621 "The Kennedy Round", February 1963.

⁶³ PRO BT 303/94 "Working Parties on Procedures for Tariff Reduction: Brief for the United Kingdom Delegation" Note by the Board of Trade, 4 March 1963. The note was written in March but reported the UK position before the French veto. T 312/620 Draft: Trade Expansion and the Kennedy Round, undated and unsigned document, 1962. For the pressure that Paris put on the British to show they were "good Europeans" see T 312/610 GATT Policy Committee. Proposed informal talks with French officials. Undated document presumably written in October/November 1962.

hand, negotiations in Geneva could diminish discrimination against the Commonwealth, on the other hand the EEC could use them as a reason not to grant special trade treatment to the Commonwealth – as the British sought in Brussels – and as a “justification for short-term rigidity over tariff levels in anticipation of the transatlantic bargaining that lay ahead”.⁶⁴ Given the fact that London could not oppose the new Round altogether, the British aimed at least at preventing the Round from beginning before the end of the Brussels negotiations. So long as the talks with the Six were in progress, discussions in Geneva would be difficult and even dangerous. Thus, the British, like the Six, felt that American initiative had arrived at the wrong time. As explained below, however, it was de Gaulle who resolved the situation in the middle of January 1963.

3.7 The first *Round* of the Kennedy Round: the French veto of British membership

While the Europeans started to elaborate their answers to the American initiative, as soon as the Trade Expansion Act became law in October 1962, Washington moved to put the new trade conference on track. The first task for Washington was to formally call for a new Round and to generate a sense of purpose and will to succeed within the Atlantic Alliance. Because of the great importance it attached to the trade negotiations, the State Department held that the new Round had to be launched at a GATT ministerial meeting, also necessary to show to Congress that the authority granted was being used, and to the other GATT members that the USA firmly intended to reduce tariffs. The State Department timetable consisted in holding a GATT Ministerial Meeting by March 1963 and devoting the rest of the year to domestic procedures and preparatory discussions with the principal industrial countries in order to have a broad ranging agreement on the basic rules to be followed, before launching the Round itself in 1964 and concluding it before the start of the Presidential election campaign. In particular, Washington maintained that although the negotiations were supposed to be multilateral, there would have to be intensive discussions and broad agreement between the two actors that were to play a dominant role, United States and the EEC.⁶⁵

The American move for a new Round became enmeshed with the Canadian initiative to deal with EEC enlargement. As a means to cope with problems created by the British entrance, Canadian Prime Minister John Diefenbaker proposed, at the Commonwealth Prime Ministers' Conference of London of October, to set up a general trade conference of all countries with an interest in the Brussels negotiations. The Canadians were attracted by the idea of combining their initiative with the GATT ministerial meeting, envisaged by the Americans, to be held in Ottawa. The Canadian plan, however, was not supported by the United States. First, Washington opposed the proposal of holding a conference with all countries affected by the developments of the EEC: the only suitable framework to take up trade issues was the multilateral GATT forum. Second, in any case, it opposed the idea of having the Ministerial meeting in Ottawa: the only place to launch the new Round was Geneva, so as to underline the link

⁶⁴ Ludlow, N. P. *Dealing with Britain*, p. 108.

⁶⁵ NA, State Department Central Decimal File – 394.41/10-162 – 1960-1963 Box 728, Memorandum of Conversation between Morabito (Italian Embassy) and Trezise (Deputy Assistant Secretary for Economic Affairs in State Department), 16 November 1962; PRO T 312/325 Record of a conversation between American and British officials (among others, P. Reilly and Marjoribanks for the British and Schaetzel for the Americans) 19 October 1962 and T 312/325 Document without reference dated September 1962 reporting a conversation between British and Canadian officials.

between the important American initiative and the GATT.⁶⁶ Faced with Washington's opposition, Diefenbaker could do nothing but endorse the American position and agree to circulate at 20th GATT session, held from 23 October to 16 November 1962, a draft of a joint proposal for a ministerial meeting to be convened in the last week of February.⁶⁷ At the November GATT session, under pressure from America, the contracting parties agreed to hold a ministerial meeting in the early part of 1963 in order to consider the liberalization and expansion of trade in both primary and secondary products, and to give special attention to the trading problems of the LDCs. A Tariff Negotiations Working Party (TNWP) was set up to organize the structure of the negotiations and, most importantly, to establish a set of rules, as, for the first time, tariffs were to be reduced across the board.⁶⁸

However, while the USA moved to quickly start the new Round and the Europeans formulated their positions, an event external to the Geneva discussions came to have significant consequences on the Kennedy program. After almost fifteen months of bargaining in Brussels, de Gaulle held a press conference on 14 January 1963 and rebuffed the UK bid for EEC membership, and, further, turned down the US MLF initiative. The reasons that led the French president to veto British membership have been considered by many authors and are not discussed here. What matters here is that the veto did not only bring to an end negotiations with the British, but also had major consequences on Kennedy's Grand Design for an Atlantic partnership, on the relations between the Six, on Franco-American relations and on the new Round.⁶⁹ In his press conference de Gaulle declared that an enlarged Community would "apparaître un Communauté atlantique colossale sous dépendance et direction américaine et qui aurait tôt fait d'absorber la Communauté de l'Europe". With these words de Gaulle seemed to reject not only British membership, but also the American Grand Design and the crucial dominant supplier clause which was to set up the Atlantic free trade area and strengthen Atlantic interdependence in the trade field. Hence, Kennedy's trade program was one of the casualties of the French veto, as without British membership the provision could be applied only to aircraft and margarine. To be sure, notwithstanding the ineffectiveness of the dominant supplier provision, the TEA still contained many liberal provisions, but the fact remained that, with the veto, the extent to which tariffs could be eliminated and international trade liberalised was reduced and the prospect of an Atlantic free trade area, upon which Washington had counted to set up the Atlantic partnership, and which had that worried the Six, became dead letter. In this sense, the French veto represented a first Round of the Kennedy Round because it limited the degree of liberalisation that could be achieved: the dominant supplier clause was rendered harmless which placed the Round within limits which were bearable by the Six.

The veto had not only the consequence of giving precise limits to the GATT Round, it also added a new dimension: in addition to a transatlantic dimension, the

⁶⁶ CM2/1963 946 Note d'information S/628/62 (Comer 17), 26 novembre 1962; PRO T 312/325 Record of a conversation between American and British officials (among others. P. Reilly and Marjoribanks for the British and Schaezel for the Americans), 19 October 1962 and T 312/325 Documented without reference dated September 1962 reporting a conversation between British and Canadian officials.

⁶⁷ PRO T 312/325 Telegram 131 from Edgar Cohen of UK Delegation to EFTA to Foreign Office, 31 October 1962; NA, State Department Central Decimal File - 394.41/10-162 - 1960-1963 Box 728 Telegram 914 from Geneva to State Department, 19 November 1962. On the Canadian reaction to British bid for EEC membership see Milward, A.S. *The United Kingdom and the European Community. The Rise and Fall of a National Strategy* (London: Portland, OR: Frank Cass, 2002). See pp.361-364 for the request of the conference.

⁶⁸ CM2 1963/946 Note d'information du Conseil S/628/62 (Comer 17), 26 novembre, Annex 1 "Décision prise par le Parties Contractantes en date du 14 novembre 1962 au sujet de la réunion ministérielle du GATT" and ibidem Note d'information du Conseil "Réunion ministérielle dans le cadre du GATT" S/80/63 (CoS 6), 31 January 1963.

⁶⁹ The consequences of the veto on the relations between the Six are described in the following chapter.

Round acquired a European one. With Europe again divided, it – just as the Dillon Round had been – came to be an instrument to reduce discrimination in Europe. The GATT forum remained the only framework which facilitated the harmonious expansion of trade between the EEC and EFTA.⁷⁰ The creation of the EEC, the failure of the FTA and the creation of the EFTA had brought about the division of Western Europe into two competing regional trading blocs. When de Gaulle rebuffed British membership, the United Kingdom and the other EFTA countries could no longer regard EEC membership as a means of dealing with discrimination. The regional solution was no longer available and, as in 1959-1960, they had to go back to the multilateral platform of GATT. The same was true for the Six: if they wanted to boost their exports to the EFTA, they had to rely on the wider and multilateral arena. To fully analyse this aspect, it is worthwhile portraying the patterns of commerce between EFTA and the EEC.

As Table 10 shows, EFTA countries traded more with EEC countries than between themselves. From 1958 to 1963, the first trading partner of EFTA was not itself, but rather the EEC, a separate regional bloc. It was no surprise that after January 1963, liberalisation within the GATT became an imperative aim for the EFTA in order to reduce EEC trade barriers.

Table 10 Total exports of the EFTA by area of destination 1958-1963 (in percentage)

	1958	1960	1962	1963
EEC	23,8	23,9	27	27,7
EFTA	19,5	18,9	20	20,5
USA	10,3	8,8	8,2	7,9
Rest of the World	53,6	48,4	44,7	43,9

Basic Statistics of fifteen European Countries. Comparison with the United States of America and with the Union of Socialist Soviet Republics (Statistical Office of the European Communities, Brussels, 1958, 1961, 1963 and 1964).

However, trade between the EFTA and the EEC was also meaningful for the Six. Table 11 shows that, from 1958 to 1963, EFTA was the first trading partner of the EEC, and that exports to this region were much more important than trade with the United States. In fact, in 1963, they represented a 21,1% share while exports to the USA stood at only 6,8%.

Table 11 Total exports of the EEC by area of destination 1958-1963 (in percentage)

	1958	1960	1962	1963
EEC	30,1	34,3	39,7	42,4
EFTA	21,8	21,9	21,9	21,1
USA	7,3	7,5	7,2	6,8
Rest of the World	40,8	36,2	31,3	29,6

Source: see table 10

The British were obviously particularly hit by the veto. With the French move their strategy of overcoming EEC discrimination by joining the Community had failed and a new strategy had to be found quickly. At this point, the GATT Round appeared to be the last resort to try and reduce discrimination within Europe and worldwide. Hence, the French veto changed the British viewpoint towards the Round. London had a positive and urgent economic interest in a successful outcome of the GATT

⁷⁰ PRO T 312/621 Note of a meeting between the President of the Board of Trade and the United States State Department, Washington 4 March 1963. The document can be found also in FO 371/172307.

negotiations, not only because of the possibility of expanding trade with the United States, but also in order to reduce discrimination in Europe. Some useful results had to be achieved in order to attenuate any likely harm to their trade coming from the EEC, while they tried to work out more far-reaching solutions, not yet attainable, for the long term. London feared that the EEC could turn in on itself, just at the time when it was more important than ever for the British to carry forward the liberalisation of European and international trade. Therefore, after the veto which confirmed the trade division of Western Europe into two trading blocs, Geneva offered an opportunity to reduce discrimination against British exports to the Six and, more generally, to alleviate this economic division.⁷¹

The British government had tried to increase foreign trade by entering the EEC, but after the French veto, their main hope of doing so, and the only alternative to immediate membership, now came in the form of worldwide tariff reductions through the GATT in order to create a low tariff world in which regional groupings would not constitute an obstruction to the development of exports. The new situation made it imperative for London to try to obtain the maximum results from the Round – the maximum reduction of the CET and of American tariffs – which would represent a form of compensation for the failure to form a single free market with the Six. The Brussels breakdown made the success of the GATT Round especially important for London, with the latter being perhaps the most interested of all GATT members in a successful outcome. If it were to be that the Round would conclude with results less far-reaching than hoped, London would have to jump both the United States and the EEC tariff walls to compete with American and European products.⁷²

Along with commercial motivations, London had also political reasons for supporting the Round. The British had a major political interest in maintaining, through the Kennedy Round, goods relations between the United States and the EEC. A more negative outcome would have very serious consequences on the Atlantic Alliance, and would place Britain in a very awkward position between the EEC and the United States. The Round had to maintain the political cohesion of the Atlantic Alliance, as any failure of the trade negotiations would increase the strain on the Atlantic Alliance. On the contrary, a successful Round would prevent too wide a contrast between the USA and the EEC.⁷³ Hence, GATT seemed to give an opportunity to reduce economic and political harm caused by integration in Europe resulting from the breakdown of the Brussels negotiations and was regarded in London as offering the possibility of an interim solution, and as an instrument to hold together the Atlantic alliance in a moment of considerable strain.⁷⁴

London was aware that the major negotiations between the two sides of the Atlantic would take place between the two trade blocs of equal commercial strength, the USA and the EEC, while the United Kingdom occupy retain only a secondary position. The 1958 GATT negotiations over the Treaty of Rome had already demonstrated where the power to dictate GATT lay. Notwithstanding this, London had a crucial interest in a successful outcome of the Kennedy Round, underlined, in a debate in the House of Commons of 11 February 1963, by Harold Macmillan, who emphasised the importance

⁷¹ PRO FO 371/172313 The Kennedy Round and the related problem of the EEC Common Agriculture Policy. Memo of the Foreign Office, 4 November 1963.

⁷² PRO FO 371/173313 Confidential document for Her Majesty, undated and unsigned, 1963.

⁷³ PRO FO 371/178090 "The Kennedy Round. The Position on 31 December 1963". Memo of the Economic Relations Department of the Foreign Office, 2 January 1964, FO 371/173313 Confidential document for Her Majesty, undated and unsigned, 1963 and FO 371/172328 Letter of J.E. Chadwick to Sir Patrick Reilly, 14 May 1963.

⁷⁴ PRO T 312/621 "The Kennedy Round", February 1963; BT 303/166 "Kennedy Round: Tariff concessions to be offered by the United Kingdom", 1963; PRO FO 371/172342 Confidential Memo of R. Burges Watson, 16 March 1963.

that his government attached to a successful outcome of the Kennedy Round. "We in Britain are prepared to play our part fully in reducing our own tariffs if we get comparable benefits for our exports markets. [...] We shall work for close co-operation with the Commonwealth, United States, EFTA, and, we hope the Six for the Kennedy Round" said the Prime Minister.⁷⁵

British interest in negotiating in the Kennedy Round can also be explained by observing British patterns of trade from 1953 to 1963. Table 12 and 13 illustrate that, for the UK, Western Europe was becoming the largest and most important trading partner, and that, within Western Europe, the EEC was more important than EFTA in this regard. In 1953, Western Europe imported 27.4% of UK exports (table 12) and supplied 23.4% of British imports (table 13). In 1963, these shares increased respectively to 37.3% and 30.8%. In 1953, 47% of United Kingdom exports went to the Sterling area; by 1963, this had fallen to 35.6%. Concerning imports, in 1953, Britain's share of imports from the Sterling area was 42.8%, whereas, in 1963, this share had fallen to 34.7%. Thus, the direction of British trade had changed significantly and Britain's trade with Western Europe had rapidly expanded. In 1963, Western Europe supplied almost one-third of total British imports.

Table 12 UK Exports by area of destination 1953-1963 in percentage

	1953	1959	1960	1962	1963
Sterling Area	47	40,3	40,2	35,4	35,6
Western Europe	27,4	27,6	29	35,9	37,3
EEC	13,1	14	14,6	19	20,3
EFTA	11,9	11,5	12,1	13,6	13,6
North America	12,4	17,2	15,2	13,7	12,6
Rest of the world	13,2	15	15,6	14,8	15,1

Source: Source: EFTA, EFTA Trade (1964), p.84

Table 13 UK Imports by area of origin 1953-1963 in percentage

	1953	1959	1960	1962	1963
Sterling Area	42,8	36,2	33,2	33,4	34,7
Western Europe	23,4	28	29,2	30,6	30,8
EEC	10,3	14	14,6	15,8	16
EFTA	11,4	11,8	12,3	12,3	12,5
North America	16,8	17,2	20,7	17,4	18
Rest of the world	17	18,6	16,9	17,6	17,5

Source: Source: EFTA, EFTA Trade (1964), p.86

As for British geographical distribution of trade within Western Europe, between 1959 and 1963, the share of British exports to the EEC grew from 14.0% to 20.3%, and the share to the EFTA increased from 11.5% to 13.6% (Table 12). The geographical pattern of imports changed less than that of exports: from 14.0% to 16.0% for the EEC and from 11.8% to 12.5% for EFTA (Table 13). Therefore trade with Western Europe was becoming increasingly important for Britain, and within this area it was the EEC that was become most crucial of all for Britain's trade. These trade patterns explain why, after de Gaulle's veto, London was the most interested country in attending a new GATT Round, which offered a last resort to try to reduce EEC discrimination.

Another consequence of the veto is worth mentioning. After the veto, de Gaulle's attitude towards the Round was unclear, and London, Washington and the Five

⁷⁵ PRO T 312/621 "The Kennedy Round", February 1963 and BT 303/166 "Kennedy Round: Tariff concessions to be offered by the United Kingdom", 1963.

came to suspect that a veto of the trade negotiations was also on the General's agenda. After all, in closing the door to the British membership – on of the element of the Grand Design – the General had argued that the EEC might drown in an Atlantic free trade area should United Kingdom join the EEC, and had also said no to the second element, the MLF. By the same token, he could also veto the third element, the GATT Round. Doubts persisted until the very end of the round in 1967. Further, during all the negotiations, whenever the French opposed an American proposal, the British and the Americans, and sometimes also the Five, were unable to discern whether the French were placing conditions only in order to deadlock the Round or whether the French were willing to negotiate and were simply trying to improve their position in Geneva.

At the end of January 1963, Herter and his deputy Gosset arrived in Europe for their first exploratory mission on the new GATT Round. Herter had planned to start presenting his ideas about the trade conference to the European Commission, the OECD, the GATT and what were thought to be the key European governments. Unfortunately, his plan coincided with the formal closure of the negotiations with the British, after the major blow of the French veto of 14 January 1963. Hence Herter's mission was transformed into a mission to test the French ideas on the Round. Herter met Couve de Murville and tried to get a French reassurance that Paris would not cast a new veto. Unfortunately, the only thing he could get from the French Minister was that "the negotiations would be long-drawn-out".⁷⁶

Particularly worried about a new veto were the British. A part of the Foreign Office, influenced by memos arriving from the British Embassy in Paris, feared that the French would arrange negotiations while, in the meantime, preparing their veto on the Round. What counted for the British Embassy was not the attitude of the French Patronat towards a reduction in discrimination at the multilateral level. Of much more importance in determining the French government's stance would be de Gaulle's attitude towards American policies generally. It is worthwhile reporting the view of the British on the French President, since they give an interesting overview of how he was perceived. For Rumbold of the British embassy in Paris,

"General De Gaulle's position [should be restated] since his eccentric views must constantly be borne in mind. He is only mildly interested in economics and then only insofar as they affect his ability to carry out the foreign policy he wishes. His decision will be taken not in the light of what is commercially advantageous to France but of what he regards as politically desirable. In considering the common agricultural policy of the Community and the Kennedy Round he will have one broad aim in mind, how to make Europe separate from the United States economically, which he regards as a necessary condition for its being separate politically; how to resist what he regards as the American economic domination of Europe which he imagines is the main purpose of the Kennedy Round, a part of the American grand design for an Atlantic free trade area run by the United States; how to ensure therefore that a common agricultural policy on French lines is operated by the EEC and how to ensure that the Kennedy Round either fails altogether or produces only the most meager results. In thinking about these problems he certainly also has in mind that if things go well from his point of view American agricultural exports to Europe will drastically cut and this will mean that it will be more difficult for the Americans to keep their troops in Europe. [...] The correct assessment therefore

⁷⁶ PRO FO 371/172306 Meeting between the Foreign Secretary and Mr. Herter at the Foreign Office, 1 February 1963 and Gosset, W.T. "The Kennedy Round – Progress and Promise" Department of State Bulletin, 19 August 1963, Herter's papers, Box 9, JFKL.

of General de Gaulle's position is that the optimum from his point of view would be 100% success of the common agricultural policy and the 100% failure of the Kennedy Round. [...] ... even if the technical negotiations on the common agricultural policy and the Kennedy Round succeed in bringing matters to a point where an agreement is in sight there will always be a risk that General de Gaulle will give another press conference and wreck the whole thing."⁷⁷

In another letter to the Foreign Office, Ramsbotham, number two at the British Embassy in Paris, wrote that de Gaulle wished to veto the Kennedy Round "for the simple reason that its success would be regarded as a success for the Atlantic policy of his adversaries. He might also want to do so, (a) in order to put President Kennedy in a difficult position in an election year (b) because it could aggravate American difficulties over their balance of payments and this might prompt the United States Government to withdraw more troops more quickly from Europe (c) *simply because the tariff negotiations are called the "Kennedy Round" by other people – though not by him. (For the general this is not a frivolous point)*".⁷⁸

Not all the Americans and British shared this view. Schaetzel claimed that De Gaulle considered the GATT Round simply a matter for the technicians, and would cast no veto of the Kennedy Round. Some of the British held that while on the Brussels negotiations the French answer had to be yes or no, in the case of the GATT Round, de Gaulle could simply reduce the importance of the negotiations rather than casting a third veto that could dangerously anger the Federal Republic.⁷⁹ Although this second view was closer to the truth, what matters is that because of the previous veto of British membership, the entire Round was negotiated under the Damocles' sword of a new French veto, with the result that the atmosphere in Geneva was poisoned, and the French were considered trouble-makers and unwilling to negotiate. As we will see in the next chapters, the French, who had no interest or intention to casting a veto on a reduced GATT Round, fully exploited the fear that de Gaulle could one again say no in order to extract concessions from the Five in internal-EEC bargain and from the GATT partners.

Conclusion

This chapter has described the first reaction of the Six to Kennedy's move. The reaction was only a preliminary one, and it would only be in the course of 1963 that they set fully adopted positions and then elaborated a detailed common stance. Nevertheless some basic aspects were clear. All of the Six agreed to a new trade conference, which, however, was not to endanger the regionalism of the EEC. Trade barriers could be reduced, but an Atlantic free trade area was out of the question. This was the stance not only of Gaullist France but also of those Atlanticist countries such as Italy, and Atlanticist and free-trade governments, such as the Netherlands and West Germany. As noted, the six nation states had chosen to strengthen themselves through European regionalism and they could not accept an American proposal that weakened this regionalism.

Moreover, the Six agreed to a new GATT Round, which they considered an opportunity to reduce American tariff and non-tariff barriers in order to boost their exports to the United States. The moment had come to attack US trade barriers and to

⁷⁷ PRO FO 371/172328 Letter from Rumbold from the British Embassy in Paris to Sir Patrick Reilly, 17 August 1963.

⁷⁸ PRO FO 371/172314 P.E. Ramsbotham from British Embassy in Paris to E.J.W. Barnes in Foreign Office, 15 November 1963, my italic.

⁷⁹ Ibidem.

obtain concessions from Washington. The Six, and by no means only the French, wanted a Round on their terms, and not simply a Round dictated by the TEA provisions: the Round had to be a commercial negotiation which included all barriers to trade, rather than merely a tariff negotiation. This first reaction showed that a common ground between the Six existed. They all considered regionalism of the EEC to be more important than American Atlanticism, and they all held it to be necessary to enlarge the scope of the Round in order that the bargaining be balanced.

The negotiations for the new round started at the GATT Ministerial meeting of in May 1963, but, in fact, events that would influence its final outcome were already taking place in 1962-1963. The dominant supplier clause was linked to the destiny of the Brussels negotiations: casting his veto on British membership, de Gaulle limited the American authority to reduce tariffs and therefore the impact that the GATT liberalization could have on the EEC. De Gaulle materially altered the prospect of the liberal trading world Kennedy had envisaged. After these safe limits established, the Round could begin. Therefore, the first phase of the Round ended in January 1963 with France having establishing safe limits for the Europeans to bargain within.

The veto did not alter the political and economical importance of the Kennedy Round, as, for Washington, the EEC was still a regional trade bloc that had to be integrated into the multilateral system and that had to be firmly kept within the Atlantic Alliance, above all as de Gaulle seemed to aiming at detaching the EEC from the United States. The need to reduce trade barriers did not diminish, on the contrary, the lowering of the EEC and EFTA internal barriers made the Americans determined to use the TEA to its full extent. As for the European governments, they maintained their desire to increase their exports to the United States and, with Western Europe still commercially divided, the multilateral framework of GATT was the forum in which lower discrimination in Europe was to be achieved. The unification of Western Europe was blocked and European countries had to look to the multilateral dimension of GATT to keep the split from deepening and to help to heal it. As a result, the Kennedy Round turned out to be not only a transatlantic negotiation but also a European one. Thus, after the veto, the reasons for launching a new Round were still well-founded and urgent: the economic division of Europe and the willingness of the United States and the EEC to boost their exports to each other led both sides of the Atlantic to look to the multilateral framework of GATT to keep the West together economically.

The veto made the Kennedy Round begin in an atmosphere of distrust between the French and the Americans, and between the French and the Five. Between Kennedy's speech of 4 July 1962, invoking cooperation between the two sides of the Ocean and a partnership between equals, and de Gaulle's veto and the signing of Franco-German Treaty, the state of transatlantic relations had clearly changed. European cooperation with American policy could not be taken for granted and, worse, there was the danger that the Europeans could have develop their own policies, not necessarily coinciding with the American ones. Thus, as shown in the next chapter, after the veto, the Kennedy administration placed the Atlantic partnership under close scrutiny in order to understand whether it still suited American interests.

As for the Six, they had easily agreed in refusing the Atlantic free trade area, but they still had to elaborate a common position with which to attend the Round and, after the French veto, this common position had to be elaborated in the tense atmosphere of mistrust and crisis between France and the Five caused by the veto itself and by the way in which it had been put. As shown in the following chapter, it would be the importance the EEC had come to have by 1963, and the necessity to preserve it, that led the Five to

overcome the tensions caused by the de Gaulle, and the Germans to put forward a new working method to prevent any other French unilateral moves.

Chapter Four

Devising the rules of the Kennedy Round

Introduction

The turbulent atmosphere created by the French veto spilled over into the TEA negotiations. General de Gaulle's veto "wrought a direct structural change in the character of the [...] negotiations [of the Kennedy Round], converting them from Washington's dream of an Atlantic family party into a transatlantic confrontation with a deeply divided Europe."¹ In promoting a new Round, Washington had imagined a scenario in which the United Kingdom was a member of the EEC, and where harmony existed between the two sides of the Atlantic. A different situation had developed when the EEC, the United States and the other GATT contracting parties gathered in Geneva in May 1963 for the Ministerial meeting that had to formally decide about the starting of the negotiations: the United Kingdom was not a member of the EEC, while the Atlantic alliance was under the considerable strain created by the French move discussed in the previous chapter.

Chapter four is dedicated to the preliminary phase of the Kennedy Round during which the decision to formally launch the Round was taken, and the rules of the negotiations began to be formulated. It describes how the trade conference was set in motion in spite of the mistrust in the Atlantic alliance, and how the need to attend the GATT Ministerial meeting pushed the Six to overcome their internal crisis and to reach a compromise in order to attend the preliminary phase. The chapter highlights that the different visions which the Europeans and the American had regarding the Round led them to clash on the rules. The United States gathered in Geneva thinking of conducting the negotiations along the lines of the TEA and believing that their vision would automatically prevail, forgetting that, first, the Europeans had no reason to automatically acquiesce to the TEA, and second, the Round, being a series of negotiations, by definition required compromise. Therefore when became clear that the EEC, even if willing to attend the Round, had no intention of negotiating along the lines of the TEA, clashes inevitably arose. This chapter also draws attention to the puzzle of the Five which arose out of the dichotomy between commercial and foreign aspects of their policies. On the one hand, they wanted to oppose de Gaulle and reassure Washington regarding their Atlanticism; on the other hand, they wanted to protect their commercial interests that coincided with those of France. Chapter four also deals with one of the key issues dealt with in this thesis, that is the role of the Commission and the Member States in the formulation and handling of EEC foreign trade policy. Further, it illustrates the Commission's effort to strengthen its role, and the parallel effort of the Member States to maintain their firm control of foreign trade policy.

4.1 The United States: reaffirming the Atlantic partnership and moving the Kennedy Round forward

The French veto of British membership was a severe setback for the Kennedy Administration that had built the Grand Design for an Atlantic partnership around it,

¹ NA 364 Records of US Trade Representatives on Kennedy Round, Box 5, Background paper "Success for KR?" written by John W. Evans, 19 October 1965.

and when it was followed, on 22 January 1963, by the signing of the Franco-German Treaty of Cooperation, Washington seemed convinced that de Gaulle's aim was to put an end to the American presence in Europe and to destroy the concept of the Atlantic partnership. January's events led the Kennedy Administration to place under scrutiny its policy towards Western Europe in order to examine whether European integration and the Atlantic partnership still suited American interests.² The United States had accepted European integration and its subsequent economic discrimination in the hope of uniting Western Europe, both economically and politically. However, as far as America was concerned, European integration had not to unite Europe under the leadership of France, thereby destroying the Atlantic alliance. Despite the disappointment, the Kennedy Administration came to the conclusion that the reasons to support the Atlantic partnership and European integration were still valid and pressing. West Germany had to be firmly attached to the West and had to be contained, while, in the Cold War context, Western Europe had to be strengthened. At the same time, the Atlantic partnership had to be constructed in a way in which Europe was united within the Atlantic framework of NATO, GATT and OECD, and in accordance with American policy. The Europeans had to fully understand that only on the condition that European integration developed within the Atlantic framework would Washington be able to maintain its support. As Winand notes, "European integration yes, but controlled by American instruments; European unity within the confines of Atlantic partnership"³ Thus, during the very period in which de Gaulle seemed to want to terminate the American presence in Europe, to wipe out the Atlantic partnership, to push the EEC outside the Atlantic framework, and in which the EEC could become inward-looking and protectionist under de Gaulle's leadership, Washington reasserted the importance of the Atlantic framework in keeping the two sides of the Atlantic together under American leadership. As Rusk put it, the breakdown of the Brussels negotiations had not to be regarded as the ruin of the Atlantic policy, "On the contrary the main lines of that policy have become more than ever valid and urgent".⁴

Against this background, it became of the greatest importance to push ahead with those initiatives developed to set up the Atlantic partnership. De Gaulle's move gave urgency to the TEA and MLF negotiations. In particular, the TEA liberalisation process became more critical than before in order to prevent the EEC from becoming an independent bloc under French leadership. Pushing the new Round steadily forward meant challenging de Gaulle's conception of Europe and the Atlantic alliance, and to strengthen the bonds of Atlantic cooperation.⁵ The trade initiative retained its economic importance. De Gaulle's veto of British membership, taken on the grounds that it would have turned the EEC into an Atlantic area run by the Americans put French support for freer trade and an outward looking EEC in question. Once De Gaulle had defended his vision of the EEC, the GATT negotiations had to be successfully concluded so that they

² The Kennedy Administration debate over American policy on European integration process and the Atlantic partnership can be found in FRUS, 1961-1963 Vol. XIII Western Europe and Canada, Section Economic and Political Integration 63-71 documents and NA 59, GRDS, CFPF Box 3415, ECIN 7 EEC, box 3415, Memorandum of Ball to President Kennedy, 1 March 1963; Winand, P. Eisenhower, Kennedy and the United States of Europe (New York: St. Martin's Press, 1993), p. 331-341; Lundestad, G. The United States and Western Europe Since 1945: From "Empire" by Invitation to Transatlantic Drift (Oxford; New York: Oxford University Press, 2003), p.120-126.

³ Winand, P. Eisenhower, Kennedy and the United States of Europe, p. 338.

⁴ Rusk's speech in Los Angeles in February 1963, reported in PRO FO 317/172311 As/Pol (15) 32.

⁵ Preliminary Draft of the report "Components of a Strategy for the Kennedy Round" written by Ball, 10 December 1963, Herter's papers, Box 2, JFKL.

would to favour the implementation of an outward-looking EEC fully integrated in the multilateral context.⁶

In the new context created by the French veto, President Kennedy stressed to his administration the high importance he continued to attach to the trade negotiations, and the need to bring them "to a fruitful conclusion". Ball was instructed to assume personal responsibility for the State Department activities in the trade negotiations and of providing Herter broad foreign policy guidance, and to "be continuously aware of the need for putting these negotiations in their proper relation to our other ongoing negotiations in Europe in the military, monetary and political spheres".⁷ All relations with Europe in different fields had to be carried out in a unified way and according to a central strategy aimed at the advancement of US interests. Herter had to be "the point of coordination for all important statements and actions bearing on relations with Europe". Thus, the GATT Round, which, by this time, the Europeans had started calling the *Kennedy Round*, came to have a central and crucial place in the activities of the Kennedy Administration, which went beyond the significance of a set of trade negotiations.⁸

The French veto made the dominant supplier clause ineffective, but, in any case, the TEA retained its provision to reduce duties by 50%. Even if frustrated in terms of its liberalising potentialities, the US law was still equipped to provide a far-reaching liberalization of trade. Washington therefore kept its aims of liberalising both the industrial and the agricultural sectors. The crucial issue of the entire Round continued to be agriculture, where EEC protectionism was high and the willingness to meaningfully reduce discrimination was lacking. For Washington, the inclusion of this sector in the Round was so important that it could not foresee any meaningful progress in the industrial sector, without similar progress in agriculture. Moreover, the Kennedy administration's aim to use expansion of trade to reduce the deficit in the balance of payments was not affected. On the contrary, there was a continued willingness to boost exports, above all in the agricultural sector, where the USA enjoyed a notable surplus, to reduce the deficit.⁹

In bringing the new Round to a fruitful conclusion, the main difficulties lay in the situation of uncertainty that prevailed in Brussels. A meaningful Round could be set up only if the EEC fully and effectively attended, not blocked by the same obstructionism that the French had employed in the talks with the British, and were employing in NATO over the MLF.¹⁰ The strategy to deal with France was devised by the State Department and, above all, Ball. The Under Secretary felt that the United States lacked leverage over France, but did have leverage over the EEC framework

⁶ PRO T 312/621 Letter from Cohen to Marjoribanks (FO), 25 February 1963

⁷ FRUS 1961-1963, IX, Section 13/263. Memorandum From President Kennedy to Secretary of State Rusk and the Under Secretary of State Ball, 28 February 1963.

⁸ Memorandum of President Kennedy for the Secretary of Defense, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of the Interior, the Secretary of Commerce, the Secretary of Labor Governor, Herter, the Secretary of State, 4 March 1963, Herter's papers, Box 15A, JFKL. It is not clear who named the Round after Kennedy. Reading the archives, the first to use this expression is by the British as early as in December 1962. See NA State CDF box 729 telegram 2414 from US Embassy in London to State Department reporting conversation with Richard Powell, Permanent Secretary of the Board of Trade.

⁹ FRUS 1961-1963 Vol. IX Section 12/256 Report by the Cabinet Committee on Balance of Payments to President Kennedy "Program for Expansion of U.S. Commercial Exports" 24 January 1963; PRO FO 371/172307 Note of a meeting between the president of the Board of Trade and the United States State Department, 4 March 1963 and NA 364 Records of US Trade Representative on the Kennedy Round, Box 6, Note of Courtenay Worthington "Agriculture and the Trade Negotiations", 2 August 1963. The importance of agricultural exports for the balance of payments is also highlighted by Ball in the report "Components of a Strategy for the Kennedy Round", 10 December 1963, Herter papers, Box 7, JFKL.

¹⁰ PRO FO 371/172306 Meeting between the Foreign Secretary and Herter at the Foreign Office, 1 February 1963.

because Italy, Germany and the Benelux countries, for economic or political reasons, or both, all desired successful negotiations. Pressure was to be brought on the Five in order to get them to resist any French attempt to cause the GATT negotiations to breakdown. The major US task consisted, therefore, in bringing the French to accept a meaningful set of negotiations through pressure exerted on the Five.¹¹

Among the Five, the Germans had a decisive position for the United States. Bonn was the only country to have the political and economic strength to face up to de Gaulle, and had to take the lead in the Five's opposition to France. However, before relying on Germany, changes were required. Strongly disappointed by Adenauer, the Kennedy Administration became more positive regarding Erhard. The German Minister had been considered a weak figure in Washington, too favourable towards a European free trade area at the expense of the EEC. With the frustrations caused by the Chancellor, Erhard, who had always emphasized the Atlantic framework, became Washington's choice.¹² Moreover, disappointed by the Franco-German Treaty, Kennedy felt American that opposition to the Treaty had to be made clear to the Germans, who had to choose "between working with the French or working with [the United States]".¹³ Bonn had to be convinced to 'hurry back' into the Atlantic framework and to amend the Franco-German Treaty, linking it to NATO and, implicitly, weakening it. Erhard, and other people angered by Adenauer's decision, such as Foreign Minister Schroeder and the chairman of the Bundestag von Brentano, had to be encouraged to make the Bundestag's ratification of the Treaty conditional on German reaffirmation of the primacy of the Atlantic Alliance. American pressures were not vain. Along with the discontent within the German government, they led, on 16 May 1963, the Bundestag to ratify the Franco-German Treaty proceeded by a preamble which reaffirmed the close partnership between Europe and the United States, favoured the enlargement of the EEC to the United Kingdom, and supported "the elimination of trade barriers by negotiations between the European Economic Community, Great Britain and the United States in the framework of the General Agreement on Tariffs and Trade."¹⁴

To push the TEA negotiations forward, Washington also relied on the European Commission, considered an ally in strengthening the front of the Five against the French, and to achieve the broader American aims in the Kennedy Round. Washington counted on what Tuthill believed to be the strong preference on the part of the Commission for the GATT forum: under the Treaty of Rome the Commission was empowered to negotiate on behalf of the EEC and it saw GATT negotiations as a means of establishing its representational role on behalf of the member states and its international personality. This situation was of particular relevance to the United States, since the Commission, according to Tuthill, favoured a liberal policy, and its influence in shaping EEC decision was never greater than in the context of GATT.¹⁵ Washington

¹¹ Memorandum From the Under Secretary of State Ball to President Kennedy, 8 March 1963, National Security Files, Kaysen Series, Trade Policy, Trade Expansion Act, JFKL; NA State Department Central file subject numeric 59 Box 3489, FT 4 US/TEA, Memorandum from Stanley Cleveland to Schaezel, 27 February 1963.

¹² FRUS, 1961-1963 Vol. XIII Western Europe and Canada, Section Economic and Political Integration 63-71 documents. See also Lundestad, G., *The United States and Western Europe Since 1945*, pp. 125-126.

¹³ FRUS, 1961-1963 Vol. XIII Western Europe and Canada, Section Economic and Political Integration, 69. Summary records of NSC Executive Committee Meeting n. 40, 5 February 1963.

¹⁴ Winand, P. *Eisenhower, Kennedy and the United States of Europe*, pp. 334-335; the quotation of the preamble is taken from p. 335. FRUS, 1961-1963 Vol. XIII Western Europe and Canada, Section Economic and Political Integration, 69. Summary records of NSC Executive Committee Meeting n. 40, 5 February 1963 and *ibidem* 74. Memorandum of Conversation between Rusk, Ball and von Brentano and Knappstein of the German Embassy, 22 March 1963.

¹⁵ NA 59 State Department Central file subject numeric Box 3489, FT 4 US/TEA XR ECIN 3 EEC Telegram n. ECBUS 944 from US mission to the EEC in Brussels to Secretary of State, 22 February 1963.

seemed to wish the Six, that is to say the Five plus the Commission, to set up a common front against the French in order to prevent a new veto and to ensure a fruitful conclusion to the new Round. When he met Hallstein on 4 March, Kennedy not only underlined the importance he attached to the TEA negotiations, but also stressed the importance of the role of the Commission in successfully concluding the trade talks. By the same token, in meeting Commissioners, Robert Marjolin, Vice President of the Commission and the person responsible for economic and financial policy, and Jean Rey, in charge of the Community's External Relations, Kennedy restated the importance of the new Round – also as an instrument to rectify the US deficit in the balance of payments – and the crucial role of the Commission.¹⁶

Washington also sought the collaboration of the other GATT members, and in particular of the United Kingdom. Both London and Washington were particularly concerned to reduce discrimination worldwide and feared French obstructionism. The Americans and the British agreed to maintain close contact and to collaborate to conclude the Round. However, as they were soon to discover, the fear of a new French veto was not sufficient to keep them united. While Herter made it clear that the United States would have to pull out of the Round if agricultural protectionism was not reduced, the British were more interested in the industrial negotiations, and were concerned by the possibility that progress in this sector could be held up by an emphasis on agriculture.¹⁷ By the same token, the USA was soon to discover that the Commission and the Five were along the lines which Washington desired. Mistrust of the French was not, in fact, sufficient to reconcile different trade interests.

4.2 The EEC: from crisis to synchronization

The French rejection of British membership, and the way it had been handled, placed the EEC in a crisis situation that also regarded the preparations for the Kennedy Round. The Five reacted with anger and concern to the French move. Fifteen months of negotiations were brutally interrupted and the process of enlargement indefinitely postponed by a sole member and a press conference, showing that such a fundamental topic could be decided upon by French unilateralism rather than by a collective EEC decision. The mutual confidence upon which the very existence of the EEC depended was badly shaken, and French move left the EEC in a phase of crisis, which had the potential to put at risk its survival. Moreover, de Gaulle's rejection of the American MLF and the Atlantic partnership, and the signing of the Franco-German Treaty seemed to show the Five that the French President had every intention of imposing his own vision of the European Community and relations with the United States. At the same time, in this atmosphere of anger and concern, a certain level caution was also apparent. The economic and political reasons that had led to the signing of the Treaty of Rome were still very relevant among the Five. The EEC was vital and no-one wished to sacrifice it for the British. Notwithstanding the bitterness caused by de Gaulle's move, it was not worth risking the existence of the EEC for the sake of the UK. These common interests prompted a common determination to move ahead with the integration process

¹⁶ For the meeting with Hallstein see AECB PV 220 6 March 1963. For the meeting with Marjolin and Rey see FRUS 1961-1964, Vol. IX: Foreign Economic Policy 276. Memorandum for the Record, reporting meeting between Kennedy, Ball, Herter and the two commissioners, 2 May 1963.

¹⁷ PRO FO 371/172307 Note of a meeting between the president of the Board of Trade and the United States State Department, 4 March 1963 and *ibidem* Note of a meeting between the president of the Board of Trade and Governor Christian Herter, 5 March 1963.

and led the Five to give priority to overcoming the crisis and setting the Community back in motion.¹⁸

The main problem that the Five faced was how to resume normal work within the Community and prevent any other French unilateral decision, getting the EEC to work for in the interest of all Six and not only of France. The EEC was undergoing a crisis of confidence, as the Five no longer trusted the French's basic intentions, and wanted guarantees. As the Dutch government put it to Hallstein, de Gaulle's veto had created a problem of confidence between the French and the Five, as the mutual trust that had characterized the working of EEC until that time had been seriously shaken.¹⁹ The need to prevent a new French unilateral move was particularly needed in the context of the Kennedy Round. De Gaulle's veto and the strong anti-American tone of this rejection pushed the Five to wonder whether a new veto in the TEA negotiations, which, together with the British EEC membership and the MLF, constituted the founding elements of Kennedy Grand Design, would follow. The Five were not reassured by the fact that, at the GATT session in the middle of February, the French agreed to set the date of the Ministerial Meeting for the following May. A veto could always be held later, and France had to be convinced to meaningfully negotiate in Geneva and not simply to obstruct the new Round with dilatory conditions. Thus, the main problem was how to bring the French along to the TEA negotiations while making sure they would not cast a veto at the very last moment, and ensuring that, after concessions had been made to the French in the CAP or the Association agreement, Paris would not jeopardize talks in Geneva.²⁰

For the Five, the EEC participation at the Kennedy Round was of foremost importance. The participation was in line with their trade interests in reducing discrimination in Europe and diminishing American trade barriers, but they had also to show themselves to be loyal allies to Washington, not led by the anti-American French, and with the every intention of putting in place a liberal EEC.²¹ Among the Five, the Federal Republic was particularly determined to conclude the GATT negotiations. With the EEC enlargement process interrupted, and the confirmation of the economic division of Western Europe, for Bonn it was essential to push forward the negotiations in Geneva so as to smooth such division and, at the same time, put in place an open Community. This corresponded with German economic interests: with 27,2 % of its exports going to EFTA countries in 1963, and with growing export rates to the United States in 1959-1963, the Federal Republic had to defend its trade interest beyond the confines of the EEC.²² Moreover, after the resentment created in Europe and across the Atlantic for the bilateral Franco-German Treaty, the Germans had to demonstrate their

¹⁸ On the priority the Five gave to the existence of the EEC, see AECB PV 218 20 February 1963 and PV 221 13 March 1963 reporting the meetings between the Commission and the governments of the Five in the aftermath of the veto. See also PRO T 312/621 Telegram 3 From United Kingdom Delegation in Brussels to Foreign Office, 21 January 1963. The telegram reports a conversation between a Belgian official in the EEC Council of Ministers' Secretariat and Sir A. Tandy of the British delegation in Brussels in which the Belgian official claims that none of the Five wanted to put at risk the EEC for the sake of the British. See also Ludlow, N.P., *The European Community and the Crises of the 1960s: Negotiating the Gaullist Challenge* (London: Routledge, 2006).

¹⁹ AECB PV 221 13 March 1963.

²⁰ NA 59 State Department Central file subject numeric 59 Box 3489, FT 4 US/TEA, Memorandum from Stanley Cleveland to Schaezel, 27 February 1963. In short, what the Five had to avoid was the repetition of what had happened in the enlargement negotiations, when concessions had preliminary made been to the French on the CAP, only to then see a veto of British membership on political grounds. Ludlow, N.P. *The European Community and the Crises of the 1960s*, pp.23-25.

²¹ AECB PV 221 13 March 1963.

²² The figures are taken from the previous chapter. HAEC MAEF, OW 50 *Resumé du Rapport envoyé le 1er Mars*, a Bonn, par M. Hankort.

commitment to European integration, and their loyalty to American Atlanticism, and could not risk the American wrath they would face if they consented to a French nullification of the Kennedy Round.²³

Bonn also had the need to direct the working agenda on the EEC in order to prevent French interests from dictating Community policy. The EEC had to avoid concentrating only on the CAP and evolving into a protectionist bloc led by Paris, and the best way to achieve these goals was to attend the GATT Round with the French on board, willing to meaningfully negotiate in Geneva. The Federal Republic came to play a crucial role in setting the Community in motion again. Bonn was aware of being the only country among the Five to have the political and economic strength to counter de Gaulle. As explained below, all these considerations, led the German Foreign Minister Schroeder to take the initiative of putting forward an Action Plan in Brussels with the aim of defending and achieving German goals within the Community, preventing any other unilateral move by the French, and setting up a working agenda for the Community that made the accomplishment of French objectives dependent on the realization of German aims.²⁴

In France, the elaboration and implementation of the CAP and the signing of the Association agreement remained major priorities. As for the Kennedy Round, after the crisis provoked by the veto, the French aim was to avoid the appearance of new and serious difficulties. Given the importance the Five, above all Germany and the Netherlands, attached to the Round, the French trying to wreck it would prove too much for them and would provoke a far more serious crisis within the EEC. Moreover, with the Kennedy round frustrated in its liberalizing potential there was no reason for de Gaulle to cast a French veto and cause a major clash with the European partners. Further, France was also interested in attending the GATT negotiations in order to decrease discrimination in Europe and attack American barriers. However, French acquiescence to the new Round was not unconditional. The EEC could attend, provided the Treaty of Rome was fully put in place, which meant, among the other things, full implementation of the CAP. The EEC represented a sole unit and it was not possible to envisage progress in the tariff policy if there was no progress in other sectors.²⁵ What mattered before the negotiations in Geneva could begin, was "le bon fonctionnement du marché commun et notamment l'approbation des règlements de politique agricole commune actuellement à l'étude".²⁶ The French adopted the attitude that, given the unsettled state of relations among the EEC members, it would be harmful to the cause of European unification if the EEC concentrated on its relations with third countries at the expenses of its internal issues. As de Gaulle put it, "l'essentiel, avant toute association avec l'Angleterre et avant la négociation tarifaire avec les Etats-Unis c'est de mettre le Marché commun debout. Quand sera fait, on verra à passer des accords avec d'autres".²⁷ This position corresponded to French European policy in the economic

²³ PRO FO 371/172307 Note of a meeting between the president of the Board of Trade and the United States State Department, 4 March 1963.

²⁴ Ludlow N.P. *The European Community and the Crises of the 1960s*, pp. 25-35 and Bange O. 'Picking Up the Pieces'. (PhD dissertation, London University, 1997), pp.191-193. Both authors describe German diplomatic efforts to elaborate a resumption of EEC activity and an arrangement with the rebuffed United Kingdom. See also PRO FO 371/172328 Note "France and the Kennedy Round" by Burges Watson, 30 May 1963 and HAEC MAEF, 50 *Resumé du Rapport envoyé le 1er Mars*, a Bonn, par M. Hankort.

²⁵ AECB PV 218, 20 February 1963 reporting conversation between Hallstein, Couve de Murville and Giscard D'Estaing in Paris.

²⁶ MAEF, DE/CE 1961-1966 GATT 930, Note 92/CE Nouvelles négociations tarifaires multilatérales, 1 April 1963.

²⁷ Conseil du 13 février 1963. Peyrefitte, A. *C'était de Gaulle* (Quarto Gallimard), p.384-385. De Gaulle's link can be found also in NARA State Department Central file subject numeric 59-250-5-8-4 Box 3489, FT 4 US/TEA, Memorandum

sector: first building up and consolidating the EEC, then let it participate to the development of world trade on the same footing as other countries, but conserving the European character of the EEC and without any dilution.²⁸

The implementation of the CAP was not merely a French political exigency, but also a logical requirement. The Six could not negotiate in Geneva over agriculture if they lacked a common agricultural policy. As Washington maintained that the GATT Round had to include agriculture, the final adoption of the CAP represented the essential basis.²⁹ However, for Paris, this was also a way to put pressure on the recalcitrant Germans, not only to fully implement the CAP as established by the Treaty of Rome, but also to accelerate it in time for the Geneva talks. Bonn had to approve the CAP if it wanted to attend the Geneva negotiations. Therefore, Paris was resolute in exploiting the fear of a new veto of the Kennedy Round in order to extract concessions, trading its participation in Geneva for concessions by the Five on other EEC matters. In short, Paris wanted to be recompensed for attending negotiations in which it was interested in in any case. As such, Paris did not look to the TEA negotiations as another element of the Kennedy Grand Design to be vetoed, but rather as an opportunity to reduce trade barriers, above all in Europe, and as an instrument to extract concessions from the Five, and from Germany in particular.

Therefore while the Five spoke strongly about the serious situation within the EEC and the need to make a success out of the Kennedy Round, the French representative Boegner warned that his government did not oppose EEC participation to the Geneva Round and the EEC adopting outward looking policy, but however the outstanding elements of the agricultural regulations had to be agreed, and the Association convention had to be signed, the accelerated tariffs change envisaged for 1 July 1963 had to take place. Without these conditions being met, France would have difficulty agreeing to the EEC taking a accommodating line in Geneva.³⁰ This link was also made clear by Wormser to German Secretary of State, Ralph Lahr. The Frenchman reasserted quite uncompromisingly that France wanted the signing of the Association Agreement and the implementation of the CAP, indicating that with these conditions met his government was ready to constructively attend the GATT Round.³¹

Among the Five, differences existed regarding how to react to the French. While Italy, The Netherlands, Belgium and Luxembourg seemed more ready to adopt a confrontational pose towards France, the Germans aimed at elaborating a way to take the EEC out of the crisis and make it resume activities and, after having initially showed their anger at French unilateralism, were reluctant to openly confront and challenge the French, as this could slow the resumption of EEC activities. These different attitudes became evident at the 111 Committee meeting of 7 March. Here, the French delegates, Jean Wahl and Bernard Clappier, warned that the resolution of the internal EEC problems had to precede TEA negotiations, and that the inclusion of agriculture in the new GATT Round required the preliminary implementation of the CAP. At any rate,

from Stanley Cleveland to Schaetzel, 27 February 1963 where it is written "According the view of the American Embassy in Paris, a backgrounder by the French of Minister of Information Peyrefitte was the source for press stories to the effect that France was reluctant to reduce the level of the CXT. Peyrefitte reportedly linked the Kennedy Round with the final settlement of United Kingdom-EEC negotiations, maintaining that progress on either point had to await progress within the EEC itself".

²⁸ HAEC-MAEF, OW 36 Note «Politique européenne de la France – questions économiques», 17 May 1963.

²⁹ MAEF, DE/CE, 1961-1966 GATT 930, Direction des Affaires Economiques et Financière – Service de Coopération Economique, Note 92/CE Nouvelles négociations tarifaires multilatérales, 1 April 1963, and ibidem Note du Quai D'Orsay "Kennedy Round" undated document but surely written between 1 April and 8 May 1963.

³⁰ CM2 1963/949 536 PV de la 250ème réunion du Comité des Représentantes permanents, Bruxelles 7-8 March 1963.

³¹ AAPD 1963, document 115, Aufzeichnung des Staatssekretärs Lahr, 9 March 1963.

France had not yet taken a decision at the political level regarding the basic question of the participation in the TEA negotiations. The Belgian De Smet reacted strongly to this French view, stressing the importance of the EEC taking a positive decision regarding the participation in the TEA negotiations. There was no point in beginning negotiations with the USA and other GATT members without knowing the basic French position, as it was not possible to begin the new Round without the assurance that, at later date, a member would, for political reasons, decide not to continue negotiations. There was also no point of approving the CAP unless France took a positive attitude towards the Geneva negotiations. The Belgians obtained the support of the Dutch, Italians and Luxembourgais. The Dutch in fact adopted an even stronger stance, and warned that internal development of EEC could proceed only after the decision had been reached to move forward with TEA negotiations.³²

The French did not turn out to be very impressed. Clappier fired back at the Belgians and Dutch that de Gaulle was "perfectly willing to torpedo TEA, and, for that matter the Common Market" and warned that Belgium should consider these prospects "carefully in developing its policies and tactics". If the Association convention was not agreed upon in a reasonable period of time French would draw logical conclusions as regards "desirability continuation of Common Market", and if the 1 July alignment step was not taken, France would "not participate in TEA negotiations" warned the French officials. The Belgians defined French tactics as "blackmail", but above all expressed particular concern about the German delegate's silence at the meeting that could represent a "conscious Adenauer policy not to oppose French." In effect the Germans, who were trying to develop a way out of the crisis, did not join the rest of the Five in condemning French statements and remained comparatively silent.³³

It was against this background that, at the meeting of the Council of Ministers of 1-2 April, Schroeder held that the time for taking an initiative had arrived, and put forward his solution for moving the EEC forward: the synchronization plan.³⁴ The German minister claimed that the EEC was going through a period of confidence crisis. In the previous years, the distribution of benefits among its members had not been equitable, but for the future a working program had to be established to make sure that the EEC would advance in a more equitable way. Germany did not demand "préalable", said Schroeder, but for the future, it did expect a "synchronization" of work, in the sense that the expectations of individual members would be fulfilled in as even a manner as possible. The German minister tabled an Action Plan – a working program – for the next 18 months in three stages, which responded to the German need to implement a liberal EEC that would not concentrate solely on the CAP. Schroeder's policy was directed at overcoming the crisis of confidence through a synchronization of concessions that the Six had to make in different areas and which the EEC had to settle, including the Kennedy Round. The plan reflected a strong intention not to make concessions to the French until as the latter were prepared to agree to specific steps in

³² CM2 1963/304 PV de la 43^{ème} réunion du Comité 111, 7 March 1963 and NA 59 State Department Central file subject numeric box 3489 Telegram 1040 from Tuthill to State Department, 15 March 1963.

³³ NA 59 State Department Central file subject numeric box 3489 Telegram 1040 from Tuthill to State Department, 15 March 1963. The telegram reports a conversation between Tuthill and a Belgian unnamed source. At the end of the meeting, the French delegate privately thanked the Belgian for sharpness of this attack, saying it would perhaps be helpful to obtaining more forthcoming instructions from Paris.

³⁴ That the moment to take an initiative had arrived was confirmed to Schroeder by the meeting between Lahr, Clappier and Wormser on 26 March where the French indicated their willingness to see the relations between the Six stabilized, to deal with the Austrian request of association, and to enter the Kennedy Round in a constructive way, confirmed to Bonn that an initiative could be taken. AAPD 1963, document 134, Aufzeichnung des Staatssekretärs Lahr, 28 March 1963. See also Ludlow N.P. The European Community and the Crises of the 1960s, pp. 33-34

the field of trade negotiations and other areas of interest to the Five. The German synchronization plan was well received by all five partners. While not all the aspects of the Action Plan received equal support, Couve de Murville, Colombo, Spaak, Schaus and Luns welcomed it as a way out of the crisis, and a means of making the EEC advance in an equitable way.³⁵

The acceptance of the synchronization plan did not mean that the Six had settled their problems. The plan, in fact, had to be applied, and here troubles rose again. After having welcomed the German plan, the Council of Ministers fully analysed the problems related to the position of the EEC at the GATT Ministerial meeting. For Erhard, who received the support of Italy, The Netherlands, Luxembourg and Belgium, the new Round could achieve an improvement of the conditions needed to expand world trade, and represented a landmark in the evolution of the world economy: it could lead to an outward-looking EEC and reassure third countries of its liberal attitude. The Community had to be fully aware of the political and economic importance of a successful Kennedy Round. A reduction in tariffs would reduce the negative effects of the economic division of Europe, and increase the level of cooperation within the Atlantic Alliance. The EEC's agreement to the Kennedy Round had to be comprehensive, and the Six had to avoid attending the round while hoping or working for its failure. In concluding, Erhard underlined "l'influence favorable qu'une politique libérale de la Communauté dans ses relations extérieures pourrait avoir sur l'évolution de sa conjoncture interne". At the same time the Dutch de Pous clarified that "un échec des futures négociations du GATT [...] pourrait même compromettre sérieusement l'évolution future de la Communauté elle-même".

Giscard D'Estaing, supporting Erhard's opinion that the EEC had to follow a liberal commercial policy, underlined how illusory it was to start and carry on negotiations in the agricultural sector in Geneva if, on parallel plan, the CAP "ne fait pas l'objet d'une définition plus précise", and if the Community lacked marketing regulations and agreed prices. The EEC could not negotiate as a unit in Geneva if it lacked a common policy. Giscard D'Estaing, not particularly impressed by Schroeder's synchronization plan, made clear that his government wanted the full approval of the CAP before negotiating over agriculture in the GATT forum. Here lay the French answer to German synchronization. As such, American insistence to include agriculture in Geneva played into the hands of the French, who could now reasonably and logically require the elaboration of the CAP as a condition for attending the Round.³⁶

In the end, the Six elaborated a compromise by recognizing the importance of the GATT Ministerial meeting and declaring themselves to be, in principle, in favour of the EEC attending the Round, "dans le cadre d'un développement harmonieux de ses activités internes et externes". The link between the GATT Round and the CAP had, for the time being, been resolved with this vague formula, but the issue, as shown in the next chapters, dragged on until July 1966. In any case, the Council meeting was the first encouraging note since January and a clear sign that the EEC had been set in motion again. Foreign Minister of Luxembourg Schaus expressed his optimism, saying "We have beaten the crisis", while Spaak claimed "It is spring again after the winter".³⁷ Behind the scenes, however, the situation was more complicated: Schröder's plan was accepted and Couve de Murville gave a polite response, avoiding mentioning any pre-

³⁵ CM2 1963 PV de la 100ème session du Conseil de la CEE, 1-2 April 1963; AECB PV 224, 3 April 1963. See also NA 59 State Department Central file subject numeric Box 3489, XR FT 4 US/TEA Telegram n. 1181 from Tuthill to Secretary of State, 19 April 1963. See Ludlow N.P. *The European Community and the Crises of the 1960s*, pp. 35-37.

³⁶ HAEC MAEF, OW 36 Le Ministre de l'Agriculture à Monsieur le Ministre des Affaires Etrangères, 17 April 1963.

³⁷ PRO FO 371/172307 Telegram 82 from Brussels to Foreign Office, 3 April 1963

conditions, but when the Kennedy Round was discussed, the French made their support conditional on the approval of the CAP. Thus, there were no concessions contained in the French position.

4.3 The Commission, 111 Committee and the EEC technical preparation for the Round

While the Six tried to find a new basis for setting the the EEC in motion, the fact that the GATT Ministerial meeting, fixed for 16-21 May, was fast approaching obliged the Six to carry on with the technical preparation of a common position to be presented in Geneva. Before describing the EEC discussions leading to the elaboration of the common position, it is worthwhile first describing how the Treaty of Rome regulated the formulation of the foreign commercial policy. This description helps us to understand the decision-making process for the common commercial policy, and the respective roles of the Commission and Member States.

As noted, the common commercial policy was one of the main foundations of the EEC. If the internal mechanism of the common market was to work efficiently, coordinated action in external trade was required. The respective roles of the Council of Ministers and the Commission were scarcely defined by the Treaty of Rome. Article 111 required member states to coordinate their commercial relations with third countries in order to facilitate the setting up of the common commercial policy by the end of the transitional period. Article 111 also required the Commission to submit proposals to the Council of Ministers for "a common action and [...] a uniform commercial policy". The Commission was also given the exclusive right to negotiate with third countries on the CET, but with the assistance of a special Committee – named article 111 Committee or simply 111 Committee – appointed by the Council of Ministers. However, the article did not specify of what nature the assistance should be, and did not prescribe the structure of the Committee. It did not state who should sit on the Committee, whether the Council collectively should nominate the people to serve on it, or whether this should be left to the individual Member States. Unsurprisingly, the latter course was followed. Most importantly, the article did not deal in detail with the relations between the Commission and the member states' representative in the Committee, the procedures for Commission's consultation with it, what matters should be referred to it, or the weight to be attached to it. In 1958, in order for the Commission to start acting as the negotiator, the first thing to be done was to set up the 111 Committee. The Member States appointed their most senior trade policy officials in order to effectively defend their trade interests. The first and decisive battle took place over who should take the chair. Starting from its legal role as negotiator, the Commission wanted to treat the Committee as an ordinary advisory committee or working group. This meant that the Commission would chair it, provided a secretariat and dictate the agenda. The member states, led by the inaugural Belgian Presidency, insisted that, under the terms of the Treaty, the Committee was an organ of the Council. Consequently the Presidency should take the chair. The Commission tried to seize the initiative by sending Commissioner for External Affairs, the Belgian Jean Rey, to early meetings of the committee in the expectation that the member states' representatives, being officials, would defer to his political status. Unfortunately for the Commission, this did not happen, as member states seized the Presidency and consolidated their grip on the chairmanship. As a result, the 111 Committee became the Committee where the

representatives of the members controlled the Commission.³⁸ In the Dillon Round, the Commission had represented the EEC in the negotiations, however Member States had maintained a very active role by attending the bargains with third countries and enjoying speaking rights. Thus, in the Kennedy Round, the Commission had every intention of getting rid of the presence of member states during the bargain in order to fully affirm its role as sole negotiator. As shown below, this was a difficult task for the Commission, as member states were reluctant to renounce an active role in GATT.

It was in this context that the Commission and the 111 Committee started working on the EEC common position. In the work of the 111 Committee that took place from January to the end of March, the Six and the Commission fully agreed that the main aim of the EEC was to create conditions in they could expand its exports to third countries' markets, above all to the United States, but that a simple linear cut of tariffs of 50% and the limitation of the negotiations to tariffs would not be sufficient to open third countries' markets. First, a solution had to be found to the disparity problem. American tariffs were the result of negotiations, compromises, escape clauses and peril points, and were consequently more dispersed, with some very low duties, but also some very high ones. In contrast, the CET was, in most cases, an average of previous levels, with a narrower spread between the highest and lowest levels, and more moderate and homogeneous compared to the tariff structures of the USA, and also of the United Kingdom (see Table 1).

Table 1 Comparison of EEC, US and UK Tariff Rates

	EEC	United States	United Kingdom	EEC	United States	United Kingdom
Rates of duties	Number	Number	Number	Percentage	Percentage	Percentage
Free	298	364	316	7,9	9,7	8,4
1-5%	214	237	17	5,7	6,3	0,5
6-10%	1031	729	1113	27,4	19,5	29,6
11-15%	1290	870	239	34,3	23,1	6,3
16-20%	771	508	920	20,5	13,5	24,5
21-25%	146	275	206	3,9	7,3	5,5
26-30%	6	276	154	0,2	7,3	4,1
31-35%	2	107	725	0,05	2,9	19,3
36-40%	2	69	8	0,05	1,8	0,2
41-45%	0	120	31	0	3,2	0,8
46-50%	0	91	27	0	2,4	0,7
51-55%	0	43	0	0	1,1	0
56-60%	0	8	0	0	0,2	0
<61%	0	63	4	0	1,7	0,1
Total	3760	3760	3760	100	100	100
Average	11,7%	17,8%	18,4%			

Source: AECB BAC 845 118 83 Comparaison statistique du Tarif Douanier Commun de la CEE, du Tarif des Etats -Unis et du Tarif du Royaume-Uni, Office Statistique des Communautés européennes, 1963.

The EEC's fear was that it would be placed in a disadvantageous position if all duties were cut by an equal percentage of 50%, so reducing the already moderate EEC tariffs while leaving some American duties at a still very high level. An equal linear cut would give the Americans greater advantages, and reciprocity would not be attained. Moreover, because of the low level of the CET, in future negotiations the EEC would be unable to use the CET as a bargaining tool to bring down other countries' tariffs. It was in this Round, therefore, that the EEC had to obtain maximum concessions.³⁹ This

³⁸ Johnson, M. European Community Trade Policy and the Article 113 Committee (London: RIIA, 1998).

³⁹ HAEC BAC 506 026/1969 CEE Conseil Rapport du Comité spécial de l'article 111 sur l'attitude de la CEE en ce qui concerne la réunion ministérielle et les nouvelles négociations dans le cadre du GATT S/298/63 (CoS 38) 30 April 1963.

concern was fully shared by the Six as a whole, and by their industries. In particular they were shared by the German member of 111 Committee, Reinhardt, who, in January 1963, proposed to have, as the goal of the new Round, the putting in place of a ceiling of duties, for the respective product categories for all industrialized countries in order to *harmonize* tariffs worldwide, as the French had already advocated. All the Six agreed with Reinhardt's proposition although Italy and the Dutch were worried about whether the USA would be able to negotiate along this plan. While for the French, it was necessary for the EEC to elaborate its own negotiating plan along its own trade interests, and then present it in Geneva to negotiate with third countries and the USA. Under the German suggestion, the solution to the disparity problem envisaged by the 111 Committee was *écrêtement*, and embodied the unanimously accepted principle that the Kennedy Round had to be used to harmonize duties and, in particular, to lop off the peaks in the American tariffs. In fact, it advocated more accentuated reductions for very high duties, and more moderate reductions for ones which were already relatively low, under a negotiating plan for the rapprochement of duties of the most important countries towards target duties for raw material, for semi-manufacturers and finished products. It is worth noting, therefore, that the *écrêtement* was not a plan presented by the French to sabotage the Kennedy Round, but was born out of a German initiative.⁴⁰

The Six and the Commission easily agreed that non-tariff barriers (NTBs), the main obstacles to EEC exports to the United States, had to be included in the negotiations, and that the harmonization of the regulations applied by GATT countries had to be increased. As for the LDCs, special attention had to be given to the problems of this group of countries in order to keep them within the GATT and prevent them from turning to other international organizations to deal with their trade problems. Thus the principle of reciprocity was not to be applied too strictly with regard to them.

The elaboration of a common position on agriculture appeared more tricky. The Commission and 111 Committee unanimously supported the inclusion of this sector in the Geneva negotiations, and agreed that the EEC had to obtain precise engagements from agricultural exporting countries to control and regulate their production, or at least their exporting policy. However the way to include it divided 111 Committee. France, Germany and the Netherlands distinguished products which were part of common agricultural markets under the CAP and products covered only by tariffs. This second category had to be subjected to the general rule for reducing duties that the contracting parties would agree on, while, regarding the first category, parallel negotiations with specific rules had to be held. Germany, moreover, importing large quantities of foodstuff from Denmark, wanted to give European countries assurances of access. Italy refused this separation. Italian agricultural exports to the EEC were products covered worldwide by tariff protection, therefore Italy ran the risk of only seeing protection on these products reduced. If rules for reducing protection of products subjected to a common market organization were not fixed, Italy would not allow subjecting other products to normal tariff cuts. Most crucially, for France the attitude of the EEC at the GATT Ministerial meeting was made dependent on the solution of some problems that affected the EEC internally, since it would be impossible to start a GATT Round if the structure of the Community was not sufficiently strengthened and, in particular, if the

⁴⁰ CM2 1963/304 PV de la 40ème réunion du Comité 111, 10 January 1963. This method for reducing tariffs had been presented by the French Minister Pompidou to GATT in 1954 and was also an earlier scheme put forward to establish the CET during the negotiations for the Treaty of Rome and then not adopted. See Alkema, Y. "European-American Trade Policies, 1961-1963" in Brinkley, D. and Griffiths, R.T. (Eds.) John F. Kennedy and Europe, p. 230. For the elaboration of the plan see CM2 1963/949 CEE Conseil, Etat Actuel des Travaux préparatoires du Comité Spécial de l'article 111 concernant les questions relatives à une nouvelle série de négociations multilatérales dans le cadre du GATT, 21 March 1963.

CAP had not made substantial progress. In contrast, the other five delegations deemed it particularly important for the EEC to take a favorable stance towards the Round, as after the breakdown of the negotiations with the British, the EEC had to avoid giving the impression of being inward-looking. It is worth noting that despite their position regarding the CAP, the French adopted a constructive attitude, making proposals and not refusing to actively attend the preparatory work.⁴¹

From the outset, the Commission showed itself to have clearer ideas than Member States regarding the way to deal with agriculture. This institution considered the Round an opportunity to regulate agriculture at world level. It envisaged the setting up of commodity agreements on the principle commodities – grains, meat, dairy products and sugar – in order to organize agriculture at world level, and improve the balance between production and consumption. Exporters would have to intervene in production to limit it, while the EEC as an importer could engage in adopting a maximum price for its production. For products covered by duties, tariff negotiations could be held. At the same time, the EEC had to obtain concessions. The United States had to give guarantees regarding the way it applied sanitary regulations, used as instrument to limit imports, and had to renounce the GATT waiver of 1955 which allowed quantitative restrictions. Most importantly, the adoption of EEC regulations on these products had to take place in order to avoid a delay in the Geneva negotiations. For the Commission, the EEC internal work on the CAP had to go hand in hand with the elaboration of the EEC position for the Kennedy Round, so that the EEC could have a coherent negotiating position in Geneva. In particular, fixing common cereals prices appeared urgent.⁴²

4.4 First skirmishes in Geneva

While Washington sought to bring the EEC to meaningfully negotiate in the Round and the Six recovered from the crisis, talks continued in Geneva. At the GATT session of 19-21 February 1963, the date of the Ministerial meeting was hurriedly set for 16-21 May 1963. The Kennedy administration needed to show its firm intention to set up the Round in order to put pressure on the EEC to come to Geneva to negotiate, and had to prove to Congress that the legislative authority granted under the TEA was being fully used.⁴³ As for the European Community, the Five had to reassure third countries, and in particular the United States, about the capacity and willingness of the Community to attend the Round, while the French judged wise not to anger the Five by further opposing the fixing of the date.⁴⁴ Moreover, looming beyond the GATT Ministerial meeting was the world conference on trade organized for 1964 by the United Nations and whose Preparatory Committee would hold its second session from 22 May in Geneva. There, it was likely that the Soviet Union would take every opportunity to undermine the Western trading structure and the GATT, and to spark a rift between the LDCs and the industrialised countries. These letters therefore intended to anticipate the

⁴¹ CM2 1963/304 PV de la 43^{ème} réunion du Comité 111, 7 March 1963; CM2 1963/949 Rapport intérimaire du Comité Spécial de l'article 111, 13 March 1963 and Ibidem Etat Actuel des Travaux préparatoires du Comité Spécial de l'article 111 concernant les questions relatives à une nouvelle série de négociations multilatérales dans le cadre du GATT, 21 March 1963, S/206/63 (CoS 23). For the position of the Commission See AECB BAC 845 118/83 Recommandation de la Commission au Conseil, 26 March 1963, I/COM(63) 115.

⁴² AECB, PV 224 3 April 1963 and ibidem «Participation de l'agriculture aux négociations à entreprendre dans le cadre du TEA del 1962», 9 April 1963 and AECB, PV 227 30 April 1963.

⁴³ CM2 1963/949 PV de la 207^{ème} réunion du Comité des Représentantes permanents, Bruxelles 13-14 March 1963.

⁴⁴ CM2 1963/946 Note d'information du Conseil "Réunion ministérielle dans le cadre du GATT", 31 January 1963.

United Nations meeting, in order to show that they and the GATT were also active in dealing with the LDCs' problems.⁴⁵

The Ministerial meeting agenda consisted of adopting a position on the principles for the forthcoming negotiations, and in considering rules to reduce or eliminate duties and other barriers to exchanges, rules for ensuring access to world markets for agricultural and other primary products, and measures for the expansion of LDCs' trade.⁴⁶ Thus, the first task of the contracting parties was to agree upon the rules of the negotiations, a particularly important process, as for the first time in GATT history a Round was to achieve across-the board tariff cuts, and deal with agriculture and with the problems of LDCs. And since the rules for playing the game are as important as the game itself, it should come as no surprise that governments spent almost two years bargaining on the rules, eventually resorting to pragmatic solutions. In this phase, the different visions of the United States and the EEC on the Kennedy Round appeared, crystallized around the requests for different rules and inevitably clashed.

Washington had clear ideas on the rules. Both agricultural and industrial items were to be eligible for the 50% linear cut, keeping exceptions to a minimum and defining the linear approach in terms which made impossible the exclusion of any item – above all agricultural products – a contracting party, and notably the EEC, did not wish to discuss. In truth, Herter and the State Department were not totally convinced that agriculture could be fully included in the linear cut because of the peculiar qualities of this sector. However, they failed to convince the Agriculture Department and decided to insist on this line.⁴⁷ Meat and cereal, in any case, were to be excluded from the linear cut, and commodity agreements were to be negotiated along a scheme ensuring access to the European markets. While the Round was being negotiated and the CAP was being elaborated, the USA requested interim agreements to guarantee access from the EEC. As for non-tariff barriers, Washington accepted their inclusion, but as far as the valuation procedures were concerned, Herter doubted that Congress could amend it. For LDC, the United States wanted to bring duties to zero on tropical products and did not expect reciprocity.⁴⁸

As for the Six, the Commission and the 111 Committee, in March they started work on defining a common position, but no negotiating position had been agreed and no mandate had been issued to the Commission by the Council of Ministers. Therefore, at the GATT session of 18 to 29 March 1963, the attitude of the EEC remained a great uncertainty. The head of the US delegation in Geneva, W. Michael Blumenthal, made efforts to get the Europeans down to serious negotiations, but the discussions led

⁴⁵ PRO FO 371/172307 Note of a meeting between the president of the Board of Trade and the United States State Department, 4 March 1963 and PRO T 312/621 The Kennedy Round, February 1963. On the Soviet opposition to GATT see Kostecki, M. East-West trade and the GATT system (London: Macmillan, 1979).

⁴⁶ CM2 1963/949 PV de la 207ème réunion du Comité des Représentantes permanents, Bruxelles 13-14 March 1963; PRO T 312/621 The Kennedy Round, February 1963.

⁴⁷ For the contrast between Herter and the Agricultural Department see PRO BT 303/168 Letter from Miss M.J. Lackey of the UK Delegation to GATT to Jardine in the Board of Trade reporting a meeting between Cohen and John Evans, 6 May 1963.

⁴⁸ Memorandum From the Under Secretary of State Ball to President Kennedy, 8 March 1963, National Security Files, Kaysen Series, Trade Policy, Trade Expansion Act, JFKL; NA 364 Records of US Trade Representative on the Kennedy Round, Box 6, Note of Worthington "Agriculture and the Trade Negotiations", 2 August 1963; PRO FO 371/172307 Note of a meeting between the president of the Board of Trade and Governor Christian Herter, 5 March 1963; PRO BT 303/166 Letter from Cohen to W. Hughes, 1 April 1963.

nowhere because, without a mandate, the Dutch Theodorus Hijzen, the head of the Commission delegation, was reluctant to express any opinion.⁴⁹

However, the EEC was not the only source of irritation for the Americans. The United Kingdom, on whom Washington counted to move the Round forward, rejected American proposals to include agriculture in the linear cut. British agricultural imports were covered by duties and in this way London would reduce its duties while other countries, using other methods to protect agriculture, would not. The British wanted to be free to maintain duties in agriculture, which would allow them to keep their preferences. The United Kingdom's desire to seek a solution on industrial tariffs without a solution on agriculture was also a matter of concern for Blumenthal who felt that the UK was "sabotaging [American] strategy of forcing the Six to come to terms on agriculture as integral condition of Kennedy Round".⁵⁰ Edgar Cohen, British representative to GATT, did not appreciate Washington's lack of regard for British trade interests and the former's attitude that "those that are not with us are against us" and found the American approach to the Kennedy Round "naïve and inherently unworkable".⁵¹ According to the British, from the way Washington had structured its position, the fate of the Kennedy Round depended on whether and to what extent the French wish for guaranteed agricultural markets in the EEC could be reconciled with third countries' request for continued access. Given its major interest in the industrial sector, London did not wish to see reductions of protectionism in this sector made irreversibly dependent on the Six's acceptance for a deal in agriculture. Pressure existed within the Community to make a success of the Kennedy Round on industrial tariffs, but in agriculture the Five were as protectionist as the French, and they would not put pressure on Paris to make concessions to the USA. As such, Washington lacked the necessary bargaining power, as it did not have enough to offer to the EEC to break down European protectionism. The Americans were asking the EEC the same access guarantees that had been refused to the Commonwealth during the enlargement negotiations. As a result, the inflexible American approach had the potential to cause the break down of the Kennedy Round. Cohen was aware that a British refusal to clash with the EEC would cause major conflict not only with the Americans but also with Canada, Australia and New Zealand, who were relying on Washington to prise open the EEC. However, the British considered the industrial sector far more important than the agricultural one, and the fate of the Kennedy Round could not be endangered by the US intransigence over agriculture.⁵²

Thanks to the 1-2 April Council of Ministers meeting and the 111 Committee report, a more active role of Hijzen, even if no mandate had been issued, became possible. At the GATT session of end of April, which had the aim of elaborating a report to be presented to the GATT Ministerial meeting, for the first time, Hijzen took an active stance a key issue for the EEC: disparities. The Commission representative put forward the 111 Committee's target-duties plan, suggesting 0% for raw material, 5% for

⁴⁹ PRO FO 371/172307 Confidential note written by F.C. Mason "The GATT Working Party on Tariff Reduction", 9 April 1963 and ibidem Note "The Kennedy Round" from Taylor to Drukker, 11 April 1963; AECB BAC 118/83 849 Note pour Millet et Dubois de Pingel, 1 April 1963.

⁵⁰ PRO FO 371/172307 Telegram 86 from Foreign Office to UK delegation to EFTA in Geneva, 25 March 1963. See also PRO FO 371/172307 Telegram 115 from UK Embassy in Washington to Foreign Office, 12 April 1963. The telegram reports a conversation between Ormsby Gore and Blumenthal.

⁵¹ PRO BT 303/166 Letter from Cohen to W. Hughes, 1 April 1963.

⁵² PRO FO 371/172307 Telegram 86 from Foreign Office to UK delegation to EFTA in Geneva, 25 March 1963; ibidem telegram 27 from Cohen to Foreign Office, 27 March 1963, ibidem Confidential note written by F.C. Mason "The GATT Working Party on Tariff Reduction", 9 April 1963; PRO FO 371/172307 Telegram 115 from UK Embassy in Washington to Foreign Office, 12 April 1963. The telegram reports a conversation between Ormsby Gore and Blumenthal.

semi-manufacturers and 10% on manufactured products; then, considering the legislative limits which the USA were under due to the TEA, rates in excess of these levels were to be reduced by half the difference between present and target levels. No exceptions would be necessary. As for agriculture, it was to be dealt with separately.⁵³ In truth, Hijzen had not been authorised to present the *écrêtement* in the name of the EEC. Under the initiative of German representative, the 111 Committee authorized the Commission to informally put the plan forward, and in particular to float it bilaterally to the United States to test the latter's reaction.⁵⁴

Informally or otherwise, the *écrêtement* plan was presented, and received the approval of only Japan and Sweden.⁵⁵ The Americans were simply shocked by the EEC proposal. Blumenthal reminded Hijzen that since the GATT session of November 1961, all contracting parties agreed that the item-by-item tariff bargaining was inadequate to reduce tariffs. Then, in the Dillon Round, the EEC criticized the United States for being blocking international liberalization because it lacked authority to reduce tariffs across the board. An opportunity to change the situation had come in the guise of the TEA, and throughout 1962 the American intention to make linear reductions had been clear and widely and enthusiastically supported by other countries. Blumenthal replied to the European plan with a categorical refusal. For political, legislative and practical reasons, Washington could accept only a linear reduction to be uniformly applied to all duties with limited exceptions.⁵⁶ America's strong reaction was logical. From December 1962 onwards, the EEC had adopted a passive stance, while Washington reiterated its support for equal linear reductions. Then, at the end of April, and with the GATT Ministerial Meeting of May drawing closer, Hijzen appeared with a proposal for unequal linear reductions of tariffs, which had nothing to do with the American plan. Predictably, Blumenthal labeled the plan as unacceptable, and reacted with anger.

Neither did the British support the *écrêtement* proposal, which they referred to as a French proposal, for it would result in less drastic tariffs cuts, which were, as such, smaller in their compensatory nature for the failure of the accession negotiations.⁵⁷ In truth, they were not totally opposed to the proposal. In fact, Patrick Reilly of the Foreign Office claimed that the French plan made sense, while the Americans "seem[ed] to be tied hand and foot by the terms of the TEA and their own tariff

⁵³ HAEC BAC 506 026/1969 Rapport du Comité 111 sur l'attitude de la CEE S/298/63 (CoS 38) 30 April 1963: Telegram from the Department of State, Ball to Certain Diplomatic Missions, 4 May 1963, Herter's papers, Box 11, JFKL; PRO FO 371/172328 Telegram 37 from Cohen to Foreign Office, 25 April 1963.

⁵⁴ "In speaking with officials of the US mission in Brussels, Brunet, the French Permanent Representative's number two, argued that Hijzen did not really have definitive instructions to raise the *écrêtement* in Geneva at the 22-27 GATT session". NA 59 State Department Central file subject numeric Box 3489, Telegram n. 1218 from US Mission in Brussels to Secretary of State, 29 April 1963. In MEAF, DE/CE GATT 930 1961-1966 Note n. 169/CE, 27 June 1963 it is written that the *écrêtement* plan had been put forward in Geneva on behalf of the EEC by "a premature initiative of a German délégué". According to the version given by Horn, German representative at Tariff Reduction Working parties, "Hijzen had not been authorised to put forward alternative proposal in the name of the EEC; he had been authorised only to float it bilaterally with the United States". PRO FO 371/172308 Telegram 40 from Cohen to Foreign Office, 27 April 1963.

⁵⁵ PRO FO 371/172328 Telegram 37 from Cohen to Foreign Office, 25 April 1963 and PRO BT 303/168 Note "French proposal on Reductions in High and Low Tariffs in the Kennedy Round", undated but written at the end of April 1963.

⁵⁶ HAEC BAC 506 026/1969 Rapport du Comité 111, 30 April 1963 and Telegram from the Department of State written by George Ball to Certain Diplomatic Missions, 4 May 1963, Herter's papers, Box 11, JFKL. In a conversation with the British Blumenthal admitted that legally the TEA did not prevent the USA from agreeing unequal concessions. However, politically, this kind of deal would be unacceptable to the American Congress to which the huge authority to reduce tariffs had been justified in view of creating trade opportunities for American exports and solving the balance of payments problems. PRO FO 371/172328 Letter from Chadwick to Reilly, 14 May 1963.

⁵⁷ PRO FO 371/172328 Telegram 37 from Cohen to Foreign Office, 25 April 1963 and PRO BT 303/168 Note "French proposal on Reductions in High and Low Tariffs in the Kennedy Round", undated but written at the end of April 1963

theology".⁵⁸ However, the British decided to support the American plan not only because it could lead to a greater reduction of trade discrimination but also because they felt it wise to side with Washington rather than with the French who were still seen as potentially capable of destroying the Round. After the confrontation between Cohen and Blumenthal, the British preferred to patch things with the Americans in order to avoid further clashes.⁵⁹

The parties' respective positions regarding agriculture were not much closer. The USA, the EEC and the UK agreed to set up international commodity agreements for cereal and meat, but they differed on the rules for agricultural products not covered by these agreements. The USA advocated a two-ties approach along which products protected only by tariffs were to be included in the linear reduction rule, while products covered by other kinds of protection would be subjected to a reduction in the level of protectionism comparable to the linear tariff cut. The American approach was opposed by the United Kingdom, as it represented an early commitment to reduce protectionism on products covered by tariffs without any precise commitment regarding other products. London suggested a system under which concessions would be offered, bearing in mind trade in the previous years, in order to ensure fair and acceptable opportunities for access compared to with the targets set for the linear reduction. The EEC was not in a position to have a constructive role, as the Six had not even started elaborating a stance for agriculture in the GATT. Thus the session terminated with no agreement on the negotiating rules, and with the United States furious at the EEC.⁶⁰

Blumenthal's tough opposition to *écrêtement* plan was shared in Washington. Ball maintained that US trade partners had to be interested in reducing high US tariffs and not in harmonizing them. In any case, the TEA granted no authority to the US government to negotiate under the *écrêtement* plan since, having higher duties, the USA would implement larger reductions than the EEC in order to reach the target rates. In effect, the basic problem was that the EEC, having lower and more compact tariffs, aimed at harmonizing duties worldwide in order to bring US duties down to the CET level. In contrast, the USA, having higher duties, aimed at simple tariff cuts.⁶¹ On top of this, for the United States, the European proposal lacked credibility not only for the scant returns it would generate, but also for the way in which it had been presented. First, Hijzen had claimed that with this plan the EEC would renounce all exceptions, if

⁵⁸ PRO BT 303/168 Note "French proposal on Reductions in High and Low Tariffs in the Kennedy Round", undated but written at the end of April 1963; PRO FO 371/172328 Note of Reilly, 22 April 1963 and *ibidem* Letter of Reilly to Dixon, 30 April 1963. Quotation is from the letter document.

⁵⁹ PRO FO 371/172328 Note of Marjoribanks, 8 April 1963 and PRO FO 371/172308 Letter from Mason to Marjoribanks, Reilly and Keeble, 14 May 1963.

⁶⁰ GATT - Working Party on Procedure for Tariff Reductions "Views of the United States Regarding So-called 'Écrêtement' and other proposals for Unequal Linear Reductions of Tariffs" Spec (63) 38, 24 April 1963. PRO FO 371/172328 Telegram 37 from Cohen to Foreign Office, 25 April 1963 and PRO FO 172308 Telegram 42 Cohen to Foreign Office, 29 April 1963; PRO BT 241/947 Note by the Ministry of Agriculture, Fisheries and Food, GP (64) 36, 3 March 1964. The note summarised negotiations in the agricultural sector since March 1963.

⁶¹ Telegram from the Department of State written by George Ball to Certain Diplomatic Missions, 4 May 1963, Herter's papers, Box 11, JFKL. As Evans notes, in the debate that followed over the cutting formula, the stance taken by the involved governments "was determined not by theory but by their perception of their national interests." The US and EEC claims were both questionable and debatable. First, they did not take into consideration the fact that the protective incidence of a duty is bound to the price elasticity of supply and demand. Second, measuring the average of tariffs is difficult and even pointless: an arithmetical average does not consider the commercial importance of the products, while the weighting of each tariffs by the country's total imports overlook the incidence of high duties that hamper trade. Evans, J. W. *The Kennedy Round in American Trade Policy: Twilight of the GATT* (Cambridge, Mass: Harvard University Press, 1971), p. 190. On the issue of disparities see also Preeg, E. H., *Traders and Diplomats*, pp. 60-66, Baldwin, R.E. "Tariff-Cutting Techniques in the Kennedy Round" in *Trade, Growth, and the Balance of Payments* (Rand McNally, 1965); Norwood, B. "The Kennedy Round: A Try at Linear Trade negotiations", *Journal of Law and Economics*, vol. 12, 1969, pp.297-319.

other countries did the same. As it was well known that under the TEA exceptions were mandatory, Washington wondered whether Hijzen was serious.⁶² Second, the fact that the EEC plan had been presented only in April, that it had nothing to do with equal linear reduction, and that the US would have to implement more reductions than the EEC led Washington to wonder whether the EEC had the intention of meaningfully and constructively attending the GATT Round, or if they were merely wasting time. Moreover, the general atmosphere of mistrust towards the French worked against the plan. The Americans were convinced that the *écrêtement* was a French proposal and, being French, it was an attempt to put roadblocks in place, and turn attention away from the central issue – the linear tariff cut – by emphasizing the disparity matter, and to cause the Round the Round to break down without having to formally veto it. The *écrêtement* was merely a “smoke screen put up by the French in order to avoid serious tariff cut”, a tactic developed by the French and sold to the Germans to strengthen their position against the United States. The French were maneuvering to wreck another element of Kennedy Grand Design, to destroy the Atlantic alliance and to get rid of the American presence in Europe with the use of the problem of the deficit in the balance of payments. Paris was digging in its heels, and the Five were blind and naïve enough to follow.⁶³

In assessing its strategy for the Kennedy Round, Washington had hoped above all that the Germans would bring get the French onboard. However, if the Germans were toeing the French line, the American strategy would collapse. The internal EEC situation was therefore developing in a direction that upset the Americans: the common anti-French front did not exist, the French were not isolated, and the Five followed the French line. The Commission was of no more help. Not only did it fully support the *écrêtement*, but, at the beginning of May, Hallstein spoke at the European Parliament and openly claimed that the EEC had to defend itself against attempts to dilute it in larger area “comme le sucre dans le thé”.⁶⁴ The Five had trade interests similar to the French, rather than akin to those of the Americans, and this led them to side with Paris and not with Washington, impeding the setting up of that common front with which the Americans hoped to push the Kennedy Round forward. The mistrust the Five had for de Gaulle was not enough to cause them to forget their trade interests and side with the Americans.

The American perception that the *écrêtement* was merely a French move to breakdown the GATT conference was misplaced. The disparity issue was considered a problem to be resolved also by the Five, who felt that the TEA obviously favoured American exports and had consequently embraced the plan in order to correct the

⁶² MAEF, DE/CE GATT 930, Note “Négociations tarifaires au GATT”, 8 May 1963.

⁶³ Memorandum From the Special Representative for Trade Negotiations Herter to President Kennedy, 1 May 1963, Herter's papers Box 1 JFKL. NA 59 State Department Central file subject numeric, Box 3489, FT 4 US/TEA Memorandum of Conversation between the Dutch Ambassador Spijkenburg, Rutten, de Lavalette, Maas, van Oosten and the Americans Ambassador Tuthill, Fessenden, Zaglits, Wootton, Myerson “Synchronisation”, UK contacts with the EEC, Grain Prices, TEA negotiations” 29 April 1963. German industry and, in particular, the steel industry felt that the reduction of the relatively low German and EEC tariffs by the same percentage as the reductions of the higher rates in the US tariff was not fair. Thus the harmonization approach had considerable appeal to the German steel industry. The Americans saw as disturbing the views of evident support for tariff harmonization in the German business community. NA 59 State Department Central file subject numeric box 3489 Telegram A/2422 from Edwin Cronk, Minister for Economic Affairs in American Embassy in Bonn to Secretary of State, 15 May 1963.

⁶⁴ Amazingly, when Tuthill asked Hallstein for clarifications about his intervention in Starsbourg, Hallstein defended himself claiming that the summary of his intervention that Tuthill had read was the “Paris edition of the publication and that the summary was poorly edited”. HAEC, JMAS 95, Memorandum of Conversation between Hallstein and Tuthill, 20 May 1963. NA State Department Central file subject numeric 59 Box 3489, FT 4 US/TEA XR ECIN 3 EEC, Telegram n. 714 from US Embassy in The Hague to Secretary of State, 15 May 1963.

American law.⁶⁵ As Maas, Dutch member of 111 Committee, made clear to Tuthill, the disparity problem was a general worry for the Six, not just a French maneuver, and the *écrêtement* had received support because it dealt with a problem that was much resented in Europe, including by the British. The Dutch appreciated the advantages of the plan which, they believed, remained within the bounds of the authority granted by the TEA, making it difficult for the Americans to refuse it. As for France, their aim was not to wreck the Round but rather to direct it according to its own vision, which required the harmonization of duties. And, for Paris, the Americans had to come to terms with its vision of the Round.⁶⁶

The meager results that *écrêtement* would bring, the perception that it was merely a French obstructionist move and the irritation for the Five's support led Washington to react strongly against it, and the Americans toughened their attitude towards the Six to let them understand their had to be dropped. Washington elevated the question of the cutting formula to the political level in order to push the Six to give up their plan and accept the American one, if they did not want to cause the collapse of the GATT Ministerial meeting with all the resulting political consequences. For Herter, the American strategy had to consist in making clear that Washington would only accept an equal linear cut and work together with the Commission and the Five to keep "pressure on the French", so to overcome French obstructionism.⁶⁷

To get rid of the European plan, Washington counted on its influence on Bonn and The Hague, and on the desire of these two governments to find a genuine solution. In particular, Tuthill felt that it was urgent to speak clearly to the traditionally liberal and Atlanticist Dutch who needed to be "worked on with respect to the *écrêtement* problem". At the end of April, the American Ambassador met with the Dutch Ambassador to the COREPER Spierenburg and flatly stated US opposition. As is explained further, below, American pressure was effective. While initially sympathetic to the *écrêtement*, Spierenburg was ready to accept the American explanation as to why Washington could not accept it, and openly claimed that, given the US objections, the EEC had to agree to negotiate on the basis of equal, linear tariff reductions with, however, explicit reservations for disparities cases. Thus, in light of the categorical US refusal, The Hague changed its attitude. The risk of seeing the Round collapse pushed

⁶⁵ HAEC EM 16, MAE Appunto per il sottosegretario, 20 May 1963. In the note, written for the meeting between the Italian undersecretary for foreign affairs Martino and Rusk, it is possible to read that the *écrêtement* "è da sottolineare, è stato accettato dagli esperti di tutti i Sei paesi e non è un'invenzione francese (per la storia è un piano Erhard di dieci anni fa in OECE!").

⁶⁶ NA 59 State Department Central file subject numeric, Box 3489, FT 4 US/TEA Memorandum of Conversation between the Dutch Ambassador Spierenburg, Rutten, de Lavalette, Maas, van Oosten and the Americans Ambassador Tuthill, Fessenden, Zaglits, Wootton, Myerson " 'Synchronisation', UK contacts with the EEC, Grain Prices, TEA negotiations" 29 April 1963 and Ibidem Telegram A-700 from the US mission to the European Communities in Brussels to Department of State, 2 May 1963. Alkema, Y. "European-American Trade Policies, 1961-1963" in Brinkley, D. and Griffiths, R.T. (Eds.) John F. Kennedy and Europe, p. 231. Alkema's description of the Dutch position is based on the Dutch Archives of the Minister of Finance; PRO FO 371/172308 Telegram 40 from Cohen to Foreign Office, 27 April 1963. Telegram n.A/2422 from Edwin Cronk, Minister for Economic Affairs in American Embassy in Bonn to Secretary of State, 15 May 1963, Herter's papers, Box 11, JFKL and NA 59 State Department Central file subject numeric Box 3489 ECIN 3 EEC Telegram n. 289 from American Embassy in Bonn to State Department "German attitude toward expansion of trade within Atlantic Community", 9 May 1963. This last telegram reports a dinner in honor of Ambassador Tuthill attended by prominent Ruhr industrialists. The Germans industrialists present at the dinner expressed their support for the integration of the whole of Western Europe because of the importance of the EFTA markets for German exports. However when directly asked by Tuthill on how to bring the United Kingdom in the EEC, the industrialists claimed that Germany had to pay attention to its internal problems and that it was too early to form plans for bringing in the British. First it was necessary to see the results of the British election of 1964 and of the Kennedy Round in order to determine what steps were possible. All the industrialists defended the Franco-German treaty.

⁶⁷ Memorandum From the Special Representative for Trade Negotiations Herter to President Kennedy, 1 May 1963, Herter's papers Box 1 JFKL.

the latter to assume a reserved attitude towards *écrêtement* and to favour a stance acceptable to the Americans, based on equal linear reductions.⁶⁸

Washington plainly spelled out its disappointment to the French too. Reinstein, from the US Embassy in Paris, met Olivier Wormser to emphasize his government's disappointment and even questioned whether the EEC position was serious. Wormser tried to reassure Reinstein that the EEC was really willing to negotiate with the United States, but he flatly refused the American approach of insisting that the GATT Round to take place along TEA lines, otherwise the negotiations would not take place at all. The TEA was an American law representing American interests and views on international trade and unilaterally elaborated that suited only Washington. Therefore, even if for Washington the *écrêtement* would not substantially reduce tariffs, it would be during the GATT sessions that the contracting parties would agree on the rules. However, in refusing to consider the EEC proposal, Washington appeared to be preparing for the new GATT Round without a desire to elaborate an equitable solution to all problems.⁶⁹

The mood of the French was clear. The TEA was merely an American law, and the EEC and new Round could not be conditioned by it. As Wormser put it, if the Americans wanted to write the TEA into the GATT, they were heading for trouble. The French were annoyed by what they considered to be the American propaganda which misrepresented the EEC position and diffused the notion that the *écrêtement* plan had been elaborated by the French and forced the Five to break off the Round. France did not refuse to negotiate, but simply wanted to discuss the rules of the negotiations.⁷⁰ On 9 May, the French Ambassador in Washington Alphand met Assistant Secretary William Tyler to reduce the tension, and to try to convince his counterpart that *écrêtement* was not a French attempt to water down the Kennedy Round and destroy the Atlantic alliance. Differences on the rules were to be seen for what they were, and not be allowed to give rise to a political controversy. However, for Tyler, an alternative formula at this stage of the negotiations was seen as a political maneuver.⁷¹ Alphand also met Rusk to stress that what mattered was not to "politicize" the problem and to leave the tariff cutting rule to technicians. Nevertheless, for Rusk, the *écrêtement* plan reflected an unwillingness to reduce tariffs. Moreover, trade negotiations were a test of the attitude of the Community: the United States had only two major Atlantic initiatives, the MLF and the GATT Round, and it was important for Washington that the two initiatives worked. The basic problem with the French was that, after the veto of British entrance, they were not in a position to be able to reassure anyone about their intentions.

⁶⁸ The US mission in Brussels held that this action was urgent since it had "encountered a report from a Belgian source" that the Netherlands might not in fact be as favorable to the TEA negotiations as one would expect given the fact that this country was a low-tariff country. While conceding a major Dutch political interest in successful outcome, the Belgian source maintained that the industrial giants, such as Lever Brothers, Shell and Philips, had no particular interest in lowering industrial tariffs and did not mention the traditional Dutch interest in low tariffs. NA 59 State Department Central file subject numeric Box 3489, FT 4 US/TEA Memorandum of Conversation between the Dutch Ambassador Spierenburg, Rutten, de Lavalette, Maas, van Oosten and the Americans Ambassador Tuthill, Fessenden, Zaglits, Wootton, Myerson "Synchronisation", UK contacts with the EEC, Grain Prices, TEA negotiations" 29 April 1963 and Ibidem Telegram from the US mission to the European Communities in Brussels to Department of State, 2 May 1963. The telegram also reported the conversation between the Americans and the Dutch. See also Alkema, Y. "European-American Trade Policies, 1961-1963", p. 231.

⁶⁹ MAEF DE/CE GATT 949 Télégramme 9026/35 pour Washington, 6 mai 1963.

⁷⁰ HAEC-MAEF, OW 36 Note «Politique européenne de la France - questions économiques», 17 May 1963. PRO FO 371/172328 Letter of Marjoribanks to Barclay reporting a conversation with Wormser in Geneva on 16 May 1963, 23 May 1963; PRO FO 371/172342 Confidential Note by Marjoribanks, 22 May 1963 and MAEF DE/CE GATT 930, Note 198/CE "Negociation Kennedy", 10 Mai 1963.

⁷¹ FRUS 1961-1963 IX, Section 14/280. Memorandum of Conversation between US Secretary William Tyler, Assistant Secretary and French Ambassador Alphand on Tariff Negotiations, 9 May 1963.

Thus, as the Ministerial meeting approached, positions across the Atlantic remained far apart.⁷²

4.5 The setting of the EEC common position: the EEC Ministerial Meeting of 8-9 May 1963

America's uncompromising refusal to consider the *écrêtement* pushed the Europeans to weaken their support for this plan. In light of US opposition, the Five and, in particular Bonn and The Hague, softened their backing of the plan and geared up to find a compromise between this and the equal linear reduction.⁷³ The Germans feared that obstinate US support for the equal linear cut could cause German industry to move into the same camp as the French protectionists, a development that had to be prevented, therefore they moved to elaborate a compromise that could be accepted in Washington and that would be supported by German industry.⁷⁴ Paris did not oppose the plan; even the Quai D'Orsay realized that it had to insert some flexibility into its position to avoid a deadlock. The Six, the French included, could not ignore the fact that Washington had no intention of considering their plan.

However, the setting up of an EEC common position to attend the Ministerial meeting depended not only on an agreement regarding the tariff cut formula or how to deal with agriculture, but was also linked to the agreement between the Six on the EEC agenda, and in particular on the timetable to approve the CAP, an issue that concerned above all the French and the Germans given the fact that it was Paris that could block the Round and it was Bonn that could block the CAP. At the beginning of May, the issue of the EEC common position was dealt with by the French Clappier and Wormser and the German Lahr. The French noted that France and Germany had an almost identical point of view regarding the interests which the EEC had to defend in Geneva, but important differences appeared when the trade negotiations were considered in its broader context. Clappier and Wormers felt that Lahr was too ready to abandon the EEC position as Washington persisted in negotiating only along the TEA: "[...] le Gouvernement de Bonn a, avant tout, le souci de faire plaisir au Gouvernement américain," claimed the French. But Lahr was very clear: Germany was above all interested in exporting industrial products, while France was interested in exporting agricultural products. This meant that if France tried to deadlock the Kennedy Round, Germany would do the same for the CAP. Wormser found Lahr's position dangerous for the Kennedy Round, and for the EEC itself. He felt it inadmissible to link negotiations with third countries to the dealings regarding the CAP, which the EEC had already agreed upon in January 1962. In fact, if an agreement on the Kennedy Round were precluded by the disagreement with Washington, any progress within the EEC would be stopped.⁷⁵

This bilateral Franco-German confrontation was moved to the EEC level when, from 8 to 9 May, the Council of Ministers, together with the Commission, met to finally decide on the stance to be adopted at the Kennedy Round and finally set the agenda of the Community. For Rey, in order to obtain a successful conclusion to the GATT Ministerial meeting, the EEC had to take a flexible stance, insisting on the agreement of

⁷² Telegram n. 1876 from Rusk to Herter in Geneva, 1963 Herter's papers, Box 11, JFKL.

⁷³ HAEC EM 16, MAE Appunto per il sottosegretario, 20 May 1963.

⁷⁴ Na 59 State Department Central file subject numeric box 3489 Telegram n.A/2422 from Edwin Cronk, Minister for Economic Affairs in American Embassy in Bonn to Secretary of State, 15 May 1963.

⁷⁵ HAEC MAEF, OW 50 Note du rencontre entre Clappier, Wormser et Lahr, Bonn 4 May 1963.

principles that existed between the USA and the EEC, and suggested dealing with the rules of the negotiations later on. The USA had to recognize the existence of a disparity problem and a solution was to be found after the Ministerial meeting. Therefore, the EEC had not to engage itself with the method of tariff reduction. The same had to be done for agriculture for which experts had to be given the task of developing a way of negotiating. Marjolin highlighted the impossibility of negotiating over agriculture with Washington if the CAP was not entirely adopted, and if common prices were not adopted by the end of the year.⁷⁶

For the German Mueller-Armack, the EEC had to be realistic, not overemphasize its own interests, and bear in mind the American stance. Picking up Rey's suggestion, he put forward the compromise for the tariff reductions. In order to avoid the breakdown of negotiations, in Geneva the EEC would unequivocally state its full intention to attend the Round, based on a linear and automatic system of reduction of tariffs in order to substantially reduce duties and disparities, and would suggest the setting up of a working group to study the tariff structure of Kennedy Round participants and the implication of the two systems under discussion, and then elaborate a solution. The five partners quickly adopted the German solution, even if Giscard D'Estaing stressed that the EEC had to obtain the elimination of disparities through formula similar to the *écrêtement*.

The positions of the Six were rather close. They all agreed that disparities issue had to be resolved, and felt that, after having accepted the principle of a new GATT Round, further study would be needed. Where they differed was the degree of flexibility: the Five underlined that the American reaction had to be considered, while Giscard D'Estaing preferred to express his support for the *écrêtement*, but without insisting that it be made the formal position of the EEC in Geneva. However, this did not stop the elaboration of a mandate for the EEC representatives. The EEC accepted the principle of a new GATT conference, to actively attend it and to negotiate across the board in order to reduce duties and disparities, renouncing its as formal EEC position. The key to the agreement, the price for French acquiescence, consisted in leaving open the rules of the negotiations and in proposing the establishment of the working group that would report to GATT by 15 of August 1963. The French had made a clear step towards a compromise: they had not accepted the American formula as the fixed rule to reduce tariffs, but they had budged from insisting that the *écrêtement* plan be the formal EEC position as a condition for EEC participation in Geneva.

More problematic was the elaboration of a common position for agriculture, as it touched upon the internal affairs of the EEC and its agenda. For Giscard d'Estaing, negotiating in Geneva over this sector required "*la définition préalable de l'ensemble de la politique agricole commune*". Commissioner for Agriculture Mansholt fully supported the French minister as he felt it impossible to elaborate a EEC common position in the negotiations with the USA over agricultural products, if the common agricultural policy on these products had not been not adopted. In effect, the level of EEC protectionism was determined by the level of common prices, thus, without the setting of these prices, the EEC could not bargain in Geneva. Supported by Mansholt's declaration, Giscard D'Estaing made it clear that negotiations in GATT could not deal with agricultural products "*tant que la politique agricole commune ne sera pas au préalable arrêtée*", and proposed to insert into the mandate to the EEC representatives a statement pledging that the EEC would agree to include agriculture in the Round as soon as the CAP "*aura été définie dans son ensemble*".

⁷⁶ For the position of the Commission see AECB PV 228, 5 May 1963.

Giscard D'Estaing's proposal provoked a tough reaction on the part of Schroeder and Lahr. The Germans considered it obvious that the EEC could not negotiate over agriculture in Geneva if an agreement between the Six had not been reached in Brussels, but "l'application de ce principe ne peut pas impliquer [...] que l'ensemble de la politique agricole commune doit être arrêté préalablement à l'ouverture des négociations commerciales". Lahr also recalled that article 40 of Treaty of Rome required the establishment of the CAP by the end of the transitional period, on 1 January 1970 and this period could not be shortened in view of the GATT Round. Against Lahr's point of view, Mansholt reaffirmed that the EEC could not negotiate in Geneva over agricultural products if its own policy was unknown. The full adoption of the CAP was not necessary, for the moment it was sufficient that, in October 1963, the Council adopt regulations for rice, meat and dairy products in order to allow the EEC to elaborate the conditions under which the GATT negotiations over agriculture could take place. The Dutch Prime Minister Marijnen made a distinction between "les mecanismes" and "la mise en oeuvre de la politique agricole commune" and argued that international negotiations over agricultural products would be difficult to carry out if the Six had different agricultural policies. As such, a harmonization was necessary. This did not imply that, in order to negotiate with the Americans, the entire CAP had to be defined and, in this way, he categorically refused to link the opening of the Geneva negotiations on agriculture to the preliminary adoption of the entire CAP.

Mansholt tried to find a way out of the impasse, making a distinction between *adopter* and *entrer en vigueur*. The adoption [*adoption*] of the common regulations was indispensable for the opening of negotiations with third countries, but their preliminary implementation [*leur mise en vigueur préalable*] was not. For Luns and Schroeder, negotiations with third countries had to take place simultaneously to the elaboration of the regulations of the CAP. If EEC started negotiations with third countries only after the adoption of these regulations, negotiations in Geneva would take too much time and would place the EEC in a difficult position. For Mansholt, this kind of problem could be avoided if the Six had the political willingness to make progress on both the CAP and negotiations with third countries. Giscard D'Estaing argued that no matter how it was formulated, the mandate for agriculture had not to be too general in nature so as to create the impression that negotiations could start even if, internally, regulations on meat, dairy products and rice were not adopted. Couve de Murville even added that if the mandate was drafted without any mention of the need to further elaborate CAP rules, third countries could think that the Six would be ready to discuss with them in Geneva the adoption of the rules of the CAP, which was out of the question.

Given these positions, Colombo and Spaak suggested the setting up of a link between the GATT negotiations and the EEC internal action program, since all Six seemed to agree that, in order to go on with the negotiations in Geneva, progress had to be made in the elaboration of the CAP. Schaus suggested the final compromise in which the Council concluded that the EEC was prepared to take part in the GATT negotiations on agricultural products, where again a working group was to be established. Then, during the session, it was stated that "*Le Conseil constate qu'il va de soi qu'il n'est pas dérogé au principe que des négociations agricoles ne pourront être abordées, quant au fond, que dans la mesure où la Communauté aura arrêté ses position communes*".

As for the EEC working agenda, the Six agreed to implement the first part of the synchronization plan by adopting the next lot of the CAP by 31 December 1963 – regulations for meat, rice and dairy products, decision for the unify cereal prices for 1964/1965 – and to elaborate a mandate to negotiate in the Kennedy Round before that

date. The Five clearly wanted the Kennedy Round mandate to be adopted before the CAP lot in order to prevent a "French maneuver" in this regard.⁷⁷ In truth, this decision was not painless. Germany and The Netherlands wanted the Council only to *elaborate* the three regulations by the end of the year, postponing their implementation to ensure that a satisfactory position would also be adopted for the Kennedy Round. This was the real meaning of synchronization. This proposal raised the tough opposition of Couve de Murville, supported by Colombo, Spaak and the Commission. For the French Minister, the German position was inconsistent with the Treaty of Rome, and against the commitment given in January 1962, and, in any case, a further elaboration of the CAP was necessary to have a negotiating position in Geneva. Therefore, decisions were to be taken without further delay. In the end, the German-Dutch position did not prevail, the Six agreeing to take decisions by the end of the year, with Couve de Murville accepting the postponement the deadline to 31 December, rather than 1 July as previously agreed.⁷⁸ As such, the elaboration of the EEC common position in Geneva enmeshed with the bargain among the Six over the EEC agenda, and a clear synchronization was established between the achievements in the area of the CAP and those for the Kennedy Round, as this was considered by the Five as the only means of preventing the French from stalling the Round. As shown in the next chapter, the quarrel over the EEC agenda was not over. In fact, after it had been approved it also had to be implemented, and here the German obstructionism of the CAP resurfaced, putting at risk the Kennedy Round. However, for the time being, the EEC could attend the GATT Ministerial meeting.

The last issue to be settled concerned EEC representation in Geneva. The Commission had every intention of being the sole negotiator, not only in the industrial sector negotiations but also for agriculture, for which it lacked authority under the Treaty of Rome, given that the latter authorised the Commission to negotiate only on tariffs. The Commission felt it impossible to separate tariffs from the other issues, thus a sole negotiator had to be in place, thus allowing the Commission to also negotiate for agriculture and NTBs in general. Member states had often asserted that Commission had not to negotiate in agriculture because it lacked authority.⁷⁹ However, interestingly enough, this issue was never openly raised in the Council of Ministers with the result that the Commission, step by step, gained authority also for agriculture. For the GATT Ministerial meeting, the Six decided to have the EEC represented by the delegation of the country holding the presidency of the EEC Council, Luxembourg, and Rey, Marjolin and Mansholt for the Commission. Schaus would give the speech at the opening session of the ministerial meeting to present the EEC position. In the negotiations with the other contracting parties, Luxembourg and the Commission would represent the EEC, while coordinating meetings between the EEC negotiating team and the six governments would take place in Geneva between the GATT sessions. In short, this meant that the EEC negotiating team, with the mandate received from the governments, would meet the delegations of the other contracting parties. If an

⁷⁷ HAEC EM 16, MAE Appunto per il sottosegretario, 20 May 1963 "Lo stesso Consiglio ha stabilito – per evitare manovre dei francesi – che l'approvazione dei tre Regolamenti di politica agricola comune ancora in discussione [...] sarà data entro il 31 dicembre 1963, ma che prima di tale data dovranno essere state definite le condizioni di dettaglio per il negoziato tariffario GATT". Emphasis in the original text.

⁷⁸ CM2 1963/947 PV de la 101ème session du Conseil de la CEE, Bruxelles, 8-10 May 1963. The directives reporting the EEC common position in view of the GATT Ministerial meeting can be found in CM2 1963/947 CEE Conseil, Directives arrêtées par le Conseil lors de la session des 8 et 9 mai 1963 en ce qui concerne l'attitude de la Communauté à la réunion ministérielle du GATT. See also HAEC MAEF, OW 50, Télégramme 768/782 de Boegner au Quai d'Orsay, 10 May 1963; AAPD 1963, Documents 161, 9 May 1963 and 164, Botschafter Harkort, Brussel (EWG/EAG), an Bundesminister Schroder, 11 May 1963

⁷⁹ HAEC MK23 Conversation avec M. Emile Noel, 26 April 1963.

agreement could not be reached immediately within the received mandate's terms, the EEC negotiating team would meet the representatives of the six governments in the coordinating meetings to set up a new common position and to issue a new mandate. The procedure would continue until the agreement was eventually reached. Obviously, this was a time-consuming procedure, but it was the only way the EEC could work.⁸⁰

The Six considered the May session as a convalescence meeting in which the EEC, after the internal crisis, returned to an almost normal working situation. They were aware of the political and economic importance of the GATT negotiations, and that the outcome of the new Round could, for good or for ill, affect EEC trade policy, US-EEC relations, the future of NATO, and the fundamental unity and strength of the Western World. The need for the Six to elaborate a common position to attend the Ministerial Meeting in Geneva helped to get the EEC back to work in a climate that, as Erhard had recounted, was not particularly bad.⁸¹

When informed by the Dutch and the Germans on the developments of the EEC Council, Washington stated its dissatisfaction and made clear it that the GATT ministerial meeting had to accept equal linear cuts as the basis for the negotiations. The Dutch advised the State Department that in order to persuade the EEC, the US had to convincingly present the case for linear cuts, and to be sufficiently flexible to take into account the disparity problem. In this way, the Germans and Dutch would be able to harden their positions within the EEC and favour the American formula. With Washington and Paris taking extreme polarised positions, Bonn was fully aware of its crucial role in the elaboration of a proposal acceptable by both parties. Germany favoured a compromised basic tariff reduction plan, under which the US proposal for a 50% linear cut would be accepted, but arrangements for dealing with disparities would be elaborated at outset and not merely at end of negotiations as hinted by Washington. Erhard hoped to reconcile the respective American and French stances, and it was with this goal in mind that he arrived in Geneva where he hoped to take it up with Giscard d'Estaing and Herter and seek to formulate a compromise.⁸²

4.6 The GATT Ministerial meeting of 16-21 May 1963: "The Shell of an Egg"

On 16 May, the representatives of the contracting parties gathered in Geneva and the tough bargaining began. The EEC and the USA were aware that the Ministerial meeting had to be successfully concluded in order to put the new round back on track, but reaching an agreement did not prove to be easy. Herter and Blumenthal, accompanied by Ball, arrived in Geneva with the firm intention of imposing their point of view and of putting pressure on GATT members in order to push them to adopt the American standpoint and isolate the EEC from the outset.⁸³ However, they soon discovered that this was not enough, as the EEC toughly bargained and was not willing to back down from its position without concessions.

⁸⁰ CM2 1963/948 CEE Conseil Aide-mémoire (Secret) à l'attention de M.le Secrétaire Général C/46/63 (GATT 1), 22 May 1963.

⁸¹ Telegram n. 294 from Cunningham of the American Embassy in Luxembourg to Secretary of State, 11 May 1963. Cunningham reported his conversation with Foreign Minister Schaus; Telegram n. 1211 from Herter in Geneva to Secretary of States, 18 May 1963, Herter papers Box 11, JFKL.

⁸² Telegram n. 3045 from Morris of the American Embassy in Bonn to the Secretary of States, 13 May 1963, Herter paper, Box 11, JFKL; NA 59 Department of State, Central Files, FT 4 US/TEA Telegram from Department of State to the Mission to the European Communities signed by Rusk, 17 May 1963.

⁸³ CM2 1963/947 CEE Conseil Première Réunion de Coordination du 16 Mai 1963, S/372/63 (GATT/MIN 1).

As noted, the Ministerial meeting had to deal with three main questions: the formula to reduce tariffs, rules to deal with agriculture and measures to favour trade of LDCs. In spite of the declared intentions, the commercial problems of the LDCs received scarce attention from the industrialised countries who focused on agriculture and, above all, on reductions of tariffs. Twenty-one LDCs presented an Action Program which would lead to complete free trade for their exports. The proposal was an open attack on the Association agreement of the EEC, and created a fracture between the EEC and the eighteen African countries of the AOC on the one hand and the rest of the contracting parties on the other. The latter were ready to accept the Action Program, with some exceptions from the United Kingdom for its preferential system, by contrast the EEC maintained that the LDCs had to arrive at liberalism through an organization of international markets for their products, and flatly stated that the Association agreement could not be removed. The associated African countries, willing to defend their Agreement, refused to criticize the EEC, so causing bitterness on the part of the other African countries, in particular the Commonwealth ones. In any case, the EEC representatives refused to negotiate on this issue as they lacked the mandate.⁸⁴

In agriculture, the American proposal consisted of agreeing that the rules guiding the negotiations lead to a meaningful liberalization of international trade of agricultural products. In contrast, anticipating the future quarrel about agriculture, for the Six, the organization of agricultural markets was far more important than liberalization. They supported the proposal to negotiate commodity agreements for meat, cereal and dairy products, but opposed interim agreements, and refused to take a position on the American two-tier approach. After long discussions, in response to the EEC's suggestion, the contracting parties agreed that, rather than liberalization, the negotiations would lead to the creation of "acceptable condition of access" to world markets for agricultural products and accepted the setting up of a working group to deal with the methods and means of the negotiations in this sector. The clash over agriculture was thus postponed.⁸⁵

More awkward was the reaching of an agreement on tariff reduction, on which the Ministerial meeting almost totally focused. Indeed, only at the last moment was compromise, or better a truce, reached. From the outset, the negotiation was dominated by the conflict between the USA and the EEC, with the result that the plenary session was abandoned and the bargain continued bilaterally with exchanges of notes and meetings between Brasseur, the porte-parole of the EEC member states, Rey and Marjolin for the Commission, and Blumenthal and Herter for the American delegation, with the mediation of the Swiss Hans Schaffner, the Chairman of the GATT Ministerial Meeting, who, during the entire conference, played a key reconciling role. These negotiations are fully described here, more than necessary in order to understand the final compromise reached, in order to illustrate the cumbersome EEC decision-making process that heavily influenced the path of the negotiations and often frustrated the American negotiators.

The EEC found the American proposal for approving the uniform linear cut method unacceptable as the only way of reducing tariffs, and maintained its position whereby a working group had to be established to consider the reduction formula. By contrast, Herter wanted the Ministerial meeting to adopt equal linear reductions as the

⁸⁴ PRO FO 371/172342 Confidential Note by Marjoribanks, 22 May 1963; CM2 1963/947 CEE Conseil, Quatrième Réunion de Coordination, 20 Mai 1963 S/375/63 (GATT/MIN 4); MAEF Cabinet Couve de Murville 1961-1966, n.160, note «Réunion ministérielle du GATT», 21 May 1963.

⁸⁵ HAEC BAC 506 026/1969 CEE Porte-parole de la Commission Informazione alla stampa, IP (63) 88 20 May 1963; CM2 1963/948 CEE Conseil, Cinquième Réunion de Coordination 20 Mai 1963 S/389/63 (GATT/MIN 5).

negotiating rule. On 18 May, he officially handed Brasseur and Rey the American proposal: the contracting parties would decide over the cutting formula in the course of the Ministerial meeting, the equal linear cut would be the only principle retained, but in a second phase, during which procedures would be discussed in detail, the EEC worries over disparities, a subsidiary problem, would be considered.⁸⁶

Given that the EEC representatives could not decide on the American proposal, as they lacked a mandate, a coordination meeting took place. Brasseur and the Commission found the American proposal unacceptable for it merely reproduced the American point of view, while the concession to discuss EEC preoccupations during a second phase was too small to be accepted. The equal linear reduction would represent the basic principle, whereas the disparity issue would be considered only as a matter of procedure, placing the EEC in a weak position. Giscard D'Estaing and Rey found it inopportune and premature to decide about the negotiating rules and wanted to stick to the 8-9 May directive, while the other Five, while refusing the American proposal, agreed to negotiate over it, and to prepare amendments so as to facilitate the reaching of an agreement with Herter. The Dutch Minister van den Berghe even claimed that the Americans had already made a step towards the EEC position in presenting a new proposal, and as all the EEC Ministers were in Geneva, the 8-9 May directive could be changed. For van den Berghe, supported by the Germans, the EEC could even accept that the respective American and EEC priorities would not be, formally, of the same importance. In the end, Marjolin and Brasseur suggested trying to convince the American delegation to set up a working group. Only if the Americans rejected this proposal, would the EEC have to make amendments to the American proposals in order to place the disparity matters and the equal linear cut on the same formal basis.⁸⁷

In the meantime, the Germans spoke with the Americans behind the scenes. Erhard, Lahr and State Secretary Westrick met with Herter and expressed their concern that the ministerial meeting could end in failure, and urged the United States to act in a spirit of compromise, to make concessions and not to press too strongly for the equal linear principle. Erhard was convinced that, with patience, the difficulties in the area of the tariff formula could be resolved. For this reason he would remain in Geneva in order to "play his role in trying to modify intransigent attitude of the French" and to find a compromise within the EEC.⁸⁸

When the bargaining restarted, Rey refused the American proposal and again demanded that the whole matter be referred to a working group. The Commissioner also expressed his dismay at the pressure being put on the EEC. For him, "when the EEC was put under pressure no decisions were ever made and this was borne out of experience". Herter strongly restated the US position and in the light of Rey's firm position, he assumed an even tougher stance, claiming that, as he felt that most of the contracting parties would approve US formula, he would reserve the right to present the US solution in open GATT session and put it to a vote.⁸⁹ The bargaining took place in nervous atmosphere, and the frayed relations between the US and the EEC delegations did not make the reaching of an agreement any easier. The Americans "claimed that the

⁸⁶ CM2 1963/947 CEE Conseil, Troisième Réunion de Coordination (Secret), 18 Mai 1963 S/375/63 (GATT/MIN 3) 6 June 1963 and AECB BAC 845 118/83 Note d'information de la DG Relations Extérieures, Réunion ministérielle du GATT, 25 May 1963, 1/5519/63-F.

⁸⁷ CM2 1963/947 CEE Conseil, Troisième Réunion de Coordination (Secret), 18 Mai 1963 S/375/63 (GATT/MIN 3) 6 June 1963.

⁸⁸ Telegram n. 1211 from Herter in Geneva to Secretary of States, 18 May 1963, Herter papers Box 11, JFKL.

⁸⁹ Telegram n. 1219 From Herter in Geneva to Secretary of State, 21 May 1963, Herter papers Box 11, JFKL.

Six were masters in delaying tactics and Marjolin replied that he had neither come to say or to hear disagreeable things."⁹⁰

In light of the impossibility of achieving a conciliation, the Six gathered for a new coordination meeting. Erhard, underlining that the EEC was running the risk of being isolated and placed in undesirable position at the international level if the GATT Ministerial meeting collapsed, suggested to amend the American proposal in order to place the disparity issue and the equal linear cut at the same formal level. The tariff negotiations were to be based on substantial linear tariff reductions. If substantial disparities, that is those obstructive to trade, did not exist, the reduction would be linear; if substantial disparities did exist, reductions would be based on special and automatic rules for the elimination the disparity. Rey judged Erhard's formula as "*une bonne proposition de compromis*". Giscard D'Estaing also supported the Erhard formula, defined as "très positive" but, supported by Rey, the Benelux countries and Italy, obtained the modification that the definition of disparity as *able to obstruct trade exchanges* be eliminated otherwise the EEC would be obliged to prove that the disparity had negative effects.⁹¹

In response to the EEC proposal, Herter produced with a counterproposal: only the equal linear cut was accepted as a general principle, while the disparity problem should be considered as a reason for an exception to the linear cut, provided that the EEC could prove that the disparity represented an obstruction to trade exchanges, so putting on the EEC the burden of proof in proving negative effects of the disparities. As the counterproposal ignored the automatic rule for reducing disparities, the EEC representatives did not have the authority to decide on it, and, consequently, another coordinating meeting took place.

Rey refused the American counterproposal. The EEC had already made considerable concessions and no more yielding was to be done, otherwise the EEC would lose its credibility. Moreover, for the first time in five years, noted Rey, the Commission negotiated with the United States in the GATT framework "*devant une position américaine particulièrement intransigeante et désagréable*". Rey stated that actions were being taken by the American delegation to isolate the EEC and that "*cette attitude ne correspond guère à la conception d'une partnership atlantique*".⁹²

Rey's opposition to make further concessions was not shared by Erhard and van den Berghe. For the German Minister, the Americans had also made concessions and the EEC could not simply refuse the American counterproposal, because if the Ministerial meeting collapsed, the Six would be blamed. For van den Berghe, Rey was over-dramatizing the situation, the Americans had made concessions, and the EEC had

⁹⁰ PRO FO 371/172342 Confidential Note by Marjoribanks, 22 May 1963. No better where the relations between the EEC representatives and Wyndham White. Marjolin found Wyndham White's interventions disagreeable because they tended to blame the EEC for the impossibility of finding any agreement. For Wyndham White, if the session was in trouble, it was because the EEC ignored the points of view of the other contracting parties for LDCs; lacked a common agricultural policy and hence was not ready to negotiate in the agriculture; it did not accept the American point of view for the tariff cutting formula. CM2 1963/947 CEE Conseil, Quatrième Réunion de Coordination (Secret), 20 Mai 1963 S/375/63 (GATT/MIN 4) 6 June 1963.

⁹¹ CM2 1963/947 CEE Conseil, Quatrième Réunion de Coordination (Secret), 20 Mai 1963 S/375/63 (GATT/MIN 4) 6 June 1963; AECB BAC 845 118/83 Note d'information de la DG Relations Extérieures, Réunion ministérielle du GATT, 25 May 1963, I/5519/63-F; HAEC EM 16, MAE Svolgimento dei lavori presso il GATT. A tutto il 21 maggio 1963 (allegato 6).

⁹² CM2 1963/948 CEE Conseil, Cinquième Réunion de Coordination, 20 Mai 1963 S/389/63 (GATT/MIN 5); MAEF Cabinet de Couve de Murville 1961-1966, n.160 Télex 170 de la délégation française a MM. Decarbonnel, Clappier, Ortolí, Matignon, 20 May 1963; HAEC EM 16, MAE Svolgimento dei lavori presso il GATT. A tutto il 21 maggio 1963 (allegato 6). The note of the Italian Foreign Minister claimed that the American delegation "ha continuato a mantenersi su una posizione massimalista, pretendendo la totale adesione alla propria tesi che prevede una riduzione lineare 'uguale'".

not, assuming a rigid position, and blocking the route to a final compromise. The Commission was totally supported by Giscard D'Estaing. Given the 8-9 May directive, the proposal of the EEC represented the maximum concession that the Six could grant. Moreover, the French minister shared Rey's remark regarding the pressure put on the EEC, and argued that, considering the Round had to begin in May 1964, it was not a disaster if the GATT session did not decide on all the problems of the negotiating rules. In any case, Giscard D'Estaing agreed to discuss the formula. What the EEC could do was to elaborate its own position in a way Washington could more easily accept it.

To find a compromise, Erhard, supported by van den Berghe, proposed to establish a weak link between the existence of disparities and distortions in trade exchanges, in order to take a step towards the Americans but without putting the EEC under the condition of proving the negative effects of disparities. Giscard D'Estaing, the Belgian Minister Fayat, the Italian Director General for Foreign Trade at the Ministry of Foreign Affairs Ferlesch and Marjolin refused this solution, for no allusion to distortion to trade was to be made. The EEC had to identify the very existence of disparities caused by the difference in the levels of duties, not to prove their consequences. After tense exchanges of recriminations between the Dutch and the French on how flexible the EEC had to be with Washington, a compromise was reached. The EEC agreed to found the tariff negotiations on equal and substantial linear cuts with limited exceptions. In case of sensible disparities in the level of tariffs, the tariff reduction would be based upon special rules of general and automatic application. Criteria were to be approved to determine significant disparities in tariff levels and the special rules applicable for tariff reduction in these cases. Upon reaching the compromise, Giscard D'Estaing made clear that it was the last concession that he would allow, otherwise the EEC would be placed in a position of inferiority, allowing third countries to continue to demand concessions. Meanwhile, Van den Berghe replied that the last formula elaborated by the EEC was not considered by his delegation as a definitive position of the Community.

After the compromise had been reached, van den Berghe and Erhard advised that, given the importance of the next meeting with the Americans, a representative of each member state should be present at the talks. Under the justification that the representatives of the member states were to carefully report to their governments on the GATT session, they claimed that their presence at the meeting was also useful from a practical point of view, as it would avoid the shuttle diplomacy that slowed the negotiations. With the representatives of member states present, the bargain could continue until an agreement was reached without the need to interrupt the discussion in order to let the EEC representatives meet with the member states. This suggestion had not to be interpreted by the EEC representatives as a sign of mistrust; instead, it was a proposal to make the task of negotiators easier. Erhard underlined that the GATT Ministerial session had, above all, a political dimension and this allowed the departure from the procedures of the Treaty of Rome.

The Dutch-German suggestion, which highlighted that frictions existed with the Commission, provoked the tough opposition of Rey and Giscard D'Estaing. Rey, jealous of the Commission's prerogatives under the Treaty, wanted to stick to the Treaty of Rome, and observed that in the negotiations with the Americans the EEC representatives had defended the EEC position in a moderate and flexible manner, but at the same time in a tough way, and no EEC governments could oppose what they were doing. On top of this, if the EEC delegation were composed of the six Ministers and of the two members of the Commission and each of them would speak, the differences that existed between within the EEC would inevitably appear and be exploited by the Americans. Giscard D'Estaing, who did not want the members of the American

delegation to put pressure on those EEC members most sensitive to American influence, spelled out that he had no intention of attending the next meeting with the Americans. Brasseur, supporting Rey, pointed out the bad atmosphere that the US created in order to put pressure on the EEC, and underlined the efficiency with which Rey and Marjolin had defended the EEC position. Because of the tough French opposition, the proposal was eventually refused.⁹³

Few hours before the end of the ministerial meeting, the EEC delegation submitted its new proposal to Schaffner. Blumenthal and Herter, who, until that time had had a rather rigid attitude, realized that US position could not be defended and that a compromise had to be sought in order to conclude the meeting. The Americans replied with a request to clarify that the word *sensible/significant* meant *sensible/significant in trade terms* with an interpretation made by Schaffner. As the EEC representatives lacked authority to respond, a new coordinating meeting took place.⁹⁴ Germany, The Netherlands, Belgium and Italy immediately accepted the American request. The US and EEC positions had become very close, and a refusal was difficult to justify. In contrast, for Giscard D'Estaing and the Commission, the US proposal could be accepted, but the amendment had to be presented directly by the Americans and not by Schaffner, since the interpretation was American. The difference was slight but important: an interpretation given by the President concerned all contracting parties, while an interpretation given by the USA concerned only the USA. Because of the refusal of the of the Five to toe this line, Giscard D'Estaing agree to give up and a compromise was suggested by the French minister himself: the EEC would accept the interpretation given by Schaffner, but making clear that, in accepting it, the EEC kept its own position on the way to indicate a disparity, which could also exist in case the difference of tariffs was of only a few points.⁹⁵

On 21 May at 23.30, the agreement was reached. The Ministers agreed that a significant liberalization of world trade was desirable, and, to that purpose, a multilateral trade conference based on the MFN rule would begin in Geneva on 4 May 1964. Both industrial and agricultural sectors would be considered, both tariff and non-tariff barriers would be dealt with. Equal and substantial linear tariff cuts with limited exceptions submitted to justification and confrontation would be made. In case of significant disparities, tariff reductions would be made on the basis of special rules of automatic and general application. According to the Chairman's statement, *significant* meant "meaningful in terms of trade". A Committee for Trade Negotiations (TNC) made of representatives of contracting parties was set up and charged with agreeing on a negotiating plan to reduce tariffs by the 1 August 1963, and to complete its task by November 1963. In particular, the TNC had to establish the degree of the tariffs cuts and rules for exceptions, to determine disparities and the general and automatic rule for reducing them, how to deal with NTBs and agriculture and, under the initiative of the United States, and in spite of the opposition of the EEC, with the problem of countries with economic or trade structures with peculiarities – the developing countries – or

⁹³ CM2 1963/948 CEE Conseil, Cinquième Réunion de Coordination 20 Mai 1963 S/389/63 (GATT/MIN 5).

⁹⁴ Telegram 1468 from Herter in Geneva to President Kennedy, 22 May 1963, Herter's papers Box 11, JFKL and CM2 1963/948 CEE Conseil, Sixième Réunion de Coordination, 21 Mai 1963 S/409/63 (GATT/MIN 6); MAEF Cabinet Couve de Murville 1961-1966, n.160, note «Réunion ministérielle du GATT», 21 Mai 1963.

⁹⁵ CM2 1963/948 CEE Conseil, Sixième Réunion de Coordination (Secret), 21 Mai 1963 S/409/63 (GATT/MIN 6) 17 June 1963. According to the Italians, the "Tutta la giornata è trascorsa in scaramucce tra americani, Comunità e Presidente della Conferenza. [...]. Ciò che più ha dato motivo di disappunto, rimostranze e preoccupazioni da parte dei Rappresentanti dei Sei è il modo con cui gli Americani vanno raccogliendo proseliti in senso antieuropeo comunitario, lavorando sia sulle altre Delegazioni e sia sulla stampa. Ciò ha dato luogo già a qualche notevole dissapore" HAEC EM 16, MAE, Svolgimento dei lavori presso il GATT. A tutto il 21 maggio 1963 (allegato 6).

exporting predominantly agricultural products – the major part of the Commonwealth countries – that, because of this problem, would not negotiate according to the linear rule principle. As a result, only the United States, the EEC, Japan, the United Kingdom and the other EFTA countries would negotiate along the linear rule. The Round had to create acceptable conditions of access to world markets for agricultural products and all forms of protection had to be included. The special working groups on meat and cereal, already set up, would continue their work and a special working group for dairy products was established.⁹⁶

The GATT Ministerial Meeting was successful in that it avoided a breakdown, but it produced merely a framework agreement, not a detailed settlement. As Evans notes, “the ministers achieved the semblance of a truce by a judicious mixture of those two most valuable instruments of diplomacy: postponement and ambiguity”.⁹⁷ Rules remained to be elaborated, and the confrontation between the two sides of the Atlantic was shifted to the TNC. The compromise on the reduction of tariffs was so ambiguous and full of loopholes that each party could point to the part it liked more, and turn a blind eye to other part. For the United States, the interpretation of Schaffner was binding and allowed them to maintain their basic position on the tariff disparity problem.⁹⁸ For the French, the interpretation had no substantive content; Geneva had settled nothing and the chairman’s interpretation was a meaningless “clause de style” accepted because it could mean anything.⁹⁹ Rightly, Erhard commented: “We are agreed on the shell of an egg. What will be in the egg, we don’t know”.¹⁰⁰

The first GATT Ministerial meeting of what was to be the Atlantic partnership era took place in a negative atmosphere, that had little to do with that cooperation advocated by Kennedy. The US tactics shocked the Six. The Americans conducted a tough campaign against the EEC – above all against the French, claimed Paris – and put pressure on third countries to isolate the EEC. Pressure was also put on the representatives of the Six in order to divide them.¹⁰¹ The American position towards the EEC had changed, compared to the 1958 GATT article XXIV and Dillon Round negotiations, and the US was now taking a harder line. Washington wanted the EEC to be liberal and fully integrated in the multilateral system, and therefore wanted it to attend the Round to drastically reduce tariffs. Moreover, with the balance of payments in a poor condition, Washington was less inclined to accommodate the Europeans. However, American hardness was also created by the “de Gaulle factor”. Washington feared that Paris was not willing to negotiate in Geneva, and that with its insistence on disparities was merely trying to deadlock or delay the Round, and that the Five would bow to essentially French interests in order to keep the Community intact. American stiffness was therefore created by the determination to push the Five to oppose French position if they did not want the collapse of the Ministerial meeting and the Kennedy

⁹⁶ The conclusions of the GATT Ministerial meeting can be found in Conclusion and resolutions adopted on 21 May 1963 in GATT BISD, 12th Supplement, Geneva June 1964, p. 36-50 and in PRO FO 371/172309 GATT – Restricted Min (63) 9, 22 May 1963.

⁹⁷ Evans, J. W. *The Kennedy Round in American Trade Policy*, p. 192.

⁹⁸ Telegram 1468 from Herter in Geneva to President Kennedy, 22 May 1963, Herter papers Box 11, JFKL.

⁹⁹ Telegram n. 4970 from Ambassador Bohlen to Secretary of State. Bohlen reported the conversation between Blumenthal and the two French officials Deniau and Guindey. Telegram n. 4931 from Paris to Secretary of State, 29 May 1963, Herter papers, Box 10, JFKL.

¹⁰⁰ Gosset, W.T. “The Kennedy Round – Progress and Promise” Department of State Bulletin, 19 August 1963, Herter papers, Box 9, JFKL.

¹⁰¹ Telegram n. 4931 from Paris to Secretary of State, 29 May 1963, Herter papers, Box 10, JFKL. The telegram reports a conversation between French official Clappier, Wahl and Dromer and American officials and CM2 1963/948 CEE Conseil Aide-mémoire à l’attention de M.le Secrétaire Général C/46/63 (GATT 1), 22 Mai 1963.

Round. For this same reason, Washington stressed the enormous political importance of the Ministerial meeting in order to put further pressure on the EEC. However, the bad atmosphere created by the Americans was also due to the working procedure of the EEC. The Ministerial meeting demonstrated that negotiations with the EEC presented challenging technical problems. The Six were achieving a common outlook and were endowing the EEC Commission with negotiating authority, a long and difficult process, since EEC decisions were hammered out only after prolonged discussions, and tended to come very late in the day. The Six's slowness put a brake on progress, thus Herter felt the responsibility for moving steadily forward with the negotiations.¹⁰²

Essential in finding a compromise was the diplomatic action of Erhard, who played an active role in putting forward proposals acceptable to the Americans and the French alike. Herter saw Erhard's negotiating tactics as very helpful for achieving the final results.¹⁰³ According to the British, Erhard's role of was also made crucial by, the "total absence of any affective contact between the American and the French delegations. [...] Long hours were wasted while intermediaries attempted to bring the two sides together on what seemed in essence trifling points of interpretation of the American formula for a Conference resolution. What was significantly lacking was any real attempt by Americans and French officials to iron out points at issues between them."¹⁰⁴

By contrast, Paris did not appreciate Erhard's action. The French felt that a Franco-German agreement was crucial for finding a compromise on the negotiating rules, and such an agreement could be easily attained since France and Germany held a common view on various important issues. The relative similarity of the structure of German and French industry, and the progressive harmonization of their production conditions pushed the two countries to have analogous positions on the EEC tariff structure which aimed to protect their industries, and to share the same positions on disparities, non-tariff barriers, the full and active participation of the EFTA and the Commonwealth countries, and the defense of the Association agreement. France even claimed that on the link between the industrial and the agricultural negotiations there was less divergence "*que cette relation est reconnue de façon plus générale et indépendamment de toute modalité concrète*". However, the similarity could not hide a general and fundamental difference regarding the conducting of negotiations, capable of disrupting them: the degree of firmness with which the EEC should maintain its positions before a harsh American opposition. At the Ministerial meeting, the French found the Germans too sensitive to American pressures. Bonn, in front of a tough American reaction, was more inclined to compromise than seemed necessary. If this German tendency continued, so held Paris, it could place the EEC in a position of radical weakness. Concession after concession, the EEC would be pushed to compromise on an essential element, namely the level and forms of protection it wished to retain in order to facilitate the fusion of the economics of the Six, and the affirmation

¹⁰² PRO FO 371/172309 "The Kennedy Round" Brief by the Board of Trade in view of the talks with President Kennedy, June 1963, 20 June 1963. Memorandum of telephone conversation between Herter and Tuthill, 29 May 1963, Herter papers Box 1, JFKL and Gosset, W.T. "The Kennedy Round - Progress and Promise" Department of State Bulletin, 19 August 1963, Herter's papers, Box 9, JFKL.

¹⁰³ Telegram 1468 from Herter in Geneva to President Kennedy, 22 May 1963, Herter papers Box 11, JFKL. As noted, Herter counted above all on the Germans, and in particular on Erhard, to conclude the Kennedy Round. According to him "the Italians for their part were wobbly, and the other three did not count for much on their own". PRO BT 241/840 Telegram 392 from Ormsby Gore to Foreign Office, 13 October 1963 reporting visit of Richard Powell to Washington and meeting with Herter.

¹⁰⁴ PRO FO 371/172342 Confidential Note by Marjoribanks, 22 May 1963. See also PRO FO 371/172310 Letter from Cohen to O'Neill of the UK delegation to the EEC, 7 August 1963.

of the economic entity established by the Treaty of Rome. For the French, the agreement between France and Germany had to include a broader agreement on the political meaning of the negotiations and on the maximum level of concessions which could be made, so that the rapprochement of the Atlantic economics would not take place at the expense of the identity-building of the EEC.¹⁰⁵

As for the relations among the Six, the Ministerial meeting showed that France was not isolated, and that a common front against it did not exist. France was constantly supported by the Commission, and often by Belgium, Luxembourg and Italy. Moreover, France did not play an obstructionist role, while it did bargain hard to defend its trade interests, but Giscard D'Estaing agreed to depart from the negotiating position of the EEC established on 8-9 May and to accept equal linear cut as the basis for negotiations.¹⁰⁶ In spite of external pressures, the American attempt to divide them and different internal positions, the Six were able to attend the negotiations as a single unit, capable of defending their point of view and obtaining concessions from Washington. This was thanks to their agreements on some basic aspects of the negotiations. The solidarity among the Six was perceived also by the Quai d'Orsay, which only complained about a Dutch shift towards American positions.¹⁰⁷

It is also worth noting that, within the EEC, the Commission, France, Germany, The Netherlands and to some extent Luxembourg, who was chairing the Presidency, played an active part in shaping the EEC common position. These countries were represented at ministerial level – France and Germany even with top rank ministers like Giscard d'Estaing and Erhard – during the entire GATT session, and vigorously defended their trade interests. On the contrary, Italy and Belgium for the moment took a more passive stance, limiting their role to supporting proposals elaborated by other countries. And Italy, with much at stake in the reduction of tariffs, being a high-tariff country, was not even represented at ministerial level. As for the Commission, Rey and Marjolin played an important role, both in shaping the EEC common position and in the bargaining with the USA. However, its role as sole negotiating agent was far from having been established and, as the Dutch and the German request to be present at the talks with Herter and Blumenthal showed, challenges to the establishment of this role could also come from those member states that overtly supported the supranational aspects of the Treaty of Rome.

The GATT Ministerial meeting plainly showed Washington that the sweeping liberalization of international trade would not be an easy objective to achieve. This worried Kennedy, who saw his program endangered by the attitude of the Europeans. For this reason, when meeting the French and the Germans in the aftermath of the GATT session, he felt the need to lecture them on the importance of the Kennedy

¹⁰⁵ MAEF, DE/CE 1961-1966 GATT 930, Note n. 169/CE, Vues françaises et allemandes sur négociations tarifaires multilatérales du GATT, 27 June 1963 and interview of the author with Giscard D'Estaing, Florence 27 October 2004.

¹⁰⁶ For French positive attitude see also HAEC EM 16, Telegramma di Casardi (Italian Embassy in Brussels) al Ministero degli Esteri, 29 maggio 1963, reporting a conversation between Casardi and the Belgian Forthomme. According to the British Embassy in Paris, Giscard D'Estaing's willingness to reach an agreement in Geneva caused him troubles with de Gaulle, who found the attitude of his minister too weak and soft: "We have heard from a number of reliable sources that Giscard D'Estaing's action in agreeing to the compromise reached in Geneva [...] was regarded with a very jaundiced eye at the Elysée. Couve de Murville is reported to have told some of his officials in the Quai D'Orsay after hearing the Elysée's view that Giscard D'Estaing betrayed General de Gaulle in Geneva in the interests of his own future political career and his desire not to be the Minister who made a major break with the Americans. From other sources we have heard that Giscard was very severely rebuked by the General for the softness of his attitude in Geneva on his return to Paris. PRO FO 371/172328 Letter from Rumbold to Reilly, 17 August 1963.

¹⁰⁷ HAEC EM 16, Telegramma 149 da Ortona (Italian Ambassador in Paris) to Rome, 29 May 1963 reporting conversation of the Italian Ambassador with officials of the Quai d'Orsay, "[...] elemento positivo è qui [Paris] considerato solidarietà manifestata nel complesso dai sei, anche se si è constatato qualche 'scivolamento' olandese verso posizioni americane".

Round, the link that existed between trade, security and monetary issues, and the necessity of collaborating with the United States. When he met French Foreign Minister Couve de Murville in Washington at the end of May 1963, Kennedy stressed the relevance which his Administration attached to GATT Round and noted that the United States had a deficit in its balance of payments because of US expenditure for military and foreign aid programs. However, Couve saw things differently: Washington was dealing with "the problem of the balance of payments piecemeal", while the West countries were "to have sound monetary policy". In any case, the United States did not have a genuine deficit, it having a foreign trade surplus, and exporting too much US capital abroad.¹⁰⁸

The meeting with the Germans was no more positive. With Chancellor Konrad Adenauer and Erhard in June 1963 in Bonn, Kennedy mentioned the valuable contribution of the Germans to the Geneva GATT negotiation. The US President also wondered "why this was called the Kennedy Round and why it should not be called the Adenauer Round or the de Gaulle Round", but, in any case, he claimed, the important thing was that it turned out to be a success. Kennedy hinted that economic relations "including such matters as monetary policy, offset arrangements and the Kennedy Round of trade negotiations [...] were possibly even more important to us now than nuclear matters", since the West was strong enough to deter any attack, while huge unresolved problems remained in the economic field. Foreign trade was important for the United States as "it played a key role in enabling us to earn enough to maintain our overseas commitments". Thus, it was to be conducted at the highest level, involving heads of governments and foreign and defense ministers, and not left to technical specialists, such as agricultural experts and tariff commissioners. "We must conduct these negotiations at the top level – otherwise we'll be ruined by bookkeepers", claimed Kennedy. And the United States, while counting on the cooperation of all countries, relied above all on the Germans. However, Adenauer did not seem to be very impressed by Kennedy's words. In his view, Germany had economic problems too and its "export balances were gone. German exports were coming down close to imports and the German trade balance was delicate". Thus, despite German good will for the successful conclusion of the negotiations, "[...] it should be remembered that the Germans were not as rich as some people believed".¹⁰⁹

At the end of June 1963, Kennedy toured Western Europe and reaffirmed the importance of the Atlantic partnership. In his speech on 25 June in St. Paul's Church in Frankfurt, Kennedy stressed his support for the Atlantic partnership and the political significance of the Kennedy Round: "These negotiations are a test of our unity. While each nation must naturally look out for its own interests, each nation must also look out for the common interest, the need for greater markets on both sides of the Atlantic, the need to reduce the imbalance between developed and developing nations and the need to stimulate the Atlantic economy to higher levels of production rather than to stifle it by higher level of protection"¹¹⁰ Kennedy therefore pushed the GATT negotiations forward, but after the stormy Ministerial meeting that had illustrated the difficulty in

¹⁰⁸ NA Department of States Files, Presidential Memoranda of Conversation: Lot 66 D 149, April - June 1963, Memorandum of Conversation between Kennedy and Couve de Murville, Washington, 25 May 1963.

¹⁰⁹ FRUS 1961-1963, IX Foreign Economic Policy, 72. Memorandum of Conversation between Kennedy, Rusk, Adenauer and Erhard, 24 June 1963.

¹¹⁰ PRO FO 317/172311 As/Pol (15) 32. On Kennedy visit see Winand, P. Eisenhower, Kennedy and the United States p. 349 and Guderzo, M. Interesse Nazionale e Responsabilità Globale, pp. 13-18.

moving the talks forward, his irritation that this fought Round bore his name remained.¹¹¹

Conclusion

The first stage of the Kennedy Round was complex and dominated by the conflict between the USA and the EEC over the rules of the negotiations. Washington had started the negotiations thinking of imposing its vision of the Kennedy Round along the TEA's lines. Once in Geneva, it became clear, however, that this was not possible. The EEC, and above all the French, had their own vision of the Kennedy Round, which did not correspond to the American one. The Ministerial meeting showed that the EEC would not accept a Kennedy Round according to the TEA, and that the USA was obliged to find a middle ground between its vision of the Round and the EEC one.

The clash was the result of different postures: The EEC considered US demands for concessions in agriculture as contrary to the CAP, and the US request for industrial cuts as excessive. Moreover, they held that they had not gathered in Geneva to please the United States and to redress the US balance of payments deficit, but rather to boost their exports across the Atlantic and within Europe. The USA wanted the Kennedy Round to follow the TEA's line, and felt the EEC request for harmonization of duties to be an anathema. The different aims which the respective parties wished to achieve in the Round led to clashes on the rules. However, the cumbersome EEC decision-making machinery, not made to hastily conduct international negotiations, made the negotiations in Geneva even more complex, as did the mistrust created by the French veto. The attitude of the French over-shadowed the work done because, again, no-one seemed to fully understand the intention of the French and whether they were merely defending their trade interests or seeking to wreck the Round with delaying tactics.

The negotiations over the rules demonstrated that the EEC, spurred by the French, who did not fear a showdown with Washington, had the ability to bargain as an equal partner with the United States in order to defend its trade interests. Moreover from this first phase of the negotiations onwards, the Round was a bilateral confrontation between the USA and the EEC, while other countries such as the United Kingdom, the small EFTA countries and Japan were relegated to a secondary status while the two big players hammered out their differences.

The preparation for the GATT Round helped the Six to overcome the crisis provoked by de Gaulle's veto, and to regain some cohesion. Internal differences existed, but they were smaller than Washington believed, and, in any case, did not impede the formulation of common position. In fact, differences existed above all regarding the degree of flexibility to grant in dealings with the United States. While The Netherlands and Germany were more willing to compromise, France wanted to stick to its vision of the Round. This aspect also seems to illustrate that while the United States and France had their own vision of the trade negotiations, the other four members of the EEC reacted to these two visions, some of them actively – Germany and The Netherlands – some others more passively – Italy, Belgium and Luxembourg.

¹¹¹ Kennedy's discomfort is mentioned also by Sorensen in Sorensen, T. Kennedy (London: Hodder & Stoughton, 1965), p. 412.

Chapter Five

The launch of the Kennedy Round

Introduction

The previous chapter described the setting up of the Kennedy Round, and concluded that, from the beginning, it proved to be a difficult set of negotiations, as well as a major confrontation between the USA and the EEC. It also explained that the need to attend the GATT conference helped the Six to find a quantum of unity and a shared position. After the GATT Ministerial Meeting, a great deal of hard work remained to be done to put in place the rules of the negotiations and then launch the Round. In this chapter, we shall describe how the negotiations on the rules continued, but failed to make much progress, as the EEC and USA positions appeared irreconcilable. As a result when the Kennedy Round was formally opened in May 1964, only a framework of rules had been agreed upon for the industrial sector, and no rules at all had been formulated for agriculture. This chapter also focuses on the internal preparation of EEC for Round and highlights that it became inextricably linked to the elaboration of the CAP on which a serious disagreement persisted in Brussels.

5.1 The GATT work July– November 1963: total impasse

As had been agreed at the GATT Ministerial meeting of May 1963, the contracting parties had to come to an agreement regarding the system of tariff reductions by 1 August, and had further agreed and to elaborate the rest of the negotiating plan by November 1963. A series of meetings occurred between June and November 1963 but fundamental differences persisted between the USA and the EEC regarding how to deal with disparities, and no progress at all was achieved in the areas of agriculture, non-tariff barriers or LDCs. On top of this, the persistent disagreement among the Six about the agenda of the EEC stalled the formulation of an EEC common position, and influenced the pace of discussions in Geneva with the result that, by the end of the year, very little progress had been achieved in terms of the rules to govern the Round.

The Committee on Trade Negotiations met for its first session on 27 June and established three sub-committees to deal with the Tariff negotiating plan, Agriculture and Non-tariff barriers respectively. The subcommittee on tariff negotiations met for the first session from 2 to 4 July 1963 and criteria began to be elaborated, first to identify disparities and then to deal with them. A British proposal to identify disparities, under which there had to be a minimum level – if a tariff rate was above this level then *prima facie* a disparity existed – but secondly there had to also exist a minimum gap between this high tariff and low tariff elsewhere, and in these cases countries with the lower duty were required to cut it by less than the linear amount, and this plan was retained as the basis of further discussion. It soon became clear, however, that no further progress

could be made since the Six had not discussed the figures for the minimum level and the minimum gap among themselves.¹

It was only at the end of July that the head of the Commission delegation, Hijzen, put forward the EEC formula for identifying disparities, under which the 50% tariff cut should not be applied to duties which were over 30% ad valorem and in which the spread of the USA, UK and EEC tariffs was greater than 10% (30:10 formula). The United Kingdom found the EEC proposal a constructive starting point even if it preferred a 20% gap, while the United States preferred a 60:20 formula in order to avoid a considerable watering down of the linear cut principle, caused by the many disparities caught by the EEC formula. A hard, confused and prolonged bargaining process took place over which figures should be inserted in the tariff disparity formula, with both the EEC and the USA sticking to their position. As a result, Wyndham White stated that no agreement could be reached, and postponed the negotiations until September.²

The EEC soon discovered that the 30:10 rule was incapable of solving the issue of disparities. The main problem was that the disparities caught by the 30:10 rule, in the large majority of cases, concerned products imported predominantly from EFTA countries. The EEC risked of keeping discrimination with the EFTA countries because of a disparity with the USA. Therefore, the 111 Committee and the Commission decided that more time was needed to allow an investigation by the experts of the Six in order to select from the list of disparities under the 30:10 formula those cases where the EEC had the biggest interest in claiming tariff disparities treatment and making a reduction inferior to 50%. Once this selection had been carried out, the Six would be able to agree to a formula.³

When the Tariff Negotiating Plan Sub-Committee met at the end of September, Hijzen, "who this time was flanked by the French and the German delegates", claimed that the detailed study undertaken by the Six on tariff disparities had not been completed and refused to discuss the disparity issues. Predictably, such a refusal disturbed the USA and the United Kingdom who had hoped to rapidly elaborate a solution. It above all annoyed the Americans who were becoming impatient with the cumbersome procedures by which the Six reached decisions. A new lengthy, and at times confused, discussion followed, complicated by the brusqueness with which the American delegation tried to advance its point of view and with "from time to time the French Delegate [whispering] fiercely in Hijzen's ear."⁴ At the end it was decided, following a British proposal, to give time to the Commission to complete its internal study and return to Geneva fully prepared to reach an agreement by the end of November 1963.⁵

¹ PRO FO 371/172309 Telegram 89 from Cohen to Foreign Office, 2 July 1963; PRO FO 371/172310 Confidential note on the Kennedy Round, undated but written in July 1963; PRO FO 371/172310 GATT Trade Negotiations Committee, TN.64/W/1, 27 June 1963.

² For the EEC decision to submit the 30:10 formula see CM2 1964/305 PV de la 49ème reunion du Comité 111, 19 July 1963. For the discussion in Geneva PRO FO 371/172310 Note for meeting with Herter written by Mason, 23 July 1963; ibidem Telegram 107 from Cohen to Foreign Office, 29 July 1963; Note for President Johnson "The Trade Negotiations", undated by presumably written at the beginning of December 1963, Herter's papers, Box 2, JFKL.

³ CM2 1963/305 PV de la 50ème réunion du Comité 111, 12 September 1964. PRO FO 371/172311 Telegram 124 from Cohen to Foreign Office, 20 September 1963 reporting a conversation between Denman and Horn, the German Delegate to GATT.

⁴ PRO FO 172311 Telegram 129 from Cohen to Foreign Office, 27 September 1963. See also BAC 506 026/1969 Note d'information, 1 October 1963; NA 59 Central Files Subject numeric 1963, box 3491, Telegram 1446 from Blumenthal to Herter, 2 October 1963.

⁵ PRO FO 371/172311 Cabinet GATT Policy Committee, Item 1 Meeting of the GATT TNC September 19-20, note by Mason, 30 September 1963; AECB PV 247 30 October 1963 Annex "Négociations Tarifaires dans le cadre du GATT". The British noted that Americans' position was "not improved by the fact that the chief of the Commissions spokesman in Geneva is not of the caliber required for such a difficult negotiations. On the other hand the chief American negotiator

During October, the Commission and the 111 Committee continued to study the disparity problem but no compromise could be reached among the Six. France insisted on the need to harmonise the CET and the US tariffs, while Germany and The Netherlands kept in mind American opposition to harmonization, and stressed that the number of disparities caught under the 30:10 formula had to be curbed, as it hit EEC exporting interests in Europe. Moreover, while for the Dutch, the Germans and the Italians, the EEC had to quickly elaborate its position on the negotiating plan in order to respect the deadline fixed in Geneva and not be blamed for any delay, for the Commission, the French and the Belgians, the EEC had to take all the time necessary to adopt a stance which corresponded to its interests.⁶ As a result, the Commission appeared in Geneva in November having achieved nothing concrete in this regard and, consequently, the Sub-committee adjourned to 1964 February in order to await the result of the internal wrangling within the EEC on the mandate to be given to the Commission scheduled, according to the agreement reached in May, for December 1963.⁷

In light of the French refusal to find a hasty solution to disparities, the Germans became pessimistic regarding the Round's prospects. For them, the disparity problem could be solved at the technical level, as long as a genuine desire to resolve the question existed. However, French tactics brought back memories of the FTA and Brussels negotiations: with technical work under way and the possibility of a solution on the horizon, the French seemed to be preparing a sabotage. The Germans felt Paris had displayed a quantum of flexibility at the beginning of July, but, by October, it had "reverted to their normal delaying tactics" and the former could not understand whether this reflected a desire to postpone decisions on the Kennedy Round until the end of the year when the argument with the Germans on the CAP could possibly have been reached a conclusion, or rather a signal of a plan to "wreck the Kennedy Round".⁸ In truth, France was not preparing to torpedo the negotiations, but, like the Commission, wanted to elaborate a formula to effectively defend its trade interests. Moreover, with the Germans still dragging their feet on the elaboration of the CAP, they felt in no hurry to reach an agreement in Geneva.

Work in the other sub-committees and working groups proceeded at an even slower pace. A first discussion took place on the identification of non-tariff barriers, but because of the stalemate over disparities, the sub-committee merely decided to adjourn. Very little progress was made in agriculture. Having not yet worked out the CAP's structure for basic products, the EEC representatives were reluctant to take any active

has an arrogant and legalistic approach which is not fruitful for negotiating in Europe." PRO FO 371/172313 Note "The Kennedy Round", Situation and Prospects at 1 November 1963. According to the British "the lack of subtlety in [the Americans'] tactics in dealing with the Six does not always advance their cause". PRO BT 241/840 Confidential note on the Kennedy Round by the BT, 9 October 1963.

⁶ CM2 1963/305 PV de la 51^{ème} réunion du Comité 111, 3 October 1963; ibidem PV de la 53^{ème} réunion du Comité 111, 5 November 1963. PRO 241/840 Telegram 314 from Roberts of the British Embassy in Bonn to Foreign Office, 25 October 1963, reporting a conversation between Horn and Denman on 3-4 October 111 Committee meeting; CM2 1963/539 PV de la 114^{ème} session du Conseil de la CEE, 4-5 November 1963.

⁷ PRO 241/840 Telegram 175 from Cohen to Foreign Office, 26 November 1963; PRO FO 371/172316 Note on the Kennedy Round by Mason, 16 December 1963.

⁸ PRO 241/840 Telegram 314 from Roberts of the British Embassy in Bonn to Foreign Office, 25 October 1963, reporting a conversation between Horn and Denman and ibidem Confidential note on the Kennedy Round by the BT, 9 October 1963. For the British the Kennedy Round was in clear trouble. The main problem was it was not possible to say whether the French, with their delaying tactics were waiting "until the agriculture dog-fight in the Community is settled [...] or engaged in a holding operation until the General decided whether he is going to torpedo the Kennedy Round". PRO 241/840 Telegram 175 from Cohen to Foreign Office, 26 November 1963.

part, and, consequently, other countries were not willing to put their cards on the table.⁹ At the end of November, negotiations in Geneva were at a total impasse. With the EEC lacking a negotiating position, and the attention of the Six focused squarely on the wrangling over the CAP to take place at the end of the year, GATT works were adjourned to 1964, by which time it was hoped that the EEC would finally show up with a negotiable common position.¹⁰

5.2 Challenges to the European Commission

For the Commission, the Kennedy Round represented an opportunity for it to affirm its role as negotiator agent of the EEC. From the outset, however, this aim was not easy to accomplish. The Dutch-German proposal made during the GATT Ministerial meeting to allow the Member States to attend the negotiation with the Americans, Franco-German surveillance of Hijzen at the discussions over disparities, and the very fact that Hijzen attended discussions with third countries flanked by Member States' representatives and, as the British put it, looked as though he was under arrest, showed a clear willingness on the part of Member States to control the Commission, and a certain lack of confidence in this institution. GATT talks would have great impact on EEC trade policy and the Six were not particularly eager to relinquish negotiating authority to the Commission.¹¹

The EEC decision-making process also revealed a similar attitude on the part of Member States. Under the Treaty of Rome, the Commission, together with 111 Committee, was to make recommendations to the Council regarding trade negotiations. Both in the Dillon Round and then in this preliminary phase of the Kennedy Round, the commission took a considerable amount of time in formulating these proposals, having to balance the different positions of the commissioners, the interest of the EEC as a whole, and the respective interests of the individual Member States. However, after a proposal was sent to the Council, the latter, instead of considering its recommendations, set about analysing the issue again from the start. After numerous meetings, studies and papers, the Council often came to realise that the Commission's proposals were, in fact, reasonable and balanced. Furthermore, in its work, the Commission had to confront a rather hostile 111 Committee, which instead of performing its task of helping the Commission to complete its task, was eager to hamper the work of this institution, as well as an antagonistic COREPER. The mistrust of COREPER and the 111 Committee caused a great deal of time to be wasted. Whenever the Commission presented a proposal to the Council, this issue was then studied from the outset by the COREPER and the 111 Committee, with the result that these institutions were dealing with the same subject at the same time; the Commission was also asked to attend the work of these two bodies, which took place contemporaneously, with the consequence that Commission officials did not know with whom to meet.¹² In the end, the Council would approve the proposal of the Commission. Hence, the internal procedures of the EEC were particularly cumbersome, because Member States displayed a lack of confidence

⁹ CM2/1963 558 Note d'Information, S/449/63, 3 July 1963. PRO FO 371/172310 "Guidance for Ministers", n.13 Preparation for the Kennedy Round: a Progress report, 25 October 1963; NA 364 Records of US Trade Representative on the Kennedy Round, Box 6, Note of Worthington "Agriculture and the Trade Negotiations", 2 August 1963.

¹⁰ PRO FO 371/172316 Note on the Kennedy Round by Mason, 16 December 1963.

¹¹ For British comment see Johnson, pp.X

¹² Confidential letter from Commissioner Rey to Ambassador J. Van Der Meulen, (Belgian member of COREPER), 20 June 1963. Jean Rey's papers - Box 34, Archives of the ULB, Brussels.

in the Commission as a negotiator, and a strong willingness to control every detail, and, in so doing, reducing the Commission's role in trade negotiations.

Problems for the Commission also came also from Washington and Geneva. The Americans had counted on the Commission's liberalism and willingness to attend the Round as a factor which would counter French obstructionism, but after the Ministerial meeting they felt aggrieved by the actions of the Brussels institution, as well as the fact that it often lacked instructions to meaningfully negotiate. First, the Americans felt that the Commission's previous enthusiasm for the Kennedy Round was becoming watered down. Second, with the French taking a hard line, the Commission emphasized that negotiating rules were a technical matter to be treated as such, thereby attempting to reduce the political implications of the Kennedy Round, and minimize the consequences on the EEC in case the negotiations were a failure. Tuthill emphasised this point at great length to Hallstein: the Kennedy Round was a political issue involving the entire Atlantic Alliance and a key test for the EEC and there was nothing the Commission could do to "remove the political fuse from this bomb".¹³ Third, what most annoyed the Americans was that the Commission tended to be more protectionist than some of the member states. As Ball put it to Hallstein, the "Commission was [not] playing its proper role, and [...] it appeared all too often to be siding with the most restrictive French view in any showdown".¹⁴

For the Americans, however, and with the support of the British, the problem was not simply related to the posturing of the Commission. The EEC was also unable to efficiently attend the Round because this institution was inadequately represented in Geneva. Hijzen proved to be lacking in the authority, experience and technical skills required to effectively represent the EEC. As a result, according to Blumenthal, the Commission lacked clear positions and policy direction.¹⁵ As such, the EEC needed a senior and adequate representative, possibly Rey or Marjolin, who could be present at least at the most important meetings.¹⁶

British and American unhappiness with Hijzen led Wyndham White, who had often repeated that the EEC had to be represented in Geneva by top-level people, also therefore implying that Hijzen was not top-level,¹⁷ to take an astonishing initiative. At the end of November 1963, the French member of 111 Committee Jean Wahl informed his colleagues and the Commission that Wyndham White had approached the French, suggesting the implementation of a small, informal committee to discuss the major issues of the Kennedy round and speed it up. The most pertinent aspect of the proposal was the composition of the committee, which would be made up of France, Germany,

¹³ HAEC, JMAS 95, Memorandum of Conversation between Hallstein and Tuthill, 20 May 1963.

¹⁴ HAEC, JMAS 95 Letter from Hinton, Director of Atlantic Political-Economic Affairs Office in State Department, to Tuthill, 26 June 1963, reporting a conversation between Hallstein, Narjes, Ball and Blumenthal. See also Preliminary Draft of the report "Components of a Strategy for the Kennedy Round" by Ball, 10 December 1963, Herter's papers, Box 2, JFKL.

¹⁵ To the British, Blumenthal "commented with some acerbity on the inadequacy of Hijzen to the task and responsibility of leading the EEC Delegation. Cohen's answer to Blumenthal is revealing: "we [the British] had suffered much longer than he had on this account and we had learned from hard experience in the Dillon round that the practical way of coming to grips with the Community on tariff questions was to sort them out and get agreement first with the French; once the French agreed, it was remarkable how quickly the Commission came round to the same idea". PRO BT 241/389 Telegram 85 from Cohen to Foreign Office, 3 July 1963. British negative appraisal of Hijzen and the Commission was parallel to an opinion of the French who, both inside and outside the Commission "are often of a higher caliber than those of the Five". The French officials fully understood the discussions taking place in Geneva, were very competent and able to deal with technical issues. None of the Five's representatives in Geneva were as competent as the French, and apart from the German official in Geneva [Horn] "the others can be written off". PRO FO 371/172310 Letter from Cohen to O'Neill of the UK delegation to the EEC, 7 August 1963.

¹⁶ HAEC, JMAS 95, Letter of Ball to Tuthill, 8 November 1963.

¹⁷ AECB BAC 17 122/1991 Note pour Monsieur le Ministre Rey (from Hijzen), 19 November 1963.

the United States and the United Kingdom, "avec la proposition formelle de laisser la Commission dehors". The French government had resolutely rejected the suggestion, claimed Wahl. In fact, the French had no reason to weaken the unity of the EEC, which gave strength to the Six, and in having the Germans, too receptive to American pressure for French liking, negotiating in Geneva on behalf of the EEC. Moreover, the French had no interest in speeding up the Kennedy Round. Unsurprisingly, Hijzen was irritated by the proposal, which he labeled "stupide ou [...] extrêmement insolente". The Benelux countries, Italy and France rebuffed Wyndham White's move on the ground that it was not up to him to decide who had to represent the EEC. Benelux and Italy had no reason to support a proposal that brought into question their own decision-making power in the EEC and in Geneva, and the unity of the EEC, thereby reducing its and their strength. Thus, these five governments decided that an immediate answer was to be given by the Commission itself, asking Wyndham White to withdraw his suggestion and keep up appearances. What was remarkable was the German reaction to Wyndham White's suggestion. German 111 Committee representative Reinhardt fully shared the stance of the other five, but he could not take a position, because the proposal was being discussed in Bonn. Nevertheless, as the proposal was an administrative one, in his view, the 111 Committee could decide by majority decision.¹⁸ Therefore whereas the French firmly and rapidly rejected it, the Germans took time to discuss it, with the result that Reinhardt could not even sign the response to be given to the GATT Director General. Wyndham White's proposal showed that the Commission was far from having established its negotiating role and that, as already noted, challenges did not necessarily come from those governments which overtly refused supranationalism, such as France, but also from those that professed to support it, like Germany. It also showed that the necessity to promote their trade interests, rather than a theoretical approach towards supranationalism, pushed the position of the Six towards that of the Commission.

It is worth underlining, however, that in spite of the disappointment with the position of the Commission and how the institution was represented in Geneva, Washington had no intention of writing it off. According to Ball, American policy required that the Commission be built up in order to strengthen European integration. It was also for this reason that Ball wanted the Commission to be represented at a high-level in Geneva.¹⁹ Moreover, even if this institution had not always been helpful, the fact remained that "the Commission is a genuine force in Community", claimed Tuthill. It could not force Six to agree but, conversely, little progress was possible without the Commission onside. Because of the internal workings of the EEC, even if Washington attempted to bypass the Commission and negotiate directly with governments, this would be doomed to failure. In fact, Mansholt remained the best hope for a constructive attitude on the part of the Community regarding the issue of agriculture in the Kennedy Round. "If we are even to escape from impasse stemming from German unwillingness to lower grain prices and French unwillingness negotiate with outsiders in absence of internal agreement, it is safe bet Mansholt's assistance will be needed." At the same time, the political objective of strengthening the Commission had to be compromised because the successful conclusion of the Kennedy Round needed the United States to work with the national governments as well. Washington had to continue to maintain contact with the governments, while also insisting on the involvement of the

¹⁸ For Hijzen "même si cette construction n'était pas très logique, tout le monde a bien compris ce qu'il [Reinhardt] voulait dire". AECB BAC 122/1991 17 Note pour Monsieur le Ministre Rey (from Hijzen), 19 November 1963.

¹⁹ Preliminary Draft of the report "Components of a Strategy for the Kennedy Round" by Ball, 10 December 1963, Herter's papers, Box 2, JFKL.

Commission,²⁰ this instead of Erhard's suggestion to Herter that Washington should concentrate on negotiating with the member states and "play down" the Commission, by dealing with governments over the Commission's head.²¹

5.3 The end of the Poultry War

To make the transatlantic relations and the preparation for the Kennedy Round more difficult there remained the unresolved issue of the Poultry War. By mid-1963, not only had the issue not yet been resolved, but it had also become the subject of newspaper headlines. As noted in chapter two, what was relevant in the Poultry War was not only the quantity of poultry that the USA exported to the EEC, but also the political implication that lay behind the issue, and notably the impact of the CAP and trade policy principles and practices.²² Moreover, the Americans seemed to be convinced that behind this trade war lay a willingness on the part of de Gaulle's to pull American agricultural products out of the EEC, and to set up an inward-looking EEC. For this reason, the war had to be won.²³ In this context it came as no surprise that the Poultry War increased in political significance, and that the future of the Atlantic alliance seemed to be dependent on chicken: "Is the Atlantic Alliance going to founder on chickens' [Kennedy] asked one day in mock despair?"²⁴

In April 1963, Mansholt visited Washington to discuss the state of transatlantic relations with the Kennedy Administration. When the conversation turned to the poultry issue, Mansholt adopted the stance that, in light of the increased production in the United States and in Europe, Washington could not expect to find increased markets for poultry in the EEC. Herter made clear that if the principles the EEC applied to poultry were to be applied across the board, there would be no international trade, as such, he asked the EEC to reduce the levy or to offer equivalent compensation to offset damages to US poultry exports.²⁵ Herter and Ball even warned Rey and Marjolin that the United States could retaliate if the EEC maintained the levy on poultry, while the US Embassy in Bonn exerted pressure on the German government to give serious consideration to supporting a settlement.²⁶

Against the European unwillingness to follow any of the solution indicated, Washington sought to draw attention to the GATT bilateral Standstill agreement, signed by the EEC and the USA at the Dillon Round, under which the USA claimed to have the right of access to the European poultry market for the 1960 level or 46 million dollars. At this point, the European Commission suggested to the EEC Council of Ministers to reduce the levy on poultry by 1.2 cents a pound. During the course of the trade war, the Commission, along with Hallstein, Mansholt and Rey, urged Members

²⁰ Letter from Blumenthal to Herter, 16 October 1963, Herter Papers box 1, JFKL. Preliminary Draft of the report "Components of a Strategy for the Kennedy Round" by Ball, 10 December 1963, Herter's papers, Box 2, JFKL.

²¹ NA 59 State Department Central file subject numeric Box 3488, ECIN 3 EEC, Telegram n. ECOBUS 140 from Tuthill to Secretary of State, 1 August 1963.

²² HAEC JMAS/95 Tuthill to Ball "Discussion with Hallstein", 8 November 1963.

²³ Eckes, A. E. Revisiting U.S. Trade Policy. Decisions in Perspective, p. 68.

²⁴ Quoted in Sorensen, T. Kennedy (London: Hodder & Stoughton, 1965), p. 412.

²⁵ Memorandum of Conversation. Participants: Herter, Tuthill, Gosset and Mansholt, Washington 8 April 1963, Herter papers, Box 10, JFKL and Memorandum for the President from Herter on Herter's meeting with Mansholt on 8 April 1963, Herter's papers, Box 10, JFKL. FRUS, 1961-1963 Vol. XIII Economic and Political Integration, 75. Memorandum of Conversation between Kennedy, Ball, Freeman, Tuthill, Kaysen, Mansholt Mozer 9 April 1963.

²⁶ Office of the SRTN Rey-Marjolin talks, 2-3 May 1963, Principal issue in trade negotiations, Herter papers, Box 8A, JFKL; HAEC JMAS/95 Aide-Mémoire dated 5 July 1963 from the US Embassy in Bonn to German government.

States to take action in order to give the United States some relief, and elimination the hostilities that poultry was causing in transatlantic relations. However, for Couve de Murville and Lahr, that is to say Paris and Bonn, the Commission was over dramatizing the issue, and the importance the USA actually gave it, and deemed that little needed to be done. Notwithstanding Hallstein's warning that the poultry matter had been raised with him by all of the high US officials – including Kennedy – the French and Germans were not ready to compromise.²⁷

With the refusal of the Council to follow the advice of the Commission, at the beginning of August, the USA notified the EEC that it would raise tariffs on EEC imports to the value of 46 million of dollars if, by 16 October 1963, the EEC had not reduced the levy or granted adequate compensation.²⁸ Until August 1963, the EEC underestimated US willingness to see its trade rights respected. As Tuthill wrote "The Europeans had been mistaken not to take us seriously from the beginning and realize that we [the United States] were neither bluffing nor trying to make a mountain out of the mole hill".²⁹ Having witnessed the American ability to retaliate, however, the EEC decided to grant the USA a compensation of 19 million of dollars, which was, however, very far from the amount requested. However, at this time the Poultry war had become such a hot issue in US-EEC relations, potentially damaging to the entire Kennedy Round, that both sides deemed it wise to reduce the temperature caused by the crisis. Moreover, the EEC concluded that further tension regarding poultry would risk an explosive debate in Geneva on the legality of the entire CAP system. For this reason, an end has to be put to the trade war.³⁰

Following the suggestion of the USA, an impartial panel of the Council of Representatives of GATT was set up to elaborate an advisory opinion on the level of retaliatory measures Washington could take. In November 1963, the panel calculated that the amount should be 26 million dollars. Because of the willingness of both sides to quickly conclude the trade war, the figure was accepted. It was then up to President Johnson to indicate which EEC products the reprisal should be taken against. Products were carefully chosen in order to hit the EEC countries involved: France, Germany and the Netherlands. On 4 December, Johnson announced that the USA would increase duties on light panels, dextrin and trucks to hit Germany, potato starch to hit The Netherlands and brandy to hit France. The trade war was officially over.

The poultry war demonstrated to the United States that it could not sit and wait for the CAP to be finally established, and that it needed to pre-emptively exert pressure in this regard, in particular using the Kennedy Round to prevent the CAP from damaging its interests. At the same time, the Poultry war illustrated that there was little the US could do, apart from retaliate, to prevent the implementation of a CAP it did not like. Yet the State Department had no intention of challenging the existence of the CAP as it held that effective unity within the EEC implied a common agricultural policy.³¹ This attitude was also shown by the fact that in appealing to the GATT, the Americans never questioned the legality of CAP. Thus, the poultry affair anticipated the struggle

²⁷ CM2 1963/40 PV de la 107^{ème} session du Conseil de la CEE, 10-11 July 1963. HAEC JMAS/95 Memorandum of conversation between Hallstein and Tuthill on poultry, 13 July 1963.

²⁸ FRUS 1961-1963, XIII, Economic and Political Integration, 77. Telegram from the Department of State to the Mission of the European Communities, signed by Rusk, 12 June 1963 and *ibidem* Circular Telegram From the Department of State to Certain Missions 3 August 1963.

²⁹ HAEC JMAS/95 Tuthill to Ball "Discussion with Hallstein", 8 November 1963.

³⁰ *ibidem*

³¹ FRUS, 1961-1963 Vol. XIII, Economic and Political Integration, 85 Memorandum of conversation between Ball, Bohlen, Schaetzel, Tyler, Beigel, Couve de Murville and Alphand, 18 October 1963.

over agriculture that would occur in Geneva between the USA and the EEC, but also the difficult position faced by Washington, who did not wish to question the CAP's existence.

5.4 Problems in the synchronization plan: German feet dragging

In the July-November discussions, the EEC had showed a manifest unreadiness to sit down in Geneva with a set position and adopt rules to negotiate. This lack of readiness on the part of the EEC stemmed not only from the difficulty in elaborating a disparity formula that responded to its trade interests, but also from internal difficulties in developing a synchronized decision on the Kennedy Round and the CAP. The EEC's elaboration of a negotiating position for Geneva was strictly linked to progress in the CAP since, as had been decided on 9 May, by the end of 1963, the Six had to add another piece in the building of the CAP, with the adoption of regulations for rice, dairy products and meat and the definition of common cereal prices, and had to elaborate a mandate for the Commission to attend the Kennedy Round. However, despite the synchronization agreement, at the Council of Ministers at the end of May, the German Minister of Agriculture, Schwarz, who within the German government strongly opposed the reduction in cereals prices, declared that Germany was not able to set a UGP, so obstructing progress in the CAP. The Five got the clear impression that the Germans had every intention of dragging their feet until after the German election of September 1965, and not respect the synchronization plan which they had themselves had proposed.³²

France was determined to proceed with the approval of the CAP in spite of German resistance. As de Gaulle made clear to the Adenauer, Schroeder and Erhard, France wanted the engagement made on 9 May to be respected.³³ And in his press conference of the end of July, along with the need for the EEC to be self-sufficient in agriculture, de Gaulle even stated that without substantial progress in the CAP by the end of December, "le développement de l'ensemble [of the EEC] serait arrêté".³⁴

Despite this warning, the Germans tended not to take de Gaulle seriously. They considered the advantages accorded to France by the EEC, and deemed that the French threat would not be implemented.³⁵ Thus they demurred. In truth, German stance did not lack a certain element of contradiction. For Bonn, the adoption of the new CAP lot was linked to the adoption of an EEC common position for the Kennedy Round, as the synchronization principle dictated. But the establishment of the CAP imposed sacrifices on Germany; hence it refused to proceed quickly, above all with the common price for cereals. Therefore, on the one hand, Bonn yearned for synchronization between the CAP and the GATT Round, but on the other it also desired a slower pace in the development the CAP. On top of this, in elaborating the CAP, Bonn wanted German trade with third countries to be considered. Erhard pointed out that while French agricultural exports to the EEC had increased since 1958, German traditional

³² CM2 1963/29 PV de la 103ème session du Conseil de la CEE, 20-21 May 1963. HAEC EM 16, MAE "Note all'ordine del giorno del Consiglio dei Ministri della CEE del 30-31 maggio 1963, 28 maggio 1963, where it is reported the oppositions of the other five to German claims. For German resistance to the setting of unifying prices for cereals see Knudsen's works already cited.

³³ HAEC- MAEF 17 reel 208, Secrétariat General, Entretiens et Message, Réunion du 4 juillet, Pompidou, Couve de Murville Giscard D'Estaing, Pisani, Erhard, Schröder, Dahlgren, Schwarz, Bonn 4-5 July 1963 and AAPD 1963, documents 218/219, Deutsch-französische Regierungsbesprechung, 4/5 July 1963.

³⁴ De Gaulle, C. Discours et Messages (Paris: Plon 1970), Vol.4, pp.128-129.

³⁵ PRO FO 371/172312 Telegram 316, from O'Neill in Brussels to Foreign Office, 4 October 1963.

agricultural imports from Poland, Sweden and Denmark were being drastically hit because of the CAP. Therefore, he wanted the adoption of the new three agricultural regulations for meat, rice and dairy products to be accompanied by contingents to keep constant the flux of trade between the above mentioned markets and Germany. Only beyond these contingents, would CAP rules be applied. By the same token, the adoption of the common price for cereals had to maintain the level of German cereals imports from outside the EEC by ensuring third countries contingents, and not by keeping prices low, as this ran counter to German interests. Thus, Germany formally accepted the CAP, but it displayed hesitations in its elaboration and implementation, and asked for measures, such as contingents, that ran contrary to the CAP principles which were based on price levels.³⁶

German dissatisfaction with the CAP was so deeply felt that at the middle of October, Lahr and Secretary of State in the Ministry of Agriculture, Huttenbrenner, openly called it into question not only by claiming that it was causing a sharp decrease in German imports from outside the EEC, thereby hurting German trade, but also implied that progress had to be slowed down, and that modifications were indispensable in order to take into account the interests of third countries.³⁷ Then, at the meeting with the British at the Western Europe Union, while Mansholt claimed that to attend the GATT negotiations the EEC needed the three regulations and the setting up of common prices for grains, Schroeder claimed that it was impossible to adopt the CAP before the opening of the Kennedy Round, and that, in any case, it was not even necessary. Moreover, the agricultural regulations had to be elaborated taking into consideration third countries' interests and be negotiable in Geneva.³⁸ The problem with the German position was that while they claimed that the adoption of the new CAP was dependent on progress in the Kennedy Round; when the French agreed with this, the Germans started saying that in any case they had qualms with the CAP. The Germans were questioning the synchronization plan which they themselves had elaborated, and were running the risk of being seen as the stumbling block of the GATT negotiations.

By contrast, France wanted agriculture to be organized according to the CAP, as this was a necessity for the French economy. For de Gaulle, the adoption of the three regulations had to be undertaken before the Kennedy Round started. What was necessary "c'est de régler les problèmes du Marché Commun avant l'ouverture de négociations avec les Américains, puis se tenir à la position que nous aurons adoptée" maintained the General.³⁹ For Couve de Murville, even if the Six did not agree to set the common price by 31 December 1963, a fixed policy over price was required to attend the GATT Round, since prices marked the degree of protectionism of the EEC. Moreover, for France, a common agricultural market implied common prices and free trade among the Six, thus, as the French Foreign Minister put it, the quantitative

³⁶ HAEC- MAEF 17 reel 208, Secrétariat General, Entretiens et Message, Réunion du 4 juillet 1963, Pompidou, Couve de Murville, Giscard d'Estaing, Pisani, Erhard, Schröder, Dahlgren, Schwarz; and AAPD 1963, documents 218/219, Deutsch-französische Regierungsbesprechung, 4/5 July 1963. HAEC MK 25 Conversation avec Spierenburg (Duth PERMDEL) sur l'affaire de poulets et les règlements agricoles non encore adoptés, 2 October 1963. For German worry about its trade relations with Denmark see Rasmussen, M. *Joining the European Communities. Denmark's Road to the EC-membership 1961-1973* (Florence: EUI PhD. Thesis, 2004).

³⁷ Ludlow, N.P., *The European Community and the Crises of the 1960s*, pp. 46-47. See also CM2/1963 539, PV de la 112ème session du Conseil de la CEE, 15 October 1963; AAPD, document 395, Aufzeichnung des Botschafters Blankenhorn, Paris, 21 October 1963.

³⁸ HAEC - MAEF, Secrétariat General, Entretiens et Message, 19 reel 209, Télégramme, Ministère Affaires Etrangères, 28 October 1963.

³⁹ HAEC- MAEF 17 reel 208, Secrétariat General, Entretiens et Message, Réunion du 5 juillet 1963, de Gaulle, Pompidou, Couve de Murville, Giscard d'Estaing, Pisani, Erhard, Schröder, Dahlgren, Schwarz.

assurances proposed by Erhard represented "la négation même d'un marché commun agricole".⁴⁰

The preparation for the Kennedy Round got caught up in this dispute going on within the EEC, above all between France and Germany, over the two aspects of the CAP. First, the pace with which this policy was being defined and implemented, too hastily for the Germans, not hastily enough for the French. Second, the impact of the CAP on third countries and therefore on EEC external trade relations.⁴¹ Germany, supported in this case by The Netherlands, wanted to ensure that third countries could keep exporting to the EEC, in order to import cheap food from outside the EEC and not put create a tension between the CAP and third countries, while France wanted to exports its more expensive foodstuffs to EEC members without external competition. However, no alliance was built between The Netherlands and Germany against France. Just like France and the Commission, the Netherlands supported the CAP system and aimed at keeping out access for third countries through low unified prices. This solution was categorically refused by Germany who, with the highest prices in the EEC, preferred to give third countries quantitative assurances.⁴² The Commission, and Mansholt in particular, hoped to reconcile the CAP with third countries' interests by maintaining EEC imports from third countries through low unified prices and international commodity agreements to be negotiated in the Kennedy Round. Against the firm German request to fix high prices, it seemed difficult to do so.⁴³ Thus, different commercial interests within the EEC complicated the preparation for the Kennedy Round. At the same, it was indeed the GATT negotiations that obliged the Six to adopt a common position that could reconcile these different interests.

5.5 Conciliating the CAP and GATT: the montant de soutien plan

The envisaged start of the new Round, scheduled for May 1964, compelled the Six to adopt a common position on agriculture. Washington had made clear that it required agriculture to be fully included in the Round. Therefore, while the Germans demurred on the CAP, in November, the Commission sent its two plans for agriculture to the Council of Ministers. Mansholt's Plan I dealt with the unified grains prices (UGP), and set unified prices for 1964/1965 at half-way between the French and the German levels, with compensation for German, Luxembourgeois and Italian farmers, who had higher national prices. According to Mansholt's calculation, such a price level would maintain imports requirement at then million ton level.⁴⁴

Mansholt's Plan II elaborated the EEC negotiating position in Geneva regarding agriculture for all commodities. It is worth describing this plan, as it would be adopted by the Council of Ministers as the negotiating position of the EEC in Geneva, and because it represented a breakthrough in the way of negotiating over agriculture in the

⁴⁰ HAEC- MAEF, Secrétariat General, Entretiens et Message, 17 reel 208, Rencontre entre de Gaulle, Pompidou, Couve de Murville Giscard D'Estaing, Pisani, Adenauer, Erhard, Schröder, Dahlgren, Schwarz, Bonn 4-5 July 1963. See also ibidem Rencontre entre Couve de Murville et Schröder, 17 September 1963 and AAPD Runderlass des Staatssekretars Lahr, 18 September 1963.

⁴¹ This aspect is noted also by Ludlow, N.P. The European Community and the Crises of the 1960s, chapter 1.

⁴² HAEC MK 25 Conversation avec Spierenburg (Duth PERMDEL) sur l'affaire de poulets et les règlements agricoles non encore adoptés, 2 October 1963. Spierenburg even felt that a CAP that would put the EEC in opposition to the United States could cause the collapse of the EEC

⁴³ Ibidem

⁴⁴ HAEC BAC 9 9/1967, Mesures en vue d'établissement d'un niveau commun des prix des céréales, VI/COM(63) 430, 20 November 1963.

GATT forum. In developing this plan, the Commissioner emphasised how the GATT Ministerial meeting resolution, calling for an expansion of agricultural exports, had to be reconciled with the improvement of welfare of farmers. Mansholt refused the approach of exporters for which it was up to importers to create conditions to ensure market access. This conception left the latter only the duty to compromise between exigencies of national farmers and external trade. Thus, the EEC had to put forward proposals foreseeing obligations for exporters and importers which would put the EEC in a not too defensive position in Geneva, and would allow the CAP to be preserved.

Believing that tariffs were not relevant obstacles to trade in agriculture, Mansholt deemed it necessary to deal with non-tariff barriers, and especially with the national regulations of both importers and exporters. Mansholt's idea consisted in identifying the support received by each item, defined by the difference between the world price – an international price of reference to be established – and the remuneration obtained by national producers, and to consolidate, that is to say to bind, this margin of support or *montant de soutien* (MDS). In Geneva the contracting parties would engage in respecting the level of support agreed in the negotiations, being free to decide on the instruments to keep it. Every three years, mandatory meetings would take place in GATT to adapt the measures taken according to the evolution of trade. If, in the future, a more effective protection were needed, compensation would be given according GATT rules. For the EEC, the plan had two implications: The approval of the essential elements of the CAP was necessary, and, in particular, the level of common prices on which the level of support depended. Given the state of European agriculture, characterized by growing production, and continued low income, it was unlikely that the EEC, except in certain cases, could do more than consolidate the level of protection which would arise out of the establishment of the CAP. Therefore, maintained the Commission, this consolidation was a concession from the EEC in the Kennedy Round.⁴⁵

In presenting the Commission plan for the Kennedy Round to the Council of Ministers of 4-5 November, Mansholt emphasised that negotiations in Geneva had to deal with all elements of agricultural protection, and consequently its basic element, prices, had to be known. Hence "il sera [...] indispensable que la politique agricole de la Communauté soit établie préalablement à l'ouverture des négociations multilatérales du GATT". The Six would first agree on the remainder of the CAP, then the EEC would offer to bind the existing level of support in Geneva, if the other contracting parties were prepared to do the same.⁴⁶

The Commission proposals were a breakthrough. They represented a major attempt to organize agriculture at world level and focused negotiations in GATT not on measures applied at the border, but on all measures having a protectionist effect, including domestic direct and indirect support of all kinds. For Mansholt, with his approach dealing with all instruments of protection, for the first time in GATT history, trade in agricultural products would be subjected to realistic rules. Mansholt looked to the Kennedy Round as a major opportunity to regulate agriculture at world level, and felt that his plan well responded to this aim. Mansholt was convinced that the future trend would be an increase in national agricultural protection, especially in Europe, and he conceived the Kennedy Round as a way of controlling and moderating the

⁴⁵ AECB PV 247 30 October 1963, «Préparation des négociations agricoles prévues dans le cadre de 'Négociation au GATT' », Communication de la Commission au Conseil, NCG/4/63, 30 October 1963.

⁴⁶ CM2 1963 539 PV de la 114ème session du Conseil de la CEE, 4-5 November 1963.

protectionist effects of the CAP on third countries. For this reason, his plan to negotiate and bind the margin of support appeared to be of particular value.

The Commission proposed a plan that was fully compatible with the CAP. Within the EEC, the degree of protection depended on the level of support prices. Coherently, the Commission suggested a plan to negotiate in Geneva that was also based on the level of prices. As a result, the EEC could negotiate in GATT without fearing disruptive affects on its common policy – such as the requests for quantitative assurance – and could even terminate the Round with a general recognition of the CAP. Another aspect is worth noting: The Commission plan necessitated the fixing of EEC internal prices. The setting of UGPs was the starting point of the bargaining in Geneva because the price level would determine the future level of production and, consequently, market access for third countries. Thus, the link between UGP and the Kennedy Round was clearly established, and was considered as a clear advantage, as the only way to get Bonn to agree a UGP was through external pressure, in this case the pressure stemming from the Kennedy Round.

Even before the EEC had started discussing the Commission proposals, the USA reacted unfavourably to them. Washington recognised the EEC need for a uniform agricultural policy, but wanted this policy to maintain trade with third countries and, at the same time, wanted the EEC to discuss the main feature of the CAP with Washington itself. Without the CAP, the EEC could not negotiate in Geneva, but once the Six had secured their agricultural policy, amid great difficulties, among themselves they would be unwilling to change it. For this reason, Washington wanted consultations with third countries to take place so to include arrangements to protect their exports, before the EEC adopted its CAP.⁴⁷ By contrast, Mansholt's proposals did not consider external interests. Washington found the level of the unified prices sufficient to encourage a sharp increase in French production, able, in a relatively short period, to cause EEC imports from outside to fall, with the result that the USA would become a residual supplier. Access arrangements in the form of low duty quotas or other means were essential to maintain imports at the price levels proposed by Mansholt.⁴⁸ As for Mansholt's Plan II, the Americans had many reasons to oppose it. They feared that the level of protection the EEC would propose to consolidate would be significant higher than the existing level, so removing without compensation the current level of binding and wiping out GATT rules. The plan did not contain reference to the vital American request for access assurances, and in general removed any possibility of significant reductions in agricultural trade restrictions and was, consequently, incompatible with the May GATT resolution. Thus, the United States interpreted the Mansholt proposals as a sign of EEC unwillingness to hold meaningful negotiations on agricultural products across the whole field.⁴⁹

The decisions the Six were taking in December regarding the mandate for the Kennedy Round and the new CAP batch would crucially affect the outcome of the trade negotiations. For this reason, Washington made its disappointment crystal clear. Blumenthal quite brusquely told Hijzen that if the preliminary assessment of the Mansholt plans made by the US government turned to be right, the American

⁴⁷ Note for President Johnson "The Trade Negotiations", undated by presumably written at the beginning of December 1963, Herter's papers, Box 2, JFKL. PRO BT 241/840 Telegram 204 from Cohen to Foreign Office, 23 November 1963; PRO FO 371/172310 Background paper for the meeting with Herter, written by Mason, 22 July 1963.

⁴⁸ Draft Memorandum for the President's Meeting with Erhard, 10 December 1963, Herter papers, Box 8, JFKL.

⁴⁹ Briefing Paper on Treatment of Agriculture in the Trade Negotiations, 12 December 1963, Herter papers, Box 1, JFKL; Note for President Johnson "The Trade Negotiations", undated by presumably written at the beginning of December 1963, and Telegram 1609 from Blumenthal to Herter and Roth, 22 November 1963 Herter papers, Box 2, JFKL.

negotiators would be obliged to ask President Kennedy whether the Round should continue.⁵⁰ By the same token, Tuthill claimed that under the Mansholt plan, UGPs were set at too high a level, whereas Mansholt II simply removed agriculture from the Kennedy Round and gave the United States serious problems in its relations with the European Community.⁵¹

The United States took every opportunity to spell out its opposition to the Mansholt Plans to the Germans in the hope of influencing the final settlement of the CAP and the negotiating position of the EEC in Geneva. Erhard was urged "not to determine the German Government's final position on these issues until after his meeting with [President Johnson]" at the end of the year.⁵² Ball even told Erhard that given that the cereal price decision affected third countries, before any decision was reached in Brussels the USA wanted to discuss the subject with the Europeans.⁵³ Moreover, the Americans did not want the Germans to find themselves with all major elements of the CAP implemented before France had given final approval to the outcome of the trade negotiations.⁵⁴ With this request, the Americans seemed to have every intention of being the seventh – even if external – member of the EEC. German Foreign Office State Secretary Lahr tried to reassure the Americans by claiming that Germany would represent US concerns in EEC circles, but, in the meantime, the United States had to refrain from all out attack on the Commission plans and, above all, on the issue of price level, for this would make constructive action inside the EEC difficult for Germany. However, Blumenthal was perplexed by Lahr's suggestion that the USA should not state its concerns as this hit the "recurring dilemma in which the EEC claims that it cannot negotiate until it has a common position, but after it has reached a common position there is nothing left to negotiate".⁵⁵

5.6 Setting the line of EEC participation to the Kennedy Round: the 23 December mandate

With the presentation of the Mansholt proposals, the time to take a decision over the EEC mandate had surely arrived for the Six. Due to its importance in world trade, the decisions the EEC had to take were crucial in determining the further progress of the Kennedy Round. The mandate to be given to the Commission, and the adoption of the new CAP lot, were discussed bilaterally by France and Germany, the two countries most heavily involved in the negotiations from a tactical point of view. In fact, the final agreement was made difficult not only due to its content, but also by the feeling of doubts that existed between France and the Five – above all Germany – regarding the willingness of the French to attend the Kennedy Round in good faith, not casting a veto once the new batch of the CAP had been taken, and, similarly, regarding German

⁵⁰ PRO BT 241/840 Telegram 204 from Cohen to Foreign Office, 23 November 1963 and PRO FO 371/172314 Guidance Telegram 721, Foreign Office to Certain of Her Majesty's Representatives "The Kennedy Round", 24 December 1963

⁵¹ NA 59 Central Files Subject numeric 1963, box 3491 telegram ECBUS A-334 from US Mission to the EEC to State Department, 25 November 1963; *ibidem* telegram ECBUS A-313 from US mission to EEC in Brussels to State Department, 18 November 1963. See also AECB PV 252 4 December 1963 reporting conversation between Mansholt, Rey and Tuthill on 2 December 1963.

⁵² Draft Memorandum for the President's Meeting with Erhard, 10 December 1963, Herter papers, Box 8, JFKL.

⁵³ FRUS, 1961-1963 Vol. XIII, Section Economic and Political Integration, 87 Memorandum of conversation between Erhard and Ball, 26 November 1963.

⁵⁴ Visit of Chancellor Erhard of Germany December 28-29, 1963, background paper on the Kennedy Round of Trade Negotiations, 26 December 1963, Herter papers, Box 8, JFKL.

⁵⁵ Telegram 1619 from Tubby in Geneva to Secretary of State, 29 November 1963, NSF Subject Files: Trade General Vol. 1, Box 47, LBJL.

reluctance to approve the CAP. For the French, if the plan laid down on 9 May on the CAP was respected and a negotiating position that would defend the trade interests of the Six – and not of London, Washington and the EFTA countries – could be reached, they would attend the Kennedy Round in a constructive mood.⁵⁶ Unfortunately, German resistance in the field of the CAP kept France and German poles apart.

In the Franco-German meeting at the end of November, French Prime Minister, Georges Pompidou, and the newly appointed Chancellor Erhard expressed an identity of views with regard to the EEC aims in the Kennedy Round. Both parties agreed on the importance of successfully concluding the trade negotiations, and the need to keep the EEC open to world trade. Both parties agreed that the Round had to be used to increase EEC exports, and should not merely develop into a means of closing the deficit in the US balance of payments. On the contrary, the negotiations had to favour trade exchanges between both sides of the Atlantic. Erhard noted that the USA had a positive balance of trade with Germany, and even claimed that the “US balance of payments could not be a major element of European economic policy towards the USA”. But the issue of CAP continued to divide France and Germany. With de Gaulle, Erhard claimed that the approval of the three CAP regulations should be considered together with the final decision on the adoption of a common position in the Kennedy Round, and measures to avoid distortions to trade with third countries. German approval of the CAP would be facilitated if the latter were given the assurance that it would continue to import from third countries, in particular some 12-13 million of tons of cereals. Moreover, the Chancellor avowed that, because of internal difficulties, Germany could not fix UGPs by the end of the year, but left unanswered de Gaulle’s question on how the EEC could attend the Kennedy Round without having common prices. At the end of the meeting, the German Chancellor asserted his willingness to adopt the next lot of the CAP by the end of the year, and the French president recognized that the success of the Geneva negotiations was a common EEC objective. This general agreement could be sufficed to guarantee the elaboration of a mandate and the adoption of the new batch of the CAP, but the crucial question of the cereals prices remained unsolved.⁵⁷

It was in this context that the EEC Council of Ministers marathon from 19-23 December finally adopted the mandate for the Kennedy Round, for both the industrial and the agricultural sectors, having as their basis the earlier Commission proposals. The elaboration of the common position for the industrial sector was a long process because of its technicalities, but was not particularly difficult as the positions of the Six were relatively close and they all possessed a manifest willingness to succeed. In this context, the Commission’s proposal satisfied everybody. The Commission ruled out the 30:10 formula, which did not consider the economic consequences on other European countries, and put forward a brand new formula that defined disparities simultaneously by arithmetical and qualitative criteria along a *double écart* which was, at the same time, relative and absolute: a disparity existed when there was a ten point difference between the high and the low duty, and the high duty was at least the double of the low one. For the Commission the *double écart* formula had the advantage of catching relevant disparities that were excluded by the 30% limit, without hurting EFTA countries. In fact, the Commission proposed additional qualitative criteria according to which the EEC would renounce the ability to claim a disparity when the item was not

⁵⁶ HAEC MAEF – OW 50 Note, 13 November 1963. The note reported the conversation between Wormser and van der Groeben HAEC – MAEF, OW 50 Note du Quai d’Orsay, 18 November 1963.

⁵⁷ HAEC – MAEF, Secrétariat General, Entretiens et Message, 19 reel 209, Tête-à-tête entre le General de Gaulle et le Chancelier Erhard, 21 novembre 1963; *ibidem* Rencontre à l’Hotel Matignon entre le Premier Ministre et le Chancelier Fédéral, 21 novembre 1963.

produced in Europe, and was not imported by the EEC, and would enter into bilateral relations with the EFTA countries in order to take into consideration their trade interests.⁵⁸ The Commission also proposed that, in case of disparities, duties would be reduced by a percentage not higher than 25% of the average. This rule, suggested by the Commission, was approved thanks to the support Giscard d'Estaing, the Belgian Minister of Foreign Trade Brasseur, the Italian Minister of Foreign Trade Matterella, and Minister for Foreign Affairs of Luxembourg Schaus, and despite the opposition of Dutch Foreign Minister Andriessen and German Secretary of State Lahr, who only in the end gave up their reservations. Germany and the Netherlands were reluctant to table a negotiating formula for disparities in Geneva that had nothing to do with the technical work done up to then, as the USA could see it as an obstructionist move, rather than a suitable negotiating basis. Moreover, they would have preferred disparities to be reduced by a higher percentage.⁵⁹ Differences also existed regarding the rate of the linear reduction. Germany aimed at establishing a 50% reduction as an objective of the Round, but the EEC kept this as a mere working hypothesis. However, despite the tough insistence of Germany, who wanted to be sure that the EEC would effectively start internal preparation for the Round, the Six agreed that the Commission would start working on the EEC exceptions list in February 1964. In the discussion leading to the compromise, with Italy, France, Belgium and Luxembourg generally supportive of the Commission point of view, and Germany and The Netherlands more confrontational, often questioning the Commission's positions and tended to push for the approval of measures that would be easily accepted in Geneva by the Americans. Marjolin and Rey appeared to master all the technical details, and often saw their points of view prevail. Moreover, even if a constant, clear-cut united front did not develop during the negotiations, France, Italy, Belgium, Luxembourg and the Commission were often on one side, and Germany and The Netherlands on the other.

The definition of the common position for agriculture was more difficult and time-consuming as it touched upon the critical issue of UGPs and, in general, the elaboration of the CAP. France, Italy, Belgium and Luxembourg approved of the Commission plan to negotiate in Geneva. They found it compatible with principles of the CAP and, as it did not suggest a reduction of protectionism, also in line with their trade interests. In particular, Italy supported it because as it did not distinguish between products covered by tariffs and products covered by NTBs, just as it had always requested. In contrast, The Netherlands and Germany had difficulties with the proposal. The Dutch Minister of Agriculture Biesheuvel supported the MDS plan, but wanted the EEC to formally undertake that the CAP would be implemented in accordance with third countries' interests. Within the GATT framework, the EEC had to guarantee that, in case of strong increases in its level of cereal production, and in case its imports decreased below 90% of imports in a given period, the EEC would negotiate on its unified prices and on the other elements of the margin of support in order to defend the interests of third countries.⁶⁰ The Dutch proposal was in line with Dutch interests to import cereals from third countries, but was ruled out by the other five governments on the ground that it was unwise, in the negotiating mandate, to insert clauses in favour of

⁵⁸ AECB BAC 1 122/1991, *Négociations Tarifaires dans le cadre du GATT* (Communication de la Commission au Conseil) I/COM (63)501, 11 December.

⁵⁹ HAEC BAC 506 026/1969 *Compte-Rendu des travaux du Comité* 111, 12 December 1963, 13 December 1963.

⁶⁰ CM2/1963 541 *Déclaration de M. Le Ministre Biesheuvel concernant les négociations relatives à l'agriculture dans le cadre de la négociation «Kennedy»*, T/642/63 19 December 1963. On the ambivalent Dutch attitude towards the CAP and the problems it created third countries see Harryvan A.G. and van der Harst, J "For once a United Front. The Netherlands and the 'Empty Chair' crisis of the Mid-1960" in Loth, W. *Crisis and Compromises* pp. 173-191.

third countries, and by France as it had no intention of giving such an assurance, as well as by Germany, as it had no intention of becoming involved in reducing EEC prices.

The toughest opposition came from Bonn. Germany opposed the Mansholt plan as it presupposed the approval of a large part of the CAP, the price of cereals included. Even if it would, in the end, accept this under pressure from the five partners and the Commission, Lahr refused to consider the establishment of a margin of support, which as noted, required the setting of unified prices, as a préalable for the negotiations in GATT. Therefore, in those areas where unified prices had not yet been approved, the bargain had to take place along interim agreements that would pragmatically cause the EEC to refrain from diminishing third countries' access to its markets. In this way, Germany could hope of not being forced to set UGPs as a condition of negotiating in Geneva under the MDS plan. Moreover, while the other five and the Commission estimated that, in consolidating its support, the EEC could not go beyond the consolidation of the CAP, and saw this as a concession to the other contracting parties, Lahr doubted that it did, in reality, constitute a concession, and was not fully confident that third countries would agree to reduce tariffs in the industrial sector, and to assume obligations in the agricultural sector without proper EEC concessions in the agricultural sector. Therefore, Germany insisted that third countries be given quantitative assurances with interim agreements.⁶¹

Mansholt, reiterating his view that the MDS approach did represent genuine concessions, defined German support for interim agreements of quantitative assurance as dangerous: third countries, once the CAP had been finally approved, would seek for to maintain these agreements, which were clearly inconsistent with the CAP principles. The only way to respect third countries' commercial interest, maintained Mansholt, was to establish reasonable prices. Lahr was not convinced of Mansholt's reasons, however. He admitted that, in order to be effective in Geneva, the MDS plan required a degree of elaboration of the CAP that the German government was not ready to allow. Under the Treaty of Rome, the CAP only had to be established at the end of the transitional period, and Germany felt that it needed this whole period to adapt its agriculture. German opposition gave rise to a strong reaction from Colombo. The Italian Minister emphasized that only the *application* of the CAP had to take place at the end of 1969, not its definition or elaboration. Lahr did not share Colombo's distinction between definition and application, however, and stated that the Treaty of Rome stated that the CAP had to be established at the end of the transitional period. Germany had no intention of delaying it until 31 December 1969, but they felt that it was impossible for the CAP to be established by the beginning of the Kennedy Round. Mansholt was clear in his view of Lahr's position: the point was not juridical but political, as without a sufficiently elaborated CAP, the EEC would be in a weak negotiating position in Geneva. It would not be able to specify the concessions it would make, and the risk existed that the CAP would result not from negotiations among the Six in Brussels, but rather from the concessions that the EEC would make in Geneva. As such, important decisions had to be taken before the start of the Round.⁶²

In the content of the discussion on the Kennedy Round, the link between the adoption of negotiating position for the Round and progress on CAP one again emerged, a link the Germans tried to resist notwithstanding the synchronization plan.

⁶¹ CM2/1963 541 Note introductive, Avis du Comité 111 sur la négociations en ce qui concerne les produits agricoles, T/650/63, 19 December 1963.

⁶² CM2/1963 541 PV de la 119ème session du Conseil de la CEE, 16-23 December 1963, R/978/63. See also MAEF DE/JCE, 1961-1966 GATT 931 Note de la Direction des Relations Economiques Extérieures (DREE) du Ministère des Finance «Les Accords du 23 décembre 1963», 8 January 1964.

Facing this German resistance, Wormser warned that if Germany did not respect the 9 May calendar, France would leave the EEC. It was not a question of merely assuming, as the Germans did, that due to the trade benefits which France received from EEC membership they would never leave, and consequently must be bluffing. The point was to understand whether France would continue to consider itself bound by the Treaty of Rome if its major partner – Germany – kept on bargaining on engagement freely taken on the CAP. The problem was therefore Bonn's reliability.⁶³

After a prolonged discussion, the Mansholt plan was accepted as the negotiating plan of the EEC. However, to counter German resistance, modifications were inserted. The setting of the UGP level, as well as that of the entire CAP were not longer made a formal precondition of the Community's ability to negotiate in Geneva under the MDS. Under Mansholt's proposal, in the case of those items on which not all the elements of the margin of support had been approved, the EEC would negotiate on a fictitious margin of support. It was only on this condition that Lahr agreed to MDS being the negotiating position of the EEC. As shown in next chapter, however, this clause did not save the Germans from pressure to rapidly adopt UGP in order to negotiate in Geneva over agriculture. In fact, the Commission made it clear that grains were a basic commodity, upon which the prices of meat and dairy products depended, therefore it was impossible for the EEC to negotiate in Geneva unless it had approved UGP and showed the level of protection it wanted to give grains. In any case, the Germans were satisfied, as, formally speaking, the adoption of the MDS plan as the EEC negotiating position did not require the UGP. For the moment they had escaped unwanted decisions but, as shown in next chapter, their satisfaction was short-lived.

The Council of Ministers also agreed that because of the situation in the European agriculture sector, only in few cases could the EEC offer a reduction in the margin of support resulting from the adoption of the CAP. At the same time, despite German and Dutch insistence, the Council recognized the need to consider the promotion of world trade and the principle of continuing access from imports from third countries, but no special clause was adopted in favor of these issues.

The regulations for meat, rice and dairy products were also adopted. Even if the description of these regulations is out of the scope of this chapter, what is relevant here is that, for Lahr, the commercial interests of third countries were to be taken into account in the different agricultural regulations. He suggested including a clause on external trade in the agricultural regulations, stating that these instruments had not altered the flow of imports from outside the EEC. The German request met with opposition from the Commission, France and Italy on the ground that it was incompatible with CAP rules.⁶⁴ The Council of Ministers did not agree with Mansholt's plan to harmonize cereal prices, postponed to April 1964. The Commission decided not to insist on the need to approve UGP, in order to avoid a serious crisis within the EEC. The Commission insisted however that such a decision, strictly linked to the agricultural part of the GATT negotiations, should be adopted in the first months of 1964. For the time being, however, the Germans were highly satisfied with the postponement of the UGP.⁶⁵

⁶³ HAEC MAEF, OW 36 Note "Négociation de Bruxelles", 28 December 1963.

⁶⁴ CM2 1963/76 PV de la 117^{ème} session du Conseil de la CEE, 2-3 December 1963; HAEC – MAEF – OW 36, Note "Analyse de la partie agricole du discours Lahr du 3 décembre", 16 December 1963 and HAEC BAC 511, Déroulement de la session du Conseil de la CEE du 21-23 décembre.

⁶⁵ AECB PV 254 17 December 1963. For the EEC Council of Ministers mandate to the Commission AECB BAC 1 122/1991, Négociations Commerciales dans le cadre du GATT: Positions de la Communauté et directives pour la Commission, NCG/15/63 21 December 1963 and AECB BAC 38/194, 308 Mansholt cabinet papers, «Dispositions prises par le Conseil lors de sa session des 16, 21 et 23 Décembre 1963 concernant les négociations commerciales dans le

In the end, after a marathon which has gone on throughout December, and had intensified in the Council of Ministers of the end of the month, and thanks to a package deal tabled by the Commission at the last moment of the Council of Ministers on 22 December and containing the compromises described above regarding both the CAP and the Kennedy Round, an agreement was finally reached. As a result, the Commission was able to show up in Geneva with a negotiating mandate. With their December mandate to the Commission, the Six reaffirmed the need to harmonize duties, not merely to reduce them, and, with the adoption of the MDS plan, they showed their intention to regulate world trade in agriculture rather than liberalize it, as Washington had requested. The December mandate, therefore, set the tone for the EEC participation in the Kennedy Round, a line that would inevitably clash with American views in Geneva.

The Commission had played an important and construction role, being the source of key proposals, and the line of the EEC in Geneva, for the industrial sector, but above all for the agricultural sector, owed at least as much to it as to national governments. In fact, the Commission came out of negotiations with a considerably enhanced level of prestige. In the discussions about agriculture, the big confrontation took place between Lahr and Mansholt, with the other Five, and notably the French, in the background. Despite de Gaulle's opposition to supranationalism, French support for the Commission proposals tended to reinforce the Commission's standing and its role in the EEC system.

The December marathon showed that, after the crisis in January caused by the French veto of the British membership, the Six were again able to take substantial and important decisions to advance with the construction of the EEC in the two crucial fields of the CAP and the international commercial policy. Moreover, the Six showed a willingness to succeed in reaching a final compromise, which pushed them to make concessions and reconcile their different commercial interests. At the same time, even if a major accomplishment had been achieved, and French threats to leave the EEC were withdrawn, the agreement within the EEC remained fragile because the Germans, given their refusal to set UGP, continued to question the CAP. In this sense, a major confrontation seemed only to have been postponed.

5.7 Johnson's take over in the Kennedy Round

After Kennedy's assassination in Dallas on 22 November 1963, the task of continuing the Kennedy Round was shifted to the Johnson administration. President Johnson pledged to maintain the policy and the goals pinpointed by the Kennedy administration towards Europe, and the support for the trade negotiations. This corresponded to his support for freer trade as a means to pursue security and economic growth domestically and internationally. In his first address to Congress, the new President expressed his support for trade expansion "as a safeguard against depression, an integral part of allied cooperation, and a bulwark against communism" but also stressed the need for the USA to protect its trade interests, particularly in the agricultural sector, where European protectionism was more marked, to integrate the

cadre du GATT. Position de la CEE et les directives pour la Commission», T/76/64 (CoS), 31 January 1964. For the mandate on the international commodity agreements see AECB BAC 38/194, 309 Mansholt cabinet papers «Document de Négociations», VI/2085/64-F, 14 February 1964.

two European trading blocs in the multilateral system, and to open up wider opportunities for the developing countries.⁶⁶

The Johnson administration also maintained Kennedy's link between the agricultural and industrial sectors, making the conclusion of the Round conditional on satisfactory guarantees for US agricultural exports, as also kept Kennedy's policy of regarding expansion of US exports as a means of helping to reduce the deficit in the balance of payments. The EEC was the single biggest cash market for agricultural products, and it was seen as important for the balance of payments.⁶⁷ With Johnson, the trade negotiations remained "a measure of the vitality of the Atlantic Partnership" to be approached on the broadest political basis in the perspective of the Atlantic partnership.⁶⁸ As a result, Johnson's taking over went almost unnoticed in Geneva, also because the officials responsible for the trade negotiations remained in place both in Washington and in Geneva.

However, with the passing of time, a major difference between the Kennedy and Johnson administrations developed in their perspective approaches to the EEC. Support for European integration, developed in the framework of the Atlantic alliance and in harmony with US interest, remained and continued to be strong. However, the Johnson administration displayed a *benign neglect* policy and a detached attitude towards the development of the process of European integration, in order to avoid being accused of interfering with it, as had happened to the Kennedy Administration regarding the British bid to join the EEC in 1961-1963.⁶⁹

The first opportunity for the new administration to discuss the Kennedy Round came in on the occasion of Chancellor Erhard's visit to Texas at the end of December 1963, where the results of the Brussels marathon were to be discussed. The Americans were satisfied that the Six had avoided a serious crisis, and had finally provided the Commission with a mandate. However they were not so pleased with the content of the mandate, which did not pin the EEC down to a position that would tend towards the results which Washington aimed at. The EEC disparity plan jeopardized the goal of a 50% linear tariff reduction, as it substantially increased the number of possible disparities and could cause the negotiations to fragment into an item-by-item system of bargaining. The Johnson administration had every intention of emphasising its discontent to Erhard, who had to be made clear that the EEC plan had to be modified.⁷⁰

⁶⁶ Quote from Zeiler, T. W. *American Trade and Power in the 1960s* (New York: Columbia University Press, 1992), pp.177-179. See also Draft speech for the President on the Kennedy Round, NSF Subject Files: Trade General Vol. 1, Box 48, LBJL. On the Johnson Administration and Europe see Guderzo, M. *Interesse Nazionale e Responsabilità Globale: Gli Stati Uniti, L'Alleanza Atlantica e L'Integrazione Europea negli Anni Di Johnson 1963-69* (Firenze: Aida, 2000) and Schwartz T. A. *Lyndon Johnson and Europe: in the Shadow of Vietnam*. (Cambridge: Harvard University Press, 2003).

⁶⁷ On the Johnson administration effort to curb the deficit, see Gavin F. J. Gold, *Dollars, and Power: the Politics of International Monetary Relations, 1958-1971*. (Chapel Hill; London: University of North Carolina Press, 2004).

⁶⁸ Quotation from Visit of Chancellor Erhard of Germany December 28-29, 1963, background paper on the Kennedy Round of Trade Negotiations, 26 December 1963, Herter papers, Box 8, JFKL; See also FRUS 1964-1963 Vol XIII, Western Europe Region, 2. Memorandum of conversation between Rusk, Ball, Herter, Tyler, and the Italian Foreign Minister Giuseppe Saragat, 14 January 1964.

⁶⁹ On Johnson administration and European integration, in addition to Schwarz and Guderzo, see Winand, P. *Kennedy's Atlantic Partnership, the EEC Empty Chair Crisis and the French/NATO Problem*, in Palayret, J.M., Wallace, H., Winand, P., (eds.) *Visions, Votes and Vetoes: The Empty Chair Crisis and the Luxembourg Compromise Forty Years On*, (Brussels: Peter Lang, 2006) Chapter 8.

⁷⁰ Visit of Chancellor Erhard of Germany December 28-29, 1963, background paper "The Common Market's year-end decisions", 26 December 1963, Herter papers, Box 8, JFKL; Letter from Blumenthal to Herter, 31 January 1964, Herter papers, Box 7, JFKL. NA 364 Records of US Trade Representatives on Kennedy Round, Box 2 Memorandum From the Deputy Special Representative for Trade Negotiations Roth to the President's Special Assistant for National Security Affairs Bundy, 24 December 1963.

As for agriculture, the Americans found the MDS approach incompatible with GATT principles, and with May 1963's ministerial resolution to include agriculture in the negotiations, and if seriously pursued it could endanger the prospects for the Kennedy Round. For Herter, the plan was not adequate in order to maintain access for temperate agricultural in the EEC, as it excluded reductions of trade barriers and could impair the existing tariff bindings, while the provision that dealt with trade with third countries was too vague to be able to provide firm assurance of access arrangements. Together with the three regulations for rice, meat and dairy, it displayed scarce consideration of third countries' interests. On top of this, Washington doubted whether the compromised reached left any margin of negotiation in Geneva, with the result that the contracting parties would be facing a "leave it or take it position". As such the Americans had to insist to Erhard that the USA would be given access assurances.⁷¹ Washington were also unimpressed by the Mansholt plan on UGP. The quantitative assurances at aimed Washington had to be accompanied by as low prices as possible, since high prices would encourage an increase in production and an agricultural surplus which would make it very difficult for the EEC to live up to quantitative access commitments for imports. However, if EEC unified prices were set at the level proposed by Mansholt, for Washington it became more crucial than ever to obtain quantitative assurance, above all for cereals. In any case, the USA had to continue to seek EEC agreement to negotiate on grain price levels in Geneva.⁷²

To the Americans' great surprise, Erhard and Schroeder arrived in Texas satisfied with the agreement reached in Brussels and with what they considered the positive role of their government in obtaining an adequate agreement in preparation for the Kennedy Round, an agreement that also considered third countries' interests. In the discussions over the Brussels package deal, during which the Americans revealed themselves to be more informed than the Germans, Schröder and Erhard informed Johnson, Rusk, Herter and Ball that, in the November 1963 meeting between de Gaulle and Erhard, the Germans had been able to convince the French President that the Kennedy Round was as important as to Germany as the agricultural regulations, if not more so. The French President had stated that he considered the Kennedy Round to be "an Anglo-Saxon matter", but because of the German interest, France would assume a different attitude. This had led to the achievement of what Schroeder considered "reasonable compromises" both on agriculture and the Kennedy Round at the Brussels talks in December. The German government had been able to bring about agreement on the new disparity formula, which would significantly reduce the numbers of disparities, as well as a clause in the mandate which made agricultural policy more negotiable. Herter appreciated the German effort to ensure consideration for third parties, but also stressed that the new formula for disparities complicated the situation as it caught more disparities than the 30:10 formula. In response to the US position, Schroeder simply stated that he was unable to go into the details of the compromise, and that it was unfortunate that Lahr, who had actually negotiated the Brussels agreement, was not present, while Erhard pointed out that on matters about the United States had serious reservations "it would not hurt his feelings if in Geneva there appeared concerted

⁷¹ Memorandum to the President, 27 December 1963, WHCF, EX IT/A-2, LBJL. Visit of Chancellor Erhard of Germany December 28-29, 1963, background paper on the Kennedy Round of Trade Negotiations, 26 December 1963, Herter papers, Box 8, JFKL; Memorandum to the President from Freeman, 23 December 1963, WHCF, EX IT/A-2, LBJL; MEAF GATT 931 Télégramme 7291-95 Bruno De Leusse (French Amnassy in Washington) à Quai D'Orsay, 24 December 1963.

⁷² "Components of a Strategy for the Kennedy Round" by Ball, 10 December 1963, Herter papers, Box 7, JFKL and Visit of Chancellor Erhard of Germany December 28-29, 1963, background paper on the Kennedy Round of Trade Negotiations, 26 December 1963, Herter papers, Box 8, JFKL.

opposition to some of those matters which the Germans themselves did not like which would force a reconsideration by the [EEC].”⁷³

From the way the Germans presented the result of the Brussels marathon to the Americans, it seemed that they achieved a lot, had been able to influence the French and the outcome of the marathon in a way which was also favourable to themselves. For Herter, the Germans’ satisfaction was astounding: they “thought that the agreement on disparities was a great step forward, with which we ought to be delighted”. Worst, they could not master the consequences of the new formula for disparities, and did not even know its exact content, meaning that any discussion was useless.⁷⁴ The United States had counted on the Germans, and in particular on Erhard, to carry forward preparations for the Kennedy Round, but their inability to influence the Brussels talks had meant that this help had been minimal. On top of this, the German position regarding agriculture made it unlikely that this help would materialise. Bonn’s desire to cooperate in the Kennedy Round was in head-on conflict with its domestic agricultural policies, and made it a weak ally to push the Kennedy Round ahead. On the agricultural sector, Erhard, who saw himself as a liberal, was “content to say that ‘all nations are sinners’”. Thus Bonn did not seem able to help the USA in the very sector in which the US had required most help.⁷⁵

5.8 No agreement on the rules

In view of the formal launching of the Kennedy Round in May 1964, an agreement on the negotiating rules was essential to effectively start negotiating. With the establishment of the EEC mandate, the negotiations in Geneva over rules restarted. Washington, supported by the United Kingdom and the other EFTA countries, gave a hostile welcome to the EEC December 1963 mandate, perceived as a plan largely inspired by a combination of the French of the Commission. Even before the Mansholt plan was formally presented in Geneva, the Johnson administration had found it unacceptable due to its failure to put into practice the goals decided upon in May 1963. With the opening of the new the GATT sessions on rules, Herter specified his opposition to the plan. He felt its implementation would be difficult because of the complexities in measuring the support governments provided to agricultural items. Since much of the Community’s system of support, and hence of protection, was grounded on the level of unified prices, Washington saw the Mansholt plan as tailored to the EEC’s special goals. The scheme extended the system of variable levies and

⁷³ Memorandum of Conversation between Johnson, Rusk, Ball, Herter, McGeorge Bundy, Erhard, Schroeder, 28 December 1963, Herter papers, box 8, JFKL. Quote from Letter from Herter to Blumenthal, 30 December 1963, Herter papers, Box 7, JFKL.

⁷⁴ Ibidem. The American surprise for German stance was shared by the Dutch who openly stated this to the British officials in The Hague, “what [the Dutch] really find difficult to understand is what the Germans think they have gained in the outcome. The Dutch opinion of German negotiation ability in Brussels is pretty low.” PRO FO 371/178090 letter from A.N. Noble of the British Embassy in The Hague to Marjoribanks, 16 January 1964. In January, in meeting the British and the Americans who highlighted that with the new formula the number of disparities increased, German officials admitted to the British that “they had been misled by the Commission in thinking that the number of disparity cases which the new formula drew up would be more or less the same as under the old formula.” PRO FO 371/178090 UEE 1025/ 44 meeting between Marjoribanks and German officials in London, 14 January 1964.

⁷⁵ FRUS, 1961-1963 Vol. XIII, Section Economic and Political Integration, 78 Memorandum from Ball to President Kennedy, 20 June 1963. After the American-German meeting, rumours circulated that that Washington and Bonn had agreed to set up a group of American and German experts charged with providing the Americans with full explanations on the 23 December 1963 mandate. The Commission, obviously annoyed by the rumours, inquired into it with both the German permanent representative in Brussels Harkort and the US Ambassador to the EEC Tuthill. Both Harkort and Tuthill denied the existence of such a group and the Commission considered the issue closed. AECB PV 258, 21 January 1964.

minimum import prices which the EEC had adopted for all commodities and for all countries, with the consequence that the MDS approach extended the CAP to world trade, wiping out all existing GATT rules and concessions, and giving international acceptance to the variable levy system. And on top of this, it was an approach not based on comparative advantages and producer efficiency. Even worse from the US point of view was the fact that it extended negotiations from frontier protection measures to the agricultural and trade policies of the contracting parties, with the result that domestic policies were subjected to international negotiations. There was, however, another fundamental reason that led Washington to oppose the MDS plan as the general rule for agriculture: The Commission plan would not reduce the level of protection and favour expansion of trade, but simply bind it. For all these reasons, Herter labelled the Mansholt Plan as "neither acceptable nor workable as a general negotiating formula".⁷⁶

The pace and the content of negotiations in Geneva over agriculture up to November 1963, and the result of the Brussels marathon, all led Washington to modify its approach to agriculture. Until February 1964, in order to make agriculture and industry advance along the same path, Washington had insisted that rules for the two sectors had to be the same. However, in February, Ball, Herter and Secretary of Agriculture Freeman, who had insisted on equal treatment of the industrial and agricultural sectors, reached the conclusion that this position was no longer tenable since the other contracting parties, the United Kingdom included, had objected to it. The USA's shifted its position towards the recognition of the unique nature of agriculture, which the EEC had always advocated, and adopted a flexible and pragmatic approach, adapting it to the circumstances of each major product or commodity group.⁷⁷

In February, the negotiations on the rules resumed in Geneva. The European Commission, represented by the Director General of DG Agriculture, the French Rabot, put forward the MDS Plan to be applied to all agricultural products, including those covered by commodity agreements and tariffs. Tabling the MDS plan, Rabot shattered the habits of GATT, where, until that moment, negotiations had taken place only on tariffs and, exceptionally, on contingents. The plan got a negative reception. The contracting parties agreed to discuss it, but eventually rejected it as the basic rule of the negotiations on the ground that it did not facilitate the establishment of acceptable conditions for access to world market.⁷⁸

In opposition, Blumenthal suggested a flexible and pragmatic approach under which rules were to be formulated according to the protection given to products. The contracting parties had to examine major product categories in a case-by-case manner to discern how liberalisation could be achieved, therefore negotiating in a pragmatic way with regard to this sector. Blumenthal pinpointed five groups of products: Zero duty products for which zero duty binding would be maintained; fixed-duty products, to be subjected to linear cut where possible, with exceptions where necessary; products subject to non-tariff barriers, for which negotiations had to lead to the removal or

⁷⁶ Memorandum for Herter from Irwin R. Hedges "Background for EEC discussion on Agriculture", 5 March 1964, Herter papers, box 8A, JFKL. AECB BAC 309 38/194 Mansholt cabinet paper, "The role of agriculture in trade expansion", speech by Herter by the Economic Club of Detroit, 30 March 1964. NA 59 1964-1966, Box 460 telegram 1830 from Blumenthal to Herter, 21 February 1964 and ibidem Telegram 1985 from Geneva to Secretary of State, 29 April 1964.

⁷⁷ Memorandum for Herter from Blumenthal, 15 February 1964, Herter papers, Box 5, JFKL; Memorandum from Freeman to Bundy, 14 February 1963. NSF Subject Files: Trade General Vol. 1, Box 47, LBJL. Memorandum for Herter from Irwin R. Hedges "Background for EEC discussion on Agriculture", 5 March 1964, Herter papers, box 8A, JFKL.

⁷⁸ See for a summary of Rabot's presentation AECB BAC 2 - 122/1991, Rapport n.8 de la délégation de la Commission pour les négociations du GATT NCG (64)4, 25 February 1964. For the full statement ibidem Déclaration du Représentant de la CEE devant le comité agriculture du GATT relative au plan de négociation de la CEE pour la partie agricole du Kennedy Round. TN.64/AGR/1 - 19 February 1964.

reduction of protectionist effects; in the case of cereal, meat and dairy products, which were covered by variable levies, for which international commodity arrangements had to ensure market access and the opportunity to share in market growth, the EEC approach could be useful and explored on a case-by-case basis, but only provided that importing countries gave quantitative assurances. In theory this could have represented a concession to the EEC, however the request for quantitative assurance ran contrary to the principles of the MDS scheme, making EEC acceptance unlikely. Under this pragmatic approach, each country had to make offers according to the nature of form of protection on 10 September 1964, together with the lists of exceptions for the industrial sector. Washington did not back down from the previously stated policy that without a satisfactory negotiation for trade in agriculture there could be no agreement. They were prepared to agree that agriculture was different in nature, and had to be dealt with separately from the non-agricultural products, but the sector had to remain an integral part of the Kennedy Round. Predictably, Mansholt rejected the pragmatic approach and maintained the validness of his plan, the only one that made both exporters and importers make concessions, that ensured regulation of agriculture at world level and that could treat agriculture in a unified way.⁷⁹

Very little progress was made on disparities. At the end of January, Hijzen presented the double-écart proposal, underlining that even if the EEC was not responsible for the consequences on third countries of the existence of disparities, it would in any case search for adequate solutions with third countries.⁸⁰ However, the EEC formula was rejected by a common front of opposition: The United States and the United Kingdom pointed out that it maximised the number of disparity cases to a degree that threatened the linear cut of 50%, and created problems for other European countries.⁸¹ Blumenthal put forward alternatives in order to limit the number of disparities and maintain the 50% rule on a wider scale, hoping, in this way, to favour an agreement. Unfortunately, the Commission made no such concession, claiming that it had no reason to modify its position.⁸²

In the context of this outcome, the Americans awaited the result of the meeting of the EEC Council of Ministers on 14 April to see whether the Six would modify their position.⁸³ Instead, the Six decided to confirm the content of the December 1963 mandate. In fact, the Dutch and the Germans wanted the EEC to be more flexible and

⁷⁹ PRO BT 241/841 telegram 1483 from Washington to Foreign Office, 21 April 1964 reporting meeting between Blumenthal, Herter and Powell; CM2 1964 /1441, GATT TN.64/13, Note du secrétariat, 30 April 1964. AECB BAC 309 38/194 Mansholt cabinet paper, Note from Rabot to Mansholt, April 1964; *ibidem*, "Aide-mémoire: Négociations commerciales multilatérales dans le cadre du GATT – Travaux effectués par le Comité 111, lors de la réunion du 13 avril 1964", S/254/64, 14 April 1964.

⁸⁰ AECB BAC 2 - 122/1991, Rapport n.6 de la délégation de la Commission pour les négociations du GATT, NCG (64)2, 4 February 1964. A technical study of the consequences of the formula envisaged can be found in *ibidem* GATT Spec (64) 12 30 January 1964.

⁸¹ NA 59, Central Files Subject numeric 1964-1966, box 979, telegram A-452 from US mission to EEC to State Department, 20 January 1964. For the technical reasons that led Washington to reject the EEC formula see Disparities Analysis, note of R.E. Baldwin of STR, 10 February 1964, Herter Papers, Box 8 JFKL; NA 59 1964-1966 Ecin 3, Box 796, Memorandum of conversation between Alex Herbst, Director General External Relations of the European Commission, and Russel Fessenden, US Embassy to the EEC.

⁸² PRO BT 241/841 Confidential note on the Kennedy Round by Neal of the Tariff Division of the BT, 6 April 1964. The difficulty in elaborating a formula on disparities raised tensions between the USA and the EEC. At a private dinner in Geneva, Ball gave Rey "a good dressing-down on the subject of American responsibility – reminding Rey that it was he who had reproached the Americans in the Dillon Round for not having discretion to cut their tariff across the board and that never had any question of tariff disparities been raised until after the Americans had secured their new power. Ball also pointed out that if these power did not enable the Administration to reduce by more than 50%, this was only because EEC had refused to allow us to join them". PRO FO 371/178091 Letter from Cohen to Hughes, 26 March 1964.

⁸³ MAEF- CE/DE GATT 931 Note "Session du group céréales du GATT", 20 March 1964 and *ibidem* Compte Rendu d'un entretien avec M.Rabot «Position des Etats-Unis», 9 April 1964.

favoured changes in the mandate which would meet the requests of third countries both for agriculture and disparities. In particular, the Dutch, while approving the MDS plan, felt that the EEC would have a stronger bargaining position if it could take a step towards the American position, approving the proposal the Dutch Minister for agriculture, Biesheuvel, had made in December 1963, which provided that if imports from third countries diminished considerably, the EEC would be ready to negotiate on price and the other elements of the margin of support. By the same token, to take a further step towards Washington, Bonn suggested granting the USA quantitative guarantees. Bonn and The Hague's proposals, while fully compatible with their trade interests, represented an effort to compromise with the USA, and to avoid the failure of the agricultural negotiations. However, they met with the opposition of the other four and of the Commission, according to which the mandate already allowed enough room to bargain. France, supported by the Commission, Italy and Belgium, warned against any modification of the 1963 mandate, and held that the best way to contribute to the success of the Kennedy Round was to fix the UGP.⁸⁴

At the same time, the persistent issue of grain price popped up. According to the agreement reached in December 1963, UGPs were due by April 1964, but despite this agreement, Bonn continued to drag its feet. According to Mansholt, without a common price, the EEC would be placed in a difficult bargaining position in Geneva as the other contracting parties could not appreciate the economic impact of the MDS method, and would insist on quantitative guarantees.⁸⁵ The Commission also enjoyed the support of France. By the end of January 1964, de Gaulle had made clear that the EEC would not be able to negotiate with other countries, and in particular with the United States, unless the agricultural regulations adopted in December were first implemented, and common agricultural prices agreed upon.⁸⁶ On top of this, France, like the Commission, supported the MDS scheme to avoid granting third countries quantitative assurances. In the context of German obstructionism, shared by Rome who was unwilling to decrease its wheat prices, the French government was becoming irritated. It found that "les gouvernements allemand et italien ne paraissent pas davantage disposés à accepter le prix unique dès 1964-1965, pour de motifs de politique intérieure et pour aller au devant de certain désir anglo-saxon sur les accords intérimaires quantitatifs".⁸⁷

In any case, at the Council of Ministers meeting in mid-April, the Germans refused to set unified prices or respect the commitment undertaken in previous years. Thus, on the one hand, France, Italy, Luxembourg, Belgium and the Commission refused to modify the mandate to meet American requests, and, on the other, Germany refused to fix UGPs. As a result, the EEC gathered in Geneva for the formal opening of the Round with its mandate reaffirmed, and an important feature of the CAP not yet established, casting doubt on its capacity to meaningfully negotiate.⁸⁸

⁸⁴ CM2 1964 - 888, PV de la 129ème session du Conseil de la CEE, Bruxelles 13-14 April 1964. AECB, PV 268 8 April 1964 and ibidem PV 269, 15 April 1964; AECB BAC 309 38/194 Mansholt cabinet paper, Note from Rabot to Mansholt, April 1964 and HAEC MK40, Conversation with Spierenburg, 10 April 1964. AECB BAC 62/1980-54 PV de la réunion du Comité 111, 13 April 1964.

⁸⁵ AECB, PV 261 final, COM(64), 12 February 1964 and ibidem, PV 269 final, COM(64), 15 April 1964; MAEF- DE/CE GATT 931 Compte Rendu d'un entretien avec M. Rabot «Position des Etats-Unis», 9 April 1964. The Commission's stance over cereal price was unanimously supported by the 111 Committee. AECB BAC 309 38/194 Mansholt cabinet paper, "Aide-mémoire: Négociations commerciales multilatérales dans le cadre du GATT - Travaux effectués par le Comité 111, lors de la réunion du 13 avril 1964", S/254/64, 14 April 1964.

⁸⁶ NA 59 1964-1966 Ecin 3, Box 796, Telegram A-1024 from Embassy of Rome 12 February 1964.

⁸⁷ HAEC - MAEF OW 35 reel 132 Note " Les prix agricoles dans la CEE en 1964-1965", 12 March 1964.

⁸⁸ CM2 1964/888, PV de la 129ème session du Conseil de la CEE, Bruxelles 13-14 April 1964. The April Council of Ministers was described by Luxembourg official Duhr as "a grotesque comedy" in two acts. For tariffs, Germany and The Netherlands tried to convince the other four to accept a formula that could meet third countries' interests. The Germans

Despite the reaffirmation of the December mandate, Washington doubted whether the Six would be able to maintain the agreement, which it continued to believe was a Commission- and French-inspired mandate. Thus, it displayed strong opposition to the mandate, hoping, in this way, to push Germany and The Netherlands to move to modify it. France looked with apprehension at the German and Dutch stances over the Kennedy Round. Bonn and The Hague openly stated that the 23 December mandate represented a working base that had to be modified during the course of the negotiations to take into account third countries' positions. Paris feared that Washington and London could exploit this stance, and wait for the common EEC position to fall apart under the pressure of the Germans and the Dutch, without making concessions in Geneva. However, if a reciprocal advantageous agreement with the Americans was to be reached, it was of paramount importance that the Dutch and the Germans firmly supported the EEC positions and tried to extract concessions from Washington.⁸⁹ Paris's wariness in this regard about its EEC colleagues reflected Wormser had stated after the May 1963 Ministerial meeting: the Germans were too ready to give in to US opposition. For this reason, France refused any modifications to the mandate at this stage of the negotiations.

Perhaps somewhat surprisingly, the EEC's refusal to change its mandate yielded a positive outcome, that of putting to an end the controversy of disparities that had engulfed the preparation of the Round since March 1963. In spite of the number and variety of proposals suggested since April 1963, no compromise had been reached. In this context, for Blumenthal the only way out of the impasse was to agree to disagree. In short, the United States and the EEC eventually realized that the issue was too complex to be resolved through an automatic rule, and decided to stop discussing the question. As shown in the following chapters, this did not mean that the EEC would forget the problem.

After almost one year of discussions on the rules, the Trade Negotiating Committee drew conclusions achieved in view of the May GATT Ministerial Meeting that had to formally launch the negotiations. The TNC adopted the following draft Ministerial decisions. The negotiations on tariffs had to start on the basis of offers of 50% linear reduction, qualified to the extent that the rules to be established in respect of significant disparities permitted offers of less than 50%. An exceptions list had to be tabled on 10 September 1964. By the same token, the Committee on Agriculture drew its conclusion by stating its inability to adopt common rules to negotiate over agriculture, and presented no rule to the Ministerial meeting of May 1964.⁹⁰

pleaded with the other four governments and the Commission not to endanger the Kennedy Round from its very beginning through their obstinacy. For cereals prices, it was France who led the clash on unified prices using the same arguments about the Germans that the letter had advanced in the discussion over the Kennedy Round. NA 59 1964-1966 Ecin 3, Box 796, Telegram 358 from Cunningham of American Embassy in Luxembourg to Secretary of State, 16 April 1964.

⁸⁹ DDF 1964 Doc. 79, Note de la Direction des Affaires Economiques et Etrangères «Négociations tarifaires au GATT», 7 February 1964.

⁹⁰ PRO BT 241/841 telegram 1482 from Washington to Foreign Office, 21 April 1964 reporting meeting between Blumenthal, Herter and Powell; PRO BT241/842 telegram 91 from Cohen to Foreign Office, 30 April 1964; PRO BT241/842 telegram 91 from Cohen to Foreign Office, 30 April 1964. The deadlock over rules was not dangerous only for the Kennedy Round, but also for GATT itself. In fact there was the real risk that the 4 May Ministerial meeting would end in public disagreement right in the middle of the UN Conference on Trade and Development. Developed countries could not afford to show their serious disagreement at this conference where GATT was under attack for being a "rich man's club" and while they were doing their best to convince the LDCs that GATT was a worthwhile organization and relevant to their problems. On the issue see PRO BT 241/841 Note on the Kennedy Round by Carey, 8 April 1964 and *ibidem* Note on the Kennedy Round, 22 April 1964.

5.9 GATT Ministerial meeting of May 1964: the formal opening of the Kennedy Round

After almost a year and a half of strenuous and dragged out negotiations, no final decision on the rules had been reached, and this was the context within which the the Round would have to be launched. Because of the difficulty in agreeing on the rules, a divergence appeared regarding the organization of the May gathering. In spite of the deadlock, the Americans wanted it to be a proper conference at ministerial level, in order to keep up pressure on the EEC and to get the 50% linear cut approved as the basis of the negotiations, rather than a mere working hypothesis, and to finally retain 10 September 1964 as the date for tabling exceptions. For agriculture, rules were to be finally approved along the lines already illustrated in March/April.⁹¹ The EEC opposed the holding of the meeting at ministerial level, as an eventual disagreement would have a hard impact on public opinion, and would get negotiations off to a very bad start. Instead, the conference had to be a ceremony to solemnly mark the formal opening of the Kennedy Round, and to underline the importance of the enterprise as well as the contracting parties' willingness to successfully conclude it.⁹² In the end, the compromised reached consisted in dividing the GATT meeting of 4-6 May into two parts: a solemn, public and inaugural session during which ministers pronounced their general declarations on behalf of their governments, then a closed working session of the TNC would take place. The Ministerial meeting would take note of the progress made in developing the rules and, where possible, would refine some of the general principles agreed upon at the Ministerial meeting of May 1963, thus no real negotiation should occur.⁹³

The nature of the meeting was of crucial importance for the Commission. The representation of the EEC in Geneva depended on the negotiating nature of the meeting and thus touched the crucial issue of the role of the Commission in the international framework. On the ground that the May session had merely a ceremonial nature, Rey wanted Member States to strictly respect the Treaty of Rome, and urged Ministers not to attend the GATT session, and to merely send representatives. In any case, only the Commission would negotiate on behalf of the EEC, while representatives of Member States, even if present at the opening session to underline the importance they attached to the Round, would not attend the working session.⁹⁴

Several ministers, and in particular the German Minister for Economics, Schmuecker, the Italian Minister of Commerce, Matterella, and the Dutch Minister of Foreign Affairs, Andriessen, anxious to show their governments' support for the Round, did not support Rey's request of not showing up in Geneva. For Giscard D'Estaing, the EEC had to be represented by the Commission and he was disposed to attend

⁹¹ Memorandum of telephone conversation between Herter and Blumenthal, 31 March 1964, Herter papers, Box 2, JFKL; PRO FO 371/178091 UEE 1025/257 GATT Ministerial Meeting, May 4-6, "The Kennedy Round", Cohen to Butler.

⁹² CM2 1964 – 888, PV de la 129^{ème} session du Conseil de la CEE, Bruxelles 13-14 April 1964, R/402/64; AECB – BAC 122/1991 2, 1964, Rapport n.13 de la délégation de la Commission pour les négociations du GATT NCG (64)10, 22 May 1964.

⁹³ Memorandum to the President from Herter, 29 April 1964, NSF Subject Files: Trade General Vol. 1, Box 48, LBJL; AECB – BAC 122/1991 2, 1964, Rapport n.13 de la délégation de la Commission pour les négociations du GATT NCG (64)10, 22 May 1964.

⁹⁴ AECB, PV 268 final, 8 April 1964. In its stance the Commission was supported by 111 Committee which held that according to 111 Article of the Treaty of Rome and to the decision taken for the opening session of the Dillon Round, it would be up to the Commission to represent the EEC. AECB BAC 309 38/194 Mansholt cabinet papes, "Aide-mémoire: Négociations commerciales multilatérales dans le cadre du GATT – Travaux effectués par le Comité 111, lors de la réunion du 13 avril 1964", S/254/64 (Cos 25), 14 April 1964; CM2 1964/389 PV de la 58^{ème} réunion du Comité 111, 24 April 1964.

Ministerial meeting without speaking rights. The Six ministers agreed on the French position, and decided to attend the inaugural session to demonstrate the importance they attached to the Round. The Commission would conduct discussions together with the 111 Committee which would side in Geneva. On the suggestion of the Belgian Brasseur, Ministers decided that the President of the EEC Council of Ministers would make a brief declaration in Geneva at the opening session. For the Commission, this was a reasonable compromise, as it confirmed its prominent role at the Ministerial meeting.⁹⁵

The Kennedy Round was formally inaugurated at the Geneva Ministerial meeting held from 4 to 6 May 1964. At the opening session, Herter read a message from President Johnson that emphasized the importance the USA attached to the Kennedy Round as an instrument to expand world trade and "as an important opening to a better world".⁹⁶ For the EEC, the Belgian Brasseur, President of the EEC Council of Ministers, and Rey underlined the importance the EEC also attached to the Round, but then, contrary to what had been agreed in Brussels, Schmuecker, Mattarella and Andriessen also made declarations on behalf of their governments. As a result, the only ministers not to speak were the one from Luxembourg and Giscard D'Estaing.⁹⁷

In spite of the agreement reached before 4 May not to press for new decisions of substance, Blumenthal and Herter tried to commit the EEC to accept the 50% linear cut as formal basis of the negotiations, rather than as a working hypothesis, and to enter a reserve in the 10 September 1964 date to table exceptions, linking it to progress on agriculture. Feeling that such positions would have better chances of being approved if they were presented by Wyndham White, Herter convinced the Director General to present a US draft for the final Ministerial resolution as his own proposals.⁹⁸ When the TNC discussions began, this draft provoked surprise on the part of the Commission as it contained proposals to continue the negotiations. At any rate, the Commission opposed it on the ground that the 50% linear had to be kept as a working hypothesis, to be reviewed in the light of what could be achieved overall in the negotiations, and the 10 September date had to be an absolute date, not linked to progress made in agriculture.⁹⁹

Lacking a mandate to discuss the new proposals, Rey and Marjolin were compelled to report to the 111 Committee to obtain instructions. Despite of the fact that the US document overtook the commitments already undertaken, the Dutch and the Germans held that, with some modifications, it could be accepted in order to move the Round ahead. By contrast, the other four delegations refused the American draft. Particularly upset was France. The French Wahl, supported by Italy, Belgium and Luxembourg, strongly opposed the approval of the 50% level as a general rule, and the

⁹⁵ CM2 1964 - 888, PV de la 129ème session du Conseil de la CEE, Bruxelles 13-14 April 1964, R/402/64; AECB, PV 269 final, 15 April 1964; AECB - BAC 122/1991 2, 1964, Rapport n.13 de la délégation de la Commission pour les négociations du GATT, NCG (64)10, 22 May 1964; AAPD Doc. 122 Ministerialdirigent Stedfeld z.Z. Genf, an das Auswärtige Amt, 6 May 1964

⁹⁶ PRO BT 241/842 GATT- Press Release "Statement made by the Honourable Christian A. Herter, US Special Representative for Trade Negotiations on 4 May 1964" and Telegram 1995 from Herter to State Department 4 May 1964, NSF - Subject files, Trade: Kennedy Round, Box 48, LBJL.

⁹⁷ AECB - BAC 122/1991 2, 1964, Rapport n.13 de la délégation de la Commission pour les négociations du GATT présenté NCG (64)10, 22 May 1964.

⁹⁸ Memorandum to the President from Herter, 29 April 1964, NSF Subject Files: Trade General Vol. 1, Box 48, LBJL; PRO BT 241/842 Intel No. 69 From Foreign Office to certain of Her Majesty's Representatives "GATT Ministerial Meeting on the Kennedy Round, Geneva, May 4-6", 14 May 1964. The British were upset by Blumenthal's move. The Americans had promised them not to raise substantial issues and Cohen found the American move "futile". Blumenthal got upset at the British lack of support. PRO BT 241/842 Telegram 129 from Cohen to Foreign Office, 23 June 1964.

⁹⁹ AECB BAC38/194 309 Mansholt cabinet papers, Aide-mémoire, "Conclusions adoptées par le Comité 111 lors de sa réunion du 4 Mai", 4 May 1964.

qualification of the 10 September date, on the ground that the two positions went beyond the EEC mandate for the Ministerial meeting, and did not reflect EEC trade interests.¹⁰⁰ Believing it to be impossible to negotiate on the basis of the US document, Wahl, together with Guindey and Wormser, all of them in Geneva, put forward a new draft, quickly adopted by the other five, which defined the 50% level as a working hypothesis, dependent on the solutions found for the other problems in the negotiations – non-tariff barriers, agriculture and disparities – and defined 10 September 1964 as an unconditional date. With the French proposal, the EEC would cease to insist on an agreement for generally applicable rules for the treatment of disparities before detailed negotiations could begin, and the proposal suggested getting negotiations started with the tabling of the exceptions lists: in this way the Americans' exception list could be seen, and the EEC could press them on other issues, trying to exploit the wider opportunities of a package deal, notably non-tariff barriers, agriculture and disparities.¹⁰¹

The Americans fought hard over the EEC drafting, but failed to secure amendments on the main points of substance, the definition of the 50% linear cut as general rule, and the link between the tabling of exceptions and progress in agriculture. They had wanted the GATT Ministerial meeting to maintain pressure on the Six to make concessions, but they found themselves not to be in a position to oblige the EEC to accept any particular changes. By presenting a package deal, and insisting on parallel progress on other matters, such as non-tariff barriers where the Americans were most vulnerable, the Six were able to maintain the pressure on the US and "turned the tables on the Americans". Herter and Blumenthal did not receive the support of the British, who found the EEC draft an acceptable basis for starting negotiations and, in any case, did not want to engage in a showdown with the Six, endangering the beginning of the Kennedy Round.¹⁰²

With the firm stance of the EEC and the lack of British support, on the final day Herter accepted the EEC draft, which in any case contained the positive elements of establishing a date for exceptions lists and the basic position of the 50% linear cut, although the latter remained a working hypothesis. Ministers also called for rules on agriculture to be established at an early date and instructed the TNC to draw up the procedures necessary to negotiate on non-tariff barriers, and reaffirmed that every effort had to be made to reduce barriers to exports of less developed countries.¹⁰³ The final draft of the resolution of the Ministerial meeting did not go further than the EEC was prepared to accept, even if Herter made clear that, without an agreement on agriculture,

¹⁰⁰ For the French, if the negotiations continued along this pattern, "la délégation française refusera d'y assister et d'y être impliquée". AECB BAC38/194 309 Mansholt cabinet papers, Aide-Memoire, "Conclusions adoptées par le Comité 111 lors de sa réunion du 4 Mai", 4 May 1964.

¹⁰¹ AECB BAC38/194 309 Mansholt cabinet papers, Aide-mémoire, "Conclusions adoptées par le Comité 111 lors de sa réunion du 4 Mai", 4 May 1964 and CM2 1964/389 PV de la 59^{ème} réunion du Comité 111, 4 May 1964. PRO FO 371/178091 UEE 1025/257 GATT Ministerial Meeting, May 4-6, "The Kennedy Round", Cohen to Butler; PRO BT 241/842 Telegram 3498 from Foreign Office to UK Embassy, in Washington 30 June 1964. For Cohen, the Commission was closely guided by the French who attended the meeting in force. In spite of Rey's anxiety to affirm the negotiating role of the Commission, for the British at the Ministerial meeting the Commission had not been able to "square the French in advance [...]" and had to retreat hastily when the French appeared, causing a lot of confusion in Geneva. PRO FO 371/178092 Meeting between the Secretary of States and Governor Herter at the Board of Trade, 22 May 1964.

¹⁰² PRO FO 371/178091 Confidential note on the GATT Ministerial meeting 4-6 May 1964 by Marjoribanks, 7 May 1964. See also PRO FO 371/178091 Cabinet – GATT Policy Committee, Meeting of 21 May 1964 on the Kennedy Round, note by Mason, 20 May 1964. PRO FO 371/178092 Note "Ministerial Meeting of Trade Negotiations Committee of the GATT: May 4-6" by Marjoribanks, 11 May 1964.

¹⁰³ HAEC BAC 26/1969 511, Note d'information du Conseil, S/360/64 (Cos 45), 13 May 1963; CM2 1964/389, PV de la 60^{ème} réunion du Comité 111, 6 May 1964. Narrative History of the Special Representative for Trade Negotiation, Vol. 1, p. 2, 1969, Administrative History of the Office of the Special Representative for Trade Negotiations, Box 1, LBJL. AAPD Doc. 122 Ministerialdirigent Stedfeld z.Z. Genf, an das Auswärtige Amt, 6 May 1964.

the United States would not be prepared to negotiate in the industrial sector. At this point, the Kennedy Round was formally opened, with, at least in the industrial sector, a date set for the commencement of bargaining.¹⁰⁴

Conclusion

Despite the difficulties and the haggling over the rules, the Kennedy Round was launched in May 1964. The July 1963- May 1964 confirmed to Washington that the Round would be turn out to be a thorny negotiation as the EEC and the USA had different commercial interests which proved to be difficult to reconcile. Washington had counted heavily on Bonn to push the Round forward. However, the German government did not seem able to adopt a coherent policy. German Minister, Schröder, had proposed synchronization but, then, because of the opposition of the Minister of Agriculture, Germany refused to synchronize. As explained in more depth in next chapter, the inability of the Germans to respect deadlines placed them in a weak bargaining position that precluded any pressure on the French, and blocked progress in the Kennedy Round. In short, the Germans were heading for troubles. The attitude of the German government should also be considered next to attitudes of France and The Netherlands, who had more active, sound, united and coherent policies.

The Commission was having problems in affirming its role as sole negotiator in Geneva, but, at the same time, it was playing an essential role in defining the EEC position for the Round in Brussels. Indeed, it would be exactly this key role that would allow the Commission to affirm its negotiating role in Geneva in the final phase of the Round in 1967.

¹⁰⁴ AECB – BAC 122/1991 2, 1964, Rapport n.13 de la délégation de la Commission pour les négociations du GATT NCG (64)10, 22 May 1964. Telegram 2007 from Herter to State Department 6 May 1964, NSF – Subject files, Trade: Kennedy Round, Box 48, LBJL; Telegram 2004 for Bundy from Herter, 7 May 1964, Bator Papers, box 12, LBJL. According to the British, the pressure they exerted on the Americans to avoid a showdown with the Six was helpful. In any case, the meeting was not positive for the Americans. Blumenthal held he could "put the Community in a box", but Americans' anxiety to force the Six to make progress was based on an inaccurate appreciation of their bargaining position. "The news that the Six were about to table a new draft caused a great fluttering in the dove-cote. [...] The new Community draft – technically an admirable production by M. Wormser and M. Guindey – disturbed the Americans [...]. The result was of all this was that Mr. Blumenthal found himself in a box, the trap having been neatly sprung by M. Wormser [...] it was not easy for us to devise how best to assist the Americans; they had only themselves to blame for being thus put on the spot by the Community. [...] Americans' tactics were inept". They wanted their draft to be accepted by having it represented as Wyndham White's document, but the French were not ready to let "them get away with this and effectively turned the tables on the Americans". Thus, the strong negotiating position of the Six was once more demonstrated and "Rey and Marjolin showed up well in the informal discussions. They were quick and conciliatory and seemed to have more latitude than formerly". PRO FO 371/178091 Confidential note on the GATT Ministerial meeting 4-6 May 1964 by Marjoribanks, 7 May 1964. According to Cohen, Blumenthal tried "to catch or compromise the EEC into something a little nearer to his ideas. MM. Rey and Marjolin were patient and courteous, but firm". PRO FO 371/178091 UEE 1025/257, GATT Ministerial Meeting, May 4-6, "The Kennedy Round", Cohen to Butler. For the British, one of the problems of the Ministerial meeting were relations between the French and Blumenthal. "Personalities obtrude dangerously", and while there was nothing they could do with Wormser, "on the American side it is extremely unfortunate that Mr. Blumenthal seems to be given so much latitude to play the negotiating hand. It would, of course, be a great advantage, if someone else than Mr. Blumenthal could run the American team. One would have hoped that he had been hoist by his own petard but cannot be sure. [...] Blumenthal was not a match for his French and EEC opposite numbers." PRO FO 371/178091 Confidential note on the GATT Ministerial meeting 4-6 May 1964 by Marjoribanks, 7 May 1964. For the British, with so much national and personal amour propre involved, "there may be serious risk in the US being represented by an aggressive and tactless 'whiz-kid' like Mr. Blumenthal. The US and the EEC are the two major partners in this negotiation and, if they get across purposes for irrelevant personal reasons, the rest of the world, and primarily ourselves, will feel the results". PRO FO 371/178092 Comment of Johnston to Marjoribanks' note "Ministerial Meeting of Trade Negotiations Committee of the GATT: May 4-6" 11 May 1964. The British got so upset at Blumenthal's tactics that they started wondering about the opportunity to tactfully speak with Ball about this issue to secure Blumenthal's removal. But when Jean Monnet raised the issue with Ball and got a negative response, the British decided to not further question it. PRO FO 371/178092 Note "Ministerial Meeting of Trade Negotiations Committee of the GATT: May 4-6" by Marjoribanks, 11 May 1964 and PRO FO 371/178091 Cabinet – GATT Policy Committee, Meeting of 21 May 1964 on the Kennedy Round, note by Mason, 20 May 1964.

The discussions over agriculture illustrate two key issues: first, with the mandate of the Kennedy Round to be defined, the differing conceptions of the Six regarding the CAP surfaced. Although all the Six wanted the CAP, it is also true that they did not long for the same CAP. In fact, The Netherlands and Germany, and to less extent Italy, wanted to retain their flux of trade with third countries, in contrast to French interests. For the moment the Six had accepted the Mansholt plan to negotiate in Geneva, but these differences would resurface when the EEC, during the course of the bargaining in Geneva, would have to specify their position in agriculture. For the Six to have a common agricultural policy to negotiate in Geneva required them to reconcile their diverging interests, a difficult task by definition. Second, it shows that the CAP was not an isolated phenomenon. As the Poultry War showed, the Cold War context led the US State Department not to utterly oppose this discriminatory common policy, considered essential to strengthen the EEC, but rather to try to moderate and influence it. Washington accepted the CAP as a unifying factor of the EEC. At the same time, the United States wanted a CAP designed to preserve the opportunity for efficient suppliers to compete in the EEC, and wanted the CAP to be negotiable in Geneva, aims that the first year of bargaining in Geneva proved very difficult to achieve. Thus, the fate of the Kennedy Round seemed to depend on the possibility of finding a solution for the agricultural problem, both within the EEC and across the Atlantic.

Chapter Six

Cereals puzzle across the Atlantic

Introduction

The previous chapter described the difficulties in reaching an agreement regarding the rules of the forthcoming Kennedy Round. The differing conceptions the USA and the EEC had regarding the issues that should be dealt with, and the objectives to be pursued, in the trade negotiations caused them the clash over the formulation of the rules. As a result, at the Ministerial Meeting of May 1964, only a basic set of laws had been agreed for the industrial sector, and 10 September 1964 was identified as the date to exchange exceptions lists. This basic agreement was enough to put industrial negotiations on track. By contrast, no rules at all had been elaborated for agriculture, due to the persistent disagreement between the USA and the EEC.

Chapter six deals with the preparations for the negotiations. The entire period was dominated by the internal EEC quarrel over grain prices, which complicated the industrial part of the GATT talks and frustrated progress in agriculture. In fact, the stalemate over agriculture was not only linked to the lack of agreement between the USA and the EEC over the rules, but also to the persistent EEC internal quarrel over grains, which came to also involve the United States, thus becoming a *transatlantic puzzle*. It was only when, in December 1964, the Germans eventually agreed to set the UGP that the way was opened for progress to resume in agriculture. This chapter seeks to explain how the Kennedy Round and the EEC influenced each other. The internal development of the EEC dictated the rate and timing of progress at the Kennedy Round and, at the same time, the necessity to move ahead the GATT talks led to developments in Brussels.

6.1 An intricate puzzle: exceptions lists, agriculture and cereals prices

The GATT Ministerial meeting of May 1964 had set 10 September 1964 as the date for tabling exceptions lists for manufactures, and, thereby, opening the bargaining process in this sector. This target proved to be short-lived. Washington began to hesitate about tabling its list before the Presidential election at the beginning of November, given all the opportunities that so doing could give the US lobbies to harass Herter. In response to American concerns, at the end of May, the Trade Negotiating Committee (TNC) postponed the date for tabling exceptions to 16 November 1964. With this date set, the core of the negotiations for the industrial sector became the formulation of the lists, a process that took place domestically for the linear bargainers.¹

In spite of what had been formally agreed at the Ministerial meeting regarding the unconditional acceptance of 16 November for tabling exceptions lists, at the end of May, Herter, by a unilateral position, stated that the US government would not table its exceptions list as scheduled if further progress were not made on agriculture by that date. Washington was under strong political pressure from the agricultural lobbies of the

¹ Telegram 1911 from Ball to US mission Geneva-GATT, 27 May 1964, NSF - Subject files, Trade: Kennedy Round, Box 48, LBJL. PRO FO 371/178092 Meeting between the Secretary of States and Governor Herter at the Board of Trade, 22 May 1964.

Mid-West and had to stick rigidly to the line that the final outcome of the Kennedy Round had to encompass acceptable content concerning agriculture. Moreover, Herter had to take into account the position of the Department of Agriculture which had demanded a tough bargaining position against the EEC. By establishing a link between agriculture and exceptions list, Herter hoped to push the EEC to agree to some rules for this sector.²

The Commission, predictably, rejected the American unilateral link between agriculture and exceptions lists on the ground that the May Ministerial meeting had unconditionally set the date.³ Yet, despite the Commission's refusal to accept the link, the American move could not go unnoticed, and, in fact, it came to interfere with the EEC discussions about the treatment of agriculture in GATT. In Geneva, the EEC championed the MDS, but without the fixing of prices, the other contracting parties could not assess the protectionism of the EEC, and the Commission could not negotiate over agriculture under the MDS and defend the validity of this approach. However, the Germans had already shown their resistance to UGP and had every intention of postponing the price-setting to after the legislative election of September 1965. At the same time, the French had already made it clear that they would not negotiate on agriculture in Geneva, if grain prices were not set in Brussels. Hence, France and the Commission refused to budge prior to German agreement on UGP. Erhard, in turn, refused to agree on UGP before the German election due to worries about the farming vote. The USA did not want to negotiate on industrial policy unless progress was made on agriculture, and expressly linked the 16 November date for tabling exceptions to progress in agriculture. As a result, the fate of the Kennedy Round seemed to be floundering on the price of cereals.

After the deadline of 15 April 1964 for setting UGP had passed in vain, the EEC deferred the decisions until 15 December 1964. However, because of German resolve to delay the commitment until after the German election, it seemed unlikely that a decision would be able to be taken. The German government so firmly refused to set UGP that doubts increased about its commitment to the CAP.⁴ Erhard, a convinced free trader, wanted a successful Kennedy Round, and assured the EEC members and the Americans that he would not let it fail because of German attitude on UGP. For the moment, however, he could not take the decision because of the opposition of the German minister of Agriculture Schwarz, the farm sector and the Bundestag. In any case, for Erhard, the UGP remained an internal EEC issue, and no direct link existed with the GATT talks, for the agreement on prices would not remove all the obstacles to the agricultural part of negotiations. Germany would not agree to a price level lower than that suggested by the Commission, which in turn was unacceptable to the Americans on the ground that it would increase production within the EEC and thus fill the import gap. For the Germans, it was necessary to negotiate on other solutions in the GATT forum, and they tried to resolve the contradiction between their request that prices should remain high and a CAP open to world imports, granting quantitative assurances

² Telegram 2167 from Tubby to Secretary of State reporting Blumenthal's statement to the 13 July TNC meeting, 15 July 1964, NSF – Subject files, Trade General Vol. 1, Box 47, LBJL; CM2/1964 1441 GATT TN.64/AGR/4 Déclaration de la délégation des Etats-Unis concernant sa position à l'égard de la proposition faite par la CEE au sujet des produits agricoles dans les négociations Kennedy, 17 June 1964; AECB BAC 122/1991 2, Rapport n.17 NCG(64)14, de la Délégation de la Commission pour le Négociations du GATT, 7 July 1964.

³ AECB BAC38/194 309 Mansholt cabinet papers, Note personnelle de Rabot à Mansholt, 17 June 1964;

⁴ Ludlow, N.P., *The European Community and the Crises of the 1960s*, p. 61; Vanke, J. "The European Collaborations of France and Germany 1963-1966", pp. 93-108.

to third countries.⁵ In October 1963, Bonn, and in particular the Ministry of Agriculture, had identified quantitative guarantees of access as a negotiating basis for the Round, but given that this option was considered in Brussels "as the sin against the Holy Ghost", as the Germans put it, Bonn would have to wait, hoping that pressures from Geneva would push the EEC in this direction.⁶ This stance clearly demonstrated that the Germans' support for the MDS was ambivalent: formally, they had approved it in December 1963, but in practice they often questioned it, stating that quantitative assurances were to be granted to third countries or, as German Foreign Ministers Schröder put it, that the MDS was merely a working basis, and that other formulae were to be elaborated if the MDS ended up being unfeasible. As such, the Germans were formally committed to the MDS, but had not, in reality, accepted the implications thereof, and conducted both their internal debate and conversations with third parties as if much more was still open to negotiation than was really the case. To be sure, this corresponded to German commercial interests in continuing to import from outside the EEC, but made the German position in Brussels wavering and incoherent.⁷

Unfortunately the quantitative solution was not available because it was in stark opposition with the CAP system based on price, which determined the level of EEC production and, indirectly, the level of imports. In fact, France and the Commission did not hesitate to label this approach the negation of the CAP. On top of this, Paris' opposition to quantitative assurances as the basis for negotiations in Geneva and its interest in negotiating under the MDS, which imposed constraints on both importers and exporters, were well known. For Paris, it was not, however, only a matter of incompatibility with the CAP and support for the MDS. Negotiating with the Americans on the basis of quantitative assurances, rather than on MDS, which presupposed EEC common prices, removed the pressure on the Germans to get down to finally resolving the issue of UGP. And Paris had no intention of easing the domestic position of the German government, postponing the fixing of prices and, consequently, the establishment of the CAP. In June 1963, the French had asked Herter to put pressure on Erhard to set UGP and, in the middle of 1964, they had every intention of exploiting the link, imposed by the Americans on the 16 November date, to push Bonn to agree. The Kennedy Round had to be used to convince the Germans: either they agreed to UGP or the GATT Round would fail.⁸ Thus, while Paris openly claimed that no connection existed between the date for tabling the exception lists and progress in agriculture because the Americans had no right to attach these conditions, at the same time the

⁵ CM2 1964/86, PV de la 134^{ème} session du Conseil de la CEE, 1-3 June 1964. PRO BT 241/842 The Secretary of State's meeting with Herr Lahr, Bonn 25 May 1964 and FRUS, 1964-1968 Vol. XIII, Section Western Europe Region 26. Circular Telegram From the Department of State (Rusk) to Certain Posts, 15 June 1964. The telegram reports conversation between Herter, Blumenthal, Roth, McGhee Erhard, Schroeder and Westrick. Telcon Dillon-Ball, 25 May 1964 reporting the conversation between US secretary of Treasury Dillon and Lahr, Ball papers, box 4, LBJL. On the opposition in Germany to the setting of UGP and how this conditioned Erhard's attitude in Brussels, see Knudsen's work already mentioned.

⁶ PRO BT 303/167 Note "German Agriculture-Talks in Bonn, October, 30-31, 1963" reporting conversation between British officials and German officials of the Ministry of Agriculture.

⁷ On German ambivalence towards MDS see Schroeder's declarations in Documents Diplomatiques Français (DDF) 1964, Doc. 48, reporting the WEO Council of 27 January 1964. Emile Noel claimed that he could not imagine why the Germans had accepted the MDS plan and he even "assumed that they had simply not understood what was involved." Memorandum of conversation between Emile Noel (Executive Secretary of the Commission) and Thomas Fina of US mission to EEC, 14 October 1964.

⁸ MAEF, DE/CE, 1961-1966 GATT 932, Premier Ministre, Secrétariat Général, Note CE/6450 «Conseil des Ministres des 29 et 30 juillet 1964», 24 July 1964.

American move increased pressure on the Germans and played in the hands of the French, which came to have an additional lever on Bonn.⁹

The Commission did not oppose quantitative assurances only because of their incompatibility with the CAP system.¹⁰ For Mansholt, the setting of UGP was a fundamental step in establishing the CAP and in terms of the negotiations in Geneva under MDS, which would reinforce the CAP, considered by the Commission to be the policy that would definitively ensure the supranational aspect of the EEC, and the EEC itself. Moreover, the impasse in which the EEC found itself in the agricultural sector would inevitably find a solution with the passing of the time, and would inevitably cause an impasse in Geneva too. The Commission therefore had every intention to keep pressure on the member states, and the Germans in particular, to let them understand the danger of this situation and the political consequences that it had the potential to unleash.¹¹

In order to convince the Germans, the Commission openly linked the Kennedy Round to UGP, holding that refraining from taking this decision would render negotiation according to the MDS plan unfeasible, and no progress would be possible in Geneva in agriculture. Further, Mansholt reminded the Germans that Washington firmly wanted this sector to be included in the GATT talks, and that, with their foot-dragging, they were causing a stalemate in the Kennedy negotiations. On top of this, for the Commission, the Germans had to accept the lowering of grain prices so not to disproportionately artificially increase EEC production, causing a hostile American reaction in GATT. "Le problème de la fixation des prix des céréales est donc incontestablement un problème international" Mansholt made clear to the recalcitrant Germans.¹² Thus the Commission tactics, like those of Paris, made UGP a key element in GATT agriculture negotiations, and used the Kennedy Round, which the Germans considered of paramount importance, to be a lever to persuade Bonn to agree to fix prices, exploiting the link established by Herter on agriculture and the exceptions list.¹³

The Commission also counted on the pressure which the Americans could put on Erhard. Washington had to make crystal clear to the Germans that, with their refusal to set common prices, they were holding up progress in Geneva. To press the Americans to convince the Germans, Mansholt even employed, when meeting with US

⁹ PRO BT 241/843 Telegram 155 from Cohen to Foreign Office, 27 July 1964, reporting a conversation in Paris between Blumenthal, Guindey Wormser, Bizard, Wahl and Wyndham White. PRO FO 371/178092 Telegram 130 from Dixon to Foreign Office, reporting a conversation with Bizard, Guindey and Wahl, 16 July 1964; MAEF, DE/CE, 1961-1966 GATT 932 Note 184/CE « Négociation tarifaire au GATT », 5 November 1964 and ibidem Note « Négociation tarifaire au GATT », 20 November 1964.

¹⁰ This Commission stance against all quantitative access guarantees had already been fully elaborated in the course of the 1961-3 British membership negotiations in the course of which the UK had sought to obtain guaranteed access for Commonwealth exporters. On the issue, see Milward, A.S., *The United Kingdom and the European Community The Rise and Fall of a National Strategy* (London : Portland, OR : Frank Cass, 2002) and Ludlow, P.N. *Dealing with Britain: the six and the first UK application to the EEC* (Cambridge, U.K; New York, NY: Cambridge University Press, 1997).

¹¹ AECB, PV 269 15 April 1964 and PV 275, 2 June 1964; HAEC BAC 26/1966 511, Note d'information du Conseil, S/543/64 (CoS 80), 16 July 1964; AECB BAC38/194 309 Mansholt cabinet papers, Note d'information de la Commission, 19 June 1964; HAEC - JMAS/95 Memorandum of conversation between Hallstein and Tuthill in Brussels, 23 June 1964. CM2 1964/389 PV de la 62ème réunion du Comité 111, 23 July 1964.

¹² CM2 1964/70, PV de la 129ème session du Conseil de la CEE, 13-15 April 1964. At this EEC Council of Ministers, Mansholt pinpointed to the Germans their incoherent attitude, professing to support the Kennedy Round on the one hand, but blocking progress in agriculture, which the Americans and the Commonwealth countries considered to be essential to conclude the Round. The same argument was repeated by Mansholt at the Council of Ministers of the beginning of June. CM2 1964/86, PV de la 134ème session du Conseil de la CEE, 1-3 June 1964. See also AECB PV 268 8 April 1964.

¹³ AECB BAC38/194 309 Mansholt cabinet papers, Note personnelle de Hijzen à Messieurs Rey, Marjolin, Mansholt, 24 June 1964 and HAEC - MK 40, Note "Le prix de blé et le Kennedy Round", 5 June 1964, reporting a conversation between Konhstamm, Tuthill, and McGhee.

Ambassador to the EEC, Tuthill, the argument that if the MLF went through, de Gaulle would certainly try to act in some way against NATO, and above all the EEC, especially if by the end of the year, Germany was still unable to agree on grain prices, an essential step for progress towards European unity.¹⁴

The other four members, Italy and the Benelux countries, also held that UGP was necessary to negotiate over agriculture in Geneva. The Belgian Spaak and the Dutch Luns underlined the importance which they attached to the Kennedy Round and emphasised the contradiction that existed in the German position of support for the industrial part of the GATT negotiations and the obstructive position they had adopted towards the agricultural part. The Italians, with high domestic prices for soft wheat, had the same problems as the Germans in fixing UGP, but they had no intention of allying themselves with the Germans in stalling the implementation of the CAP, for which, by mid-1964, they still hoped to gain access for their fruits and vegetables, and, in this way, causing troubles to the Kennedy Round. In any case, Italian Minister of Agriculture, Mario Ferrari-Aggradi, was aware that even if Italian farmers complained about the reduction in soft wheat prices, such reduction was necessary, from an economic point of view, in order not to further increase the EEC surplus in production. Moreover, as the EEC had a deficit in production of feedgrains, the Commission had proposed to raise their prices in order to increase EEC production. The Italian Minister was particularly opposed to such an increase as it would damage Italian meat producers in a period the Italian government was promoting its development.¹⁵

Contrary to the expectations of the French and the Commission, the Americans were unwilling to press the Germans on UGP. They saw themselves as an "outsider in the middle" and did not want to have the responsibility of exerting strong pressure on Bonn, unless all the Five did likewise, something that the Five were not doing sufficiently. They contested the Commission link between UGP and the Kennedy Round on the ground that the decision was important, but not decisive, as what mattered were quantitative assurances, while the link led the Commission to insist on the MDS as negotiating plan, a plan Washington refused to consider. Furthermore, the United States opposed putting pressure on the Germans, as it deemed the Commission prices too high to give any promise of maintaining the EEC market for US grain exports. Washington wanted the assurance of access for imported grains before it would publicly press for EEC price unification, which would operate against US interests. Herter reproached the Commission and the French for using the grain price to hold up the negotiations in Geneva, and expressed his concern for the consequences this situation could have on the tabling of US list of exceptions, and for the entire Kennedy Round.¹⁶

Therefore, when Erhard and Schroeder visited Washington in June 1964 and openly asked whether the United States required UGP to move ahead with the Kennedy

¹⁴ PRO FO 371/178091 Confidential note on the Kennedy Round, undated, 1964; HAEC MK40 Conversation with Spierenburg (Dutch PERMDEL), 10 April 1964; and *ibidem* JMAS 94, Memorandum of conversation between Mansholt and Tuthill, 19 October 1964.

¹⁵ CM2 1964/86, PV de la 134^{ème} session du Conseil de la CEE, 1-3 June 1964. For the Italian position see ACS, PCM 1962-1964, b.667 Lettera del Presidente del Consiglio Moro al Presidente della Commissione della CEE Hallstein, 6 June 1964 taken from Ballini, P.L., Versori, A. (eds) *L'Italia e l'Europa (1947-1979)*, Vol.II, pp. 630-632.

¹⁶ Telegram 4400 from McGhee to State Department 1 May 1964, NSF - Subject files, Trade: Kennedy Round, Box 48, LBJL. HAEC - MK 40, Note "Le prix de blé et le Kennedy Round", 5 June 1964, reporting a conversation between Kohnstamm, Tuthill, and McGhee. AECB BAC 38/194 309 Mansholt cabinet papers, Note d'information de la Commission, 19 June 1964; AECB - PV 282, 22 July 1964; MAEF, DE/CE, 1961-1966 GATT 932, Conversation avec Herter, Washington 29 September 1964. At the conversation attended Blumenthal, Roth, Hedges (USDA), Cleveland (USSD), Guindey, Gavoty, de Wilde and Morizet. "Erhard Background Paper, Kennedy Round", draft written by Auchincloss, 3 June 1964, Herter Papers, Box 8, JFKL. For the definition of "outsider in the middle", see NA 59 - 250 box 976 Telegram 254 from Blumenthal to Herter, 30 May 1964.

Round, Herter took the view that a UGP decision, during period during which the rules were negotiated, was not an essential pre-condition for GATT. The problem of grain prices existed in Brussels, and a decision could become indispensable for progress in Geneva only if internal developments within the EEC made it so. What was essential was that the EEC abandoned its rigid and general application of MDS, so that progress could be made and meaningful negotiations could proceed by tabling and exchanging exceptions lists for the agricultural and industrial sectors. In turn, Erhard maintained with Herter that prices alone would be insufficient as a regulator of imports: access assurances were necessary, and the German government would continue to press in this direction in Brussels. Herter, obviously, expressed full agreement on the need for access assurances, since unified prices would not possibly be low enough to ensure access. The United States wanted the lowest possible price along with assurances of access. Neither on its own would do.¹⁷

Thus, contrary to what the French and the Commission had hoped, Washington made it known that an immediate decision on this issue was not indispensable, and told Erhard that it did not require of him any definitive action on cereal prices in the short term. This was of course very welcome to Erhard: the American link between agriculture and 16 November had put pressure on him, but the meeting with Herter and the American refusal to negotiate under the MDS approach, and instead on quantitative assurance, took the pressure to take early decisions away, and eased the German position.¹⁸

At the end of June, the German and the French members of 111 Committee, Reinhardt and Wahl, met to discuss the treatment of agriculture in the Kennedy Round. Made bold by the American stance, Reinhardt took the line that UGP were not necessary to negotiate in Geneva. Wahl therefore asked how Reinhardt thought negotiations should be pursued, choosing between three methods: to approve UGP and negotiate along the MDS plan; to agree to give the Americans quantitative guarantees, which the French government would not do; while the third solution "ne peut que correspondre que à une 'solution miracle' à laquelle songe peut-être le Dr. Reinhardt". And, indeed, Reinhardt did have the miracle solution: for the next three or four years the agricultural policies of the Six would remain national both within the EEC and for negotiations with third countries, and each EEC member would negotiate on its own in Geneva. Against this miraculous solution "M. Wahl demande au Dr. Reinhardt s'il apprécie la portée de sa suggestion: le Traité de Rome n'a été ratifié en France qu'au prix de promesses précises faites à l'agriculture [...] Il est exclu, si la politique agricole commune est reportée, de voir se poursuivre le Marché Commun industriel."¹⁹ Germany once again displaced its antagonism towards the CAP, and, to be sure, in light of these German declarations, some of the extremism of French tactics, discussed below, make a great deal more sense, as the German threat to the CAP was not just a figment of de Gaulle's imagination.

¹⁷ FRUS, 1964-1968, Vol. XIII, Section Western Europe Region 26. Circular Telegram From the Department of State (Rusk) to Certain Posts, 15 June 1963. The telegram reports a conversation between Herter, Blumenthal, Roth, McGhee Erhard, Schroeder and Westrick. Minutes of the conversation can be found also in "Erhard-Herter discussion, June 13, 1964" Herter Papers, Box8, JFKL. See also PRO BT 241/842 Telegram 3498 from UK Embassy in Washington to Foreign Office, 30 June 1964 and PRO FO 371/178092 Confidential Note "The Kennedy Round", by Mason, 6 July 1964.

¹⁸ PRO BT 241/948 Telegram 1028 from Roberts (UK Embassy in Bonn) to Foreign Office, 23 October 1964, reporting a conversation between Lahr and Roberts.

¹⁹ MAEF, DE/CE, 1961-1966 GATT 932, Entretien de M. Wahl avec Dr. Reinhardt et le Dr. Sachs, Bonn 23 June 1964. By the same token, when, at the end of June, Hallstein and von der Groeben met Erhard to stress the need fix UGP, Erhard could reply that there was no need to hurry given that the Americans did not consider UGP necessary to move ahead the agricultural negotiations in Geneva. AECB PV 279, 1 July 1964.

By influencing the German position on the need to fix UGP, the American position had affected the EEC internal discussions over the course of action regarding agriculture in GATT. Not only did the Germans firmly claim that UGP were not necessary for the time being, in order to ensure progress was made in the Kennedy Round, but the Dutch also came to share this stance. In July, the Dutch industry became impatient about the slowdown in Geneva and pressed the government to move the Kennedy Round forward. This led the Dutch Minister, Andriessen, to drop the links between UGP and Kennedy Round, hoping, in this way, to favour movement in GATT.²⁰

As a result, at the Council of Ministers meeting at the end of July 1964, whereas Rey resolutely claimed that it was impossible to make progress in GATT until agreement on common prices for cereals had put the EEC in the position to negotiate under the MDS, in response, Andriessen, even if underlining the importance his government attached to UGP, expressed his astonishment at the attention given to UGP given that the Americans did not consider it a necessary condition. The Dutch minister asked the Commission to assume a flexible approach, and to read the December 1963 mandate with flexibility: progress could be made in Geneva even without UGP through American suggestions based on quantitative assurance, and applying the MDS in a flexible way. Even if quantitative assurances were difficult to reconcile with the CAP, a compromise-based formula, requiring consultations with third countries, in case imports fell below a given level, could be elaborated. The Dutch therefore again invoked the suggestion put forward by the Dutch Minister of Agriculture, Biesheuvel, at the end of 1963. Unsurprisingly, Lahr fully supported Andriessen and asked the Commission to adopt a more flexible stance in Geneva. Only once the discussion on the method of negotiations had reached an advance level, would the EEC internal prices policy assume a position of priority.²¹

Belgium, Italy and Luxembourg reaffirmed the need to set UGP and the value of the MDS as a general rule, and claimed that the position of the EEC in Geneva could, in effect, improved if its price policy had been adopted. For these countries, the German delegation could not indefinitely postpone the moment when it had to reconcile its willingness to successfully contribute to the Kennedy Round with its reluctance towards the adoption of the UGP. However, they too asked the Commission to adopt a flexible position. Surprisingly, Giscard d'Estaing adopted a rather quiet attitude, merely noting it was not the right moment to modify 23 December 1963, and then remained silent during most of the Council meeting, maybe leaving the task of defending French position to the Commission.²²

To the rescue of Rey came Mansholt, who made it clear that it was rather difficult to negotiate under the access guarantee approach, given that third countries' requests would depend on the EEC level of prices, while it would be not reasonable to

²⁰ NA 59 1964-1966, box 450, Telegram from Howe of the American Embassy in The Hague, 22 July 1964. During the whole of July's discussions over agriculture, the Dutch had called for more flexibility. They wanted the Commission to read in a more flexible way the 1963 mandate and even suggested negotiating in Geneva with fictitious cereal prices so to overcome German opposition to UGP. CM2 1964/102, R/814/64 PV de la 139^{ème} session du Conseil de la CEE, 7 July 1964; CM2 1964/389 PV de la 62^{ème} réunion du Comité 111, 23 July 1964. AAPD 1964 doc 207 Aufzeichnung des Staatssekretärs Lahr. Deutsch-französische Konsultation; Gespräch mit Generaldirektor Wormser, 24 July 1964.

²¹ On the German request of flexibility in the way to read the December 1963 mandate, see also CM2 1964/389 PV de la 61^{ème} réunion du Comité 111, 30 June 1964 and ibidem PV de la 62^{ème} réunion du Comité 111, 23 July 1964. At this last meeting of 111 Committee the German representative had claimed that UGP were not necessary to conduct negotiations in Geneva given that GATT members had refused to negotiate under the MDS.

²² The Belgian Ambassador Rothschild "found French behaviour puzzling, but considered Giscard's non-committal attitude a possible indication of French flexibility". NA 59, 1964-1966 Ecin 3 Box 795, telegram TAGG 2263 from Evens to Herter, 11 August 1964, reporting a conversation between Evans and Rothschild.

assume import obligations when the future EEC volume of production was not measurable at the moment, and guarantees did not exist among the Six. In any case, Mansholt acknowledged that, given that EEC and US positions on the rules were still far apart, the discussion in Geneva had not yet arrived to the point where a UGP decision had become an urgent factor, but the EEC would find itself in a difficult position if this decision was not taken by the end of the year.²³

After the meeting of the Council of Ministers, Lahr took the view that all the Six, and notably including the French and the Italians, supported the notion that UGP was not urgent in terms of being able to continue discussing agriculture in Geneva, and that the Council's consensus was that there was no need for the Commission to limit itself to MDS. Though it did not receive their words with enthusiasm, Lahr felt that the Commission would take note of them. For Lahr, the grain issue "had been unmasked as a Commission maneuver against the Germans", but the Council discussion would have a salutary effect on the Commission's conduct in Geneva. Thus, at the end of July, Lahr seemed optimistic that the agricultural rules could be established even without grain prices, and that the 16 November deadline could be met both for agriculture and industry.²⁴

In contrast, the French seemed to read the result of the Council of Ministers in a totally different way. For Boegner, the positions taken by the Dutch and the Germans were the result of American pressure which suggested that, without progress in agriculture, Washington would not table its exception list. However, it had not been difficult for Rey and Mansholt to claim the futility of the German position and the firm position assumed by Mansholt made it clear that, if progress was to be made in Geneva, common prices had to be established in Brussels by the end of the year.²⁵

As is shown in the following section, the Council of Ministers' July meeting actually pushed the Commission to adopt a more flexible attitude towards the MDS approach in Geneva. However, French determination over the setting of UGP remained, and it soon came to awaken the Germans from their illusion that the decision could be postponed to after the September 1965 election. During October, with the 15 December date for setting UGP approaching, the German remained adamant in their resistance. Discussing the future work of the EEC with Wormser, Lahr suggested accelerating the implementation of the CET and the dismantling of intra-EEC tariffs, without taking precise commitments on the CAP, and in particular, on the unified prices. To

²³ CM2 1964/11 PV de la 141^{ème} session du Conseil de la CEE, 28-30 July 1964. For a more detailed discussion among the Six on the state of the agricultural negotiations see CM2 1964/389 PV de la 62^{ème} réunion du Comité 111, 23 July 1964.

²⁴ Telegram 414 from McGhee to State Department, 1 August 1964, NSF - Subject files, Trade: Kennedy Round, Box 48, LBJL, reporting conversation between McGhee and Lahr. Lahr was so optimistic that McGhee wrote "euphoric is the word that best describes Lahr's mood on his return from the Council of Ministers. He betrays no sense of crisis, or even of anything very dramatic, about the present status of the Kennedy Round negotiation, and is confident that the November 16 date can be met without any need to change the Commission's negotiating mandate". According to Rothschild, Belgian Ambassador, with the Council of Ministers meeting of 29 July a re-interpretation of the 23 December mandate took place and the Commission would be more flexible and the MDS would not apply to all agricultural items. NA 59, 1964-1966 Ecin 3 Box 795, telegram TAGG 2263 from Evens to Herter, 11 August 1964, reporting a conversation between Evans and Rothschild.

²⁵ For the French member of the COREPER, "les interventions à la fois pressantes et embarrassées de Mr. Andriessen et de Mr Lahr étaient, bien évidemment, le résultat de démarches faites récemment par les Américains aux termes desquelles le gouvernement de Washington ne déposerait pas ses listes d'exception pour les produits industriels à la date du 16 novembre si, d'ici-là, aucun progrès n'avait été enregistré dans le domaine des produits agricoles." MAEF, DE/CE, 1961-1966 GATT 932, Telegram 903/06 from Boegner to Quai d'Orsay, 31 July 1964; PRO BT 241/843 Telegram 185 from Galsworthy (UK Delegation in Brussels) to Foreign Office, 7 August 1964. Erhard had received a letter from Herter in which the American Ambassador urged the Commission to act more flexibly so as to permit a satisfactory solution for agriculture. (Letter from Herter to Erhard, 20 July 1964, Bator Papers Box 1, LBJ). But the German attitude was the result of the German need to postpone the settlement of the UGP and avoid the issue preventing progress in the agricultural part in Geneva.

Wormser's remark that the German plan envisaged progress in one sector but left behind others, Lahr candidly answered that synchronization was no longer necessary.²⁶

On 20 October, after the meeting of Ministers of Agriculture in Brussels had again unsuccessfully discussed the issue of price, the French Minister, Pisani, returned to Paris with no agreement because of Germany's persistent refusal. At this point, de Gaulle concluded the time had come to have a tough policy towards Bonn in order to make the Germans understand that the French government required the CAP as a price for French participation to the EEC.²⁷ On 21 October, Alain Peyrefitte, the French government spokesman, declared not only that France would not negotiate with the Americans as long as the EEC – including agriculture – was not fully organized, and therefore grain prices established, but also that “la France cesserait de participer à la Communauté économique européenne si le Marché commun agricole ne s’organisait pas comme il avait été convenue qu’il s’organiserait”.²⁸

The French had hoped that the need to negotiate on agriculture in Geneva would push the Germans to fix UGP, but the Americans had made it known that an immediate decision was not necessary, so the Germans did not feel pressed. In a situation of continued postponement due to German feet dragging and challenges to the CAP, that raised serious doubts on the possibility of eventually setting up this common policy, the French position hardened to underline all the seriousness of the situation. French toughness was caused by German ambivalence.²⁹ In order to appreciate de Gaulle's firmness, it is necessary to emphasize that, for Paris, the CAP was not only needed for French economic development, but was also a means to tie Germany to the EEC. For de Gaulle, Bonn was not impeded from agreeing UGP not simply because of the domestic problem with German farmers, but also because of its relations with the United States. Bonn's policy was favourable to the United States, did not want to oppose them, and aimed at leaving open the conditions of the CAP until advantages had been given to the United States in the Kennedy Round. France could have waited until September 1965, if it had had the feeling that the Germans wanted the CAP and that, in the meantime, concessions, which could have impeded the common market's existence and development, would not be made to the Americans. Thus, the main issue was the German attitude towards this common policy.³⁰ As de Gaulle put it to Adenauer in November 1964, France needed the UGP and the CAP not only because, if French agriculture remained outside the EEC, France would be obliged to finance its farmers with the consequence of burdening industry and making it less competitive than German industry, but also because, if a solution was not found for agriculture and the CAP was not established, each country would look for its own solution and the

²⁶ HAEC- MAEF 21 reel 209, Secrétariat General, Entretiens et Message, Entretien de M. Wormser avec M. Lahr, Bonn 6 October 1964, au sujet de l'initiative allemande dans le secteur des Communautés Européennes; AAPD 1964 doc. 273 Aufzeichnung des Staatssekretärs Lahr. Besuch von Generaldirektor Wormser, 6 October 1964.

²⁷ MAEF, DE/CE, 1961-1966 GATT 932, Note 185/CE «Politique agricole commune», 5 November 1964. {Peyrefitte 1997 #1830}, pp.267-273 For the discussion over agriculture that took place in Brussels see CM2 1964/134 PV de la 146^{ème} session du Conseil de la CEE, 19-21 octobre 1964.

²⁸ Peyrefitte's statements can be found in telegram 2298 from Bohlen to State Department, 21 October, NSF – Subject files, Trade: Kennedy Round, Box 48, LBJL. On 27 October, Peyrefitte's declarations were echoed by Pompidou's statement to the National Assembly: the French government would oppose that the problem of agricultural products be dealt with in the Kennedy Round “tant que les décisions européenne préalable n'auront pas été prises sans retour”. MAEF, DE/CE, 1961-1966 GATT 932, Discours de M. Pompidou à l'Assemblée Nationale, 27 October 1964.

²⁹ MAEF, DE/CE, 1961-1966 GATT 932, Note 185/CE «Politique agricole commune», 5 November 1964.

³⁰ HAEC- MAEF 21 reel 209, Secrétariat General, Entretiens et Message, Entretien entre de Gaulle et M. Gerstenmaier, President du Bundestag, 23 October 1964.

Germans would look to relations with the United States, to a European free trade area and to the British.³¹

German reaction to De Gaulle's tough declaration was a mixture of disdainful irritation for the constant repletion of French pressure and of calmness regarding the substance of the matter. For Erhard, this "*menace* (threat) has nearly made [a reappraisal of German policy] impossible", while for Lahr, with the German election approaching, it was out of question for Bonn to take unpopular decisions due to French threats.³² At the same time, the German chancellor did not appear to be much impressed by de Gaulle's threat about a French withdrawal from the EEC, and judged it to be a mere bluff. France had no good alternative market for its agricultural surplus other than the EEC countries and, contrary to expectations, French industry had done extremely well out of the EEC. Indeed, France was perhaps the main beneficiary from the EEC, and the advantages of belonging to the EEC were so great that de Gaulle would have to think several times before leaving. Therefore, there was no chance the German government would modify its position, except in the by reacting even more firmly against the pressure from either the French or the Commission.³³

Even if the Germans did not take de Gaulle's threat to leaving the EEC seriously, they were, in any case, afraid that de Gaulle would block the Kennedy Round, for which he had always displayed limited interest, if not opposition. Despite combination of the anger and calmness on Bonn's part, the reality was that even if the French government did not cease to participate to the EEC, it could well block progress on agriculture in Geneva, and if this was not enough to push the Germans to agree to UGP, block the entire trade negotiations, a fact that even Erhard and Lahr could not afford to ignore.³⁴

In Washington, French declarations were received with concern. The State Department held that de Gaulle could link UGP and MLF, and be ready to jeopardize the EEC. As Mansholt had warned, if MLF succeed, de Gaulle would surely try to torpedo NATO, and above all the EEC, especially if, by the end of the year, Germany had not agreed on UGP.³⁵ Not everybody in the US government was prepared to think that the French President was ready to jeopardize the EEC. White House Assistant Bator, for example, doubted this: "Abstracting from grandeur and all that, the two year

³¹ HAEC- MAEF 21 reel 209, Secrétariat General, Entretiens et Message, Entretien entre de Gaulle et le docteur Adenaur, 9 Novembre 1964. Also illuminating of De Gaulle's doubts on the German attitude towards the CAP were his remarks that the agricultural issue had not been resolved for "les Allemands n'y souscrivent pas. Ils ont des arrière-pensées, les Danois, les Anglais, la négociation Kennedy. Ils tiennent en suspens l'aboutissement du Marché commun, pour que les Américaines puissent inonder l'Europe de leur produits agricoles". Peyrefitte, A. C'était de Gaulle, vol.2, p.263.

³² For Erhard's declaration see FRUS, 1964-1968 Vol. XIII, Section Western Europe Region, doc. 41. Telegram From the Embassy in Germany to the Department of State 3, 23 October 1964, reporting a conversation between Erhard and McGhee. For Lahr see PRO BT 241/948 Telegram 1028 from Roberts (UK Embassy in Bonn) to Foreign Office, 23 October 1964. Roberts reported his conversation with Lahr in the aftermath of de Gaulle's threat. Lahr also took the view that parliamentary and press reactions in Germany had been very critical of Peyrefitte's statement and there was no tendency to press the Government to retreat before the French threats. However, Lahr did not notice that the German press was very critical also of the Bonn government for having allowed the UGP to weaken the German position in Brussels. For example, on 22 October, commenting the situation after de Gaulle's ultimatum, Die Welt wrote "No masterpiece of politics" referring to Erhard's action. Quoted in NA 59 1964-1966 box 450 from Fessenden to State Department, 4 February 1965.

³³ FRUS, 1964-1968 Vol. XIII, Section Western Europe Region, doc 41. Telegram From the Embassy in Germany to the Department of State 3, 23 October 1964; and AAPD Doc 307 Gespräch des Bundeskanzler Erhard mit dem amerikanischen Botschafter McGhee, 3 November 1964.

³⁴ Memorandum of conversation between German Ambassador in Washington Knappstein and Ball, 28 October 1964, Herter papers, box 15, JFKL.

³⁵ Winand, P., in Winand, P. Kennedy's Atlantic Partnership, the EEC Empty Chair Crisis and the French/NATO Problem, in Palayret, J.M., Wallace, H., Winand, P., (eds.) Visions, Votes and Vetoes, chapter 8. See also Note "De Gaulle, Europe, and the MLF", 27 November 1964, NSF - Europe and USSR, France, box 170, LBJL.

delay, in and of itself, would hardly justify a French threat to throw out the baby". However, he went on, "Even discounting for their [of the French] standard ploy of having Peyrefitte overdramatize for balloon floating purposes", and doubting that the French president would jeopardize the EEC for two years' delay in grain price, the point was that the French would be perfectly willing to endanger the Kennedy Round even for the two year gain. The French declaration made the grain price a necessary condition for proceeding with the agricultural part of the Kennedy Round and, given the German attitude, it blocked progress in Geneva. The Americans decided to keep silent on the issue, so not to be accused of interfering with EEC matters, but also concluded – as shown in section 3 – that the German dithering acted to slow the Kennedy Round down, and that the time had arrived to lend the Germans a hand in fixing UGP levels, and to finally move forward with the GATT negotiations. The cereals issue had to be ended.³⁶

6.2 The last effort to set up rules for agriculture and the French halt

In this situation of stalling progress over the CAP in Brussels, talks over agriculture carried on in Geneva. In September, meetings between the Commission, represented by Hijzen and Rabot, and Blumenthal intensified in an effort to work out some mutually acceptable plan for handling the agricultural negotiations, and flexibility appeared from both sides.³⁷

The American side seemed ready to renounce their insistence that the access guarantees for major agricultural commodities be a condition for agreeing on the rules, and it also agreed to include the different elements of its domestic policy in the negotiations.³⁸ On the Commission side, the internal EEC discussion of the end of July pushed this institution to be more flexible regarding the application of MDS in Geneva. Moreover, in May 1964, the Commission, while maintaining its commitment to the MDS, had started to recognize that it was too complicated to apply this approach to all products, and started considering that the traditional method of negotiating could be applied to products not so relevant in world trade.³⁹ On top of this, for the Commission, it became urgent to reach a vague agreement with the Americans allowing them to declare themselves satisfied and thus comply with 16 November date, so that the EEC could not be blamed for a breakdown in the agricultural negotiations. The EEC had to be ready to table on the scheduled date, and the responsibility of any refusal to table had to be squarely placed on the United States. Moreover, the Commission was working on the EEC exceptions list and Rey wanted the 16 November to be firmly respected, in order to be able to force the Six to face up to the unpleasant exceptions list exercise. In fact, the French, pointing out that the Americans would certainly not present their list,

³⁶ Memorandum from Bator to McGeorge Bundy, 21 October 1964, NSF – Subject files, Trade: Kennedy Round, Box 48, LBJL. Maybe to put pressure on the Americans, in meeting American Ambassador to France, Charles Bohlen, Wormser openly claimed that in April 1964, Erhard had given the impression of being ready to move on UGP, "but only because he believed it was necessary for success in the Kennedy Round negotiations. (Wormser remarked in passing it was rather disagreeable that Erhard failed put completion Common Market at least as high on list priorities as Kennedy Round.) In any case Erhard's visit to Washington and Texas convinced him US did not believe common grain price of any use for Kennedy Round, hence Erhard had abandoned any effort to reach agreement on this subject". Telegram 2354 from Bohlen to State Department, 23 October 1964, NSF – Europe and USSR, France, box 170, LBJL.

³⁷ CM2/1964 888 and 390, PV de la 63ème réunion Comité Spécial 111, 22 September 1964; AECB BAC 62/1980-54, Compte-rendu «Kennedy Round – Réunion du 22 Septembre 1964 du Comité 111 (Titulaire)», 23 September MAEF, DE/CE, 1961-1966 GATT 932, Note de Wahl, «La situation actuelle de la négociation Kennedy: l'agriculture et le dépôt des listes d'exceptions», 20 October 1964.

³⁸ Telegrams 2354/235 from Blumenthal to Herter, 10 October 1964, NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL.

³⁹ MAEF DE/CE GATT 931 Note «Négociations agricole au GATT», 14 May 1964.

began to loudly interject that the EEC had no reason to start elaborating its own list. In short, for the Commission, the moment had arrived to move ahead. It therefore accepted that the MDS approach could be reduced in its application, applying it only to key countries – the EEC, the USA and the UK, leaving out important exporters and Canada and Australia – and to key commodities. For products covered only by tariffs, the negotiations would take place on tariffs.⁴⁰

Maybe to try to put Member States up against a *fait accompli* and push them to reach an agreement in Geneva, the Commission only loosely informed the former of the content and developments of the discussions with the Americans. With just the vague information, it received the support of the Dutch and the Germans, and uncertainty from the Italians and the French, according to whom more details were needed before the Commission could definitely commit itself in Geneva.⁴¹ The French were, in any case, annoyed and, at the 111 Committee meeting in mid-September, Wahl displayed irritation at the fact that the EEC officials had to seek out press report and Blumenthal's public declarations to find out what was going on in Geneva. In truth, at the end of the meeting, in an informal gathering, he "apologized for the unpleasantness during meeting and stated he was 'forced' take such a position". In fact 'matters were building up to explosion' in high level French government, and Couve was outspokenly irritated over the Community's 'marking time', as well as over the fact that information as to what was going on in Geneva reached French Government in 'bits and pieces'.⁴²

When an agreement seemed within reach in this context, on 9 October the Americans toughened their position, again asking access guarantees as a condition of agreeing on the rules, and rejected the Commission proposals on the basis that they did not correspond to a requisite degree with American positions. Blumenthal in particular wanted the EEC to agree to subject products covered by tariffs to substantial liberalization efforts and not merely to a binding of the level of protection. In response to the refusal of the Commission to change its proposals, Blumenthal declared that no agreement on the negotiating rules for agriculture could be reached, and interrupted the talks.⁴³ The breakdown came as a surprise for the Commission. According to Rey and Mansholt, the US toughness was caused by internal factors: with the Presidential election drawing closer, the American delegation had problems in undertaking obligations on the support measures. In fact, the Commission's approach included the domestic agricultural policies, and the United States had problems accepting it.⁴⁴

On 10 October, the EEC member states learned about the suspension of the discussions and learned from the American delegation, and not the Commission, the content of the discussions.⁴⁵ When informed about the content of the negotiations by the Commission at the meeting of the Council of Ministers on 13 October, the Dutch and

⁴⁰ AECB PV 288, 7 October 1964; AECB BAC 62/1980, 54, Note pour monsieur Saclé «Kennedy Round: Réunion des titulaires du Comité 111 le 8, octobre a Bruxelles», 9 October 1964; MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1176/81 Boegner au Quai d'Orsay, 28 October 1964; *ibidem* Note de la Direction des Relations Economiques Extérieures (DREE) – Ministre des Finances, 4 November 1964.

⁴¹ CM2 1964/390 PV de la 64^{ème} réunion Comité Spécial 111, 8 October 1964.

⁴² Wahl's irritation and apologies cannot be found in PV of the 111 Committee, CM2 1964/390, PV 63^{ème} réunion Comité 111 S/656/ 64, 22 september 1964, but are in NA 59 – 250 ECIN 3 box 795 Telegram Secstate 64 from Luxembourg to State Department, 24 September 1964 reporting conversation with 111 Committee member of Luxembourg Duhr.

⁴³ FRUS 1964-1968, Volume VIII, International Monetary and Trade Policy 252. Telegram From the Mission to the European Office of the United Nations to the Department of State, 10 October 1964.

⁴⁴ CM2 1964/128, R/964/64 Procès-verbal de la réunion restreint tenue à l'occasion de la 144^{ème} session du Conseil de la CEE, 12-13 octobre 1964.

⁴⁵ The Commission took the decision to inform the delegations of the member states to 111 Committee only on 12 October 1964, that is to say only after the Americans had already informed them. AECB PV 289, 12 October 1964.

the Germans were supportive of the Commission's effort to reach an agreement with Blumenthal, and even claimed that the 23 December mandate could be modified if this would help to reach a compromise with the Americans. By contrast, the revealing of content of the discussion, and the way in which negotiations were being conducted by the Commission, enraged the French. Boegner reproached the Commission for not having informed Member States of the content of its proposals in Geneva and questioned whether those proposals, which introduced the notion of key countries and distinguished between categories of products, remained within the limit of the mandate which the Commission had been given. France was not the only Member State to be annoyed, Italy also had much to reproach to the Commission for, and not only for the way in which the negotiations had been conducted. According to Mattarella, the Italian Minister of Commerce, the Commission had interpreted its mandate in too flexible a way, and agreed to reduce tariffs on products covered by this kind of protection, mostly fruits, vegetables and tobacco - of interest to Italy - deviating from the principle of unity, along which the EEC was supposed to negotiate under MDS for all products. The Italian government would not accept, above all with regard to products of great interest to the south of Italy, to depart from this principle and to sacrifice them for sake of agreement with the United States, stated Matterella.⁴⁶ The Commission's conduct in Geneva was also criticized by the Belgians Spaak and Brasseur who strongly complained about "des obscurités que la Commission laissait planer autour des conversations de Genève sur les produits agricoles".⁴⁷ In the end, the Commission was invited to pursue the discussion in the framework of the 1963 mandate, but to keep Member States fully informed.⁴⁸

The way in which the Commission had conducted its discussions with the Americans was fiercely criticized by Paris. The French had not seen a single sentence of the Commission's proposals, with information only coming from American sources. Worse, the Commission's proposals seemed to question the full applicability of MDS, which the French had no intention of bringing into question. MDS had the advantage of forcing both importers and exporters to discuss their domestic policies and put pressure on the Germans to get down to setting UGP.⁴⁹ To better analyse French position, it is worth noting that French anger was so strongly felt because Paris had not expected the Commission's attempt to reach a compromise agreement with the United States over agriculture. France and the Commission had always seen eye to eye on concessions and their timing, when it came to the Americans, however, on this occasion, their positions parted ways. The French wanted to delay the discussions on agriculture in Geneva, as

⁴⁶ CM2 1964/128, PV de la 144^{ème} session du Conseil de la CEE, 12-13 octobre 1964. For the full declaration of Mattarella see HAEC BAC 511 «Intervention du Ministre Matarrella au Conseil du 13 Octobre 1964 au sujet des négociations multilatérales du GATT», 16 October 1964. MAEF, DE/CE, 1961-1966 GATT 932, Telegramme 1078/90 Boegner au Quai d'Orsay, 14 October 1964 and MAEF, DE/CE, 1961-1966 GATT 932, Note de Wahl, «La situation actuelle de la négociation Kennedy: l'agriculture et le dépôt des listes d'exceptions», 20 October 1964.

⁴⁷ MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1091/93 Boegner au Quai d'Orsay, 15 October 1964.

⁴⁸ CM2 1964/128, PV de la 144^{ème} session du Conseil de la CEE, 12-13 octobre 1964.

⁴⁹ MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1078/90 Boegner au Quai d'Orsay, 14 October 1964. For Wahl, the Commission, perhaps to avoid being wiped out by member states and to try to put them in front of a fait accompli, had not informed the 111 Committee of the position it was taking in Geneva. MAEF, DE/CE, 1961-1966 GATT 932, Note de Wahl, «La situation actuelle de la négociation Kennedy: l'agriculture et le dépôt des listes d'exceptions», 20 October 1964 and MAEF, DE/CE, 1961-1966 GATT 932, Note de la Direction des Relations Economiques Extérieures (DREE) - Minister des Finances, 4 November 1964. For Noel, the executive Secretary of the Commission, the release of the Commission paper to the French by the US delegation in Geneva had not made the Commission's position with the French easier. The Commission had emerged with less margin for independent action because of the loss of confidence. At this stage of the negotiations, it was simply unreasonable to expect the Community to commit itself to any substantial reduction in the Community agricultural protection. Memorandum of conversation between Emile Noel and Thomas Fina of US mission to EEC, 14 October 1964, Bator Papers, box 12, LBJL.

the Germans were refraining from setting UGP, while the Commission was trying to push ahead with negotiations, in order to reach a vague agreement with Blumenthal that would allow Washington to table exceptions on 16 November.

After the 9 October deadlock, the discussion between Blumenthal, Rabot and Hijzen resumed in Geneva on 20 October, on the basis of a document called "points of agreement and disagreement", which picked up the discussion at where they had left off. Despite Member States' instruction to be kept informed, and Boegner's warning about the worries that existed in the French government about the stances the Commission would take in Geneva and the necessity to consult the 111 Committee, the Commission continued discussions with the Americans without promptly informing Member States of their progress, and without agreeing on the proposals it could make with them in advance.⁵⁰ This came right after Peyrefitte's warning on France's stance regarding the Kennedy Round and the EEC. Unsurprisingly, the Commission's behaviour infuriated the French and, for the first and only time in the whole Kennedy Round, caused them to clash very seriously with the Brussels institution. For Wormser "Il n'est ni convenable ni conforme à l'intérêt de la Communauté que dans une négociation de cette importance la Commission n'arrête pas avec les Représentants des Etats membres, qui sont ses mandants, la position qu'elle devra adopter dans la suite des discussions avec les autres partenaires au GATT."⁵¹ Given Payrefitte's declaration and the obstacles which existed to the development of European cooperation at that moment, Wormser found essential that "la Commission et ses représentants ne se méprennent en aucune manière sur les suites que le Gouvernement français donnerait, même au prix d'un grand éclat, sur les règles de négociation en matière agricole qui ne serait pas strictement conforme au mandat de décembre 1963".⁵²

The Commission's determination to reach an agreement, and the small amount of information it gave the member states, led the French government to take a striking move. Wormser instructed Boegner to hand in Hallstein a no-confidence note to the Commission, emphasizing that the future of the EEC was at stake, and that the Commission would bear a heavy responsibility in looking for an agreement with the Americans at any price. The French government informed not only the Five, but also the American, of the no-confidence note, who were warned that the Commission was running the risk of being disavowed.⁵³ On 28 October, Boegner informed Hallstein of France's disappointment: "Il est tout à fait anormal" declared Boegner "que des affaires de cette importance soient traitées dans des conciliabules plus au moins improvisés et selon de pratiques purement empiriques qui peuvent peut-être convenir aux anglo-saxons mais que nous n'approuvons pas."⁵⁴ In the "no confidence" note, the French government expressed its doubts concerning the way in which the Commission was conducting negotiations with the Americans, and found it difficult to understand how, in such a delicate issue as agriculture, the Commission would seek to commit itself without having previously submitting the text of the agreement to the EEC Ministers. If any commitment with the Americans were to be undertaken without respecting the mandate, the French government would openly reject the agreement and publicly

⁵⁰ AECB PV 290, 21 October 1964 and AECB PV 291, 28 October 1964.

⁵¹ MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 2155/57, Wormser à DELFRA Bruxelles, 19 October 1964.

⁵² ANF 724.70/10, 1964-1967 Kennedy Round, box 1, Télégramme 2297/2303 Wormser à Boegner, 27 October 1964.

⁵³ For the French note, see MAEF, DE/CE, 1961-1966 GATT 932, "Note remise à la Commission", 27 October 1964.

⁵⁴ MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1182/84 Boegner au Quai d'Orsay, 28 October 1964. See also MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1131/38 Boegner au Quai d'Orsay, 21 October 1964; *ibidem* Télégramme 1176/81, Boegner au Quai d'Orsay, 28 October 1964.

disown the Commission action.⁵⁵ Boegner also made it crystal clear to Hallstein that any further talks between the Commission and the Americans had to take place either in the presence of observers from all six governments, or had to be conducted by the Commission in a way that each step the Commission wished to take was cleared in advance with the representatives of the Six in Geneva.⁵⁶

Germany, The Netherlands and Luxembourg firmly sided with the Commission, while the Italians reproached the Commission for having failed to maintain the unity of the treatment of the agricultural sector. Because of the internal EEC disagreement, the Commission informed the American delegation in Geneva that the EEC was not able to pursue discussions over agriculture.⁵⁷

As such, the bilateral meetings between the Commission and the American delegations ended in late October with no agreement on the rules to deal with agriculture. At any rate, these autumn discussions were not vain. They convinced GATT general director, Wyndham White, that negotiations on the rules was fruitless, and that it would be better to move directly to the exchanges of offers among the contracting parties. In fact the discussions turned out to be the last efforts made in the Kennedy Round to reach agreement on the rules for dealing with agriculture, but for the moment no such rules existed.

6.3 US decision to table the exceptions list

With the failure to agree on rules for agriculture, at the end of October, the United States was faced with the reality of having no agricultural negotiating rules by 16 November. After the May GATT Ministerial meeting, Washington had feared that, both because of a questionable willingness on the part of the EEC to reduce protectionism in this sector and the EEC internal problems over the CAP, negotiations over agriculture would never begin. Thus it had linked the 16 November date for tabling exceptions to progress in agriculture, in order to prevent the latter sector from being left behind. In particular, this was the position of the US Department of Agriculture, which hoped that the link would cause the EEC to agree to make progress. After October's failure, the most urgent matter Washington had to resolve was whether to table an exceptions list as scheduled, and drop its unilateral link between agriculture and industry.

A tense debate took place within the Johnson administration. At the end of September, the State Department had started thinking that, with the impasse over agriculture, a US decision to proceed with the exception list, at least temporarily, was necessary to maintain the momentum of the Round.⁵⁸ At the end of October, the State Department, together with National Security Affairs assistants, Bator and Bundy, remained convinced of the need to go ahead with the industrial negotiations. While it

⁵⁵ MAEF, DE/CE, 1961-1966 GATT 932 "Note remise à la Commission", 27 October 1964. For the full text of the note see HAEC - MAEF OW 36 R132, Télégramme 2304/07 Wormser à Boegner, 27 October.

⁵⁶ AECB PV 291, 28 October 1964 and MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1176/81 Boegner au Quai d'Orsay, 28 October 1964. Boegner informed also Marjolin of French disapproval. Against this stance, Marjolin claimed that he would make any effort to lead the Commission to stop conversation with the Americans and to a new draft of agreement, even if this would not be an easy task: Hallstein, Rey and Mansholt wanted to start up discussions with the Americans so not to give them any pretext not to table exceptions. MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1176/81 Boegner au Quai d'Orsay, 28 October 1964.

⁵⁷ AECB PV 291, 28 October 1964 and PV 292, 3 November 1964; Memorandum of telephone conversation between Herter and Blumenthal, 29 October 1964, Bator Papers, box 12, LBJL; MAEF, DE/CE, 1961-1966 GATT 932, Note de la Direction des Relations Economiques Extérieures (DREE) - Ministre des Finances, 4 November 1964; CM2 1964/390 PV de la 66^{ème} réunion du Comité 111, 5 November 1964.

⁵⁸ Telegram from Ball to various US Embassy, 22 September 1964, NSF - Subject files, Trade: Kennedy Round, Box 48, LBJL.

appeared clear that further efforts to get the agricultural negotiations under way would be futile until the EEC agreed upon UGP, the tabling of the exception list could bring the intangible benefits of retain a quantum of impetus in the Kennedy Round.⁵⁹

This conviction about the need to table exceptions list was reinforced by the French attitude. Not respecting the 16 November date gave Paris a reason not to prepare the EEC list. With the American refusal to table exceptions without progress in agriculture, the French started insisting on the need to wait for the Americans to be ready to table before engaging in the elaboration of the EEC exceptions list, so further slowing the EEC preparation for the Round. France, "not convinced of the desirability of meaningful tariff cuts" could seize upon the postponements as an excuse for inaction, and the United States could be held responsible for the stalemate. The State Department's conviction to table was strengthened by the declaration made by Peyrefitte on 21 October, which raised additional doubts about the French willingness to table the list of exceptions and move forward with the Kennedy Round. The Americans had to avoid the situation whereby their own intransigence could be used by de Gaulle to put the blame on the Americans for the break down of negotiations. If they decided to table, in contrast, the burden responsibility for any postponement would be placed squarely on France's shoulders, who would be unable to use either US insistence on rules for agriculture or German intransigence over grain prices as an excuse, and could be deprived of any convenient justification for not pushing ahead with talks in Geneva. In this way, the Americans could direct post-16 November pressure "precisely where it belongs: on the Germans in regard to grain price, and on the French and the Commission for insisting on the grain price as a sine qua non for getting on with the negotiations".⁶⁰

But for Bundy and Ball, the issue at stake was not merely that of trade relations, but also transatlantic relations generally, European unity and the German bargaining position. German leadership, an indispensable tenet in the stability of Europe, and crucial for the development of the EEC, had been seriously eroded by Erhard's failure to live up to the obligation he undertook to move on UGP by 15 December. France was in a strong and legally sound position on an important internal EEC issue, and the United States expected de Gaulle to make the most of this situation in terms of embarrassing the Germans, the EEC, the Kennedy Round and the USA. In this situation, the United States had to table exceptions because, in the context of Western relations at that moment, the United States could not afford to see a vital Alliance effort collapse, and, as such, Erhard had to be helped out. His unwillingness to move on the grain prices could mean a real threat to the EEC, the Atlantic Partnership, and the Kennedy Round.⁶¹

⁵⁹ FRUS 1964-1968, Volume VIII, International Monetary and Trade Policy doc 254. Memorandum of Conversation between Herter, Ball, Bundy, Bator, 27 October 1964; Memorandum for the President from Herter "Agriculture in the Kennedy Round", 19 January 1965. NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL. The position of Herter in this phase is not totally clear. According to McGeorge Bundy, Herter seemed to prefer not to table offers for unclear reasons, maybe for "commitment to [Department of] Agriculture" or maybe for "letting the EEC settle its own problem". Bundy, Bator and Ball were "ready to bring him around, if bringing around was needed", but in the discussion over the decision to table, Herter was never opposed. Note of McGeorge Bundy "Kennedy Round Strategy", 27 October 1964. NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL.

⁶⁰ Memorandum of Conversation between Herter, Ball, Bundy, Bator, 27 October 1964 and Memorandum of Conversation between Herter, Ball, Bundy, Bator, 27 October 1964, 28 October 1964, Bator Papers box 12, LBJL. Memorandum to Mr. Bundy, 26 October 1964, Bator Papers, Box 1, LBJL and Note of McGeorge Bundy "Kennedy Round Strategy", 27 October 1964 (the last quote is from this document). NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL and MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 6626/31 Alphand au Quai d'Orsay, 4 November reporting his conversation with Hinton of the State Department.

⁶¹ Memorandum to Mr. Bundy, 26 October 1964, Bator Papers, Box 1, LBJL and; Note of McGeorge Bundy "Kennedy Round Strategy", 27 October 1964. NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL. Former Secretary of State

As such, it was also for the sake of assisting the German diplomatic position that the United States had to table. Erhard's dithering not only acted to slow the Kennedy Round, and but also put the German government, on whom Washington mostly counted to make progress in Geneva, in a weak bargaining position in Brussels. Bonn's position on agriculture was politically questionable, since it was periodically tempted to reduce, or even escape from altogether, political commitments regarding the CAP into which it had entered with its European partners. First, it accepted to fix deadline for setting UCP – December 1963, April 1964, December 1964 – then it maintained that there was nothing in the Treaty of Rome requiring the setting of the CAP, and hence cereals prices, by 15 December 1964, given that the deadline was in 1968. Washington, highly annoyed by the German incapability to stick to self-imposed deadline, held that the other essential element to definitively escape the impasse consisted in putting pressure on the Germans to finally agree to UGP.⁶²

For the Americans, it was essential that Bonn, which was ostensibly fully committed to major trade liberalization in the Kennedy Round for the industrial sector, could be in a bargaining position to enable the round to move forward. According to Herter, the actors that possessed some weight in the EEC were France, Germany and the Commission. Until that moment, Bonn had not been particularly successful in having its views reflected in the Community negotiating positions for two reasons. First, German agriculture enjoyed the highest level of protection in the EEC, and, as demonstrated by German obstinacy on the grain price issue, Bonn would have great difficulty in agreeing to reduce this level of protection. Second, and more importantly, the Germans "lack the skill and finesse of the French and others, and are continually outmaneuvered in the complex internal EEC decision-making process".⁶³ Despite all this, the Germans, with their open support for the Kennedy Round, remained essential to making progress in Geneva, and had to regain their diplomatic strength in Brussels.

A last consideration brought the State Department, Bator and Bundy to judge it necessary to proceed with the industrial negotiations on 16 November. The United States could not risk wasting the possibility of reducing protection in the industrial sector for an agreement on agriculture. Under the pressure of the USDA, the US objective was to maintain and possibly expand US agricultural markets in Europe. However, access to these markets was threatened principally by the technological agricultural revolution and consequent expansion of production in Europe, and not only by the CAP. In any case, the greatest gains to the US from a successful Kennedy Round would be found in the industrial sector. Concentrating its efforts on the more difficult objective of agriculture "at the worst time and with clumsy tactics", the United States ran the risk of losing gains from the industrial sector to force the Europeans to grant guaranteed access. The industrial negotiations could not be put at risk by a decision not to table the exceptions list.⁶⁴ Thus, the difficulty over agriculture raised doubts about

Dean Acheson wrote a letter to Bundy, stating "We have been so dazzled by the commercial negotiations that we seem to have lost all sight of our foreign policy goals. The Kennedy Round is a political struggle for power; it is one of the forces that will shape the future of European unification and our Atlantic relations. What we do will bear on whether de Gaulle and nationalism are to prevail." Moreover, for Acheson, the United States would mostly gain in the industrial sector and could not endanger such gains for agriculture: "The U.S. government should pull itself together on this issue before we do something not only silly but unbearable costly to the national interest". Letter of Acheson to Bundy, 24 October 1964, Bator papers, Box 1, LBJL. Bundy wrote back to Acheson affirming that he fully agreed. Draft letter from Bundy to Dean Acheson, 29 October 1964, Bator Papers, box 12, LBJL.

⁶² NA 59 1964-1966 box 450 from Fessenden to State Department, 4 February 1965 and PRO BT 241/948 Telegram 1028 from Roberts (UK Embassy in Bonn) to Foreign Office, 23 October 1964.

⁶³ Note of Herter "The Kennedy Round and trade policy problems 1965-1969", 1964, Herter Papers, Box 15, JFKL.

⁶⁴ Memorandum to Mr. Bundy, 26 October 1964, Bator Papers, Box 1, LBJL and Note of McGeorge Bundy "Kennedy Round Strategy", 27 October 1964. NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL.

the objective and strategy which had been employed until that moment and, as shown below and in the following chapters, the deadlock of October 1964 led the State Department, STR and the White House to consider whether a reappraisal of American objectives in the GATT negotiations would be necessary.

By contrast, the Department of Agriculture, not concerned by Western Alliance matters and German bargaining position, still considered it necessary to insist upon concessions in agriculture being an indispensable condition to concluding the Kennedy Round. This department objected to the tabling of the exceptions list in November on the ground that the dropping of the link between industry and agriculture would make it difficult to push the Europeans to into meaningful discussion over agriculture. US Secretary for Agriculture Freeman warned President Johnson of the discontent of the US farming bloc due to the standoff of the agricultural negotiations in Geneva, and of the trouble this could cause to his Administration. After all, the TEA had also been approved thanks to the farmers who had lucrative overseas markets in their sights.⁶⁵

Heeding the stance of Bundy and the State Department, Johnson adopted the line that a postponement of the tabling date would not only inevitably slow progress in the Round but would also cause serious trouble in the Atlantic alliance. The best prospect for obtaining the greatest possible concessions, both in industry and agriculture, and in keeping the Atlantic alliance together, lay in proceeding as scheduled.⁶⁶ On 2 November, the American mission in Brussels formally informed the Commission that the US delegation in Geneva would unconditionally table its exceptions list on 16 November. Given, of the EEC internal problems in the agricultural sector, the United States postponed negotiations on this area to the beginning of 1965. In deciding to present its exceptions list, the United States emphasized that the tabling was without prejudice to the need to continue discussions on agriculture with a view to opening negotiations both on industrial and agricultural products early in 1965. The decision to proceed on 16 November without agreement on the handling of agriculture did not reflect any change in the US's basic position that the Kennedy Round had to include liberalization of agricultural trade.⁶⁷ As such, for Washington at least, negotiations regarding the industrial sector could begin with the exchanges of the exceptions lists. At this point it was up to France to decide whether to go ahead in Geneva notwithstanding the lack of UGP.

6.4 The EEC decision to table the exceptions list

Under the mandate received in December 1963, the Commission started working on the EEC exceptions list in early 1964. The list was then presented to member states by mid-October in order to be finally approved before 16 November. When the Six gathered in Brussels for the Council of Ministers meeting of 10-15 November to

⁶⁵ Bundy's Memo "Presidential review of Agriculture in the Kennedy Round", January 1965, Bator Papers, Box 12, LBJL. MAEF, DE/CE, 1961-1966 GATT 932, Telegramme 6626/31 Alphand au Quai d'Orsay, 4 November reporting his conversation with Hinton of the State Department. {Zeiler 1992 #20}, pp. 182-184.

⁶⁶ NA 364 Records of the US trade Representatives on the Kennedy Round, Box 1, Memorandum for the President from Herter, 9 November 1964. Narrative History of the Special Representative for Trade Negotiation, Vol. 1, p. 2, 1969, Administrative History of the Office of the Special Representative for Trade Negotiations, Box 1, LBJL.

⁶⁷ FRUS 1964-1968, Volume VIII, International Monetary and Trade Policy 260. Circular Telegram From the Department of State to Certain Posts, 2 November 1964; reporting the telegram from Herter to Tuthill authorizing the US Ambassador to inform Rey that the US would table exceptions list. AECB, PV 292, 3 November 1964. CM2 1964/143, PV de la 149^{ème} session du Conseil de la CEE, 10-15 November 1964; MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1207/09 Boegner au Quai d'Orsay, 31 October 1964 reporting a conversation between Rey and Tuthill. The stress on the need to pursue negotiations over agriculture was also to reduce the negative impact the decision of tabling of the list without parallel progress in agriculture could have on the farming sector. See conversation between Ball and Blumenthal, 2 November 1964, Ball Papers, box 4, LBJL.

approve the list, the first problem to be faced was whether they to table it.⁶⁸ In particular, after the Americans had affirmed their intention to table exceptions unconditionally, it was up to Paris to state whether it intended to table exceptions despite the lack of UGP.

Despite Peyrefitte's statement on the Kennedy Round, the French government had never considered the option of not tabling the exceptions list and, on the contrary, it had every interest in tabling. In this way, it could hope to put pressure on the German government: German industry attached great importance to the success of the Kennedy Round and could put pressure on its government to weaken opposition to UGP in order to let the Kennedy Round to go ahead. On top of this, French good will towards the Kennedy Round could be rewarded by a German decision over UGP in December. The French also noted that even if the lists were tabled, they could always – at least until decisions were taken by unanimity at the end of 1965 – establish a link between continued progress in the industrial part of the Kennedy Round and progress in the CAP. Moreover, the French were also interested in reducing protectionism in the industrial sector through the GATT talks, and a refusal to table on 16 November could cause a serious stalemate the negotiations in Geneva. Lastly, France was aware that in such a difficult period for the EEC, it seemed wise not to dangerously exacerbate the situation further with a refusal to go ahead in Geneva.⁶⁹

On top of all these considerations, when meeting de Gaulle on 9 November 1964, Adenauer reported to the French President that Chancellor Erhard had just informed him that he had taken the decision to respect the 15 December deadline to adopt UGP. Certainly, Erhard's words would not have been totally reassuring, as the German Chancellor had already demonstrated his incapability to stick to a self-adopted deadline. The risk, therefore, existed that after having tabled the exceptions list the Germans would refuse to fix UGP. But, with Adenauer's words, the French could not refuse to table the exceptions list and endanger the Kennedy Round and the EEC itself.⁷⁰

When the debate over the exceptions list began in Brussels between the ministers of the Six on 11 November, an opening statement by Spaak, who suggested that a decision on cereals prices should be a pre-condition for tabling the exceptions list, led Couve de Murville to spell out the French position. The approval of UGP was not only a condition for the successful continuation of the negotiations in Geneva, but also the *condition de base* for further progress within the EEC. To conclude the Kennedy Round Paris needed the elaboration of the CAP, which implied the adoption of unified prices for the principle commodities – cereals, dairy products and meat – as it was also evident that negotiations in Geneva according to the MDS approach could not take place until EEC prices were known, or before the elaboration of regulations for sugar and fat and oil, the completion of the market organization for fruits and vegetables, or the elaboration of the financial regulations for the after July 1965 period.

⁶⁸ The description of the list and its adoption is described in next chapter.

⁶⁹ MAEF, DE/CE, 1961-1966 GATT 932 Note 184/CE « Négociation tarifaire au GATT », 5 November 1964 and MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1274/91 Boegner au Quai d'Orsay, 16 November 1964.

⁷⁰ HAEC- MAEF 21 reel 209, Secrétariat General, Entretiens et Message, Entretien entre de Gaulle et le docteur Adenauer, in Paris 9 Novembre 1964. Adenauer told de Gaulle that Erhard had just called him to say " 'que nous, Allemands, ferons ce qui avait été convenue'. Le Chancelier [Adenauer] a été si frappé par cette phrase de M. Erhard qu'il la lui a fait répéter. Le Chancelier [Adenauer] indique au General que cela signifie qu'à la mi-décembre, au plus tard, et peut-être avant, le Gouvernement allemand acceptera la proposition Hallstein sur les prix des céréales. In insiste pour que ceci reste actuellement encore confidentiel car le Chancelier Erhard souhaite en parler avec ses paysans ».

The French conditions led Lahr to claim that the Kennedy Round could bring carry with it the condition of having to elaborate the CAP according to a schedule different than that contained in the Treaty of Rome. As such, not all the CAP needed to be set in order to attend the Round. In fact, the December 1963 mandate stated that the lack of a unified price for a given product did not imply that the product had to be excluded from the negotiations in Geneva. Lahr also stated, however, that the German government attached great importance to the 15 December date for setting UGP, and asked the other delegations to attach equivalent importance to 16 November date to table the exceptions list. Given this German stance, Couve de Murville expressed his satisfaction with Lahr's declaration on UGP, and, as such, hoped that negotiations in Geneva over agriculture could constructively begin at the beginning of 1965. In the meantime, France wished to make no pre-conditions regarding the industrial sector, thus the EEC could table its exception list on 16 November, even if it was difficult to envisage a conclusion to the Round if the EEC, by the Round's end, had not been able to reach an agreement over the CAP. Couve de Murville's assertion was crucial in pushing the negotiations among the Six towards the content of the exceptions list.⁷¹

Couve de Murville's declaration that the French government did not require UGP for tabling the exceptions list demonstrates the French interest in attending the Round, and in liberalizing international trade in the industrial sector. Had the French been concerned simply with elaborating the details of the CAP and blocking the GATT Round, all they needed to do was insist on setting UGP before allowing the EEC to table its exceptions list. After all, the synchronization principle had been elaborated by Bonn, and it was Bonn who was not respecting it. On the contrary, Paris allowed the Kennedy Round to move ahead. The French were very well aware they would have put the Kennedy Round at risk with a refusal to table the exceptions list, a risk that their interest in moving ahead the GATT negotiations forebode them from taking. The French stance at the end of November 1964 proves that despite the many French declarations of hostility towards the Kennedy Round which had pushed the Five, the British and the Americans to fear a French veto to the trade negotiations, France was actually also interested in lowering trade barriers. Thus, with the French decision to table, and the final adoption of the list on the night of 15 November, the negotiations in Geneva over the industrial sector could begin.

6.5 Cereals prices established

The US decision to table the exceptions list despite the lack of progress in agriculture saved the Kennedy Round from a dangerous deadlock, and set off a chain of events that markedly improved the atmosphere within the EEC and across the Atlantic. The Six negotiated their exceptions list and, on 16 November, the linear countries exchanged exceptions lists in Geneva.⁷² However, the French still considered UGP and further progress in agriculture as paramount to achieving progress in Geneva, both for the industrial and agricultural sectors.

⁷¹ CM2 1964/143, R/1210/64 PV de la 149^{ème} session du Conseil de la CEE, 10-15 November 1964. At the Council of Ministers, Couve de Murville did not mention the financial regulations issue as a condition to conclude the Kennedy Round. The financial regulation was mentioned only outside the meeting, but was in any case a firm point for the French government. See MAEF, DE/CE, 1961-1966 GATT 932 Note 184/CE « Négociation tarifaire au GATT », 5 November 1964; *ibidem* Note « Négociation tarifaire au GATT », 20 November 1964; ANF 724.70/10, 1964-1967 Kennedy Round, 19850271/248279, Boite 1, Telegram 1253/63 Boegner ay Quai d'Orsay, 12 November 1964. PRO BT 241/843 Telegram 175 from O'Neill to Foreign Office, 12 November 1964.

⁷² NA 59 1964-1966 Ecin 3, box 795 ECBUS A-505 from Tuthill to State Department, 20 January 1965. The full description of the presentation of the exceptions lists is in chapter 7.

After the strong stance taken by the French government in October, the United States concluded that UGP was indispensable for the success of the Kennedy Round. Erhard had to take this decision, in order to regain bargaining power within the EEC, and to make a major contribution to the Kennedy Round, European integration and the Atlantic partnership.⁷³ As noted, Washington had become exasperated by Erhard's incapacity to assume a position and maintain it, and deemed the fixing of UGP necessary for strengthening the role the Germans who, with their refusal, had placed themselves in a weak bargaining position within the EEC, and, from this weak position, Bonn could not push the Kennedy Round forward. Washington counted on Bonn in making sure the GATT negotiations succeeded, but if the Germans remained in their weak position in the EEC, they could not support the Round. Hence, Erhard could no longer escape this decision, and Washington had to help him by "making more palatable an unpleasant a difficult German decision through accepting some of the responsibility".⁷⁴ Surely, a German decision on the UGP had to be bargained in light of the best attainable French and EEC commitments on the GATT negotiations, and Erhard had to be urged to "obtain ironclad French commitments to the Kennedy Round in exchange for his action on grain price".⁷⁵ Moreover, American support for the grain price decision, which would inevitably set EEC prices at a higher level than Washington wished, did not affect the effort of the American negotiators in Geneva to have agriculture included in the liberalizing effort of the Kennedy Round.⁷⁶

In the middle of November, Ball urged Erhard to take the step of agreeing the UGP in the interests of both the Kennedy Round and Atlantic unity. Ball also expressed the wish that grain prices be established at the lowest level possible, in order to provide grain exporting countries with the opportunity to compete for a share in the EEC market. For the United States, the decision on grain would advance the Kennedy Round only if the EEC was able, as a result, to negotiate effective trade liberalization for grains and other agricultural products.⁷⁷ Together with the decision on UGP, the United States wanted a change in the EEC mandate in the field of agriculture, and put pressure on the Germans in this regard. Blumenthal urged Lahr to use the agreement on grain price unification as a lever at the year-end EEC Council of Ministers session to break the deadlock over agriculture in the Kennedy Round.⁷⁸

American pressure to set UGP arrived when Erhard was already changing his mind on this issue. At the beginning of November, the German Chancellor was coming to realise that the UGP issue had to be resolved because of the delay it was causing to the Kennedy Round, and because of the stalemate it caused in the further development of the EEC. Moreover, with its refusal to set UGP, Germany was not merely blocking developments but was above all putting itself in a dangerously weak diplomatic position, undermining its credibility within the EEC, precluding any German initiative

⁷³ Talking points drafted by Hinton, 10 November 1964, Bator Papers, box 11, LBJL.

⁷⁴ According to Acheson, Erhard needed to fix grain prices "He must stand up to this grains issue - for Germany and for himself". Letter of Acheson to Bundy, 24 October 1964, Bator papers, Box 1, LBJL. According to Hinton, "It might help him [Erhard] to make a favorable decision at this eleventh hour if we were to share the responsibility". Talking points drafted by Hinton, 10 November 1964, Bator Papers, box 11, LBJL.

⁷⁵ Memorandum to Mr. Bundy, 26 October 1964, Bator Papers, Box 1, LBJL. See also Talking points drafted by Hinton, 10 November 1964, Bator Papers, box 11, LBJL.

⁷⁶ Telcon Herter-Ball, 18 November 1964, Ball papers box 4, LBJL.

⁷⁷ AAPD doc. 338 Gespräch des Bundeskanzler Erhard mit Staatssekretär Ball, amerikanisches Außenministerium, 16 November 1964; FRUS, 1964-1968 Vol. XIII, Section Western Europe Region, 48. Memorandum of Conversation between Ball, Blumenthal, Tuthill, McGhee and Hallstein in Bonn 17 November 1964; Memo draft written by Hedges, 18 November 1964, Herter Papers, Box 9, JFKL.

⁷⁸ Memorandum for Herter and Roth from Hedges, 23 November 1964, Herter Papers, Box 1, JFKL.

or action in Brussels. The German government had postponed the question for too long, and had placed itself in a weak position when it came to seeking concessions from the EEC partners. No progress could be made in Europe until the UGP issue was settled, and Bonn had to rid itself of its stumbling block-identity. On top of this, if the decision was further postponed, Germany ran the risk of dragging it on until 1 January 1966, when majority vote would apply in the Council of Ministers. If Germany were simply outvoted, it would not be able to obtain either quid pro quo concessions with regard to the Kennedy Round or various compensatory measures for its farmers.⁷⁹ For Erhard, UGP was to be set this was the only means by which Germany would be able to escape the weak position it had placed itself in, and be able to make progress in other fields, including the Political Union of the EEC, of which Erhard was very supportive. The agreement to set UGP did not merely imply the possibility of going ahead with the Kennedy Round, it above all was to pave the way for a Political Union, in the context of Bonn was about to take a new initiative, and, in this field, it would then be the French would have to make concessions to the Germans in exchange for the latter's compromise regarding the UGP.⁸⁰

At the Council of Ministers meeting at the end of November, the German Minister for Economics, Schmücker, announced that the German government was ready to set UGP and to accept a reduction in prices. At the same time, the German Minister made clear that the conclusion of the Kennedy Round and the achievement of the CAP were "indissolublement liées".⁸¹

At the Council of Ministers meeting of 15 December, the Six agreed to establish a common market for grains from 1967 onwards, with support prices fixed part-way between the low French and high German prices, some 60% above world market prices. The decision provided for unification of soft wheat prices at the level suggested by the Commission of \$ 106.25 (425 DM) per metric ton, roughly midway between French and German prices; \$ 125 for hard wheat (500 DM); \$ 91.25 for barley (365DM); \$90.65 for maize, (362,5 DM). In order to get the approval of the German government, prices were to come into effect only on 1 July 1967, and not on 1 July, 1966 as requested by the Commission. Compensatory payments to German and Luxembourgish farmers for income-loss resulting from the reduction of soft wheat prices, similarly, to the Italians for changes in hard wheat prices, would be made. It is

⁷⁹ AAPD, Doc. 358 Staatssekretär Lahr an Bundesminister Schroeder, z.Z. Washington, 25 November 1964; ibidem doc. 338 Gespräch des Bundeskanzler Erhard mit Staatssekretär Ball, amerikanisches Außenministerium, 16 November 1964. PRO PREM 13/306 Record of conversation between Hallstein and British Foreign Secretary, 4 December 1964. Hallstein reported on the debate going on in the German government. On this point see also Vanke, J. "The European Collaborations of France and Germany 1963-1966", pp.93-108. On the majority vote problem, see Knudsen, A.C. Defining the Policies of the Common Agricultural Policy, p. 353.

⁸⁰ AAPD 1964 doc 347 Bundesminister Schroeder an Bundeskanzler Erhard, 19 November 1964 and ibidem, doc 364 Aufzeichnung des Staatssekretärs Carstens 30 November 1964. See also AECB PV 293, 9 November 1964, where Hallstein reported his conversation with Erhard and other members of the German government on the 4-5 November 1964, saying that from these conversations he got the impression that "le gouvernement et les milieux politiques allemands étaient de plus en plus conscients de la nécessité pour eux d'aboutir à une décision sur le niveau du prix des céréales, en raison des répercussions négatives des retards actuels tant sur le développement de la Communauté que sur ses relations extérieures (Kennedy Round)". NA 59 1964-1966 Ecin 3 Box, box 795 Telegram 2041 from US Embassy in Bonn to State Department, 25 November 1964. Speaking with officials of the US Embassy in Bonn, Prass, official at the Chancellor's, credited de Gaulle's position as the main reason that had led Erhard to fix prices, while Schroeder took the line that Erhard had decided to face up to the decision in order to smooth the way for progress on political unification. Telegram 2006 from US Embassy in Bonn to State Department, 21 November 1964 and Telegram 2036 US Embassy in Bonn to State Department, 25 November 1964, NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL. For Erhard's initiative towards Political Union see, Lappenkuper, U. "Ein Europe der Freien und der Gleichen", La politique européenne de Ludwig Erhard (1963-1966)", pp. 65-91 in {Lappenkuper 2001 #2284}, 2001 and Vanke, J. "The European Collaborations of France and Germany 1963-1966", pp.93-108 in ibidem.

⁸¹ CM2/1964 144 PV de la 146^{ème} session du Conseil de la CEE, 30 novembre-1 December 1964. For the final adoption of UGP see Knudsen's works.

worth noting that during the discussions, Germany showed great readiness to reach agreement and did not impose prior conditions, in particular regarding the Kennedy Round. It seemed that Bonn was eager to remove grain prices as a subject of contention in its relations with the French in order to move on to other subjects.⁸²

The Commission claimed that, with price set at 425 DM for soft wheat, the EC could continue to import 10 million of tons of this commodity. However, the level of the UGP, 60% higher than world prices, clearly set the tone for EEC levels of protectionism. If UGP were set at higher levels than world prices, EEC production would be artificially stimulated, and imports from third countries greatly reduced. As such, the EEC was entering into the Kennedy Round negotiations with a clear manifestation to third countries regarding the direction it was taking in agriculture. In any case, after the numerous difficulties which had been encountered in setting the UGP, it was unlikely that in Geneva the EEC could reduce grains prices.⁸³

The decision was seen in Brussels as a milestone in the elaboration of the CAP and in the strengthening of the EEC. Grains had a central position in the CAP system and the setting of prices represented a major landmark in the establishment of this policy, leading to agricultural integration among the Six and making the process irreversible. Furthermore, the Council's decision on grain seemed to bring to an end a period of tension within the Six, and was euphorically welcomed, as progress that could pave the way to important developments.⁸⁴

In truth, the decision on UGP ended the prolonged period of German vulnerability within the EEC, but did not end tensions within the EEC. The Germans considered the approval to be big sacrifice for which they had to be recompensed. By contrast, the French considered the approval of grain prices as something own to them, given that it was an inevitable part of the establishment of the CAP. As a result, as shown in the following chapters, when the French started insisting on completing the agricultural regulations and approving the financial regulations, without parallel progress in areas of special interests to the Germans, such as political union, tension once again resurfaced.

The decision on grain was a victory for the Commission, which had presented the original plan in December 1963, and had stuck to it until December 1964. This institution welcomed the agreement on grain with enthusiasm, and considered it a springboard for further and important progress, and not only limited to the Kennedy Round. For Narjes, Hallstein's chef of cabinet, if the Commission played its cards right, 1965 had the potential to be a year of many basic decisions which could have the practical effect of bringing the EEC into being in 1967, well ahead of schedule.⁸⁵ As

⁸² CM2 1964/168 PV de la 156^{ème} session du Conseil de la CEE, 12-15 December 1964. AECB PV 297, 9 December 1964. For a full description of the approval of UGP see Knudsen, A.C. *Defining the Policies of the Common Agricultural Policy*, pp. 347-376 and Galli, R., Torcasio, S. *La partecipazione italiana alla politica agricola comunitaria* (Roma, Bologna: IAI, Il Mulino, 1976), pp.72-81.

⁸³ The importance of the EEC grain prices for international trade is described in chapter 7, fully dedicated to the agricultural negotiations, with special attention to grains.

⁸⁴ USDS Intelligence note from Thomas Hughes to the Acting Secretary, "Common market Breakthrough on Grain Prices", 16 December 1964, Herter Papers, Box 9, JFKL and Memorandum for the President from Bundy and Bator "European Agricultural deal", 16 December 1965, Bator Papers, Box 1, LBJL. Ludlow N.P. *The European Community and the Crises of the 1960s: Negotiating the Gaullist Challenge*, p.62.

⁸⁵ AECB, PV 298, 16 December 1964. For Narjes, another reason for optimism was the French chairmanship of the Council for the first six months of 1965. This could be an advantage for the EEC: although holding the chairmanship would not lead the French to change their basic negative positions on key Community issues, the fact was that the chairmanship would tend to somewhat neutralize French negativism. In fact, the country in the chair, by the nature of things, had to bend over backwards to appear impartial and fair, and had to make efforts to show that was not trying to take advantage of its chairmanship to push national points of view. NA 59-250-57, 1964-1966 Ecin 3 Box 795, Airgram

shown in next chapters, the Commission, with its optimism, appeared not to have understood the tensions existing among the Six and it pushed forward proposals that made those tensions explode in a full blown crisis in June 1965. The cereals puzzles had been solved, but more serious troubles were just around the corner.

Washington was satisfied with the agreement on grains, which it judged to be a clear gain in terms of Atlantic policy. "For over a year now, the Germans have been put in the Common Market doghouse for failure to perform on their promises on agriculture", wrote Bator and Bundy to Johnson. Now the Germans were in a much better position to stand up to the French, "buffeting in cooperating with us on NATO matters, offset purchases, money arrangements", and also to take the lead in working for a large industrial tariff cut, to which the "protectionist-minded French are distinctly cool". The Germans might even be able to strengthen the US hand on the agricultural side. The Americans could not be sure that the Germans would in fact "stand up to the French. But we can be sure that before this agreement their bargaining position in Europe was hopeless". Thus, despite the economic problems that the high UGP could create for US agriculture, the agreement in Brussels represented a clear gain.⁸⁶

However, the setting of grains prices at such high level provoked a new debate within the Johnson Administration on the consequences on US trade and on the possibility of the US government obtaining concessions in agriculture. The Department of Agriculture considered the decision on UGP, which set EEC price some 60% above world market prices, to be a serious threat to US agricultural exports, and was not as ready as Bator and Bundy to look at the political advantage of such decision and the improved standing of Germany in Europe. By contrast, Bundy and Bator held that the USDA was likely to overstate its case. The 1965-1970 prospects for US grains exports to the EEC – but not for agricultural exports as a whole – had never been good. The agreement merely confirmed what was bound to happen in any case. Even if it forecasting such matters constituted an uncertain business, with the EEC agreement, US exports could fall by 1970 from \$380 million in 1961/1964 to \$240 million. In the broader context of total US agricultural exports of \$5.6 billion in 1963, the estimated loss was small, even if it would badly damage a specific sector. The problem concerning the EEC was the determination of individual governments to protect their farmers' income, largely through price support, and, at the same time, the technological revolution in European agriculture. Thus even if the UGP were set at the French level "which would cause a revolution in Germany", US sales to the EEC would still surely shrink. For Bundy and Bator, up until then, the proclaimed US objective had been to maintain the US share in the EEC grain market, but the target, set because of pressure from Agriculture, had never been realistic for the two reasons just mentioned. Because of the support prices, politically inevitable in Europe, the target would have required the EEC to stockpile or give away huge quantities of grain. The central fact – in their eyes, the USDA tended to ignore – was that the "US lacks the bargaining power to make the EEC grain beyond its needs. With the politics of agriculture just as tough in Western Europe as here, our leverage on the grain price deal has been minimal". The USDA had wanted the government to state that it would not negotiate on industry in the Kennedy Round unless the internal agricultural arrangements of the EEC were favourable to US agriculture. "This threat simply would not work vis-à-vis the French, they are protectionist across the board, and they have been in the driver's seat at Brussels. More generally, we do not have the cards to force Europe to keep its farmers poor on our

ECBUS A-512 from Fessenden of US mission to EC to State Department "EEC Commission's bright Prospects for 1965", 25 January 1965.

⁸⁶ Memorandum for the President from Bundy and Bator, 16 December 1964, Bator Papers, Box 1, LBJL.

behalf". The Department of Agriculture wanted "Herter to dig in his heels and make unbargainable demands at Brussels". The danger was that the USA could push itself "into a corner and lose the chance for a really profitable deal on industry without making a nickel for agriculture". According to Bator and Bundy, a more reasonable line for the USA consisted in trying to get to some concessions on the way the EEC ran their grain scheme, so as to maintain their level of production and maximize their consumption: the USA, even if not hoping for great gains, given that the Six had had a tough time in getting to the agreement on UGP, and would not have been in a mood to hand out concessions, had to firmly pursue this aim. It had also to try to increase exports of other farm products and of grains to non-EEC members.⁸⁷

The difficulty in agreeing on some common rules had raised doubts in the Johnson Administration on the possibility of obtaining meaningful results in this sector. And at the end of 1964, White House assistants and the State Department started to believe that their position of making conditional the conclusion of the Kennedy Round on meaningful results for agriculture risked endangering the Kennedy Round itself. What the British had told the Americans in March 1963 – that the subordination of the Kennedy Round to results in agriculture was dangerous because, as the negotiations between United Kingdom and the EEC in 1961-1963 demonstrated, the EEC had no intention of granting quantitative assurances and that the Americans lacked bargaining power to force them, as the Six were not interested in exporting to the USA and therefore making concessions in this sector in order to decrease the US protectionism – appeared to have been accurate.

While the State Department and White House assistants began to realise that a Kennedy Round without a meaningful result in agriculture was an option to be considered, even if they had no intention of abandoning their efforts to include this sector in a significant way, the Department of Agriculture strongly objected to such an option. The TEA had been passed with bipartisan majority partly thanks to the agricultural lobby that had approved the Kennedy Administration's aim of including agriculture in the Round in order to attempt to reduce the protectionism of the CAP. Now, the Department of Agriculture was under the pressure of these agricultural trade groups. The agricultural vote always proved to be such a predominant influence on US governments because of the enormous regional importance of agriculture, and this being particularly relevant given the emphasis the American Constitution placed on regional politics, that the Department of Agriculture could not ignore these voices. Thus this Department continued to maintain its initial position that without a meaningful result for agriculture no agreement was to be signed. In truth, Orville Freeman recognised that the CAP was an important feature of European integration that could not be endangered by US intransigence. However, he was also under the pressure of what Herter's deputy William Roth defined the "hot heads" of the Department of Agriculture, who stubbornly maintained their positions.

Despite the frustration of the US Department of Agriculture with the setting of UGP, what mattered at the end of 1964 was that the Kennedy Round could start also for the agricultural sector. However, together with the apparent euphoria for the end of the drawn-out quarrel over grains, tensions within the EEC were still tangible, and became evident in June 1965 when the Crisis of the Empty Chair broke out.

⁸⁷ Memorandum for the President from Bundy and Bator, 16 December 1965, Bators Papers, Box 1, LBJL.

Conclusion

This chapter has focused on the strict connection that existed between developments in Geneva and Brussels, how they influenced each other and how an internal EEC issue, cereal prices, became a transatlantic puzzle. In 1964, the Kennedy Round preparations dragged on with little visible progress, and with tension building up both within the EEC and across the Atlantic, until the end of the year, when exceptions lists were tabled and UGP established. In reality, tensions remained among the Six. France considered the German's eventual acquiescence to UGP a step towards the completion of the CAP, while the Germans considered it to be a major sacrifice which France had offer compensation for in the future. Therefore, everything seemed to be in place for the beginning of the Kennedy Round. Actually, another storming crisis, and one of greater impact, was just around the corner.

This chapter has confirmed that the CAP was not an isolated phenomenon. It was also to push forward the Kennedy Round that Bonn eventually resigned to fixing UGP. Further, it was consistently the Kennedy Round factor that caused the Six to specify their agricultural policy towards third countries. Germany and The Netherlands, and to a lesser extent Italy, wanted to keep open the EEC to third countries' imports as this corresponded to their trade interests, and hoped to use the GATT talks to this aim. Germany, however, was in a difficult position. It had a liberal attitude in the industrial sector, however, in the agricultural sector, in addition to the aim of keeping the EEC open to imports, it had also a very protectionist attitude, as the UGP issue demonstrated, and this impeded from moving the Round forward, as Washington had hoped. The USA was inclined to attach undue weight to the German political strength within the EEC, but the Germans had, up until that moment, been less effective than hoped in Washington. For sure, the Germans had large interest at stake, but limited their efforts to press for their liberal standpoint to prevail in industrial policy, largely due to their difficulties, especially regarding cereals, in curbing their protectionism in agriculture.

As for the United States, under pressure from the Department of Agriculture, Herter continued to insist on the need to include agriculture in the liberalizing effort of the Kennedy Round, but doubts began to arise regarding the attainability of this aim. The State Department and Bundy felt that the United States had no bargaining power to force the EEC in this direction, and started to wonder whether a reappraisal of US aims regarding agriculture was necessary in order to avoid endangering gains that could be attained in the industrial sector. As such, the difficulty in including agriculture was coming out in the open, leading the USA to reflect on the feasibility of its goals. The round of negotiations on the rules for agriculture showed the Americans that they had less bargaining power than they had expected. Concessions they were ready to make were not attractive enough for the EEC to reduce their protections. And, in GATT, there was nothing that obliged a contracting party to make tariff concessions beyond the extent which it regarded it to be in their interest to do so, a problem with which the USA would have to come to terms in the last phase of the Round. At the same time, as already noted, American power to reduce European agricultural protectionism was reduced by its refusal to challenge the CAP, which represented an important tenet of European unity. In fact, faced with German opposition to UGP, Washington eventually settled on putting pressure on the Germans to fix UGP in order to stop progress from being blocked, not only in terms of the Kennedy Round, but also in the context of European construction. This phase of GATT talks also showed the Americans that the pace of the Round was inexorably dictated by the pace of discussions on the internal EEC quarrel, and this led the USA to conclude that further major, but necessary, efforts were required in order to conclude the Geneva negotiations.

Chapter Seven

Trying to negotiate: exceptions lists for industry and pragmatism for agriculture

Introduction

The previous chapter described the quarrel over grains that caused the Kennedy Round to come to a standstill. This chapter portrays the preparation of the exceptions lists for the industrial part of the negotiations that took place in Washington and in Brussels while the quarrel over grain was taking place. It first illustrates the Commission's efforts to elaborate a short list that represented the common commercial interests of the EEC; second, it describes the final approval of the list by the Six and emphasises how their interest in attending the Kennedy negotiations as a regional trading area pushed them into finding a compromise position between those of them who wanted more exceptions and those who wanted fewer, achieved notwithstanding the any difficulties that existed in the EEC at that time. The Kennedy Round pushed the Six to set up and organize their commercial policy. The final list also showed that in the industrial section of the Kennedy Round, the Six were prepared to moderately reduce tariffs. As for the American list, Herter aimed at arriving in Geneva with a short list so that the United States could push third countries to liberalise trade. Herter accomplished his aim, however the protectionist mood of the US Congress, partly due to the EEC opposition in reducing protectionism in agriculture, started to rear its head. This chapter also describes the beginning of the negotiations in the agriculture sector and shows that in the context of the difficulty of dealing with the Six in agriculture, the United States adopted pragmatic solution, hoping in this way to move the Kennedy Round ahead.

7.1 The European Commission exceptions list

Because of the pressure and lobbying that came from the trade sectors, the formulation of the exceptions list was not an easy to achieve for any country. However it was particularly complicated for the EEC, for each government had its own domestic industry to protect, but, at the same time, the EEC could not come to in Geneva with a particularly long list such a course of action could potentially endanger the Round. As such, compromises were necessary.

From the beginning of 1963, the Commission had started to consult trade associations regarding the effects of the EEC participation to the new GATT talks, and held lengthy meetings to improve its knowledge of the effects that should be anticipated from the eventual tariff reductions.¹ In early 1964, the European Commission started working on the list of exceptions, setting up consultations with representatives of the economic sectors and national officials of the Member States charged with the GATT negotiations, in order to gather information to elaborate a draft list which could achieve the broad support of the six governments. The Commission wished to make a list that did not merely constitute the sum of the Six's requirements, but which, instead,

¹ NA 59 State Department Central file subject numeric, Box 3489, FT 4 US/TEA, telegram ECBUS A-645 from US mission to EEC to State Department, 9 April. German was disturbed by this direct contact between the Commission and the trade associations. For Bonn, the trade associations would merely conduct lobbying action on the Commission thus it was down to Member States to report the national interest to the Commission. AECB PV 213 20 January 1963.

represented what it judged to be an accurate reflection of EEC commercial interests. The broad aim was to transform the requests of the Member States into a common list which would constitute a genuine EEC commercial policy. An indication of this desire was also given by consultations with the trade sectors: Their representatives were not consulted on a traditional national basis, but were instead approached through their sector representatives in Brussels, and only once the trade representatives had been heard did the Commission approach national officials.²

The Commission estimated that, in 1963, total EEC imports amounted to \$20,2 billions. Of this total, \$5,5 billion were agricultural imports, and \$14,7 billion industrial ones. The latter was covered by about 2200 tariff lines and, after the elimination of 150 zero-duty tariffs, which represented around \$4,9 billion, exceptions concerned roughly 2050 tariffs. In the consultations conducted by the Director General for the Internal Market, the French Pierre Millet, trade sectors asked for 850 exceptions, of which 600 total – which totally excluded the covered products from the linear cut – and 250 partial – suggesting a reduction lower than 50% – out of 2050, amounting to around 40% of total tariffs and \$3,8 billions of imports, and representing 40% of industrial imports and 57% of dutiable imports in the EEC. Exceptions concerned textiles, ferrous and non ferrous-metals, paper, wood and ceramics, chemicals and the mechanical sector. Requests for exceptions varied. For the chemical sector, trade representatives agreed that only very few exceptions would be necessary if the ASP and the other American non-tariff barriers were eliminated and the disparity which, as was explained in chapter four, hit above the chemical this sector, could be resolved. In contrast, the textile industry desired total exceptions for their sector. While the EEC trade sectors demanded these exceptions, disagreement remained on automobiles for which the French, Italian and Dutch sectors requested exceptions, Belgium wanted the retaining of 8 points of difference between the duty on detached pieces and complete vehicles, while no exception request was submitted by the German sector.³ The consultations with the national administrations of the Six gave the following results: requests for exceptions totaled 600, of which 300 total and 300 partial, representing 30% of tariffs and \$2,6 billion imports, and making up 18% of industrial imports and 27% of dutiable imports. Analyzed by sector, the requests of the national administrations were similar to those of trade sectors.⁴

The Commission considered trade sectors and national experts' requests to be too numerous and not justified by the commercial and competitive strength of the EEC on world markets. The Six could afford a more liberal attitude and had to get in Geneva with a short and reasonable list in order to avoid being accused of protectionism.⁵ In any case, Keeping the results of the consultations in mind, the Commission drafted its exceptions list, considerably shorter than what national experts and trade sectors had requested, and submitted it on 15 October to the 111 Committee, for a technical analysis, to COREPER, for a political analysis, and, finally, to the Council of Ministers, who would discuss and approve it in their special session of 11-15 November.⁶

² AECB – PV 274, 27 May 1964; CM2 1964/86 PV de la 134^{ème} réunion du Conseil de la CEE, 1-3 June 1964. See also Coombes, D., *Politics and Bureaucracy in the European Community: A portrait of the European Commission* (London: PEP, 1970), p. 180.

³ AECB BAC 118/83 851 Discussion du 28 février 1964 entre Millet et Reimer, Oorschot et Hoogland (Dutch officials members of 111 Committee); AECB BDT 144/92 Marjolin cabinet papers box 777, Note à l'attention de Monsieur Marjolin, 1 June 1964.

⁴ AECB BDT 144/92 Marjolin cabinet papers box 777, Note à l'attention de Monsieur Marjolin, 1 June 1964.

⁵ Ibidem; AECB PV 274, 27 May 1964 and PV 275, 2 June 1964.

⁶ AECB BAC 122/1991-24 Rapport du Comité 111 en ce qui concerne la proposition de la Commission relative à la liste d'exception de la Communauté, (CoS/N/1/64), 4 November 1964. MAEF, DE/CE, 1961-1966 GATT 932, Télégramme

The list contained total exceptions and partial exceptions, the latter only partially excluding the covered products from the linear cut, suggesting a reduction by a lower percentage, as yet unidentified, than the 50% level. Not including ECSC products, for which it lacked competence, and paper for which it had been unable to formulate any proposal by mid-October, the Commission's list concerned 250 tariffs, 55 of which were total exceptions and 195 partial ones (Table 1). Moreover, the exceptions suggested by the Commission represented 11,9% of EEC total tariffs — and 13% of positive tariffs, that is to say excluding zero duties. However, the exceptions for textiles were conditional, and depended on the renewal, in 1967, of the Long Cotton textile Agreement of 1962 (LTA). If the agreement were not to be renewed, the Commission proposals foresaw further exceptions, with increases to 13,2% and 14,5% of total tariffs and positive tariffs respectively (table 2).

Table 1 Number of tariffs excluded, partially or totally, from the linear cut, for each sector (Commission proposals), in absolute term

Sectors	Total exceptions	Partial exceptions	Total
Chemicals	9	66	75
Textile	4	18	22
Mechanical sector	15	44	59
Minerals and metals	23	50	73
Other	4	17	21
Total (excluding ECSC products and paper)	55	195	250

Source: AECB 122/1991 – 16. Négociations commerciales au GATT, Liste des exceptions (présentée par la Commission au Conseil), G/415/64, 13 October 1964.

Table 2 Number of tariffs excluded, partially or totally, from the linear cut, for each sector (Commission proposals), in percentage of total number of tariffs

Sectors	Total exceptions		Partial exceptions		Total	
	Total number of tariffs	Positive tariffs	Total number of tariffs	Positive tariffs	Total number of tariffs	Positive tariffs
Chemicals	1,1	1,2	8,2	8,6	9,2	9,8
Textile	2,2	2,4	10	10,9	12,2	13,3
Mechanical sector	3,2	3,2	9,1	9,1	12,2	12,4
Minerals and metals	5,5	6,9	12	15,1	17,5	22,1
Other	1,8	2	7,6	8,4	9,4	10,3
Total (excluding ECSC products and paper)	2,6	2,8	9,2	10,1	11,9	13
Total + conditional exceptions on textile					13,2	14,5

Source: AECB 122/1991 – 16. Négociations commerciales au GATT, Liste des exceptions (présentée par la Commission au Conseil), G/415/64, 13 October 1964.

To give us a more precise idea of the impact of the Commission proposal, Table 3 demonstrates the relationship between exceptions and total EEC imports: exceptions represented 4.9% of EEC total imports, and 9.1% of EEC dutiable imports, (excluding

paper and ECSC products).⁷ Including conditional exceptions on textiles, they covered 6,1% of total EEC industrial imports and 14,4% of EEC industrial dutiable imports.⁸

Table 3 Commission's proposal as a share of EEC total imports by sector in 1963

Sectors	Total imports	Dutiable imports
Chemicals	7	10,5
Textile	2,3	8
Mechanical sector	9,4	9,6
Minerals and metals	3,8	22,7
Other	2,7	9,1
Total (excluding ECSC products and paper)	4,9	11,5
Total including conditional exceptions on textile	6,1	14,4

Source: AECB 122/1991 – 16, Négociations commerciales au GATT, Liste des exceptions (présentée par la Commission au Conseil), G/415/64, 13 October 1964.

To better appreciate the impact of the exceptions list on the EEC imports, table 4 describes EEC imports by broad categories of products.

Table 4 EEC imports by categories of products in 1963

Product	billions \$
Oil	2,6
CECA product	1
Chemicals	1,3
Textile	2
Metallic Products	3
Other (Paper, Cartons, Non-ferrous Metal, Wood, Leather)	1,9

Source: AECB BDT 144/92 Marjolin cabinet papers, box 777 Note à l'attention de Monsieur Marjolin, 1 June 1964.

In formulating the draft list, the Commission tried to limit it to a reasonable size, while, at the same time, satisfying Member States' most urgent requests. These efforts corresponded to the aims this institution had for the Geneva negotiations, that is ensuring a successful Kennedy Round, which required a short EEC list, affirming the regional dimension of the EEC in world trade, entailing the defense EEC internal unity, and exploiting the Geneva talks as a means to develop a EEC commercial policy. The Commission was perfectly aware that, once in the hands of the Member States, the list would grow in length, but in starting discussions with the Member States, the Commission had adopted the fir, stance that it would not accept list which constituted more than 20% of EEC dutiable imports.⁹

⁷ CM2 1964/128, R/964/64 Procès-verbal de la réunion restreint tenue à l'occasion de la 144^{ème} session du Conseil de la CEE, 12-13 octobre 1964. For a description of the Commission's list see also AECB BDT 144/92 Marjolin cabinet papers, box 777, Note "Déroulement des débats au Conseil sur le problème des exceptions", 11 November 1964.

⁸ AECB 122/1991 – 16, Négociations commerciales au GATT, Liste des exceptions (présentée par la Commission au Conseil), G/415/64, 13 October 1964; AECB BAC 122/1991-24 Rapport du Comité 111 en ce qui concerne la proposition de la Commission relatives à la liste d'exception de la Communauté, (CoS/N/1/64), 4 November 1964.

⁹ AECB BAC 122/1991-24 Rapport du Comité 111 en ce qui concerne la proposition de la Commission relative à la liste d'exception de la Communauté, (CoS/N/1/64), 4 November 1964 and AECB PV 293, 13 November 1964; HAEC – MAEF OW 36 R.132, Note reporting the Commission attitude towards the setting up of the exception list as described by Marjolin, 13 November 1964.

7.2 Setting the EEC exceptions list: from national commercial policies to a common commercial policy

As the Commission had expected, once in the hands of the Member States, requests were received to modify the list. In this section, the difficulties which the Commission encountered in trying to steer a course between what would be acceptable to its partners in Geneva and what could be accepted by the Six are analyzed in the context of the three main sectors which came to be discussed. This was a complicated process, as, for the Six, formulating the exceptions list meant moving from national commercial policies to a common commercial policy: Compromises and sacrifices were indispensable. Italy, France and, to a lesser extent, Belgium called for more exceptions, while Germany and the Netherlands asked for reductions in the number of exceptions, and Luxembourg approved of the list as it stood. Italy and, above all, France's requests were so numerous that, if accepted, the list would double in length. They felt that some important sectors, such as aluminium, paper, mechanical and transport materials and electronic constructions, were subjected to unfavorable competition conditions, as foreign competitors enjoyed more natural resources for their production, and had more financial and technical power. As such, they demanded a total exclusion from the GATT negotiations for these sectors. France and Italy held that it was neither possible nor desirable to back down with some of their requests for further exceptions. With the process of European economic integration still ongoing, many idiosyncratic national interests still existed, and only national government were able to fully appreciate them. The EEC was still in its construction phase and had not yet reached the level of integration which allowed for the suppression of the concept of national economies. National interests had to be defended, and the national governments still had the responsibility of bearing the consequences of the GATT negotiations. Moreover, Italy and France were already reducing their tariffs to join the CET, consequently, additional reductions at the multilateral level had to be moderate. In any case, the EEC would be prepared to reduce its list if third countries offered advantages and were ready to lower non-tariff barriers, in order to obtain reciprocity. Thus, it was also for tactical reasons that the EEC list had to be longer than was, in fact, necessary.¹⁰

Germany and The Netherlands were deeply concerned by the French and Italian attitudes: holding that the competitive strength of the EEC was robust enough to allow few exceptions, they wanted a short exceptions list, on the understanding that it would be further shortened in Geneva as the result of the negotiations with GATT partners. The EEC had to keep a liberal attitude in order to push third countries to do the same, and to favour a continued expansion of EEC exports. It was therefore in the EEC's interest to arrive in Geneva with as short an exceptions list as possible, thereby demonstrating its constructive attitude towards the negotiations. A long EEC list would preclude third countries from making concessions, thereby undermining the liberalizing aim of the Kennedy Round, and running against the interests of the EEC which, given its competitive capacity, had to make an effort to favour the expansion of world trade and a greater degree of world access. Thus the Six had to reduce the Commission list or, as a compromise, Bonn and The Hague could accept the list as it stood, hence without the addition of new exceptions.¹¹

¹⁰ AECB BAC 122/1991-24 Rapport du Comité 111 en ce qui concerne la proposition de la Commission relatives à la liste d'exception de la Communauté, (CoS/N/1/64), 4 November 1964 and MAEF, DE/CE, 1961-1966 GATT 932, Note de la Direction des Relations Economiques Extérieures (DREE) – Ministre des Finances, 4 November 1964; MAEF, DE/CE GATT 932 Note 184/CE « Négociation tarifaire au GATT », 5 November 1964.

¹¹ CM2 1964/112 PV de la 141^{ème} session du Conseil de la CEE, 28-30 July 1964 and CM2 1964/128, PV de la 144^{ème} session du Conseil de la CEE, 12-13 octobre 1964; AECB BAC 122/1991-24 Rapport du Comité 111 en ce qui concerne

After preparatory discussions in the 111 Committee and COREPER, the final elaboration of the EEC exception list took place between 11 and 15 November when the Commission proposals were discussed by the Council of Ministers in a long night-and-day marathon. The drawn out nature of proceedings should come as no surprise. From 1958 onwards, the most important decisions within the EEC had been the result of long marathons, for example the one of the end of December 1961 regarding the CAP. Moreover, the major trade interests which the Six had at stake, and the need to find a compromise between them, help to explain the marathon proportions of the discussions.¹²

At the beginning of the marathon, Rey expressed his hesitation regarding the requests to increase the number of exceptions in an attempt to push Italy and France to relinquish their requests. The presentation of a long list in Geneva would provoke, claimed the Commissioner, a tough reaction from the GATT members, thereby endangering the success of the Kennedy Round. Rey received the support of Germany and The Netherlands. State Secretaries Neef, Lahr and Ministers Andriessen expressed surprise at the other delegations inability to accept the Commission's list as it stood, and underlined that the economic strength of the EEC and trade statistical data on internal EEC trade both advocated that no protectionism was needed: in fact, French and Italian exports had in fact increased since 1958 thanks to the reduction of internal EEC barriers and this result could be repeated on a global scale through liberalization at the multilateral level. Lahr and Andriessen asked France and Italy to try to shorten the Commission list or, as a compromise, not to oppose the Commission proposals as they stood, and to let the EEC turn up in Geneva with a short list, so affirming the liberal character and outlook of the EEC. However, France and Italy firmly refused to abandon their requests and suggested that the Council of Ministers approve both the Commission list and their additional requests. Given such refusal, following a proposal by Rey, the Council of Ministers decided to proceed by analyzing the problems by category of product, mainly chemicals, aluminum, paper, automobile and mechanical sectors, so that a compromise between the Six could be found for each sector. In order to facilitate the description of how the Six reached their final agreement, the discussions between the Six and the Commission is divided here into main sectors.¹³

Chemicals: a challenge to the USA

The first sector worth describing is the chemical one. It not only had a relevant importance in terms of trade between the EEC and the USA, but, as shown in the following chapters, this sector became the major stumbling block to the conclusion of the negotiations in 1967 due to the American Selling Price (ASP). Among the Six, only Germany, France and Italy, with their relevant chemical industries, had a genuine interest in this sector. However, interests varied, ranging from the Germans, who were the most liberal, to the Italians, the most protectionist. Germany had a strong and competitive industry and was willing to remove tariffs across Europe and the Atlantic. The German chemical industry, and especially the dyestuff industry had important

la proposition de la Commission relative à la liste d'exception de la Communauté, (CoS/N/1/64), 4 November 1964; MAEF, DE/CE, 1961-1966 GATT 932, Note de la Direction des Relations Economiques Extérieures (DREE) – Ministre des Finances, 4 November 1964. {Casadio 1973 #1200}, p.56.

¹² In addition to CM2 1964/143 PV de la 149^{ème} session du Conseil de la CEE, 10-15 November 1964, the description of the negotiations over the exceptions list is grounded on the references in the following footnotes.

¹³ MAEF, DE/CE, 1961-1966 GATT 932, Note de la Direction des Relations Economiques Extérieures (DREE) – Ministre des Finances, 4 November 1964 and ANF 724.70/10, 1964-1967 Kennedy Round, 19850271/248279, Boite 1, Telegram 1253/63 Boegner ay Quai d'Orsay, 12 November 1964.

interests at stake, and saw the Kennedy Round as an opportunity to reduce American trade barriers and boost its exports to this market. It attached considerable importance to the abolition of the ASP, and it pushed the German government in this regard to request, together with the French chemical industry, to totally exempt organic chemicals from the Round, unless the ASP was removed. In fact, Bonn was really willing to bargain with the Americans in order to remove the ASP.¹⁴ France, too, was firmly convinced of the need to make pressure on the Americans to remove the ASP. However, compared to the Germans, it had less of an interest at stake, as French chemical industry had only a minor interest in the American organic chemicals market. In general, the French government was prepared to make moderate cuts in this sector, provided the USA removed the ASP. Italy, on the other hand, held that it was already bearing the pressure of the increased competition within the EEC, and opposed tariff reductions at the multilateral level. Italy was wary of bargaining away tariff advantages for its newly developed industry. A few of big firms looked increasingly to market opportunities outside the EEC, but, in general, the Italian industry was not yet sufficiently large to feel the urgent need for sales outlets beyond the markets offered by the EEC. In fact, the Italian chemical industry was desperately opposed to substantial tariff reductions and Rome, accordingly, had no intention of making any meaningful concessions. Italy hoped to achieve to this result by exploiting likely American unwillingness to abolish the ASP as an excuse not to grant any tariff reductions, or, at most, to only grant small concessions. It hoped that the USA did not move on the ASP in the expectation this would lead to the withdrawal of all chemicals from negotiations. As a result, within the EEC, the Italians had the toughest position regarding the ASP, and even if they had no significant economic interest at stake in abolishing it, they insisted even more firmly than the Germans.¹⁵

All the Six and the Commission agreed that the major aim of the EEC was to obtain the abolition of the ASP, and found unity in action in this objective. However, differences existed regarding the tactics to be pursued. For the Commission, Italy, Germany and the Benelux countries, in Geneva, the EEC had to state that it would refuse any reduction of tariffs on organic benzenoid chemicals (chapters 29, 32 and 39 of Brussels tariff nomenclature, which were subjected to the ASP), if Washington did not remove the ASP. In contrast, for France, the EEC had only a meager chance of seeing the ASP modified, as the US government would face the opposition of Congress. As such, benzenoid chemicals had to be placed on the exceptions lists and the Six had to preliminarily see whether and how the United States would give up this NTB, and then state whether the EEC agreed to totally or partially give up its exceptions. Germany, while agreeing that, if the Americans kept the ASP, then the EEC had to except organic chemicals from the negotiations, was reticent in adopting a tough attitude from the outset, as it feared that such an attitude would simply push Washington to adopt an

¹⁴ MAEF, DE/CE GATT 931, Note «Préparation de la Conférence KENNEDY – Opinions des producteurs français», 5 February 1964; PRO FO 371/183386 Letter from Hughes to O'Neill, 18 May 1965 and PRO BT 241/844 Telegram 96 from Roberts, British Ambassador in Bonn, to Foreign Office, 3 May 1965, reporting conversation between Keiser, Stedfeld, Horn of the German Ministry of Economic, and Roberts, Hughes and Denman.

¹⁵ NA 59 1964-1966 ECIN 3, box 791, telegram 1086 from Fessenden (US mission to Geneva) to State Department, 15 June 1966; NA 364, Recs. of US trade Representatives on the Kennedy Round, box 5, Report of discussions between American officials and senior representatives of the Commission, 28 June 1966; PRO FO 371/189598 Telegram 118 from Melville to Foreign Office, 12 July 1966. On Italian chemical industry see J. Pizzorni, G. J. L'industria chimica italiana nel Novecento (Milano: FrancoAngeli, 2006).

equally tough attitude with the result of deadlock in the talks on chemicals in Geneva, and causing this sector to be dropped from the Round.¹⁶

Due to the range of various options, the discussions in the Council were interrupted, and several meetings between the 111 Committee and the Commission took place, before the French line eventually prevailed and organic chemicals were put on the exceptions list. In submitting the exception list in Geneva, the EEC would formally inform its GATT partners that if the ASP was not eliminated or if its elimination was undermined by the setting up of other non-tariff barriers, the EEC would refuse any tariff reduction for these chemical products. On top of this, in Geneva, the Commission would inform GATT partners that the EEC would attend the justification and confrontation process for the exceptions in the three chapters, only once a solution had been found to the ASP problems. On top of this, an American refusal to remove the ASP would lead the EEC to withdraw the entire chemical sector from the Round. As such, the Six adopted a firm, almost intransigent stance hoping in this way to convince the US government to remove the ASP.¹⁷

Aluminium: the beginning of a long struggle

More problematic was to reach an agreement on aluminum, paper, mechanical and automobile sectors, where the Six did not simply have a disagreement on the tactics to be pursued as was the case for chemicals, but, rather, interests more opposed in nature. The elaboration of a common position for primary aluminium saw a tough clash between France, on the one hand, and the Commission, Germany and Benelux, on the other. This item was relevant for the United States, but was so above all for the Nordic countries (Sweden, Finland and Norway), and Norway in particular, selling, as it did, more than half of its aluminium to the EEC. Within the EEC, France was the largest producer, with its leading firm Pechiney, and was trying to establish a regional EEC aluminium market in which to export. Thus, the French had no intention of reducing protection, and maintained that concessions to third countries had already been made when the CET had been set. In effect, the CET had been fixed in February 1960, when the G List was negotiated at the 10%. France and Italy had decreased their respective duties of 20% and 25%, while Germany and the Benelux countries increased them respectively from a 0% and 7% rates. Germany and the Benelux were granted a 5% tariff contingent so that they could import at lower tariff level than the CET level. After the article XXIV:6 negotiations in Geneva in 1960-1961, the CET was fixed at 9%¹⁸, with the retention of the tariff contingents.

Because of the importance aluminium had for the Scandinavian countries, the Commission proposed to reduce tariffs to 7% with the elimination of all contingents, but, to big surprise of Rey, only The Netherlands approved this suggestion. Germany, Belgium and Luxembourg approved the reduction of duties, but refused to abandon the tariff contingents. In contrast, France, quietly supported by Italy, refused to reduce the

¹⁶ MAEF, DE/CE GATT 932, Entretiens de M. Whal le 23 juin 1964 à Bonn avec le Dr. Reinhardt et le Dr. Sach, 30 June 1964. CM2 1964/389 PV de la 65ème réunion du Comité 111, 13 October 1964; MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1217/30 Boegner au Quai d'Orsay, 10 November 1964; AECB BAC 122/1991-24 Rapport du Comité 111 en ce qui concerne la proposition de la Commission relative à la liste d'exception de la Communauté, (CoS/N/1/64), 4 November 1964 and ibidem Aide-Mémoire du COREPER (CoS/N/2/64), 10 November 1964.

¹⁷ AECB BAC 122/1991-24 Note introductive «Etat des travaux relatifs à l'établissement de la liste d'exceptions de la Communauté», (CoS/N/6/64), 14 November 1964; AECB BAC 122/1991-24, Mise en œuvre des décisions prises par le Conseil lors de sa session des 11/15 Novembre 1964, (CoS/N/7/64), 16 November 1964.

¹⁸ A full description of the interests of the Six in aluminium is given in chapter 10, completely dedicated to this commodity.

duties but agreed to the elimination of the tariff contingencies. France noted that, with the implementation of the CET, French duty had already decreased, thus no further concessions were possible. This refusal was received with concern by the Commission. For Rey, the total exclusion of aluminum from the negotiations would cause problems in relations with the Scandinavian countries, and above all Norway, thereby endangering the possibility of reducing tariff discrimination in Europe. After long discussions within the Council and the 111 Committee, and with the need to elaborate a final compromise to be presented in Geneva, the German presidency suggested that aluminium should be included on the partial exceptions list. Unless the Council agreed on some other solution, the duty of 9% would be maintained with a binding in the GATT of EEC 5% tariff quota. In tabling its exceptions list, the EEC would simply claim that aluminium would be on the partial exceptions list, without specifying the content of the partial exception. This solution added to the EEC list and differed greatly from the Commission's original proposal. After much resistance, France managed to achieve the inclusion of aluminium on the exclusions list, but the hostility with which the Commission, Germany and the Benelux countries took the compromise, and the condition that this solution would be maintained only if an alternative solution could not be negotiated, meant that the battle over aluminium in Brussels was not over.

Paper sector: heading for troubles with the Nordics

Even more troublesome were paper and pulp paper, another area of crucial importance for trade relations with the Nordic countries. All the Six maintained that their paper industry was incapable of facing the competition of these countries, traditionally strong producers of paper. In the Dillon Round, the Six had refused outright to make any reductions and this led Sweden to withdraw from the negotiations. For the new Round, the Nordic countries had already made it known that they would withdraw from the negotiations if substantial reductions were not made, a threat that the EEC could not ignore given the importance of the Nordic countries to the Community's for its exports. In elaborating its proposals, the Commission bore in mind that the EEC had to be mindful of the Nordics' reaction regarding this sector, which would condition the entire negotiations with these countries. It also considered the economic difficulties that a substantial reduction of protectionism on paper could cause for the EEC, whose paper sector was less developed, and which did not enjoy the same abundance of raw materials as the Nordic countries. However, the need to conclude the Kennedy Round required that the EEC made some concessions.¹⁹

In searching for a middle course, the Commission suggested to include part of this sector in the 50% linear cut and, at the same time, to find a broad agreement with this group of countries on pricing and marketing conditions, and to give financial aid to the EEC industry. It proposed to subject certain paper products which enjoyed strong levels of protection to the 50% linear cut, and to limit to two points the reduction on Kraft paper and other basic paper on which the CET was at 16%. As for pulp paper and newsprint, which represented two thirds of the EEC imports from the Nordic countries for this sector, measures were to be taken in order to maintain the production level of the EEC industry so that the Community could make use of its own supply. In order to allow the EEC to table tariff reductions in Geneva on pulp paper and newsprint, a broad

¹⁹ AECB BAC 118/83 851 Note de Millet pour M. Verloren van Themaat, 2 April 1964. AECB BAC 118/83 851 Discussion du 28 février 1964 entre Millet et Reimer, Oorschot et Hoogland (Dutch officials members of 111 Committee); MAEF, DE/CE, 1961-1966 GATT 932, Note de la Direction des Relations Economiques Extérieures (DREE) - Ministre des Finances, 4 November 1964.

agreement with the Nordic countries was required on their producing and marketing policy that, the EEC claimed, distorted competition. Then, to meet Nordic requests, the Commission suggested subjecting pulp paper to the 50% cut. The EEC had an ad valorem duty of 6%, plus a free quota bound in GATT for 2,1 million tons out of a total of 3 million tons of imports in 1964. The growing need for pulp explained the free quota, while the 6% duty represented an instrument to promote EEC industry to further invest in this sector. The Commission therefore suggested reducing the duty from 6 to 3% and renouncing tariff contingents. For newsprint, the EEC had a 7% duty accompanied by an unbound free quota for France and Germany of 0,6 million tons (out of a total EEC consumption of 1,8 million), which was insufficient to protect EEC production. This protection was accompanied by Member States' regulations that, being very unequal in nature, risked affecting the competitive environment within the EEC. The Commission suggested reducing the duty by 50% and giving up contingents. At the same time, the Commission suggested setting up a para-fiscal tax on the EEC consumption of paper, and using the collected funds to subsidise the paper industry. This subsidy would have the effect of compensating for the tariff reduction and could be deployed to finance measures in the areas of reforestation and technical research. This solution would allow the EEC to make tariff reductions and to protect its own interests. In truth, the Commission proposals were not based simply on tariff reductions but were also concerned with also the industrial policy of the Six, and represented an effort to establish a common industrial policy in this sector.

The Six agreed that the interests of the Nordics had to be considered, but disagreed on how to do this and protect EEC interests at the same time. Moreover, their position was complicated by the opposition of their industries to lowering barriers in this sector. Fearing competition from the Nordics and believing that a drastic reduction in duties would implement a European free trade area, the French and Italian paper sectors asked for a total exception. These industries were particularly annoyed by the dumping price policy of the Scandinavians and even demanded an increase in the CET.²⁰ The German paper sector did not adopt such a drastic position, but nor did it support any meaning reduction in levels of protection.²¹

Germany and The Netherlands were aware that, in order to enhance their exports to the Nordic countries, some concessions had to be made in the paper sector and, therefore, did not share the drastic position of their industries. In any case, they opposed a solution based on para-fiscal tax, on the ground that only national parliaments could impose taxes. Moreover, their liberal traditions did not permit a solution based on the imposition of tax. For Neef and Andriessen, the Council had merely to agree on the principle of tariffs reductions in this sector – with the intention of submitting pulp paper and newsprint to partial exceptions – in order to allow discussions with the major producing countries to start. For Matterella, Wormser and Borschette, the Commission had to inform the Nordics of the EEC's willingness to begin discussions on tariff and non-tariff barrier reductions. In the meantime, however, the total exception of the all sectors was the best solution. France and Italy sought, in particular, a total exception for basic paper – Kraft paper – and a partial exception for paper transformed products. Moreover, they opposed a 50% cut on pulp paper and newsprint, and wanted only a

²⁰ MAEF, DE/CE GATT 931, Note «Préparation de la Conférence KENNEDY – Opinions des producteurs français», 5 February 1964.

²¹ When the FTA proposal was put forward by London 1958, the paper sector took a negative attitude for fear of the Scandinavian competition. See Schulte, M. "Industrial Interest in West Germany's Decision against the Enlargement of the EEC. The Quantitative Evidence up to 1964" in *Journal of European Integration History*, 3, 1 (1997) pp. 35-61.

partial exception to be applied, provided that an agreement on the marketing policy of the Nordic countries was found.

The Commission strongly opposed the proposal to fully except the paper sector as this would extend the EEC list and cause problems with the Nordics. Moreover, Rey saw a contradiction between the declarations of Member States that recognized the need to have a accommodating approach towards the Nordics, on the one hand, and then to papers on the exceptions list, on the other. Once again, protracted discussions took place with The Netherlands and Germany on one side and France, Luxembourg and Italy on the other. The final compromise was suggested by the Germans, who proposed a conditional exception, and was further elaborated by the Commission which, however, continued to prefer its own suggestion. Pulp paper and newsprint would be on the conditional and partial exceptions lists, the rate of the partial cut was not specified; reduction of duties on basic paper would not be higher than 2 points. In presenting the list in Geneva, the EEC would underline that it would state the rate of the partial exceptions on the basis of the results of negotiations with the Nordics regarding modifying marketing conditions, an improve in this regard being a condition for the tariff cut. Moreover, the tariff reductions were made dependent on the internal financial measures the EEC would take in helping its industry to bear these reductions, but no mention of fiscal measures was made. In accepting this compromise, Matterella specified that it was only in due to of the importance of the trade relations with the Nordic countries that had Italy agreed to partial exceptions on pulp paper and newsprint, but it would be only if the two conditions were met that Italy would definitively agreed to the partial exceptions. The concessions that the EEC was prepared to make, even if only provisional in nature, potentially to be improved in the Geneva bargain, were considerably far from what the Nordics expected. As such, troubles with these countries just around the corner.

Mechanical and transport equipment sector: the toughest confrontation

The major stumbling block to the formulation of the list was represented by the mechanical and the transport equipment sector. For its volume of trade across the Atlantic and in Europe, and its expansion potential, this sector was crucial for EEC trade relations with the United States and the EFTA, and for the entire Kennedy Round. The most important actors of the Kennedy Round, Japan, the United States and the European countries, had relevant interests at stake, and different and opposing aims to pursue. Different and opposing aims existed also within the EEC, with the result that it proved particularly tough to achieve a common position to be presented in Geneva.

Within this sector, automobiles had a particularly relevant role, as all major participants were involved in this industry. Within the EEC, the Six had opposing and variegated interests that made it difficult the establish a commercial policy and, hence, a common position for attending the GATT talks. In setting up the CET in 1958, high Italian duties of 35-45% were averaged with the French duty of 29%, the German one of 17-21% and the Benelux level of 24%, at the rate of 29%. At the end of the Dillon Round, the EEC finished with a 22% CET. This meant that France and Italy had to reduce their tariff rates, while the Benelux countries and Germany remained at approximately their 1958 levels. In addition to the tariff reduction, France and Italy had

also to face the increase of American investments in Germany in an attempt to avoid the CET.²²

Unsurprisingly, French automobile builders angrily complained about the Dillon Round reductions and saw a new tariff reduction on the automobile as "une menace pour l'économie de la Communauté Européenne et pour l'industries automobile française en particulier". It could acquiesce to tariff reductions on cars only on the condition that equivalent tariff reductions were made by not only the United States and the United Kingdom, but also by the EFTA countries and the Commonwealth countries of Canada, Australia, New Zealand and South Africa. In truth, the French automobile builders doubted was a genuine possibility. EFTA countries were exporters of products that the Commission intended to put on the EEC exceptions list – such as aluminium and paper – and, as a consequence, the EFTA would place cars on their exceptions list in response. Commonwealth countries would maintain their restrictive policy towards imports of cars. Up against these conditions, the French car builders had many doubts whether a genuine reciprocity was obtainable. Therefore, the French builders asked to place cars on the exceptions list, considering this only a provisional inclusion, as the exceptions could be withdrawn if a real reciprocity proved to be obtainable, and sufficient concessions from GATT partners were attained. On top of this, they held it absolutely indispensable to place on the exceptions list small cars of 2,5 tons, together with trucks, tractors and buses in order not to open the EEC market to British and EFTA competition.²³

The French government considered all the requests from its industry to be untenable. It expected Germany to ask wish to subject cars to the 50% reduction, a request that could not be refused due to the importance Germany attached to this request, for the CET was more than double than level of American tariffs, and because French car producers would, in any case, face more competition from within the EEC. Thus the request on cars could not be accepted. In contrast, the French Minister of Industry feared that the French heavy truck industry could not survive the competition of Bedford, the British truck subsidiary of the American General Motors. Therefore France accepted reductions in duties on cars, on the condition that full reciprocity was granted by the other countries and in particular the EFTA countries, but asked for the total exclusion of trucks and hoped in some way to get also such a concession for buses and tractors.

The Italian industry, supported by the Italian government, wanted the whole sector – trucks, cars, buses and tractors – to be excluded on the ground that it was already reducing its duties to the CET level fixed at the Dillon Round, and that American multinationals disposed of greater financial and industrial resources. Thus, the Italian government resolutely insisted that no further reductions were possible for the moment.

As the French government had predicted, Germany was firmly against the inclusion not only of cars, but also of the whole automobile sector on the list. German industry was strong, half its production was exported, and it had a crucial interest in lowering the CET in order to enhance its exports to the EFTA and American markets. In Brussels, the German government fully adopted the position advocated by its industry

²² Ramírez Pérez, S.M. "The role of multinational corporations in the foreign trade policy of the European Economic Community: the automobile sector between 1959 and 1967" in Actes du Gerpisa, N.38—"Variety of capitalism and Diversity of Productive Models". The following account of the automobile sector, in addition to the sources mentioned below, is taken from this article grounded on FIAT and Renault archives.

²³ MAEF, DE/CE GATT 932, Lettre de Erik d'Ornhjelm (Vice Président délégué de la Chambre syndicale des constructeurs d'automobiles) à Couve de Murville, 7 July 1964.

and aimed at bargaining down third countries' tariffs with a reduction of the CET. To strengthen their view, the Germans pointed out that the United States could legitimately claimed a disparity with the EEC in the automobile sector— the American tariff rate was 6,5% and the CET 22% - and asserted that the EEC industry was strong enough to face competition. And, in any case, an increase in competition within the EEC markets that might favour British automobile producers would be balanced by the further opening of the EFTA markets. On top of this, exceptions in this sector were rejected, as they would noticeably lengthen the EEC list, a consequence that Bonn strongly opposed. The Dutch supported the German position, but wanted the inclusion of trucks on the list for fear of British and Swedish competition with their truck industry.

To further complicate the Commission task of formulating a common position for automobiles, there remained Belgian requests. Belgium had an important assembling industry and, during the G List negotiations, it was granted a differential of 8% in favour of parts duties compared to those for built-up cars. In terms of the Kennedy Round, Belgium generally favoured a reduction of duties, but they opposed the converging of duties on parts and built-up cars, however, as this would weaken the competitive strength of its assembly industry. Belgium wanted to ensure the protection of this industry, whose development was looked upon with suspiciously by the other five, above all with the arrival of Japanese cars to be assembled in Belgium. Automobile builders from all over the world, through Belgium, could install themselves in the EEC, thus while France, Italy and Germany had different position on what the EEC should do in automobile sector, they all agreed that the 8% difference had to be reduced.

The original Commission proposals had consisted in fully including this sector in the linear cut, but given the objections presented by some members, the Commission proposed to totally except trucks, buses, and their detached and accessories pieces. This proposal provoked a negative reaction from the German delegation, which wanted the entire sector to be placed under the 50% linear cut, and of the Italian delegation, highlighting the repercussions of extra-EEC competition on Italian employment, and demanded total the total exclusion also of cars and all agricultural machines, and the reduction of the difference in duties on cars and parts, while for France any solution had to guarantee that the reductions put in place by the EEC had a valuable equivalent concession in the reductions made by third countries which produced cars and, in particular, by the other European countries. For the Commission, the Italian request to totally exclude cars was indefensible as it caused problems both within the EEC and in the relations with the other participants in the Round. Belgium could accept the Commission proposals, on the condition that the interests of its assembling industries were borne in mind, and that a partial exception would be retained for detached pieces and accessories in order to maintain the difference between duties applied to automobiles and detached pieces. For the Belgian Minister, the multilateral negotiations should be a pretext to condemn the assembling industry, which had the same right to exist than the automobile industry.

The disagreement between the Six was so profound, and the diverging interests of Belgium, Italy, France and Germany so difficult to reconcile that the debate among Ministers was repeatedly interrupted and be shifted to the 111 Committee level, where the Commission suggested numerous proposals to try to reconcile the different points of view on how to deal with this sector. The problem consisted in first reconciling the Italian worry regarding the competition of the assembling industry on the automobile industry and the request to significantly reduce the difference in duty-levels for automobiles and detached pieces, a request supported also by France and Germany with,

on the other hand, the Belgian need to defend its assembling industry, with Belgian Minister of Commerce Fayat strenuously struggling for hours to reach a solution, so to avoid what he considered "la condamnation a mort des usines d'assemblage en Belgique", and also taking into account German opposition to any exceptions for this sector. The formulation of the final compromise monopolized the entire final phase of the Council of Ministers, and only at the very last moment did the urgency to formulate the list lead the Six to compromise.

The final compromise was a balanced and complicated set of concessions. Cars would be subject to the 50% reduction – as Germany desired and Italy rather weakly opposed – on the condition that true reciprocity of concessions be attained, above all from the European countries – as France had insisted. Then, buses, trucks and their parts, because of the insistence of Italy and The Netherlands and despite the German opposition, would be included on the exceptions list, but limited to trucks heavier than 4 tons. The inclusion of truck parts on the list was received with great satisfaction in Paris, where there existed the fear that Britain might set up truck assembling industry in Belgium. Because of the pressure coming from Germany, Italy and the Commission, Fayat in the end capitulated and accepted a reduction of duties both on detached pieces and built-up cars. In truth, the Belgian 8% demand was difficult to maintain as it stood in clear contradiction with the subjection of the 22% duty on cars to the 50% cut. The CET on parts was at 14% and, in order to reduce this duty by 50% and maintain the 8% difference with built-up cars, the final duty on built-up cars would have to be fixed at 15% rather than 11%. Belgium accepted the reduction to 4 points so that duties on built-up cars and their parts would be reduced to 11 and 7% respectively. During the negotiations, the EEC would respect a strict correlation, in the sense that the percentage reduction which would be finally applied on the duty for cars would never exceed that level be agreed on the duty of unassembled parts, and would assist the Belgians in overcoming the difficulties their assembly industry would face because of the reduction.

The rest of the mechanical and transport equipment sector was as problematic as automobiles, and saw the toughest confrontation between France and Germany of all entire discussions in order to formulate the list. In 1958, the low tariffs of Germany and the Benelux countries were averaged with the high Italian and French tariffs. As a result, Italy and France had opened their markets to EEC competition and lowered their protection against third countries. France was a net importer in this sector and, above all, had a major trade deficit with the USA that represented 4/5 of the French total trade deficit with that area. French imports from this area grew by 30% in the first six months of 1964. Moreover, France wanted to maintain preferential access to the German market in the face of competition not only from the USA, but also from the other European countries. Therefore, Paris wanted only moderate reductions of tariffs in order not to further increase competition. The French government had received the open request of the Paris section of the French Chamber of Commerce, and of the Ministry of Industry, to exclude from the Kennedy Round the mechanical electric and electronic sectors, as well as machine tools, aircraft and tractors. For this last item, the Ministry of Industry even claimed that the French tractor industry would be destroyed if duties were reduced and competition from American multinationals such as Ford or International Harvester were to increase. In truth, the Minister of Economics found all these requests for exceptions too numerous to be effectively defended in the negotiations in Brussels over the setting up of the list but agreed on accepting them as a starting bargaining

position.²⁴ Italy shared French worries, and it also asked for numerous exceptions to protect its mechanical industry and maintain preferential access to the German market. By contrast, Germany, who to join the CET had had to increase its tariffs, saw the Kennedy Round as an opportunity to reduce protectionism both in Europe and across the Atlantic. Germany was a net exporter, exports in this sector represented one third of its total exports, had a mechanical industry which was competitive on a global scale, and it had a major trade surplus in this sector with the United States. Hence, it had a major exporting interest in this sector and saw reductions in the CET as bargaining chip to obtain equivalent reductions of EFTA and US tariffs.

Having received the Commission exceptions list, France and Italy requested that so many exceptions be added to the point that if all of them were accepted, the exceptions list would be increased a level representing an extra of 2% of EEC imports. French requests accounted for 350 million dollars, and posed a problem for the Commission, which was not ready to accept more than 280 million of dollars of further exceptions from the entirety of the six governments for this sector.²⁵ Belgium and Luxembourg accepted the list as it stood, while The Netherlands and Germany longed for the reduction of the Commission list. Boegner and Matterella took the line that the financial and technical means that third countries and, notably, the United States' industries possessed did not allow the EEC to lower the existing protection level, which was, in any case, already moderate. But Lahr and Andriessen firmly wanted the Commission proposals, which represented one quarter of all exceptions, to be reduced. They did not share Italian and French qualms, and held that the numerous exceptions, in a sector in which the EEC industries were robust, were difficult to justify under the principle of high national interest. Moreover, a protectionist attitude in an industrially developed sector would surely provoke the disapproval of third countries, which would not see as justified the protectionist attitude of those countries who were most industrially developed. Thus, the list had to be shortened, and the German and the Dutch governments would in no way subscribe the protectionist attitudes of other Member States.

Matterella and Boegner reminded everyone that, by joining the CET, France and Italy were already reducing their level of protection, and as such they needed a time to adapt their economic structure to the new situation. For Boegner, the elimination of trade obstacles had to be gradual. In his view, the French industry had not yet attained the same level of development as the German one, and a 50% multilateral linear cut would result in Germany arriving back at exactly the same tariff level as it enjoyed in 1958, while the French industry had to withstand the cumulative reductions of joining the CET and those stemming from the Kennedy Round. France had agreed to expose, in the EEC framework, French industries to the competition from the other Member States due to the advantages that would result in France's favour from the integration of other sectors, and notably the agricultural one. The fact that French industries were already subjected to the competition from the industries of the other Member States could not be employed as an argument to accept further competition from third countries and, in particular, the United States that, in this sector, possessed strong and competitive industries.

²⁴ MAEF DE/CE GATT 930, Direction des Affaires Economiques et Financière – Service de Coopération Economique, Rapport adopté par la Chambre de Commerce et d'Industrie de Paris, 9 Mai 1963. MAEF, DE/CE, 1961-1966 GATT 932, Note de la Direction des Relations Economiques Extérieures (DREE) – Ministre des Finances, 4 November 1964.

²⁵ HAEC – MAEF OW 36 R.132, Note reporting the Commission attitude towards the set up of the exceptions list as described by Marjolin, 13 November 1964. For French request see also AECB BDT 144/92 Marjolin cabinet papers, box 777 Liste d'exceptions Kennedy, 13 November 1964.

However, Lahr was not ready to accept the French reasoning. The EEC was a net exporter in this sector, and it had every interest in adopting a liberal attitude so not to push other countries, whose industries were less competitive than the EEC ones, to invoke exceptions. Lahr also noted that the worries the French industries had when the Treaty of Rome was signed had been shown to be unfounded, as French industry had increased its market within the EEC to that extent greater than that which German industry had achieved. Lahr also pointed out that French protectionist attitudes in this sector could provoke repercussions regarding the German agricultural sector, taking advantage of the French attitude to justify a similar form of protectionism.

For the Commission, it became difficult to find a compromise between the Franco-Italian stance, which insisted on the necessity to maintain the level of protection for this sector industry in the EEC, and the German-Dutch position, which underlined the competitiveness of the EEC sector and the exporting interests of the EEC. After two days of discussions and utter stalemate, and in the context of the firm German stance, Rey made an appeal to France and Italy to withdraw their requests of exceptions. Boegner, realizing that France had to withdraw some requests so to obtain the approval of the a majority of them, withdrew 30% of its requests for exceptions.²⁶ By the same token, the Italians also withdrew some requests of their own. Germany judged the French withdrawals to be insufficient and called for more. In particular, it wanted to subject tractors, helicopters and aircraft to the general reductions, while Italy and France wanted total exceptions. In the face of Boegner's firmness, Germany softened its position and accepted the 30% of French withdrawals and total exclusion for tractors and their parts, one of the firmest French requests. In the end, exceptions covered sewing machines, certain machine tools, computers, nuclear reactors, radios, airplanes (less than 2000 kilogrammes) and optical equipment.²⁷

The final list

After sitting for nearly four days, the EEC Council agreed on its exceptions list.²⁸ The final list covered 19-20% of Community dutiable industrial imports and 9% of all EEC industrial imports.²⁹ According to the Commission, the average level of the CET, that, in 1963, was 12%, would be reduced by 33,4% placing it at a new average of 8%. The EEC list was composed of three categories of exceptions. Out of 2200 tariffs,

²⁶ Boegner's position was also made possible by the fact that, while the French Ministry of Industry had requested the numerous exceptions, the Ministry of Finances did not agree with such requests MAEF, DE/CE, 1961-1966 GATT 932, Note de la Direction des Relations Economiques Extérieures (DREE) – Ministre des Finances, 4 November 1964.

²⁷ According to Boegner, the French position had been made easier by the fact that the tough confrontation between the Belgian and the Italians on the assembling industry issue took up almost all the last night of the negotiations; thanks to this diversion, the discussion on the mechanical products was considerably shortened. MAEF, DE/CE, 1961-1966 GATT 932, Note «Négociation tarifaire au GATT», 20 November 1964.

²⁸ To better examine the Council of Ministers' work, it is worth reading Boegner's note on the 11-15 November discussion. According to the French representative, unsurprisingly, Germany was the most determined country to reduce the CET. However, its delegation demonstrated that it was less combative than what France had expected. What also surprised Boegner was the modest support Andriessen gave the Germans, even if at the beginning of the Council the Dutch expressed himself "en terms quelque peu agressifs". It was true that The Netherlands easily obtained satisfaction on its requests, but then, during the last phase of the negotiations, the Dutch delegation "s'est [...] cantonné dans un mutisme presque total". Italian attitude was rather hesitant. In spite of the difficult position of its economics, Italy "n'a défendu qu'avec mollesse ses positions". After having presented additional requests for exceptions, rather important for the mechanical industry, Italy completely and simply abandoned them. The Italian position on automobiles was untenable, given the fact that the CET on this industry was relatively high and that this industry, in Italy and in the other EEC producer countries, was largely an exporting one. MAEF, DE/CE, 1961-1966 GATT 932, Note «Négociation tarifaire au GATT», 20 November 1964.

²⁹ For the EEC final list AECB 122/1991 – 24, Mise en oeuvre des décisions prises par le Conseil lors de sa session des 11/15 Novembre 1964, (CoS/N/7/64), 16 November 1964 ; AECB Marjolin's cabinet paper Box 791, Liste d'exceptions de la Communauté économique Européenne pour le produits industriels (G/460/64) Add., 4 December 1964.

about 1148 were submitted to general linear cuts, 409 tariffs were excepted, of which 117 totally and 292 partially. 31 tariffs were reduced conditionally. Member States added exceptions for a further 4,6% of the EEC dutiable imports compared to what the Commission had suggested. Mostly because of the French requests in the mechanical sector, a level of 2,8% of dutiable imports was excepted. Table 5 shows the additional exceptions list approved by the Council of Ministers.³⁰

Table 5 exceptions proposed by the Commission and further exceptions approved by the Council of Ministers, in millions of dollars

List proposed by the Commission		List of further exceptions as approved by the Council of Ministers	
Sector		Sector	
Textile conditional list	156	Textile	10
Textile non conditional list	48		
Chemicals	91	Chemicals	3
Mechanical sector	259	Mechanical sector	195
Metals and minerals	235		
		Pottery	7
Various	38	Various	35
Paper	68	Paper	150

Source: MAEF, DE/CE, 1961-1966 GATT 932, Note «Négociation tarifaire au GATT», 20 November 1964

As such, many partial and conditional exceptions were necessary in order to reach a compromise between those governments that did not want further exceptions to be added and those that did. The Commission formula of dividing the list into three categories – total, partial and conditional exceptions – without deciding the tariff cut for partial exceptions helped the parties to reach the final compromise, but it merely postponed these tricky decisions to a future date. Moreover, the Six elaborated their exceptions list with the assumption that the problem of disparities would be given a satisfactory solution, along the lines defined by the 23 December 1963 mandate. Thus for the EEC, the question of disparities was not over. Moreover, many conditions were attached to the list: a solution for the ASP, an international agreement on anti-dumping, and an agreement with the Scandinavians for the marketing conditions of pulp paper and paper sector.

The Commission played a central and active role in the elaboration of the list. During all the discussions Rey, Marjolin, Hijzen and Millet made great efforts to mediate and elaborate acceptable compromises, and, in the end, in addition to their satisfaction regarding the dual factors of keeping the list under the envisaged 20% limit and its reflecting overarching EEC interests rather than merely a collection of fragmented interests of Member States, it expressed further satisfaction for role that it had played in the formulation of the list.³¹ Thanks to its technical skills, it maintained its key role of broker in disputes among the Six. This role was important because, in the GATT negotiations, technical and economic issues were crucial in determining the final result, and the Commission was able to provide the essential technical expertise. Just as with the Mansholt plan for agriculture, the Commission, with its technical expertise,

³⁰ AECB, BDT 144/92, Marjolin cabinet papers, Box 144, Répercussion des abaissements prévus par le Kennedy Round et des hypothèses adoptées par le Conseil de Ministres du 14.11.1964 and MAEF, DE/CE, 1961-1966 GATT 932, Note «Négociation tarifaire au GATT», 20 November 1964.

³¹ AECB PV 294 18 November 1964; AECB BAC 122/1991 17, Eight General Report on the Activities of the Communities, 1966, EEC Commission Sec. 275.

could make suggestions that obviously corresponded to its own vision of the aims to be achieved in the Kennedy Round and, in this way, could influence the final political decision of the Member States, even if the fact remained that the final decision was in the hands of the Member States, and the Commission could implement its vision as long as it was acceptable to Member States.

Member States also expressed satisfaction, and not only for having reached an agreement. Given their export interests, The Netherlands and, above all, Germany were the countries most concerned in getting to in Geneva with a short list. Even if they had not been able to shorten the Commission's list, they expressed satisfaction that the list had been maintained within reasonable limits, and, in fact, Neef, German Secretary of State at the Economic Ministry, emphasized that the EEC "had no protectionist aspirations, preferring rather the development of trade on a multilateral basis". However, they accepted the list with the firm intention of further reducing it during the course of the Geneva bargain.³² France and Italy were satisfied with the result of the negotiations, for they were able to include most of their requests, above all concerning the mechanical industry.³³

In a tense period for the EEC, dominated by the grains quarrel, the Six were able to approve the exceptions list, which, given the importance of the commercial interests involved, was a difficult decision to reach. However, the willingness of the Six to reach a final compromise was never in doubt, and all of them showed their eagerness to reach an agreement. The capacity of the Six to set up a common list, an exercise that could easily have led them to quarrel, and right middle of a difficult period, showed the paramount interest they had in attending the Kennedy Round with a view to lowering EFTA and US tariffs, and to do so as a regional trading unit. These two interests combined pushed them to compromise their commercial policies to form a common commercial policy. The Six had enough common interests to have a common trade policy, allowing them to overcome difficulties and to take decisions. Trade was able to keep the Six together despite all the tensions that existed.

In the aftermath of the decision over the exceptions list, the Six also decided on the EEC working procedure in Geneva. Along the lines of the practice already adopted at the Dillon Round, the 111 Committee would meet in Geneva during the negotiations, so that the Commission could consult and inform it. One observer for each Member States, if the government wished, could attend the negotiations without speaking rights. However, the Commission had the right to set up informal meetings with the other Kennedy Round participants, meetings which only the Commission delegation could attend. The Commission accepted these procedures. The possibility of setting up informal meetings was an opportunity to strengthen its role as sole negotiator and, as shown in the rest of the thesis, it made full use of this opportunity to go without the Member States. At this point, the EEC was ready to negotiate the industrial part of the Kennedy Round.³⁴

³² Quote in *Le Monde*, 17 November 1964 *trovare*. The German press was particularly enthusiastic about the agreement reached on the EEC exceptions list. Not only France had accepted to set up the list but it had also agreed to reduced its requests of further exceptions. On 16 November *Die Welt* welcomed the agreement as "An astonishing triumph". *Di Zeit* wrote that "Fear of the break-up of the Common Market had disappeared overnight. [...] France, which had previously spoken of a blockage in the Community had surprised everyone by agreeing to a resolution that is clearly counter to her own interest. [...] Now that de Gaulle had made his concession first, agreement on cereal prices is unavoidable". *Die Zeit*, 21 November 1964. Both quotes are taken from (Willis 1968 #2304), pp.340-341.

³³ MAEF, DE/CE, 1961-1966 GATT 932, Télégramme 1274/91 Boegner au Quai d'Orsay, 16 November 1964. For the EEC exception list see *ibidem* Annex I à la note *Négociation tarifaire au GATT*, 20 November 1964 MAEF, DE/CE, 1961-1966 GATT 932, Note *«Négociation tarifaire au GATT»*, 20 November 1964.

³⁴ AECB PV 296 2 December 1964.

7.3 US exceptions list: trying to keep a liberal posture

For Herter, the elaboration of the US list was not as complicated as for the Six, but for him too the process was not trouble free. The elaboration of the US list has already been described by many authors, therefore only little attention is given here.³⁵ Herter held that in order to allow the US delegation in Geneva to push the Kennedy Round to a successful conclusion, the United States had to limit exceptions to cases of clear and pressing necessity. If Washington gathered in Geneva with a long list of exceptions, other countries could seize the opportunity to undermine the scope of the negotiations, placing the blame on the United States. Washington had to play the leading role in bringing these negotiations about and moving them forward. "It would be a severe blow to the negotiations themselves and to our prestige as a leader in trade liberalization if we were to undercut all we have said by tabling an extensive exceptions list", claimed Herter. As such, the US delegation had to show up in Geneva with a short list to maximise the pressure on the other GATT members to also present a small number of exceptions and swell the scope of the trade negotiations.³⁶

Herter's aim, though, was not would not prove easy to achieve. In formulating this short list, the American negotiators had to consider not only the predictable lobby action of the trade sectors, but also the opposition of Congress. Since the approval of the TEA in 1962, the legislative body was going through a protectionist mood which risked considerably damaging the liberal stance that Herter wanted the USA to assume. In 1964, restrictive bills calling for quotas on textiles, meat, shoes, wool, lead, zinc, steel containers and electron microscopes reached the Congress. On top of this, the Tariff Commission forced anti-dumping duties to be placed on steel imports from Canada and revised, in a more restrictive way, the anti-dumping law. Herter looked with concern at these bills which gave the Johnson Administration a protectionist image and undermined its liberal posturing in Geneva, however, the continued expansion of US exports and the five-year implementation of the tariff cuts helped Herter to be able to refuse requests for exceptions.³⁷

In the end, the US lists contained the three types of exceptions and one kind of exclusion. Economic exceptions, which included articles to be partially or wholly omitted from a 50% linear cut, were to be justified in Geneva on the basis of the "overriding national interest". It covered cases where a tariff reduction would threaten to impair national security, as well as where a tariff reduction would cause serious economic consequences to a domestic industry. The products concerned were sardines, sawn timber, wool textile, plywood, ceramics, earthenware, china and glassware, oxide, electronic receiving tubes, footwear and leather gloves, electric measuring instruments and umbrellas. For this part of the list, which concerned mostly labour-intensive goods, Washington had the intention of negotiating on the basis of reciprocity, being therefore

³⁵ See, among the others, Preeg, E.H. *Traders and Diplomats*; Zeiler, T.W. *American Trade and Power* and Evans, J.W. *The Kennedy Round in American Trade Policy*.

³⁶ FRUS 1964-1968, Volume VIII, *International Monetary and Trade Policy* doc. 233. Letter From the Special Representative for Trade Negotiations (Herter) to Secretary of State Rusk, 8 April 1964.

³⁷ On the protectionist bills, the anti-dumping regulation and Herter's opposition, see FRUS 1964-1968, Volume VIII, *International Monetary and Trade Policy* doc 248. Memorandum From the Assistant Director for Legislative Reference, Bureau of the Budget (Hughes) to President Johnson, 21 August 1964; *ibidem* 257. Letter From Secretary of the Treasury Dillon to the Special Representative for Trade Negotiations (Herter), 30 October 1964; Memorandum From the Special Representative for Trade Negotiations (Herter) and the Under Secretary of State (Ball) to President Johnson, 25 August 1964 Herter Papers, box 10, JFKL. See also Zeiler, T.W. *American Trade and Power in the 1960s*, pp. 181-182.

ready to withdraw the exceptions if third countries reciprocated. On top of this, Washington put cotton textiles on the conditional exceptions list, subject to the renewal of the LTA. The second category concerned mandatory exceptions, notably articles on which the TEA prohibited the reduction or elimination of duties, and it covered mostly lead, zinc, watch movements and carpets. It also covered oil and titanium, excluded for national security reasons. The third category was that of the technical exceptions. They resulted from the use of part of the TEA authority to compensate the United Kingdom and Japan for US escape clause actions on carpets and glass. Thus, reductions permissible under the TEA would not be sufficient to reduce duties by 50%. They also resulted from legislation temporarily reducing or suspending rates of duties. They included flax yarn, silk scarves, fatty alcohols, aluminum, a number of rare metals in scrap (or defective unwrought form), for instance, germanium, tantalum, zirconium, iron and steel windows frames, motors (1/10 to 200 horsepower) and table tennis and lawn tennis balls. For this category, a 50% tariff cut was not possible, and the US government would try to offer the maximum reduction permissible.³⁸

As for exclusions, they covered products excluded from linear reductions on the ground that countries mainly interested in these products were not taking part in the negotiations. Such products would not count as exceptions as they did not affect other Kennedy Round participants' interests. On this ground, the United States claimed exclusions on petroleum products, and since, in 1961, they accounted for 11% of US total imports this reduced the US exceptions list considerably. Moreover, the United States offered the elimination duties on articles covered by duties of 5% or less.

In terms of import value, wool textiles accounted for 46% of US economic exceptions, leather footwear for 15%, and crockery and glassware for 7%. Of the mandatory exceptions, lead and zinc accounted for 42%, hydrocarbon oil products for 15%, and carpets and glass for 8%.³⁹ The US list meant that 18% of US industrial dutiable imports were included in the exceptions, but 8% were made up of by the mandatory TEA exception of oil, a commodity not significant in Geneva, since oil exporting countries were not GATT contracting parties. Thus, Washington considered the inclusion of oil to be irrelevant for the justification and confrontation process of the exceptions list. The exceptions list concentrated on a limited number of products, and it also contained few partial exceptions and no conditional exceptions at all. Thus the US list was shorter than the EEC's, and seemed to correspond to Johnson's drive to facilitate liberalization of trade in the industrial sector.⁴⁰

7.4 The beginning of the negotiations in the industrial sector: the tabling of the exceptions lists

With the elaboration of the exceptions lists, negotiations in Geneva over the industrial sector could finally begin. On 16 November 1964, exceptions lists for nonagricultural products were exchanged between the United States, the EEC, United Kingdom, Japan and Finland. The small EFTA countries of Austria, Denmark, Sweden, Norway and Switzerland declared that, subject to receiving reciprocity, they would not

³⁸ NA 364-130-51-23 Records of the US trade Representatives on the Kennedy Round, Box 1, Memorandum for the President from Herter, 9 November 1964. The full US exceptions list can be found in Products proposed to be excepted in whole or in part from the United States linear tariff reduction, Annex A-3, NSF National Security Council History, box 52, LBJL.

³⁹ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, The Kennedy Round: Background and Important elements, November 1964. PRO BT 241/843 Telegram 241 from Cohen to Foreign Office, 17 November 1964.

⁴⁰ Zeiler, T.W. American Trade and Power in the 1960s, pp.184-186.

claim exceptions, though they reserved the right to table exceptions if they if they did not obtain reciprocity. Their course of action can be explained by tactical reasons rather than a real willingness to make 50% cuts across the board. They hoped, in this way, to put pressure on the EEC to reduce its list by emphasizing their liberal stance and under the threat of the withdrawal of tariff concessions.

Table 6 Linear countries participants

Countries attending the linear cut without tabling exceptions lists	Countries attending the linear cut with exceptions lists
Austria	EEC
Denmark	Finland
Norway	Japan
Sweden	United Kingdom
Switzerland	United States

Table 7 Other Kennedy Round participants

Special structure countries: Australia, Canada, Czechoslovakia, Greece, Iceland, Ireland, Israel, New Zealand, Portugal, South Africa, Spain, Turkey
Less-Developed countries Argentina, Brazil, Ceylon, Chile, Dominican Republic, India, Indonesia, Jamaica, South Korea, Malawi, Nicaragua, Nigeria, Pakistan, Peru, Sierra Leone, Trinidad and Tobago, Uruguay

Unlike the other EFTA countries, United Kingdom decided to table an exceptions list, though a short one which concentrated on few items. It accounted for 4.7% of total British industrial imports in 1962 on a MFN basis, excluding therefore Commonwealth and EFTA preferences. The main items on the list were cotton textiles and associated manmade fibre, plastics materials, jute goods, lead and zinc. Cotton textile was excepted because of the decline of this industry in Lancashire, while chemicals were included in the list because of difficulties encountered by the British plastic industry. Just as for the EEC, concessions in this sector depended on the Americans removing the ASP. In drawing their list up, the British government had consulted trade sectors and it found remarkably little resistance to the idea of a 50% linear cut that could be used to reduce European and US tariffs. After the French veto of British entrance into the EEC, London saw the Kennedy Round as the main bridge between the trading groups in Europe, and far and away the best hope of reducing barriers to European trade, and as such tabled a short list to attest to its free trade policy and to be able to bargain down other countries' lists.⁴¹

In presenting their exceptions lists, the small EFTA countries, the UK and the USA preferred to table short lists to push other countries into assuming a liberal attitude on the basis that the former had presented a liberal list. The EEC, together with Japan, on the other hand, presented a long list, which was partly so formulated for bargaining purposes. Therefore, in both cases, lists were not made with the firm intention that they *remain* short or long. Countries had chosen different bargaining tactics to attend the

⁴¹ PRO BT 241/842 Note of the Board of Trade "Kennedy Round: List of Exceptions", 29 May 1964. PRO BT 241/843 Note of the Tariff Division of the Board of Trade written by Neale, 5 November 1964; PRO BT 241/843 Telegram 242 from Cohen to Foreign Office, 17 November 1964 and *ibidem* Note "The Kennedy Round - Progress report" by the Tariff Division of the Board of Trade, 3 December 1964. For the full British list see *ibidem* "Kennedy Round - Lists of Exceptions, Note by the United Kingdom Delegation", 13 November 1964.

negotiations. Once the lists were on the table, the problem arose of how to analyse them, to see whether reciprocity of concessions had resulted. No agreement had been reached on how to compare lists in order to see whether a balance of concessions existed, and, without such agreement, it was objectively impossible to state which country had the 'biggest' list and had therefore to make further offers to the GATT partners. In fact, as soon as the lists were exchanged the quarrelling began: the USA stated that the EEC list was longer than its own, and bore heavily on American trade interests; the Commission claimed that the US and EEC positions were perfectly comparable; the British asserted to be in 'credit', both with the EEC and the USA and the latter two claimed that a balance existed in this respect; Japan maintained that its list was in equilibrium with the others, but no one in Geneva was ready to recognize this, while the small EFTA countries claimed that, having tabled no exceptions lists, they necessarily had a credit with everyone, but the other GATT members asserted that a balance was more or less in existed.

In truth, Washington was dissatisfied with the EEC exceptions list, labeled "disappointing at best". It was severe, both quantitatively and qualitatively, and contained conditions – like on the ASP – and elements of uncertainty, due to largely unspecified partial offers. The whole thing was conditioned on by still unspecified disparity claims.⁴² In order to gain an idea of how Washington saw the situation, Tables 8 and 9 report the disequilibrium between the US and the EEC lists, according to American data.

Table 8: Impact of EEC exceptions and exclusions (1961 EEC imports in \$ 000)

EEC imports	All third countries	US
Total imports	18,691,188	4,053,854
Dutiable Imports	11,361,486	3,038,862
Agricultural imports	4,346,649	911,702
Non-Agricultural imports	14,346,649	3,142,152
Non-Agricultural imports. free	6,941,9812	1,069,512
Non-Agricultural imports. dutiable	6,967,000	2,072,640
EEC exceptions and exclusions		
Full exceptions	615,003	213,570
Free unbound items not offered for binding	5,663	2,423
Dutiable	609,340	211,147
Full exceptions as % of dutiable non-Agricultural imports	8.2%	10.2%
Partial exceptions	1,549,628	329,159
Partial exceptions as % of dutiable non-Agricultural imports	20.9%	15.9%
Total Dutiable exceptions	2,158,968	540,306
Total Dutiable exceptions as % of dutiable non-agricultural imports	29.1%	26.1%
Exclusions	-	-
Total exceptions and exclusions	2,58,968	540,306

⁴² NA 364, Recs. of US trade Representatives on the Kennedy Round, box 4, Memorandum of the Chairman, Country Committee I (EEC), 2 December 1964.

As % of dutiable non-Agricultural imports	29.1%	26.1%
EEC conditional offer on chemicals (BTN 28.32.39)		
Imports	338,412	127,402
Exceptions	90,570	40,810
Offer subject to withdrawals	247,851	86,592
Chemicals' offer subject to withdrawal as % of dutiable non-agricultural imports	3.3%	4.2%

Data included also ECSC imports. Source: NA 364, Recs. of US trade Representatives on the Kennedy Round, box 4, Memorandum of the Chairman, Country Committee I (EEC), 23 November 1964.

Table 9: Impact of US exceptions and exclusions (1961 US imports in \$ 000)

US imports	All third countries	EEC
Total imports	13,812,256	2,130,549
Dutiable imports	9,252,677	1,897,416
Agricultural imports	3,292,442	194,065
Non-Agricultural imports	10,519,814	1,936,484
Non-Agricultural imports, free	3,044,653	216,493
Non-Agricultural imports, dutiable	7,475,161	1,719,991
US exceptions and exclusions		
Full exceptions	661,013	128,815
Free unbound items not offered for binding	20,811	-
Dutiable	640,202	128,815
Full exceptions as % of dutiable non-Agricultural imports	8.6%	7.5%
Partial exceptions	91,260	36,552
Partial exceptions as % of dutiable non-Agricultural imports	1.2%	2.1%
Total dutiable exceptions	731,462	165,367
Total dutiable exceptions as % of dutiable non-agricultural exceptions	9.8%	9.6%
Exclusions	1,460,654	4,085
Exclusions as % of dutiable non-Agricultural imports	19.5%	0.2%
Total exceptions and exclusions	2,192,116	169,452
As % of dutiable non-Agricultural imports	29.3%	9.8%

Source: see table 9.

The US offers to the EEC substantially outweighed the EEC linear offer to the USA, 90.4% to 73.9% in terms of dutiable non-agricultural imports. Washington

asserted that the EEC exceptions hit 29.1% of dutiable non-agricultural imports from third countries and 26.1% from the USA (Table 8), which contrasted with the 18.8% claimed by the EEC. For the Americans, the latter figures appeared, in fact, to be the ratio of EEC exceptions to total dutiable imports, including agricultural products, although agricultural exceptions were not included in the EEC exceptions list. In contrast, the USA claimed to have excepted only 9.8% of its dutiable imports from third countries and 9.6% from the EEC (Table 9). Moreover, the USA made offers to the Community, which roughly averaged 45-46% duty reductions on its dutiable non-agricultural trade with the United States. EEC offers to the USA averaged somewhere between 30% and 40%, depending on whether conditional offers on chemicals were included.⁴³

However, Washington was not only worried by the size of the EEC list, but also by its content. Almost every sector in which the US had a substantial trade interest was severely affected by the EEC exceptions, which hit the most dynamic sectors of US exports, notably machinery and mechanical appliances, motor vehicle and parts, electrical machinery and equipment together with paper and pulp, aluminium and other non-ferrous metal, iron and steel (non-ECSC), and miscellaneous optical and measuring devices (Table 10).⁴⁴

Table 10: categories of US imports affected by EEC list

BTN chapter	Description	Volume of US trade affected (\$million- 1961)	% of US trade affected
38	Miscellaneous chemical Products	24	35
39	Artificial Resins & Plastic	38	55
47	Paper-making material	36	60
48	Paper, pulp, paperboard	35	95
51	Continuous man-made fibers	18	65
73	Iron and steel articles	24	15
84	Machinery and Mechanical Appliances	150	25
85	Electrical Machinery and Equipment	46	30
87	Vehicles	43	50
90	Miscellaneous instruments and apparatus	41	40

Source: NA 364, Recs. of US trade Representatives on the Kennedy Round, box 4, Memorandum of the Chairman, Country Committee I (EEC), 2 December 1964.

At the same time, the USA recognized that its list caused problems to the EEC, as it had varying impacts upon the respective individual Member States. Although the impact of the US list upon the EEC as a whole was generally moderate, American exceptions most severely hit the trade interests of Italy, affecting about 24% of all dutiable exports from that country. The US list concentrated on few sectors, above all textile and footwear, areas in which Italy was a major exporter (Table 11). The fact that Italy was the Member State facing the most serious economic problems, and a important potential ally in successfully concluding the Round because of its Atlanticism, made

⁴³ NA 364 Recs. of the US trade Representatives on the Kennedy Round, Box 1, Background paper Negotiations with the EEC, written in 1965.

⁴⁴ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 4, Memorandum of the Chairman, Country Committee I (EEC), 23 November 1964 and ibidem Memorandum of the Chairman, Country Committee I (EEC), 2 December 1964.

Washington become wary that its exceptions list could provoke the negative reaction of the Italians.⁴⁵

Table 11: Impact of US Exceptions on the Six (1961 – US imports - \$000)

	(a) Economic	Technical . and mandatory.	(b) combined	(c) Total dutiable imports	US Ratio a/c	Ratio b/c
BLEU	6,148	22,887	29,035	291,065	2%	10%
France	14,272	6,468	20,740	340,710	4%	6%
Germany	15,487	10,509	25,996	770,188	2%	3%
Italy	73,102	8,396	81,498	341,336	21%	24%
Netherlands	7,259	839	8,098	154,119	5%	5%
EEC	116,268	49,099	165,367	1,897,418	6%	9%

Source: NA 364, Recs. of US trade Representatives on the Kennedy Round, box 4, memorandum from Chairman, Country Committee I (EEC) to Chairman, Trade Staff Committee "Impact of US Exceptions list upon EEC), 27 November 1964.

While Washington was busy demonstrating that an imbalance existed between the concessions made by the USA and the EEC, the European Commission was engaged in seeking to prove the opposite. The latter institution claimed, and not only for tactical reasons, that the Americans had not subjected to the linear cut a full category of products and had termed this *exclusion* rather than exception. If the exclusions list of the USA was included in calculations, as it had to be, the EEC and the US lists were perfectly comparable. Thus, a balance of offers existed, so long as the United States removed ASP.⁴⁶

The British took a more positive attitude towards the EEC list. While claiming that a certain degree of imbalance existed, and that the EEC had to improve offers in some sectors, in particular the mechanical one, London held that the EEC had made a considerable effort. It therefore took an optimistic view regarding the achievements the Kennedy Round could lead to. The four major trading countries, the USA, EEC, UK and Japan, were able to place offers on the table representing a substantial linear cut stretching over 80 to 95% of their industrial tariffs, and this offered considerable scope for reduction in world trade barriers.⁴⁷ By contrast, the small EFTA countries reacted negatively to the EEC list; due to the overriding importance that these parties attached to their imports in particular sectors, the EEC list was perceived as dealing them a bad hand. So, Switzerland asked for improvements in textiles, chemicals and the mechanical sector, while Sweden asked for improvements in paper, non-ferrous metal, the mechanical sector and steel and wood products. The negotiations with Norway were going to be particularly difficult because all the products this country was interested in, aluminium, ferro-alloys, magnesium, paper all found themselves on the EEC exceptions list, with the result that almost 50% of Norwegian exports to the Six were contained in

⁴⁵ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 4, Memorandum of the Chairman, Country Committee I (EEC), 2 December 1964.

⁴⁶ AECB BDT 144/92, Marjolin cabinet papers, box 777, Note d'information "Négociations commerciales multilatérales du GATT – justification des listes d'exceptions", 16 February 1965; AECB PV 345 Annex "Rapport de la Commission au Conseil", NCG(66), 19 January 1966.

⁴⁷ PRO BT 241/844 Telegram 17 from Cohen (UK Delegation to GATT) to Foreign Office, 15 February 1965.

the EEC exceptions list. As for Denmark, already worried about the EEC's intentions in the agricultural sector, they were also disappointed by the EEC exceptions in the mechanical sector. Austria, too, was concerned about the application of CET rates to its exports to Germany. However, when the Kennedy Round started, Austria was negotiating an association agreement with the EEC in Brussels, and until the situation in Brussels became clearer, the negotiations in Geneva did not have a great deal of sense.⁴⁸

The EEC was aware that it could not afford to ignore the small EFTA countries' complaints. This European partners received a considerable share of exports, above all in the case of Germany, and after the French veto of British membership, the Kennedy Round was the only alternative for reducing discrimination in Europe.⁴⁹ Indeed, the US counted on the EEC's obligation to improve their offers to the EFTA countries as a means of reducing the length of the EEC's list. Washington was willing to introduce some flexibility for some of its exceptions that the EEC wanted to see reduced, and counted on the pressure it could bring on the Six by threatening to withdraw its offers. However, it was also counting on the exigency of the Six to reduce discrimination in Europe through the Kennedy Round.⁵⁰ The EFTA threat of withdrawals had the potential to push the Six to make improvements which would also represent a positive development for Washington. As far as Roth saw the matter, one of the things that was uppermost in the minds of the Europeans was that the Kennedy Round had an important role to play in bringing down trade barriers in Western Europe. "This interest in their part was of great potential help to us [...] in the effort to strike a fair bargain in the negotiations".⁵¹

In truth, despite all the complains the linear countries made about other countries' exceptions, and despite the disagreement over the impact of the lists on other countries' imports, in comparison to the previous GATT talks, the Kennedy Round was launched from a starting point of far more liberal initial offers, both in terms of trade coverage and extent of tariff reductions. This offered considerable scope for the reduction of world trade barriers. In any case, in the early part of 1965, the linear bargainers engaged only in preliminary and slow discussions. In fact, they all wanted to see the progress and pace of the agricultural part of the Kennedy Round before engaging in serious negotiations.

7.5 Putting agricultural negotiations on their way

While progress was achieved in the industrial sector with the tabling of the exceptions lists, progress was eventually also achieved in agriculture through the decisions reached in mid-March to start negotiating pragmatically. However, as before, such progress in agriculture gave rise to German ambivalence towards the CAP, once again putting Bonn in an ambivalent position.

Discussions over agriculture since December 1962 had demonstrated how difficult it was to agree on rules, due to of the different views the EEC and the USA

⁴⁸ AECB – BAC 122/1991-3 Rapports n.36/40 de la délégation de la Commission pour le négociation du GATT, 6 May 1965; *ibidem* Rapport n.51 de la délégation de la Commission pour les négociations du GATT 3 August 1965 ; PRO BT 241/844 Telegram 17 from Cohen (UK Delegation to GATT) to Foreign Office, 15 February 1965; PRO BT 241/844 Telegram 28 from Cohen (UK Delegation to GATT) to Foreign Office, 15 February 1965; AECB – BAC 122/1991-3 Rapport n.45 de la délégation de la Commission pour les négociations du GATT, 9 July 1965.

⁴⁹ CM2 1965/314, PV de la 67^{ème} réunion du Comité 111, 14 January 1965 and *ibidem* PV de la 68^{ème} réunion du Comité 111, 18 February 1965.

⁵⁰ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 2, "Kennedy Round – Confrontation and Justification Sessions", undated, and NA 364, Recs. of US trade Representatives on the Kennedy Round, box 4, "EEC Confrontation: opening Statement".

⁵¹ Letter from Roth to Thomas B. Curtis, 1 April 1965, Roth Papers, box 1, LBJL.

held regarding the aims to be achieved. In fact, the stalemate had been caused not only by the UGP issue but also by these competing visions. Despite all the doubts that existed in the State Department and in the White House, Washington still considered it important to try and include this sector in the Kennedy Round, and looked with alarm at the complete stalemate. Unless steps were taken to get agricultural negotiations under way promptly, there was the grave risk that the opportunity to try to achieve significant liberalization would go begging, with the consequences this would imply regarding the success of the Kennedy Round.⁵²

In help of the Americans came Wyndham White. For the GATT Director, any effort to seek an agreed set of rules with the EEC was doomed to failure, as what the Six were prepared to do in agriculture was virtually unacceptable to the other governments. Wyndham White made crystal clear to Blumenthal that the best way to move ahead consisted in avoiding indefinite wrangling over rules, and in setting a date for tabling agricultural offers. Once, and only once, the date had been set, discussions could take place to define, to as high a degree as possible, the nature of the offers to be submitted. This suggestion aired what the man responsible for agriculture in Herter's STR team, Irwin Hedges, had already suggested in October 1964 in the face of the deadlock in the USA-EEC discussions, that is that the US could try to proceed without any rules.⁵³

Herter and Blumenthal rapidly adopted Wyndham White's proposal. They had insisted on an agreement on rules in order to push the EEC to negotiate, but after almost two years of haggling, they had come to realise that any agreement to get reasonable prospects of liberalization of agricultural trade was simply hopeless and had the only tangible result of stonewalling the negotiations. Wyndham White's suggestion avoided getting the USA embroiled once again in bilateral discussions with the EEC, and could get the agricultural negotiations out of the impasse as well as constituting a test of EEC willingness to make offers in this sector. In short, it could give agriculture a bold stroke. Herter decided to stop the quibbling about the rules, and sought to move ahead with the agricultural part of the Kennedy Round, starting with a prompt agreement on the date for tabling offers.⁵⁴ With the President Johnson's support, at the end of January 1965, Herter left for Europe to try to get the agricultural negotiations under way by securing an agreement that all countries would table specific offers on agricultural trade at the earliest date possible.⁵⁵

In Geneva, Wyndham White put forward his proposal of launching the agricultural negotiations by avoiding further theological discussion, and tabling concrete offers by April, in the form governments judged appropriate, for all agricultural products.⁵⁶ To get EEC approval, however, Herter left for Brussels to meet

⁵² The need for the US to push ahead agriculture was made more urgent by the fact that the USA's acceptance to table exceptions without parallel progress in agriculture had been interpreted by some as a weakening of American stance regarding the idea that agriculture and industry had to be linked. Memorandum for the President from Herter "Agriculture in the Kennedy Round", 19 January 1965. NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL.

⁵³ HAEC JMAS 95 Letter from Hinton to Tuthill, 14 October 1964; NA 59, 1964-1966, box 450 telegram TAGG 2522 from Blumenthal to Herter, 20 November 1964 and Letter from Blumenthal to Herter, 15 December 1964, Herter Papers, Box 1, JFKL.

⁵⁴ Telegram 1155 from Herter to Tuthill, 21 December 1964, NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL; Memorandum for the President from Herter "Agriculture in the Kennedy Round", 19 January 1965. NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL; PRO FO 371/183399 Telegram 165 from UK Embassy in Washington to Foreign Office, 26 January 1965. The document reported conversation between Roth and Chadwick of the UK Embassy in Washington.

⁵⁵ Letter from Johnson to Herter, 21 January 1965, Bator Papers, Box 1, LBJL; NA 59 1964-1966, box 460 Telegram 1510 from Herter to Tuthill, 13 January 1965.

⁵⁶ NA 250 1964-1966, Subject Numeric FT 13-2, Box 979, Telegram 2705 from Blumenthal to State Department, 22 January 1965; NA 59, 1964-1966, box 460, Telegrams 2713 and 2714 from Herter to Roth, 27 January 1965; AECB BAC 122/1991-3 Rapport 26 de la délégation de la Commission pour le négociations GATT, 27 January 1965.

Mansholt and Rey and to obtain their agreement to negotiate along Wyndham White's proposals. The two Commissioners played a central role in achieving to a final agreement with the American negotiators. Mansholt was deeply disappointed by the American position. He had envisaged the Kennedy Round as a part of a "*grand design*", as he put it, for global management of markets for agriculture and he did not want to give MDS up, judged a valuable negotiating rule that worked in this regard. At the same time, despite the disappointment, Mansholt was aware that some progress had to be made, and that the plan could not be refused outright. Thus, he opposed tabling offers in April 1965, as the EEC could not do so until all internal issues of the CAP, notably the agricultural and financial regulations, had been settled, but suggested to start negotiating on 16 September 1965 when, it was hoped, the new part of the CAP would have been approved. However, Mansholt did not abandon his plan to use the Kennedy Round to organize world agriculture, and suggested that the date had to be conditional upon prior agreement by the Contracting Parties on the elements of agricultural protection to be encompassed by the offers. Decision on which elements of national policy affected international trade had to be made on a joint basis, and not simply left to each participant. As such, in the interests of the MDS approach, Mansholt suggested that there must be prior agreement on the relevant elements of protection and domestic support system that had to be negotiable.⁵⁷

Despite the frustration caused by the further delay that Mansholt was suggesting, Herter was prepared to be flexible over timing, if this could help the Commission overcome difficulties on the CAP during the summer, and could wait until the Community had resolved its internal disputes, but on the condition that the EEC accepted a date for concrete tabling of offers regarding the whole agricultural sector, irrespective of the outcome of any internal negotiations or the discussions in Geneva. The United States would go along with the 16 September 1965 date, if this were the best the EEC was prepared to offer, but the date had to be unconditional. At the same time, Herter insisted that negotiations on grains get started in April, given that the EEC already had common prices for these commodities.⁵⁸

Mansholt doubted the ability of the EEC to table offers for grains, making progress on one product without, simultaneously, tabling offers on others. But it was difficult for the EEC to refuse an April start for grains, when in 1964 it had repeatedly stated that as soon as grain prices were established, negotiations could begin. He also had doubts about the ability to unconditionally accept the 16 September date as this had fundamental implications for the EEC; it implied the fixing of meat and dairy product prices before September in order to be able start negotiations on these commodities and the approval of the financial regulation, a thorny issue among the Six. The commitment of the EEC on the 16 September date thus had a strong political relevance, as it affected the pace of the setting up of the CAP and the working agenda of the EEC. Rey did not share Mansholt's doubts: In the latter's view, the EEC could accept American proposals for an unconditional 16 September date, and to start negotiations over grains in April

⁵⁷ Note on visit of EEC Vice-President Mansholt, February 8-9, "Kennedy Round and agriculture" attached to Memorandum from Roth to McGeorge Bundy, 9 February 1965, NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL; NA-250 1964-1966, Subject Numeric FT 13-2, Box 979, telegram 2750, from Blumenthal to Herter, 8 February 1965. PRO FO 371/183399 Telegram 9 from O'Neill to Foreign Office, 2 February 1965. The telegram reported the conversation between the Commission, Herter and Blumenthal given by the Americans to O'Neill.

⁵⁸ Ibidem and Letter from Roth to Curtis, 8 March 1964, Roth Papers, Box 1 LBJL; AECB BAC 62/1980-54, PV 304, 3 February 1965.

for, after months of stalemate, the time really had come to strike a deal in order push ahead with agriculture.⁵⁹

The final agreement between the Commission and Herter was eventually reached when Mansholt visited Washington on 7 February. The compromise consisted of tabling offers on grains on 1 April, then, between April and September, an inventory of border protections and domestic support measures affecting trade in commodities other than grains would be carried out, in order to reach agreement to the greatest extent possible on the protective elements to be included in the negotiations; and, finally, on 16 September 1965, offers on commodities were to be unconditionally tabled, meaning irrespective of the EEC internal negotiations during the summer, and of the outcome of the discussion in Geneva.

While accepting this timetable, Mansholt cautioned Herter about the possibility of implementing it. Negotiations on grains could start because, after having forced partners to wait for the decision on UGP, the EEC could not request any further delay while it settled the rest of its agricultural regulations. However, it was not politically feasible to proceed with the bulk of agricultural offers before the EEC internal regulations were completed. And, if the Council of Ministers failed to reach agreement before the summer vacation, it would almost certainly refuse to table agricultural offers. Mansholt believed that the two most eager countries among the Six to attend the Round, The Netherlands and Germany, were also those most hesitant about completing regulations, The Germans due to September elections, and the Dutch owing to food price increases that would probably result. This would allow the French to hold Kennedy Round agricultural offers conditioned on the internal regulations. Mansholt frankly admitted that the Commission was in favour of the September date because it provided a major source of leverage to get the German and Dutch to agree to next CAP lot. Thus, once again, the Commission was hoping to exploit the GATT talks to move ahead with the CAP.⁶⁰

The meetings of February started to resolve the deadlock over agriculture, but once the agreement had been reached between Herter and Mansholt, the Commission needed the approval of the Member States. Aware that a refusal to agree to follow the Herter-Mansholt timetable could have serious repercussions for the GATT talks, at the Council of Ministers meeting in early March, the Six approved it without discussion and authorized the Commission to proceed with the grain negotiations in April, and to table offers on all other agricultural products on 16 September 1965. In elaborating these offers, the Council would take into account the results of negotiations on cereals, of the confrontation of agricultural policies and of the state of work within the EEC regarding the elaboration of its CAP.⁶¹

The Herter-Mansholt discussions were able to push the negotiations ahead. In Geneva on 18 March 1965, the EEC, the United States, the United Kingdom and Japan

⁵⁹ Ibidem; Rey appeared to be ready to agree to the American proposals but was stopped by Mansholt whose rigidity surprised the Americans. PRO FO 371/183399 Telegram 9 from O'Neill to Foreign Office, 2 February 1965 reporting conversation between O'Neill and officials of the US delegation in Brussels.

⁶⁰ NA 59, 1964-1966, box 450 Telegram BUSEC 379 from Herter to various US Embassy "Mansholt and the Kennedy Round", 9 February 1965; Letter from Roth to Murphy (US Under Secretary USDA), 23 February 1964, Roth Papers, Box 1 LBJL. While Herter showed to have a comprehensive approach towards EEC difficulties, Freeman was quite sharp with the Commissioner, indicating that there was a deep concern in Washington about the delay on agriculture and the rigid insistence of the EEC on the margin of support formula. Memorandum from Roth to McGeorge Bundy, 9 February 1965, NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL.

⁶¹ CM2 1965/15 PV de la 160^{ème} session du Conseil de la CEE, 2 March 1965. On the Council of Ministers' approval Tuthill wrote "The conclusion of the 111 Committee were submitted to the Council of Ministers which disposed of the matters in two minutes". NA 59 1964-1966, box 460, Telegram 946 from Tuthill to State Department, 4 March 1965.

set a timetable for agricultural negotiations, as already agreed by Mansholt and Herter.⁶² Therefore, following daunting discussions over agriculture, a schedule for negotiations had been adopted. Beneath the surface, however, the situation was much more complicated. In fact, the steps were slowed down by a last minute difficulty created by German hesitation. Despite the formal acceptance given to the EEC Council of Ministers, Bonn and, to and to a lesser extent, The Hague, were resistant in accepting the 16 September date unconditionally, as this presupposed the adoption a huge part of the CAP, adoption of common prices for milk, meat and rice and of the financial regulations that could cause problems to the German government because of the general election of September 1965. The Herter-Mansholt agreement postulated more than Germany could possibly deliver by 16 September 1965, as Erhard had instructed German officials that no final decision could be taken on agricultural products in Brussels, and no new price decisions were to be accepted before the German elections. Bonn was anxious to avoid repeating the difficulties over UGP, when a fixed international deadline had been used to pressure it into unpopular domestic decisions. In fact, when meeting de Gaulle in mid-March, Erhard informed the French President that while he had been able to approve UGP before the German election, the new CAP batch would only be approved after Germany had gone to polls. Yet, for Erhard the problem was not only the negative impact on German farmers, but also the German intra-EEC bargaining position that could become weaker if the French obtained another favourable batch of CAP provisions, while giving nothing in exchange. The French could simply exploit the Kennedy Round to obtain progress on the CAP.⁶³

While accepting the 16 September date, so not to appear as the stumbling block for the Kennedy Round, Bonn's opposition to further fixing common prices remained. During Herter-Mansholt, the Dutch and the Germans privately told Blumenthal that if the EEC tabling of offers on 16 September required that, by that time, all the internal CAP issues had to be settled, the deadline could not be met by the EEC.⁶⁴ Within the German government, Schwarz, the Minister of Agriculture, remained opposed to fixing common prices, and to find a way out he suggested that the EEC spokesman in Geneva made a qualifying statement, saying that, in September, the EEC could only be able to make vague offers.⁶⁵ Schwarz's proposal was picked up by Stedfeld, German delegate to GATT. While, in mid-March, an agreement was being reached in Geneva, the German official confidentially approached Wyndham White informing him of serious German difficulties. Stedfeld therefore suggested that the Commission representative make an oral statement indicating that "in certain marginal cases", where the EEC system and prices were not finally decided before 16 September, the EEC offers could be more general in nature, and perhaps temporarily withheld altogether. Faced with this

⁶² NA 59 1964-1966, box 460, Telegrams 2871 and 2872 from Blumenthal to Herter, 11 March 1965. Letter from Richard Powell to Herter, 17 March 1964, Roth Papers, Box 1 LBJL.

⁶³ NA 364 Records of US Trade Representatives on Kennedy Round, box 6 US delegation to the Sixth Round of GATT trade negotiations, Staff meeting, doc 28/Staff 7, 8 February 1965. PRO BT 241/844 Telegram 96 from British Ambassador Roberts in Bonn to Foreign Office, 5 May 1965. For de Gaulle-Erhard meeting see HAEC MAEF, OW 36 Note, 17 March 1965.

⁶⁴ NA 364 Records of US Trade Representatives on Kennedy Round, box 6 US delegation to the Sixth Round of GATT trade negotiations, Staff meeting, doc 28/Staff 7, 8 February 1965.

⁶⁵ NA 364 Records of US Trade Representatives on Kennedy Round, box 6 US delegation to the Sixth Round of GATT trade negotiations, Staff meeting, doc 72/Staff 27, 14 April 1965; NA 59 1964-1966 box 450, Telegram 3513 from Cronk of US Embassy in Bonn to State Department, 15 March 1965 and ibidem box 460 telegram 1022 from American Embassy in Brussels to State Department, 16 March 1966.

German stance, Wyndham White spelled out that any statement qualifying it would upset the entire deal.⁶⁶

In any case, the Germans did not give up also because the firm opposition of Schwarz remained. Thus, at the 18 March GATT discussions that had to approve the Mansholt-Herter agreement, German representatives tried to attach qualifications in order to exclude some products from the 16 September tabling. Washington was deeply irritated by the German attitude, and openly spelled out its annoyance. The US Ambassador in Bonn, McGhee, made clear to Lahr that any attempt to qualify the 16 September date would jeopardize the whole agreement. McGhee also expressed concerns regarding the German attitude towards common prices in the forthcoming CAP negotiations.⁶⁷ Lahr tried to reassure McGhee that he and Schröder would urge the German government to "take reasonably prompt action" on meat and rice, while, for dairy products and sugar, delay in fixing prices had not to be overdramatized, as progress in GATT could be made after the German election.⁶⁸ As it had already happened during the UGP discussions, the German government once again appeared to be a set of Ministers who were in permanent disagreement, rendering the German decision-making process incoherent. And from the way the German government was getting ready for the negotiations over the CAP, another storm seemed to be brewing.

Thus just when an agreement seemed to be within reach regarding agriculture, the situation was turned out to be much more complex. In Geneva, the Germans insisted on their reservations and asked that some reference be included in the Herter-Mansholt plan. With the categorical refusal of the Americans to do so, and the irritation of the Commission, France and Italy, the Germans requested that such a reference was at least included in the EEC declaration of acceptance of the Herter-Mansholt plan. After some hurried consultation between the Commission and the 111 Committee in Geneva, the impasse was overcome by an ambiguous declaration by Hijzen, issued after the EEC and the USA had agreed on the settled schedule, stating that, in considering the content of its offers for September 1965, the EEC would take into consideration the development of the elaboration of the CAP.⁶⁹

With the March agreement, negotiations on the agricultural sector were eventually put on track. A working method had been identified, and, at this point, it seemed that the Kennedy Round was well on its way. In effect, in April, governments started examining their system of protection, and in mid-May they tabled their proposals to set up an international commodity on grains. After much haggling, negotiations over grains had gotten under way. Unfortunately, the situation was much more complicated than this. As already anticipated by German attitude over the Herter-Mansholt plan, tension continued to characterise relations within the EEC until such tension exploded in a full crisis at the end of June 1965, which came to completely block the Kennedy Round.

⁶⁶ PRO FO 371/183385 Telegram 59 from Cohen to Foreign Office, 19 March 1965 and NA 59 1964-1966, box 460, Telegram 2881 from Blumenthal to Herter, 15 March 1965.

⁶⁷ PRO FO 371/183385 Telegram 59 from Cohen to Foreign Office, 19 March 1965 and NA 59 1964-1966, box 460, Telegram 2943 from Blumenthal to Herter, 25 March 1965; NA 59 1964-1966, box 450, Telegram 3513 from Cronk of US Embassy in Bonn to State Department, 15 March 1965.

⁶⁸ NA 1964-1966, box 451 Telegram 3747 from McGhee to State Department, 31 March 1965 reporting conversation between McGhee and Lahr.

⁶⁹ HAEC BAC 512 – CEE Conseil des Ministres, Note d'information "Négociations commerciales multilatérales du GATT – Plan des négociations en matière agricole", 19 March 1965; AECB BAC 122/1991- 3 Rapport n.32 de la Délégation de la Commission pour le Négociations du GATT, 29 March 1965; PRO FO 371/183385 telegram 58 from Cohen to Foreign Office, 19 March 1965.

Conclusion

The chapter has illustrated how the interest of the Six in attending the GATT Round as a regional trading unit allowed them to overcome the difficulties that existed within the EEC, and to reach compromises. To set up a common list meant moving from six national commercial policies to a common commercial policy. The preparation for the Kennedy Round moved the Six in this direction, and pushed them to make the necessary compromises and, in this sense, the GATT talks represented an external stimulus in this regard. The elaboration of the exceptions list also showed that even if, generally, The Netherlands and Germany were characterized by a more liberal attitude than France and Italy, it is also true that also the former two countries had their industries to protect, and did not hesitate in calling for trade protection, as was the case for the paper sector. Hence, in the commercial policy of the all Six, liberalism coexisted with protection and regulation.

In the elaboration of the exceptions list, the Commission played a key role. It elaborated basic compromises, used its technical skills to formulate bargains acceptable to all Six and to promote a common commercial policy, and in this way enhanced its role in the EEC decision-making process. At the same time, the elaboration of the exceptions list showed that Member States retained in their hand in the decision-making process, and maintained ultimate control of every single item of the exceptions list and hence of the EEC commercial policy.

As for the United States, despite their efforts to get to Geneva with a very liberal stance, they too had trade sectors to protect. Therefore, in the US trade policy, liberalism similarly coexisted with protectionism. In agriculture, the USA started with the unrealistic position of advocating linear reductions in agricultural protection equivalent to the 50% cut in industrial tariffs, and to make tariff reductions to all products covered by tariffs. Eventually, they switched to a pragmatic approach, according to which participants would put forward the offers which best suited the arrangements of their particular system of protection. The USA hoped, in this way, to maintain agriculture as part of the negotiations and to push the EEC to make meaningful offers. At the end of May 1965, meaningful discussions for both the industrial and the agricultural sectors were under way. Lists of exceptions had been exchanged and exchanges of offers on cereals had started at the end of May. It seemed that 1965 would turn out to be the decisive year. However, as the German attitude towards the respecting of the 16 September 1965 date for tabling offers in the agricultural sector anticipated, another storm was arriving on the horizon of the Kennedy Round.

Chapter Eight

Deadlock: The Crisis of the Empty Chair

Introduction

Chapter Six and Seven described the intricate period running from June 1964 to May 1965. They portrayed the slow progress the EEC internal disagreement and the lack of rules over agriculture imposed on the Kennedy Round, but also described the first achievements made on manufactured goods, and then on agriculture, thanks to the setting of UGP. At first sight, this progress cause one to believe that 1965 was set to be the decisive year for the Kennedy Round. At the end of May it apparently seemed that the Round had gained a certain amount of momentum: negotiations over exceptions lists continued, discussions over the international grain agreement had just been kicked off and an unconditional date for offers in agriculture in September 1965 had been settled. Yet beneath this serene surface, the situation was far more complicated. First, the Six still had to agree on another crucial batch of CAP negotiations, and, second, frustration existed among the Six for the way in which the EEC was developing. All the tensions that existed at the EEC level, anticipated by the German and Dutch ambivalent attitude towards the 16 September date, exploded in a major EEC internal crisis – the so-called crisis of the Empty Chair – at the end of June 1965, with the result of stymieing progress in the Kennedy Round.

After briefly describing the factors that led to the crisis, this chapter portrays its consequences for the Kennedy Round and the attitude the Six, the Commission and the United States adopted to deal with it. Regarding the Americans, we will demonstrate that the USA not had only a paramount interest in keeping the Kennedy Round alive, but also in protecting the European integration process from the crisis. It was also this second goal that drove the position of the White House and State Department, despite complains from the Department of Agriculture for the alleged negative consequences on US farm interests. On the European side, we will show how the tensions that existed among the Six over the EEC agenda, and a lack of confidence between them, played a major part in the outbreak of the crisis. It was only at the end of July 1966, with the final agreement on the CAP and on the definition of the Commission mandate to attend the agricultural part of the Kennedy Round that the EEC crisis was ended and negotiations in Geneva between the USA and the EEC could begin. The aim of the chapter is to show that the crisis had no effect on the Commission's role and position in the Kennedy Round as this institution retained all its power and authority to negotiate and was even able to increase it in the second last part of the Round. I also show that Luxembourg compromise had no effect on the way the common commercial policy had to be adopted in the Council of Ministers as the Six had, already before the crisis, informally decided that decisions on this policy would be decided unanimously.

8.1 The break out of the crisis of the Empty Chair

In sending his annual report on the EEC to the State Department in January 1965, US Ambassador Tuthill warned that another difficult year seemed in prospect for the Kennedy Round because of the difficult negotiations on the exceptions lists and agriculture. He "urged that in grappling with these issues and in defending our interests – which we certainly must do – we keep our basic security interests ever in mind and seek to deal with the specific issues with a balance of firmness and patience". Tuthill's

suggestion of bearing in mind security interests and his call for patience and firmness proved to be a thoroughly useful suggestion to guide US action in the second half of 1965.¹

Despite the setting of UGP, tension continued to condition relations among the Six. Germany was dissatisfied with the priority the achievement of the CAP had been given since 1961, while Chancellor Erhard remained fully determined and focused on establishing the Political Union project in the EEC, as German proposals of November 1964 on the EEC agenda had demonstrated. Feeling that a great sacrifice has been made by accepting UGP, Germany entered 1965 convinced of being owed something in return, above in terms of its Political Union plan.² This German hope receded rapidly. While France had at first been prepared to discuss political union, in March, Couve de Murville made it known that progress in this field would be possible only after the approval of the financial regulations for the CAP. Thus France continued to require the preliminary accomplishment of the CAP as a condition of making progress in other fields, and had no intention of paying Germany back for the UGP, as Bonn felt it deserved, since the completion of the CAP was something laid down by the Treaty of Rome. This French stance further increased German suspicious towards de Gaulle's desire to impose his own priorities on Germany. It seemed that France had its agenda and had every intentions to implementing it, regardless of any German agenda.³

To cap it all, the French stance towards US role in the monetary system and East-West relations seemed to have been formulated in order to create further strain between France and Germany. In February 1965, de Gaulle described the international monetary system as an inequitable deal, which allowed to the United States to finance its external commitments and buy up European firms by simply printing dollars and building up a huge balance of payments deficit. The French president challenged the pre-eminence of the dollar as an international currency, suggesting a return to the gold standard, and invited other governments to turn their dollar surpluses into gold so to bring the system to an end. Even if Germany also felt that the American deficit in its balance of payments could not continue forever, and that the Europeans could not buy many more dollars, and indeed warned Washington of this, they had no intention of following the French lead by developing an antagonistic attitude towards the Americans in monetary relations. By the same token, De Gaulle's "courtship of Russia" and his statement that the policies of France and Russia were marked "by growing understanding and cooperation" raised suspicions in Bonn regarding French policy towards the Soviet Union.⁴

Faced with this situation, Erhard and Schroeder became convinced that Germany had to compel France to approve progress in other areas –the completion of the customs

¹ NA 59, 1964-1966 Ecin 3 Box, box 795 ECBUS A-505 from Tuthill to State Department, 20 January 1965.

² German intentions were clearly demonstrated by German Minister Schuemaker at the EEC Council of Ministers meeting of 2 February 1965. According to him, Germany had approved the UGP "dans le ferme espoir que cette attitude constituerait sur plan politique un facteur décisif de la progression rapide de l'intégration européenne dans tous les domaines". CM2 1965/6 PV de la 158^{ème} réunion du Conseil de la CEE, 2 February 1965.

³ In addition to the sources cited below, the following description of the strained relations within the EEC at the beginning of 1965 is grounded on Ludlow N.P. *The European Community and the Crises of the 1960s: Negotiating the Gaullist Challenge*, (London, Routledge, 2006), pp.78-91 and of the same author "Challenging French Leadership in Europe: Germany, Italy, the Netherlands and the Outbreak of the Empty Chair Crisis of 1965 – 1966" in *Contemporary European History* 8 (1999), p. 231-248. For Franco-German relations see Soutou, G.H. *L'alliance incertaine: les rapports politico-stratégiques franco-allemands, 1954-1996* (Paris: Fayard, 1996).

⁴ Taken from Willis R. F. *France, Germany, and the New Europe 1945-1967*. (Stanford and London: Stanford University Press and Oxford University Press 1968), pp. 335-336. On de Gaulle's attack to the dollar, see Grosser, A. *The Western alliance: European-American relations since 1945* (New York: Vintage Books, 1982), pp. 234-235. For monetary relations see James, H., *International Monetary Cooperation Since Bretton Woods*, (Washington, DC: International Monetary Fund, 1996).

union and the common commercial policy, elimination of fiscal borders, transport and monetary policies, the strengthening of the European Parliament, greater integration in foreign policy and, obviously, the Kennedy Round – which were of greatest interest to Germany, and to use the approval of financial regulations to this aim. The financial regulations had to be exploited to make progress in other areas, as this was the last opportunity to get concessions from France. In this exigency to get concessions from France in exchange for progress over the CAP, the agricultural part of the Kennedy Round complicated the German position. Germany had continuously emphasized its support for the GATT negotiations, but the 16 September date for tabling agricultural offers in Geneva presupposed progress on the CAP that Bonn had problems in committing itself to. Thus, GATT commitments, which made progress on the CAP mandatory, seemed to push the Germans to urgently seek equivalent measures in other areas.⁵

On the other side of the Rhine, Paris reasonably doubted the Germans' willingness to make further progress on the CAP. Since the agricultural marathon negotiations of December 1961, Germany had shown itself to be recalcitrant in achieving the CAP and had reiterated that the achievement of the CAP was only due in 1968, as the Treaty of Rome laid down. So, Bonn had not allotted much priority to this common policy in plans on the EEC working agenda and, worse, in June 1964 Reinhardt had openly claimed with Wahl that there was no need to set the CAP in order to attend the Kennedy Round, as the EEC members could attend the negotiations on an individual basis.⁶

French doubts about the German willingness in setting the CAP increased right when progress for this common policy had become urgent for France. First, Germany had entered the agricultural part of the Kennedy Round hoping to get the be able to maintain its imports of cheap food from third countries, and had therefore suggested the concessions of quantitative assurances to third countries, exactly the request Washington had been making since 1963. To exclude such this possibility, the French had made it crystal clear that they would allow no quantitative assurance, and would not conclude the Kennedy Round, including its industrial part, without the full elaboration of the CAP. Thus, the final establishment of the CAP remained urgent for Paris in order to avoid the Kennedy Round bringing it into question.

Second, Germany had been constantly warned that its request for high UGP would artificially increase EEC production and, in particular, production on the part of French farmers, due to the higher prices which would be on offer. Without a EEC financial regulations, the cost of this surplus would have borne by the French government. As such, Paris considered the approval of the financial regulations as economically necessary for France, and an instrument to make Germany "pay the price of its earlier political choice" of high UGP. As a result, France prepared to become even tougher in its tactics to see that the CAP was accomplished.⁷

The tension within the EEC at the beginning of 1965 did not concern only Franco-German relations. To make the situation even more strained came along Italian and Dutch discontent about the EEC agenda. Since 1958, Italy had not seen its agricultural exports increase in a meaningful way, as French exports had done. Until 1965, the CAP had concerned grains, meat, dairy products, and not products of main

⁵ HAEC - MAEF, OW 36, Note, 19 January 1965 reporting conversation between Schröder and Couve de Murville. The German Foreign Minister listed the sector Germany wished to see progress and CM2 1965/6 PV de la 158^{ème} réunion du Conseil de la CEE, 2 February 1965.

⁶ For the meetings between Lahr and Wormser and between Reinhardt and Wahl see chapter 5.

⁷ Ludlow, N.P., *The European Community and the Crises of the 1960s*, chapter 2.

concern to Italy, such as fruit and vegetables, olive oil, rice and wine. Worst, Italy had experienced a huge surge of imports of meat from outside the EEC, with the result of making the poorest EEC member the largest net contributor to the EEC agricultural fund because of the CAP financial rules. Rome therefore wanted to extend the CAP to products relevant to Italy. Moreover, like Germany, Italy also resented French action within the EEC. Rome felt that France had to pay the other Member States back for having obtained UGP in December 1964, which, with the lowering of prices for hard wheat, imposed sacrifices to Italy too, and had to allow progress in the political union. To cap it all, Italy was also displeased with the priorities that the EEC had pursued up until that moment. The economic integration of the six EEC members, with the dismantling of the barriers to trade within the EEC and the setting of the CET at level lower than the Italian tariff levels, increased economic competition on the Italian market. For this reason, Italy asked to balance this increased competition with common regional and social policy in order to help lessen the economic inequalities that existed among the EEC regions. Notwithstanding the Italian request, not much attention was paid to those issues at the EEC level. As a result, in March, Italian discontent towards the EEC agenda, the CAP and the French clearly surfaced and made Italy shift its stance from the mediating position it had often played since 1958 to a more confrontational one.⁸

As for the Dutch, in February 1965, they made it clear to the French that they attached great importance to the condition that, when the financial regulation was discussed, a central place be recognized to the European Parliament in the budget procedure of the EEC. Foreign Minister Luns had already identified this aim at the Council of Ministers meeting of 1 December 1964 and, on 2 February, the Dutch Parliament had passed a motion openly demanding the extension and strengthening of the powers of the European Parliament. As with the adoption of the financial regulations, national parliaments would not control part of the financial sources of the EEC, it being necessary to strengthen the role of the European Parliament, and if this condition went unmet The Netherlands would not approve the financial regulations.⁹

There was no doubt that until 1965 France had been the leader of the Community, able to impose its points of view to the Five. The French, helped by the Commission, were setting up a kind of CAP that matched French interests and were leading the Kennedy Round in a way which caused tough clashes with the Americans. Until that time, the Five had made concessions to the French, fearing that, otherwise, the French would abandon the EEC. However, by 1965, the economic advantages that French enjoyed in the EEC were such that the Five doubted whether France would ever dare to leave, and it appeared that they wanted to be recompensed for the sacrifices they made to keep France in the Community.

In this strained framework, the Commission presented its audacious March 1965 proposals for making progress in many fields at the same time, and gave fire to the powders. The necessity for an arrangement for financing the CAP provided the Commission with an opportunity for political progress. At the end of March 1965, it put forward its proposals on the financing of the CAP, seeking French agreement to strengthen the supranational qualities of the Communities, giving more power to the

⁸ On Italian discontent towards the CAP and the EEC agenda see Cattani's declarations at the EEC Council of Ministers of 2 February 1965 CM2 1965/6 PV de la 158^{ème} réunion du Conseil de la CEE, 2 February 1965. On the CAP in particular see Galli, R., Torcasio, S. *La partecipazione italiana alla politica agricola comunitaria* (Roma, Bologna: IAI, Il Mulino, 1976), pp.85-86 and Laschi G. *L'agricoltura italiana e l'integrazione europea* (Bern: P. Lang, 1999). On Italy and EEC social policy see Varsori, A. *Il Comitato Economico e Sociale nella costruzione europea* (Venezia: Marsilio, 2000).

⁹ HAEC – MAEF, OW Télégramme 448/52 Wormser à l'Ambassade de France à la Haye, 19 February 1965.

Commission and the European Parliament, in exchange for highly favorable financial arrangement on agriculture. The Commission would be provided with independent funding based on the transfer of customs duties and duties levied by the national governments on imports of foodstuffs into the EEC. The European Parliament would have the task of scrutinising the Commission's receipts and expenditure. The Commission's move was a clear potential hazard, and it had major consequences on the relations among the Six.

The description of the events leading to the final breakdown at the end of June 1965 at the Council of Ministers session of 28 June – 1 July 1965 is clearly out of the scope of this account. What matters here is that the Commission's proposals were discussed between the Six until the end of June 1965 and took up the entirety of the Ministers' attention. France had no intention of paying the political prices of increasing the power of the Commission and the Parliament in order to obtain the financial regulations of the CAP. It wanted only the financial regulations to be approved and had no intention of yielding to supranationalism. In contrast, the Dutch, the Germans and the Italians, even if not fully supporting the Commission's proposals, insisted on their indivisibility in order to get French concessions on institutional reforms, and in particular on the power of the European Parliament. The three countries, under the leadership of the German Foreign Minister Schröder, strongly opposed the French goal of obtaining the approval of the financial regulations without parallel progress on the European Parliament.

The Commission's proposals were based on a miscalculation: Mansholt and Hallstein had believed that de Gaulle would pay a political price to get the final approval of the CAP. But a financially independent EEC with a strengthened Commission and Parliament was clearly abhorrent to de Gaulle, who was not willing to pay the price set by the Commission. Faced with the toughness with which the Five defended their position, the French decided to do what they had threatened to do many times. After many warnings on the serious consequences of a failure to agree, during the night of 30 June, French Foreign Minister Couve de Murville, chairman of the Council of Ministers, pointing to the impossibility to find an agreement, declared the Council of Ministers session over, instead of getting down to further extensive negotiations, as had become customary in such situations, as previous negotiating *marathons* had shown. Then, in the followings days, France withdrew from the work of the EEC Council of Ministers and other policy-making committees of the Community, including the 111 Committee, and the crisis of the Empty Chair broke out.¹⁰

8.2 The US reaction: keep the Round alive while supporting European integration

The breakdown in Brussels was to have immediate repercussions in Geneva. Washington had hoped that the stalemate over UGP would be the last (of the many) obstacles to date, and that negotiations in Geneva could begin in earnest. But the crisis made the destiny of the EEC and, consequently, of the Geneva talks, uncertain. The

¹⁰ For a description of the events which took place from the end of March to the end of June 1965, in addition to Ludlow's works already cited see Loth, W. (ed.) *Crisis and Compromises: The European Project 1963 – 1969*, Baden-Baden/Bruxelles: Nomos Verlag/Bruylant: 2001 and Palayret, J.M., Wallace, H., Winand, P., (eds.) *Visions, Votes and Vetoes: The Empty chair Crisis and the Luxembourg Compromise Forty Years On* (Brussels: Peter Lang, 2006). For the Council of Ministers of 28 June – 1 July 1965 see CM2 1965/51 PV de la 172ème session du Conseil de la CEE, 28 June – 1 July 1965 and the account made by Boegner to the Quai d'Orsay in HAEC – MAEF OW 36, Télégramme 791/800, 1 July and télégramme 801/090, 2 July 1965 where Boegner claimed that Giscard D'Estaing made several concessions on the financial regulations, to the Italians in particular, but the Italian, Dutch and German delegations seemed to have no intention of achieving a final compromise. Only Belgium supported France.

effect of the crisis was immediately felt in Geneva. As a result "of the shock waves of President de Gaulle's explosion under the European Common Market [...] the KR [...] suddenly has sagged to a point where it is all but impossible to find a pulse beat" wrote the *Los Angeles Times*.¹¹

In Washington, the Commission's move to link the financial settlement of the CAP to supranational progress was seen as risky.¹² But despite the miscalculations of the Commission, according to the American Ambassador in Paris, Charles Bohlen, the new crisis had not been caused by this institution, but instead had its origin in manifestly political factors.¹³ Bohlen did not believe that de Gaulle wanted to break up an organisation he did not like: even de Gaulle could not fail to take into account the economic advantages that the EEC gave to France. De Gaulle's "objective [was] to retain what he would regard as [the] useful essence of Common Market – trade and perhaps financial benefits to France – while striking [a] decisive blow at political institutions which [were] basically repugnant to his view of [the] indivisibility of French sovereignty." De Gaulle was attacking not only the Commission, but also the Council of Ministers, which had become a Community institution where decisions affecting the internal affairs of France were taken outside the direct control of French national institutions.¹⁴

For the American Ambassador, the other key factor in the crisis were Franco-German relations. Paris viewed the German agreement on the financing of the CAP as a commitment that Bonn had to honour because it was essential to France's participation in the EEC, and not as a way of extracting concessions. Therefore, the French considered German support for the Dutch-Italian position on the powers of the European Parliament a stab in the back. The major problem for the French was that confidence in the Germans was no longer justified. In short, for the American Ambassador, de Gaulle's aims were to put a stop to the trend towards supranationalism within the EEC and to make certain that qualified majority voting (QMV) would have little or no practical relevance, to stop the Commission from acting as a political catalyst and to reduce its functions to purely technical ones. Moreover, de Gaulle's aim was to stop the Five, under the leadership of Schröder, from blackmailing France.¹⁵

Although the United States had a considerable interest in the course and outcome of the crisis, it decided to take no initiative. On the contrary, a discrete attitude was maintained in order to avoid accusations from the French of interfering with EEC internal matters. Washington carefully and deliberately refrained from commenting on the EEC crisis, and took the line that it was a matter of concern that the Europeans had to resolve amongst themselves. However, if publicly the United States decided not to make any comment, in private they feared the impact the crisis could have on the

¹¹ Quoted in Preeg E. H. *Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations Under the GATT*. (Washington, DC: Brookings Institute 1970), pp.112-113.

¹² Hallstein "got too clever" and wanted to use the financial issue, which benefited France, to force supranationalism on de Gaulle. "But the issue was not cleverly drawn and the timing was off. [...] Hallstein and company [...] moved carelessly and prematurely". Memorandum from David Klein to McGeorge Bundy, "De Gaulle and the Common Market", 7 July 1965, NSF Country File United Kingdom, Box 215, LBJL. French officials reported to the Americans that the "Commission has been getting a swelled head". Telegram n. 33 from Bohlen to State Department, 1 July 1965, NSF Country File, Europe and USSR, Box 171, LBJL.

¹³ "The General does not roll out his big guns to deal with 'quartermaster' problems", wrote Bohlen.

¹⁴ According to Bohlen, it made no sense to think that the French government was simply bluffing to get a better deal on financial regulation: "Not only would this be using a sledge hammer to crack peanut; but more seriously it would be bad negotiating tactics – and the French are rarely guilty of that sin". Telegram n. 140 from American Ambassador in Paris, Bohlen, to State Department "French purposes in EEC crisis", 7 July 1965, NSF Country File United Kingdom, Box 215, LBJL.

¹⁵ Telegram no. 33 from Bohlen to State Department, 1 July 1965, NSF Country File, Europe and USSR, Box 171, LBJL.

Kennedy Round, European integration and the Atlantic Alliance. If the EEC were to breakdown because of the French, the Kennedy Round could hardly be able to continue. And such a failure could impose French leadership, and diminish US influence, in Europe, and encourage American isolationism and protectionism. For the USA, the failure of the Round would represent a failure to continue postwar policies of liberalization in trade fields, and could have serious implications for world trade and political relationships.¹⁶ Washington had never saw these GATT negotiations as a merely tariff-reduction exercise. After de Gaulle's veto to British entrance into the EEC, the Kennedy Administration had counted on the MLF and the GATT negotiations to set up the Atlantic partnership, and keep the two sides of the Atlantic together. Moreover, some US officials feared that the breakdown of the European Communities could cause a historical setback for the US postwar policy, which included support for European political union and the Franco-German reconciliation, and would bring to an end Kennedy's idea for an Atlantic partnership. As Winand notes, "soon American officials worried that [de Gaulle] might link security, economic, monetary and political issues in order to torpedo both the EEC and NATO, and more generally to oppose US policies wherever they threatened to undermine his vision of Europe and French independence".¹⁷

Washington was reassured by the firm reaction of the Five and their opposition to any compromise with the French that would jeopardise the Treaty of Rome. It looked on with satisfaction as European governments, despite the wavering of the Belgians, stood firm. However, Washington considered the unity of the Five to be rather fragile, because the opposition to de Gaulle lacked unified leadership, above all a German leadership, and hoped that, after the German election, scheduled for September, Bonn could take the lead.¹⁸

It is against this background that the reaction of American negotiators in the Kennedy Round should be considered. Christian Herter, his deputy William Roth, and Michael Blumenthal, hoped the Five would hold firm towards the French, but also hoped the crisis would be quickly resolved otherwise the Round would collapse, given that the American delegation's authority to negotiate was set to end on 30 June 1967. At the end of July, because of the French absence, short of a miraculous European reconciliation, it was clear that the Six could not respect the 16 September deadline to table offers in the agricultural sector. At this point, Washington had to make up its mind about whether to proceed with the negotiations in spite of the fact that the EEC could not attend, or to wait for the crisis to pass.¹⁹

¹⁶ NA 59-250-57, 1964-1966 Ecin 3 Box 793 Telegram n. 37. From American Embassy in The Hague to State Department, 13 July 1963; Memorandum from David Klein to McGeorge Bundy, "De Gaulle and the Common Market", 7 July 1965, NSF Country File United Kingdom, Box 215, LBJL; Memorandum 'Impact of EEC Crisis on the Kennedy Round', 12 July 1965, Bator Papers, Box 12, LBJL.

¹⁷ Winand, P. *Kennedy's Atlantic Partnership, the EEC Empty Chair Crisis and the French/NATO Problem*, in Palayret, J.M., Wallace, H., Winand, P., (eds.) *Visions, Votes and Vetoes*, chapter 8. See this work for a full description of the US reaction to the crisis.

¹⁸ NA 364-130-51-23- Records of US Trade Representatives on Kennedy Round, Box 5, Telegram n. 1209 from Ball to American Embassy in Bonn, 18 November 1965.

¹⁹ After the start of the crisis of the Empty Chair Herter wrote to Bundy "It is becoming clearer every day that French agricultural policy and the curious foibles of Le Grande Charles make it more and more doubtful as to whether any meaningful Kennedy Round can be achieved prior to the expiration of the Trade Expansion Act. This being the case, I hate to see President Kennedy's name attached to an extraordinarily worthwhile effort which seemed to have petered out. It was Erhard who was most insistent on Kennedy's name being maintained in connection with the negotiations. Perhaps thinking about this matter should be postponed until after the general elections". FRUS 1964-1968, Volume VIII, International Monetary and Trade Policy, Doc 287. Letter From the Special Representative for Trade Negotiations (Herter) to the President's Special Assistant for National Security Affairs (Bundy), 20 July 1965.

The decision to go ahead with the negotiations was taken by President Johnson following the request of Herter, the State Department, Bator and Bundy who held that if the Geneva negotiations were formally halted, they would be difficult to revive, and would then collapse. In particular, an indefinite postponement of the agriculture talks was to be avoided, allowing useful discussions to begin with other countries. They feared that the crisis in the EEC and the full stalemate on agriculture could be exploited by Japan, UK and other agricultural importing countries more interested in the industrial part of the Kennedy Round as an excuse not to make progress in agriculture. Proceeding with the agricultural part of the Round would maximize pressure on the EEC to table satisfactory offers at a later date, and Washington could make it absolutely clear that the Round had to include agriculture too. On top of this, the decision would strengthen the hand of those in the EEC who favoured a liberal policy and could later join the agricultural negotiations, catching up in a similar spirit, making a point to those in the EEC who did not want progress in Geneva.²⁰

In the State Department's eyes, persevering with the Kennedy Round could be of crucial importance for the Community and the Commission. Once the crisis was over, negotiations in Geneva could well emerge as a major enterprise in which the Six could find and maintain their integrity as a Community.²¹ Given the hostility de Gaulle was displaying towards the Commission in the crisis, it was important not to undercut this institution's role: since Geneva was an important framework where it was negotiating on behalf of the Community, the Round's continuation could play a significant role in the Commission's survival as a political force. It was for this reason that Washington refused to consider the proposal from GATT Director General Wyndham White to continue the Round, simply replacing the Commission with the six Member States who would negotiate on an individual basis. The State Department considered this option as incompatible with the key American political objective to foster the unity of Western Europe. Therefore, Dean Rusk, the American Secretary of State, forbade Wyndham White from raising the issue with the French. The Kennedy Round had to be negotiated by the Community, represented by the Commission. One last consideration held sway in Washington: continuing the negotiations in Geneva would be the most effective way of ensuring that the solution of the EEC crisis would include a Kennedy Round element. In short, American national interests dictated going ahead with the trade negotiations as best as it could, despite the complications and difficulties introduced by de Gaulle's action.²²

In deciding to table offers on 16 September, Johnson had to overrule the strong opposition of the Agricultural Department, and of the major GATT members. The Department of Agriculture mainly objected to the tabling on the ground that domestic farm groups would attack the American decision as a sign of weakness in the US policy of obtaining significant benefits for US agriculture: the USA were making concessions despite the EEC not showing up. Freeman wanted to postpone offers until the EEC was ready as he was not only skeptical that the EEC would come meet their commitments in agriculture, but was also "worried about the political heat if [the USA] put even conditional offers on the table while the EEC sits on its hands". For the secretary of agriculture, no risk existed of the industrial negotiations proceeding ahead, while the

²⁰ Memorandum, McGeorge Bundy to President, 17 August 1965, WHCF, Confidential Files, Box 91, LBJL; FRUS 1964-1968, Volume VIII, International Monetary and Trade Policy, Doc 289. Memorandum From the Special Representative for Trade Negotiations (Herter) to President Johnson, 9 August 1965.

²¹ Information Memorandum from Leddy and Solomon to Ball and Mann, "The EEC crisis, agriculture and the KR", 30 July 1965, Francis M. Bator's papers, Box 12 LBJL.

²² Ibid; NA 59-250-57, 1964-1966, Box 460 Telegram n. 3063 from Rusk to US mission in Geneva, 15 September 1965.

agricultural ones stalled. Given the slow pace of the negotiations up until that time, no concern existed that "industry would suddenly spurt away from agriculture, thus increasing the danger that agriculture would be left out of the negotiations". This quarrel over the tabling of the agricultural offers gave also the opportunity to Freeman to reaffirm what he had been claiming since 1963: if the EEC did not put on the table agricultural offers which promised a liberalization of trade "there would be no Kennedy Round".²³

Moreover, the Department of Agriculture held that the American negotiators had been too accommodating of the EEC. In November 1964, they had accepted to drop the link between the agricultural sector and the industrial sector, and then postponed the tabling of agricultural offers from April to September 1965, as the EEC was not ready to negotiate. Then, in July 1965, face with clear impossibility on the part of the EEC to table offers, the STR and State Department wished to push ahead in any case with the tabling of offers on the ground that this was the only way to keep the Kennedy Round alive. For the Department of Agriculture, however, the TEA had been passed to with the aim of reducing the CAP's discrimination, thus no longer made any sense to table offers if the EEC did not do the same. US farm leaders would interpret the tabling as "a betrayal of the premise of the Trade Act and as a sacrifice of agriculture".²⁴

In contrast, Bator, Bundy, Herter and the State Department held that the holding up of agriculture would kill the Kennedy Round off, because negotiations in Geneva would have to be interrupted also in the industrial sector. "If we push full steam ahead with industry, we will be charged with decoupling agriculture from industry, and throwing in the towel on agriculture without a real try", said Bator. Even if no one expected the EEC to make great offers regarding agriculture, by going ahead in September 1965, the USA could maximize the chance of getting worthwhile concessions from the UK, Canada, and Japan, all important markets for the USA, and even perhaps obtaining something useful from the EEC. As Herter put it, "it is too early to quit, and to risk the collapse of the entire negotiations".²⁵

Thus the EEC crisis gave rise to a new debate within the Johnson administration regarding the inclusion of agriculture in the Round. The line of reasoning "no agriculture, no Kennedy Round" supported by the Department of Agriculture was not shared by the rest of the Johnson administration. Bundy was clear with Freeman: "it is not my view that there can be no Kennedy Round unless the Community makes significant offers in agriculture. The result would certainly be a smaller and far less significant Kennedy Round than we all hope for. But it might still be possible that the agricultural concessions offered by Japan, Canada the EFTA countries, and the rest and in the industrial concessions offered by the above and the EEC would provide a basis for a fair, balanced bargain – balanced both in agriculture, and overall – which would be of a significant benefit to the United States." Actually, for Bundy that fact that the conclusion of the Round could not be made dependent on agriculture success did not imply that the USA had given up meaningful negotiations in agriculture, but simply meant that the USA had to be realistic in its outlook. In any case, what mattered to him

²³ Memorandum from Bator to the President "Agriculture in the Kennedy Round", 10 August 1965, NSF Subject file, box 48, LBJL. See also Letter from Freeman to Bundy, 11 August 1965, NSF Subject file, box 48, LBJL.

²⁴ Note of the USDA "The Agricultural Negotiations", undated but written in July or August 1965, Bator Papers, Box 12, LBJL.

²⁵ Memorandum from Bator to the President "Agriculture in the Kennedy Round", 10 August 1965, NSF Subject file, box 48, LBJL.

at that time was that offers in agriculture were tabled, so to keep an active stance in the context of the Kennedy Round.²⁶

Thus the deadlock within the EEC caused the quarrel within the Johnson Administration over the link between agriculture and the whole Kennedy Round to resurface, just as it had done in November 1964. Because of the opposition of Freeman in tabling offers, Bator took the issue directly to President Johnson, asking whether the USA should table agricultural offers even though the EEC was not going to do so "de Gaulle has thrown a monkey-wrench in their machinery, the EEC will not be ready until January 1966 at the earliest".²⁷

President Johnson, usually receptive of Bator's positions regarding the Geneva talks, followed the advice of his assistant in this case as well. Johnson also, however, adopted Herter's proposal to compromise with Freeman, consisting of withholding the offers items of interest to the EEC.²⁸ It was on this ground that, on 19 August, Herter announced that the USA would table offers in the agricultural sector, but withholding those of interest to the EEC.²⁹

It was by employing this same argument that Washington convinced the other contracting parties to table too. The United Kingdom, Denmark, Canada, Australia and Japan were in fact against the tabling offers in absence of the EEC. According to them the Six had such a relevant place in the agricultural sector, that it was pointless to negotiate without them. Washington had to use all its political weight to, first force the British hand in terms of attendance, and, once this had been achieved, to also convince the other countries. On 16 September, the United States, the main participants and agricultural exporting countries tabled their offers, hoping, in this way to prevent a dangerous a halt in Geneva.³⁰ With this decision, Washington was attempting to reconcile its trade interests with the European integration process. It therefore hoped that the persistence with the Round could not only boost US exports, but also help the Six to regain unity and the Commission to maintain its role in international trade policy.

Despite the US effort to keep the Kennedy Round alive, the internal crisis of the EEC, and the difficulty of the EEC to meaningfully negotiate, raised the fear that the Round could end in failure. This provoked rumours in the press about alternatives that the United States could take to pursue tariff liberalization without the EEC. With the British, claimed Roth, that there was "no point in considering the possibilities at this

²⁶ Letter from Bundy to Freeman, 12 August 1965, NSF Subject file, box 48, LBJL; NA 364 Recs. Of the US Trade Representative on the Kennedy Round, box 1, Minutes of Trade Executive Committee meeting, 9 August 1965.

²⁷ Memorandum from Bator to the President "Agriculture in the Kennedy Round", 10 August 1965, NSF Subject file, box 48, LBJL.

²⁸ FRUS 1964-1968, Volume VIII, International Monetary and Trade Policy, doc. 288. Memorandum From Secretary of Agriculture Freeman to President Johnson, 9 August 1965; *ibidem* doc 289. Memorandum From the Special Representative for Trade Negotiations (Herter) to President Johnson, 9 August 1965. NA 59-250-57, 1964-1966 FT 13-2, Telegram n. 3277 from US mission in Geneva to Department of State, 21 July 1965, Telegram n 3291 from US mission in Geneva to Department of State, 26 July 1965, and Confidential Memo from Anthony Solomon to the Secretary of State, 10 August 1965. For the tension with the Department of Agriculture and the need to find a compromise with Freeman see Telcon Bator-Ball, 8 August 1965, and telcon Bator-Ball 18 August 1965, Ball papers, box 4, LBJL. See also Zeiler, T.W., *American Trade and Power in the 1960s*. (New York: Columbia University Press, 1992), p.222. The position of the Department of Agriculture corresponded to the stance assumed by the farm sectors which pressed Johnson not to table agricultural offers. Letter from Naden (Executive Vice-President of National Council of Farmers Cooperatives) to President Johnson, 17 August 1965. WHCF, EX-IT/A-2 box 2, LBJL.

²⁹ Press Statement of Christian A. Herter, 19 August 1965, NSF Subject file, box 48, LBJL.

³⁰ NA 59 1964-1966 FT 13-2 Box 979, Telegram n. 3343 from US mission in Geneva to State Department, 7 September 1965. For British and other EFTA countries, in particular Norway and Denmark, resistance see FO 371/183399 Telegram 178 from Cohen in Geneva to Foreign Office, 23 July 1965 and FO 371/183387 telegram 189 from Cohen to Foreign Office, 25 August 1965. For American pressure on the particularly resistant Danish see NA Recs. of USTR Kennedy Round box 6 Telegram 3040 from Rusk to US mission in Geneva and US Embassy in Copenhagen, 1 September 1965 and *ibidem* telegram 3046 from Rusk to US mission in Geneva and US Embassy in Copenhagen, 3 September 1965.

juncture", and nor did the British stance appear particularly accommodating of discussing alternatives. With twenty-five percent of British trade taking place with the EEC, tariff negotiations without it the latter were difficult to conceive of. As such, the commercial strength and importance of the regional EEC agreement made a Kennedy Round without the EEC an unlikely operation.³¹ In truth, despite Roth's claims, the crisis of the EEC caused some officials of the Johnson Administration look to alternatives to the Kennedy Round. Even if no cut and dried plan existed in Washington, Mann and Greenwald of the State Department enquired of London whether the latter would be prepared, if necessary, to take part in tariff negotiations which did not include the EEC. The rather uncommitted British answer, according to which it was somewhat early to start considering alternatives to a failure of the Kennedy Round, and the fact that in November something seemed to be changing within the EEC, blocked any discussions.³²

8.3 The EEC in the middle of the crisis: ticking over

In taking the decision to press ahead with the negotiations, Washington also relied on Jean Rey's conviction regarding the importance of continuing progress in Geneva, and informal indications from the Five that the internal crisis of the EEC should not be allowed to interfere with the Community's external relations, or to stall the Round.³³ After the French withdrawal, one of the decisions the Five had to take was whether to continue the Community's activities or wait for the French to come back into the fold in Brussels. In particular, the Five had to make up their minds whether and how to carry on the Kennedy Round negotiations. On the one hand, the Five wanted to demonstrate to the French their willingness to go ahead in spite of the French empty chair, and one of the ways to do this was to allow the Commission to negotiate in Geneva. On the other hand, they did not want to antagonise the French through taking provocative steps, and negotiating in GATT over issues that also involved France could be seen as a provocation in Paris, and hamper a quick resolution of the crisis. It would not be facilitative of reconciliation of the Six if the Five were to proceed as a unit in a forum in which the French were also represented. At the end of July, the Five and the Commission considered what action to take in terms of the Geneva negotiations and concluded that they could not table offers in the agricultural sector without a new Council of Ministers' decision. Under the existing mandate to negotiate issued by the Six, the Commission could continue the discussions in the industrial sector, and for grains in the agricultural sector, while a new mandate was required to table agricultural offers for other products on 16 September.³⁴

³¹ FRUS 1964-1968, Volume VIII, International Monetary and Trade Policy, doc 297. Memorandum of Conversation between British and American officials, Herter, Roth and Powell among the others, 9 November 1965. See also Memorandum from Roth to Ball "Your visit with Weitnauer (Switzerland's delegate for trade agreements) on October, 20", reporting conversation between Roth and Weitnauer on 18 October 1965, Roth Papers, box 1, LBJL; Preeg, E. H. 1970, pp. 117-120.

³² BT 241/ 845 Telegram n 2913 from Stewart from Washington to FO, 10 November 1965; Administrative History of the Department of State, Volume I.-Part VIII "International Economic relations", LBJL.

³³ Telegram from Herter from various American Embassies "September 16 KR Agricultural offers", 18 August 1965, Francis M. Bator's papers, Box 12 LBJL and PRO FO 371/183387 Telegram 2104 from Washington to Foreign Office, August 1965.

³⁴ AECB NCG (65) 30 final "Communication de la commission au conseil concernant la partie agricole des négociations commerciales au GATT", 22 July 1965 annexed to PV 326 22 July 1965 and CM2 65/86 173ème session du Conseil, 26-27 July 1965.

The solution chosen by the Five and the Commission was fully in line with the broad stance adopted by the Five to keep the Community ticking over while refraining from taking substantive new decisions.³⁵ It consisted in going on with negotiations in Geneva under the existing mandate, but refraining from participating in the tabling of offers in September. In this way, the Commission could continue to attend the Geneva meetings under the mandate previously received, without annoying the French with a new mandate given by the Five.³⁶ The Germans tried to persuade the other four partners to go along with tabling a partial agricultural offer and then seeking the written approval of the French. Their aim was not to move ahead in the Geneva talks without the French, but rather to maintain action to keep the Round alive and to prove French willingness to participate in EEC activities in fundamental external relations. However, the proposal was rejected by the Commission and the Benelux countries, above all Belgium, on the ground that it was a provocation to the French, and by the Italians because the only agricultural products for which offers could be tabled were those covered by tariffs i.e. fruit and vegetables, these being products for which Italy, as the main exporter to the EEC, was not happy about seeing a reduction in protectionism at the multilateral level. Unity of negotiations for the sector had to be maintained. At any rate, the Germans only engaged in "gentle persuasion" on Rome as they felt that they could not afford to push the issue too far with the Italians and lose the latter's goodwill regarding other aspects of the crisis during which it would be important to maintain solidarity among the Five.³⁷ Hence, it was decided to go on negotiating in Geneva under the mandate issued previously, even if the Commission had a clear problem in engaging in meaningful and substantive negotiations.³⁸

As for the French, during the crisis they kept carefully themselves informed of the activities of the EEC through the deputy permanent representative, Maurice Ulrich, who had remained in Brussels.³⁹ Throughout the crisis, Rey insisted to them that France had to be represented on the Article 111 Committee, but always received categorical refusals.⁴⁰ Yet Paris never obstructed the work on the GATT and never opposed the right of the Commission to continue negotiating in Geneva. The French were perfectly aware that meaningful negotiations would resume only once the internal crisis of the EEC was over and, given the fact that the Commission was acting under the existing mandate, they judged it to be wise not to spark an unnecessary war with the Five over

³⁵ See Ludlow N.P., *The European Community and the Crises of the 1960s*, chapter three.

³⁶ AECB, PV 326, 22 July 1965; NA 364 Recs. US Trade Representatives on Kennedy Round, Box 5, Telegram n. 452 from Tuthill to Leddy, 3 December 1965.

³⁷ NA 364-130-51-23- Records of US Trade Representatives on Kennedy Round, Box 6, Telegram n. 359 from Bonn to State Department, 19 August 1965; *ibidem* telegram 49 from Tuthill to various posts, 6 August 1965; *ibidem* Telegram 57 from US Embassy in Bonn to State Department, 19 August 1965. The Belgians were particularly opposed to take any decisions that could be seen as a provocation in Paris, Kennedy Round included. On this topic see the contrast between Schroeder and Spaak in AAPD 1965 doc 303 and 307 reporting conversation between Spaak and Schröder at the end of July. For Italian opposition see NA 364 Records of US Trade Representatives on Kennedy Round, Box 6 Telegram 24 from Reinhardt of US Embassy in Rome to State Department, 6 August 1965. Italy was firmly opposed to the tabling of offers that the Germans asked the Americans to urge Rome to table. However, the United States did not make any pressure on Rome as it held that Italy would interpret it as a clear US attack to Italian agricultural interests. See *ibidem* telegram 49 from Tuthill to various posts, 6 August 1965 and *ibidem* telegram 24 from Reinhardt of US Embassy in Rome to State Department, 6 August 1965.

³⁸ NA 59-250-57, 1964-1966, Box 460 Telegram n. 250 from Tuthill in Brussels to State Department, 30 September 1965 and CM (Intermediate archives 16726/182451824), S/782/65 (CoS 123) 204ème réunion du comité de l'article 111, 18 October 1965.

³⁹ See for example HAEC - MAEF OW 36 Télégramme 926/33 Ulrich au Quai d'Orsay with which the French representative informed the French Foreign Minister of the session of the COREPER on the financial regulation of the CAP.

⁴⁰ AECB Brussels COM (65) PV 338, 21 November 1965.

the Kennedy Round.⁴¹ The French, who were just as interested as the Five in the Kennedy Round, and therefore did not want to obstruct it, stayed well abreast of progress made in Geneva. And when rumours circulated in the international press that the United States intended to push ahead with the Kennedy Round, excluding the EEC, they immediately queried Washington and sought assurances about American intentions, assurances that Washington gave.⁴² Also revealing of the French attitude towards the EEC and the Commission was the French proposal made at the end of October on the American subsidies to chicken exports. Washington had decided to apply a system of subsidies to chicken exports and the French delegation to GATT asked the delegations of the Five in Geneva to set up a coordinating meeting which the representatives of Commission could attend as "*assistants techniques*". Thus Paris, even if bypassing the formal EEC framework, sought the cooperation of the Five, and even wanted the Commission to be present at the meeting. The French request revealed that Paris had no intention of sabotaging the EEC or of excluding the Commission. At any rate, the Commission refused the French proposal on the ground that any consultations needed to take place within the EEC framework of the 111 Committee.⁴³

In continuing the talks in Geneva, the Commission took care not to go beyond the remit of the mandate and kept in close contact with the French delegations to the GATT and to 111 Committee in order to inform them of any step taken and progress made.⁴⁴ For example, when, in November 1965, the Commission, at the strong insistence of Rey, and with the opposition of Commissioner Marjolin, who feared the move could annoy the French, authorised its delegation in Geneva to agree to the creation of the GATT working groups on chemicals, pulp and paper and aluminium, and to attend the working group on textiles, it carefully specified to its delegation that it had to remain strictly within the bounds of its mandate and that, consequently, no concessions on tariff reductions to third countries could be made. In addition, Rey was asked by the other Commissioners to inform the French delegation in Geneva about the stances assumed in these working groups.⁴⁵

Confirming once more that challenges to the negotiating role of the Commission did not come specifically from the French, at the 111 Committee meeting of 14 October 1965, representatives of the Five underlined their wish to be associated as strict as possible to the informal discussions the Commission was attending in Geneva with third countries. This request had come in particular from the German government that, in June 1964, had already agreed with Paris that observers of the Member States had to attend the informal meeting organised in Wyndham White's office and attended by the Commission, Japan, UK and the USA.⁴⁶ Predictably, Hijzen opposed the request and recalled that an understanding had already been reached according to which Member States would attend formal meetings without speaking rights, but not the informal ones that took place in Wyndham White's office.⁴⁷ Informal meetings had a frank, direct and

⁴¹ MAEF, DE/CE, 1961-1966, GATT 932 Telegram n. 12624/27 from Brunet (Service de Coopération Economique du Quai d'Orsay) to French embassy in London, 25 October 1965 and *ibid.* Note sur le Kennedy Round, October 1965.

⁴² MAEF, DE/CE 1961-1966 GATT 932 Telegram n. 12624/27 from Brunet (Service de Coopération Économique du Quai d'Orsay) to French embassy in London, 25 October 1965.

⁴³ AECB PV 335, 27 October 1965.

⁴⁴ AECB, PV 326, 22 July 1965; CM2 1965/314 PV de la 73ème reunion du Comité 111, 27 September 1965, and interview of the author with Paul Luyten, 7 July 2003.

⁴⁵ AECB, COM (65) PV 337 final (séance du 17 novembre 1965) XII "Négociations commerciales au GATT".

⁴⁶ MAEF, DE/CE GATT 932, Entretiens de M. Whal le 23 juin 1964 à Bonn avec le Dr. Reinhardt et le Dr. Sachs, 30 June 1964.

⁴⁷ CM2 1965/1A16726, PV de la 204^{ème} réunion du Comité 111, 14 October 1965.

at the same time flexible character that facilitated the discussions and benefited the negotiations. And, in fact, the most important discussions were taking place within this framework. The Commission was obviously concerned with maintaining this prerogative which strengthened its role as negotiating agent and allowed to unburden itself of Member States' presence. Hijzen expected that as soon as it became clear that the real negotiations were moving to the informal plan, Member States would insist on being present. However, he firmly refused such presence in this kind of meeting, both to defend the prerogative of the Commission and to maintain their usefulness. In effect, each member state would attend with a two-to-three people delegation, with the result that the Commission would be flanked by a group too numerous in size, and the open, frank and flexible character of the informal meetings would be endangered.⁴⁸ In the end, Member States did not challenge the Commission's right to attend the informal meeting their absence, but asked this institution to rapidly and exhaustively inform the 111 Committee of the content of the informal meetings.⁴⁹

In any case, no major decision was taken in Geneva during the crisis. Although technical work could continue under the existing mandate, any significant step ahead required a new authorisation from the Council of Ministers. With the passing of time, the Commission became progressively less able to actively and meaningfully attend the discussions, and the necessity for the EEC Council of Ministers to give new instructions to the Commission was strongly felt.⁵⁰ In October, the Commission was requested by the Council of Ministers to submit a report on the Kennedy Round by 31 January 1966 so that an appraisal of the situation could be made.⁵¹ Then, at the end of November 1965, the EEC Council of Ministers discussed with the Commission the situation concerning the GATT negotiations. Both Rey and the Five agreed on the necessity for the Council to be able to give new instructions to the Commission in order to play any further part in the Geneva talks. In spite of the efforts of Washington, the Commission and the Five to treat the Kennedy Round as a-business-as-usual affair, it had, in fact, come to a halt due to the EEC paralysis. The Five were therefore at a crossroads: bearing in mind that American authority to negotiate lapsed on 30 June 1967, if they aimed to conclude the Kennedy Round, meaningful negotiations needed to start by February 1966. The conclusion reached was that the Five could wait for the French until January 1966, but if Paris persisted in its boycott, they would be obliged to consider whether to go ahead in the Kennedy Round as a Community composed of five members, in order to ensure a modicum of success in the negotiations. The Five feared that, in case of failure, the Johnson Administration would come under pressure to revise its European policy, and, as such, they had to stop the French from letting the crisis drag on until progress in Geneva became impossible. In this sense the trade negotiations had the potential of becoming a breaking point of the EEC activities.⁵²

⁴⁸ AECB BDT 144/92, Marjolin cabinet papers box 791, Note pour M. le Vice-Président Marjolin "Projet de note sur la poursuite des négociations commerciales à Genève" de Hijzen, 10 November 1965 and ibidem Note à l'attention de M. Marjolin, 16 November 1966.

⁴⁹ CM2 1965/314 PV de la 76^{ème} réunion du Comité 111, 17 December 1965.

⁵⁰ CM2 1965/314 PV de la 73^{ème} reunion du Comité 111, 27 September 1965; AECB BAC 512 Note d'information-Négociations commerciales au GATT S/746/65 (CoS 116), 29 September 1965.

⁵¹ AECB BAC 512 Note d'information-Négociations commerciales au GATT S/746/65 (CoS 116), 29 September 1965 and CM Intermediate Archives 16726/182451824 204^{ème} réunion du Comité 111, 14 octobre 1965.

⁵² CM2 1965/66 PV de la 175^{ème} session du Conseil de la CEE, 29-30 Novembre 1965; CM2 1965/314 PV de la 76^{ème} réunion du Comité 111, 17 December 1965; NA 59 1964-1966, Box 460 Telegram n. 106 from American Embassy in Rome to State Department, 4 December 1965. The willingness of the Five to consider going ahead in the Kennedy Round as an EEC of five members was also mentioned by Hallstein to Roth and Blumenthal. The President of the Commission claimed that if "the crisis was not rapidly resolved à six, it was possible that the Five would take decisions à cinq which would allow the Kennedy Round negotiations to continue". PRO BT 241/845 Confidential note from the

8.4 The Luxembourg agreement and the Kennedy Round

Hopes of settling the crisis improved when, in November, the Five and France agreed to meet in Luxembourg in the middle of January 1966 without the Commission to discuss the EEC internal decision-making process and, in particular, qualified majority voting (QMV) within the Council of Ministers and the power of the Commission. De Gaulle had brought the two questions into the open during his 9 September press conference, requesting that the QMV, which was due to be applied to Council of Ministers decisions after January 1966, not be applied and that the Commission stop acting as an independent political authority.⁵³

In view of the Luxembourg meeting, the Americans set about ensuring that the settlement of the crisis would be consistent with an American conception of European integration, and with the need to conclude the Kennedy Round. Ambassador Tuthill urged the Five not to accept any change in the Treaty of Rome, in particular on majority voting and on the powers of the European Commission, and to include the Kennedy Round in any settlement reached with Paris. Washington was, in particular, counting on Bonn and The Hague, as it believed the Belgians and the Italians strongly wished for the return of the French and were not likely to push hard on GATT until a solution to the EEC crisis was either in sight or out of the question.⁵⁴

Pressures were made, above all, on Germany. When Erhard and Schröder visited Washington at the end of December 1965, Ball argued that the French insistence on downgrading the Commission was of particular concern to the United States, while Herter stressed the urgency of an early resumption in talks in Geneva and emphasized that commitment to progress had to be high on the list of conditions for any settlement the Five hoped to reach with the French. At the end of the visit, in a joint communiqué, Erhard and President Johnson 'agreed that the successful conclusion of the Kennedy Round trade negotiations is of major importance. [...] These historic negotiations must move forward as rapidly as possible with the active participation of the EEC'.⁵⁵

Moreover, in January, Roth and Blumenthal visited Brussels and made clear to the Commission that, if decisions were not taken in the near future, the Kennedy Round would fail. For the Americans, it was important to clarify this because they perceived there to be a "lot of woolly thinking in Brussels about the possibility of extending the TEA".⁵⁶ With the Commission, the Americans pressed on a topic that they had repeatedly focused on, that is to say the functioning of the Community in Geneva which was slowing the GATT talks. The United States found it difficult to negotiate with the EEC because of the difficulties in dealing with the Commission. From the outset Washington, while supporting the European Commission's role as negotiator for the Six in the Kennedy Round as a way of supporting the European integration process, had lamented the absence of a permanent Commission delegation in Geneva, a factor that greatly hampered communication, and posed serious problems for negotiations as a whole, as well as the lack of instructions of the EEC and their rigidity when they did

United Kingdom delegation to Brussels to the Foreign Office, 13 January 1966, reporting conversation between Blumenthal, Roth and Hallstein. See also PRO FO 371/182398 Telegram from British Embassy in Rome to FO, 26 November 1965 reporting conversation between Marjoribanks, Colombo, Ferrari-Aggradi and Ortona.

⁵³ On how the Luxembourg meeting were organized and French requests see the works on the crisis mentioned in footnote 10.

⁵⁴ NA 59 1964-1966 Ecin 3 Box 792. Telegram n. 826 American Embassy in Brussels to State Department, 14 January 1963 and Telegram n. 2227 from McGhee to State Department, 28 January 1966.

⁵⁵ Memorandum of conversation between Rusk, Ball, McNamara, Bator and German Ministers Schröder and Von Hassel, 20 December 1965, Bator papers, Box 21, LBJL; PRO FO 371/189597 Kennedy Round, 14 January 1966.

⁵⁶ PRO BT 241/845 Confidential note from the United Kingdom delegation to the EEC to Foreign Office (Marjoribanks to Statham), 11 January 1966 reporting conversation between Marjoribanks, Blumenthal and Roth.

arrive. Roth and Blumenthal underlined the necessity of the EEC to have a high level permanent representative in Geneva, such as an ambassador, who would be able to conduct negotiations with authority and flexibility. The EEC Council had to elaborate a mandate foreseeing more flexibility in the EEC position so to allow the 111 Committee and the Commission to take decisions on a day-by-day basis and thus advance more rapidly in Geneva. In short, the Commission needed a mandate not a *fait accompli*. Moreover, for Roth, the EEC needed a central negotiating committee with more authority and flexibility than the 111 Committee. Rey understood the need for a high level permanent negotiator in Geneva and made a pledge that, as soon as the negotiations in Geneva restarted, the Commission would be adequately represented. However, issues regarding re-forming the 111 Committee and the flexibility of the EEC decision-making process were matters for the Council and had to be treated with caution due to their close link to the EEC crisis. Only once the crisis was over would it be possible to ask the Council of Ministers to set up procedure to speed up the decision-making process for the Geneva negotiations. The need to give greater flexibility to the EEC's negotiators in the final stages of the Kennedy Round was appreciated and there were certain ideas for achieving it, such as a committee of State Secretaries from the six members states.⁵⁷

As well as putting pressure on the Five and the Commission, Washington also moved in Geneva. Increasingly concerned over the pace of the Kennedy Round negotiations in light of the expiration of the President's negotiating authority on 30 June 1967, and to ensure that the GATT negotiations were considered in the meetings of Luxembourg, Washington urged Wyndham White to publish a report to illustrate the state of the play in Geneva and to push ahead with the negotiations.⁵⁸ On 3 January, Wyndham White circulated his report that, for tactical reasons, exaggerated the urgency to act and tried to inject renewed rhythm and impetus into the Kennedy Round, proposing a timetable to bring the negotiations to an end during the early weeks of 1967. Wyndham White also impressed on GATT members the need to provide their delegations with broader authority to actively and continuously negotiate on all fronts from March-April 1966.⁵⁹

Before considering the January negotiations between the Five and France, it is worth underlining that, before June 1965, the Commission had been particularly keen on QMV coming into being from January 1966.⁶⁰ However, the Six had differing opinions on this matter as none of them wanted to apply QMV to important matters, such as the CAP and the Kennedy Round, since none of them wanted to be placed in a minority position which they were forced to accept. Before June 1965, a tacit agreement had been reached that important issues would be decided by unanimity.⁶¹ Therefore, France was not the only government to refuse the application of QMV to the most crucial issues. As Schröder put it to Rusk and McNamara "no Common Market member should be outvoted by a majority on any question of vital importance to that country"

⁵⁷ AECB BAC 122/1991-4, Compte-Rendu NCG(66)4 "Visite de MM: les Ambassadeurs Roth and Blumenthal à la Commission, le 11 Janvier 1966". 27 January 1966. PRO BT 241/845 Confidential Note from the UK delegation to the EEC, Brussels, 13 January 1966 reporting conversation between Roth, Blumenthal, Marjolin, Mansholt and Rey. The British heard from another American informant that the Americans were gunning for Hijzen, an unfortunate similarity of American and French views.

⁵⁸ NA 364 Records of US Trade Representatives on Kennedy Round, Box 5, Telegram n. 3172 from Kaiser of the American Embassy in London to State Department, 8 January 1966.

⁵⁹ PRO FO 371/189597, "The GATT Trade Negotiations" report by the Director General, 3 January.

⁶⁰ FRUS 1961-1963 Vol. XIII Western Europe and Canada, Section Economic and Political Integration, 73. Telegram from the Department of State to the Mission to the European Communities, 6 March 1963.

⁶¹ MEAF, DE/CE 1961-1966, Folder 402, Note 107/CE, 21 May 1965.

and, in any case, a further mandate for the Kennedy Round had to be given on the basis of unanimity.⁶² Even before de Gaulle's press conference, it was unlikely to occur that a member that strongly held a minority position would find itself overruled by the majority, with the latter pushing ahead with their vision notwithstanding the opposition of those not in agreement. However, what mattered to the Five was how to assert this position without modifying the Treaty of Rome, without formally abolishing QMV or without formally recognising the power of veto. As for the French, according to the account given by Brunet, French official of the Quai d'Orsay, responsible for EEC issues, the matter of majority voting had been discussed by the French government. The Quai d'Orsay had held that given the general agreement of the Five on this issue, especially the position of Germany, the matter could still be the subject of a tacit agreement. However, de Gaulle had overruled his Foreign Minister and preferred to bring the question out in the open.⁶³

As for the other crucial issue at the Luxembourg meeting – the Commission's powers – the French wanted it to abandon its aspirations to independent political authority and to go back to playing its allotted role under the Treaty of Rome. For Paris, the Commission had acted appropriately until December 1964, and all the French government wanted was to go back to that situation.⁶⁴ To better understand the French stance towards the Commission, it should be noted that Paris had a rather pragmatic approach. In the Geneva negotiations before June 1965, the Dutch and the Germans had often tried to reduce the role of this institution as they were of the opinion that the Commission was too often found to be in support of the French positions, and was not willing to compromise with the Americans. The French, by contrast, supported the Commission. For example, when, during the GATT Ministerial Meeting of May 1963, Erhard and Luns had asked not only to be present at the negotiations with the Americans but also to be able to speak, they had met the categorical refusal not only of Jean Rey, but also of Giscard d'Estaing, who did not want the Dutch and the Germans to participate actively because he considered them too susceptible to American pressure. Likewise, when in November 1963, Wyndham White had suggested the setting up of an informal steering group to make progress in the Kennedy Round, composed of the United Kingdom, the United States, France and Germany. Paris had resolutely rejected the proposal, while Bonn took time to discuss it. The only quarrel between the French and the Commission had taken place in October 1964 over negotiations in agriculture, but here the French move was not dictated by the aim of downgrading the status of the Commission in Geneva, but was instead motivated by the desire to cease discussions with the Americans due to the German refusal to set UGP. In this light, the French request regarding the Commission's powers appeared to have as its aim a return to 1964.

When the Six gathered in Luxembourg on 17 and 18 January for an extraordinary session of the Council of Ministers, Couve de Murville submitted his "Decalogue" concerning the working style of the Commission, and insisted that QMV be changed, since France would not accept that she could be outvoted on issues of vital importance. Furthermore, if a revision of the Treaty was not possible, an arrangement of a political nature, ruling out the QMV in cases in which any member state government

⁶² Memorandum of conversation between Rusk, Ball, McNamara, Bator and German Ministers Schroeder and Von Hassel, Washington 20 December 1965, Francis M. Bator's papers, Box 21, LBJL.

⁶³ NA 59, 1964-1966, Box 460 Telegram n. 104 from American Embassy in Paris to State Department, 26 September 1965.

⁶⁴ Ibid.

opposed it, had to be envisaged.⁶⁵ The Five replied with firmness: no breach to the Treaty of Rome would be allowed and no right of veto could be recognised. Couve de Murville also presented a timetable in order to bring the crises to an end: agreement on the Decalogue and QMV by the end of January; and the adoption of the CAP financial regulations, defined by the French Minister as a 'precondition to overcoming the crisis', by 31 March 1966; the coming into effect of the Merger Treaty by 1 April; an agreement on the composition of the new Commission by 1 March and the formal appointment of the Commission by 18 April. The French timetable dealt with issues that most interested France and left the Kennedy Round to one side. The mention of the financial settlement of the CAP without any parallel mention of the trade negotiations was totally unacceptable to the Germans and the Dutch. Schröder and Luns refused to consider the French timetable, and claimed that they would only discuss the issues set out on the agenda, namely the QMV and the powers of the Commission. Given the impossibility of reaching an agreement, the Council of Ministers meeting was adjourned until the end of January.⁶⁶

Between the two meetings in Luxembourg, Washington heightened its pressure on the Five to insert the Kennedy Round in the final settlement with France. This was particularly crucial as the French, with their timetable, had adopted the position that French any agreement to discuss the EEC mandate for Geneva was dependent on a prior agreement on CAP financing and the installation of a new Commission. Just as had been the case before June 1965, the French were hoping to use the German and Dutch desire for early action regarding the trade negotiations as leverage to obtain the French request on the timetable.⁶⁷

Particularly receptive of this American pressure were the Germans, who considered the GATT negotiations to be of greatest importance. Neef, the Secretary of State at Ministry of Economics, held that it should be made clear to de Gaulle that Bonn would give its final agreement to the agricultural financial settlement only on the clear understanding that, in return, the General would cooperate in the Kennedy Round.⁶⁸ In view of the second meeting of the Council of Ministers of Luxembourg, the German government decided to make it inconceivable that the French would again dictate the agenda of the EEC.⁶⁹ Obviously, the German government could not be sure that its tactics would be rewarded and that the French would abandon their blocking tactics. And, in fact, on 26 January, Lahr asked the US government – unofficially – how the US would respond if the Five were to renew the Commission negotiating mandate in the Kennedy Round, without the French.⁷⁰ This request illustrated German resoluteness in not wanting to make any concessions to the French on the EEC agenda and the Kennedy Round, and, at the same time, to move ahead with the GATT negotiations, despite the French. Rusk got ready to give Bonn an "authoritative" response, that could bolster German the intention to remain firm in front of the French, instructing the US embassy in Bonn to

⁶⁵ For the proceedings of the Luxembourg meetings CM2 1966/1, C/12 f/66 (AE1), Verbal du Conseil de la CEE, Luxembourg, 17-18 January and 28-29 January 1966. For the content of the Decalogue see Lambert, J. "The Constitutional Crisis of 1965-1966", *Journal of Common Market Studies*, 4 (1966), p. 221-223.

⁶⁶ HAEC Max Kohnstam Conversation with Monnet, Davignon, Spierenburg and Robinson, 20 January 1966.

⁶⁷ NA 59 1964-1966 Ecin 3 Box 792. Telegram n. 4382 from Bohlen to State Department, 26 January 1966.

⁶⁸ NA 59 1964-1966 Ecin 3 Box 792. Telegram from American Ambassador to Bonn McGhee to State Department "KR and EEC crisis", 28 January 1966.

⁶⁹ Ludlow N.P. *The European Community and the Crises of the 1960s*, p. 144.

⁷⁰ Note of Permanent Secretary Fritz Neef for Foreign Minister Schröder, Minister of Trade and Industry Schmücker and Permanent Secretary Lahr, 28 January 1966, PAAA, B1, Vol. 214; taken from Türk, H. "To face de Gaulle as a Community" – The Role of the Federal Republic of Germany in the Empty Chair Crisis" in Palayret, J.M., Wallace, H., Winand, P., (eds.) *Visions, Votes and Vetoes*, chapter 5.

inform the Germans that "US is negotiating in Kennedy Round with Commission acting on behalf of Community. Whether Commission's instructions come from Six member States or from Five acting for Community is internal matter for determination by EEC members involved. If Five decide to give Commission instructions enabling it to resume effective participation in KR, US would be prepared to proceed with negotiations on that basis". However, for Rusk it was also important that the content of this response did not make itself known before the Luxembourg meeting: Paris could too easily accuse the Americans of interfering.⁷¹

In the meantime, as the EEC Council of Ministers had requested in October, on 19 January 1966, before the second Luxembourg meeting, the Commission presented the Council of Ministers a detailed report on the Kennedy Round dealing with both agriculture and industry, setting out in detail the problems which needed to be resolved to enable the Commission to negotiate in Geneva. The Commission hoped, in this way, make sure the Kennedy Round stay the centre of attention for the Six.⁷²

At the Council of Ministers meeting of 28-29 January 1966, an agreement was quite easily reached concerning the Commission powers, with the transformation of the French Decalogue into a 'Heptalogue' which did not downgrade the Commission role but placed it in the limits defined in the Treaty of Rome. The QMV issue proved more difficult to settle, giving rise to the 'agreement to disagree' – developed following a proposal made jointly by Spaak and Luns – which merely stated the disagreement and noted that it did not prevent the resumption of the EEC work. Then, when the issue of voting seemed settled, Schröder insisted on unanimous voting for all questions which had to be settled by 1965, and, in particular, for the CAP, since this vote should have taken place the previous year. Couve de Murville, pointing out that the problem had not been raised by the French, refused to give special treatment to these particular issues and mused out loud that such an approach would imply unanimity on any agricultural mandate for the Kennedy Round, which was also supposed to be approved in 1965. For the French Minister, both questions had to be governed by the same agreement reached on the basis of QMV. Schröder remained steadfast to the very end regarding the need for a unanimous vote on the CAP and, for a brief period at the very end, it looked as if the issues of the CAP and the Kennedy Round might develop into important stumbling blocks. In the end, however, the Six agreed that both the CAP and the Commission negotiating mandate for the agricultural sector in Geneva would be decided on the basis of unanimity. As regards the decisions the Six had to take in the Kennedy Round in the other sectors, given the fact that these were important matters for the member states, they would be covered by the agreement reached by QMV.⁷³

Following the suggestion of Couve de Murville, the Six then considered the agenda of the Community. The French Minister stated that priority had to be given to the financial settlement of the CAP, notwithstanding the importance of the GATT negotiations. The Five, and in particular Schröder, made clear that no progress would be

⁷¹ FRUS 1964-1968, Vol. XIII Western European Region doc. 125. Telegram From the Department of State to the Embassy in Germany, 27 January 1965.

⁷² CM2 1966/17507, Rapport de la Commission au Conseil sur les négociations commerciales au GATT, NCG (66)3, 19 January 1966.

⁷³ CM2 1966/1, C/12 f/66 (AE1), Verbal du Conseil de la CEE, Luxembourg, 28-29 January 1966. NA 364 Records of US Trade Representatives on Kennedy Round, Box 5, Telegram n.658 from Tuthill to State Department, 30 January 1966. Schroeder's request to deal with agriculture on the basis of unanimity is also mentioned in Couve de Murville's memories, in which he writes "C'est ainsi que Schroeder, qui s'était fait le défenseur le plus acharné de la règle majoritaire, eut la candeur, ou la franchise, de demandeur et d'obtenir que toutes les décisions qui auraient dû être prises avant la fin de 1965 pour achever la politique agricole fussent adoptées à l'unanimité". Couve de Murville, M. Une politique étrangère 1958-1969, (Paris: Plon, 1971).

made in the CAP without parallel progress in the Kennedy Round, but agreed nonetheless that the Council of Ministers would deal with the financial settlement of the CAP as a priority and, then, with the Kennedy Round. The agreement (and disagreement) on QMV, the powers of the Commission and the Council of Ministers' agenda brought France back into the fold in Brussels and brought to an end the crisis of the empty chair.

The Americans were satisfied with the settlement of the crisis: the French had obtained no concessions on any of the major issues, the Treaty of Rome had not been modified, and the Kennedy Round had achieved a prominent place in the final settlement. The crisis of the empty chair was over and the GATT negotiations could finally be concluded.⁷⁴ However, Washington had to wait until the end of July 1966 to meaningful start negotiations in Geneva. The crisis of the empty chair may have come to an end, but an agreement between the Six on agriculture and the GATT negotiations had still to be reached and in the nervous atmosphere of the aftermath of the crisis this did not prove to be an easy task.

8.5 Ending the crisis

The EEC crisis between June 1965 and January 1966 largely frustrated progress in the Kennedy Round. The Luxembourg compromise took France back to Brussels, but had not eliminated tensions between France and the Five.⁷⁵ Furthermore, tensions risked mounting up when, in March 1966, France withdrew from NATO. At this point, it seemed that the EEC could become entangled in a new crisis over security issues, which would thereby again prevent negotiations in GATT from progressing. The Six all agreed that every effort had to be made to keep the EEC and NATO matters separate, in order to prevent the NATO crisis from causing the paralysis of the EEC. A debate took place in Germany, in which Foreign Minister Schröder claimed it to be politically impossible for Germany to adopt the agricultural financial settlement, involving large payments to France, while France was attacking NATO and endangering German security. Following Schröder's statement, Chancellor Erhard, supported by Economics Minister Schmücker, pointed out that the EEC and NATO matters had to be kept separate.⁷⁶

The United States also felt that the EEC should be kept separate from NATO matters. NATO could live on without France, while the same could not be taken for granted in the context of the EEC. This did not imply that the USA would not respond to the NATO crisis directly in the security context, but according to Rusk "both internal and external work programs of the European Economic Community, specifically including the Kennedy Round, will be carried forward as rapidly as possible".⁷⁷

The Six had various decisions to take regarding the Kennedy Round in order to be ready to get to Geneva with a negotiating position. They had to specify their proposals for the commodity agreement on cereals that had been only sketched in May 1965, to work out their offers for the rest of the agricultural sector, and take further

⁷⁴ NA 364 Records of US Trade Representatives on Kennedy Round, Box 5, Telegram n. 658 from Tuthill to State Department, 30 January 1966.

⁷⁵ For the tension in the aftermath of the Luxembourg meetings see Ludlow, N.P., *The European Community and the Crises of the 1960s*, chapter 4.

⁷⁶ NA 59 1964-1966 Ecin 3 Box 792. Memorandum of Conversation between Jean Rey and Ball, Tuthill, Schaetzel and Hinton on US-EEC relations, 25 May 1966. For the German debate on de Gaulle's move see Granieri, R.J., *The Ambivalent Alliance. Konrad Adenauer, the CDU/CSU, and the West 1948-1966* (New York; Oxford: Berghahn Books, 2002), pp. 215-217.

⁷⁷ FRUS 1964-1968 Vol. XIII, doc. 140 Circular Telegram From the Department of State to Certain Posts in Europe, 10 March 1966.

positions in the industrial sector.⁷⁸ However, the Six had a huge amount of agricultural business to settle in Brussels before they would be in a position to negotiate in Geneva. The Luxembourg meetings had reaffirmed the link between the CAP and the Kennedy Round and, at any rate, without a common policy, they could not negotiate in Geneva. As such, it was clear that, because of the time required to settle the CAP issue, the summer would be approaching by the time the EEC would be able to table agricultural offers in Geneva.

For the first time, at the end of February, the Council of Ministers discussed the Commission's January report on the Kennedy Round, and, here, the quarrelling about the EEC agenda continued with Italy, Benelux and the Commission fearing not only French obstructionism on GATT but also German feet-dragging on the CAP. Rey asked the Council to rapidly give directives for the industrial sector and for cereals, while they stated that, for the rest of the agricultural sector, the EEC needed to fix common prices. In view of the final phase of the Geneva bargaining process, Rey also raised another crucial question, that is the need to speed up the EEC decision-making process by letting the Commission and the 111 Committee, rather than the Council of Ministers, agree on technical issues. All political issues would be ruled out by the Council of Ministers. In effect the problem of the EEC working in Geneva did not concern only the Commission but also the 111 Committee. This Committee had not been able to give the right instructions to the Commission because Member States sent officials who were unable to commit governments, with the result that every single issue, no matter whether technical or political, had to be dealt with by the Council of Ministers, wanting to maintain its grasp on GATT talks. In this way, the EEC decision-making process was considerably slowed, as Ministers did not meet on a day-by-day basis to give instructions to the Commission. What the Commission therefore asked was to strengthen the 111 Committee's role. If the EEC was to effectively attend the last phase of the Round, something was had to be modified in the way it attended international trade negotiations.

Despite Rey's focus to the last issue, Member States concentrated on the issue of the agenda. The Dutch Minister for Economics, van den Uyl, expressed his concern for the situation in the agricultural part of the Kennedy Round. To regain an active role in Geneva, the EEC had to adopt internal decisions on agriculture and, in the meantime, it had to quickly adopt proposals for the commodity agreement on cereals, and had to present, as soon as possible, its offers for the other agricultural products, even if partial in nature, as not all the CAP had been approved. German Minister Schmücker recalled, in Luxembourg, the Six had agreed that the Council, having the the financial regulation as its starting point, had also to examine the Kennedy Round. The same importance and urgency was to be attached all the respective issues on the EEC agenda, with the same willingness to find a solution, which were to be considered. The Kennedy Round negotiations had to be rapidly resumed, in fact for Germany the financial burden of the CAP could be bearable only if compensated "par le biais d'une plus grande ouverture du commerce de la Communauté sur le marché mondial".

To respond the Germans claims, Couve de Murville, while emphasizing the importance France attached to the Kennedy Round, observed that before any agricultural offer could be made in Geneva, the EEC needed to agree on common prices for the main commodities, and that this agreement was conditional on the approval of the financial regulations. The French Minister also underlined the importance third

⁷⁸ CM2 1966/17509, PV de la 222ème réunion du Comité 111, 23-24 février 1966, 1 March 1966; CM2 1966/17509, Aide-Memoire du Conseil des Ministres, S/151/66, 11 March 1966.

countries attached to the EEC's approval of moderate prices and the contradiction between pushing for liberalization of international trade and an increase of prices within the EEC. At the same time, Couve de Murville adopted a generally cooperative approach towards progress for the Kennedy Round. Italy, Luxembourg and Belgium approved the intensification of EEC work on GATT, but noted that in order to allow the EEC to actively attend the Kennedy Round and to table agricultural offers, major progress had to be made on the CAP. In short, all the Six, while agreed on the need to make progress on the CAP, also shared the opinion that it was important to rapidly make progress in the Kennedy Round, and eventually decided to make an urgent and immediate drive to complete the EEC negotiating position for the industrial sector. In particular, Couve de Murville agreed to allow the Commission and the 111 Committee to elaborate offers to be made for the chemical sectors, and to table them in Geneva on 15 April at the same time as the American proposals for the modification of the ASP. French agreement was of remarkable importance, as France had always refused doing so until after the Americans had presented their offer on the ASP.⁷⁹

Throughout March, proposals on cereals were discussed by the Commission, together with the 111 Committee, COREPER and the Council of Ministers. By the same token, the industrial part of the Kennedy Round was also considered, and, in particular, the 111 Committee and the Commission elaborated the offers for the chemical sector. All the governments, France included, actively participated in order to define the EEC positions.⁸⁰ However, French activism on the Kennedy Round remained conditional on progress on CAP financing. Holding that little progress was being achieved, at the COREPER meeting of 1 April, Boegner stated that France would not take any definitive decision on the Kennedy Round, or give any directive to the Commission, before the adoption of the CAP financial regulations. This stance was not to block the Council of Ministers from actively pursuing the discussions on the Kennedy Round and to elaborate decisions which, nevertheless, were to be frozen or, as Boegner put it, "gardées dans les 'cartons' d'où elles pourront être 'sorties' le moment venu et 'déposées alors à Genève". France would attend the technical discussions on the Kennedy Round, but no directive could be given to the Commission and no proposal could be made to third countries, either for the industrial or the agricultural sector. The French reservations upset the Dutch and the Germans. According to the Dutch, a French attitude whereby the important decisions regarding the stance in the Kennedy Round became conditional to a certain extent on the approval of the financial regulations was comprehensible, but a stance consisting in refusing all decisions on the GATT negotiations before the approval of the financial regulations was going too far. By the same token, Germany recalled that the working agenda of the EEC which had been agreed up in Luxembourg gave priority to the financial regulations, but parallel efforts were to be also made for the Kennedy Round.⁸¹

At the Council of Ministers meeting of 4-5 April, which, among other things, had to authorise the Commission to negotiate over chemicals in Geneva, Couve de Murville maintained the French stance. Faced with the French move, Schmücker underlined the importance of the Kennedy Round for Germany, which needed to increase its exports through the GATT talks to face the financial burden deriving from the CAP. In any case, the Germans realised that, because of the lack of confidence

⁷⁹ CM2 1966/4 PV de la 177^{ème} session du Conseil de la CEE, 28 February-1 March 1966.

⁸⁰ CM2 1966/8 PV de la 179^{ème} session du Conseil de la CEE, 21 March 1966. See also CM2 1966/17509 entirely dedicated to the discussions which took place in March within the EEC on the Kennedy Round.

⁸¹ CM2 1966/17509, Note d'information du COREPER, S/202/66, 1 April 1966 and *ibidem* Conseils CEE/CECA, 4-5 Avril 1965, Note à l'attention de M. le Président, 1 April 1966.

among the Six, to push the Kennedy Round forward, along with the CAP, a working method was necessary. Thus Schmücker put forward a proposal derived from Boegner's claim about "keeping decisions in a box and take them out at the right moment": decisions on both the financial regulations and the Kennedy Round were to be taken, but were to be finally approved only when a balance between progress for the Kennedy Round and financial regulations had been assured. This working rule meant that Germany could agree on a first part of negotiations on the financial regulations, but this agreement would not be taken out of the "box" until the following Council of Ministers meeting reached agreement on part of the Kennedy Round.⁸²

Couve de Murville did not appear very impressed by the German proposal, and recalled how, under the Luxembourg agreement, priority had been given to the financial regulations, which up until that moment had not been the subject of great progress. For this reason, the French Foreign Minister refused to allow the Commission to start negotiations in Geneva on the chemical sector. At any rate, he was ready to change position if, in during the ongoing meeting of the Council of Ministers, progress was made on the financial regulations. And, in effect, after the Kennedy Round, Ministers approached the financial regulations issue. This topic was satisfactorily discussed and, as a result, Couve de Murville allowed the Commission to start negotiations in Geneva over chemicals, despite his general reserve.⁸³

In effect, as explained in next chapter, on 15 April 1966 the Americans were supposed to present their proposals on the ASP and, as Rey warned, if the EEC did not respect the 15 April date to table its offers on chemicals, the Americans could use this as an excuse for not tabling their proposals. Couve de Murville was aware that a new stalemate could have dangerous consequences for the Geneva talks. Consequences that France, interested in concluding the Round, wanted to avoid. This shows, once again, that, for the French, the Kennedy Round remained a lever to obtain concessions from its partners. In Brussels, the French delegation made out that its concessions on the Kennedy Round had cost France a lot, and requested concessions from the Five in return. "Notre arme secrète, c'était notre très réelle bonne volonté en ce qui concerne la négociation Kennedy," wrote a French official in 1966.⁸⁴ In short, German and Dutch keenness for the Kennedy Round gave the French government a valuable bargaining chip to move forward with the CAP.

The April Council of Ministers meeting gave new impetus for the adoption of the financing regulations and the EEC preparation for the Round. Ministers set to work along the plan envisaged by Schmücker, that helped to clear the air of distrust which had, for so long, surrounded the financial regulations. April activities made Lahr positive regarding the possibility of the Commission being able to negotiate by July in Geneva, and he expected the French, finally, not to obstruct the Kennedy Round "and hold to their word of honor [...] whatever doubts one might have about the French, [Lahr] did not believe that they were outright swindlers".⁸⁵

⁸² Later on, the Germans defined this working method as "Schubladentheorie", that is to say "drawer theory". See Ludlow, N.P., *The European Community and the Crises of the 1960s*, chapter 4.

⁸³ CM2 1966/16 PV de la 182^{ème} session du Conseil de la CEE, 4-5 April 1966.

⁸⁴ MAEF, DE/CE 1961-1966, note unsigned and undated on the 4-5 April session of the Council of Ministers. For the British, "Enthusiasm of the Germans and the Dutch for the Kennedy Round has given the French a valuable bargaining counter from which they have, with their customary astuteness, derived full value in the settlement of outstanding issues in the Community – particularly the favourable terms negotiated for French agriculture." PRO FO 371/189599 Note on the "French position in the Kennedy Round", written by the Tariff Division of the Board of Trade, October 1966.

⁸⁵ NA 364 Recs. of the US Trade Representative on the Kennedy Round, box 5 Memorandum of conversation between Lahr, Blumenthal and Fessenden in Bonn, 25 April 1966.

On the other side of the Atlantic, Washington too tried to understand whether de Gaulle would wreck the Kennedy Round, or would let the French government collaborate.⁸⁶ De Gaulle's claim on 21 February that French exposure to further competition could pay off and that, consequently, French industry had to be ready to face worldwide tariff reductions reassured Washington. And Blumenthal, from his trip to Paris, got the impression that Paris would bargain hard but would not deliberately cause the Kennedy Round to fail.⁸⁷ In any case, what mattered was that the Six got ready to show up in Geneva with a negotiating position. In order to do so, Washington reaffirmed its commitment to the Kennedy Round for political and economical reasons, and President Johnson personally emphasised "the continuing great interest of the United States in the Kennedy Round".⁸⁸ Washington alerted the Six and the Commission to the fact that the Kennedy Round had to be concluded by 30 June 1967. The US negotiating authority expired on that date and it was doubtful whether Congress would be willing grant an extension without adding crippling amendments. Thus, the hard bargaining was to begin in September 1966 on the basis of industrial and agricultural offers tabled before August.⁸⁹

The turning point for the EEC preparation for the Kennedy Round came in May when, at the meeting of Council of Ministers of 11 May, the Six agreed on the financial regulations for the CAP for the 1966-1970 period. Germany made clear that the final approval of the financial regulations was, in any case, conditional on progress made on the Kennedy Round.⁹⁰ As a result of the progress over CAP prices, on 12 June, the Luxembourgish Ambassador Borschette, president of the COREPER, was able to present a report to the Council of Ministers of 14 June 1966 based on technical work of the Commission and the 111 Committee containing proposals on the position the EEC should adopt in Geneva on cereals, tropical products, chemicals, aluminium and paper. In submitting the report, Borschette claimed "Il m'est agréable de pouvoir dire au Conseil qu'il y longtemps que, comme Président des Représentants Permanents, il ne m'a plus été possible de présenter un rapport aussi satisfaisant que celui qu j'ai l'honneur de vous soumettre. [...] un effort considérable a été fait par tous les délégations afin d'élaborer des offres ou de prendre des position communes que même les plus optimistes n'osaient espérer".⁹¹ The Council approved proposals for the commodity agreement on grains, and authorised the Commission to immediately start negotiations in Geneva. Ministers also approved offers for topical products, aluminium and paper, and authorised the Commission to table them in Geneva. Again, even if Couve de Murville had stated that decisions on the Kennedy Round should be kept 'in

⁸⁶ NA 59, FT 13-2, 1964-1966, box 979, Telegram 5376 from Bohlen to State Department, 2 March 1966; PRO BT 303/170 Visit of the French Prime Minister and Foreign Minister, London 6-8 July 1966. Note on the Kennedy Round, brief by the Board of Trade, 1 July 1966.

⁸⁷ NA 364 Recs. of the US Trade Representative on the Kennedy Round, box 5 Memorandum of conversation between Lahr, Blumenthal and Fessenden in Bonn, 25 April 1966. PRO BT 303/170 Visit of the French Prime Minister and Foreign Minister, London 6-8 July 1966. Note on the Kennedy Round, brief by the Board of Trade, 1 July 1966.

⁸⁸ NA 59, FT 13-2, 1964-1966, box 979, Telegram 1556 from State Department to various posts on Luns and Johnson meeting of 14 February 1966.

⁸⁹ Memorandum for the Vice President from Roth "Your meeting with Commissioner Rey", 23 May 1966, Roth Papers, Box 2, LBJL; Memorandum of Conversation between Ball, Maurice Schumann (Chairman of foreign affairs Committee of French National Assembly) and French Ambassador to the US Charles Lucet, 22 March, Bator Papers, Box 11, LBJL. PRO BT 303/170, Note for the visit of M. Charles de Chambrun of 5 May 1966, 4 May 1966. During March, Blumenthal urged all the Six to move ahead on agriculture. For example, Blumenthal went to Rome to meet Foreign Minister Fanfani and Treasury Minister Colombo to urge the EEC to table agricultural offers. NA 59 FT 13-2, 1964-1966, box 979, Telegram 2228 from Rome to State Department on Blumenthal's meeting with Fanfani and Colombo, 11 March 1966.

⁹⁰ CM2 1966/22 PV de la 185^{ème} session du Conseil de la CEE, 9-12 May 1966.

⁹¹ CM2/17509 Rapport de Borschette à la Présidence du Conseil de la CEE, 12 June 1966.

the box' until the entire CAP issue was been settled, France actually allowed decisions taken for the Kennedy Round to be presented in Geneva in June, without waiting for all the CAP questions to be resolved.⁹²

The considerable progress the EEC was making in June on the Kennedy Round and the CAP allowed Rey to attend an informal meeting with Wyndham White, Herter and the British Powell in Geneva at the beginning of July 1966. As a result of these discussions, Wyndham White set up a tight timetable for making progress in the industrial and agricultural sectors. The July meeting represented a decisive moment progress in this context. For the first time, after all the delays of the previous years, there was the clear feeling that the final phase of the negotiations was about to start and that success might be attainable.⁹³

At the end of July, the EEC reached package decision on the Kennedy Round mandate and the CAP. The Six achieved a final agreement on agricultural finance regulations, and on a phased programme up to 1 July 1968 for implementing common prices on a wide range of agricultural products, including meat and dairy products. They also agreed on 1 July 1968 as the date for achieving full internal free trade and for completing the move towards the CET.⁹⁴ The agreement on the CAP opened the way for the final debate on the offers to be tabled in the agricultural sector. In a four-day marathon that ended in the early hours of 27 July, the Council of Ministers, following the proposals of the Commission, approved offers for a large selection of agricultural products other than cereals.⁹⁵ After having reached a final agreement on the package deal for the CAP and the Kennedy Round, French Deputy Permanent Representative Ulrich could claim, 'The crisis is over'.⁹⁶

The EEC approval of agricultural offers opened up the way for intensive discussions in Geneva. After almost two daunting years spent on the rules of the negotiations, and a year of deadlock because of the EEC's internal bickering, at the end of July 1966, the Kennedy Round could finally be put in motion.

Conclusion

When the negotiations for the Kennedy Round resumed in February 1966, not only had no radical transformation taken place, but it even seemed that time had stood still. Just as had been the case prior to the outbreak of the crisis, progress in the negotiations in Geneva depended on progress in EEC internal negotiations, and in particular on the CAP. Moreover, as had already been agreed before June 1965, all the decisions related to the GATT negotiations were to be reached by unanimity and this because France refused to apply QMV to important issues, a position shared by the other Five, who also wanted to base such decision on unanimity. It was only the total lack of confidence between France and the Five and, above all, between France and

⁹² CM2 1966/34 PV de la 188^{ème} session du Conseil de la CEE, 14 June 1966.

⁹³ Background paper on July TNC Meeting, undated, Roth Papers, box 2, LBJL; PRO FO 371/189598 Note UEE 1025/37 "The outlook for the Kennedy Round" from Eugene Melville to Mr. Stewart, 26 July 1966. Wyndham White had suggested holding a Council of Ministers sessions in order to open the final phase of the Kennedy Round and mark the importance of the Round itself. The British and the EEC objected to proposals on the ground that it gave LDCs a chance to openly display their discontent with the Kennedy Round and the GATT publicising that the industrial countries persistently overlooked LDCs' trade interests.

⁹⁴ PRO FO 371/189598 Note UEE 1025/37 "The outlook for the Kennedy Round" from Eugene Melville to Mr. Stewart, 26 July 1966.

⁹⁵ CM2 1966/48 PV de la 191^{ème} session du Conseil de la CEE, 22-23 and 26-27 July 1966.

⁹⁶ NA 59 1964-1966 Ecin 3 Box 791. Memorandum of Conversation between Ulrich and Russell Fessenden of the American Embassy in Brussels, 29 July 1966.

Germany, that led to the overt statement by the Six that the CAP and the GATT negotiations had to be subject to the unanimity rule.

The events that took place during the crisis of the Empty Chair shed some light on Paris's approach towards the GATT negotiations. Its attitude during the six months of boycott displayed its interest in the Kennedy Round. First it kept itself informed on the activities of the Commission and the Five in Geneva and in Brussels, and, second, when the rumour circulated about a possible American move to push ahead with the Kennedy Round, excluding the EEC, they immediately sought assurances about American intentions.

Despite the French attack on the Commission, this institution kept its influential and crucial role in elaborating the final part of the EEC mandate for the Kennedy Round, as the EEC discussion over the Kennedy Round and the CAP from February to July 1966 demonstrated. In fact, it was on its proposals that the Six elaborated their negotiating position for the final phase of the Kennedy Round. After the crisis of the empty chair, the Commission was still able to act vigorously. The French never questioned its negotiating role or its right to represent the Six in Geneva, not only for the industrial sector but also for in agriculture, for which it lacked authority to negotiate under article 111 of the Treaty of Rome. If the French had been interested in downgrading the Commission's role in international trade relations, they could have warned the five members to the respect of the Treaty of Rome, respect that the Five had firmly supported in Luxembourg. Paris had every interest in letting the Commission represent the EEC. First, French policy-makers often took the same view as the Commission regarding the GATT negotiations. Second, from the French point of view, it was preferable to have the Commission leading negotiations with the United States for the six member states than to have this pivotal role occupied by Germany or the Netherlands, who were too amenable to American pressures for France's liking. Whatever the French might have said about the Commission, in practice they had a rather pragmatic approach towards this institution. When France judged that it was in her economic interest to have the EEC represented by the Commission, no hue or cry would be heard from the French government. As for Germany and The Netherlands, as is better demonstrated in the following chapters dedicated to the negotiations in the industrial and agricultural sectors, they had earlier been, and were still, critical of some of the Commission stances in the Kennedy Round, but found their criticism compromised by the fact that they had so recently taken up cudgels in defence of the institution, and now felt inhibited from openly criticising the Commission on the Kennedy Round.

It is worth noting that the Six were able to reach an agreement on the CAP and the Kennedy Round, despite the bad relations the Six had in NATO context. The Six kept EEC matters completely separate from NATO issues. They had such strong economic and political interests in staying together in the EEC that they had no intention of endangering them because of NATO questions, no matter how important the matter was. It was this very interest that pushed the Six to compromise on the CAP and the Kennedy Round. 1966 had begun with a major crisis for the EEC, but, by the middle of the same year, great achievements had been made in setting up a single agricultural market and a common commercial policy with which to attend the Kennedy Round. Again, the need to attend the Round acted as a lever to secure progress in the CAP. The American's firm position that the Kennedy Round had to include agriculture pushed the Six, and above all the recalcitrant Germans, to adopt the financial regulations and unified prices. Moreover, as shown in the following chapters, in the aftermath of the crisis, the Kennedy Round had a positive effect on the cohesion of the

Six: although their unity had been badly shaken, the need to confront the United States with a united front in order to defend the regional dimension of the EEC allowed the Six to recover unity and cohesion, at least in trade relations with third countries.

As for Washington, in dealing with the Crisis of the Empty Chair and in keeping the Kennedy Round alive, it considered not only its commercial interests, but also the positive effects the Kennedy Round could have on the European Commission and the unity of the EEC. During the months of the crisis, Washington never seriously considered the option of concluding the round without the EEC, and this not only because the regional trading area was too relevant in trade relations and a GATT Round without it was simply pointless, but also for the benefits the Kennedy Round could bring to the Atlantic alliance and European integration.

Chapter Nine

Negotiations in the industrial sector: towards freer trade

Introduction

The Kennedy Round had been promoted by the US government Administration in October 1962 with the passage of the TEA. Since that date the United States and the EEC had spent almost two years bickering on the rules and seeking reciprocity in concessions granted. Once some basic rules had been agreed – 50% reduction across the board, with as few as possible exceptions – and some others had not been agreed at all – on disparities, the meaning of “overriding national interest” to justify exceptions – the focus of the negotiations finally moved to products. After the tabling of the exceptions lists in November 1964, the negotiations in the industrial sector slowly got under way and, at this point, as Evans notes, “the search for reciprocity moved from the abstract to the concrete, from the blackboard to the bazaar”.¹ The bazaar-like activities were then interrupted by the crisis of the Empty Chair and it was only in May 1966 that they were re-started.

Chapter 9 is fully dedicated to the Round’s batch of negotiations concerning industry and how trade was liberalized. The aim is to demonstrate how the reciprocal interest in reducing protectionism that existed on both sides of the Atlantic led both the EEC and the USA to reduce their barriers so that, despite the many problems which existed, some valuable results were nonetheless within reach. With the end of the justification process in March 1965, informal bilateral confrontations among the linear bargainers began. The aim was to pragmatically discuss problems created by the exceptions lists, and to define the orientations and procedures to then be retained in view of the continuation of the negotiations in the multilateral phase. However, from the cross-examination exercise, it emerged fairly as fairly clear that, in a number of sectors, what one country was prepared to offer depended to some extent on what others could do in the same sector. This situation concerned, above all, textiles, chemicals, steel, aluminium, pulp and paper, which represented 30% of OECD members imports in the industrial sector.² For this reason, in early 1965, Wyndham White suggested to the Steering Group – the informal group of the United States, Japan, the EEC and the United Kingdom – the setting up of sector groups to deal with the special problems of aluminum, steel, pulp and paper, cotton textiles and chemicals, in order to see how, in the light of the difficulties, discussion among the countries most affected could eliminate the problems that lay in the way of a linear cuts and thus lead to tariffs offers being maximised.³ Products covered by sector groups were not the most important items in the negotiation, but were simply the most problematic. In fact, machinery and transportation equipment, which alone represented 36% of OECD members’ imports in

¹ Evans, J.W. *The Kennedy Round in American Trade Policy: Twilight of the GATT* (Cambridge, Mass: Harvard University Press, 1971), p. 221.

² The figure is taken from Preeg, E.H. *Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations under the GATT* (Washington, DC: Brookings Institute, 1970), p.93.

³ Progress report on the Kennedy Round, 13 April 1965, Herter Papers, Box 6, JFKL; PRO BT 241/844 Note of a meeting held in the Office of Ambassador Roth in Washington on 25 May 1965. Powell, Chadwick, Cullen for the British and Roth, Hedges, Greenwald for the Americans were present.

manufactured items and the biggest sector for value of exchanges between the EEC and the USA, were not covered by a sector group they did not present multilateral problems.

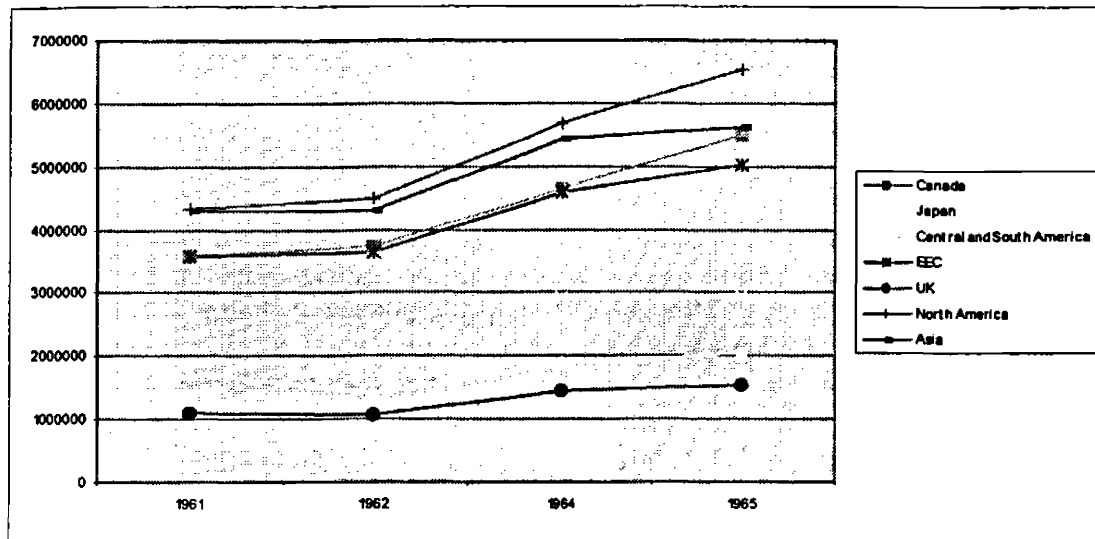
The Kennedy Round was a complex negotiating process that dealt with all industrial products, but as this thesis is dedicated to the US-EEC trade relations, this chapter considers those sectors most relevant both for the transatlantic trade relations and for US and EEC relations with other countries. Attention is therefore dedicated to those sectors that had a major importance for these relations in terms of trade volume, in terms in time spent haggling over them, or in terms of impact on the other sectors. As such, attention is dedicated to machinery and transport equipment, chemicals, paper, steel and cotton textiles. The aim of this chapter is to describe the commercial policy of the USA and the EEC. The USA pushed for decreasing protectionism, but, at the same time, had its own products to protect. The EEC wanted to defend its regionalism, but at the same time was prepared to reduce the CET as a bargaining chip to obtain concessions from third countries. In order to describe in a clear manner the negotiations in the industrial sector, the account is given sector by sector, though negotiations on these sectors were linked: A country asked for concessions in the paper sector and was ready to offer something in the mechanical sector, for instance. To be sure, each of the trade sector considered here would be worthy a full chapter on its own but this would make this thesis too long and heavy. To get a better idea of the how the negotiations in the industrial sector were conducted, a case study of aluminium is presented in the next chapter. Moreover, to portray the negotiations in a clearer way, the industrial part of the Kennedy Round is presented separately from the agricultural part. In practice, however, the two were linked. And in fact, negotiations in the former sector were progressing at a slow pace until 1966, as governments were biding their time, waiting for developments in the agricultural sector.

9.1 Patterns of trade across the Atlantic 1961-1965

Before describing the industrial sector negotiations, it is useful to illustrate the trade patterns of the EEC and the United States, to get an idea of which directions their trade was taking, and the changes which had taken place since 1962, when the USA had passed the TEA. This section illustrates the USA and EEC exports to the world and to each other, in order to place trade across the Atlantic within the context of world trade. Moreover, in order to understand how important each sector of the industrial negotiations was for the EEC and the United States, this section describes the composition of US-EEC trade by commodity.

Table 1 portrays US exports by major area of destination. It shows that the EEC was one of the most dynamic markets for the USA. From 1961 to 1964, US exports to the Six grew as fast as US exports to the traditionally largest market for the USA, namely Canada, while, in 1965, they this growth slowed, even if it continued to grow faster than exports to Japan and the United Kingdom.

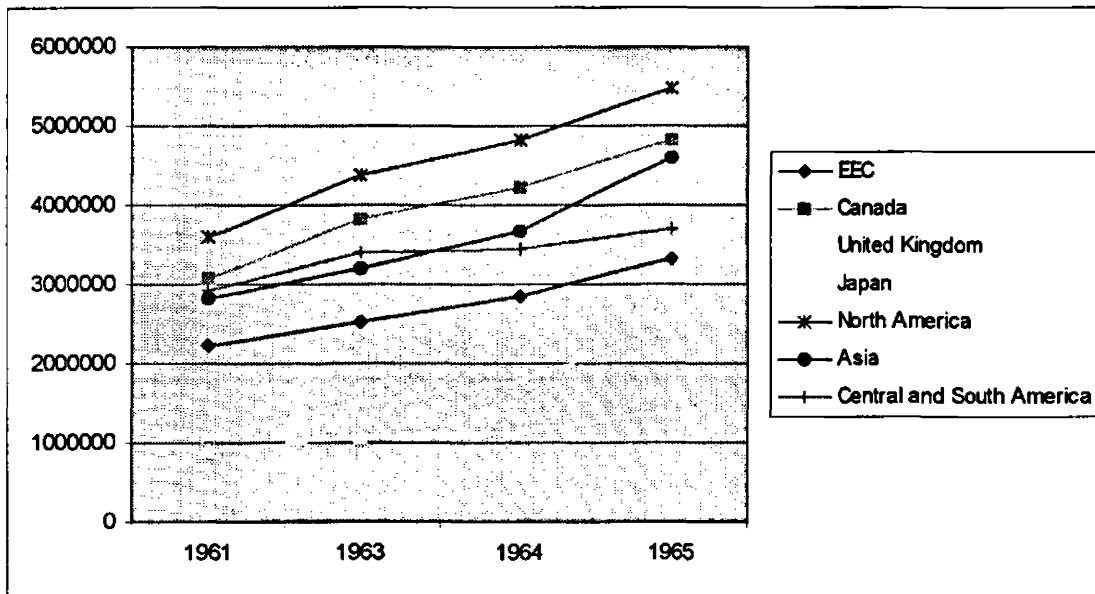
Table 1 US exports by major areas of destinations (in thousands of \$)



Source: SITC Classification. Source: OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

Table 2 illustrates US imports by area and country, and shows that, just as with for exports, Canada and the EEC held relevant positions. Moreover, imports were inferior to exports, with the result that the USA had a trade surplus with these areas

Table 2 US imports by major area and countries (in thousands of \$)



Source: see Table 1.

Table 3 shows US trade surplus by area in 1964. At a glance, it reveals that the EEC was a crucial area in the US's achievement of a trade surplus.

Table 3: US trade balance in 1964 by major countries and areas (in thousands of \$)

	Thousands of \$
Total surplus	7486325
By area or countries	
North America	845164
Canada	426562
Asia	1768469
Japan	130275
EEC	1752877
UK	312792

Source: see Table 1.

Table 4 illustrates the composition of US exports to the EEC by commodity, and shows that machinery and transport equipment, crude materials, chemicals and manufactured goods had a prominent place. Machinery and transport equipment were the most important sector for volume of trade and growth rate.

Table 4: composition of US exports to the EEC 1961-1965 (in thousands of US\$)

SITC	1961	1962	1964	1965
Total trade	3564029	3650009	4590854	5007743
0 Food and live animals	475693	665137	769676	932724
1 Beverages and tobacco	120548	129539	129145	127542
2 Crude materials, inedible, except fuels	745258	613264	830959	757715
3 Mineral fuels, lubricants and related materials	214127	241729	311382	270463
4 Animal and vegetable oils, fats and waxes	129965	117025	169797	167369
5 Chemicals and related products, n.e.s.	370747	379844	512293	544885
6 Manufactured goods classified chiefly by material	421932	391049	564035	512049
7 Machinery and transport equipment	830677	936977	1063669	1372238
8 Miscellaneous manufactured articles	138731	162942	228709	312339
9 Commodities and transactions n.e.c.	14802	12562	11179	10419

Source: see Table 1.

Table 5 portrays the composition of US imports from the EEC and demonstrates that manufactured goods and machinery and transport equipment represented the major import sectors.

Table 5 : composition of US imports from the EEC 1961-1965 (in thousands of US\$)

SITC	1961	1963	1964	1965
Total imports	2225904	2518177	2837977	3329082
0 Food and live animals	119654	118646	122663	129437

1	Beverages and tobacco	66346	76718	83905	87761
2	Crude materials, inedible, except fuels	118127	118462	110783	103876
3	Mineral fuels, lubricants and related materials	14084	9344	11215	11214
4	Animal and vegetable oils, fats and waxes	11859	11209	11598	14518
5	Chemicals and related products, n.e.s.	124450	148158	178204	196830
6	Manufactured goods classified chiefly by material	727974	760962	822332	1056697
7	Machinery and transport equipment	616557	706589	850724	990004
8	Miscellaneous manufactured articles	339263	455856	521896	580856
9	Commodities and transactions n.e.c.	87590	112233	124657	157889

Source: see Table 1.

It is worth pointing out, in comparing Tables 5 and 6 and considering US trade balance with the EEC, taking 1964 as an example, (Table 6) that despite the fact that the volume of US exports to the EEC in the industrial sector was larger than exports in the agricultural sector, the USA gained a good share of its surplus in the latter sector. In fact, while trade for manufactured goods was a two-way street, in that the US exported to the EEC and vice versa (in manufactured goods the USA had even a deficit with the EEC), in the agricultural sector US imports from the EEC were much lower than exports. These trade patterns go some way to explaining what led to a reduction in protectionism in the industrial sector, but in no such progress for agriculture. In fact, both the USA and the EEC had a reciprocal interest in increasing exports to each other in the industrial sector, while the same could not be said to be true for agriculture.

Table 6: composition of US trade balance with the EEC in 1964 (in thousands of \$)

SITC	Total imports from the EEC	US Exports to the EEC	Balance
Total trade	2837977	4590854	1752877
0 Food and live animals	122663	769676	647013
1 Beverages and tobacco	83905	129145	45240
2 Crude materials, inedible, except fuels	110783	830959	720176
3 Mineral fuels, lubricants and related materials	11215	311382	300167
4 Animal and vegetable oils, fats and waxes	11598	169797	158199
5 Chemicals and related products, n.e.s.	178204	512293	334089
6 Manufactured goods classified chiefly by material	822332	564035	-258297
7 Machinery and transport equipment	850724	1063669	212945
8 Miscellaneous manufactured articles	521896	228709	-293187
9 Commodities and transactions n.e.c.	124657	11179	-113478

Source: see Table 1.

Tables 7 to 11 illustrate American exports to each of the Six by commodity. They show that the USA was able to take advantage of the growing economy of the Six at the beginning of the 1960s, in fact American exports increased in all sectors to the all Six, and this despite the implementation of the EEC customs union. The most dynamic sectors were chemicals and transport equipment. These tables also show that Germany was the US's biggest customer among the Six, as it accounted for 40% of EEC imports from the USA.

Table 7: US exports to France 1961-1965 by main categories (in thousands of \$)

	1961	1963	1964	1965
Total	556717	669307	790721	891538
0 Food and live animals	25678	58887	79996	100009
1 Beverages and tobacco	12084	10593	11431	9963
2 Crude materials, inedible, except fuels	143081	101164	119031	85490
3 Mineral fuels, lubricants and related materials	19618	38230	39966	29846
4 Animal and vegetable oils, fats and waxes	763	1099	2595	4369
5 Chemicals and related products, n.e.s.	54316	62823	75464	80555
6 Manufactured goods classified chiefly by material	76917	85420	100174	96973
7 Machinery and transport equipment	190392	256016	296532	384734
8 Miscellaneous manufactured articles	32527	53694	63870	96611
9 Commodities and transactions n.e.c.	1341	1381	1662	2988

Source: see Table 1.

Table 8 US exports to Italy 1961-1965 by main categories (in thousands of \$)

	1961	1963	1964	1965
Total	847458	970125	916122	950729
0 Food and live animals	121516	118737	101300	181003
1 Beverages and tobacco	11988	12520	10870	9500
2 Crude materials, inedible, except fuels	199872	171593	192998	179882
3 Mineral fuels, lubricants and related materials	70715	102805	101900	100696
4 Animal and vegetable oils, fats and waxes	70715	102805	101900	100696
5 Chemicals and related products, n.e.s.	70840	61866	68454	57290
6 Manufactured goods classified chiefly by material	95963	124434	115555	97431
7 Machinery and transport equipment	174508	235074	184931	177011
8 Miscellaneous manufactured articles	23667	33528	33370	45772
9 Commodities and transactions n.e.c.	7674	6763	4844	1448

Source: see Table 1.

Table 9 US exports to Belgium/Luxembourg 1961-1965 by main categories (in thousands of \$)

	1961	1963	1964	1965
Total	408293	504542	600095	623781
0 Food and live animals	75871	90035	104684	118602
1 Beverages and tobacco	13971	14595	13526	14301
2 Crude materials, inedible, except fuels	54126	53000	75863	67737
3 Mineral fuels, lubricants and related materials	26607	45086	35449	31347
4 Animal and vegetable oils, fats and waxes	2463	1742	4192	2543
5 Chemicals and related products, n.e.s.	63192	71730	99366	105632
6 Manufactured goods classified chiefly by material	44285	64121	81504	69811
7 Machinery and transport equipment	111556	140217	159595	185402
8 Miscellaneous manufactured articles	14938	22475	24088	26446
9 Commodities and transactions n.e.c.	1284	1541	1828	1960

Source: see Table 1.

Table 10 US exports to Netherlands 1961-1965 by main categories (in thousands of \$)

	1961	1963	1964	1965
Total	691004	749793	969940	1043031
0 Food and live animals	186886	228201	276124	304273
1 Beverages and tobacco	19366	21621	22144	25536
2 Crude materials, inedible, except fuels	121675	106284	157200	179201
3 Mineral fuels, lubricants and related materials	41140	70849	62581	48426
4 Animal and vegetable oils, fats and waxes	26436	27444	37605	30424
5 Chemicals and related products, n.e.s.	99196	108211	162675	175972
6 Manufactured goods classified chiefly by material	48701	60614	74355	71949
7 Machinery and transport equipment	121707	97278	136241	159093
8 Miscellaneous manufactured articles	25192	28552	40025	46725
9 Commodities and transactions not elsewhere classified	705	739	980	1432

Source: see Table 1.

Table 11 US exports to Germany 1961-1965 by main categories (in thousands of \$)

	1961	1963	1964	1965
Total	1060557	1091056	1313976	1498664
0 Food and live animals	167291	175257	207572	228837
1 Beverages and tobacco	63139	67949	71174	68242
2 Crude materials, inedible, except fuels	226504	203679	285867	245405
3 Mineral fuels, lubricants and related materials	56047	76647	71486	60148
4 Animal and vegetable oils, fats and waxes	29588	14725	23505	29337
5 Chemicals and related products, n.e.s.	83203	82922	106334	125436
6 Manufactured goods classified chiefly by material	156066	156021	192447	175885
7 Machinery and transport equipment	232514	258111	286370	465998
8 Miscellaneous manufactured articles	42407	53834	67356	96785
9 Commodities and transactions n.e.c.	3798	1911	1865	2591

Source: see Table 1.

Table 12 considers the exports and imports of the Six to the USA on a commodity basis. Although all the Six had a trade deficit with the USA in terms of total trade, Germany enjoyed a surplus in machinery and transport equipment and manufactured goods, while Italy and Belgium/Luxembourg enjoyed a surplus in manufactured goods.

Table 12 Exports and imports of the Six with the United States and trade balance in 1961 and 1964 (in thousand of US\$)

1961

	France			Germany			Italy			The Netherlands			BLEU		
	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance
Total trade	736840	417118	-319722	1363816	869769	-494047	868957	385104	-483853	564358	171201	-393157	376175	371595	-4580
0 Food and live animals	52804	16001	-36803	194372	10162	-184210	108785	37686	-71099	158603	48625	-109978	65119	3828	-61291
1 Beverages and tobacco	12196	33314	21118	53059	9688	43371	5950	10528	4578	14931	1426	-13505	9336	25	-9311
2 Crude materials, inedible, except fuels	176428	19454	-156974	320295	19937	-300358	232825	11823	-221002	84875	19291	-65584	63978	24995	-38983
3 Mineral fuels, lubricants and related materials	23405	5032	-18373	85986	4117	-81869	77052	2701	-74351	34514	2843	-31671	21398	2848	-18550
4 Animal and vegetable oils, fats and waxes	1047	78	-969	32852	3151	-29701	18586	4628	-13958	10258	1630	-8628	2298	138	-2160
5 Chemicals and related products, n.e.s.	77734	34690	50715	127904	56936	70968	97856	15207	-82649	41024	16089	-24935	37519	14949	-22570
6 Manufactured goods classified chiefly by material	87119	128449	41330	191197	202389	11192	102320	96480	-5840	42010	25208	-16802	41811	278424	236613
7 Machinery and transport equipment	259513	112945	-146568	302895	436742	133847	197164	85832	-111332	152500	31823	-120677	116554	17364	-99190
8 Miscellaneous manufactured articles	46582	65314	18732	48460	120203	71743	27760	118243	90483	22015	8600	-13415	15601	20219	4618
9 Commodities and transactions n.e.c.	12	1838	1826	6796	6447	-349	659	2008	1349	3628	15664	12036	2561	8801	6240

1964

	France			Germany			Italy			The Netherlands			BLEU		
	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance
Total trade	1136374	470365	-666009	2016067	1197045	-819022	980524	507686	-472838	777077	224248	-552829	527388	452536	-74852
0 Food and live animals	122000	17464	-104536	243646	12768	-230878	95030	36556	-58474	261753	44846	-216907	97387	5710	-91677
1 Beverages and tobacco	9440	38194	28754	71632	12534	-59098	7185	13179	5994	18365	7337	-11028	10257	156	-10101
2 Crude materials, inedible, except fuels	148336	28320	-120016	389618	25817	-363801	221116	16669	-204447	105080	23376	-81704	82943	25020	-57923
3 Mineral fuels, lubricants and related materials	59438	1542	-57896	93376	2729	-90647	126480	2211	-124269	55354	2083	-53271	36648	882	-35766
4 Animal and vegetable oils, fats and waxes	3176	138	-3038	33524	1182	-32342	12956	6689	-6267	18482	3816	-14666	4917	111	-4806
5 Chemicals and related products, n.e.s.	123877	52974	-70903	177632	68509	-109123	88003	18637	-69366	65338	17390	-47948	44261	15762	-28499
6 Manufactured goods classified chiefly by material	142564	140634	-1930	208687	221854	13167	114753	117830	3077	56020	40174	-15846	78360	324079	245719
7 Machinery and transport equipment	424707	85208	-339499	359174	699246	340072	264241	84393	-179848	149856	65217	-84639	146297	35433	-110864
8 Miscellaneous manufactured articles	102611	103984	1373	85730	141623	55893	41503	208844	167341	36455	17428	-19027	24217	41641	17424
9 Commodities and transactions n.e.c.	225	1903	1678	353048	10783	-342265	9257	2691	-6566	10374	2581	-7793	2101	3740	1639

Source: SITC Classification. OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

Table 13 considers the EEC exports by major area. While intra-EEC trade grew in importance for all the Six thanks to the implementation of the customs union, the EFTA bloc also remained important. As a market, the USA remained of particular importance to Germany.

Table 13 EEC exports to major area 1959-1965

1959					
Exporting countries	Total exports	EEC	EFTA	USA	Rest of the World
France	5350	1527	760	470	2953
BLEU	3279	1522	524	444	789
Netherlands	3579	1597	847	209	926
Germany	9756	2731	2649	913	3643
Italy	2876	792	642	345	1097
Total EEC	24840	8169	5422	2381	9408
1962					
France	7362	2712	1175	426	3049
BLEU	4325	2458	620	414	833
Netherlands	4584	2256	1057	200	1071
Germany	13264	4512	3687	965	4100
Italy	4666	1625	957	441	1643
Total EEC	34201	13563	7496	2446	10696
1965					
France	10048	4115	1571	594	3768
BLEU	6382	3947	791	532	1112
Netherlands	6393	3561	1210	244	1378
Germany	17892	6306	4830	1436	5320
Italy	7188	2891	1199	618	2480
Total EEC	47903	20820	9601	3424	14058

Source: Statistical Office of the European Communities, Basic Statistics of the Community 1960,1963,1966)

9.2 Machinery and transport equipment sector

As already anticipated, the fact that a sector group did not exist for machinery and transport equipment should not obscure the fact the largest interests in the Kennedy Round participant lay squarely in this sector.⁴ Together with the chemical sector, it was the most rapidly growing part of trade in manufactured goods and, as table 14 reveals, the major sector of exports for Italy, Germany, The Netherlands and the USA.

Table 14 Composition of total exports of the Six and USA in 1964

	France	Italy	Germany	BLEU	Netherlands	USA
0 Food and live animals	1140075	1318052	295429	294661	1318052	1318052
1 Beverages and tobacco	295558	69932	52177	34128	69932	69932

⁴ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Briefing for Governor Herter "USA-EEC talking points", 3 August 1966.

2	Crude materials, inedible, except fuels	634578	456800	431378	346060	456800	456800
3	Mineral fuels, lubricants and related materials	311921	532554	788612	225589	532554	532554
4	Animal and vegetable oils, fats and waxes	26353	45764	45001	13425	45764	45764
5	Chemicals and related products, n.e.s.	872753	532651	1875250	312599	532651	532651
6	Manufactured goods classified chiefly by material	2550863	1125764	3568684	2806141	1125764	1125764
7	Machinery and transport equipment	2284896	1369403	7491028	1057264	1369403	1369403
8	Miscellaneous manufactured articles	818126	302902	1457732	402856	302902	302902
9	Commodities and transactions not elsewhere classified	55166	54283	209688	125143	54283	54283

Source: see Table 1.

Despite the importance of this sector, previous accounts of the Kennedy Round hardly mention it and prefer to focus only on the five sectors covered by a group. Indeed, it is not easy to track the history of these negotiations. By virtue of the fact that no major problem was encountered, this sector is also hardly mentioned in the archives. The description of these negotiations is, however, of major importance. First, this sector mostly concerned the USA and the EEC for its rate of growth; second, it highlights that while Italy and France wanted to defend EEC preferences in this sector, Germany and the Netherlands, being interested in enhancing their exports, wanted to reduce the CET as a bargaining chip. This sector is a good example of those compromises that were necessary between the Six to set up a common commercial policy.

When the EEC list was set up in November 1964, the majority of its exceptions had been demanded by Italy and France. They had felt that the financial and technical means third countries and, notably, the United States' industries had meant that the EEC was unable to give up the existing protection levels of the CET. Moreover, they were already reducing their national tariffs to join the CET, which, in turn had been reduced at the Dillon Round by an average of three points. These two countries were facing the increased competition on their markets at the regional level of the EEC, and appeared cautious in allowing an increase of competition at multilateral level. Thus they insisted on the retention of the level of protection for this sector, in order to retain the possibility of expanding their industries at EEC regional level without exposing it to the American and EFTA competition. By contrast, underlining the competitiveness of the industries of the Six in this sector, and that fact the EEC was one of the most developed trade units in world trade, Germany and The Netherlands did not share Italian and French positions and wanted few exceptions. Moreover, the EEC was a net exporter for this sector and had every interest in getting to Geneva with a short list in order to be able to push the EFTA countries and the USA to shorten theirs. As Table 15 shows, Germany had an outstanding interest in increasing its exports outside the EEC, and the only way to achieve this goal was to meet in Geneva with a short exceptions list.

Table 15 Exports of the Six in machinery and transport equipment (SITC Classification 7, in US \$ thousand) in 1964.

	1964 World	EEC	UK	EFTA+ Finland	USA
BLEU	1057264	732048	38188	108502	35433
Germany	7491028	2356797	297205	2095819	699246
France	2284896	761148	75625	359729	85208
Italy	1839743	679456	76912	280274	84393
Netherlands	1369403	711477	83272	248699	65217

Source: SITC Classification. OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

It should also be recalled that for these two countries a further decrease in the CET simply meant returning to the national tariffs back which they had had in 1958. In the end, the French and the Italians accepted to withdraw some exceptions, but, for Bonn and The Hague, the list remained long and they considered it essential to reduce it in order to have the chance to bargain down other countries' tariffs.⁵ The EEC exceptions concerned public work machinery, nuclear reactors, electronic calculating machines, where the EEC feared not only American and EFTA competition but also that stemming from Japan, as well as some machine tools, air conditioning machines and sewing machines. The list also concerned motors and detached pieces for heavy trucks, tractors, heavy buses and their pieces, including motors, bicycles, helicopters and light aircrafts and diesel motors. A 50% reduction on cars and aircrafts could be made only if the trading partners were willing to grant equivalent concessions. The Six hoped in this way to reduce the preferential access British cars enjoyed on the EFTA markets, pushing both the UK and the small EFTA countries to do the same, but without insisting on the condition that there be a reduction in the CET in sectors of major interest them, such as pulp paper and paper, wood products and non-ferrous metals, so important to the Nordics. By June 1965, the Six had also set the rate of partial exceptions at an average level of 20%, despite German request of 25%.⁶

The EEC complained, but without stressing the point too greatly, about American NTBs such as the Buy American Act. The industries of the Six, and in particular the French Federation of Mechanical Industries, had asked their governments to oppose this American NTB, which disadvantaged European producers in American public procurement. However, the EEC knew that because of its own NTBs, such as the road tax on cars, it could not insist on too much with the USA.⁷

The USA tabled no exceptions in this sector. As the US industry was strong enough to bear a 50% reduction of duties, and interested reducing third countries' protection levels, the Johnson administration decided to arrive in Geneva with no exceptions and a fully liberal posture in order to push other countries to do the same. Washington was naturally worried by the EEC exceptions, which heavily hit US exports in this dynamic sector. To be sure, as showed in chapter 7, other sectors were even more affected, but this sector was too crucial for its value and dynamism for the Americans to accept EEC exceptions as they had been proposed. In particular, Washington asked for reduction in duties on machine tools, electronic machines, public work machines, and aircrafts and light helicopters for which it was prime EEC supplier. In order to press the EEC to significantly reduce its exceptions, Washington counted on the fact that this sector was of crucial importance also to the EEC, and to the Germans in particular (see Table 15). The US market was of great importance to the EEC too, while the Six had to reduce their exceptions if they wanted to increase their exports to the EFTA countries. It was by focusing on these two elements that Washington hoped to push the Six to reduce their exceptions list so that it could maintain its practically unqualified linear offers.⁸ Washington was not disappointed by the EEC offers in the

⁵ PRO BT 241/844 Telegram 96 from Roberts, British Ambassador in Bonn, to Foreign Office, 3 May 1965, reporting conversation between Keiser, Stedfeld, Horn of the German Ministry of Economy, and Roberts, Hughes and Denman.

⁶ CM2 1965/39 PV de la 168^{ème} réunion du Conseil de la CEE, 13-14 May 1965 and CM2 1969 PV de la 169^{ème} réunion du Conseil de la CEE, 14-15 June 1965.

⁷ MAEF, DE/CE GATT 949 F.I.M.T.M. «Négociations tarifaires CEE/Etats-Unis au sein du GATT: Note complémentaire de la Fédération des Industriels Mécaniques», August 1963. CM2 IA 1.824.52 Prise de position du Conseil des Présidents de l'UNICE au sujet des négociations tarifaires multilatérales au GATT, 11 Décembre 1963, 14 A.4/10 A.4.

⁸ AECB – BAC 122/1991-3, Rapport n.32 de la délégation de la Commission pour les négociations du GATT, 29 March 1965; AECB PV 345, 19 January 1966, Annex «Rapport de la Commission au Conseil sur les négociations commerciales

automobile sector. It had a major interest in cars, which the Six subjected to the full 50% reduction, and, at the same time, hoped to increase their exports to the EEC through their branches in Germany. The Americans had only a minor interest in exporting to the EEC their buses, trucks and tractors, too heavy for the markets of the Six.⁹ However, the United States complained about the automobile road-use taxes which heavily hit US cars.¹⁰

The British and the other EFTA countries, similarly to the USA, had not presented exceptions as they also hoped that their liberal stance could push the EEC, and in particular the French and the Italians, to significantly reduce duties. This sector formed the biggest group of items of British exports to the EEC and the USA, therefore the United Kingdom was also disappointed by the EEC exceptions, but its discontent was limited to certain exceptions, notably radio sets and parts, machine tools, pumps, diesel engines, tractors and heavy lorries for which was the first supplier of the EEC. In any case, London felt confident of being able to secure a fairly wide range of substantial tariff cuts during the course of the negotiations.¹¹

With the EEC agreement to subject cars to the 50% reduction and the US lack of concern for the rest of the automobile sector, this sector became the subject of an almost intra-European negotiation. None of the EFTA countries tabled any exceptions in the automobile sector, hoping that their markets would be attractive enough to push the Six to make concessions to them in other sectors which they considered crucial, notable pulp paper and paper, aluminium and wood products. Moreover, Sweden, in addition to cars, was interested in boosting its exports of trucks, and was particularly concerned by the EEC exception on these items and their parts. It had a 24% duty on cars and it hoped that its offer to halve this figure would push the EEC to do the same on trucks. As for the British, they asked for a reduction in the CET for the entire sector, especially on heavy trucks, tractors and buses, including detached pieces.

Within the EEC, the Germans looked with interest at the Americans and EFTA countries requests to the EEC to substantially reduce exceptions for the entirety the machinery and transport equipment sector. When the EEC list had been set, the Germans had opposed the inclusion of tractors, heavy lorries, some machine tools and electronic machines, so they paid close attention to the demands of British, EFTA and US complaints, hoping to push the recalcitrant Italians and French to reduce protection.¹² The insistence of the United States, the United Kingdom and other EFTA countries that the EEC had to reduce its exceptions list, together with the similar

au GATT», NCG (66)3. NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Briefing for Governor Herter "USA-EEC talking points", 3 August 1966.

⁹ AECB PV 345, 19 January 1966, Annex «Rapport de la Commission au Conseil sur les négociations commerciales au GATT», NCG (66)3. Remarks made by Blumenthal at a press conference on 7 December 1965, Herter paper, box 1, JFKL. For an excellent account of the treatment of the automobile sector in the Kennedy Round see Ramírez Pérez, S.M. "The role of multinational corporations in the foreign trade policy of the European Economic Community: the automobile sector between 1959 and 1967" in Actes du Gerpisa, N.38—"Variety of capitalism and Diversity of Productive Models" on which this account of the automobile sector is grounded.

¹⁰ In Austria, Belgium, France and Italy this tax was calculated on cylinder capacity or fiscal horsepower, instead of the cost or price of the vehicle. Most European cars did not exceed 2500cc or 16 fiscal horsepower, while (aside from compacts) American cars exceeded both these figures. The result was that a 220 SE Mercedes which cost 48,000 francs in France, paid tax of 150 francs, while Chevrolet Chevy II 200-400, which cost only half the price, paid 1000 francs a year. For a full description of all NTBs applied by GATT members see Non-tariff barriers to GATT Agreement, August 1966, NSF: Subject File, box 47, LBJL.

¹¹ PRO BT 241/844 Telegram 17 from Cohen (UK Delegation to GATT) to Foreign Office, 15 February 1965; PRO BT 241/844 Telegram 28 from Cohen (UK Delegation to GATT) to Foreign Office, 15 February 1965; PRO FO 371/189598 Memorandum "The Outlook of the Kennedy Round", from Melville (Head of British delegation to Geneva) to Mr. Stewart of the Foreign Office, 26 July 1966.

¹² PRO BT 241/844 Telegram 96 from Roberts, British Ambassador in Bonn, to Foreign Office, 3 May 1965, reporting conversation between Keiser, Stedfeld, Horn of the German Ministry of Economic, and Roberts, Hughes and Denman.

German and Dutch stances within the EEC, made this sector the likely candidate for an improvement of offers by the EEC in the final bargain. However, as there was not a particular obstacle, apart from the willingness of participants, to the reductions of tariffs, this sector was set aside while negotiations took place on the other industrial sectors and on agriculture. Governments wanted to see how the whole bargaining process developed before taking a final decision on the concessions to be granted. As a result, it would be only in the very final phase of the Kennedy Round that this sector would become fully involved in the bargain.

9.3 Chemicals: a tough transatlantic confrontation

While no specific obstacle existed to reducing protectionism in the mechanical sector, the situation was completely different for chemicals. As the Tables in the first sections showed, the chemical sector had a relatively prominent place in EEC-US trade relations. And, as table 12 shows, within the EEC, it was particularly relevant for the Germans, who enjoyed a trade surplus with the Americans. However, chemicals, in addition of being one of the most important sectors in the Kennedy Round, also represented one the talks' most turbulent parts, as negotiations became dominated and stalled, so putting at risk the entire GATT talks, by the issue of the ASP. And it would be only on the very last night of the negotiations, on 15 May 1967, that an agreement was eventually reached.

The ASP customs valuation system affected some categories of products entering the US market, and, in particular, benzenoid chemicals. It provided that any imported benzenoid chemical which competed with a similar domestic product on the US market had to be valued on the basis of the American selling price of the domestic product. In this way, imports could not compete with domestic products.¹³ When, in 1962, Kennedy had suggested the sweeping reductions in tariffs, the EEC responded that by demanding that the ASP also be included in the GATT Round in order as to harmonise commercial conditions. The Europeans attached great practical significance to the elimination of the ASP, and were determined to make this an express condition for any tariff reduction in the chemical sector, as well as an implied condition for liberalising industrial trade generally. In this way, they could also respond to the likely pressure the USA would place on them to reduce the CET. In fact, the Europeans attached an even greater symbolic significance to the abolition of this NTB, which had come represent their capability to push the USA to grant concessions. This firm European position was also grounded on the stance taken by the EEC chemical industry, which held that the ASP had no reason to exist. The US chemical industry was strong, and had numerous branches in Europe and, therefore, did not require this kind of protection. The European chemical industry, with the exceptions of the protectionist Italian industry, was not opposed to a reduction in tariffs, provided that the ASP was abolished.¹⁴

In November 1964, following the suggestion of France, the EEC put organic chemicals on the exceptions list and refused to subject them to the justification process so long as the problem of the ASP went unresolved. Thus American action on the ASP was a precondition of the opening of the negotiations and if Washington refused to abolish it, the EEC would withdraw the entire chemical sector from the Kennedy

¹³ PRO FO 371/189598 US Congressional Records, 31 May 1966. For a full history of the ASP legislation since its enactment in 1930 and a detailed description of the problems raised by the ASP, see this Congressional report and Zeiler, T.W. *American Trade and Power in the 1960s*, pp.147-152.

¹⁴ AECB BAC 62/1980-53 TEA-Travaux Préparatoires (Communications de Rey, Marjolin, Caron), 1963.

Round. In addition to this general reservation, it had also tabled total and unspecified partial exceptions and disparities claims. With these premises – a NTB to be removed, exceptions and disparities – it would come as no surprise that this sector had every chance of becoming one of the most troubled parts of the Round.

To further complicate the situation, the US chemical industry was opposed to reductions of duties and wanted to maintain unaltered the US level of protection, preferring to enhance its exports through corporations in Europe. Above all, the American chemical industry was opposed to the abolition of the ASP, for it preferred to maintain this effective protection than to see European duties reduced. It was not interested in reducing its duties in order to get concessions from the Europeans, and put strong pressure on the US government to exempt chemicals from the linear cut. Despite this pressure, the US government subjected virtually the whole chemical sector to the 50% reduction, excepting only a small percentage, a very drastic step since most of these tariffs had remained unchanged since the 1930s. In truth, it would have been difficult for Washington to do otherwise. The US chemical sector was highly competitive globally speaking, while one of the areas for which the EEC pointed to the existence of the disparities was the chemicals sector, US tariffs being considerably higher than the CET. Consequently, the USA had to subject virtually the entire sector to the 50% reduction, if it wanted to appear credible in its effort to liberalize trade through the Kennedy Round.¹⁵

In addition to the USA and the EEC, other countries had important trade interests in this sector and became actively involved in the negotiations. Switzerland had a major interest in enhancing dyestuff exports to the Six, but the EEC had made any reduction on this item conditional on the elimination of the ASP. As a result, negotiations with the EEC depended on the American stance on ASP and the Swiss found this unacceptable, despite their desire to see the ASP abolished. To cap it all, the EEC had identified the existence of disparities with the United States, thus once more subjecting the destiny of tariff cuts to America's attitude.¹⁶ Just like Switzerland, the United Kingdom also had a key interest in this sector. London considered the Kennedy Round to be a means to attack the ASP which locked out British exports of organic chemicals and, at the same time, to reduce discrimination in Europe. Like the EEC, the United Kingdom also took the position that the Americans had to make up their minds to remove the ASP. However, like the Swiss, the British were also worried about the consequence on intra-European trade of the EEC refusal to even discuss the chemical sector unless the Americans removed the ASP, and feared that too rigid an attitude would simply cause stalemate for chemicals, with negative consequences for the whole of the Kennedy Round.¹⁷

With the presentation of the exceptions lists, it became clear that unless the United States got ready to seriously discuss the elimination of the ASP, disappointing results in this crucial sector of world trade were just around the corner. The US government generally recognised that the ASP was not a proper system of customs valuation. However, the EEC stance on the ASP put the US delegation in Geneva in an objectively difficult position. First, the American chemical industry did not have such

¹⁵ Trade Talk Review, Vol. XI, No.2, 26 February 1964 in Herter Papers, box 13, JFKL; Memorandum for the President from Roth, 5 October 1965, Roth Papers, box 1, LBJL.

¹⁶ AECB – BAC 122/1991-3 Rapport n.36 de la délégation de la Commission pour le négociation du GATT, 6 May 1965; ibidem Rapport n.51 de la délégation de la Commission pour les négociations du GATT, 3 August 1965.

¹⁷ PRO FO 371/183386 Letter from Hughes to O'Neill, 18 May 1965 and PRO BT 241/845 "The Kennedy Round" Brief for the President's talks with Mr. Willis Armstrong, 24 January 1966. Japan too was concerned by the removal of the ASP and consequently made pressure on the Americans. However, it excepted 80% of the chemical sector and it was therefore less able to effectively put pressure on Washington.

an urgency to reduce European tariffs that it would accept relinquishing the massive protection of the ASP. Second, the US delegation faced legal problems: This NTB had been established by a law of Congress and its removal necessitated Congressional action. But with the protectionist mood that was starting to mount in the legislative body and with the opposition of the chemical industry this consent would only be obtainable with great difficulty.¹⁸

Washington was irritated by the insistence of the EEC – and above all of the French, as it considered the EEC position a French inspired one – on the ASP. The custom valuation system applied to only 10% of US chemical imports and the EEC was exaggerating the question beyond of its proportions only for bargaining purposes.¹⁹ At the same time, Washington felt that its offer to reduce tariffs on virtually all chemicals was extremely generous, given that it proposed to reduce all tariffs in this area by 50% including those covered by the ASP, and therefore the removal of the ASP, which had to be approved by the US Congress, was an additional concession for which GATT partners had to offer greater compensation through further offers, such as the abolition of the road tax in European countries. Thus if the USA was to make concessions on ASP, the European partners had to make further offers and take actions on their own NTBs.²⁰

The idea that the American trade partners had to make further offers to obtain the removal of the ASP was rejected outright by the EEC: the ASP was inconsistent with GATT rules and had simply to be abolished. As a result, at the end of May 1965, the stalemate was confirmed and risked keeping chemicals out of the negotiations, with all the resulting potential dangers for the Kennedy Round and intra-European trade.²¹

Despite their opposition to dealing with the ASP as a preliminary condition, the Americans were aware that the refusal of the EEC to negotiate on chemicals if the ASP went untouched, and British pressure to abolish the ASP were too weighty to be ignored. And in fact, Herter, Roth and the State Department concluded that they had to do something regarding the ASP in order to unlock the negotiations. American failure to do so would necessarily have a detrimental effect upon the US negotiating position in Geneva. Washington could not push its trading partners to assume a liberal posture while it maintained such protectionist and legally inconsistent devices. Thus, the US government had to establish a basis for proposing modifications to the system itself. What Herter and Roth thought might be feasible was to get the translation of the chemical tariff rates, as magnified by the ASP, into ad valorem equivalents and then cutting these in half, in exchange for further offers by the US's partners. This last point remained crucial for them, as it would be the only way to present to Congress and the American chemical industry a settlement with which the US government could show that some valuable concessions from other countries, such as the abolition of the British

¹⁸ Minutes of the fifth meeting of the Public Advisory Committee for Trade Negotiations, 4 March 1965, Herter papers box 14, JFKL; PRO BT 241/844 Telegram 137 from Baker (UK delegation to GATT) to Foreign Office, 25 June 1965.

¹⁹ Of the 850 US rates on the chemical sector 170 were zero duties and represented two-third of US chemical imports; the remaining one third was subjected to duties, covered or not by the ASP. In 1964 the average tariff in the whole chemical sector was of 5.9%, and 16% was the average of dutiable imports.

²⁰ PRP FO 371/18339 Telegram 165 from Lord Harlech of the British Embassy in Washington to Foreign Office, 25 January 1965, reporting conversation between Roth and Commercial Minister at the Embassy Chadwick; PRO FO 371/183399 Letter from Chadwick of the British Embassy in Washington to Neale of the Board of Trade, 26 January 1965 reporting conversation between Roth and Chadwick. Minutes of the fifth meeting of the Public Advisory Committee for Trade Negotiations, 4 March 1965, Herter papers box 14, JFKL.

²¹ AECB – BAC 122/1991-3 Rapport n.40 de la délégation de la Commission pour les négociations du GATT, 6 May 1965; PRO BT 241/844 Telegram 137 from Baker (UK delegation to GATT) to Foreign Office, 25 June 1965.

prohibition on coal imports or the road tax in Europe, had been obtained.²² It was on this ground that, in December 1965, President Johnson charged the Tariff Commission with preparing for him a new schedule containing tentative converted rates for chemicals subject to ASP. The Tariff Commission would then publish a recommended list of converted rates, but the rates could become effective only if enacted by Congress.²³

The American plan did not win the support of the Europeans. London deemed that what the Americans were contemplating was merely to abolish the ASP and to convert the ASP protection in a duty protection and cut the effective rates by half. Which, in practice, meant that if a published tariff rate of 40% was, under the ASP, effectively 100%, the Americans would abolish the ASP, halve the 100% rate and write 50% into their new tariffs. However, the British found little practical use in having a prohibitive level of 100% reduced to an equally prohibitive level of 50%, for which it had also to grant further concessions. Powell warned the Americans that the EEC reaction would be even more strongly opposed and that they might be prompted to exclude chemicals from the Kennedy Round entirely. The end-result could be an EEC-EFTA arrangement on chemicals similar to the US-Canadian auto agreement, warned the British.²⁴

Contrary to British expectations, the Commission's reaction was not totally negative. With Roth, Hijzen repeated that the EEC was not prepared to give any concessions in exchange for the removal of the ASP, which was in flagrant contradiction with the GATT rules.²⁵ At the same time, the Commission was worried about the stalemate in chemical negotiations and had no intention of refusing the American plan out of hand. Despite the lack of enthusiasm for the plan, it recognised that the Americans had at least taken an initiative, after much stonewalling. At this point it was up to the EEC to make a step, if it did not want to see the removal of the chemical sector from the Kennedy Round. Thus, at the 111 Committee meeting of 14-15 February 1966 – the first after the end of the Crisis of the Empty Chair – the Commission suggested that, while maintaining its reserve on the ASP, the Committee could start working on the rate of reductions of the partial exceptions to be presented in Geneva.²⁶ The Commission was reinforced in its conviction by the results of the steering meeting of the Big Four on 18 February, which had the general aim of setting up an informal schedule to carry out the negotiations, following the end of the Crisis of the Empty Chair. Here, the Americans declared for the first time since November 1964 to be willing to talk about the ASP and announced their intention to put forward proposals at the middle of April 1966. With this American declaration, the United

²² Minutes of the fifth meeting of the Public Advisory Committee for Trade Negotiations, 4 March 1965, Herter papers box 14, JFKL; PRO BT 241/844 Telegram 137 from Baker (UK delegation to GATT) to Foreign Office, 25 June 1965. For Herter and Roth's position in particular see memorandum for the President from Roth, 5 October 1965, Roth Papers, box 1, LBJL. Roth made Johnson known that indications from Congress had reported that Congress agreed to this course of action.

²³ Memorandum for the President from Bator, 7 December 1965, Bator Papers, box 13, LBJL. PRO FO 371/189598 US Congressional Records, 31 May 1966.

²⁴ PRO BT 303/152 "United States-United Kingdom discussions in Washington 8-10 November, 1965: Kennedy Round, brief for Sir Richard Powell", note by the British delegation to GATT, 28 October 1965 – Annex A: Industrial Tariffs. Memorandum of conversation between American (Herter and Roth) and British (Powell, Denman and Hughes) officials in Washington, 9 November 1965, Roth Papers, box 1, LBJL; PRO BT 241/845 Telegram 255 from Melville to Foreign Office, 15 December 1965.

²⁵ AECB BAC 122/1991-4, Compte-Rendu NCG(66)4 "Visite de MM: les Ambassadeurs Roth and Blumenthal à la Commission, le 11 Janvier 1966". 27 January 1966; NA 59 1964-1966 ECIN 3, box 792 telegram 826 from Knight of the US Embassy in Brussels to State department, 14 January 1966.

²⁶ AECB – BAC 62/1980-55, Note de la Commission «Réunion du Comité 111, 14-15 février», 21 February 1966.

Kingdom and the United States asked the Commission to complete its offers for the sector, and to provide the list of disparities it intended to invoke so negotiations could start in the second part of April. Hijzen found these requests reasonable and, although still bound by the EEC mandate, promised to do his best to convince the Council of Ministers to table all data as soon as possible.²⁷

Against this background, at the Council of Ministers meeting at the end of February 1966, Rey pressed to start working on the rate of the partial offers, while maintaining the reservations about the ASP. The firm attitude, that the EEC had maintained up until that time, had pushed the Americans to present proposals in mid-April 1966, claimed the Commissioner. However, now the Six had to ease the discussions on the ASP by adopting the rate of partial exceptions, table them in Geneva on 15 April and start negotiating with GATT partners. The Commission's position was strongly supported by the German Neef who was also worried for the deadlock, and pushed to start negotiating, and by the Benelux countries and Italy. Above all, contrary to the position the French had always maintained, Couve de Murville approved the Commission proposals. If at first glance, Couve de Murville's decision seemed a major step for France, considering that it was taken only one month after the end of the Crisis of the Empty Chair with no progress yet achieved on the CAP, it actually confirmed that France had no intention of putting the Kennedy Round at risk by refusing to table partial exceptions.²⁸

Following the proposals presented by the Commission, the EEC Council of Ministers, on 4-5 April 1966, approved the rate of the partial exceptions. The Community would offer tariff reductions of between 22 and 30 percent. In tabling partial offers, the EEC would make it known it was doing so on the assumption that the barriers of the ASP would be eliminated. Thus, the EEC's offers on chemicals remained conditional, but at least the EEC had agreed to discuss them.²⁹

The decision of the USA to present its proposal on the ASP and the EEC decision to table offers opened the way for a new phase in bargaining. At least at this point there was something to talk about. At the chemical sector group of 3-4 May 1966, attended by the United States, the European Community, the United Kingdom, Switzerland and Japan, Blumenthal presented the US proposal for the ASP and Hijzen tabled the EEC conditional exceptions. After an attempt to keep negotiations on what he retained the insufficient EEC duty cuts in this sector, pushed by the GATT partners, Blumenthal put forward the US working hypothesis – not a formal offer – composed of two aspects. First the ASP was to be replaced by an equivalent system of tariff protection, translating ASP duties into ad valorem equivalents. The converted rates would then be subjected to the 50% tariffs cuts, but to become definitive the conversion of the rates needed the approval of Congress. Moreover, the USA could make a formal offer only in the framework of a package, separate from the tariff negotiations on the rest of the chemical sector, in which, in exchange for the abolition of the ASP, GATT partners would make additional offers to the United States. Further, such a package required the approval of Congress. In order to show the legislative body that a balance existed between concessions made and received by the United States, GATT partners had to make significant concessions before the USA would decide whether or not to offer concessions on the ASP. A separate package had to stand on its own feet and be

²⁷ AECB – BAC 122/1991-4 Rapport n.62 de la délégation de la Commission pour les négociations du GATT, 3 March 1966.

²⁸ CM2 1966/4 PV de la 177^{ème} réunion du Conseil de la CEE, 28-February-1 March 1966.

²⁹ AECB BAC 62/1980-55 PV de la 227^{ème} réunion du Comité 111, 29 March 1966; AECB PV 355, 4 April 1966; CM2 1966/16 PV de la 182^{ème} session du Conseil de la CEE, 4-5 April 1966.

attractive to Congress. The US tactic was clear: the ASP had to avoid being the major stumbling block for the negotiations, causing the situation that the entire Kennedy Round agreement might stand or fall on the basis of what Congress chose to do.³⁰

The reaction of the US partners was one of great frustration. The EEC, UK, Switzerland and Japan rebuffed the American position that the abolition of the ASP, which was inconsistent with GATT rules, justified additional offers. Moreover, the converted rates would remain high even after the 50% reduction, therefore the USA had cut their higher rates by more – and in some cases by substantially more – than 50% in order to eliminate the problem of disparities. To cap it all, the working hypothesis was subjected to the whims of the Congress, with the result that the American legislative body would condition the negotiations.³¹

Despite the frustration, the Commission and the British felt it dangerous to reject the American working hypothesis, as this was the only proposal the USA had made since 1964. Therefore, it had to be accepted as working hypothesis and then improved. Only in this way could a complete failure be avoided.³² The Six were highly dissatisfied by the American ASP proposals, which seemed merely an offer to consolidate the ASP in the form of a tariff, for which the EEC also had to pay a price. Among the Six, however, there was a large range of views. Germany was willing to accept the American suggestion as a starting point for negotiations. The German chemical industry feared that, if negotiations were not started on this basis, the Kennedy Round would not result in substantial tariff reductions at all, and could never, therefore, lead to the abolition of the ASP. France adopted a position similar to that of Germany and surprised, through its “reasonableness”, the Commission.³³ By contrast, Italy was firmly opposed to accepting the working hypothesis. As stated, Italy had no significant economic interest at stake in abolishing the ASP, but was using the obstacle of the ASP as a pretext for blocking or limiting the negotiations in the chemical sector. The Netherlands too took a tough position against the American working hypothesis, but for reasons opposed to the Italians ones. Dutch industry had negatively reacted to the American offers and the Dutch government refused to accept it as a starting point for negotiations.³⁴

³⁰ Memorandum for Bator and McPherson (Special Counsel to the President) from Roth 25 April 1966, Roth Papers, box 2, LBJL NA 364, Recs. of US trade Representatives on the Kennedy Round, box 5, telegram 4082 from Blumenthal to Herter, 20 May 1966. The concern of the US delegation not to make the entire negotiations on the chemical sector depend on the Congress was justified. On 29 June, the US Senate passed a resolution to the effect that the President had not to make any agreement in the Kennedy Round which could not be implemented under the existing legal authority of the TEA. The Senate resolution was a warning that Congress would not readily approve any agreement which required Congressional action. Congress had to be free to exercise its judgment on the issue and not be put in the position of either acquiescing or having the United States accused of welching on a deal. Narrative History of the Office of the Special Representative for Trade Negotiations, Administrative History, Box 1 “Policy Principles and their Legislative Background”, 1969.

³¹ PRO FO 371/189598 Telegram 63 from Melville to Foreign Office, 4 May 1966 and ibidem Telegram 77 from Melville to Foreign Office, 21 May 1966 and PRO FO 371/189598 US Congressional Records, 31 May 1966; AECB – BAC 122/1991-5, Communication de MM. Rey, Marjolin et Colonna di Paliano NCG(66)21 «Etat d’avancement des travaux dans le secteur de la chimie», 8 June 1966.

³² AECB – BAC 122/1991-4 Rapport n.66 de la délégation de la Commission pour les négociations du GATT, 23 May 1966; AECB – BAC 122/1991-5, Communication de MM. Rey, Marjolin et Colonna di Paliano NCG(66)21 «Etat d’avancement des travaux dans le secteur de la chimie», 8 June 1966. For the British position on chemicals and ASP and for the discussions between Denman and Hijzen see PRO FO 371/189598 Telegram 78 from Melville to Foreign Office, 25 May 1966 and ibidem telegram 118 from Melville to Foreign Office, 12 July 1966.

³³ The Americans attributed the French reasonable attitude to the influence of former DG Internal Market Director Millet who by that time had become President of the French Chemical Industry. NA 364, Recs. of US trade Representatives on the Kennedy Round, box 5, Letter Fessenden (US mission to Brussels) to Theodore Gates, Chief Economist of the Office of the STR, 20 July 1966.

³⁴ NA 59 1964-1966 ECIN 3, box 791, telegram 1086 from Fessenden (US mission to Geneva) to State Department, 15 June 1966; NA 364, Recs. of US trade Representatives on the Kennedy Round, box 5, Report of discussions between American officials and senior representatives of the Commission, 28 June 1966; PRO FO 371/189598 Telegram 118 from Melville to Foreign Office, 12 July 1966.

Because of these divisions among of the Member States, the Commission was unable to convince the Council of Ministers to accept the American working hypothesis even as a provisional point of departure for negotiations. And it was only under the strong pressure of the Germans, and the weak opposition of the French, that it was agreed at the Council of Ministers meeting of 13-14 June to charge the COREPER and the 111 Committee with considering the further implications of American proposals and report their views back to the Council, rather than dismiss them out of hand. The Six, however, restated their position of November 1964 claiming that, if the ASP were not removed, they would refuse all concessions on chapters 29, 32 and 39 of the CET.³⁵

The finding of a solution was complicated not only by the difference in appreciation of the US working hypothesis which the United States and the EEC had. The point was also that the threat from the US partners to withdraw their concessions unless the ASP was removed was not enough to push Congress to remove it. To the US chemical industry, it was of much greater importance to keep its own high protection rather than gain reduction of other countries' tariffs. Thus, the Europeans lacked leverage to force the Congress to abolish ASP. As Herter reminded Erhard and Schröder in September 1966, if the Europeans were to withdraw their chemical offers, US industry would be only too happy.³⁶ On the other hand, the EEC chemical industry, while attaching a major interest to the removal of the ASP, had no intention payoff paying a big price in order to see it abolished. The only thing the Europeans could do was to confront the Americans with the warning of withdrawals of concessions inevitably ranging beyond chemicals. However, this meant putting at risk the entire Kennedy Round for the sake of the ASP.³⁷ At any rate, the EEC remained completely stuck on the American working hypothesis and, by the end of 1966, it had not yet decided whether to accept it as the negotiating basis. As a result, 1966 ended with in utter deadlock – not even a negotiating basis had been agreed – a fact that seemed to endanger the chemical sector, with bleak consequences on the whole Round.³⁸

9.4 Paper sector: problems with the Nordic countries

In comparison to the mechanical and chemicals sectors, paper certainly had less relevance in world trade. However, it came to play a key part in the Kennedy Round because of the centrality it had in trade relations between the EEC and the Nordics. The EEC was the first exporting market for the Nordics, and they had every intention of obtaining meaningful concessions. Upon entering the Kennedy Round, they made clear their refusal to reduce tariffs in the entire industrial sector if the EEC were to continue to refuse to reduce its protection, as it had done in the Dillon Round. Thus, they took a adopted a very confrontational attitude, hoping, in this way, to put pressure on the Six. If the EEC was interested in enhancing its exports in other sectors – mechanical and transport equipment in particular – the paper sector had to be fully included in the reduction. As a result, paper came to have a major relevance for the Round. If the Nordics, dissatisfied with the EEC reductions, would not reduce tariffs in other sectors, the EEC would react by adding further exceptions and, consequently, also scaling down tariff concessions with the United States.

³⁵ CM2/17509 Rapport de Borschette à la Présidence du Conseil de la CEE, 12 June 1966; CM2 1966/34 PV de la 188ème réunion du Conseil de la CEE, 13-14 June 1966.

³⁶ Memorandum of Conversation between Erhard, Schröder, Rusk, Herter, Roth and Bundy, Bator Papers box 21, LBJL.

³⁷ PRO BT 303/396 Letter from Denman to Douglas Carter, 20 September 1966.

³⁸ Narrative History of the Office of the Special Representative for Trade Negotiations, Administrative History, Box 1 "Policy Principles and their Legislative Background", 1969.

The Six faced difficulties in reducing protection. Their paper industry lacked the natural resources of the Nordics and, at the same time, was depended on the latter for its supplies of raw material; the EEC obtained two-third of its pulp from the Nordics and was thus strongly dependent on this source. The Nordics maintained artificially high pulp prices, however, in order to ensure that foreign paper manufactured products would not be able to compete strongly with their exports. In short, capitalizing on their position as dominant European supplier, they maintained a situation whereby their paper product processing industries would maintain their large foreign markets.³⁹

Despite all this, being aware of the importance of the paper sector for the Nordic countries and under the strong insistence of the Commission, the EEC had tried to make an effort to keep its protectionism to the minimum, and avoid a complete impasse as had been the case in the Dillon Round. The EEC tabled conditional partial exceptions, whose rate had not be agreed, on pulp paper and newsprint while, for the highly important basic paper and Kraft paper, the offer consisted of a reduction of no more than two points. The EEC made its offers conditional. Internally, financial aid was to be provided to the EEC industry as means of ensuring an adequate indigenous capacity, which would protect the Community against any Scandinavian price squeeze; externally, a broad agreement with the Nordic countries on producing and marketing conditions was to be reached, and it was according to the result of this agreement that the Six would fix partial exceptions. As a result, in order for multilateral negotiations to start, the EEC first needed to carry out bilateral meetings with the Nordics.

Even though the EEC and the Nordic countries had the primary interests in this sector, the United States was not indifferent regarding what happened. In terms of trade, the United States had a secondary interest, but still relevant a relevant one, concentrated in Kraft liner. However, what worried the United States was the scaling down on of concessions in the whole Round that could be caused by the EEC refusal to grant meaningful offers to the Nordics. The Americans, together with the Canadians who had a major interest in this sector, were annoyed by the EEC claim that a preliminary bilateral agreement had to be found with the Nordic countries. This bilateral agreement could simply lead to a European deal that would exclude Canada and the USA. Thus the United States unsuccessfully put pressure on the EEC to start negotiating in the multilateral framework, or at least be allowed to attend the bilateral work set up between the Nordics and the EEC.⁴⁰

Because of the difficulty in negotiating on paper, following the suggestion of Wyndham White, a sector group was set up. However, by early 1966, the Commission and the Nordics were getting nowhere with their bilateral agreement. In fact, only a preliminary study on the trade problems had been carried out and, in any case, the Swedish Ambassador, Montan, representing the Nordic countries, claimed that the price policy of the industries was not within governmental competences. As a result, the paper sector was completely deadlocked.⁴¹

The complete stall over the paper sector was looked upon with concern by the Commission. Progress on this sector was necessary if a meaningful reduction in trade barriers was to be achieved between the EEC and the Nordics in the rest of the Kennedy

³⁹ CM2 1964/143, PV de la 149^{ème} session du Conseil de la CEE, 10-15 November 1964.

⁴⁰ AECB – BAC 122/1991-3, Rapport n.40 de la délégation de la Commission pour les négociations du GATT, 6 May 1965; PRO BT 241/844 Telegram 77 from Marjoribanks (UK delegation in Brussels) to Foreign Office, 15 June 1965, reporting conversation between Roth, Blumenthal, Rey, Mansholt and Hijzen in Brussels; AECB – BAC 122/1991-5 Rapport n.54 de la délégation de la Commission pour les négociations du GATT, 3 August 1965.

⁴¹ AECB BAC 62/1980-59, Compte-Rendu «Deuxième rencontre entre la CEE et les pays scandinaves concernant les produits de l'industries papetière (24.11.1965)», 7 December 1965.

Round. After the end of the crisis of the Empty Chair, it was the general policy of the Commission that, given the dangerous stalled position the Kennedy Round, the EEC had to take important steps to unlock the talks in Geneva. What the Six had to do, they felt, was to complete their exceptions list with the elaboration of the rate of the exceptions. This applied to chemicals, aluminium, steel and also paper for which the EEC had to define the partial exceptions and table them. The aim of the Commission for pulp paper was to favour a reasonable development of EEC production, in harmony with a regular expansion of imports. What mattered to the Commission was to combine the tariff cuts in Geneva, indispensable to reach a final agreement with the Nordics, with coherent and harmonised measures of industrial policy to favour the progressive adaptation by the EEC industry to the tariff reductions. In effect, for the Commission, the Kennedy Round had to be used as an instrument to get the Six to adopt a common industrial policy for paper.⁴²

It was with these aims in mind that, after the Luxembourg meetings of January 1966, the Commission emphasised to the Six the urgency to move the discussions in the paper sector forward, by defining the rate of the partial exceptions and tabling them, despite the lack of agreement with the Nordics regarding their price policy.⁴³ An agreement among the Six still appeared difficult. Italy and France considered financial aid for the EEC industry to be a preliminary condition to grant concessions. By contrast, the financial aid through a para-fiscal tax posed problems for the Germans and the Dutch due to opposition from their national parliaments.⁴⁴ At the same time, for Germany it remained paramount to elaborate a solution allowing decent offers to the Nordics, as only in this way could Germany hope to get concessions from these countries in other sectors, such as the mechanical one, and this despite the opposition of the German paper industry to make substantial concessions in Geneva.

The elaboration of the offers to be presented in Geneva was carried out by the Commission and the 111 Committee, and was finally adopted by the Council of Ministers only in mid-June 1966, when the Six adopted a package of concessions which also included provision for other sectors. The Dutch and the Germans suggested alternative proposals to the para-fiscal tax for pulp paper and newsprint, in order grant valuable concessions to the Nordics and, at the same time, putting European industries in the condition to be able to stand the fall in the level of protection. On pulp paper, the EEC had a 6% ad valorem duty, plus a bound zero-duty contingent for 1,9 million tons which had been given to the Nordic countries in the Dillon Round. In the meantime, the importing need of the EEC had grown to 3 million tons. Against this background, the Dutch and the Germans suggested to maintain the 6% duty, and to consolidate a zero-duty contingent for a volume higher than 1,9 million tons. To further favour third countries, an annual increase in the consolidated contingent, corresponding to a percentage linked to the increase in EEC consumption would be allowed. For the Germans and the Dutch, the advantages of this proposal consisted in the fact that third countries were guaranteed bigger zero-duty contingents, together with share of the increase in EEC consumption, while the EEC industries maintained 6% tariff protection. For newsprint, the CET was at the 7% level, and Germany and France benefited from zero-duty contingents of 600,000 tons for 1966. The Germans and the Dutch suggested

⁴² AECB PV 345, 19 January 1966, Annex «Rapport de la Commission au Conseil sur les négociations commerciales au GATT», NCG (66)3.

⁴³ AECB – BAC 122/1991-4 Rapport n.62 de la délégation de la Commission pour les négociations du GATT, 4 March 1966.

⁴⁴ AECB – BAC 62/1980-55, Note de la Commission «Réunion du Comité 111, 14-15 février», 21 February 1966 and AECB BAC 62/1980-55, «Note de la réunion du Comité 111, 21 Mars 1966», 24 March 1966.

maintaining the 7% duty and consolidating a zero-duty for a given contingent, together with a measure allowing third countries to share eventual increases in EEC consumption. For the Dutch and the Germans, their proposal represented a sound compromise between the wish to avoid endangering the EEC industries and an effort to respond to the requests of the Nordic countries, to which important concessions had to be granted in order to get valuable counter concessions.⁴⁵

The Dutch-German proposals were opposed by France, Italy and Belgium who underlined the necessity to more efficiently protect the EEC industry. Above all, they met strongly opposition from the Commission on the ground that they were not able to ensure equal supplying conditions among paper producers, and therefore stood in the way of the achievement of a real EEC common market in this sector. The transforming industry of the EEC needed to dispose of pulp paper at a uniform price, and at a level as near as possible to the world price. The German-Dutch proposal did not achieve this aim and, in addition, created the problem of dealing with a repartition of the contingent among the Six. 50% reductions of duties were required, firmly claimed the Commission. The Commission saw the Kennedy Round as an instrument to favour the realization of the common market, with uniform commercial and industrial policy, while the German-Dutch proposals ran contrary to this aim.⁴⁶

Against the firm Dutch and German opposition to accept a solution based on a para-fiscal tax restated at the Council of Ministers meeting of 4-5 April 1966, the Commission tried to elaborate a compromise halfway between its own position and that of the Federal Republic and The Netherlands, on the basis of the indications put forward by Ministers, namely making the maximum concession possible to the Nordic countries, allowing the EEC industry to enjoy prices on pulp paper at a uniform level, and as close as possible to world prices, and maintaining the production capacity of the EEC. The major problem in finding a compromise was that the Commission grounded its proposals on a different industrial policy for this sector than the one that had been requested by The Netherlands and Germany. These two countries, in fact, opposed the subsidization of their industries, supported on the contrary by the Commission to favour a uniform industrial and commercial policy within the EEC.⁴⁷

Grounded on the compromise suggested by the Commission at the 111 Committee of early June, and thanks to the insistence of this institution to see its proposals approved, at the Council of Ministers meeting of 13-14 June, the Six eventually adopted the final offers for the paper sector.⁴⁸ The Six were aware that offers needed to be urgently adopted in order to unblock negotiations in Geneva and this push toward a compromise. The EEC decided to offer a 50% reduction on pulp paper, reducing the duty from 6 to 3%; on the internal front, in view of permitting EEC firms to bear the tariff reduction, subsidies could be granted by the Member States. The subsidy, however, would taper off over a seven to ten year period from the beginning of the implementation of the tariff reductions. Implementation of the subsidy depended upon legislation in member countries. Moreover, the Six agreed that the 3% duty would then be suspended according to a pace to be determined. On newsprint, the 7% rate would

⁴⁵ AECB BAC 62/1980-55, «Note de la réunion du Comité 111, 21 Mars 1966», 24 March 1966. For a full description of the Dutch-German proposal see AECB BAC 62/1980-59 Note de transmission (L/76/66) «Proposition des délégations allemande et néerlandaise relatives au secteur des pâtes et du papier-journal», 13 April 1966.

⁴⁶ AECB BAC 62/1980-55, «Note de la réunion du Comité 111, 21 Mars 1966», 24 March 1966. CM2/17509 Note d'Information de la réunion du Comité 111, 30 March 1966.

⁴⁷ CM2 1966/16 PV de la 182^{ème} session du Conseil de la CEE, 4-5 April 1966.

⁴⁸ AECB BAC 62/1980-59 PV de la 85^{ème} réunion du Comité 111, 23 May 1966; AECB - BAC 122/1991-5, Communication de MM. Rey, Marjolin et Colonna di Paliano NCG(66)20 «Etat d'avancement des travaux dans le secteur Pâtes et papier-autres», 8 June 1966; AECB BAC 62/1980-59 PV de la 86^{ème} réunion du Comité 111, 6-7 June 1966.

be maintained and a zero-tariff contingent would be offered and bound for 420,000 metric tons – lower than the existing unbound quota, but there would be no link with the EEC level of consumption, as the Germans and Dutch had requested. For other basic paper and paper products and cartons, the reduction would be of two points, and on some others even 4-5%, as the Commission had requested. As a result, the CET for these products which ran at between 16 and 21 % would be reduced to 13-17%. In total, under the proposals of the Commission, the paper sector would be subjected to an average reduction of 14,7%. Despite the lack of agreement with the Nordic countries over their marketing policy, in order to allow the negotiations in Geneva to move forward, the Commission was authorised to table offers, even if such agreements remained conditional on concluding the negotiations. As a result of this compromise among the Six, the EEC excepted 85% of dutiable imports and 52% of all imports in this sector. The quasi-totality were partial exceptions. 81% of these partial exceptions consisted of offers to reduce duties by less than 20%.⁴⁹

Germany accepted these proposals as a form of compromise. In mid-June 1966, the EEC had to table its offers if it wanted to negotiate with the Nordics. However, Neef remained unsatisfied, as he felt that EEC cuts on basic papers were too small and tariff contingents too low to avoid causing a negative reaction on the part of the Nordics. Concessions on paper remained crucial to get counter-concessions in other sectors, thus Germany accepted subscribing to these offers with the clear understanding that the EEC would improve them in the course of the negotiations, and the German government adopted this position despite a request to increase protection coming from the German paper industry.⁵⁰

At the beginning of July, the EEC tabled its offers and the negotiations for the paper sector finally got under way. The United States and Canada did not react negatively to the EEC offers. Given US interest in pulp paper, the Americans received positively the offer of 50% cut, but it also labelled the EEC offers on newsprint – in which it had no major interest at any rate – as not constituting an offer because of the small volume of the contingent. The USA also judged EEC offers on paper products such as Kraft linerboard, in which it had a greater interest, as a skimpy start to be improved upon.⁵¹ By contrast, the reaction of the Nordics was negative. They judged the EEC offers as a starting point which had to be substantially improved upon. The reduction on pulp paper from 6 to 3% was positive, but the Nordics would have preferred a full reduction to zero and, in any case, the EEC offer would not have a great deal of impact, as a duty-free contingent already existed. On newsprint, they judged the of 420,000 tons contingents, inferior to the French and German duty-free imports duty in 1965 of 586,000 tons, to be largely insufficient, and not capable of permitting them to share in the increased level of consumption. Norway, whose exports of newsprint to the EEC represented more than half of total exports for this sector, demanded a 50% duty reduction. Moreover, Sweden and Norway judged largely insufficient the two point reduction on basic paper and other paper. Therefore, unless the EEC chose to improve its offers, they would withdraw theirs to establish a balance.⁵²

⁴⁹ CM2 1966/34 PV de la 188ème réunion du Conseil de la CEE, 13-14 June 1966.

⁵⁰ Ibidem and PRO FO 371/189599 Note "Pulp and Paper" by the Tariff Division of the Board of Trade, October 1966.

⁵¹ Memorandum for Cecil R. King (House of Representatives) from Roth, 4 August 1966, Roth Papers, box 2, LBJL.

⁵² AECB BAC 62/1980-59, Compte-rendu «Entretiens entre la délégation de la CEE et les délégations des pays nordiques, 6 juillet, 1966», 14 July 1966; AECB BAC 62/1980-59 Compte-rendu «Troisième réunion bilatérale CEE-Norvège, 23 septembre», 27 September 1966; AECB BAC 122/1991-8, Communication de la Commission au Conseil NCG (66) 60 final "Aspects Essentiels des Négociations au GATT (pays industrialisés)", 20 December 1966.

To cap it all, in a turbulent meeting in November 1966 between Hijzen and the Nordic delegation, the Nordic countries refused to subject the reduction in tariffs to an agreement on marketing conditions, for they claimed to be unable to influence the policy of their industries, and they interpreted the request for the agreement as an excuse not to make concessions. The Nordic countries were genuinely irritated by the importance the Six were giving to their own paper industry, which did not have the economic importance for the EEC which the Six were purporting to grant it. With the refusal of the Nordic countries to discuss their marketing policy, and the refusal of the Commission to improve offers, the former decided to interrupt the bilateral negotiations with the EEC and to shift the negotiations to the multilateral level.⁵³ As a result, at the end of 1966, no agreement seemed to be within reach in this hugely important sector for the trade relations between the EEC and the Nordic countries.

9.5 The complicated world of steel

By the beginning of the Kennedy Round, the steel sector had become the most difficult one in which to achieve tariff reductions. In fact, the rate of growth in this sector had slowed substantially, and steel makers on both sides of the Atlantic sought protection. Some data can illustrate this situation. In the United States, the steel industry was undergoing major changes. It had been the first to benefit from the postwar boom in steel-intensive consumer products, such as automobiles and domestic appliances, however, since the beginning of the 1960s the growth in demand for steel in these vital domestic markets had slowed down, under challenge from substitute products such as aluminium and plastics. On top of this, the 1960s saw a progressive shift in the patterns of trade: once a leading exporter of steel, by mid-1965, the USA had become world's largest importer. At the beginning of 1960, it started to experience the greatest import penetration of all major steel producing countries. Imports grew from about 4% of domestic production in 1960 to about 8% in 1964 and then 12% in 1970.⁵⁴ In 1964, US steel exports were worth \$622 million and imports \$749 million. In this same year, imports accounted for 7.3% of US consumption. In 1965, exports decreased to \$508 million and imports increased to \$ 1,177 million, and accounted for 10.3% of US consumption. US steel manufacturers argued that imports were penetrating deeper into the US market, partly as the result of foreign overcapacity and cut-rate prices, and partly because of increased US costs, including wage and other employee benefits costs.⁵⁵ The increase in imports combined with sharper decline in internal steel demand and employment pushed the American steel industry to demand protection. Thus the steel industry, that in 1962 had been favourable to the TEA, by 1965 had changed its position, and made clear its opposition to any general reduction in tariffs. Despite this opposition, the United States had presented a full 50% reduction on this sector hoping, in this way, to get the same kind of concessions from other countries.⁵⁶

⁵³ AECB BAC 122/1991-19, «Entretiens entre la délégation de la CEE et les délégation unique des pays nordiques, 8 November 1966», 9 November 1966; AECB – BAC 122/1991-7 Rapport n.88 de la délégation de la Commission pour les négociations du GATT, 22 November 1966 and AECB BAC 122/1991-8, Communication de la Commission au Conseil NCG (66) 60 final "Aspects Essentiels des Négociations au GATT (pays industrialisés)", 20 December 1966.

⁵⁴ Woolcock, S. "Iron and Steel" in Strange, S. Tooze, R. (eds.) *The International politics of surplus capacity: competition for market shares in the world recession* (London; Boston : Allen & Unwin, 1981), pp.69-79; Blair, D. J., *Trade Negotiations in the OECD. Structure, Institutions, and States* (London; New York: Kegan Paul International, 1993), pp. 166-170.

⁵⁵ PRO FO 371/189598 US Congressional Records, 31 May 1966.

⁵⁶ Trade Talk Review, Vol. XI, No.2, 26 February 1964 in Herter Papers, box 13, JFKL.

On the other side of the Atlantic, the European Coal and Steel Community (ECSC) was the greatest net exporter of steel, followed by Japan, and the second largest importer. In 1960, its exports accounted for 57% of world exports, however this share was in decline, and had become 45% in 1964 and 32% in 1970. Like the USA, the ECSC had also begun to experience import penetration, even if at a slower pace. From 1960 to 1964, penetration rose from 4% to 6% and then to 8% in 1970. Just as in the US, the level of demand in the ECSC declined. This pressure from the rising import penetration and declining demand pushed the European industry to also request for protection. Because of the conjuncture of the steel market, the Six and the High Authority were recalcitrant in reducing duties and in fact an agreement not to table meaningful offers in Geneva was easily reached.⁵⁷

In order to understand the ECSC position in the Kennedy Round, and the entire development of the talks in Geneva, two facts should be reported. First, the negotiating position of the Six was complicated by the fact that, in 1964, the ECSC did not have a CET for its products. The Treaty of Paris of April 1951, establishing the ECSC, dictated some harmonization, and not the averaging, of the tariffs of the Six by the end of the 1958. Because it broke the MFN rule principle, the Treaty required a GATT waiver, granted in 1953 and stated that, in 1958, the general incidence of the duties had to be less restrictive than the general incidence of the national duties. In 1951, the average level of rates of the Six was about 14%, even if the effective duties were much lower because of temporary reductions and suspensions. The rate of the duties of the Six was highly spread and varied, from the low 4% level of Benelux to the high 21% of Italy. In 1958, the national duties were harmonized at around 7%: Benelux and Germany adopted the former Benelux duties, increased by 2 points – therefore 6% - while France increased the Benelux level by 4 points and Italy of 5%, so having, respectively, 8% and 9% duty levels. Second, in 1957, the ECSC and the United Kingdom had reached an agreement, outside the GATT forum, in which the former agreed to maintain the 7% rate in return for substantial reduction from the latter. They also agreed that duties could be unilaterally increased after consultation. In fact, as early as February 1964, because of the steel crisis, the High Authority of the ECSC “temporarily” increased the duties of the Six to 9%.⁵⁸

The ECSC trade sector opposed the reduction in duties. In particular, they opposed the tendency to lower duties and then establish NTBs that had the negative effects of creating incertitude in trade exchanges for the arbitrary way in which they were applied. The broader aim was to establish equality in the importing conditions at world level. This meant that duties had to be harmonized worldwide at a reasonable level, but also that NTBs, like the safeguard measures and customs valuations that the USA had, as well as obstructed imports, had to be abolished. On top of this, equitable antidumping measures common to all Kennedy Round participants needed to be elaborated. Harmonization of tariff and non-tariff barriers was the major aim the European trade sector.⁵⁹ The need to harmonize duties was shared by the ECSC, for which the disparity between the average US duty, between 5 and 8%, the British duty,

⁵⁷ Ibidem and CM2 1963/305 PV de la 50ème réunion du Comité 111, 12 September 1963. The Six had a particular position in the negotiations over steel. The part of the negotiation covering steel was under the competence of the ECSC, while the negotiations over steel products was under the competence of the EEC. Therefore it was not only the Commission that negotiated in Geneva but also the High Authority.

⁵⁸ Preeg, H.E. *Traders and Diplomats*, p.104-105.

⁵⁹ HAEC CAEB5, 1785-1 Club de Sidérurgistes – Secrétariat «Note sur l'attitude des sidérurgistes CECA à l'égard des propositions Kennedy», May 1963.

between 15-20% and the ECSC duty, between 5-9%, had to be eliminated, to harmonize duties at a level of 6-7%.⁶⁰

For the Kennedy Round, the ECSC Council established the double aim of establishing common external tariffs for its products and of then elaborating the rate of reduction to be presented in Geneva.⁶¹ This meant that the ECSC had to enter the negotiations with a unified tariff, and, to do so, they had to resolve the problem of differing substantive national rates among the Six. According to the High Authority, the raising of duties in 1964 had shown that the 7% level at which the Community had fixed its tariff protection in 1958 appeared too low and this also meant that a 50% reduction on this rate was out of question. Supported by all the Six, its aim was to elaborate a solution, allowing the ECSC to emerge from the Kennedy Round with a tariff of 6-7%. Therefore, 7% was both the level of the CET to be established, and its final level. The problem for the ECSC was how to reach this aim without putting the steel sector on the exceptions list. In fact, faced with the ECSC refusal to lower its duties, the other countries might decide to do the same, so reducing the liberalizing impact of the Round. An escamotage was needed, and it could consist either in taking as base rate for the reduction the legal waiver level of 14%, which was the duty bound in GATT, and accept a 50% cut, or in proposing as base rate the temporary level of 9% and making a partial exception with a tariff cut of 30%. The Six opted for the first solution, as it allowed them to avoid tabling any exceptions, but it was clearly a solution that was heading for trouble in Geneva. In effect, they would offer to reduce their legal duty of 14% by 50% to achieve the 7% duty that they had applied before the increase of February 1964.⁶²

In Geneva, the USA and the other participants could not avoid noting that the ECSC offer for a full 50% cut was actually a full exception, as it had been based on a phoney base rate.⁶³ The strongest opposition came from London, and caused problems in EEC-UK relations during the whole of the Kennedy Round. The United Kingdom had an important interest in reducing the ECSC duties as the Six imported 12.6% of British total steel exports in 1964. It had tabled no exceptions on steel because, in comparison to other countries, it had the high duty of 15%, and because it hoped in this way to push other countries to do the same. Regardless of the base rate the ECSC would chose for negotiating, the British looked at the effect of any cut offered in terms of the increase in access to the Community market. This meant that the ECSC had tabled a full exception and, consequently the UK would refuse any reduction. The strong reaction of the British could also be explained by the fact that they felt that they had already paid for the reduction in the EEC steel duty when they negotiated the UK-EEC agreement in 1958 with which they also reduced duties. On top of this, having a 15% duty on steel,

⁶⁰ HAEC CAEB5, 1785-1 PV de la 47^{ème} réunion du Comité 111, 26 June 1963.

⁶¹ AECB PV 345, 19 January 1966, Annex «Rapport de la Commission au Conseil sur les négociations commerciales au GATT», NCG (66)3.

⁶² CM2 1964/390 PV de la 63^{ème} reunion du Comité 111, 22 September 1964; AECB PV 345, 19 January 1966, Annex «Rapport de la Commission au Conseil sur les négociations commerciales au GATT», NCG (66)3. PRO BT 241/843 Telegram 35 from O'Neill from UK delegation in Luxembourg to Foreign Office, 9 July 1964 reporting conversation between British officials Murray and Taylor and Reichling and Gahler of the High Authority. GATT members had legal duties bound in GATT, but then they could also have effective and unbound lower duties. There was, therefore, a difference between applying the reduction of the duty to the bound rate and applying it to the effective lower rate. During the negotiations over the rules, no agreement had been reached among the linear bargainers on the basis of rates to calculate tariff cuts, and it was decided that governments could choose to calculate the offers of tariff reductions on the legal duty or on the effective duty, even if the second one was inferior than the first. The other governments were obviously free to assess whether reciprocity had been attained.

⁶³ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 4, Memorandum of the Chairman, Country Committee I (EEC), 2 December 1964.

the British also opposed the ECSC aim of harmonising rates at a 6-7% level which, for then, would mean a reduction of 50%.⁶⁴

In addition to the United Kingdom, Austria and Japan also had a high level of interest in obtaining or maintaining increased access to the ECSC markets. Austrian exports of steel to West Germany in 1964 represented 40% of Austria's total steel exports, and about 40% of West Germany's steel imports from markets outside the EEC. When changed to the new average level of the ECSC CET, the low German average tariff rate would increase, thus running the risk of reducing Austrian access to the traditional German market. As for Japan, while the US and the EEC industry experienced troubles, the Japanese industry was going through an extremely positive trend. Its production grew at a fast rate and steel demand outstripped the growth of GNP. It was also a dynamic exporter: in 1960 Japan shipped 11% of world exports, and its share had climbed to 23% in 1964, and 30% in 1970. At the same time, Japan enjoyed a low rate of import penetration, at about 1%, which remained stable through the 1960s and the 1970s. Japan was the world's largest steel exporter and the largest steel supplier to the United States.⁶⁵ Therefore, in Geneva, Japan offered a very substantial linear cut and hoped that the Kennedy Round could start further opening up the European market. In this sense, Japan and the United States had a common interest in further opening the EEC markets. Japan exported 44% of its total steel exports to the United States, but only 4% of that total to the EEC. Therefore, if Japan's access to the markets of the Six could be increased, the level of Japanese exports to the USA might decrease.⁶⁶

By May 1965, the negotiations on steel were completely stonewalled. In order to achieve some progress, Wyndham White suggested the setting up of a sector group which held its first formal session on 14 July 1965, and was attended by the EEC/ECSC, USA, UK, Japan, Austria and Sweden. But little additional progress was made. The ECSC continued to claim that it could choose the base rate which it preferred, while the other countries continued to maintain that the ECSC had simply excepted steel. The ECSC also continued to stress the need to achieve some harmonisation of the duties of the biggest producing and exporting countries because of the structural overcapacity. In any case, with the break out of the crisis of the empty chair, any meaningful negotiations were called off until February 1966.⁶⁷

When the negotiations resumed, Washington felt it urgent to get away from the increasingly sterile debate on base rates. Unless the negotiations were moved on, and the ECSC injected some flexibility into its position, other countries would revoke their 50% reduction offers. Improvements in ECSC offers were essential if steel was to remain in the Kennedy Round and serious repercussions on the rest of the negotiations avoided.⁶⁸ The American way out of the deadlock consisted in shifting the discussion away from the base rate issue, picking up the ECSC proposals to harmonize duties and in suggesting target rates. Duties for many of the steel headings of the major trading

⁶⁴ PRO BT 241/843 Telegram 35 from O'Neill from UK delegation in Luxembourg to Foreign Office, 9 July 1964 reporting conversation between British officials Murray and Taylor and Reichling and Gahler of the High Authority.

⁶⁵ Woolcock, S. "Iron and Steel", pp.69-79; Blair, D. J., *Trade Negotiations in the OECD. Structure, Institutions, and States* (London; New York: Kegan Paul International, 1993), pp.166-170.

⁶⁶ PRO FO 371/189598 US Congressional Records, 31 May 1966.

⁶⁷ AECB - BAC 122/1991-3 Rapport n.50 de la délégation de la Commission pour les négociations du GATT (présenté par Rey, Marjolin et Mansholt), 3 August 1965 and CM2 1965/314 PV de la 76^{ème} réunion du Comité 111, 17 December 1965.

⁶⁸ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 5, Briefing paper on Steel Sector Negotiations, written by T. Gates of the STR, 23 May 1966.

countries would be reduced to the target duty of 5%. For the EEC, this meant a reduction of about 4% from the average of 9%. For the Japanese, it meant a larger reduction, over 50% in many cases. For the British, it also entailed a large reduction, of the order of 50%.⁶⁹ The US approach fitted perfectly with American interests, as US duties were generally lower than those of the other participants. The principal goal, however, was to keep steel in the negotiations, since failure to do so would have had serious effects on the overall negotiations.⁷⁰

The Japanese and the smaller producers reacted favourably to this way out of the impasse. Having already put forward the proposal for target rates in 1963, and having already claimed that some harmonization had to be achieved among the duties of the major trading countries, the ECSC, too, positively received the target plan.⁷¹ However, the ECSC was willing to cooperate provided the United Kingdom was willing to do the same. In effect, the UK remained the critical factor in keeping steel within the Kennedy Round, and the key issue would be the extent to which Britain would be prepared to accept the new conception of target rates. Unfortunately, London maintained its opposition to harmonisation, and hence to the target rates plan, and remained unmoved from its position. The United Kingdom offered a cut of 50% in its steel tariff without exceptions, while the ECSC had simply tabled a full exception. Steel was a sector in which the British required substantial reciprocity from the ECSC, but the harmonization was not capable of providing it.⁷²

As a result, at the end of November 1966, the negotiations on steel were dangerously deadlocked. In the last days of negotiations in May 1967, with heavy pressure from the USA on the British, the target rates became the basis for negotiations and permitted that steel remain in the negotiations for the time being. However, in the meantime, 1966 drew to a close with negotiations on steel fully stalled.

9.6 Cotton textiles: transatlantic trade and LDCs

When the Kennedy Round was launched in May 1963, it promised to be a more comprehensive set of trade negotiations in comparison to the preceding Rounds. It was to deal with agriculture, with NTBs and was to favour the trade interests of the LDCs. In effect, the industrialized countries had assured that Round would represent an opportunity for LDCs to increase their exports and, consequently, their development. They were under the pressure of the UNCTAD conference and hoped, with their assurance, that GATT too could promote the trade interests of the LDCs, to get rid of the critics who often made out that GATT was merely a rich men's club that only favoured its own interests. To prove their goodwill, they had also agreed that LDCs would not be required to grant reciprocity in the exchanges of concessions with developed countries. However, when promises were to be transformed into facts, troubles emerged, as the industrialized countries did not appear to intend to concede a

⁶⁹ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Briefing for Governor Herter "USA-EEC talking points", 3 August 1966.

⁷⁰ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Background Paper "Negotiations with the EEC", 1 July 1966 and Report of Trade Policy activities, Administrative history of the Department of Commerce undated, Box 2, LBJL.

⁷¹ PRO FO 371/189601 Telegram unnumbered from Board of Trade to Geneva (United Kingdom mission), 21 May 1966 reporting conversation between Blumenthal, Hedges, Powell, Hughes and Kearns in London.

⁷² PRO FO 371/189599 Anglo-American Economic Committee – Kennedy Round "The Present position in the negotiations", note of the Tariff Division, 13 September 1966; CM2/16726 Note introductive «Travaux effectués lors de la réunion conjointe du Comité 111 et de la Commission de coordination de la CECA, 17 novembre 1966», 28 November 1966.

great deal. This was especially true of the EEC, which had an association agreement with the African countries of the Yaoundé convention and, under French instigation, was therefore unwilling to make tariff cuts and to reduce these preferences. Trade relations between the industrialized countries and the LDCs in the Kennedy Round would be deserving of a thesis on their own. Here attention is dedicated to the negotiations in cotton textiles, a sector of special interest for the LDCs, in order to illustrate these trade relations.

During the 1960s, worldwide exports of cotton textiles were losing ground in comparison to other textiles, particularly manmade fibres. While exports of other textiles grew by more than 60% from 1960 to 1966, exports of cotton textiles increased only marginally. However cotton textiles were becoming increasingly important in the economics of the LDCs. From 1960 to 1965, the volume of exports of cotton yarns and woven fabrics of the industrial countries declined by 21 and 13% respectively, while exports from the LDCs increased by 22 and 10%. Because of the importance of cotton textiles for this latter group of countries, this commodity became crucial in the relations between them and the industrialized countries in the Kennedy Round. In fact, since 1963, the LDCs had warned that results in this sector would deeply influence their final appraisal of the Kennedy Round. Therefore, even if cotton textiles did not concern USA-EEC relations directly, it is worthwhile paying attention to this sector, as it allows us to describe the role of the LDCs in the Kennedy Round, and the relations between them and developed countries in this important sector.⁷³

Trade in cotton textiles was regulated by the Long-Term Cotton Textile Agreement (LTA), signed in GATT in 1962. In 1959, in referring to the problem of exports of manufactured products from the LDCs which, with their wage rates, substantially lower than those of the industrialized countries were accused of causing market disruption, Wyndham White noted that it was clear that, as LDCs' new industries enjoyed relatively favourable conditions of production and started to compete on world markets, they would cause difficulties of varying severity to the industries of the developed countries. However, according to the GATT Director General "It will be a test of the common sense as well as of the goodwill of the more industrialized countries how they react to this problem",⁷⁴ and, two years later, the industrialized countries showed how they intended to react: demanding quota restrictions. When, in 1961, President Kennedy came under the pressure of the American cotton textiles industry that vocally demanded quota restrictions against the sharp increase of imports from the Asian countries, the US President gave way. At the same time, being aware that responding to the request of quota restrictions and ignoring the need of the LDCs for exports would represent a dangerous precedent, the Kennedy Administration sought a solution that could ease the pressure on the American market while ensuring LDCs access to the markets of the industrialized countries, so to give them a chance to earn foreign currencies through the exportation of a commodity in whose production they enjoyed a competitive advantage. The broader aim was to regulate cotton textile trade and the flux of such exports. The result was the LTA, the first worldwide commodity-type agreement set up for specific manufactured products, that, under the suggestion of Wyndham White, was lodged in GATT. It was signed in 1962 and covered a five year period. The agreement regulated international trade in cotton textiles and permitted

⁷³ Preeg, E.H. *Traders and Diplomats*, pp.106-108. For a good account of the negotiations of the all textile sector, wool and clothing included, see Kohlhasse, N., Schwamm, H., (eds.) *La négociation CEE Suisse dans le Kennedy round* (Lausanne : Centre de recherches européennes, 197), pp.139-157.

⁷⁴ Quote taken from Curzon, G. *Multilateral Commercial Diplomacy: the General Agreement on Trade and Tariffs and its Impact on National Commercial Policies and Techniques* (New York: Preager, 1965), p. 254.

quantitative import restriction if importing countries adjudged that imports were causing market disruption. The major condition of the LTA was that the importing countries had to expand their imports by 5% every LTA year.⁷⁵ Shorn of its embellishments, the LTA was simply a worldwide market control scheme by which the importing countries – mostly the advanced industrial ones – imposed on the exporting countries – mostly LDCs, plus Japan and Hong Kong – quotas which limited their exports of cotton textiles. The result was that it was not competitiveness to determine trade patterns but quotas, and trade had little to do with *free* trade, but much more to do with its regulation to the advantage of the inefficient importers.⁷⁶

The exporting countries had accepted the agreement as an act of cooperation to avoid market disruption in the importing countries, hoping in this way to have a chance to steadily increase their exports. However, by 1964, their disappointment with the LTA was clear. The LDCs criticised the developed countries' loose interpretation in determining when market disruption existed and, in particular, they complained that importing countries were the sole judges of whether their markets had been disrupted. Safeguards against market disruption had been liberally used even in situations when they were not called for. The LTA had come to represent legalization of illegal restrictions and discriminatory action in order to frustrate, rather than promote, LDCs' exports. Through the LTA, the LDCs were denied what they considered hard currency earnings from exports of one of the few items they could manufacture. As such, they felt that it was very mistaken to continue this bad precedent for international trade, and demanded the dismantling of the LTA and the adoption of measures that were capable of promoting their exports. To be clear, upon entering the Kennedy Round, the LDCs openly stated that the results in this sector would be crucial in the overall assessment of the negotiations.⁷⁷

While the LDCs demanded the dismantling of the LTA, the United States and the EEC asked for its renewal for five more years. Indeed, this represented an outstanding priority for them: if the LTA was not renewed, they could continue to restrict imports, in the way they were doing, only through violations of GATT rules.⁷⁸ Washington was under the strong pressure of the cotton textile industry, which, in 1962, had accepted the TEA only on the condition that the LTA was signed in Geneva and, in 1964, had refused any reduction in levels of protection on the ground that its unhealthy economic condition would not allow it to withstand foreign competition. Washington decided not to table exceptions for cotton textiles, but considered the renewal of the LTA with no modification until 1972 as a necessary precondition for the negotiations in Geneva. The main US objective was to renew the agreement, under the authority and provisions of which the United States had negotiated seventeen bilateral agreements with other countries, controlling the amount of cotton textiles the seventeen respective

⁷⁵ This description is based on Curzon, G. *Multilateral Commercial Diplomacy*, pp. 254-258 and Zeiler, T.W. "Free-Trade Politics and Diplomacy: John Fitzgerald Kennedy and Textile" *Diplomatic History* 11 (1987) 127-142. See also Diebold, W. Jr. "A Watershed with Some Dry Sides" in Brinkley, D. and Griffiths, R.T. (Eds.) *John F. Kennedy and Europe*, p. 250-251.

⁷⁶ Seventh Annual Report of the President of the United States of Trade Program "United States and World Trade in Perspective – C. Trade in Cotton Textile", September 1963. Administrative History - Office of the Special Representative for Trade Negotiations, Box 1, LBJL

⁷⁷ NA Congressional Record – House, 29 August 1966, pp.20991-21001. See pp. 20966-20983 for an interesting account of US trade policy in textile. Preeg, E.H. *Traders and Diplomats*, pp.108.

⁷⁸ Evans, J. W. *The Kennedy Round in American Trade Policy: Twilight of the GATT* (Cambridge, Mass: Harvard University Press, 1971), p.231.

countries could export to the United States. Only then would the United States agree to consider tariff cuts and quota liberalization.⁷⁹

The EEC cotton textile industry was united in asking protection from the competition of the LDCs in the form of quantitative restrictions and therefore desired the continuation of the LTA. Particularly strong were the requests for protection from the French, Italian and German industries, which feared the competition of low-wages countries such as India, Pakistan, Hong Kong and Sri Lanka. Moreover, within the EEC, Italy was a major textile producer and aimed at keeping the EEC preferences, while the industry of the other five members was already having to deal with the pressure from Italian industry, and was not ready to be exposed to increased competition.⁸⁰ In order to avoid putting the entire sector on the exceptions list, and willing to achieve a prolongation of the quantitative protection necessary to favour the adaptation of its industry, the Six accepted the Commission suggestion to set up a conditional exceptions list, claiming to be willing to reduce tariffs by 50% or to increase quota imports, provided that the LTA was renewed.⁸¹

For the Commission, negotiations on cotton textiles not only had the external dimension of the negotiations with third countries, but had also an internal dimension. First, they had to serve to complete the EEC common commercial policy by adopting a common regulation on the safeguard clause that could be invoked by importing countries in case of market disruption. In fact, the Six maintained their national regulations, but the Commission held that a common commercial policy necessitated not only common tariffs but also common regulations and the cotton textile negotiations could be an instrument to push the Six to adopt them. Second, whatever the result of the textile negotiations— a simple renewal of the LTA or other solutions – what mattered was that the Six combined their common commercial policy with coherent and harmonising measures of industrial policy in order to be able to face the competition of the low-wages countries, accelerate the structural adaptation of the EEC industry to global competition, and allow a progressive reduction in barriers to trade. As had been the case for other sectors, for textiles too, the Commission underlined the necessity of adopting a common industrial policy by virtue of the reduction of tariff barriers and the setting up of the common commercial policy. The elaboration of these two common went hand in hand.⁸² For the Commission, however, this was not an easy task as the

⁷⁹ Statement by Mr. Stanley Nehmer – US delegation to GATT Cotton Textile Committee Geneva, November 30 – December 4, 1964, NSF-Subject File, box 48, LBJL; PRO FO 371/189598 US Congressional Records, 31 May 1966. For a full account of the American position in this sector see Zeller, T.W. *American Trade and Power in the 1960s* (New York: Columbia University Press, 1995), pp.208-212.

⁸⁰ AECB BAC 118/83 851 Discussion du 28 février 1964 entre Millet et Reimer, Oorschot et Hoogland (Dutch officials members of 111 Committee); AECB BDT 144/92 Marjolin cabinet papers box 777, Note à l'attention de Monsieur Marjolin, 1 June 1964. MAEF, DE/CE GATT 931, Note «Préparation de la Conférence KENNEDY – Opinions des producteurs français», 5 February 1964. Already during the negotiations between the United Kingdom and the EEC in 1961-1963, the German textile industry had feared the negative impact imports into the EEC from the Commonwealth countries through the UK could have if these countries were to get even the slightest reduction of trade barriers, while the Italian industry had entered the EEC hoping that the Community might protect it through market-sharing agreement world-wide. For German industry, see Schulte, M. "Industrial Interest in West Germany's Decision against the Enlargement of the EEC. The Quantitative Evidence up to 1964" in *Journal of European Integration History*, 3, 1 (1997) pp. 35-61. For the Italian industry, Ranieri, R. "Italian industry and the EEC" in Deighton, A. and Milward, A.S. (eds) *Widening, Deepening and Acceleration: the European Economic Community 1957-1963* (Baden-Baden: Nomos, 1999), pp.185-198.

⁸¹ CM2 1964/143, PV de la 149^{ème} session du Conseil de la CEE, 10-15 November 1964.

⁸² AECB BDT 144/92 Marjolin cabinet papers box 781, Note de la Commission sur l'opportunité d'accélérer la mise en place d'un politique commerciale commune dans l'industries du textile et de l'habillement, 30 April 1964; ibidem «Politique Commerciale commune dans le secteur des industries textiles» Note d'information diffusée sous l'autorité de Rey et Levi Sandri, 13 July 1964. AECB – BAC 122/1991-5 Rapport n.70 de la délégation de la Commission pour les négociations du GATT, 16 June 1966.

conducting of the negotiations in the cotton textile sector was not its sole source of competition: In 1962 the LTA was signed by member states on an individual basis and not by the EEC. The Commission had hoped that, in the framework of a common commercial policy, the EEC would signed it but not all Member States had agreed. As a result, only Member States were the signatories to the Agreement and they negotiated on the quantitative restrictions, while the Commission negotiated for tariffs.⁸³

As for the United Kingdom, the other big importer of cotton textiles, London made clear that it could not contemplate any reduction in its basic tariffs, nor could it offer any improvement in quantitative access. 40% of UK consumption was met by imports, mainly from the low cost suppliers, and this meant that the British were already importing on a large scale from the LDCs. For London, it was up to the Americans to open their markets to imports from developing countries.⁸⁴

With the USA and the EEC asking for the renewal of the LTA, the UK refusing to make any concessions and the LDCs objecting to the renewal of the LTA, it immediately appeared that negotiations for this sector would be difficult. Therefore, a sector group was set up to decide whether and in what form the LTA could be extended. Wyndham White looked with concern at the deep opposition that divided the LDCs one the one hand, and the EEC and the USA on the other. Not only did it risk bringing no meaningful result in the sector, but it could also dangerously increase the dissatisfaction of the LDCs towards GATT. The stature and the credibility of GATT were at stake as the issue of LDCs and textile was strictly linked to the advantages GATT could grant this group of countries. For this reason, Wyndham White took an active role as honest broker in order to find a negotiating ground to get the discussion over cotton textiles under way and to ensure that the LDCs would receive meaningful concessions. He feared that they would engage in a strong attack on the Americans and the EEC, neither of whom were in any mood to make concessions, but above all on the Americans for the restrictive way safeguard measures against market disruption had been used. Therefore, he endeavoured to secure acceptance of a package deal as a basis for negotiations involving tariff reductions, quota liberalisation and more liberal implementation of the LTA by importers in exchange for an agreement to renew the Arrangement by exporters.⁸⁵

The United Kingdom, The United States and the EEC agreed on the schema of negotiations suggested by Wyndham White, even if the Americans made it bluntly clear that while they were prepared to negotiate a more flexible administration of the LTA, they were not prepared to envisage changes in the Agreement itself. Among exporters, only Japan and Hong Kong accepted the renewal of the LTA, and asked for important concessions in the field of contingents and their administration. These two traditional exporters were subject to the competition of new ones – Pakistan, India, South Korea and the UAR – and were willing to renew it so to ensure a part of the US and European markets. In contrast, the plan was rejected by India, Pakistan and the UAR who criticised the LTA, and refused to engage in renewing it in its current form, also for fear that it would become permanent. The opposition from India and Pakistan was particularly tough. They claimed that the Agreement benefited importers but not

⁸³ CM2 1964/143, R/1210/64 PV de la 149^{ème} session du Conseil de la CEE, 10-15 November 1964.

⁸⁴ PRO BT 303/152 "United States-United Kingdom discussions in Washington 8-10 November, 1965: Kennedy Round, brief for Sir Richard Powell", note by the British delegation to GATT, 28 October 1965 and PRO FO 371/189599 Anglo-American Economic Committee – Kennedy Round "The Present position in the negotiations", note of the Tariff Division, 13 September 1966.

⁸⁵ PRO BT 241/845 Note by Hughes of discussion with Mr. Wyndham White in Geneva on 23 September 1965; Administrative History of the Department of States, Volume 1, part VIII: International Economic Relations 1963-1969, LBJL.

exporters, who had signed the Arrangement but saw their exports grow at slower pace than non-signatories countries. And India even argued that the US record was so bad in its use of quotas that some international body was required to make impartial decisions on disruption.⁸⁶

After the breakdown of the multilateral negotiations based on of Wyndham White proposal, the United States began negotiating bilateral agreements with the principal exporting countries. Since many LDCs refused to renew the LTA unless tariff cuts were made and quotas eased, Washington promised to increase the level of quotas if this agreement was renewed with no changes. It was along these lines that bilateral negotiations were successfully concluded with Japan, Hong Kong, Taiwan and Korea and whose progress continued with Israel, Spain, Colombia and Pakistan. With these bilateral negotiations the United States put an end to the impasse "through a policy of encirclement".⁸⁷

In fact, Herter and Roth were annoyed with the US textile industry and shared the grievances of the LDCs. They held that while the textile industry vocally pressed for the renewal of the LTA, it was "expanding capacity at breakneck speed on the assumption that tight restriction would continue".⁸⁸ To make things even worse, there remained the fact that the US Government was "paying a foreign policy price" in its relations with textile producing countries. Singapore was an example: The US Government was about to impose a quota on Singapore's cotton-goods exports. The resulting unemployment was likely to lead to anti-US street agitation and strikes, which worried the White House. On the other hand, if the Americans made an exception for Singapore they would get into difficulties with Taiwan, Japan and Korea, who were already upset about American imports policy. Herter made the case for a change in policy, and of putting some distance between the Johnson administration and the textile people. The US industry was increasing its production and employment level and there was no need to protect it, consequently in Geneva the United States had to work to expand and not restrict trade. For Herter, the problem of the Johnson Administration was "how to get off the hook without a major row with the textile people and their friends on the Hill" and this could be achieved if Johnson made clear to the industry that he intended to keep monitoring the textile situation and give "help when [it] is needed". Johnson approved of Herter's position, but for him the aim of creating distance between his position and that of the textile industry was made difficult not only by the pressure coming from Congress, but also by the pressure from the Department of Commerce, which had every intention of backing the textile industry's request, with the result that, in practice, no new approach in textiles policy emerged.⁸⁹

Washington held that a way out of the deadlock also consisted in putting pressure on the EEC to purchase more imports from the LDCs, but the Six stood up in the face of such pressure.⁹⁰ And on top of this, the negotiations between the EEC and

⁸⁶ BAC 122/1991-3 Rapport n.54 de la délégation de la Commission pour les négociations du GATT, 3 August 1965; PRO BT 303/152 "United States-United Kingdom discussions in Washington 8-10 November, 1965: Kennedy Round, brief for Sir Richard Powell", note by the British delegation to GATT, 28 October 1965 – Annex A: Industrial Tariffs; AECB PV 345, 19 January 1966, Annex «Rapport de la Commission au Conseil sur les négociations commerciales au GATT», NCG (66)3; NA 364, Recs. of US trade Representatives on the Kennedy Round, box 5, memorandum of conversation with Mr. Fernand Braun, 28 July 1966.

⁸⁷ NA Congressional Record – House, 29 August 1966, pp. 20979-21001. Quote is from p.20979.

⁸⁸ Memorandum for the President from Roth and McPherson, 11 February 1966, Bator Papers, box 1 LBJL.

⁸⁹ Memorandum for the President from Roth and McPherson, 11 February 1966, Bator Papers, box 1 LBJL, *ibidem* Memorandum for the President from Bator, 21 February 1966. On this issue see also Zeiler, T.W. *American Trade and Power in the 1960s*, pp. 209-210.

⁹⁰ *Ibidem*, p.210.

the exporting countries had adopted a slow pace. After June 1965, the exporting countries had preferred to await the end of the Crisis of the Empty Chair before trying to meaningfully negotiate with the EEC. Then, after January 1966, the EEC preferred to first see what progress the United States made in bilateral negotiations, in order to understand whether the possibility existed to obtain the renewal of the LTA. In truth, the Commission doubted that the LTA could be extended without changes, as Washington wished, and held that US insistence was holding up sector progress, but because of the importance of the USA in the cotton textile market, the Commission preferred to wait. It was only at the end of October 1966 that the Commission met, on a bilateral basis, the exporting members of the LTA, Portugal, India, Pakistan, RAU, Japan and Hong Kong, to negotiate on the renewal of the LTA.⁹¹

At any rate, for the EEC it was difficult to have bilateral discussions with the countries interested in textiles. These discussions included the general question of residual restrictions and other national import controls on which the Commission did not have authority to speak. Thus, it was first necessary that bilateral agreements took place between the Member States and cotton textile exporters, and then the Commission could negotiate on the tariff side. The situation involving Japan was particularly thorny. Member States maintained QRs against Japan, and they were not likely to relinquish them within the framework of an overreaching EEC package arrived at with the Japanese until after the individual Member States had had an opportunity to utilize these for their full bargaining purpose with other EEC Member States. As 1966 drew to a close, the renewal of the LTA looked far from certain, the EEC had just started its negotiations on cotton textiles, and, to the annoyance of the other countries, it continued to hold up negotiations into early 1967.⁹²

9.7 Pressure on the EEC: the withdrawing lists

The Crisis of the Empty Chair from June 1965 to January 1966 had almost stalled the negotiations in Geneva. When France regained its place in the EEC Council of Ministers and the other decision-making institutions, the difficult task of completing the EEC offers awaited the Six and the Commission. After the EEC had eventually tabled all its offers, the difficult bargaining with the USA and the other Kennedy Round participants took place. With the US government authority to negotiate in Geneva elapsing in June 1967, not much time remained to conclude the Round. This situation worried Wyndham White, who feared that no much time was left to conclude the Round. It is for this reason that at the 8 July 1966 Trade Negotiating Committee meeting he directly intervened in the pace of the negotiations, and called on the participants to reach an assessment, by the middle of November, of other countries' offers and specify what improvements would be made in their own offers, and the withdrawals they would demand if these requests were not met. After this assessment, the final intensive phase of bargaining was scheduled to be concluded by the end of February 1967. For Wyndham White, to make progress in the Kennedy Round, "a brutal confrontation" among the participants had to take place.⁹³

⁹¹ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 5, Telegram 2343 from Rusk to various posts, 27 May 1966, reporting conversation between Hijzen and Herter. AECB – BAC 122/1991-6 Rapport n.86 de la délégation de la Commission pour les négociations du GATT, 7 November 1966.

⁹² NA 364, Recs. of US trade Representatives on the Kennedy Round, box 5, memorandum of conversation with Mr. Fernand Braun, 28 July 1966.

⁹³ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 5, memorandum of conversation among Wyndham White, Blumenthal, Roth and other officials of the various departments of the Johnson Administrations, Washington 14 June 1966; *ibidem* "Opening statement by the Chairman, Mr. Eric Wyndham white, at the meeting of the Trade Negotiations Committee, 8 July 1966"; *ibidem* telegram 108 from Geneva to State Department, 9 July 1966.

Wyndham White's proposal was welcomed by Kennedy Round participants and in particular by the USA. Washington felt that the EEC's total exceptions greatly outweighed American mandatory exceptions and exclusions. Thus, there would have to be substantial improvements in the EEC offers before the USA would be satisfied with any overall Kennedy package. The US objective came to be to get the EEC to improve substantially it. The USA recognized that this would be a difficult task because of the EEC political cross-currents, and the nature of its decision-making machinery. The fact was that, for the EEC, once a compromise had eventually been reached in Brussels, after extenuating negotiations that balanced the different interests of the Six, it was difficult to change this equilibrium in a new bargain with the Americans or the EFTA countries. The Commission had the tendency to show up in Geneva with an inflexible mandate to negotiate which bore more resemblance to a "leave or take it position", rather than a bargaining position. As a result, the negotiations with the EEC were drawn-out and frustrating. The issue of the Commission's power to negotiate had been a major problem from the beginning and it became particularly so in the phase during which concessions had to be exchanged, but the Brussels institution demonstrated no flexibility to exchange anything. Against this background, Washington held that any changes in the EEC list would only be achieved under the threat of specific withdrawals. The November assessment would cause the wide differences of view among participants to crystallize and, accordingly, it might precipitate a crisis atmosphere that could push Kennedy Round participants, and the EEC in particular, to improve offers. Therefore, the major purpose of the November assessment was to compel the EEC Council of Ministers to improve its offers and give the Commission the negotiating leeway which it had hitherto lacked.⁹⁴

Washington looked on with apprehension at the negotiations between the EEC and the small EFTA countries. With their narrow export interests, these countries were particularly hard hit by the EEC exceptions, and warned that they would be forced to make heavy withdrawals unless the EEC offers were improved.⁹⁵ Any substantial unravelling of EFTA countries' offers would inevitably reduce the scope of the Kennedy Round, and set off a chain reaction of counter-withdrawals. At the same time, however, Washington counted on the EEC interest in reducing discrimination with the EFTA countries as constituting a lever to push the Six to improve their offers. The EFTA markets were too important for the Six, and Washington hoped that this would push the Six to improve offers.⁹⁶

On 30 November, the United States, the United Kingdom, Japan, the Nordic countries, Switzerland, Austria and Canada tabled the lists of improvements of offers that they wanted from the trading partners that would allow them to maintain their original offers, the list of offers they would totally or partially withdraw in case improvements were not conceded, and the list of improvements they were willing to make to their offers lists. The EEC decided not to table any request or warning lists. In effect, the formulations of such lists would have required another Council of Ministers meeting, like those that had taken place in November 1964, when the EEC exceptions list was negotiated, and in June 1966, when the EEC offers were completed, during

⁹⁴ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Background Paper "Negotiations with the EEC", 1 July 1966. NA 364, Recs. of US trade Representatives on the Kennedy Round, box 5, Letter from Blumenthal to Herter, 23 September 1966. Administrative History of the Department of State, Volume I-Part VIII "International Economic relations", LBJL.

⁹⁵ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Background Paper "Negotiations with the EEC", 1 July 1966

⁹⁶ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Briefing for Governor Herter "USA-EEC talking points", 3 August 1966.

which compromises were reached after long drawn out negotiations, and neither the Commission nor the Six ever considered holding another one. The EEC preferred to wait for the appraisals of the other Kennedy Round participants, and then to get ready to negotiate for the final phase. On top of this, a list of withdrawals from the EEC carried the risk of leading to a scaling down of concessions to be exchanged.

When the warning and improvements lists were exchanged, it became clear that the main target was the EEC. The USA recognized that "The total EEC offers position, inadequate as it is, holds out the possibility of significant improvement of US trading opportunities in Europe over those now existing".⁹⁷ At the same time, however, according to American data, these offers remained lower than the American ones (Table 16) and particularly deficient in certain sectors of heavy US interest.

Table 16 : US-EEC Summary of Offers, 1962 \$ million, c.i.f.

	Nonagricultural		Agricultural		Total	
	US imports from EEC	EEC imports from US	US imports from EEC	EEC imports from US	US imports from EEC	EEC imports from US
Total imports	2,457	2,927	220	1,171	2,677	4,089
Available for concessions	2,181	2,486	180	365	2,361	2,851
Total offered	2,095	1,939	167	47	2,262	1,988
Total not offered	86	545	13	318	99	863
Available for concession, duty-free	2,167	1,976	178	355	2,365	2,331
Duty-free offered	2,081	1,706	167	38	2,248	1,744
Available for concession, free	14	496	2	9	16	505
Offered to bind free	14	235	-	9	14	244
Greater than 50% cuts	9	2	-	-	9	2
50% cuts	1,921	1,235	167	1	2,088	1,254
Less than 50% cuts	151	451	-	37	151	488
Average % cut	45.6%	35.9%	46.9%	1.7%	45.7%	30.7%
Total offered: 50% equivalents (including binding of duty- free treatment	1,990	1,653	180	22	2,170	1,675

Excluded Agricultural Group Commodities. Source: NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, US delegation to the Sixth Round of GATT trade negotiations "Assessment of offers as of November 30, 1966", 30 November 1966.

For Washington, the problem was not only the imbalance in offers, but also that the EEC exceptions included a heavy impact on a sector of special interest to the US. In particular, EEC exceptions impacted with disproportionate weight on mechanical, transportation and electronic sectors, where US trade and growth potential were most heavily concentrated. On a number of these items, of high interest to the USA, namely

⁹⁷ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, US delegation to the Sixth Round of GATT Trade Negotiations "EEC - Part 1, Delegation Evaluation of Offers", 1 November 1966.

earth handling equipment, automated machine tools, scientific instruments, computers and electronic calculating machines, the EEC had made no offer at all. Thus Washington wanted the EEC to meaningfully increase its offers on these sectors, in addition to chemicals, Kraft linerboard, steel and aluminium (Table 17).⁹⁸

Table 17: US requests list to the EEC

Sector	Share of the request list
Chemicals	8.4%
Transformed papers	4.5%
Synthetic fibres, textile	3.8%
Raw aluminium	2.9%
Mechanical sector	43.2%
ECSC products	37.3%

Source: AECB BAC 122/1991-7 «Négociations commerciales dans le cadre du GATT». Communication de la Commission au Conseil NCG(66)65, 22 December 1966.

To convince the EEC to improve offers, the USA also tabled a withdrawing list, hitting 5.4% of US imports from the EEC (Table 18).

Table 18: US list of withdrawals

Sector	Duty applied after the % of the sector in relation to total list
Textile	20-50% 17%
Metals	0-30% 28%
Of which aluminium	19%
Of which ferrous-alloyed	9%
Minerals	10-50% 4%
Mechanical machine	12% 10%
Electric instruments	10-35% 2%
Optical instruments	17% 8%
Photographical instruments	15% 20%
Fire arms	16% 6%
Other	5%

Source: see table 18.

The Commission received with disappointment the withdrawing list of the USA. While a purely quantitative analysis of the US and EEC offers on the table before 30 November showed a slight quantitative imbalance in favour of the United States, this imbalance was largely compensated for by the qualitative analysis of these offers. In effect, the US duties were, generally, higher than the CET and, in some cases, they remained prohibitively lofty even after a 50% reduction. Moreover, the USA applied NTBs – the anti-dumping legislation, customs valuations system and the ASP in particular – which represented serious obstacles for EEC exports. The Commission also noted that the United States had put on the exceptions list products covered by high duties: wool had a duty of 55%, glass of 50%, gloves 70%, and watches 70%. With these high duties, US imports would inevitably remain weak. Therefore, if the USA and the EEC lists were compared only on the basis of volume of trade, as the Americans had done, it appeared that the EEC list was larger than the American ones. However, the situation was completely different when the comparison was also made based on the rates of duties which had been put on the exceptions list. Thus, for the Commission,

⁹⁸ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, US delegation to the Sixth Round of GATT Trade Negotiations "EEC – Part 1, Delegation Evaluation of Offers", 1 November 1966. See also *ibidem*, US delegation to the Sixth Round of GATT trade negotiations "Assessment of offers as of November 30, 1966", 30 November 1966.

considering the qualitative elements, a balance existed between the US and the EEC offers, and the US withdrawals would create an imbalance and the EEC would be obliged to take action to re-establish equilibrium.⁹⁹

As for the EFTA countries, British asked for an improvement of offers over a wide range of items, among which the most important were tractors, trucks and their detached pieces, machine tools and motors.¹⁰⁰ Most importantly, the British also tabled their warning list, that above all hit the mechanical sector. "Friendly Commission and German sources" had repeatedly made clear to them that the only way to achieve improvements was to confront the EEC with withdrawals sectors of special interest for its trade. The only way of getting concessions was to show "teeth".¹⁰¹ Despite the suggestion that had been given by "friendly Commission and German sources", the Commission was surprised by the British list of potential withdrawals. In effect, considering not only a quantitative analysis but also a qualitative analysis – the level of the British duties after the reductions would remain remarkably higher in numerous sectors than the CET – balance existed. The British list of withdrawals hit important exporting interests of the EEC, and created had the effect of removing balance on the quantitative level, and that could not be merely explained as negotiating tactics.¹⁰²

The Commission expected the small EFTA countries to table requests and warning lists, as these countries had tabled no exceptions.¹⁰³ When the lists were tabled, however, the Commission had not expected them to be so large. The Nordics felt that they had been hard hit by the EEC exceptions. Total exceptions covered 2,7% of EEC industrial imports from the Nordic countries, partial exceptions 24.6% and disparities 3%. In order to maximise the pressure on the Six, the Nordic countries decided to negotiate in the industrial sector as a unit under the leadership of Swedish Ambassador Nils Montan, and to pool their withdrawing lists. Even if the trade interests of the four countries were not identical, they represented an important market, and a common list of withdrawals would impress the EEC.¹⁰⁴ The Nordic countries asked for improvements in the paper, aluminium and mechanical sectors. The potential withdrawals concerned 32,4% of their imports from the EEC, and the mechanical sector was the most concerned, with cars making up one third of the list. The withdrawals hit Germany in particular. The aim was to push this country, that had major interests in the Nordic market, to push the Six to make concessions. Thus, the Nordic nations applied shock treatment to the EEC and, deciding to negotiate as a unit, they compiled a joint list of withdrawals which affected a huge part their imports from the EEC.¹⁰⁵

The EEC was not the only Kennedy Round participant to be asked to improve its offers. The British made the same request of the Americans; the Americans made the same of the Canadians and, above all, the Japanese. But none of these requests, or subsequent warning lists, was as long as those presented to the EEC. The EEC was

⁹⁹ AECB BAC 122/1991-7 «Négociations commerciales dans le cadre du GATT», Communication de la Commission au Conseil NCG(66)65, 22 December 1966.

¹⁰⁰ AECB BAC 122/1991-8, Communication de la Commission au Conseil NCG (66) 60 final "Aspects Essentiels des Négociations au GATT (pays industrialisés)", 20 December 1966.

¹⁰¹ PRO BT 303/396 letter from Denman in Geneva to Douglas Carter of the Board of Trade, 17 June 1966.

¹⁰² AECB BAC 122/1991-7 «Négociations commerciales dans le cadre du GATT», Communication de la Commission au Conseil NCG(66)65, 22 December 1966.

¹⁰³ CM2 1966/68 PV de la 196^{ème} réunion du Conseil de la CEE, 26-27 October 1966.

¹⁰⁴ AECB BAC 122/1991-18 Compte Rendu de la réunion du 13 Octobre 1966 (Suède/CR/9/66) "Négociations bilatérales avec la Suede", 27 October 1966. AECB – BAC 122/1991-7 Rapport n.91 de la délégation de la Commission pour les négociations du GATT, 9 December 1966. Denmark, considering its preponderant interest for the agricultural sector in respect to the other Nordic countries, would attend the agricultural negotiations on an individual basis.

¹⁰⁵ Administrative History of STR, Narrative History, Vol. 1, Box 1, LBJL.

therefore under pressure to rectify the imbalance to forestall extensive withdrawals. The USA and EFTA clearly transmitted the message to the EEC that it represented the major stumbling block in the course to successful negotiations, and that it was up to the EEC to improve its offers. Thus, at the end of 1966, the threat of withdrawals was characterising the Kennedy Round, and at this point it was up to the EEC to respond.

Conclusion

This chapter has described how negotiations to liberalize international trade took place. Increased opportunity to export was what a country sought; Increased opportunity to import into its own market was what a government reluctantly offered. What pushed the liberalization of trade was a reciprocal interest in boosting exports. Despite all the difficulties in the different sectors, as the Americans also noted, the fact remained that the initial offers for the Kennedy Round had already been greater than what had been achieved in the previous rounds. All countries were interested in reducing barriers in order to boost their exports, and this led to reciprocal concessions. As shown in the chapter dedicated to the final bargain, it was the common desire to successfully conclude the industrial part of the negotiations that pushed the parties to compromise first in Brussels among the Six, and then in Geneva between the USA and the EEC.

It is worth noting that while the general aim of the Kennedy Round was to increase freer trade, neither the USA nor the EEC negotiated to fully achieve such a goal across the board. Not only did they have sectors in which they wanted to maintain protectionism, such as paper for the EEC and glass, lead and zinc for the USA, but there were also sectors, like cotton textiles, in which they aimed at maintaining the existing level of protectionism and regulate international trade along principles that had nothing to do with free trade. Therefore, in the trade policy of the USA and the EEC, as in that of the other developed countries, liberalism, protectionism and regulation cohabited. As for relations between industrialised countries and LDCs, the cotton textile negotiations showed that, despite the general pronouncements made in 1963 about the trade opportunities the Kennedy Round would provide the LDCs, when negotiations started, it became clear that few concessions would be given to them, as industrialised countries had no intention to open their markets.

This chapter has also showed that while the Six wanted to maintain the regionalism of the EEC, they were also interested in reducing the CET as a bargaining tool to get concessions from third countries. Obviously, differences existed among the Six. France and Italy were more reticent in reducing duties, while in line with its trade interests Germany was in leading the push for EEC to reduce duties, even against the will of its industries, as in the case of paper.

This chapter showed that the Crisis of the Empty Chair had no impact on the Commission. Its negotiating role in Geneva was not challenged by Member States and, internally, this institution remained essential to shape the common position of the Six. The Commission role was important because, in GATT negotiations, technical and economic issues were crucial, and the Commission was able to provide the essential technical expertise. Thanks to its technical skills, the Commission was able to influence the debate and the final result of the discussions among the Six. This allowed this institution to maintain its crucial roles of source of compromises, broker among the Six, and negotiator with third countries. Immediately after the Luxembourg meetings of January 1966, the Commission started pushing the Six not only to complete their offers, but also to improve them, and such pressure was also brought on the French who, on their part, never questioned the role of the Commission. As it was in the interests of the

Six to negotiate as a single unit, so to strengthen their position in Geneva, they needed to Commission to represent them. The Commission also had the aim of promoting European economic integration through the establishment of a complete common commercial policy and also an industrial policy. The Kennedy Round appeared to represent an opportunity to establish this common policy. However, as negotiations over cotton textile – where member states retained their negotiating authority to set quota with Japan – and the negotiations over paper – where Germany and The Netherlands resisted the Commission's aim to establish subsidy for this sector – these aims were opposed by Member States.

Chapter Ten

A case study: aluminium

Introduction

The industrial part of Kennedy Round represented a huge negotiation process in terms of the number of products involved. As it is obviously not possible to give a full account here of all products considered in Geneva, it may be worthwhile focusing attention on a particular case study. Aluminium would seem an excellent example on which to base a case study: its negotiations involved the EEC, the USA and the EFTA countries and it therefore accurately reflects the fundamental shape of the Kennedy Round as a major negotiation among the EEC and the USA, but also as a set of inter-European negotiations. The Six, while negotiating with the Americans, could not forget that they also had major interests at stake in Europe, and in the relations between the EEC and the EFTA, and the concessions the latter would exchange also depended on the concessions between the EEC and the USA. The case of Aluminium offers a good illustration of this triangle. On top of this, it demonstrates how the Six reconciled their different commercial policies. Among all the compromises the Six had to reach in order to attend the negotiations, there is barely another case in the industrial sector in which the EEC had more difficulties in reaching a final agreement. They had polarised interests, caused by their differing respective industrial and commercial policies, but, in the end, because they needed to elaborate a compromise so to be able to bargain in Geneva as a trade unit with a common commercial policy, they were able to develop a common position. Aluminium also demonstrates one of the major features of the Kennedy Round: once a compromise had been reached in Brussels among the Six, after prolonged and difficult discussions, it was difficult to change it in Geneva. The position of the EEC already represented a compromise. Therefore, even if aluminium certainly did not have the same relevance in trade value as the mechanical sector had, or the same relevance the ASP had in terms of time, it is nonetheless an excellent case study with which study the Kennedy Round and surely deserves special attention in this thesis.¹

10.1 The aluminium market

As a way of introducing negotiations that took place in Geneva, and to better understand them, some basic information is presented here about aluminium. The basic raw material, bauxite ore, is first mined, crushed and then refined to produce alumina (aluminum oxide powder). The alumina is then shipped to smelters where an electrolytic process is used to remove the aluminum from it. The resulting molten aluminum (primary aluminium) can then, if desired, be combined with alloys before being cast into ingots of different sizes and shapes. Generally, bauxite is transformed into alumina near the mining location, and is then transformed into aluminium either near the place of consumption, or near cheap energy sources. The need for big investments for the production of aluminium (from 15 to 20 times bigger than for the same quantity of steel) made the aluminum industry a highly intensive capital one and explains the high concentration of this industry. At the same time, the very nature of the technical demands of aluminium-making forced the internationalisation of the firms

¹ For an account of the negotiations over the aluminium sector see the article of Ly Van Luong, M. "L'aluminium européen dans les négociations commerciales du Kennedy Round" in *Cahiers d'Histoire de l'Aluminium*, 28/2001. This article is fully dedicated to the aluminium in the Kennedy Round, though only from the French-Pechiney point of view.

involved. Bauxite had to be mined in the tropics; alumina was reduced near cheap electrical sources, and finally aluminium was fabricated near consumer markets. Thus, for example, a European firm would mine bauxite in Africa, would smelt alumina in Norway and then make the primary aluminium in France.²

Five major firms dominated the aluminium market and accounted for 65% of the production of the Western world: Alcoa (USA), Alcan (Canada), Reynolds (USA), Kaiser (USA) and Pechiney (France). In addition to these firms, the German Wav (Vereunigte Aluminium Werke AG), Norwegian Aardal and the Swiss Alusuisse had global relevance.³ Table 1 illustrates world production of aluminium. At a glance, it reveals that the biggest share of production stemmed from North America.

Table 1: Share of world production of aluminium 1964

Country	Share
USA	38%
Canada	13%
CEE/Cameroun	11%
Japan	4%
Norway	4%
Soviet Bloc	21%
Other	9%

Source: AECB BAC 62/1980-59, "Fiche de Renseignements sur l'aluminium" (8444-III/D/65) de la DG Marché Intérieur, Commission, 23 June 1965.

From 1950 onwards, the aluminium industry became increasingly international in terms of pricing, management, and sales. Regarding prices, after 1950, the expansion of production and exports and the reduction of tariffs in the previous GATT Rounds encouraged the evolution of a single price internationally applied for primary aluminium, which converged around the London price, generally accepted as the "world" price for this commodity. As Table 2 shows for 1964, the prices of primary aluminium in the various producing countries were rather similar.

Table 2: Aluminium prices in different countries in 1964

Country	Price (price/lb)
Italy	25,40
United Kingdom	24,50
USA	24,50
Germany	24,50
France	24,10

Source: AECB BAC 62/1980-59, "Fiche de Renseignements sur l'aluminium" (8444-III/D/65) de la DG Marché Intérieur, Commission, 23 June 1965.

Therefore, small differences in tariff rates impacted heavily upon the direction and flow of trade in aluminum, also because no quota restrictions hindered exchanges. And, as table 3 shows, large differences existed in the tariff rates among the OECD countries.

² For a good, and brief history of aluminium industry, from Napoleon III to 1980s, see Holloway, S. T. The aluminium multinationals and the bauxite cartel (Basingstoke : Macmillan, 1987).

³ AECB BAC 62/1980-59, "Fiche de Renseignements sur l'aluminium" (8444-III/D/65) de la DG Marché Intérieur, Commission, 23 June 1965.

Table 3: Tariffs on selected Aluminium Products and other trade distorting factors (upon entering the Kennedy Round)

Chapter BTN	Ingot (Unwrought Aluminium) (76.01)	Bars, Sections Solid Wire (76.02)	Sheets & Plate (76.03)	Foil (76.04)	Powder & Flakes (76.05)	Tubes, Pipes (76.06)	Cable, Stranded Wire (76.12)	Other Trade Restrictions
Austria Duty	140 Sh/KG 5.25%	11% 6.75%	11% 5.25%	32% 8.25%	25% 8.25%	15% 6.75%	18% 5.25%	Turnover refund to exporters; Turnover equalization Tax
Canada	5.4%	22.5%	3c per lb.	30%	27.5%	22.5%	22.5%	Antidumping duty
Denmark	0	0-5%	7%	5-8%	0	5%	8%	
Iceland	15%	15-35%	15%	10-35%	30%	35%	n.a	
Ireland	0	37.5%	0-50%	37.5%	0	0-37.5%	0	
Japan	15%	20%	20%	20%	15%	20%	20%	Up to 80% tax relief on exporters to new markets. Importers had to post 5% bond until payment was made
Norway	0	6%	6%	2-4 Kr./Kg.	0	5%	0.20 Kr./Kg.	
Spain Duty	16% 5%	17-20% 5%	17-20% 5%	17-20% 5%	20% 5%	17-20% 5%	20% 10%	Fiscal Tax on imports (reduced temporarily from 12%)
Sweden	0%	3%	3%	5%	0-10%	3%	6%	
Switzerland in Francs for 100 kg.	65.00	85.00	70.00- 85.00	80.00- 200.00	100.00	85.00	100.00	
United Kingdom	0 (n-alloyed) 10%(alloyed)	12.5%	12.5%	20%	20%	12.5%	20%	
United States	5.4%	2.5c./lb. 19% 12%		20%	19%			
At 1963 prices			2.5% p/lb.	17%	5.1c/lb.	19%	15%	
Belgium	5.4%	9.6%	9.6%	11.2%- 16%	4.8- 14.2%	12.4%	14%	Tax exemption for exporters; transmission tax on imports 6- 12%.
Italy Duty Comp. Import Tax	15.4% 2%	17.2%- 18% 2%	18% 2%	18.4- 20.8% 2%	17.2- 22.4% 2%	19.9% 2%	21.5% 4%	Turnover tax 3.3% Admin. Fee 5% rebates to exporters
Luxembourg	5.4%	9.6%	9.6%- 15%	11.2- 16%	4.8- 14.2%	12.4%	14%	
Netherl. Duty With T.O.T.	5.4% 9.5%	9.6% 9.5%	9.6% 9.5%	11.2- 16% 6.5-10%	4.8- 14.2% 9%	12.4% 6.5- 9.5%	14% 9%	Turnover tax (T.O.T.)

France	13.4 (nonalloyed)- 13.8% (alloyed)	15.2%	15.2%	20%	21-22%	19%	19%	Rebates and other allowances to exports
Germany	9%	14%	14%	12-14.4%	8-15%	15.2%	14%	4-6% TOE tax on imports; rebates to exporters
EEC (final CET)	9%	15%	15%	15-20%	10-21%	19%	19%	

Source: Brief of Kaiser Aluminum & Chemical Corporation to the Trade Information Committee, undated 1964, Herter papers, box 14, JFKL.

Ownership and management of aluminium companies were international in nature to a significant degree. For example, American Reynolds had a sheet and foil plant in Mexico, and joined Mitsubishi in a venture to build a plant in Japan. The Italian Montecatini was part of a group building a plant in Madras in Spain. The German Vaw joined Indian interests in planning a plant at Koyna. Kaiser had joined Pechiney in aluminium reducing and fabricating ventures in Spain, and was in the process of constructing a fabricating plant in Western Germany. As a result, large firms were integrating their production through foreign subsidiaries. In order to have an idea of the internationalization process that was taking place, Table 4 shows the proportion of national aluminium reduction capacity owned by foreign companies in a list of countries, including the United States, Canada, Italy and West Germany, for 1963.

Table4: Proportion of national aluminium reduction capacity owned by foreign companies in 1963.

Country	Percent Owned	Foreign- Foreign companies
US	1	Alusuisse (Swiss)
Canada	10	British Aluminium (UK)
Brazil	46	Alcan (Canada)
Mexico	49	Alcoa 35% (US); American & Foreign Power 14%
Austria	13	Alusuisse
Germany	22	Alusuisse
Italy	30	Alusuisse 25%; Alcan 5%
Norway	24	Alcan 8%; Alcoa 10%British Aluminium 6%
Spain	25	Saichime (France) 17%, Kaiser (US) 8%
Sweden	22	Alcan
UK	47	Reynolds (US)
Cameroun	97	Pechiney-Ugine and other French companied 87% - Syndicat Belge de l'aluminium (Belgium) 10%
India	42	Alcan 32%; Kaiser 10%
Japan	20	Alcan
Australia	84	Kaiser 37%; Alcoa 14%; Rio Tinto-Zinc (UK) 33%

Brief of Kaiser Aluminum & Chemical Corporation to the Trade Information Committee, undated 1964, Herter papers, box 14, JFKL.

Marketing, as well as production, was becoming increasingly international. For the free world as a whole, about 27% of production entered into international trade in 1960 (Table 5)

Table 5: production and exports of major producers of primary aluminium (Average 1958-1960, thousands of long tons)

Country	Production of Primary aluminium (P)	Exports of Crude Aluminium (E)	E/P
USA	1,647	136	8%
Canada	592	459	78%
EEC	412	47	11%
Norway	142	125	88%
Japan	104	1	1%
Other free world	247	84	33%
Total free world	3,144	852	27%

Source: Bracewell, S., *Bauxite, Alumina and Aluminum*, (London: Government Publications, 1962), pp.68-70 taken from Brief of Kaiser Aluminum & Chemical Corporation to the Trade Information Committee, undated 1964, Herter papers, box 14, JFKL.

The aluminium industry was a sector enjoying a process of strong expansion. During its early growth phase, just before WWII, this industry was largely oriented toward national defense, but, after WWII, aluminium was extended to civil uses with the result that both its production and its consumption boomed. A glance at table 6 reveals that world production and consumption quadrupled from 1950 to 1965. The EEC increased its production from 125,000 tons in 1950 to 559,000 tons by 1963 and its consumption from 162,000 tons in 1950 to 783,000 in 1963. The same exceptionally fast rate growth was also registered in the United States.

Table 6: production and consumption of primary aluminium 1950-1965 (1000 tons)

Country	Production					Consumption					Surplus (+) Deficit (-)				
	1950	1959	1963	1964	1965	1950	1959	1963	1964	1965	1950	1959	1963	1964	1965
Germany	28	151	209	219	234	50	228	303	366	387	-22	-77	-94	-147	-153
France	60	173	299	316	340	55	168	243	249	232	+5	+5	+56	+67	+108
Italy	37	75	91	115	124	48	86	128	120	122	-11	-11	-37	-5	+2
Belgium	-	-	-	-	-	5	49	89	111	118	-5	-49	-89	-111	-118
Netherlands	-	-	-	-	-	4	10	20	21	25	-4	-10	-20	-21	-25
CEE	125	399	599	650	698	162	541	783	867	884	-37	-142	-184	-217	-188
Cemeroun	-	42	52	53	51	-	-	-	-	-	-	+42	+52	+53	+51
Greece	-	-	-	-	-	-	3	4	4	5	-	-3	-4	-4	-5
CEE+ ass. countries	125	441	651	703	749	162	544	787	871	889	-37	-103	-136	-168	-140
USA	652	1772	2099	2316	2490	823	1846	2362	2530	2837	-171	-74	-263	-214	-347
Canada	360	544	650	759	750	59	80	145	160	175	+301	+474	+505	+599	+575
Norway	45	145	219	262	279	10	24	22	25	21	+35	+121	+197	+237	+258
Japan	25	100	224	266	298	19	111	258	170	270	+6	-11	-34	-4	+28
UK	30	25	31	32	25	184	294	319	359	359	-154	-269	-288	-327	-334
Others	51	207	389	458	504	82	300	474	542	579	-31	-93	-85	-84	-75
West world	1288	3234	4263	4796	5095	1339	3199	4367	4777	5130	-51	+35	-104	-19	-37
Soviet bloc	219	854	1182	1285	n.a.	244	790	1160	n.a.	n.a.	-25	+64	+25	n.a.	n.a.

Source: ALCB BAC 62/1980-59, "Fiche de Renseignements sur l'aluminium" (8444-III/D/65) de la DG Marché Intérieur, Commission, 23 June 1965.

Tables 7 and 8 show import and export patterns. A glance at them reveals that exchanges flows were increasing. The Community, the UK and the United States were all net importers of primary metal, although, within the EEC, Italy, the Benelux countries and Germany were net importers, while France was a net exporter.

Table 7: Imports and of primary aluminium (in 1000 tons)

From	1961						1962						1963						1964					
	G	F	I	BL	N	EEC	G	F	I	BL	N	EEC	G	F	I	BL	N	EEC	G	F	I	BL	N	EEC
Total imports	138	43	26	70	14	291	118	52	44	68	15	296	121	56	54	89	20	340	165	72	33	113	22	
From EEC	13	-	6	50	7	76	12	-	6	41	8	66	5	-	4	72	10	91	15	-	4	85	11	
EAMA	-	40	-	5	-	44	-	46	-	-	-	46	-	46	-	-	-	46	-	41	-	-	-	1
Total 3 rd count	125	3	21	15	7	171	106	6	38	27	7	184	116	10	50	17	10	203	150	31	29	28	10	
USA	33	1	4	3	1	43	19	2	6	4	1	31	20	6	13	5	2	46	36	18	7	10	4	
Can	48	2	8	7	1	66	22	3	11	10	1	47	26	3	11	3	2	45	32	2	5	4	3	
Nor	21	-	5	2	1	29	31	-	11	1	-	43	30	-	11	2	1	44	46	7	7	3	-	
Swit	7	-	-	-	-	7	9	-	-	1	-	10	11	-	1	1	1	14	6	-	1	1	2	
Secret	-	-	-	-	-	22	-	-	-	-	-	22	26	-	-	-	-	26	27	-	-	-	-	

Source: AECB BAC 62/1980-59, "Fiche de Renseignements sur l'aluminium" (8444-III/D/65) de la DG Marché Intérieur, Commission, 23 June 1965.

Table 8: Exports of primary aluminium (in 1000 tons)

To	1961						1962						1963						1964					
	G	F	I	BL	N	EEC	G	F	I	BL	N	EEC	G	F	I	BL	N	EEC	G	F	I	BL	N	EEC
Total Exports	4	124	-	1	2	131	6	105	-	1	1	113	14	125	-	1	-	140	10	125	19	1	1	156
To EEC	3	69	-	1	2	75	3	62	-	1	1	67	5	84	-	1	-	90	7	98	11	1	1	118
EAMA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 3 rd count	1	55	-	-	1	56	3	43	-	-	-	46	9	41	-	-	-	50	3	27	8	-	-	38
UK	-	1	-	-	-	1	-	1	-	-	-	1	-	1	-	-	-	1	1	-	5	-	-	6
USA	-	38	-	-	-	38	-	31	-	-	-	31	3	29	-	-	-	32	-	12	-	-	-	12
Arg	-	6	-	-	-	6	-	3	-	-	-	3	-	4	-	-	-	4	-	5	-	-	-	5
Swit	-	1	-	-	-	1	3	1	-	-	-	4	1	1	-	-	-	2	1	-	2	-	-	3

Source: AECB BAC 62/1980-59, "Fiche de Renseignements sur l'aluminium" (8444-III/D/65) de la DG Marché Intérieur, Commission, 23 June 1965.

Despite all these characteristic, which would seem to make aluminium a prime candidate for a 50% reduction, this sector became a problem in the Kennedy Round and in the context of the relations between the USA, the EEC and the Nordic countries, because of the firm refusal of the EEC, under the instigation of the French, to make a meaningful reduction of duties.

10.2 The EEC aluminium industry and the common position for the Kennedy Round

Within the EEC, the leading firm was the French company, Pechiney. It produced 80% of French aluminium in 1964, and 6,4% of that of the Western World. It was a highly diversified chemical and metallurgic industrial giant, and competed successfully on world markets, including in the US. The second largest producer was the German firm, Vaw, a long-established and government-owned enterprise, which produced 90% of German aluminium, and 4.5% of the West's. It had thrived for many years following WWII without any duty, or a relatively low one on imports of primary aluminium, and its strength did not require significant protection. Despite this, German production was greatly inferior to its consumption with the result that, among the Six, Germany was the largest aluminium importer. The other major EEC producer was the

Italian Montecatini. Like Pechiney, it was a diversified chemical and metallurgic corporate firm.⁴

As Tables 6 and 7 show, EEC imports came principally from Canada, the USA and Norway, even if a considerable shift in the ranking of the supplying countries had taken place, to the detriment of Canada. The USA was the first supplier to the EEC, followed by Norway and Canada. Among the Six, Germany was the biggest importing country, and France the biggest exporter. Table 9 lists the principal source of imports by the EEC, including imports from France, which among the EEC was the only exporting country of any relevance. Between 1958 and 1961, EEC imports grew and France was the country that most benefited from this increase.

Table 9: EEC imports of Primary Aluminium (in thousands of metric tons)

Year	Total	France (1)	Cameroun (2)	Total, excl. 1+2	Canada	US	Norway	Other
1958	145	19	21	105	38	3	23	41
1959	186	28	23	135	43	32	24	36
1960	327	40	38	249	99	94	32	24
1961	272	66	44	162	63	42	29	28

Source: OECD Statistics, "Non-ferrous metals", 1961-62, Part IV, taken from Brief of Kaiser Aluminum & Chemical Corporation to the Trade Information Committee, undated 1964, Herter papers, box 14, JFKL.

In 1957, the Six had very different duty rates on primary aluminum, which spread from 25% in Italy and 20% in France to 0% in the Benelux countries. Germany, while having a legally bound duty of 10%, had an effective rate of 0%. In establishing the CET, the average of the four national tariffs would have set the CET at 14.5%, but, as aluminium was considered a sensitive product, it was placed on List G, and the CET level was negotiated between the Six. By an agreement reached on 2 March 1960, the CET was set at a 10% level and, because of the EEC deficit between production and consumption, and the traditional imports of Germany and the Benelux countries from third countries, to facilitate these imports under List G Protocol, 5% tariff contingents were granted to them.

Table 10: Rates duties of the Six in 1957, 1963 and CET rates on primary aluminium (76.01 BTN)

Country	1957	1963	1968 CET level
France	20%	13.4%	9%
Italy	25%	15.4%	9%
Germany	10% (7%)	9%	9%
Benelux	0%	5.4%	9%

Source: AECB BAC 62/1980-59, "Fiche de Renseignements sur l'aluminium" (8444-III/D/65) de la DG Marché Intérieur, Commission, 23 June 1965.

As a result of the GATT Article XXIV:6 negotiations in 1960-1961, the CET on primary aluminium was set at 9% level. Thus, as a result of the setting of the CET and of the GATT negotiations, Benelux and Germany increased their tariffs while France and Italy had to lower theirs by more than 50%. Because of the existence of the 5% tariff contingents that the Benelux countries and Germany were granted (see Table 11

⁴ AECB BAC 62/1980-59, "Fiche de Renseignements sur l'aluminium" (8444-III/D/65) de la DG Marché Intérieur, Commission, 23 June 1965. For a description of the French aluminium industry see Hachez-Leroy, F. L'aluminium français: l'invention d'un marché, 1911-1983 (Paris : CNRS, 1999)

for the volume in 1964-1966), imports into the EEC were carried out at a more favorable rate than the 9% duty that the EEC had placed on primary aluminium.

Table 11: Contingents under List G

	1964	1965	1966
Germany	60.000	80.000	121.000
Belgium	13.500	26.000	35.000
Netherlands	10.800	10.000	13.000
Total	84.300	116.000	169.000

Source: see table 10.

When the Americans suggested the launching of a new Round with a 50% reduction, Pechiney took a clear-cut stance, opposing any reduction of the CET. The 9% duty was considered a limit to concessions and barely sufficient to protect French and EEC production. The French firm aimed at setting up a regional EEC preferential market, mostly supplied by EEC and French production, which, in 1963, already provided 45% of the production of the Six. Pechiney put strong pressure on the French government to oppose a reduction of the 9% duty. It asserted that the EEC firms disposed of resources and technicalities that would allow, in a few years, production to meet the European consumption need at competitive prices and good quality by 1967, so ensuring the independence of the EEC. The European producers had undertaken a constant and expensive effort to modernize the aluminium transformation industry and to increase its production levels. In fact, France had increased its capacity in the Noguères plant, which could produce 30,000 tons; Germany too had the new plant in Norf which could produce some 40,000 tons; Italy had the new plants in Fusina which could produce 20,000, and in Sardinia, which could produce up to 100,000 tons. The Netherlands too had a new plant which could produce 60,000. However, this self-sufficiency could be attained only if condition this industry was not endangered by external competition and was given time to become competitive before being exposed to more severe competition. Without adequate customs protection, an inflow of imports would endanger permanently this development, and make the EEC dependent on third countries for this essential item. The French and EEC industry needed more time, maintained Pechiney.⁵

The French firm looked with alarm to the other side of the Atlantic. North American unused production capacity was equal to the EEC's total consumption (Table 12), therefore, claimed Pechiney, North America would ask concessions on aluminium in order to place its production overcapacity on the European market.⁶

Table 12: North America production 1955-1960 (thousand of tons)

	Capacity			Production			Unused capacity		
	USA	Canada	Total	USA	Canada	Total	USA	Canada	Total
1955	1440	590	2030	1420	550	1970	20	40	60
1960	2235	798	3033	1827	690	2517	408	108	516
1962	2253	798	3051	1925	625	2550	328	173	501
+	2408	867	3275				483	242	725

+ capacity of production considering also unused firms for lack of market.

Source: MAEF DE/CE GATT 930 Note de Pechiney «Négociation entre la CEE & les Etats-Unis», 26 February 1963.

⁵ MAEF DE MAEF, DE/CE GATT 931, Note «Préparation de la Conférence KENNEDY – Opinions des producteurs français», 5 February 1964./CE GATT 930 Note de Pechiney «Négociation entre la CEE & les Etats-Unis», 26 February 1963.

⁶ MAEF DE/CE GATT 930 «Négociation entre la CEE & les Etats-Unis», 26 February 1963.

Against this background, asserted Pechiney with a dramatic tone, a reduction of duties on primary aluminium would pave the way to foreign control of the European aluminium industry, so strategic for the automobile, aeronautic and defense fields. The EEC would not develop its industry, and what had happened in the United Kingdom, where most of the aluminium industry was under North-American control, would also occur in the EEC. Pechiney was, in fact, annoyed by the strong investments made by North American firms in Italy, Germany and Belgium, leading, according to the French firm, to the control of the European industry by "groupes anglo-saxons", as the Canadian and American firms were defined. Thus, the French aluminium industry pointed to the alleged aggressive commercial policy of the "Anglo-Saxons", and the defense of the European industry as reasons to maintain the 9% duty which was already the result of big concession from the EEC, and it was felt that it should not be possible to endanger the existence of the EEC aluminium industry by making further concessions.⁷

The position of the French government at the Kennedy Round reflected the interests of the guiding-firm, Pechiney. Paris held that a reduction of the duty was to be avoided because of the particularly favourable production conditions North American and Scandinavian countries enjoyed and, above all, to allow French firms to have sufficient resources to invest in research in the ferroalloy sector, crucial to spatial and aeronautic construction. At the same time, France, as interested as the other EEC members in a successful Kennedy Round in order to increase the volume of world exchanges, could not ignore the fact that compromise would be necessary to ensure the Round's success, and this also applied to the aluminium sector. As a result, the Quai d'Orsay kept a more flexible position than the one demanded by Pechiney, and, from the beginning, was aware that a total exception for primary aluminium was not feasible solution, because of the likely opposition of Germany and the other Kennedy Round participants.⁸

As for Germany, even if VAW was a state-owned firm, Bonn did not only take into account the national producing interest, but was also influenced by the requirements of the transforming industry, which sought primary aluminium from traditional suppliers at advantageous prices. In 1964, Germany imported 165,000 tons of primary aluminum, of which 15,000 from the EEC and the rest from third countries (Table 7), and, as such, favored a reduction in the aluminium duty. The Benelux countries also favoured the reduction of the CET, possibly to the zero level. They had no relevant national production and, in 1964, imported about 40% of their consumption from third countries. Therefore, the position of Germany and the Benelux countries was in total conflict with the French one. As for Rome's view, Italian production in theory could fully supply Italian consumption, but Italy exported 25% of its production, with the result that it had to import, and, in 1964, 88% of its imports came from outside the EEC. The Italian aluminium industry held the same position as Pechiney: it aimed at increasing its production, was making new investments and felt that a reduction of the CET would endanger this aim. The Italian government, however, had a more softer

⁷ MAEF DE/CE GATT 930 Note de Pechiney «Négociation entre la CEE & les Etats-Unis», 26 February 1963. The almost total production of the United Kingdom was made by British Aluminium Co, which had been bought by the American firm of Reynolds in 1959; AECB Marjolin cabinet papers, box 791, «L'aluminium au regard de la négociation Kennedy», 14 October 1964. The quote is from this second document.

⁸ MAEF, DE/CE, 1961-1966 GATT 932, Note de la Direction des Relations Economiques Extérieures (DREE) – Ministre des Finances, 4 November 1964.

position in comparison to its industry, as it could not ignore that it brought in 88% of its aluminum imports from outside the EEC.⁹

Because of this difference of interests, for the Six, establishing a common position to negotiate in Geneva proved difficult. As illustrated in chapter 7, when the Commission had presented its exceptions list to the member states in October 1964, it had proposed to subject aluminium to a tariff reduction. Holding that the French would never accept a 50% reduction, Rey and Marjolin had suggested to reduce the duty from 9 to 7% and to suppress the tariff contingents that Germany and Benelux had under Protocols XII of the G List. The major aim of the Commission was the abolition of the national contingents that it found incompatible with an EEC common commercial policy and wanted to also use the GATT Round to achieve this goal. The results of the prolonged bargaining of November 1964 had led the Six to decide that, unless the Council of Ministers unanimously decided otherwise, the 9% duty would be maintained and the 5% contingents would be bound in GATT. In Geneva, in tabling its exceptions list, the EEC would simply claim that aluminium would be on the partial exceptions list, without specifying the content of the partial exception. This agreement had been elaborated only because, in November 1964, the Six required a compromise in order to table their exceptions list. However, the fact that Germany, Benelux and the Commission firmly disapproved of it was demonstrated by the fact the keeping of the 9% duty with the contingents was retained as a solution, if no other option could be approved. Thus, they entered the Geneva negotiations fully determined to elaborate another solution.

10.3 The US position for the Kennedy Round

For the US government, the offer to be made regarding aluminium was a much easier decision than for the EEC. American firms looked with interest at expanding European consumption and deficit of supply. They forecast huge increases in consumption within the EEC, and wanted to have the opportunity to share in it. They were increasing their investments to the area, but at the same time wanted to increase exports, considered the quickest way to share Europe's expanding requirements. The American firms, thanks to their strong position in world market, pushed for a drastic liberalization of international trade. Their objective was not to seek special treatment for the protection of their industry, but rather to obtain maximum concessions on aluminium from US trading partners, notably the EEC and Canada, in order to achieve uniform rates of duty in all major markets at the lowest possible rates. For the industry in America, the complete and universal free trade in primary aluminium was a desirable objective, but it recognized that, because of the likely opposition of the Europeans, and the fact that the US President lacked authority under the TEA, the aim was not achievable for the time being. Thus, in the Kennedy Round, the USA had to be prepared to reduce its duty by 50%, from its actual ad valorem equivalent of 5.2%, provided the EEC reduced its duty to a comparable level from the CET rate of 9% - implying, therefore, a 70% reduction - and Canada, whose duty was the same of the USA, followed suit. Correspondingly, duties in other major countries had to be aligned with the adjusted US-EEC-Canada rate. If the EEC was not prepared to reduce its duty not even by less than 50%, then the only consistent position for the USA was to negotiate an increase in US tariffs by an amount appropriate to effect an equalization. As the

⁹ NA General Records of Department of State - CDF 1960 - 1963, box 162, memorandum of conversation in Paris between Ball and Giscard d'Estaing, 30 March 1962; AECB Marjolin cabinet papers, box 791, «L'aluminium au regard de la négociation Kennedy», 14 October 1964; AECB BAC 62/1980-50 Note «l'inscription de l'aluminium sur la liste des exceptions dans les négociations du GATT», 11 November 1966.

primary aluminium market was truly an international one, and aluminum was sold at competitive prices in world markets, the aim of the American industry was to equalize rates worldwide.¹⁰

American firms looked with apprehension at the raising of the German duty on aluminium caused by the setting of the CET. The German market was their largest one and they did not consider the lowering of the French and Italian duties, and the resulting increased market access to these two countries, adequate compensation. Even if, as Table 7 shows, the United States had increased their exports to Italy and France following to the reduction of the CET, they continued to see the market of Germany as most important. Thus, the reduction of the CET remained crucial to reduce German tariffs.¹¹

Together with the harmonization of duties, the target of US firms was also the Canadian anti-dumping law which was used as a supplementary device to block any significant quantity of aluminium imports. While they exported aluminium to nearly every capitalistic country, virtually no US aluminium products were sold to Canada because of the anti-dumping provisions. Canada had not merely to reduce its duties on aluminium by at least 50%, but had also to change its antidumping law, as it was only in this way that a reduction in duties could have genuine significance.¹²

In order to push the US government to firmly press for the reduction of the CET, the American firms also identified the US balance of payments problems, a sensitive issue for the Johnson administration given the troubled positions of the US dollar. They first claimed that a reduction in the CET would pave the way to a huge increase of American exports, so helping to redress the US balance of payments through an increase in the trade surplus. Second, they argued that the EEC was actually in the best position to afford non-restrictive policies: its monetary reserves were greater than those of the USA, therefore it had very little justification for continuing policies which accentuated this surplus. Echoing Kennedy, the American aluminium industry argued that the effective working of an international payments system depended in part on the action of surplus countries to encourage imports and avoid uneconomical exports, the exact opposite of what the EEC was doing.¹³

Given the fact that the aluminium industry was not asking for protection but for a reduction of other countries' duties, Washington had no problem in adopting the request of its firms. Thus it did not put aluminium on the exceptions list, and arrived in Geneva asking for a 50% reduction for this sector, and demanding a modification of the Canadian antidumping laws.

10.4 Trying to move the French: negotiations in Brussels

With the respective positions between the two sides of the Atlantic as distant as their respective coastlines, the aluminium negotiations inevitably developed into a difficult bargaining process. The decision of the EEC to except aluminium was predictably criticized by the United States, Norway and Canada. All these countries

¹⁰ Brief of Kaiser Aluminum & Chemical Corporation to the Trade Information Committee, undated 1964, Herter papers, box 14, JFKL; Memorandum for Herter "Aluminum and the Kenned Round", 6 January 1965 from Reynolds, Kaiser and Aluminum Company of America, Herter Papers, Box 14, JFKL.

¹¹ Ibidem.

¹² Letter from Hodges to T.J. Rendy of the Kaiser Aliminium & Chemical Corporation, 10 July 1963, Herter papers, Box 14, JFKL; Memorandum for Herter "Aluminum and the Kenned Round", 6 January 1965 from Reynolds, Kaiser and Aluminum Company of America, Herter Papers, Box 14, JFKL.

¹³ Brief of Kaiser Aluminum & Chemical Corporation to the Trade Information Committee, undated 1964, Herter papers, box 14, JFKL.

considered the EEC industry to be made up of strong and efficient enterprises, which had gone beyond their national boundaries, and joined investments in third countries, indeed with their principal foreign competitors. The EEC aluminium industry appeared well equipped to face a reduction in its still high level of tariff protection. For Canada, Norway and the United States it was crucial to obtain a reduction in the CET preferential duty. The EEC was the only market where consumption was growing, but intra-EEC imports of aluminium were growing at a faster rate than imports from third countries.¹⁴

Particularly annoyed by the EEC exception was Norway. This country had a leading interest in aluminium. Although its biggest firm, Aardal, was not among the biggest, globally speaking, exports of aluminium represented a considerable share of Norwegian total exports, and it exported 88% of its total production. As Table 8 shows, this country was the second supplier to the EEC, and was particularly interested in a worldwide reductions in order to boost its exports not only to the EEC market, but also to the United States. In fact, it insisted on the reduction in the CET also partly because it feared that unless the EEC reduced its duty, the United States would withdraw its 50% reduction offers.¹⁵ As stated, Washington was unlikely to do so unless the EEC, the other major import market, made comparable efforts. The American aluminium industry had approved the 50% reduction in US tariffs, but on the condition that the difference between the CET and the US tariff be reduced. Hence, what of the action the USA took was of major importance to the Canada and Norway.¹⁶

Canada and Norway's exports of aluminium to the EEC represented a greater share in the total exports of these countries was the case for the USA. As such, even if the USA was also one of the principle suppliers to the EEC, these two countries had an even greater interest in reducing the CET than the USA did. In fact, Washington counted on the pressure Oslo and Ottawa could put on the Six to obtain to the 50% reduction in the CET. In particular, in the case of Norway, 40% of its exports to the EEC were covered by exceptions, so that the EEC would be under pressure to make some accommodation to Norway's interest.

Because of the difficulties that characterised this sector, Wyndham White suggested the creation of a sector group. In reality, the setting up of the sector group was the only tangible result achieved on aluminium before June 1966. After the presentation of the exceptions list in November 1964, negotiations over aluminium dragged on with Canada, the United States and Norway insisting that the EEC reduce its duty by 50%, and that they specify the content of their partial exceptions. Unfortunately, this definition was interrupted by the Crisis of the Empty Chair. As aluminium was an item of special interest to the French, the Five and the Commission considered it wise to wait for the crisis to end before restarting the intra-EEC bargaining. Therefore, it was only in February 1966, after the Luxembourg meetings that brought France back to Brussels, that the Six and the Commission could again discuss the definition of the partial exception.¹⁷

¹⁴ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 4 Talking paper on Aluminum, 6 January 1965 and Memorandum for Herter "Aluminum and the Kenned Round", 6 January 1965 from Reynolds, Kaiser and Aluminum Company of America, Herter Papers, Box 14, JFKL.

¹⁵ ANF 724711 1964-1967, box 3, Premier Ministre- CICEE- SGCI, Note de la DREE «Négociations commerciales de Genève - secteur de l'aluminium», 6 April 1967. This note covers the history of the negotiations over aluminium.

¹⁶ Preeg, E.H. , Traders and Diplomats, p.102.

¹⁷ AECB PV 345, 19 January 1966, Annex «Rapport de la Commission au Conseil sur les négociations commerciales au GATT», NCG (66)3.

As stated, the Commission had been disappointed by the Council of Ministers' decision of November 1964 not to reduce the 9% duty, and given that Ministers had agreed that this decision would be stuck to if no other solution was adopted, at the first meeting of the 111 Committee following the end of Crisis of the Empty Chair, on 14-15 February 1966, the Commission decided to reopen the issue. The Commission attempt to push the EEC to make a more liberal offer in Geneva received the support of Germany and the Benelux, who had earlier approved the Commission proposals in November 1964, while Italy remained neutral. In contrast, the French made crystal clear their unwillingness to change their stance, thus no other solution than the one already reached in November 1964 could be adopted. In the context of this disagreement, and because of the importance that aluminium had for third countries, Germany, the Benelux and the Commission took the issue to the Council of Ministers.¹⁸

The French government, and above all the French Minister of Industry, remained firmly opposed to reducing the 9% duty, on the same ground as in 1964. And this firmness was reinforced by the annoyance caused by the agreement reached in 1965 between American and Canadian firms, on the one hand, and the German VAW, on the other, for the creation of a new transforming plant in Germany whose source of primary aluminium would be supplied by Canadian aluminium.¹⁹

Despite French steadfastness, the Commission insisted on its proposal consisting of reducing duty from 9 to 7% and on eliminating the tariff quota. In order to convince the French, Rey claimed that a valuable concession on aluminium was of foremost importance for the negotiation with Norway: the EEC position in relation to this country appeared difficult, as the EEC did not seem willing to make meaningful concessions on any products of interest to Norway, notably fish products, ferroalloy, paper and, lastly, aluminium. The Commission received the strong support of Germany and the Benelux countries and, this time also of Italy. In November 1964, Rome had shared the French position, but, in 1966, with its aluminium imports from third countries further increasing, and with its only major firm, Montecatini, having a major interest in chemicals rather than aluminium, it also aimed at reducing duties. However, the pressure from the Commission and the Five was not enough to move the French. France had never had problem in defending its stance in a position of isolation and, in fact, Couve de Murville confirmed the French opposition to the reduction of the duty from 9 to 7%. Given this resolve, the Council of Ministers could not do anything but reaffirm the level of the duty at 9%, and the binding of the tariff contingents, and charge the 111 Committee and the Commission with defining the volume of the contingents.²⁰

The negotiations on the contingents were less complicated. France wanted to allow only a small contingent, in order not to nullify the retaining of the duty, while Germany, Benelux and the Commission wanted a larger one in order to import from third countries, and improve the quality of offers in Geneva. The Commission estimated that, in 1970, EEC production of aluminium would fail to account for 200,000 tons of, with production levels of 1,200,000 tons and a consumption level of 1,400,000 tons. Thus it suggested a 5% tariff contingent representing the average of 1964, 1965 and 1966 levels, that is 120,000 tons a year; the Dutch suggested 200,000 tons corresponding to the uncovered consumption, while the Germans suggested 169,000

¹⁸ CM2 1965/1A16726, PV de la 77ème réunion du Comité 111, 14-15 February 1966 and ANF 724711 1964-1967, box 3, Premier Ministre - SGCI, Note «Négociation Kennedy dans le secteur de l'Aluminium», 1 April 1966.

¹⁹ ANF 724711 1964-1967, box 3, Lettre du Ministre de l'Industrie à M. le Ministre des Affaires Etrangères, 8 March 1966; ANF 724711 1964-1967, box 3, Premier Ministre - SGCI, Note «Négociation Kennedy dans le secteur de l'Aluminium», 1 April 1966.

²⁰ AECB PV 355, 4 April 1966 and CM2 1966/16 PV de la 182ème session du Conseil de la CEE, R/337, 4-5 April 1966.

tons, representing the contingent adopted for 1966. However, together with Italy and Belgium, in a mood of compromise, they were prepared to accept the Commission proposal of 120,000 tons.²¹

France had no intention of accepting such a big contingent, and was disposed to accept a 45,000 tons contingent, representing 50% of the average of contingents from 1963 to 1965. France based its request on the assumption that, in 1970, contrary to what the Commission estimated, EEC production would be greater than consumption by 27,000 tons, as the EEC production level would be of 1,267,000 tons, with consumption at a 1,240,000 tons. The prospect of increased production in the EEC and its associated countries (Cameroun, Suriname and Greece) led France to be prudent in facilitating imports from third countries, and to take to Geneva the commitment to a 5% tariff quota only for 50% of its imports in the previous three years. The French based their request on the principle that the EEC production had to be prioritized in the supply of EEC.²²

Therefore, the main difficulty in setting up the contingent was down to differing estimates of consumption of primary aluminum of the EEC in 1970. The Commission and France had different opinions about the impact of the new uses of aluminum, and the effects of the competition from other metal on aluminium. However this was not the only obstacle: For Germany, the issue of the EEC offers was broader than the issue of merely aluminium itself. Germany aimed to increase its exports to the Nordic countries, and a concession on aluminium to Norway, which had Germany as its largest partner within the EEC, was a good way of demanding concessions of them. In contrast, a restrictive attitude on the part of the EEC would push the Nordics to withhold any concessions. For Germany, the issue was not, therefore, constituted merely by aluminium, but the entire impact of the aluminium negotiations on the Kennedy Round. For this reason, Bonn insisted that, in finding a solution to the problem, the Six had to bear in mind the importance of the Kennedy Round for their exports, and had to make a substantial offer of reductions in Geneva. In fact, while discussing the volume of contingents, Germany, supported by the Commission, Italy and Benelux, continued to press for a reduction of the duty from 9 to 7%, and the abandonment of contingents. Only if France continued to their negative stance, would they be prepared to accept the retention of the 9% duty with the adoption of 5% tariff contingents of 120,000 tons, provided that the Council foresaw the right to modify its contingent concession into a tariff concession, implying the abandoning of the G List contingent.²³

It was only at the meeting of the Council of Ministers of mid-June 1966 that the Six, urging a decision, finally reached an agreement. Under the proposals presented by COREPER President Borschette, the Council adopted the suggestion of maintaining the 9% duty and offering the consolidation of a 5% tariff contingent for 100,000 tons, as a

²¹ Belgium indicated that it could accept such a solution provided it was offered to third countries for a limited period. This limitation was to be considered an essential element, as in some years the EEC could be in a position to re-examine the all problems related to aluminium because of an eventual geographical extension of the tariff area of the EEC, and because of the solution to be given Protocol XII after the transitional period. AECB BAC 62/1980-59, PV de la 233^{ème} réunion du Comité 111 (S/327/66), 17 May 1966.

²² *ibidem*; ANF 724711 1964-1967, box 3, Telex COMICECA/614 Boegner au SGCI, 18 May 1966; AECB BAC 62/1980-59 PV de la 85^{ème} réunion du Comité 111, 23 May 1966. For the French position on contingents see ANF 724711 1964-1967, box 3, Premier Ministre – SGCI, Note «Négociation Kennedy dans le secteur de l'Aluminium», 1 April 1966.

²³ ANF 724711 1964-1967, box 3, Telex COMICECA/642 Boegner au SGCI, 25 May 1966, AECB BAC 62/1980-59, PV de la 86^{ème} réunion du Comité 111, 6-8 June 1966. AECB – BAC 122/1991-5, Communication de MM. Rey, Marjolin et Colonna de Paliano NCG(66)19 «Etat d'avancement des travaux dans le secteur Aluminium», 8 June 1966. The EEC also consulted Greece, with which it had an Association agreement, on the issue of concessions to be made in primary aluminium. The Greeks, being aluminium producers, took a position close to that of the French. They estimated that, in 1970, EEC consumption would be 1,240,000 tons with a total production of 1,480,000 tons. In this context, Greece estimated that tariff contingents of 5% should be granted for 60,000-70,000 tons a year. AECB BAC 62/1980-59 Note de la délégation hellénique (CEE-GR 51/66), 14 June 1966.

compromise between the French, who had demanded a level of 50,000-60,000 tons and the others, who had asked for 120,000. The EEC reserved for itself the possibility, after five years, to replace the tariff contingents with a reduction of the duty to 7%, or by another tariff reduction to be negotiated. Any reduction of the duty from 9 to 7% would carry with it the abandonment of the tariff contingents under the Protocol XII of List G. On derived products, and waste and scrap the duty would be reduced from 5 to 4%, while the other products, which were covered by duties ranging from 15 and 19%, were scheduled for partial reductions to a 12% level, so to keep them 4-5 points higher than the protection of primary aluminium.²⁴

Germany was disappointed by this final agreement. However, considering the French intransigence and the urgency to arrive in Geneva with a negotiating position in order not to stall the Kennedy Round, it reluctantly accepted it. However, for Bonn, the EEC had to be prepared to re-examine the volume of the contingents according to the reaction that the offer gave rise to in Geneva. Germany, Benelux and the Commission, (Italy had a more soft position), despite the formal decision of 13-14 June, had no intention of resigning to it and, as we shall see, once the EEC offers were tabled in Geneva, they would support Norway, Canada and the United States' request either to reduce the duty or, at least, to increase the volume of contingent.²⁵ As such, the EEC approached the Geneva talks with France firmly determined to maintain the volume of the contingent in order to protect its industry, with the Commission and the Five, above all Germany, firmly convinced of the need to improve the offers in order to increase the concessions to the Nordics.

10.5 Trying to move the French: negotiations in Geneva

While, in Brussels, negotiations concentrated on getting the French to move, in Geneva, the bargaining centered upon the need to obtain meaningful access to the EEC market for primary aluminium, for the EEC was the only major world market where actual and potential production fell appreciably short of the actual and projected consumption. That the EEC offers would not receive a warm welcome in Geneva was anticipated by Washington's reaction, which claimed that it seemed to "rest in good part to acquiescence to the dominant French producer, Pechiney".²⁶ According to Roth, the offer on primary aluminium "amounted to no offer at all and may actually be less liberal than the present situation" because of the small volume of contingents. On aluminium products, the EEC offer, far below the 50% linear cut, was "completely inconsistent with the world trade picture", since the EEC was by far the number one world exporter of these products, exceeding the total exports of the next five largest exporters combined. Washington gave this offer no credit. In this situation, a "hard bargain" was the only way to substantially improve the EEC offers.²⁷ Washington considered the

²⁴ CM2/17511 Note de la Présidence (S/405/66), 10 June 1966; CM2/17509 Rapport de Borschette à la Présidence du Conseil de la CEE, 12 June 1966; CM2 1966/34 PV de la 188ème réunion du Conseil de la CEE, 13-14 June 1966. The final decision of the Council stated "Le droit de douane actuel (9%) est maintenue. Un contingent tarifaire annuel à droit réduit à 5% pour un volume de 100,000 tonnes sera consolidé. Le Conseil convient, en outre, de l'inscription du texte suivant au procès-verbal de sa session: 'Le Conseil se réserve la possibilité, après une période de trois ans, de remplacer le contingent précité, soit par une réduction de deux points du droit de 9%, soit par une autre concession tarifaire à négocier. Il est entendu qu'une éventuelle réduction du droit de 9 à 7% comporterait l'abandon des dispositions du Protocole XII de la list G prévoyant l'octroi de contingents tarifaires. Il est entendu, en outre, que la présente décision n'affecte en rien les droit que les Etats membres détiennent en vertu du Protocole XII de la list G, pour les importations dépassant les 100,000 tons du contingent tarifaire consolidé'".

²⁵ CM2 1966/34 PV de la 188ème réunion du Conseil de la CEE, 13-14 June 1966; PRO FO 371/189598 Telegram 833 from Foreign Office to Bonn on the Anglo-German Economic Committee meeting of 20-22 July 1966, 26 July 1966.

²⁶ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Note "Aluminium", 30 June 1966.

²⁷ Memorandum for Cecil R. King (House of Representatives) from Roth, 4 August 1966, Roth Papers, box 2, LBJL.

EEC to be a danger to a successful Kennedy Round. First, its stance could lead to a withdrawal of offers by the Nordic countries, consequently reducing the liberalizing impact of the Round. Second, for USA, keeping its 50% reduction offer would be very difficult if the CET was not lowered.²⁸

Table 13: Offers on Aluminium and Products Thereof

	Value in \$ million							
	US offers				Offers to US			
	Dutiable US imports	50% cuts	Less than 50% cuts	No offer	Dutiable imports from US	50% cuts	Less than 50% cuts	No offer
Canada	123	123	-	-	33	12	21	> \$ 500.000
EEC	39	39	-	-	54	5	22	27
Japan	14	14	-	-	14	9	5	-
UK	2	2	-	-	9	9	-	-
Other EFTA	46	46	-	-	2	2	-	-
Total	224	224	-	-	111	37	48	27

Source: NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Analysis of the Kennedy Round Negotiations on dutiable non-agricultural products, prepared by the Commerce Department, 25 October 1966.

With the EEC presenting its offers, all the offers (Table 13) were on the table and negotiations could finally begin. At the meeting of the Aluminum Sector Group on 11 July 1966, attended by the USA, UK, EEC, Japan, Canada and Norway, the exporting countries Canada, Norway and the United States labeled the EEC offer as disappointing, as it did not give any potential for improved access to its market. Norway and Canada highlighted the importance that the aluminium industry had in the structure and development of their economies, and underlined the importance that they attached to access to the EEC market. Canada held that a free exchange system for this product would have been the best solution, but given that other countries were not prepared to follow this line, Ottawa agreed to give priority to tariff reductions, and to appreciate them for the degree of market access which they would ensure. As such, Canada considered the EEC offers to be not at all in line with the aims of the Kennedy Round. The EEC level of contingent, whose consolidation was the only new aspect, if compared to the level of access to the EEC market in 1966, raised doubts regarding the value of the offer. Norway also underlined the importance of aluminium to its economy and evaluated offers on the table according the access they would grant.²⁹

The United States shared the appraisal of Canada and Norway to the EEC offer. Even if the consolidation of the tariff-quota system was a positive element, the level of contingent was inferior, however, to the sum of the contingents still retained by member states on a national basis. The offer therefore did not open up access to the EEC market. The United States, Canada and Norway, while admitting that a full 50% cut from the EEC was not realistic expectation, indicated their preference for as great a cut as

²⁸ NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Note "Aluminium", 30 June 1966; NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Background Paper "Negotiations with the EEC", 1 July 1966 and NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Analysis of the Kennedy Round Negotiations on dutiable non-agricultural products, prepared by the Commerce Department, 25 October 1966.

²⁹ At an informal meeting preceding the 11 July one, Canada floated the idea of global free trade in aluminium suggesting that all interested countries bring duties to zero. The Canadian suggestion was nebulous regarding the details and, in any case, United States free trade would require legislative approval. Canada talked to the French but received little encouragement in their sounding out of the French on possible duty-free treatment of the raw materials. The Canadian suggestion was not put forward at a formal sector group session. NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Note "Aluminium", 30 June 1966; NA 364, Recs. of US trade Representatives on the Kennedy Round, box 1, Background Paper "Negotiations with the EEC", 1 July 1966; AECB BAC 122/1991-8, Communication de la Commission au Conseil NCG (66) 60 final "Aspects Essentiels des Négociations au GATT (pays industrialisés)", 20 December 1966.

possible on aluminium, rather than the binding of tariff contingents on the part of the EEC.

Commission representative Hijzen defended the EEC position on the ground that the exception on aluminium was necessitated by reasons of overriding national interests, for the structure of the EEC aluminium industry did not allow for a 50% reduction. He also noted that the EEC foresaw an increase in production, a slow-down in consumption and, as a consequence, a decreased need to import on the part of the EEC. Against this risk of reduction of import levels on the part of the EEC, the consolidation of the 100,000 tons at 5% duty-quota represented an important guarantee for exporters. In the end, the working group took note of the EEC offers, but then no other meeting took place because the position of the governments were so far apart that an agreement appeared impossible.³⁰

Because of the deadlock in the working group, negotiations proceeded on a bilateral basis between the EEC and its exporters. In effect, Norway, Canada and the United States continued to exert pressure until the end of the Kennedy Round in 1967 in an attempt to push the EEC to reduce its 9% duty. However, given the French opposition to moving in this direction, the only way to improve the EEC offers was to get the tariff contingents increased. The Germans were aware that such an improvement remained urgent, not only to avoid the withdrawal of its offers by the USA, thus reducing the level of liberalization for aluminium, but also to avoid a reduction of the liberalization process in Europe, due to the dissatisfaction of the Nordics in this regard. However, because of the French intransigence, it seemed unlikely that the EEC would offer more than a token increase in its tariff contingent. At the end of 1966, the hope to achieving a significant reduction in tariffs in the aluminium sector was bleak. Because of the refusal of the EEC to improve its offers on aluminium, as well as on other sectors, the Nordic countries, Canada, and the United States decided to present a warning list to the EEC. However, not even this move had much effect on the French. As fully shown in chapter 12, dedicated to the final bargain of the Round, in the end, the EEC conceded only a small increase in its tariff contingent to the great dissatisfaction of United States, Canada and, above all, Norway.

Conclusion

Diverging policies and priorities of the participants constituted the basic problem for the aluminium negotiations. France aimed at setting up an EEC regional market in order to be able to increase its production and exports, looked with apprehension at American investments in Germany and wanted, therefore, to maintain the CET protection levels. In contrast, Germany and Benelux wanted to continue to import from third countries. On top of this, for Germany it was urgent to make concessions to the Nordic countries as a way of encouraging them to do the same. Thus, the Germans pushed for a reduction in CET protection. The Six had different industrial and commercial policies and this made the elaboration of a compromise difficult. However, as with other sectors, the need to elaborate a common position to attend the negotiations in Geneva pushed the Six to find a middle ground and reach a compromise on their commercial policy. The French aims were challenged not only within the EEC but also by Norway, Canada and the United States, who all aimed at reducing worldwide protection and setting up a transatlantic market. Further, Washington felt it necessary to

³⁰ AECB BAC 62/1980-59 Compte rendu (ALUM/CR/1) «Réunion du Group sur l'aluminium- juillet 1966», 26 July 1966; AECB – BAC 122/1991-5 Rapport n.74 de la délégation de la Commission pour les négociations du GATT (présenté par Rey, Marjolin et Mansholt), 18 July 1966; PRO FO 371/189599 Note "Aluminium" by the Tariff Division of the Board of Trade, October 1966.

bring pressure on the EEC in order to be sure that the Nordic countries, annoyed by the small EEC offers in this sector, would not withdraw their offers in other sectors, so reducing the impact of the Kennedy Round. Thus, when 1966 ended, sharp differences still existed in the aluminium sector that made a final agreement difficult.

This description of the aluminium sector has confirmed what had already been demonstrated in the previous chapter dedicated to the negotiations in the industrial sector: the role of the Commission was not weakened by the crisis of the empty chair. In fact, immediately after the end of the crisis, the Commission did not hesitate in continuing to support the 9% reduction, just as it had done in November 1964, and nor did it have any hesitation in continuing to support this position until June 1966, despite French opposition.

Chapter 11

Negotiations in agriculture: deflecting EEC regionalism

Introduction

In the previous chapters, we analyzed the negotiations in the industrial sector and concluded that, despite the numerous difficulties, some significant results remained likely. All parties had an interest in advancing their exports and therefore agreed to reduce their tariffs. Chapter 11 is dedicated to the negotiations in the agricultural sector and, more exactly, to grains, on which the greatest part of the negotiations centered. In fact, this commodity had a crucial importance in the Kennedy Round. It was the commodity with the largest volume of trade involved and the bulk of US exports to the EEC. Moreover, grains were a basic commodity on whose treatment depended also meat and dairy products. Most importantly, grains represented the test of how the EEC variable levy mechanism would be lodged in the world trading system and in general of the EEC and its CAP on world trade in agriculture. The EEC was setting up its regional organization of agriculture and the negotiations in Geneva over grains would show the place the Six wanted the EEC to have in world trade for farm products, and the reaction of the USA to the European stance. This means that the description of the agricultural negotiations gives us the chance to also describe the American attitude towards the CAP and therefore towards European integration. In this chapter, we shall conclude that liberalizing agriculture was a major American objective but this aim clashed head-on with that of EEC which had every intention of defending and facilitating the functioning of the Common Agricultural Policy by establishing a regional market for agriculture, and were not interested in trade liberalization or in increasing exports to the US. This led to a major clash between the two sides of the Atlantic. The United States was also in a difficult position. Being on record as favouring European integration, they could not openly attack the CAP, which was one of its major tenets.

In the Kennedy Round major attention was dedicated to grain. Being a basic commodity its treatment conditioned the other commodities and above all meat and dairy products. Moreover the United States had a major interest in improving its agricultural exports right on grain and, as a result, much attention was dedicated to these products. The discussions on agriculture, however, concerned also other agricultural commodities. In order to have a full picture of the negotiations in this sector and of the commercial policies of the EEC and the USA, the last session of this chapter briefly describes the rest of the agricultural negotiations.

11.1 Protectionism in agriculture and GATT: a longer perspective

When the Kennedy Round opened and agriculture was explicitly included in the negotiations, governments were fully aware of the difficulty of this task. Foreign trade in farm products was a complicated issue because of the long tradition of protectionism that existed among developed countries. In terms of relatively recent history, temperate agriculture protectionism of a permanent nature became progressively more relevant during the end of the nineteenth century with agricultural crisis of 1870s and 1880s in

Western Europe. Grain prices in particular fell dramatically as a result of the steady expansion of American and Australian production and a decrease in ocean freight rates. While some nations reacted to the change by adjusting their agricultural sector, some other reacted with protectionism. Therefore, as the price of feed grains fell, The Netherlands and Denmark, after a period of painful adjustment, became specialized in livestock and dairy products. Others, including France, Germany, Austria-Hungary and the South of Europe, reacted by starting to set duties on grains, and then on the other agricultural products whose price depended on grains. During the inter-war period, protection increased further as a result of a combination of overproduction and falling demand that led prices and farmer income to crash dramatically. Traditionally protectionist countries reacted by supplementing tariffs, which had been made almost ineffective because of the fall in prices, with quotas and licences so to close their markets to flood of excessively low-cost products. Countries like The Netherlands and Denmark reacted by setting up export subsidies and pricing mechanisms in order to close the gap between domestic and export prices. As a result, virtually the entire agricultural sector came to be protected against outside price competition through quotas, licenses, support for prices and incomes, and subsidies for exports. And this time the protectionism wave touched also the United States which in the 1920s made efforts to support farm prices and incomes through increased tariffs, and then, during the 1930s the Roosevelt Administration, bought into more a direct form of intervention through price support and subsidies to exports. As a result, the divorce between agriculture and marketplace rules was complete.¹

In 1947, under the pressure of big exporting countries like Australia and Canada, the General Agreement on Tariffs and Trade was conceived to be applied to all merchandise trade, without making distinction between agricultural and industrial trade. In truth, the United States and the Western European countries had no intention of weakening the protection and support they gave to their agriculture. They pursued the major goal of stabilizing and increasing the revenues of farmers and deemed liberalization of agriculture as incompatible with these aims. Very important social issues were at stake. Thus, strong pressure for protection in major trading nations created incentives for governments to grant special treatment to agriculture and GATT rules resented this necessity. The United States asked and obtained the right to restrict imports of agricultural products when necessary to implement measures to restrict domestic production (article XI of GATT). The Western European countries, concerned with using quantitative restrictions for balance of payments reasons, obtained article XII of GATT which allowed for this possibility.²

During the entire 1950s, the USA had an agricultural surplus which was harder to deal with than expected. The high domestic support prices were proving to be an incentive to domestic surplus production and, at the same time, it was becoming more difficult than expected to cut down production when it was not wanted. In 1955, the GATT contracting parties were forced to approve an open-ended waiver requested by

¹ For an account of protectionism of agriculture in Europe see Tracy, M. *Government and Agriculture in Western Europe, 1880-1988* (New York: Harvester Wheatsheaf, 1989). For American and European protectionism see Evans, J. W. *The Kennedy Round in American Trade Policy: Twilight of the GATT?* (Cambridge, Mass: Harvard University Press, 1971); T. K. Warley "Western Trade in Agricultural Products" in Shonfield, A. *International economic relations of the Western World, 1959-1971 Vol.1, Politics and trade* (London: Oxford University Press for the Royal Institute of International Affairs, 1976), p.287-402. For a broader view of the history of agriculture, not dealing only with protectionism, see the recently published Federico, G. *Feeding the World. An Economic History of Agriculture (1800-2000)*, (Princeton and Oxford: Princeton University Press, 2006).

² For a description of agriculture treatment in GATT the best account remains Josling, T.E, Tangermann, S., Warley, T.K. *Agriculture in the GATT* (London: Macmillan/St.Martin Press, 1996) and Avery, W.P. (ed.) *World Agriculture and the GATT* (Boulder: Lynne Rienner, 1993).

the USA to enable it to apply the Agricultural Adjustment Act enacted by the US Congress in 1954/1955.³ That Act imposed on the administration the duty to introduce quantitative import restrictions (QRs) on a range of agricultural products whenever such kind of protection was needed to implement domestic US agricultural policies. Such QRs were applied on cotton textiles, wheat, groundnuts, rye, barley, oats and dairy products.

On the other side of the Atlantic, the protection of agriculture and the preservation of adequate level of income of agriculture was a basic policy following the end of WWII. Until the early 1960s, practically all European countries were still facing balance of payments problems and this allowed them, in accordance with Article XII of GATT, to apply QRs to the extent necessary to protect the equilibrium of their payments balance. While such measures were at that time progressively being abolished on industrial products, the elimination process did not extend to the agricultural sector, where QRs and similar import measures persisted on a large range of products, particularly those produced in temperate zones. During the 1960s, the progressive improvement in the balance of payments of West European countries forced them to gradually give up recourse to the payments equilibrium legal exception. Still, most did not abolish QRs or similar measures on what they considered to be sensitive agricultural products including grains, dairy, meat, sugar and fruit and vegetable products.

Thus the international trade problem in agriculture stemmed directly from the problem of farm income, which was lower than non-farm income. Virtually all countries were willing to forego some of the potential gains from trade in order to move closer to the desired pattern of income distribution in a politically acceptable manner and, consequently, maintained the most extreme kind of protectionist measures on the bulk of their agricultural production. The aim of increasing income was combined with the desire to increase, against the wide fluctuations in the past, the degree of stability in agricultural prices. Therefore, agricultural protectionism in the industrialized countries was a major factor restricting world trade.

As illustrated, GATT did not succeed in preventing a widespread reinforcement of agricultural protectionism. Despite the fact its rules applied to agricultural and industrial trade alike, the first four rounds exclusively concentrated on cutting customs tariffs for the industrial sector and agriculture escaped GATT discipline. However, in the middle of the 1950s, widespread concern started to arise in GATT circles about the agricultural sector. The exporting countries such as Canada, Australia and New Zealand started demanding the subjection of agriculture to GATT rules.⁴ The urgency to deal with agriculture increased when the Six presented to GATT in 1958 their Treaty of Rome, which foresaw organization of trade in agricultural products at the regional level. As shown in chapter 3, during the 1950s, while at the multilateral level discussions on agriculture were completely deadlocked, in Western Europe, attempts were made to regulate agriculture in a European regional framework, as it appeared that a solution wider than the national context was required, if domestic policies in support of farmers were to be maintained. These regional European attempts failed too, until when the aim to organize agriculture was included in the Treaty of Rome and the establishment of a common market for farm and food products and a common agricultural policy became one the major aims of the EEC. With this major breakthrough at European regional level, the big exporters and the United States started claiming that agriculture had to be

³ The affirmed US position at the time was that without an open-ended waiver it would have had to leave the GATT. The US renounced that waiver only in 1995 as part of the Uruguay round.

⁴ Curzon, G. *Multilateral Commercial Diplomacy: the General Agreement on Trade and Tariffs and its Impact on National Commercial Policies and Techniques* (New York: Preager, 1965), pp. 166-168.

brought within the GATT rules so to try to soften likely European discrimination. As a result, discussions started in Geneva on the various measures of agricultural protection, the extent to which GATT rules had proved inadequate to promote the expansion of trade in agriculture and steps that might be appropriately taken. And the USA was clear in identifying the basic problem in the trend towards increased agricultural protection in Western Europe and the prospect that techniques of protection largely outside the procedures of GATT might be applied by the EEC in its common agricultural policy.

Studies were made from 1958 to 1961 on the problems that affected world trade in agriculture. In 1958, a GATT study, the Habeler report, was published. The agricultural part of the report centered on the high level of protection, the accumulation of surpluses by low cost producers, and the inability of existing GATT rules to deal with these problems. A subsequent GATT working committee – Committee II – examined the policies of individual countries and reported in detail on the generally autarkic policies that had evolved in member countries. And here, the USA, supported by the major exporting countries, tried to exert pressure on the EEC to relax rather than intensify existing measures of protection.⁵ Pressures were also made during the Dillon Round where the USA, unsuccessfully, tried to insist on getting guarantees of access from the EEC so to be sure that the CAP would not damage American exports.

American requests to include agriculture in the Kennedy Round were therefore the continuation of attempts made since 1958 to try to ensure that the CAP would not implement worldwide discrimination against non-EEC producers and of conflicts in trade policy left open from the Dillon Round. The Kennedy Round was the first GATT Round where agriculture came to the forefront of the negotiations and a comprehensive attempt was made to try to deal with trade in farm products. The inclusion of agriculture was so crucial that the Kennedy Administration unequivocally stated that no agreement would be concluded in Geneva unless agriculture was meaningfully included in the liberalization effort of the new Round. The USA sought significant liberalization, by which it meant a reduction in protectionism and guarantees of acceptable access to the EEC market, while safeguarding its national policies that protected powerful agricultural interests.

To the creation of the CAP, to establish the regulation of agriculture within the European regional framework, the United States responded with the request to try to also deal with agriculture at the multilateral level. However the aim was not of attacking the CAP's existence, considered an essential element of the European integration process, but rather to reduce the discriminatory aspects of this common policy. The USA kept the line adopted in 1958 when the Treaty of Rome was presented to GATT. It did not challenge the existence of the CAP and it did not openly challenge the variable-levy system. Rather it decided to negotiate in the framework of the CAP, asking for a reduction of discrimination.

The Six accepted the American suggestion to include agriculture in the Round. Yet, they had different goals. They did not aim at liberalising trade, but to regulate it at the GATT multilateral level. And to do so, the EEC felt it necessary to intervene not only in border protection but also in the domestic policies of the GATT participants. For this reason, it presented the MDS approach which responded to the aims of increasing the revenues of farmers and stabilizing world markets through the stabilization of prices. The Six were organizing trade in agriculture at the EEC regional level and tried to do the same at the multilateral level, favouring the development of a system to

⁵ NA Department of State, 1960-1963 CDF, box 872, GATT "Draft Progress Report of Committee II 'Effects of Protection on Trade'", 18 October 1960 and *ibidem* "Official report of the US delegation to GATT Committee II on Expansion of Trade, October 6-20", 21 November 1960.

manage world trade compatible with the functioning of the CAP. On top of this, while the USA wanted to decrease the discrimination levels contained within the CAP, the EEC wanted to get the acceptance of GATT for this common commercial policy which was inconsistent with GATT rules.

This clear contrast of aims across the Atlantic was well reflected in the negotiations over rules that took place in Geneva from December 1962 to March 1965. The Kennedy Round participants agreed on the aim of the agricultural negotiations, notably to "provide for acceptable conditions of access to world markets for agricultural products [...] in furtherance of a significant development and expansion of world trade". However, no agreement was reached on the way to achieve this goal, because of the different conceptions of what the Kennedy Round was to aim at. It was against this background that negotiations in Geneva over agriculture, after almost three years spent discussing the rules, eventually started in May 1965 on cereals.

11.2 The background to the grains commodity agreement: the International Wheat Agreement and the Baumgartner-Pisani Plan

(et)

The Kennedy Round participants agreed to negotiate commodity agreements aiming at balancing world production and consumption and assuring supply at equitable prices. All this was considered to lead to the objective of creating "acceptable conditions of access to world markets", as stated in GATT Ministerial meeting of May 1963.⁶ While no commodity agreement existed for meat and dairy products, a limited arrangement for cereals already existed and it was in the context of the experience obtained with this agreement that GATT members negotiated in the Kennedy Round. In 1949, the International Wheat Agreement (IWA) had been signed by Australia, Canada, France, the United States, Uruguay, and certain wheat importing countries. It had been renewed many times and, in 1962, it had been renewed for five years. Faced with the two basic problems of international trade in cereals – the instability of prices and the existence of surplus among developed countries – the aim of the participants to the IWA was to assure supplies of wheat to importing countries and markets for wheat to exporting countries at equitable and stable prices and to help with the disposal of surpluses. Importing countries granted part of their markets to exporters, on condition that exporters met the fixed upper and lower price limits established in the IWA. The agreement, however, was deficient, as Argentina and the Soviet Union, two major wheat producers, did not join. Further, it had very limited engagements. It was centered only on prices and the only constraint was to respect a rather wide range of price, between \$1,625 and \$2,025 per bushel. In fact, prices of exchanges were at a level near the higher limit but the level was not maintained by cooperation by importers and exporters, but by the effort of the USA and, to a lesser extent, Canada which limited their sales, at the cost of considerable stocks, to maintain stable prices. Therefore, the essential instrument to guarantee price stability in support of the market had not been the IWA but the concerted policy of the USA and Canada. In contrast, the market of feeding cereals was not organized and prices had tended to decrease.⁷

A suggestion to conclude a more comprehensive agreement was made by the French government in November 1961. On the basis of the work of Committee II, in September 1961 Wyndham White asserted that since GATT rules were not, in practice, applied to agricultural trade, it would be better to examine the prospects of negotiating

⁶ Preeg, H.E. p. 152.

⁷ ANF 724.713, box 4, Note pour le cabinet du Ministre 127/CE «Project d'accord mondial sur les céréales», 26 April 1965.

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terms of access to markets. The invitation of the Director General was picked up by French Minister of Finance Baumgartner at a GATT Ministerial meeting and French Minister of Agriculture Pisani at the FAO conference, both in November 1961. In fact, the French also put forward their plan for a commodity agreement to elude the British request to guarantee Commonwealth countries traditional access to the British market, during the negotiations between the EEC and the United Kingdom in 1961-1963.⁸ Suggesting a general approach, the Baumgartner-Pisani plan, based on market organization for trade in basic agricultural commodities, starting with grains. The French proposals were grounded on the assumption that there was a large food deficiency in developing countries, and protectionist policies in industrial countries that had led to increase surplus stocks and had constrained producing countries in a ruinous price war with subsidised exports. A policy was to be developed to raise world prices to the level of the biggest importing countries, which meant the EEC, and in turn, to utilize the additional revenues gained thereby to finance shipments of surpluses to undernourished nations unable to afford imports. In this way both exports subsidies and the system of levies in the importing countries would be neutralized and a single international price would be set up in all the markets. Exporting countries would obtain higher income and would be able to finance food aid programs for the LDCs, and in return for the advantage of securing higher prices for their exports, they would undertake not to increase their production. Any surpluses in the importing countries would be utilized to carry out a concerted international food aid program to stimulate the consumption of products from the temperate zone by the LDCs.

At the Ministerial meeting of GATT in December 1961, the decisions was taken to refer to a special study the problems of world trade in temperate agriculture. The Cereals Group was set up to study problems in trade for these commodities and it was tacitly understood by all participants that the major issue was the question of continued access to EEC markets in the light of the decision by the Six to subject cereal imports to a system of variable levies. It was in this framework that the French proposals were examined. They were received as a bold attempt to deal with agriculture, but were not considered equitable, practical or, above all, able to maintain access to the EEC markets. The United States made it clear that any consideration of a price increase had to be linked to access assurances for non-EEC exporters and supply management. The major importing countries, especially the UK and Japan, refused to pay higher prices for imports in order to finance aid supplied by exporting countries. Also, the assumptions of the proposals were questioned. Exports subsidies were not ruinous, but quite modest or nonexistent for low cost exporters; and the assumption that global supply and demand could be balanced if only stocks in the rich countries could be transferred to the poor countries was not, in 1961, accepted as a long run solution. The prevailing outlook was that food aid was a temporary stopgap after which the specter of accumulating surplus would reemerge. Under these circumstances, a substantial increase in world prices would lead to oversupply on world markets. Moreover, the proposal to align world prices to the EEC levels was seen as a rather transparent attempt on the part of the French to ensure general acceptance of the EEC system of internal support prices and variable levies. Even if the French proposal was not considered feasible for immediate negotiations, as is described in the remainder of this chapter, they paved the way to a

⁸ ANF 724.713, box 4, Premier Ministre, Comité Interministériel pour les questions de Coopération Economique Européenne, Note «Négociations commerciales multilatérales au GATT: secteur agricole», 1 April 1966.

new trail to organising markets at international level and influenced the EEC proposals for drawing up a general agreement on cereals in the Kennedy Round.⁹

The decision taken at the GATT Ministerial meeting of May 1963 to negotiate a commodity agreement in the framework on the already existing Cereals Group was therefore the continuation of discussions already underway since the end of 1961. While there was no dissent about the need for a world grains agreement, divergences remained regarding the elements for the Agreement and in particular regarding the approaches to access, level and role of international prices and the financing of food aid. These differences entangled with the general disagreement over the rule to negotiate in agriculture, with the result that when negotiations started in May 1965 no rule to set up the Cereals Agreements had been fixed. At the 1964 session of the Cereals Group, Washington had been prepared to negotiate on the MDS, provided that UGP were set at a low level and the EEC gave an access guarantee. The EEC had opposed the latter request as incompatible with the CAP and maintained that a negotiation on price and MDS was sufficient to regulate trade in grains. Thus, the major issue of disagreement between the EEC and the big exporters was clear: guarantees of access, and it would be this question on which negotiations would concentrate.

11.3 Cereals trade across the Atlantic

As a way of introducing negotiations on grains and to fully appreciate their developments and results, it is essential to first illustrate grains patterns of trade across the Atlantic. This illustration sheds some light on the difficulties the United States had in the negotiations with the EEC and in particular its lack of bargaining power. Agricultural exports to the EEC had a major importance to the USA. Not only did they receive about one-third of US exports to the area but they also had a major relevance in US trade surplus. As the three following tables illustrate, despite the volume of trade involved in the agricultural sector being inferior to that in the industrial sector, the USA exported substantially more than what it imported from the EEC, with the result that in 1964, out of a total \$1.752 million surplus, agricultural surplus represented \$700 million.

Table 1: composition of US exports to the EEC 1961-1965 (in thousands of US\$)

SITC	1961	1962	1964	1965
Total exports	3564029	3650009	4590854	5007743
0 Food and live animals	475693	665137	769676	932724
1 Beverages and tobacco	120548	129539	129145	127542
2 Crude materials, inedible, except fuels	745258	613264	830959	757715
3 Mineral fuels, lubricants and related materials	214127	241729	311382	270463
4 Animal and vegetable oils, fats and waxes	129965	117025	169797	167369
5 Chemicals and related products, n.e.s.	370747	379844	512293	544885
6 Manufactured goods classified chiefly by material	421932	391049	564035	512049
7 Machinery and transport equipment	830677	936977	1063669	1372238
8 Miscellaneous manufactured articles	138731	162942	228709	312339
9 Commodities and transactions n.e.c.	14802	12562	11179	10419

Source: SITC Classification. Source: OECD SITC Rev.2 – Historical Series 1961-1990 (Paris: OECD 2000)

⁹ Preeg, H.E. p. 152-153; Casadio, pp.117-118. NA Department of State, 1960-1963 CDF, box 872, Telegram CA-2508 Circular outgoing telegram, 18 April 1962. For the full speech delivered by Baumgartner see NA State Department, CDF 1960-1963, box 721.

Table 2: composition of US imports from the EEC 1961-1965 (in thousands of US\$)

SITC	1961	1963	1964	1965
Total imports	2225904	2518177	2837977	3329082
0 Food and live animals	119654	118646	122663	129437
1 Beverages and tobacco	66346	76718	83905	87761
2 Crude materials, inedible, except fuels	118127	118462	110783	103876
3 Mineral fuels, lubricants and related materials	14084	9344	11215	11214
4 Animal and vegetable oils, fats and waxes	11859	11209	11598	14518
5 Chemicals and related products, n.e.s.	124450	148158	178204	196830
6 Manufactured goods classified chiefly by material	727974	760962	822332	1056697
7 Machinery and transport equipment	616557	706589	850724	990004
8 Miscellaneous manufactured articles	339263	455856	521896	580856
9 Commodities and transactions n.e.c.	87590	112233	124657	157889

Source: see table 1.

Table 3: composition of US trade balance with the EEC in 1964 (in thousands of \$)

SITC	Total imports from the EEC	US Exports to the EEC	Balance
Total trade	2837977	4590854	1752877
0 Food and live animals	122663	769676	647013
1 Beverages and tobacco	83905	129145	45240
2 Crude materials, inedible, except fuels	110783	830959	720176
3 Mineral fuels, lubricants and related materials	11215	311382	300167
4 Animal and vegetable oils, fats and waxes	11598	169797	158199
5 Chemicals and related products, n.e.s.	178204	512293	334089
6 Manufactured goods classified chiefly by material	822332	564035	-258297
7 Machinery and transport equipment	850724	1063669	212945
8 Miscellaneous manufactured articles	521896	228709	-293187
9 Commodities and transactions n.e.c.	124657	11179	-113478

Source: see table 1.

Table 4 illustrates the composition of the US agricultural exports by major commodity involved. The table reveals that the bulk of these exports were in oilseeds, wheat and above all feedgrains.

Table 4: composition of the US agricultural exports to the EEC by major commodities (thousands of US dollars)

Commodity	1958	1960	1961	1962	1963	1964	1965	1966
Variable-levy commodities								
Wheat	79000	46332	173039	50606	63365	67085	70283	107259
Feedgrains	158000	197146	194012	336457	295182	334433	478099	498405
Rice	5854	6894	15035	14247	13399	15378	10139	18823
Beef & veal meat	31	38	49	64	163	1064	1511	647
Pork	400	418	561	341	2061	8624	377	1.334
Lard	2100	2326	3401	2134	2543	2489	1062	1104
Dairy products	1800	2997	2084	3603	22551	54398	30473	1213
Poultry and eggs	364	28551	45835	53479	30.613	31676	30747	236

Non variable-levy commodities								
Fruits & vegetables	71631	57665	69952	93070	102225	88695	106402	91851
Oilseeds	71052	120245	134294	174028	169860	235840	245208	301624
Unmanufactured tobacco	96452	97003	97384	106609	104983	106877	107738	122690

Feed grains are those included in the SITC categories 043 (barley) ,044 (maize) and 044 (rye and oats). Oilseeds includes soybeans. Source: SITC Classification. Source: OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000) and OECD Exports, Series B, 1958 and 1960.

To fully appreciate the relevance of the EEC for US exports in cereals, table 5 illustrates the major markets of destination of American cereals and it reveals that the EEC was the second market after Japan for wheat and the first market for feedgrains.

Table 5 US exports by major destinations in 1965 (in thousands of metric tons)

	Wheat and Wheat flour	Feedgrains
EEC	1,197	8,803
EFTA	584	2,439
Japan	1,864	3,971
Developing countries	14,435	1,473
Sino-Soviet bloc	71	416
Other	946	3,774
All countries	19,097	20,875

Source: OECD Commodity Trade: Exports, Series C, 1965. Taken from Preeg, E.H. Traders and Diplomats, p.151.

From these data, it is fully understandable why agriculture in general and cereals in particular took a high rank in importance and urgency in the Atlantic alliance. Trade in wheat and other grains formed the bulk of the trade in agricultural products between the two sides of the Atlantic, and it was indeed for this basic commodity that the EEC was setting the CAP and the variable-levy system. With its relevant position in US exports and in world trade in general, the EEC was the key to agricultural trade liberalization and it posed the major threat to US exports.

Table 4 shows that US exports to the EEC both for wheat and feedgrains had increased. For wheat, after a wavering trend from 1958 to 1962, exports began to increase again. The fate of US exports of wheat was conditioned by the fact that for this commodity the EEC was largely self-sufficient (Table 6).

Table 6: rate of the EEC self-sufficiency in cereals in 1964

	EEC	Germany	France	Italy	Netherlands	BLEU
Wheat	90	70	109	95	32	68
Rye	98	107	103	46	75	69
Barley	84	65	123	48	39	47
Oat	92	91	101	85	68	86
Maize	64	2	105	79-		1
Average	85	77	110	87	35	51

Source: Istituto Statistico delle Comunità europee, Annuario di statistica agraria, 1970.

The production of the Six as a whole was adequate to meet EEC demand, which remained quite stable at about 27 million metric tons from 1960 to 1965. EEC wheat production increased from about 24 million metric tons in 1957-60 to about 28 million in 1963-65. Total wheat production was in surplus of demand, and some of this surplus was eliminated by subsidized exports. Imports of wheat from the USA were restrained by the basic variable levy system to the role of filling any gap between EEC production

and consumption. Worse, with the implementation of UGP in 1967, the Americans feared that their exports could fall. Where the USA seemed to have room to increase their exports was for feedgrains. For this commodity, American exports had been constantly increasing. Moreover, the EEC was not self-sufficient and there was a continuing and marked deficit to be filled by outside producers (Table 6). However, as for wheat, in this case too Americans exports were threatened by the UGP. In any case, as American exports, both for feedgrains and wheat, were growing, for the US negotiators it was difficult to say their exports were being excluded from the EEC market and, in fact, as showed in the remainder of the chapter, the French emphasized this trend to the Americans.

Table 7 shows that among the Six, Germany, Italy and the Netherlands were the major markets for US exports of wheat.

Table 7: US exports of wheat to the Six (in thousands of US\$)

	1961	1962	1963	1964	1965	1966
Germany	29171	11819	15901	21892	18355	28068
France	10831	5239	11139	8779	16122	17589
Italy	85718	1751	7971	6085	2664	13187
Netherlands	34729	25569	21121	26632	26602	38099
BLEU	12590	6228	7233	3697	6540	10316
Total	173039	50606	63365	67085	70283	107259

Source: see Table 1.

Table 8 shows that, again, Germany, Italy and The Netherlands were the major destination markets for US feedgrains exports that were increasing since 1961.

Table 8 US exports of feedgrains to the Six (in thousands of US\$)

	1961	1962	1963	1964	1965	1966
Germany	26154	25018	29396	51702	58467	79658
France	184	101	1121	3254	4639	5665
Italy	8133	30765	59436	62687	133311	91079
Netherlands	58860	78774	79957	86211	105457	125571
BLEU	21239	32316	31197	37159	42298	50633
Total	114570	166974	201107	241013	344172	352606

Source: see table 1.

11.4 Cereals trade of the EEC and its proposals for the commodity agreements in April-May 1965

For the EEC to achieve to a compromise to negotiate over grains in Geneva meant holding a Kennedy Round on a smaller scale in Brussels. In fact, its members were divided between exporters and importers of cereals. More exactly, only France was a significant exporter of grains, while the other countries were all net importers. This implied that, for the EEC, the elaboration of a common position required a difficult compromise between the opposing interest of the exporter, France, and importers, the other five, as would then be the case in Geneva. The EEC as a whole was interested in regulating trade for cereals through a commodity arrangement and also hoped to gain its trading partners' acceptance of its farm policy. However, along with this common

interest, differences also existed and were dictated by the opposing positions of importers and exporters.

In 1958, France had entered the EEC with the clear aim of getting preferential advantages not only for its industry but also for its agricultural products, and for cereals – wheat and feed grains – in particular. French cereals were competitive at the EEC regional level but were uncompetitive at world level, given the cheaper American, Canadian, Australian and Argentine cereals. The level of world price represented an obstacle to French agricultural exports and France needed the EEC to purchase French agricultural surpluses. France produced substantially more than it could consume, particularly of soft wheat, and counted on the CAP to provide a means for disposing of French surpluses. Soft wheat was France's most serious agricultural trade problem posing questions of market access and of the financing of exports and surpluses. French wheat was more expensive than Canadian or American and was subsidized to compete on the world market. About 90% of French exports went to outside the EEC and given that French wheat was uncompetitive on world market, it needed to be heavily subsidized to compete, posing huge financial problems. France hoped to shift to the greatest extent possible the issue of the financial burden of surplus disposal to EEC partners. And to the extent, if the effort was successful, it would mean transferring to the EEC existing French concerns on surplus wheat disposal on the world market. Thus, France aimed, first, at achieving preferential access to the EEC markets to absorb its surplus of production and at excluding competitive imports from outside the EEC. Second it aimed at achieving financial solidarity in the EEC for its increasing production and surplus, which created huge stockpiling costs, and subsidies for exports of French uncompetitive wheat to the world market. In effect, French agricultural costs bore heavily on French finances and an EEC solution appeared indispensable to the French government.¹⁰

This French aim naturally generated problems in transatlantic relations. The United States yearned for the maintenance, and possibly the increase, of its grains outlet in the EEC, and French goals were clearly incompatible with American ones. As a result, a clear conflict existed between France and the United States over the agricultural part of the Kennedy Round, or as Couve de Murville noted "the conflict with the US in GATT pertains only to the agricultural part of these negotiations".¹¹ For the French, the technological revolution on farming which occurred in North America a generation ago and in the UK during the post-war period was only now coming to fruition in France. They could not be denied its benefits and if it led to a long-term change in the pattern of international trade to the detriment of the US and other exporters, this was something independent of the Kennedy Round and exporters had to put up with it.¹²

Despite this basic disagreement, France, like the USA, had a positive interest in attending the agricultural part of the Kennedy Round and, specifically, in agreement an international arrangement for cereals. The Round represented, in fact, an opportunity to reorganize and stabilize the markets of basic commodities. Provided that the CAP was not endangered, France was eager to join "toute discussion destiné à mettre fin à l'anarchie qui règne sur le marché international des produits agricoles et elle a été la première à proposer des accords mondiaux destinés à stabiliser les cours et le commerce

¹⁰ HAEC – MAEF 50 OW, Réunion Franco-Britannique entre Pompidou et Wilson, 7 July 1966

¹¹ Per biografia prendere Milwy rescue e Moravcsik . la citazione è presa da Mrovac. 17

¹² PRO FO 371/183385 Note of the Tariffs Division "The Kennedy Round – background", 14 October 1964.

des principaux produits", including grains, and wheat in particular, were of fundamental importance.¹³

The basic drive behind the long-standing French interest in world grains agreement, as already expressed in the Pisani-Baumgartner plan, was to bring some discipline to exchanges through the fixing of minimum prices for commercial transactions. Paris aimed at stabilizing world soft wheat prices at as high a level as possible in order to ensure a fair remuneration to producers, reduce the difference between French and international prices and, consequently, reduce the need to subsidize exports. During the EEC discussions on the common price for cereals, France had pushed for fixing a low price, as high prices increased the cost of exports and production. But as, in December 1964, high prices had been fixed, France desired an increase of world prices to diminish the difference between the latter and the EEC price level.¹⁴ Moreover, France believed that the UK, Japan and other developed importing countries, plus the whole communist bloc were "getting a free ride" from the existing world market system with low import prices for which they made no effort to maintain. Hence, in its view, any agreement needed to include provisions whereby "freeloaders" assumed some position of burden of maintenance of any agreement, including possibly helping to finance food aid. The additional interest in negotiating a commodity agreement was dictated by the need to answer the free-trade demands of the United States with a concrete proposal.¹⁵

French aims generated problems not only across the Atlantic but also within the EEC as they were in opposition with those of the Five, and those of Italy, Germany and The Netherlands in particular. These three governments were reluctant to pay to finance French overproduction and surplus, and Germany had already shown to be recalcitrant in accepting France's aim of shifting its financial burden to the EEC. Moreover, these three countries were net importers and imported wheat and feedgrains from outside the EEC, mainly from North America and Argentina and aimed at continuing to do so. They hoped that the Arrangement could guarantee the flow of EEC imports from third countries and insisted that the EEC took into consideration the need to maintain a reasonable level of imports. This situation among the Six is illustrated by Tables 9 and 10 which illustrate the French exports to the Five (and the UK so to make a comparison with the Five) the Five's imports from France and Australia, Canada and the United States.

¹³ HAEC - MAEF 36 CW, Note «Politique européenne de la France - Questions économique», 17 May 1963; ANF 724.713, box 4, Premier Ministre, Comité Interministériel pour les questions de Coopération Economique Européenne, Note «Négociations commerciales multilatérales au GATT: secteur agricole», 1 April 1966.

¹⁴ ANF 724.70/10 Box 1, Premier Ministre, Comité Interministériel pour les questions de Coopération Economique Européenne, Note «Vue d'ensemble sur les négociations commerciales au GATT», 1 April 1966.

¹⁵ Telegram 5518 from Bohlen (US Ambassador to France) to State Department, 1 April 1965, NSF, CF Germany, box 184, LBJL. The French government also had the support of the French farmers. The French farmer groups, the FNSEA and the Wheat Producers' Association, while at the beginning of the Kennedy Round had had doubts on these negotiations considered merely an American devise to expand exports, in 1965 held that a successful conclusion of the Round and in particular a worldwide arrangement on cereals, was of interest of French farmers. NA State Department, 1964-1966 Subject numeric FT 13-2, box 979, telegram 439 from US Embassy in Paris to State Department, 23 July 1965, reporting conversation between Bohlen and Jean Clavel (Director of Foreign studies for National Farmers' Union - FNSEA), and Henri Mannesson (Director of French Wheat Producers' Association).

Table 9 France's exports of grains (in thousands of US\$)

	1961	1964	1967
World			
041 Wheat (including spelt) and meslin, unmilled	63835	191128	154022
043 Barley, unmilled	88656	158077	183337
044 Maize (corn), unmilled	34751	63927	128479
045 Cereals, unmilled (no wheat, rice, barley or maize)	1874	5455	14467
Germany			
041 Wheat (including spelt) and meslin, unmilled	24895	19074	22864
043 Barley, unmilled	12105	36910	63061
044 Maize (corn), unmilled	4766	34364	53029
045 Cereals, unmilled (no wheat, rice, barley or maize)	636	1435	7889
Italy			
041 Wheat (including spelt) and meslin, unmilled	5	23417	23289
043 Barley, unmilled	13963	6598	1717
044 Maize (corn), unmilled	14258	3714	2101
045 Cereals, unmilled (no wheat, rice, barley or maize)	171	132	49
Netherlands			
041 Wheat (including spelt) and meslin, unmilled	2133	4085	12021
043 Barley, unmilled	5453	2933	13556
044 Maize (corn), unmilled	147	324	4455
045 Cereals, unmilled (no wheat, rice, barley or maize)	19	60	475
Belgium-Luxembourg			
041 Wheat (including spelt) and meslin, unmilled	92	13373	12237
043 Barley, unmilled	8239	13420	38780
044 Maize (corn), unmilled	353	569	9268
045 Cereals, unmilled (no wheat, rice, barley or maize)	173	1998	3617
United Kingdom			
041 Wheat (including spelt) and meslin, unmilled	5191	25496	10052
043 Barley, unmilled	4555	2849	2
044 Maize (corn), unmilled	11495	2577	16938
045 Cereals, unmilled (no wheat, rice, barley or maize)	266	157	130

Source: see Table 1.

Since the beginning of the discussions in the Cereals Groups in 1961, the Six had been united in refusing the access guarantee which third countries had been demanding. In adopting the mandate for the Commission in December 1963, the Council of Ministers had approved the binding of the MDS as an instrument that would bring some discipline to world exchanges and, for the basic commodities for which an imbalance between supply and solvable demand existed, it had approved the negotiations on commodity agreements. Thus, an agreement on basic proposals, ambitious and running over the commercial negotiations, existed among the Six. Yet, the unity showed in Geneva was fragile in Brussels, and the agreement to negotiate along the MDS and set up commodity agreements could not hide the difference aims which were at stake. In December 1963, the Dutch had made a proposal to apply an automatic safeguard clause in case the EEC imports fell under a given level in order to maintain the level of imports, while the Germans repeated that quantitative assurances were to be given to third countries. Therefore, differences in interests existed and the

Table 10 Imports of the Five in grains (in thousands of US\$)

	World					Argentina			United States			Canada			France		
	1961	1964	1967	1961	1964	1967	1961	1964	1961	1964	1967	1961	1964	1967	1961	1964	1967
Italy																	
041 Wheat	170265	46996	74278	11217	11779	22593	91900	7301	6198	19481	18217	5318	18217	21781	24488		
043 Barley, unmilled	29366	36063	56623	1976	11669	3147	2823	4212	16842	105	13729	170	13729	10809	1271		
044 Maize (corn), unmilled	98379	220642	221831	53743	109028	120973	5954	56762	40719	11	75	422	75	3996	1787		
045 Cereals, unmilled (no wheat, rice, barley or maize)	15075	11612	14545	5291	8945	5361	321	53	2304		5	420	5	179	54		
Germany																	
041 Wheat	196008	124108	148178	9241	10123	5146	34850	28403	37416	93073	52603	52603	27076	14233	24055		
043 Barley, unmilled	55482	86041	130763	3484	5423	283	7425	16105	5456	40	4115	38	4115	32730	65593		
044 Maize (corn), unmilled	65469	138563	173316	3318	9111	21812	39031	64500	67325	15	101	134	101	35497	57230		
045 Cereals, unmilled (no wheat, rice, barley or maize)	30745	41623	49368	864	9571	4240	8724	9507	7500	3373	594	3285	594	1412	8769		
The Netherlands																	
041 Wheat	53026	45419	51812	1740	8404	3856	26163	27627	21113	6851	3680	4446	3680	4500	10401		
043 Barley, unmilled	13530	14175	16743	-	424	1	5213	5966	1134	-	221	244	221	4574	13797		
044 Maize (corn), unmilled	75085	109233	143980	14419	10712	10247	53340	93347	108208	147	525	3742	168	287	4181		
045 Cereals, unmilled (no wheat, rice, barley or maize)	46023	55669	30462	5671	8645	5551	31712	37044	17106	108	969	5487	31	102	395		
BLEU																	
041 Wheat	34421	41336	42883	390	2586	1691	9553	4066	10071	18248	19598	20723	19598	13699	9336		
043 Barley, unmilled	19432	19091	44968	25	6	77	1304	778	955	-	886	-	886	13318	36000		
044 Maize (corn), unmilled	28662	45037	70855	8796	10675	11891	13153	29198	33337	30	16	66	16	546	9255		
045 Cereals, unmilled (no wheat, rice, barley or maize)	27319	36191	59907	3990	5220	8855	19756	25591	28513	24	524	1099	172	2029	3713		

Source: see Table I.

preparation of the Six for the Cereals arrangement became entangled in these divergences.¹⁶

It was faced with this contrast of interests that on 7 April 1965, the Commission presented to the Council of Ministers its draft for the agreement on grains to be tabled in Geneva. As noted, the Commission considered the Kennedy Round to represent a great opportunity to regulate agriculture at world level and deemed the commodity agreement in grains a first step in this direction. More specifically, the aim of the Commission for grains was to promote world cooperation in order to achieve to a balance between production and long-term demand, the elimination of short-term fluctuations through an enlargement of existing demand and of international markets, and the increase and stabilization of international prices at an equitable level. The Commission hoped in this way also to reconcile the different interests of the Six.¹⁷

The proposals of the Commission centered on prices, cooperation to manage surplus and binding of the MDS. Regarding prices, it considered that the international price of reference simultaneously represented an instrument to determine the support to be given to national producers, an instrument to stabilize prices in world exchanges and an orientation price of long-term production and exchanges. The proposal consisted of a commitment to fix a world price of reference, and not to sell on the world market below it, and to fix the price at a level permitting the most efficient producers to sell on the world market without resort to subsidies to exports. This implied an increase of international prices so to cover subsidies, as had already been suggested by the Baumgartner-Pisani plan. The Commission insisted on the need to give stability to world markets, as an instrument to stabilize also the EEC market, and one way to do so was to fix and respect an international price of reference. Its proposals for grains prices were coherent with what it was suggesting for the CAP. For Mansholt, in fact the CAP had to lead to a decrease in subsidies and an increase in farm prices. The international price of reference together with the variable levy was needed to stabilize domestic markets and world exchanges. And if third countries respected the international price, the levy would not be variable.¹⁸

Because of the existence of surpluses, to maintain such a price level the Commission plan foresaw limitation and discipline of global supply through consultations among exporters and importers, and engagements to finance stockpiling and the disposal of surplus to be shared, within a ceiling, among industrialized countries. Parallel with discipline on surplus, the Commission envisaged measures to enlarge non-solvent demand in favor of LDCs through the acceptance of some financial responsibilities for a food aid program, like the French proposals of 1961. The common financing of the selling off of surpluses and food aid represented one of the major elements of the Commission's proposal.

The third element of the Commission's proposal was the binding of the MDS: the difference between the remuneration effectively obtained by producers and the level of the international price of reference was to be calculated and then bound for three years. And this consolidation represented an commitment that all governments were to take. The creation of acceptable conditions of access also required commitments on the

¹⁶ MAEF DE/CE GATT 931 Note «Session du group céréales du GATT», 20 March 1964; *ibidem* Réunion agricole du GATT, 6 April 1964; *ibidem* Compte-Rendu d'un entretien avec Rabot, 9 April 1964.

¹⁷ AECB PV 313 7 April 1965 «Schéma d'un arrangement général 'céréales' pour le Kennedy Round»; CM2 1965/314 PV de la 70^{ème} réunion du Comité 111, 7 April 1965; CM2 1965/30 PV de la 166^{ème} réunion du Conseil de la CEE, 8 April 1965; ANF 724.713, box 4, Note pour le cabinet du Ministre 127/CE «Project d'accord mondial sur les céréales», 26 April 1965.

¹⁸ NA 59 State Department 1964-1966 box 450 Telegram ECBUS 826 from Fessenden to State Department, 3 February 1965.

different support systems which meant, in turn, commitments on domestic policies. These were the three basic elements of the Commission's proposal, and were fully compatible with its vision for trade in agriculture, which required an organization of markets at multilateral level.

At the Council of Ministers meeting of 13 May, the Six reached only a framework agreement on the Commission proposals. They deemed these proposals to be a good negotiating basis to be presented in Geneva, but in fact differences between them existed. However, time to negotiate was limited by the fact that the EEC had to table proposal at the end of May, unless it wanted to be accused of sabotaging the Kennedy Round. Thus, under the pressure of Dutch Minister of Agriculture Biesheuvel who pointed out the necessity of the EEC to be able to present a proposal, what they decided to do was to agree on the agreeable and to postpone other problematic aspects.¹⁹

The first matter on which the Six were divided was prices. Belgians, Italians, Dutch and the Germans opposed the Commission's proposal as it implied an increase in price that would boost production and, consequently, surpluses. Only a price of reference set at the lowest level applied on world markets, without any subsidies, would not encourage production. The German Minister of Economics, Schmuecker, opposed the increase also on the ground that it would correspond to a parallel reduction in the EEC budget revenues from levies. In contrast, the French Wormser asked for an increase in the international price of reference so to reduce the difference with the internal EEC price and make French wheat more competitive on world market. On top of this, France wanted the price to be set at a much higher level in order to increase production and to this increase to commonly finance the selling off of surpluses to LDCs, as in the Baumgartner-Pisani plan. And if, claimed Wormser, as a consequence of the increase of the international price, the revenues from the custom protection would decrease, it was wise to bear in mind that the aim of the agricultural policy was not to create revenues.

The issue of price was further complicated by the fact that Mansholt had no intention to give up on the level of international prices, so important in the Commission vision to organize agriculture on a global scale. International prices had to be set at a level that could satisfy soluble demand without subsidies, which required a moderate increase in world price. The level had to be remunerative for exporters producing in the best conditions and to allow them to export without subsidies. Thus price had not be much higher than the existing level of world prices, as the French were demanding, as this would stimulate world production, especially in Canada and the United States, and also reduce EEC income stemming from levies. The EEC needed to adopt a clear direction on this point, otherwise third countries would certainly ask for quantitative assurance. Because of the need to arrive at a compromise, the Council of Ministers decided to simply approve the principle of an international price of reference and charged the 111 Committee and the COREPER with discussing the issue and elaborating a final compromise, while negotiations took place in Geneva.

Divisions among the Six existed also on the Commission proposals to limit global supply. According to the Dutch, these proposals would not be sufficient and limits to production were necessary, while for the French measures directly limiting production were incompatible with the guiding principles of the CAP, which were grounded on price mechanisms. The Germans highlighted that the Commission proposals did not consider any measure regarding the access conditions to the EEC

¹⁹ CM2 1965/30 PV de la 168^{ème} réunion du Conseil de la CEE, 13-14 May 1965.

market and that suggestions for the common financing of surpluses would not be enough to give satisfaction to exporters. Moreover, the Dutch and the Germans found the consultations procedure insufficient to ensure the respect of the reference price and asked for more rigorous measures to restore a balance on world market, such as limiting production and import quotas.²⁰ Germany, Benelux and Italy criticized the Commission suggestion on a food program, inspired to the Pisani-Baumgartner proposals. Being net importers, they had no surplus so they did not want to pay for financing the disposal of surpluses. Germany, in particular, was already concerned by the high CAP costs, it did not want to add new costs, this time for surpluses it had not produced.²¹

Even if Paris did not share the Commission plan to finance food aid, it accepted the principle of discipline and responsibility to finance imbalance. Until that time only the United States, and to a lesser extent Canada, bore the burden of keeping prices stable in world markets. In Geneva, the USA would surely ask importers for quantitative commitments on the level of their imports and stocks as a way to maintain discipline on world markets. These instruments would lead to the organization of world market on quantity that the EEC, and above all France, wanted to avoid. Thus in the absence of quantitative discipline, the French felt that it was dangerous to also refuse the financial responsibility to keep the balance of world market. And with such a constructive proposal, the Commission would be in a stronger position to refuse to grant any concessions to the Americans and, if the case arose, risk the failure of the agricultural part of the Kennedy Round.²²

Because of the lack of time to discuss the Commission proposals, the Six merely approved the food aid principle, but without specifying how in practice this had to take place and, and like the question of price, they charged the 111 Committee and CEREPER with further studying the issue.²³ Thus, the directive approved by the Council of Ministers in May 1965, in addition to binding the MDS, consisted in setting a minimum and mandatory international price of reference for commercial exchanges and in setting up a food aid program whose cost would be bore by developed countries. Therefore the Commission received only vague instructions, but in any case discussions in Geneva could start.

11.5 The first round of negotiations in Geneva: the EEC under pressure

On 17 May 1965, the EEC, the United States, Australia, Canada, the United Kingdom, Japan and Argentina tabled their proposals for the commodity agreement. As Preeg notes, while in the industrial sector each major participant was both an exporter and an importer and had therefore a reciprocal interest in reducing trade barriers, in the agricultural sector, and in grains in particular, there was "a large degree of polarization

²⁰ BT 241/844 Telegram 96 from Bonn to Foreign Office, 5 May 1965 reporting conversation between Stedfeld and Hughes.

²¹ ANF 724.711B, - Agriculture, Premier Ministre, Comité Interministériel pour les questions de Coopération Economique Européenne, Note CE/5934, 11 June 1965.

²² ANF 724.713, box 4, Note pour le cabinet du Ministre 127/CE «Project d'accord mondial sur les céréales», 26 April 1965. The French feared that the Commission proposals could be looked upon by the United States merely as an instrument to oppose American requests. Many Americans seemed to be convinced that the Commission proposals were "a machine de guerre inventée par les français pour échapper à leur [of the Americans] légitimes revendications". What the French needed to do was to get in touch with the Americans to persuade them of French good faith. ANF 724.713, box 4, Note du Ministère de l'Agriculture, undated but written in May 1965.

²³ HAEC BAC 512 Résumé des principaux problèmes de fond soulevé lors d'une premier examen préliminaire des propositions de la Commission en matière céréalière, undate but written in April 1965; CM2 1965/30 PV de la 168^{ème} réunion du Conseil de la CEE, 13-14 May 1965.

into exporting and importing countries". Japan and the EFTA countries were importers, the EEC was the largest commercial importer, but France was an export of soft wheat and had major interest in increasing its exports of feed grains to the EEC. Australia, United States, Canada, New Zealand, Argentina were exporters. This polarization anticipates the reasons why not a great deal was achieved in the end.

Since 1963 Under Secretary of State George Ball had recognized that for the USA a Cereals Arrangement was of great importance. It had to lead to the establishment of acceptable access conditions to the markets of the importing countries and the multilateral sharing of the food aid burden. The EEC harmonization of grains prices could bring about an abrupt drop in US exports as French producers shifted their sales from third countries into markets the USA had traditionally dominated, such as Germany. Therefore, an Arrangement on cereals was necessary to soften this effect and maintain and possibly increase the US market in the EEC. The Arrangement was so important that without it "a major crisis would arise in the Kennedy Round". The Americans were aware that they would have to reduce their exports of wheat, as the EEC was almost self-sufficient for this commodity and France had a great surplus, but Ball held that Europe's total food requirements were likely to increase as improved living standard were reflected in a shift from direct cereal to protein consumption that would increase EEC demand for feedgrains.²⁴ The US was also concerned that the new agreement provided for an equitable sharing of the responsibility for maintaining wheat prices level. Exporters and importers had to share these responsibilities through restraints on production required to implement the price and other provisions of the Cereals Agreement.²⁵

The US also aimed at setting up a food aid program with the goal not only of sharing the responsibility of helping developing countries but also to contribute to the management of wheat supplies: to the extent that other countries diverted excess production to food aid, the food aid program would make room for commercial imports and reduce the pressure on export markets. This request was central in the US plan for the cereals agreements. The USA was heavily contributing to the food aid program and support from the EEC and other importers would not only be able to alleviate the US burden, but could also make room for US exports on the markets of importers and keep the EEC surplus out of commercial markets.²⁶ In addition to the commercial sales to industrially advanced countries, primarily EEC and Japan, the USA exported large quantities of wheat as non-commercial sales under the Food for Freedom Program – Public Law 480. The food aid program had been a major component of US foreign assistance since the end of WWII. Originally, it had the dual purpose of meeting foreign policy objectives – by responding to food need abroad – and to the domestic need to export large US stocks of agricultural products, accumulated as an undesired result of domestic farm policy.²⁷

The need to negotiate a cereals agreement that could guarantee access to the EEC market increased after the EEC set common prices for grains at a high level. The USA had tried to different degrees to influence the implementation of the CAP. They had asked for the prices to be fixed at a low level and that this level be negotiated in Geneva before being adopted in Brussels. Then with the final setting of UGP in

²⁴ "Components of a Strategy for the Kennedy Round" Preliminary Draft, written by Ball, 10 December 1963.

²⁵ Department of State – Administrative History Volume I-Part VIII, LBJL.

²⁶ Letter from Kenneth Auchincloss to Herter, 7 April 1965, Herter papers box 1, JFKL.

²⁷ Administrative History of the Department of State, Vol. I, Chapter III International Economic relations "Food aid abroad and PL 480", Box 3, LBJL.

December 1964, and with the likely increase of EEC production stimulated by its high price, for Washington the commodity agreement became an instrument to protect its exports to the EEC. The United States agreed for the EEC to make proposals on grains according to the MDS, but the mere binding of the level of support would not be sufficient to ensure the flow of US exports. With the EEC variable levy system, imports into the EEC would be taxed so to ensure that imports would not have a lower price than the EEC prices. As a result, efficiency and competition would not play any role in EEC imports. For this reason, Washington asked for other provisions to ensure continued access to the EEC market and an opportunity to share in the growth of consumption. The EEC had to reduce its internal price and undertake a program to limit its own cereals production, otherwise, the USA would demand some form of access commitment in the form of quantitative assurance.²⁸

At the end of May 1965, the GATT members started the long and extenuating negotiations on the Cereals Arrangement that would be completed only in the last hours of the Round in May 1967. For the Commission, these negotiations on grains were crucial not only to implement the kind of organization of world trade it supported, but also to affirm its role as negotiating agent of the EEC. As noted, the Cereals Group had been set up in November 1961, and both the Commission and EEC Member States could attend with speaking rights. At a meeting of the Group in 1963, the Commission showed up flanked by representatives of member states and its representative were "very anxious not to state anything in any way that would upset the representatives of the six member countries sitting behind him. So it was not only difficult to make a decision but even to make a statement".²⁹ The aim of the Commission was therefore not only to silence Member States, but also to get rid of their presence. In effect, the French officials of DG Agriculture, Rabot and Malvé, who conducted the negotiations, thanks to their ability to master the technical issues and defend EEC interests, were progressively able to achieve such aims. NB

Discussions in Geneva concentrated on three major issues: access, international prices and food aid. The three issues were inter-related even if debate centered on the most difficult one, namely access. Exporters were critical of EEC offers to bind the MDS given to cereal producers. In view of the high level of EEC prices, exporters considered this offer of little value, unless it was supplemented by a firm undertaking to provide access for a definitive volume of imports. With its proposals based on the MDS, and no specific access assurance guarantee, the EEC came under pressure from the exporting countries. Blumenthal requested specific engagements, such as the reduction of UGP, direct measures to limit production and quantitative guarantees for imports. In general, Blumenthal wanted importers to undertake a clear commitment to maintain the level of imports plus the possibility for the exporters to share in the growing consumption.³⁰

Malvé, representing the Commission in this first round of discussion, defended the EEC position by referring to trade data. Since 1957, the EEC's self-sufficiency rate – the ratio of total production to total domestic consumption – had remained stable at 86%, and net imports at 10 million of tons. For the period 1969-1972 the EEC had the aim of maintaining its self-sufficiency rate at the 86% level, and the 10 million of tons of imports. In this sense, the consolidation of MDS was an indirect means to control

²⁸ Letter from Kenneth Auchincloss to Herter, 7 April 1965, Herter papers box 1, JFKL.

²⁹ Eckes, A.E. Jr.(ed.) *Revisiting US Trade Policy. Decisions in Perspective.* (Ohio: Ohio University Press, 2000), p.62.

³⁰ After the setting of high UGP the United States had had the intention of asking the EEC, in the framework of the Kennedy Round, to reduce the level of UGP. Before making such request, they enquired of Wormser who gave his *nulla osta*. HAEC – MAEF 50 OW, télégramme 9.616/9620 de Wormser à DELFRA Washington, 26 May 1965.

production and maintain this level of imports. On top of this, Malvé expressed the irritation of the Commission for the development of the negotiations. While the EEC was ready to make commitments, following the lead of the USA, exporters kept on repeating what importing countries had to do to satisfy exporters' interests but had not yet clarified the commitments they were willing to take, in particular concerning their domestic policy. The Commission official, supported by the British, warned the exporting countries that the consideration of exporters' interests only, without the parallel consideration of importers' interests, would not lead to reciprocal concessions but to the break up of the negotiations. Blumenthal refused Malvé's approach on reciprocal concessions. According to him, the cereals agreement was to be placed in the context of the Kennedy Round, thus reciprocity was to be considered to be *global* reciprocity. And, in any case, if the EEC aim was to maintain the relations between production and imports, it was useful to write this in the agreement, noted Blumenthal. In this first round of discussion this request was not picked up, but as illustrated below, it would indeed be on this suggestion that the Commission would complete its proposals in May 1966.³¹

As for the international price, agreement to keep this element in the Arrangement, as had been the case for the IWA of 1949, was accompanied with profound disagreement on the level of prices. This issue, however, did not put the EEC and the USA in direct confrontation. The Commission presented its conception of prices and suggested a moderate increase in the level of international price.³² Japan and the United Kingdom firmly refused to increase the level of the international price as they opposed paying higher prices for their imports. Exporters had mixed feelings and were divided. Higher prices would stabilize and perhaps increase exports revenues and for this reason were supported by Canada, Argentina and Australia, but a rigid and unrealistically high level of world price might encourage additional production and require production restrains or a market sharing system for commercial markets, and, for this reason, was opposed by the USA, who bore the major burden of maintaining the level of price. For feedgrains, the USA strongly resisted an arbitrary increase in prices that might weaken its strong price-competitive position in this growing market. Consequently, the USA considered the preferred solution to be a form of agreed price range related to normal trading conditions.

On food aid, the EEC and the USA agreed that the Cereals Arrangement had to contain a food aid program, but differed on how to set up it. The USA wanted a flat annual commitment independent of commercial market conditions while the Commission preferred a food aid related to disposal of surplus production. On the contrary Japan and United Kingdom were very reluctant to contribute to the food aid program that would benefit exporting countries, but would increase their financial responsibility. Food aid concerned countries with a surplus, not importers.³³

This first round of discussions, that lasted until November 1965, served mainly to present positions in Geneva. Despite the differences, a clear willingness to conclude an Agreement existed, as both the EEC and the USA had a strong trade interest in setting it up. However, any meaningful negotiation stopped dead when the EEC was

³¹ AECB BAC 122/1991-3 Rapport 45 de la délégation de Commission pour les négociations du GATT, 9 July 1965.

³² PRO FO 371/189781 Note "Cereals in the GATT Kennedy Round" Draft, undated but written in April-May 1966.

³³ PRO BT 241/844 "Note of a meeting held in the office of Ambassador Roth in Washington on 25th May", attended by Powell, Chadwick, Cullen for the British and Roth, Hedges (STR) and Greenwald (USSD). AECB BAC 122/1991-3 Rapport 45 de la délégation de Commission pour les négociations du GATT, 9 July 1965. ANF 724.713, box 4, Premier Ministre, Comité Interministériel pour les questions de Coopération Economique Européenne, Note du «Négociations commerciales multilatérales au GATT: secteur agricole», 1 April 1966.

caught up in the crisis of the empty chair. The continuation needed the Commission to receive directives from the Council of Ministers completing the mandate of May 1965. Thus, in November, the negotiations were suspended, with the EEC under heavy pressure from exporters to improve its offers.³⁴

11.6 Completing the EEC mandate: an accurate balance of diverging trade interests

The six months of stalemate in Brussels from July 1965 to January 1966 deadlocked the Kennedy Round above all in agriculture, that was already lagging behind negotiations in the industrial sector. After the Luxembourg meetings of January 1966, the Six urgently needed to complete the mandate to the Commission to negotiate in Geneva over grains. As shown in chapter 8, the marathon that led to the approval of the EEC negotiating mandate took place from February until the end of July 1966 and ran parallel to the approval of the CAP financial regulations.

The firm opposition of exporters to negotiate only on the MDS and the interest the EEC had in concluding the agreement on cereals pushed the Commission and the Member States to have a more flexible approach and to integrate their May 1965 proposals with new elements that could meet requests of exporters. Immediately after the Luxembourg meetings in January 1966, the Commission was firm in emphasizing to the Member States the need to rapidly complete the EEC negotiating mandate for the Arrangement. In this way, the gap between the pace of the negotiations in the industrial and agricultural sector could be closed and the EEC could show its willingness to successfully conclude the Round. The need to complete the mandate was also dictated by the fact that grains were the basic commodities and their treatment would condition the outcome for the other commodities. Thus without progress on grains the entire agricultural sector was stonewalled.³⁵

In elaborating its additional proposals, the Commission considered the flexibility that needed to be injected into the EEC position and the fact that, without some form of access commitment, exporters would not be willing to negotiate any form of agreement. According to Rey, if the EEC were able to add a reasonable provision for access, the Americans would be able to embark on a negotiating with a good prospect of success.³⁶ At the same time, the Commission had to keep in mind that Germany, worried about the financial incidence of the CAP, continued to be hostile towards common financing of surpluses and the food aid program. Nor Couve de Murville was enthusiastic about the Commission's proposals. The principle of a common financing at international level implied a political solution which had to do with aid to the developing countries and therefore did not fall within the responsibility of the EEC, and was instead a matter of foreign policy for Governments.³⁷ The Commission had also to consider the Italian, German and Dutch opposition to increasing world prices for this would stimulate overproduction, making importing countries the principle contributors to finance disposal of surpluses created by exporters, reduce EEC revenues from the levies on imports and put the EEC industry of transformation of cereals products in an

³⁴ AECB PV 345, 19 January 1966, Annex «Rapport de la Commission au Conseil sur les négociations commerciales au GATT», NCG (66)3; PRO FO 371/189781 Note "Cereals in the GATT Kennedy Round" Draft, undated but written in April-May 1966.

³⁵ CM2 1965/1A16726, PV de la 77ème réunion du Comité 111, 14-15 February 1966.

³⁶ PRO BT 241/845 Private office minute no. 62, Memorandum of conversation between Rey, van Kleffens (ECSC representative to UK), Douglas Jay (President of Board of Trade), Hughes and Carter, 25 January 1966.

³⁷ CM2 1966/4 PV de la 177ème réunion du Conseil de la CEE, 28-February-1 March 1966.

unfavorable competitive position as it would be obliged to buy the raw commodities at higher prices than exporters.³⁸

At the end of March, the Commission started presenting proposals to complete decisions left open since May 1965.³⁹ Along the principles already illustrated at the Council of Ministers of May 1965 – to fix the international price of reference at an equitable and profitable level, that would not provoke the formation of the surpluses, and that would permit countries that produced with the best economic conditions to sell on world market without recurring to governmental subsidies to exports – Mansholt proposed an increase in wheat price by 4-5 dollars a ton. The average of the price of the quality of wheat, Red Winter No. II United States (FOB Baltimore) for 1962/1965 of \$60,5 for tons had to be increase by \$4,5 and the final level of \$65 would represent the international price of reference. For feedgrains, the Commission proposed only a partial and limited readjustment, as the support granted to them in the different producing countries was generally less important than for wheat and the majority of feedgrains entered the world market without export subsidies, apart from the exceptions of the EEC and South Africa. The Commission suggested a limited readjustment varying from 0 to 3\$ for the different kind of feedgrains in order not to disrupt the existing relation between wheat and feedgrains prices, following the increase of international price for wheat.

In the 1965 discussion in Geneva, the Commission was faced with the strong demand for access guarantees. In order to be flexible and meet in some way third countries' request, the Commission elaborated new proposals in the hope of actively restarting negotiations in Geneva and, at the same time, stopping any requests for access guarantees. Picking up what Blumenthal had indicated in the first round of discussions in Geneva, the Commission suggested a mechanism to set the individual responsibility of each government, importers and exporters alike, for surpluses on the basis of the self-sufficiency rate to be bound for three years. If it were exceeded, as an automatic corrective instrument, the Parties of the Agreement would set up mandatory consultations to discuss appropriate market-reorganization measures and automatic mechanisms to limit the supply with a policy of stock or the enlargement of the demand through the multilateral food aid program. This obligation would create an effective financial deterrent to excess production and make room for the maintenance of a normal trade flow. In the Commission plan, food aid was not only an instrument to help countries with low revenues, but was also an instrument to find and maintain the general balance of the grains market through the enlargement of global demand, and to underpin access commitments. Moreover, what the Commission had in mind, through the penalty provisions, was to confront the EEC Member States with the costs of their own domestic policies. With these proposals, Mansholt and Rabot hoped to give the USA enough reassurance on the fate of its the latter's exports to the EEC and, at the same time, rapidly gain the approval of the Six in order to start negotiating in Geneva.⁴⁰

³⁸ CM2 1966/8 PV de la 179^{ème} réunion du Conseil de la CEE, 21 March 1966.

³⁹ For the commission proposals see CM2 1966/8 PV de la 179^{ème} réunion du Conseil de la CEE, 21 March 1966 and AECB BAC 122/1991-4 «Communication de la Commission au Conseil en vue de compléter la proposition de la CEE relativement à la négociation d'un arrangement général 'céréales' dans le cadre des négociations commerciales du GATT», NCG(66)10 final, 25 March 1966.

⁴⁰ NA 364 Recs. of the US Trade Representative on the Kennedy Round, box 5, telegram 1012 from Fessenden /USEC) to State Department, reporting conversation between Blumenthal, Hedges, Rabot, Malvé, Schlosser in Brussels, 17 May 1966 and NA 59 1964-1966 ECIN 3, box 792 Memorandum of conversation between Rabot and American officials of the State Department "EEC grains proposals and related matters", 23 May 1966. Both documents are dated May, but report explanations of the Commission proposals in March.

The Commission hopes to rapidly gain the approval of the Six were short-lived. The French also presented a plan to for the Agreement on cereals, and, what is more, a plan that had nothing in common with the Commission's stances, and consequently slowed progress in Brussels. At the Council of Ministers meeting of 21 March, Edgar Faure, the French minister of Agriculture, presented a photocopy of the Baumgartner-Pisani plan. Faure claimed that, in the Commission proposals, food aid had only the residual role of eliminating surpluses that could not be absorbed otherwise. In contrast, the discussion over grains in Geneva had to allow the EEC to define its general conception of agricultural and food aid policy. Hence, the Agreement had to be considered from two points of view: trade among soluble countries and the concrete assistance to LDCs. This approach required the increase of the international price by a higher rate than that suggested by the Commission, \$10 a ton for wheat and \$3 for feedgrain cereals in order to increase production to a level sufficient to cover food requirements of the LDCs. From the French point of view, this plan had the advantage of reducing the difference between world price and the EEC price, thereby making French exports more competitive worldwide.⁴¹

Italy, Germany and the Benelux countries rejected the French plan. They wanted only a small increase for wheat and no increase at all for secondary grains. Moreover, it put on the shoulder of importers, who had to pay higher price for their imports, the burden of the food aid. The Germans also opposed the plan because it increased the international price and decreased the revenues from levies on imports. The strongest opposition came from The Netherlands. Biesheuvel claimed that the French proposal raised a question of political choice. The Western world had to decide whether to follow, at world level, an agricultural policy adapted to the solvable demand or to carry through production and price policies adapted to the larger need of world population. The French proposal showed a real interest for humanitarian needs, but was also extremely favorable to producing countries. And for Biesheuvel, the Western countries had to contribute to the improvements of the living conditions of LDCs through a policy of aid in the field of technical assistance and investments so to allow to these countries to develop. While Italy, Germany and the Benelux countries rejected French proposals, they welcomed the Commission suggestions as good basis for negotiations. Even if Germany was no so enthusiastic about the financial involvement, it fully welcomed the binding of the self-sufficiency rate as a device to meet the requests of third countries. Italy, Germany, Belgium and The Netherlands asked for some reductions in the level of price of wheat and for no modification in the price of secondary cereals, while Luxembourg asked for higher prices, but in general they all agreed with the Commission suggestion to organize world trade in cereals.⁴²

From the end of March until the middle of June, the efforts of the Five and the Commission were concentrated on convincing the French to accept the Commission's proposals. The Five and the Commission restated their opposition to the French proposals, regarded as being too ambitious and complex to be negotiated as a part of the Kennedy Round. In particular, Fanfani, Italian Foreign Minister, held that the French proposals risked widening the debate on cereals to include questions that went beyond the Kennedy Round. The issue of agriculture as a part of the imbalance that existed

⁴¹ CM2 1966/8 PV de la 179^{ème} réunion du Conseil de la CEE, 21 March 1966; ANF 724.713, box 4, Premier Ministre, Comité Interministériel pour les questions de Coopération Economique Européenne, Note «Négociations commerciales multilatérales au GATT: secteur agricole», 1 April 1966.

⁴² CM2 1966/8 PV de la 179^{ème} réunion du Conseil de la CEE, 21 March 1966; NA 364 Recs. of the US Trade Representative on the Kennedy Round, box 5 Memorandum of conversation between Lahr, Blumenthal and Fessenden in Bonn, 25 April 1966.

between North and South of the world belonged to the United Nations, while the issue of balance between production and consumption belonged to GATT. And solutions that would frustrate the producing capabilities of the LDCs and increase their dependence on the developed countries were to be avoided.⁴³ France, however, remained unmoved. Actually, its opposition to the Commission plan was not only based on the fact that the reference price was too low and food aid was treated as a commercial problem rather than as a political one. Couve de Murville held that the Commission's suggestion for a self-sufficiency rate represented an access guarantee to third countries to which France had always been firmly opposed.⁴⁴ The outcome of the EEC discussions on grains depended mainly on the French who, as Lahr put it, were "alone in support of their extravagant plan for food aid".⁴⁵

The French, however, had no intention of being inflexible. They were aware that a compromise with the Five was needed if the EEC was to show up in Geneva with a constructive position that would oppose the American request for quantitative assurance. If, as a consequence of the Six's disagreement, the Commission showed up in Geneva without constructive proposals, the Americans would insist on quantitative assurances or limit of EEC production, so dear to the Dutch and the Germans.⁴⁶ In effect, at the Council of Ministers meeting of the mid-May 1966, the French made a step towards the Commission proposals. France found itself completely isolated against the pressure of the Five and Commissioner Rey. And against these pressures and the unwillingness to consider the French proposals as a negotiating basis for Geneva, Faure backed off from previous unrealistic position of massive increase in world cereals prices, making a considerable step in the Commission's direction. In fact, renouncing the \$10 increase in the price of cereals, France gave up its plan. Under the Luxembourg Presidency's suggestion, the Council of Ministers adopted a \$2,5-3,5 range a ton for the increase of the international price of wheat and no increase for feedgrains.⁴⁷

But if Faure had given up on price he had no intention of doing so on self-sufficiency rate, surpluses and food aid. The notion of self-sufficiency rate was especially objected to as, in the French view, it represented a sort of access guarantee to third countries and, most importantly, froze the existing situation regarding the flow of imports, while nothing justified that an economic unit refusing to produce the quantities of cereals necessary to meet its own demand. Rey tried to convince the French, noting that Commission did not suggest a unilateral commitment to imports, but a multilateral system under which governments could go beyond the rate, even if they would be financially responsible. Rey also warned that the Commission proposals had to be urgently approved so to have a bargaining position for Geneva, and refused Faure's suggestion to start negotiating in GATT only on the basis of the MDS and the international price of reference. The Commission plan represented an interdependent unit that could not be divided and, in any case, the mechanism elaborated by the Commission to introduce concerted discipline between importers and exporters was the

⁴³ CM2 1966/16 PV de la 182^{ème} réunion du Conseil de la CEE, 4-5 April 1966. On Italian policy on aid to development see the recently published article of Calandri, E. "L'Italia e l'assistenza allo sviluppo dal neoatlantismo alla Conferenza di Cancun del 1981", pp.253-270, in Romero, F., Varsori, A. (eds.) *Nazione, interdipendenza, integrazione. Le relazioni internazionali dell'Italia (1917-1989)* Vol.I, (Bari: Carocci: 2006)

⁴⁴ CM2 1966/16 PV de la 182^{ème} réunion du Conseil de la CEE, 4-5 April 1966.

⁴⁵ NA 364 Recs. of the US Trade Representative on the Kennedy Round, box 5 Memorandum of conversation between Lahr, Blumenthal and Fessenden in Bonn, 25 April 1966.

⁴⁶ ANF 724.711B - Agriculture, Premier Ministre, Comité Interministériel pour les questions de Coopération Economique Européenne, Note CE/5934, 11 June 1965.

⁴⁷ CM2 1966/22 PV de la 185^{ème} réunion du Conseil de la CEE, 10-12 May 1966.

most important element of the EEC proposals. In the end, faced with Faure's refusal to agree to the Commission suggestions and Rey's refusal to start negotiating in Geneva on the ground of the elements already stated, discussions moved to the 111 Committee.⁴⁸

To try to move the French, the Commission diluted its proposals so to meet French preoccupations, but without changing the substance. Together with the 111 Committee and the COREPER, the Commission elaborated a modification of its proposals concerning the relations between the self-sufficiency rate, and financial responsibility, giving up the direct link between exceeding of the rate and the financial responsibility which would exist only if surplus were created on world markets. In this way, the self-sufficiency rate had not the role of determining EEC production but rather to determine the basis of its financial responsibility for disposal of surpluses, if surpluses arose.⁴⁹

Despite the new proposals made to meet the French position, at the Council of Ministers meeting of 26 May, discussions went badly. Faure could not accept them and restated the same French opposition to the self-sufficiency rate, and the same French vision of the reorganization of markets and food aid. Faure rejected the notion that the EEC had to accept financial responsibility for surpluses pointing out the paradox that an economic unit as the EEC, which was an importer and whose production did not cover its consumption, should contribute to surpluses on the world market. France's problem in accepting the Commission's proposals was that the self-sufficiency rate could set a limit to its production. What had to be resolved therefore was how to allow France to increase its production and how to share the financial responsibility for the surplus.⁵⁰

"Faure's filibuster", as the Dutch described it, irritated the Dutch Minister Biesheuvel and led to sharp and open criticism of the French and a warning that the financial regulation for the CAP could be endangered if the French continued opposing progress in the Kennedy Round.⁵¹ Together with the Dutch irritation and warning, however, existed also the inclination of the Commission and the Germans to compromise. In order to meet French worries on the possibility of the EEC increasing its production level without been financially responsible, Commissioner van der Groeben proposed the introduction of some further flexibility with the setting up of a rate of self-sufficiency which would allow some margin for increases in production. This meant that the rate was to be fixed at a higher rate than the existing one in 1966, so to give the EEC room to increase its production level.⁵²

Despite the Commission's willingness to compromise, Faure remained evidently evasive. As a result, at the end of May, none of the Five and the Commission had a clear idea as to how French would play the grains issue. The Five and the Commission feared that Paris would withhold agreement so it could use the grains proposal for bargaining purposes in the envisaged July package deal where the final CAP decisions would be taken. They felt that the Quai d'Orsay regarded the French acceptance of the self-sufficiency rate as major concession for which the French should extract concessions

⁴⁸ Ibidem.

⁴⁹ CM2 1966/32 PV de la 187^{ème} réunion du Conseil de la CEE, 25-27 May 1966; PRO FO 371/189781 Note "Cereals in the GATT Kennedy Round" Draft, undated but written in May 1966.

⁵⁰ CM2 1966/32 PV de la 187^{ème} réunion du Conseil de la CEE, 25-27 May 1966.

⁵¹ The Dutch described Faure declaration in the following terms "Eloquent and long soliloquy by Faure, which included quotations from Kant, failed to give any indication about what Faure would or would not accept". NA 59 1964-1966 Box 451 AGRI 3 EEC, Telegram ECBUS 1043 from Fessenden to State Department, 28 May 1966 reporting description of the EEC Council of Ministers on the ground of Dutch account.

⁵² CM2 1966/32 PV de la 187^{ème} réunion du Conseil de la CEE, 25-27 May 1966.

within the EEC, so delaying agreement for later bargaining use over the CAP. Faced with what were considered French delaying tactics, the Germans were becoming impatient and were considering submitting a substitute for Commission proposals, the core of which would be the consultation procedure to deal with the question of access. Bonn was stopped by the Americans who ruled out an agreement based on loose consultation, and held that the self-sufficiency rate could provide basis for serious discussion in Geneva.⁵³

Actually, Faure's performance was not solely dictated by the need to get counter-concessions, but was designed to mask differences within the French government. While Faure was still sticking to his plan and the Ministry of Agriculture was interested in increasing productivity and production, the Quai d'Orsay feared overproduction and was anxious to put a brake to the line of the Minister of Agriculture.⁵⁴ Thus, while the French were holding a compromise in Brussels, in Paris the situation was evolving. The French Foreign Minister was leaning more and more to accepting the Commission proposal for self-sufficiency rate as at least a basis of discussion and soft-pedaling or abandoning the MDS approach, for which he had never been an enthusiastic supporter. On top of this, the French realized the financial regulations might be imperiled if they did not move on the Kennedy Round. Before engaging in an internal fight, the French Minister of Foreign Affairs questioned Washington to know whether the USA would be willing to negotiate on the basis of the Commission proposals. US Ambassador in Paris, Bohlen, who believed that the French were negotiating fairly and not stonewalling, assured him that the Commission proposal could be an acceptable basis.⁵⁵ In the meantime, Rabot and Marjolin made considerable headway in bringing Faure and the French government around to accepting the self-sufficiency rate, with the provision that certain elements such as the food aid program, so dear to the French, were be strengthened.⁵⁶

In early June, the Quai d'Orsay line eventually prevailed thanks also to the flexibility of the Commission. At the 111 Committee meeting of 9 June the French delegation accepted the self-sufficiency rate. The Six agreed that the self-sufficiency rate would not limit production but rather bring into play the financial responsibility of the EEC, in case the rate was exceeded and a surplus created. Thus, in theory, a country could produce as much as it wished provided it did not perturb the world market. The country that had exceeded the rate of self-sufficiency and created surplus could chose whether to stock the surpluses or use them for food aid, but a minimum part had to be used to this second aim.⁵⁷

On the basis of the broad agreement reached at the 111 Committee level, the Council of Ministers meeting of 13-14 June finally took the most important decision, defining the rate of self-sufficiency at a higher level than the existing one, as van der

⁵³ NA 59 1964-1966 Box 451 AGRI 3 EEC, Telegram ECBUS 1043 from Fessenden to State Department, 28 May 1966 reporting description of the EEC Council of Ministers on the ground of Dutch account.

⁵⁴ Memorandum of conversation between Henri Corson (sub-director, directorate for External Economic relations, Economic and Finances Ministry) and Blumenthal, 21 April 1966, Herter papers box 11, JFKL; NA 59 1964-1966 Box 451 AGRI 3 EEC, Telegram ECBUS 1058 from Tuthill to State Department, 1 June 1966 reporting conversation with Rabot.

⁵⁵ NA 364 Recs. of the US Trade Representative on the Kennedy Round, box 5, telegram 8177 from Bohlen to State Department reporting conversation with French official Brunet, 25 May 1966 and NA 59 1964-1966 Box 451 AGRI 3 EEC, Telegram ECBUS 1058 from Tuthill to State Department, 1 June 1966 reporting conversation with Rabot.

⁵⁶ Ibidem. To strengthen the Commission proposals, Rabot brought up the French grains association to support the Commission proposals and got these to work on Faure. NA 59 1964-1966 Box 451 AGRI 3 EEC, Telegram ECBUS 1043 from Fessenden to State Department, 28 May 1966 reporting description of the EEC Council of Ministers on the ground of Dutch account.

⁵⁷ CM2 1966/17509 Note d'information du Conseil (S/400/66), 9 June 1966.

Groeben had suggested. As the Germans put it, "the Council played number game".⁵⁸ On the basis of the 85-86% existing rate, Mansholt suggested a 88-89% rate. Faure responded with 95% and then, given the negative reaction of the Five and Commission, proposed 90%. Germans suggested 87-88%. As a way to compromise, the Luxembourg Presidency proposed to accept the French suggestion of 90%. All governments, except the Dutch, accepted the compromise. The Netherlands objected on the ground that this would mean a reduction of EEC imports from the ten million tons to six to seven million tons. Mansholt recognized that 90% was too high and that he would have to come back to the Council for a modified mandate later, but for the moment the urgency dictated making an offer of some kind and starting bargaining in Geneva. Biesheuvel did not back down and every effort to persuade him to accept 90% failed. However, because of the interest the Commission had in immediately starting negotiations in Geneva, Biesheuvel declared that "sa délégation ne compte pas faire obstacle à un accord qui pourrait se dégager au sein du Conseil. Dans ces conditions, il déclare que sa délégation s'abstient de prendre position en ce qui concerne la fixation du taux d'autoapprovisionnement de la Communauté à 90% étant toutefois entendu que sa délégation reconnaît être liée par la décision qui interviendrait". Thus the decision was adopted with Dutch abstention.⁵⁹

In the middle of June 1966, after considerable and extenuating internal discussions, another important batch of the EEC mandate for cereals was added. It provided that the EEC self-sufficiency rate would be bound for three years at 90%. The self-sufficiency was a means to discourage requests of access guarantees, which were incompatible with the CAP, and to make all producing countries responsible for the balance of world cereals markets. The specific commitment, however, was very loose: the self-sufficiency rate was offered at a level significantly higher than the existing level, the duration of the binding would be in the order of three years, with no guarantee after that time, the commitment was conditional on a global surplus, and the operation of the commitment was, therefore, indirect and somewhat vague.⁶⁰

After having agreed on the notion of self-sufficiency rate, the last and crucial obstacle that remained to be discussed at the Council of Ministers of mid-June was represented by the financing of surpluses and the food aid program. Two issues were to be adopted: the principle EEC financial responsibility and the share of such responsibility. Following the compromise of the Presidency and the Commission the expenditure for exceeding the self-supplying rate would be "EEC expenditure" to be put on the Guarantee section of the FEOGA. This last decision came to touch upon a crucial issue that was discussed in that period in Brussels, namely the high financial burden of the CAP, to which Germany had abundantly showed its opposition. Bonn was not willing to assume more financial burdens and was apprehensive about the financial cost of the Cereals Agreement. By contrast, France wanted the principle of EEC responsibility to be approved. Being the only exporter within the EEC, France was the country likely to have surplus. Thus it wanted to be sure the EEC would pay for it in the such an eventuality. And given the recalcitrance Germany had already demonstrated in the approval of the financial regulations of the CAP, its agreement to the financing of the surplus could not be taken for granted. Faure and Couve de Murville made crystal clear that they would not permit the start of the discussions in Geneva unless it was

⁵⁸ NA 59 1964-1966 ECIN 3, box 791 telegram ECBUS 1086 from Fessenden to State Department, 15 June 1966.

⁵⁹ CM2 1966/34 PV de la 188^{ème} réunion du Conseil de la CEE, 13-14 June 1966.

⁶⁰ CM2 1963/305 PV de la 46^{ème} réunion du Comité 111, 17-18 June 1966; HAEC BAC 513, Négociation d'un arrangement général «Céréales: ligne directrices des propositions de la Communauté relatives à l'assainissement du marché mondial des céréales», S/400/66.

clear in Brussels who would pay and how much. Initially, German Minister of agriculture, Hoecherl, tried to escape German financial responsibility claiming that as his country was a big importer, it would not create any surplus. As he put it, the question was "dans quelle mesure un pays comme l'Allemagne pourrait être tenu pour responsable de la situation ainsi créée". Mansholt's reply was simple: a lot. The level of production within a Member State was the result of the common agricultural policy and, in particular, of the level of common price for cereals that had resulted from a compromise in which Germany played a major role. Thus the responsibility of the increase of production in a Member State had to be taken by the EEC. The Germans had wanted high prices that would stimulate French production and now they had to bear the consequences. In the context of Mansholt's firm claim, the COREPR meeting of 17 June finally approved the principle of EEC financial responsibility.⁶¹

The last piece of the agreement, the share of expenditure among the Six, was reached at the Council of Ministers of the end of July 1966 on the basis of firm German proposals. The EEC would finance up to a ceiling of 500.000 tons exceeding the self-sufficiency rate, and within this limit the expenditure resulting from food aid would be financed by the European Agricultural Guidance and Guarantee Fund (EAGGF). For quantities exceeding this limit, the Council of Ministers would be called to take further decisions and envisage a different sharing than the EAGGF basis for the allocation of the financial expenditures. Moreover, against the exceeding of the limit the Six would be automatically drawn in a discussion over the CAP, opening the way to a full discussions of the costs and the evolution of this common policy. For Germany, this was a method to limit its commitment to financing the surpluses that France would cause. France, aware of German apprehension for the costs of the CAP, and that some reassurances to Bonn were necessary, acquiesced to German proposals.⁶²

The end of the July Council of Ministers meeting concluded the EEC preparation for the cereals negotiations in Geneva. The reaching of the final agreement took several Council of Ministers meetings and prolonged negotiations between the 111 Committee and the Commission, which played a key role. Such negotiations were made difficult by the need on the part of the Six to compromise their diverging interests. But, as it had already occurred in the industrial sector, the necessity to get to Geneva with a common position in order to attend the Round as a unit pushed the Six to make concessions to each other and achieve a final position.

11.7 The second round of negotiations in Geneva

While the Six were taking their decisions, exporters too were taking theirs. And like the EEC, exporters arrived at the conclusion that some flexibility had to be employed in order to arrive at the Arrangement. They realized that the CAP would be permanently established and that the Kennedy Round was the only forum where a reasonable accommodation to defend their interest might be secured. Thus, an agreement on cereals remained paramount. On top of this, another significant factor acted to somewhat change US priority, namely the recent trends in world grain production. US food aid burdens had increased substantially, particularly to India, depleting American wheat stocks to the point where the US government, in the summer of 1966, was forced to reactivate half of its idle croplands to meet anticipated needs.

⁶¹ CM2 1966/34 PV de la 188^{ème} session du Conseil de la CEE, 13-14 June 1966; CM2 1966/148 PV de la 388^{ème} session du CEREPER, 15-17 June 1966.

⁶² The EAGGF implied an allotment of France and Germany 32%, Italy 20%, The Netherlands and Belgium 7,9% and Luxembourg 0,2%. CM2 1966/48 PV de la 191^{ème} session du Conseil de la CEE, 22-23/26-27 July 1966.

Under these circumstances a joint response to food aid became far more urgent than it had been a few years earlier. From 1961 to 1966, US reserve stocks were steadily drawn down at the rate of 14 million tons per year, but this trend did not really cause alarm until India had successive droughts in 1965 and 1966 that coincided with a poor Russian harvest. A multilateral food aid program had become more essential than ever for Washington. As Blumenthal noted, the main American concern was to avoid a situation where the United States contributed to supply the great bulk of food aid to the LDCs while the other developed countries took over the commercial market. Any Community food aid contribution would help the Americans to maintain the US share of the EEC market by siphoning off grains that would otherwise be consumed in preference to American grain. World prices in commercial grain markets, moreover, had steadily augmented so that a moderate increase, at least in the existing minimum world price for wheat appeared not to have the potential to be disruptive.⁶³

In view of the second round of discussions that were supposed to start once the EEC had finally tabled its agricultural offers at the end of July, the principal exporting countries – United States, Canada, Australia and Argentina – tried to coordinate their proposals to be submitted in Geneva, in order not to present contradictory ones and to direct efforts towards common objectives. Yet, divisions existed among them and such coordination was complicated. While they, naturally, agreed on the need to obtain access assurance, on the requirements that importers and exporters alike cooperated to maintain the level of international price by restraining production, and on food aid, they could not agree on the level of international prices. The US indicated that it would be able to support an increase in the price range but not up to the level requested by Canada and Australia. Washington feared that, as was already happening, the major burden to maintain the international price level would be borne by American shoulders, and therefore was not in favour of a major increase of price level. Most importantly, the USA resisted the tough Australian pressure to increase the price as this would undercut US exports to the Japanese market, to the benefit of the more expensive Australian grains. This division among exporters lasted until the very end of the Kennedy Round in May 1967, and ran parallel to the USA-EEC confrontation.⁶⁴

With the tabling of the EEC proposals at the end of July 1966, negotiations on grains eventually got started. Discussion concentrated on the new proposals of the EEC and in particular on the of self-sufficiency rate. While the Six were negotiating in Brussels over the self-sufficiency rate in May 1966, Blumenthal had made it known to the Commission that he considered the self-sufficiency rate, linked directly to surplus disposal obligations, as the best prospect for a solution to the cereals issues. The French, however, were still holding out against the acceptance of any proposals which would place penalties on the unrestricted growth of domestic production, and the Americans had hoped that the Commission would bring pressure to bear, so that the EEC could table offers along these lines.⁶⁵ However when the Commission presented its final proposals, together with a similar offer by the United Kingdom, the concept of self-

⁶³ Memorandum of conversation between Henri Corson (sub-director, directorate for External Economic relations, French Economic and Finances Ministry) and Blumenthal, 21 April 1966, Herter papers box 11, JFKL. NA 59 1964-1966 ECIN 3, box 791 Letter from Douglas MacArthur II, Assistant Secretary for Congressional Relations to Senator Stuart Symington, 25 July 1966. Preeg, E.H. *Traders and Diplomats*, pp. 155-156.

⁶⁴ Memo of summary of grain exporters meetings, 19 April 1966, NSF Subject file, box 48, LBJL. Memorandum for John Schnittker, Under Secretary of Department of Agriculture and Anthony Solomon, Assistant Secretary of Department of State from Roth "US Recommendations for a World Grains Arrangement", 28 September 1966, Roth papers, box 2, LBJL; Memo "The Kennedy Round Crisis April-June 1967", NSF National Security Council History, Book 1-TABSI-6, LBJL.

⁶⁵ PRO FO 371/189601 Telegram Unnumbered from Board of Trade to Geneva, 21 May 1966 reporting conversation between Blumenthal, Hedges and Powell, Hughes and Kearns.

sufficiency had been retained in a such a weak way such as to make it devoid of economic significance and, consequently, unacceptable to the United States and other grains exporters. First, the offer was to bind the ratio at a level substantially above the existing of self-sufficiency rate, and only for three years, with the result that by the time there would be any reasonable possibility of the binding becoming effective, the commitment would have expired. Second, the EEC proposed the adoption of self-sufficiency percentage, with the intention that, if and to the extent that new surpluses rose in any season, the country exceeding its percentage had to withhold from the market an amount corresponding to the surplus. Thus, contrary to the requests of exporters, there was no automatic link between the exceeding of the rate and corrective measures, because such would correspond to a quantitative guarantee that the EEC refused to give. Third, exporters wanted precise access commitments on the link between respective growth in consumption and imports so that imports could increase along with the increase in consumption levels. Finally, the rate, according to the EEC, was to be applied also to exporters, but in fact, this rate would not make sense for exporters. The self-sufficiency rate had to assume a quantitative meaning to be applied only to importers, while exporters would bear obligations only in the case in which prices on the world market fell to the level of the minimum price. And for them this represented as an equitable commitment between exporters and importers. The EEC and the British offers were therefore considered completely meaningless in trade terms. Exporters analyzed the self-sufficiency rate from the point of view of creating reasonable access conditions and growth in exchanges, which meant assurance of market access, an assurance that the EEC proposals did not give. What the USA was looking for with the Cereals Arrangement was to gain the firmest possible guarantees of access, in return for which it was prepared to make concessions in other sectors of the Kennedy Round, and the EEC proposals, even if improved, did not give them what they wanted. Given this situation, the aim of the exporters became to turn the self-sufficiency rate into a firm guarantee of access by proposing that it should apply only to importers, by omitting the proviso that it operated only when new surpluses rose and thereby transforming it into an automatic mechanism, and by fixing each importers' ratio at the average actually achieved in a recent base period.⁶⁶

As for the other elements of the EEC offers, the USA appreciated the fact that the EEC had suggested a moderate increase in wheat price, but opposed the setting of reference price for feedgrains. Washington looked mainly at these commodities to enhance its exports to the EEC, and refused to set a minimum price. As for food aid, the EEC proposals linked food aid to surplus disposal. In contrast, the USA refused such a link and wanted a specific program for LDCs, with each participant's contribution to the program clearly defined. The USA pushed for a food aid program based on a fixed quantity program whose costs would be divided between exporters and importers according to their economic strength. It suggested a food aid program of 10 million tons a year to which it would contribute 40%. Herter and Freeman emphasized to Rey and Rabot the importance of food aid in its own right, and Freeman made clear that a situation in which the US gave massive food aid to LDCs, while others retained commercial markets would be impossible.⁶⁷ To sum up, the USA held that the EEC

⁶⁶ NA Congressional Records – House, "The Kennedy Round", 10 April 1967.

⁶⁷ NA 364 Recs. of the US Trade Representative on the Kennedy Round, box 5, circular telegram 2343 from State Department reporting conversation between Herter, Freeman, Rey and Rabot in Washington, 27 May 1966 and *ibidem* circular telegram 2349 from State Department reporting conversation between Rey and Ball, 27 May 1966.

tabled improved offers, but negotiations in Geneva were still a long way from an arrangement that would achieve American aims on access and food aid.⁶⁸

Faced the exporters' attitude to the self-sufficiency rate, the Commission negotiator Malvé categorically excluded that the EEC could give quantitative assurance. The self-sufficiency rate was not an engagement of access by importers, but rather a device to determine particular obligations in case surpluses created imbalance on the world market. The Commission also underlined that domestic policies of exporters had to also be possible topics of discussion in the negotiations. As for prices, exporting countries continued to look at price as it was established under the existing International Agreement on Wheat, while the EEC wanted to replace this notion with an international price of reference to be respected so to bind the level of domestic support for grains. In any case, the positive aspect was that both exporters and importers agreed to set up an international price. On food aid, the EEC continued to claim that the Kennedy Round was not the right forum to deal with food aid. The aim of the Agreement was to define a new order for the world market and food aid had to be dealt with in connection to surpluses. To sum up, it seemed that an agreement on price and food aid could be reached but, on access and internal policy positions, remained far apart.⁶⁹

What annoyed the Commission was that exporters continued to demand concessions, without saying what they were prepared to give in return. A real willingness to get to a final agreement for cereals existed, but the main obstacle was that the EEC's partners thought and negotiated in terms of simple specific interests and differentiated between importers and exporters, rather than in terms of a reorganization of world markets. And, for them, it was up to importers to bear the greatest part of responsibility and commitments for this reorganization and stabilization. On the contrary, the EEC's own proposals reorganized the world market by putting linking domestic policies and trade. Moreover, the EEC firmly supported the notion of balancing of concessions within the Cereals Agreement negotiations, while the USA and the other exporters wanted to place these negotiations in the general framework of the Round and held that it was fair and normal that negotiations on cereals be to their advantages to then be compensated with concession in other sectors. The Commission categorically refused that to be set up, the Agreement depended on concessions on textiles or bicycles.⁷⁰

The United Kingdom, the other big importer of grains along with to the EEC, also offered to bind its self-sufficiency rate, but as it suggested 86% while its existing rate was 70%, it came under even stronger criticism than the EEC. Actually, the British, with their production expanding, were not ready to accept a percentage equal to the average in a base period, but wanted to bid for a much higher figure. Like the EEC, they saw merit in the principle underlying that obligations undertaken by importers and exporters had to be broadly comparable and refused to give concessions on grains to obtain further benefits in the industrial sector. Even if the major US aim to use the Kennedy Round to decrease the CAP protectionism let the big confrontation to be played out between the USA and the EEC, the United Kingdom, together with Japan,

⁶⁸ AECB BAC 122/1991-5 Rapport 76 de la délégation de Commission pour les négociations du GATT, 17 August 1966; Memorandum from Roth to Herter "Kennedy Round Matters for Your Discussion with Erhard", 26 September 1966, Herter Papers, box 8, JFKL; PRO FO 371/189599 Anglo-French Economic Committee "Kennedy Round: Agricultural Products", Supplementary note by the Ministry of Agriculture, Fishery and Food, October 1966; Administrative History of STR, Narrative History, Vol. 1, Box 1, LBJL. PRO FO 371/189599 Background paper for the visit of French Foreign Minister Couve de Murville, October 3-4, 1966 "Kennedy Round", 30 September 1966.

⁶⁹ AECB BAC 122/1991-5 Rapport 76 de la délégation de Commission pour les négociations du GATT, 17 August 1966.

⁷⁰ CM2 1966/16726 Comité 111, 248^{ème} réunion «Sommaire des conclusions», 3 October 1966; AECB BAC 122/1991-6 Rapport 83 de la délégation de Commission pour les négociations du GATT, 17 October 1966.

found itself under the heavy pressure from the US and other exporters. Unlike the EEC, the British had not tabled clear-cut proposals and, with their opposition to access commitments and the food aid, were under the strong pressure of the Americans who were concerned about what they deemed the stalling attitude of the British.⁷¹

The Americans looked with apprehension at the stalemate, as an agreement on cereals was of crucial importance. Faced with the EEC poor offers on non-grains products, the USA at least wanted the Cereals Group to produce an acceptable multilateral arrangement that would serve US interests.⁷² Despite the new proposals of the EEC and the efforts of mediation made by Wyndham White, positions remained too far apart, even if a general willingness to negotiate some form of agreement and a chance of reaching it existed.⁷³

11.8 Negotiations on non-grain agriculture: between failure and stall

Since the outset of the Kennedy Round, negotiations the Meat and Dairy Groups had a slower pace in comparison to the Cereals Group and in 1966 it became clear that commodities agreements on these products were unlikely. While in the Cereals Group interest to conclude an arrangement existed on both sides of the Atlantic, this was not the case for meat and dairy products. The United States was the biggest importers of beef meat and it regulated its imports through a quota system that needed the approval of Congress to be modified. Washington was disposed to take quantitative engagements to imports along the lines of the existing import quota legislation, but it was not disposed to do tariff cuts and to take engagements on domestic policy, to fix an international price of reference and to negotiate on MDS plan as the EEC required. The USA, supported by New Zealand and Australia, proposed the setting of exporting contingents with an annual negotiation to take into consideration the increase of consumption of the importing countries. In any case, it was disposed to do very little on meat and for sure it had no intention to engage itself in something similar to the IGA. The United States never pushed for the set up of the meat agreement and it left to meat exporters to play the major role in discussing the EEC proposals, making clear that it was not disposed to participate in a meat arrangement as envisaged by the EEC.⁷⁴

The EEC took a major place in production and trade of beef meat. Even if it was a net importer, its production was rising thanks to improvement of technology. Only France and The Netherlands had a small surplus, while the other four members remained importers. Italy and Germany imported huge quantities of meat from Argentina and Denmark that France and The Netherlands could fill. However, Italy and Germany continued to prefer to import from their traditional suppliers. In Geneva the

⁷¹ NA 364 Recs. Of the US Trade Representative on the Kennedy Round, box 1, Background paper for the visit of Sir Richard Powell, undated but written in September 1966 and PRO FO 371/189599 Anglo-French Economic Committee "Kennedy Round: Agricultural Products", Supplementary note by the Ministry of Agriculture, Fishery and Food, October 1966.

⁷² NA 364 Recs. Of the US Trade Representative on the Kennedy Round, box 1, US delegation to the Sixth Round of GATT Trade Negotiations "Part 1: Delegation Evaluation of Offers", 1 November 1966.

⁷³ ANF 724.713, box 7, Premier Ministre, Comité Interministériel pour les questions de Coopération Economique Européenne, Note préparée par la DREE "Session du Conseil des CE des 21 et 22 Décembre", 21 December 1966.

⁷⁴ AECB BAC 122/1991-1 Rapport 17 de la délégation de Commission pour les négociations du GATT, 7 July 1964; AECB BAC 122/1991-8, Communication de la Commission au Conseil NCG (66) 60 final "Aspects Essentiels des Négociations au GATT (pays industrialisés)", 20 December 1966. Memorandum for John Schnittker, Under Secretary of Department of Agriculture and Anthony Solomon, Assistant Secretary of State from Roth "US Recommendations for a World Grains Arrangement", 28 September 1966, Roth papers, box 2, LBJL.

EEC and above all the Commission aimed to establish a commodity agreement so to contribute to the stabilization of world markets through the binding of the MDS and the establishment of a reference price, hoping in this way to conciliate the different trade interests among the Six. Despite the Commission's insistence on the necessity to set up a commodity agreement, at the end of December no agreement had been reached on the basic features of the Meat Agreement as positions remained too far away and a failure was just around the corner.⁷⁵

The same stall existed for dairy products. In Geneva participants to the Dairy Group had agreed to include only butter, heavily subsidized product for which a world surplus existed, and to exclude other dairy products. Since 1958 the EEC had been self-sufficient. All the member countries, excluded Italy, were self-sufficient and the Dutch had also a large surplus to export. For this reason The Hague looked with much interest to a commodity arrangement that could organize trade in this sector and favour access at world level for its surplus. The Dutch aimed above all to improving access to the British market of butter, already dominated by New Zealand, Denmark and Australia which received preferential treatment as member of the Commonwealth and EFTA. The Dutch set as a priority for the EEC the opening of the British market to EEC (Dutch) butter.⁷⁶ The position of the EEC in Geneva was complicated by the fact that while the French and above all the Dutch had large surpluses that they wanted to sell on the German and the British markets, Germany wanted to continue to import from Denmark and considered the Dairy Arrangement as an instrument to make quantitative concessions to the Danish, concessions that the Dutch and the French were not disposed to do.⁷⁷

The main obstacle on the way to the Arrangement was that the two big importers, the United Kingdom and the United States, had no major interest to set it up. The United Kingdom took 70% of butter entering into international trade. Its major suppliers were New Zealand, Denmark, Australia and to a less extent The Netherlands and it regulated its imports through quota the bulk of which was granted to New Zealand. The British wished to continue with this regulation and had no intention to fix an international price of reference and to give up their quotas. By the same token, the United States was openly hostile to the realization of an arrangement for dairy products and it refused to engage on its domestic policy and negotiate on MDS. What it was disposed to do was to negotiate on border protection.⁷⁸

The Six, therefore, had to ascertain that while they saw the organization of world market for dairy products had a considerable importance, the USA and the British had no interest in establish a commodity agreement or had no interest in doing so on the ground of the MDS approach. On top of this, France, Italy and The Netherlands had interest in enhancing their exports of cheese to the British, American and Swiss markets but this product had not been considered in the Dairy Products group. Consequently in Geneva the Commission tried to make pressure bilaterally on the US, the Swiss and the

⁷⁵ AECB Marjolin cabinet papers, BDT 144/92-780 «Résumé de la déclaration du représentant de la CEE devant le groupe des viandes», 2 July 1965 and AECB BAC 122/1991-6 Rapport 86 de la délégation de Commission pour les négociations du GATT, 7 November 1966.

⁷⁶ AECB BAC 122/1991-25 Note de la délégation des Pays-Bas pour les négociations commerciales au GATT «Groupe des produits laitiers», 24 January 1967.

⁷⁷ AECB PV 345, 19 January 1966, Annex «Rapport de la Commission au Conseil sur les négociations commerciales au GATT», NCG (66)3.

⁷⁸ PRO FO 371/183386 GATT Kennedy Round "Group on Dairy Products – Proposals and offers by the United Kingdom", September 1965; PRO FO 371/189601 Telegram Unnumbered from Board of Trade to Geneva, 21 May 1966 reporting conversation between Blumenthal, Hedges and Powell, Hughes and Kearns and PRO FO 371/189599 Anglo-French Economic Committee "Kennedy Round: Agricultural Products", Supplementary note by the Ministry of Agriculture, Fishery and Food, October 1966.

British delegations. However the treatment of cheese on a bilateral basis with the Americans was a difficult affair for the Commission. Washington had a quota system and the Commission found it difficult to ask the Americans for guarantee of access when the EEC refused to do the same in the cereals sectors.⁷⁹ As for the British they had not intention to make concessions and wished to retain their existing regulation. The Dutch, having a major interest in gaining more access to the British butter and cheese market, remained firm on their insistence that an arrangement had to be concluded and that the British had to make offers on cheese. They even claimed that it represented an essential condition for the positive conclusion of the Kennedy Round both in the industrial and agricultural sectors. Against the Dutch insistence, in Geneva the Commission claimed that an Arrangement on butter and the possibility for the EEC to increase cheese exports remained crucial elements that would influence the attitude of the EEC on the all Kennedy Round. But at the beginning of 1967, the British and the Americans made no concessions on cheese, while discussions in the Dairy Group had not yet progressed and a complete failure seemed all too likely.⁸⁰

As for the rest of the agricultural products not covered by commodity groups, the negotiating situation was not much easier. As Table 4 in section 1 shows, a good half of US export to the EEC was not grains and concerned oilseeds, tobacco, poultry, fruits and vegetables. Given that the EEC admitted oilseeds bound-duty free, the negotiable part of the agricultural sector concerned the other products. In particular the US asked for tariff reductions on poultry, fruits and vegetables, tobacco and the maintenance of the existing treatment for oilseeds. In exchange Washington was ready to do a 50% tariff cut on the all sector, but it excluded some of the products on major interests to the Six, that is to say wine and cheese.⁸¹

As for products not covered by commodity groups, the EEC aimed at organize world trade in agriculture with the MDS approach and insisted that the internal policies of Kennedy Round entered the negotiations in Geneva. Despite the agreement reached between Mansholt and Herter in March 1965 to set up a study on the domestic policy of the Kennedy Round participants, this study led nowhere. In fact, only the Commission gave indications while other governments were reticent to describe the domestic measures they used to support their agriculture and indicated that they would do offers only on border barriers.⁸²

For the EEC the setting up of the list of offers for non-commodity group products was as difficult as the establishment of the list of exceptions for the industrial sector. Each of the Six, and in particular France and Italy, had its own products to protect with the result that if the Commission paid attention to all their requests, hardly any offer would be tabled in Geneva. This institution elaborated proposals for moderate reduction of protection and presented member states a list of offers that required equitable and balanced sacrificed from them. It hoped in this way that the all the Six would accept them as they stood and that a new negotiating marathon would be

⁷⁹ CM2 1967/331, PV de la 226^{ème} réunion du Comité 111, 31 January 1967; CM2 1967/331, Note «Travaux effectués par les membres suppléants du Comité 111, 26/27 janvier 1967» S/109/67, 7 February

⁸⁰ AECB BAC 122/1991-8, Communication de la Commission au Conseil NCG (66) 60 final "Aspects Essentiels des Négociations au GATT (pays industrialisés)", 20 December 1966; AECB BAC 122/1991-9, Rapport n.98 de la délégation de la Commission pour les négociations du GATT (présenté par Rey et Marjolin), 23 February 1967 CM2 1967/11 PV de la 210^{ème} session du Conseil de la CEE, 7 March 1967; CM2 1967/329 PV de la 103^{ème} session du Comité 111, 31 March 1967.

⁸¹ AECB BAC 122/1991-3 Rapport 48 de la délégation de Commission pour les négociations du GATT, 3 August 1965.

⁸² Letter from Roth to Thomas Curtis, 1 July 1965, Roth papers, box 1, LBJL; AECB Marjolin cabinet papers, BDT 144/92-780, Communication de la Commission au Conseil concernant la partie agricole des négociations commerciales au GATT, 22 July 1965.

avoided. Initially, the Commission had aimed at negotiating only on the MDS plan for all products. But the tough opposition to this plan in Geneva, the US refusal to consider as an offer a mere binding of the MDS and also the difficulty in implementing it – as it was objectively difficult to set up reference prices for all products – led the Commission to propose to member states to offer also some tariff cuts. Because of the impossibility to agree to international reference prices, the Commission proposed minimum import prices for products entering the EEC so to guarantee the stability of the internal market and gain the recognition of the CAP for these products in Geneva. The Commission proposed minimum prices for eggs and chicken, fruits and vegetables, rice, cork wines and alcohols, tobacco, fish together with small tariff cuts that varied from 4 to 20%.⁸³

The Six – mostly because of the French opposition – were not able to take as they stood the already limited Commission's proposals, with the result that a Council of Ministers marathon took place. France opposed any reduction of protection on fish, fruits and vegetables, wine, tobacco as it feared not only US competition but also Spanish competition. In truth, Italy neither was enthusiastic about conceding much to third countries, in particular for rice, fruits and vegetables for which it aimed to establish a protected Community market. However, Italian reticence derived also from its dissatisfaction with the CAP. Until that moment this common policy covered mostly products on interests to other EEC members and decisions were still pending on fruits – especially oranges – and vegetables, wines, alcohols, tobacco, cork and food industry, all sectors of a major interest for Italy. However, the Commission's proposals covered also sectors for which the CAP had not been elaborated, putting therefore at risk Italian interests. Thus before committing themselves to anything, the Italians wanted to know which benefit they were to obtain from the CAP. Thus it was only after Mansholt ensured that the Commission would soon present CAP regulations for products of interest to Rome that Italian Ministers of Agriculture Tolloy seemed ready to accept the Commission's proposals and asked only for few modifications.⁸⁴

Benelux and Germany, even if not enthusiastic about the idea of setting minimum import price as this would represent a new trade barrier, were ready to accept the Commission proposals in order to allow the EEC to eventually show up in Geneva with some offers and get meaningful counter concessions also for the industrial sector. Despite Rey and Mansholt's warning that the Commission proposals represented the minimum concessions the EEC had to do in order to successfully conclude the Round, and that they contained a balance of concessions the Six had to do, Boegner insisted on negotiating item by item and asked for sensible reduction of offers. Against the firmness with which France and to a less extent Italy asked to reduce offers, the Commission reformulated its proposals so to include French and Italian requests. Rey and Mansholt remained convinced that their original offers represented a better valuable negotiating basis, but to elaborate a final compromise among the Six, they tabled new proposals reducing by one-fifth the EEC concessions. Germany and Benelux relied on the Commission and concluded that if this institution held that the new proposals would in any case allow setting up a valuable negotiating basis, they would accept them. In any case the EEC offers remained incomplete, as they did not contemplate the level of

⁸³ AECB BAC 122/1991-5 «Introduction aux propositions d'offres de la Commission pour la négociation des produits du secteur agricole», undated 1966; *ibidem* PV 366, 6 July 1966; *Ibidem* Note de la DG Agriculture, 30 June 1966.

⁸⁴ Galli, R., Torcasio, S., *La partecipazione italiana alla politica agricola comunitaria* (Roma, Bologna: IAI, Il Mulino, 1976), pp. 118-119. PRO BT 241/845 Private office minute no. 62, Memorandum of conversation between Rey, van Kleffens (ECSC representative to UK), Douglas Jay (President of Board of Trade), Hughes and Carter, 25 January 1966; CM2 1966/17511 Note S/527/66 Travaux du comité 111, 14-15 July 1966.

minimum price for eggs and poultry, fruits and vegetables and fish.⁸⁵ It would be only in a new marathon at the end of December 1966 that the Six finally set these prices half way between the low level demanded by The Netherlands and Germany and the higher level asked by France and Italy. In the end, as the Commission had suggested, the EEC offers consisted on the binding of a minimum price and small tariff cuts averaging to about 5%. Thus the offers were grounded on the proposals of the Commission. This institution, as it had been the case with grains and the industrial sector, played a crucial role thanks to its technical expertise and ability of suggesting solution.⁸⁶

The expected EEC intention to table its offers on minimum price and to make only token tariff cuts led Washington to expect only poor concessions. This situation raised a new debate within the Johnson Administration on agriculture and on the offers that US government was to present in Geneva that once again signaled the dissatisfaction of the Department of Agriculture for the development of the Kennedy Round and the US approach to the CAP. Herter and Roth wanted a strategy of generous US initial offers as a full 50% tariff reduction would create the most effective pressure on the EEC to elicit full offers and corresponded to the US general strategy for the Kennedy Round, consisting in making a strong opening bid so to push other countries to do the same. Herter and Roth's insistence on this point was rather strong and was firmly supported by US Vice President, Hubert Humphrey, Rusk and Ball, and, above all, by White House Assistant Bator to whom Johnson mostly relied on the Kennedy Round. On the contrary, Secretary of Agriculture Freeman, supported by the Department of Commerce, wanted to make only minimal offers in line with what the EEC was expected to do. Freeman was skeptical that an aggressive strategy would push the EEC to move and was worried that "in the crunch, [the USA] would lack the fortitude to make the necessary withdrawals".⁸⁷ Freeman held that foreign policy considerations related to US support for European integration and problems linked to the relations with the LDCs would push the USA not to require full reciprocity. Moreover, Freeman considered EEC offers as an attempt to legalize internationally the variable levy and gate price system, which relegated third countries to a residual support prices. Thus the Secretary of Agriculture, while declaring of being ready to acquiesce, decided to flag his concerns to Johnson. Consequently a meeting with Johnson, Bator Herter, Roth, Ball, Blumenthal and Freeman was organized. Johnson, who relied on Bator's advice, decided to go ahead with the tabling of meaningful offers to the EEC, on the ground that this would create the most effective possible pressure on the EEC to improve its offers.⁸⁸

At the beginning of August the agricultural offers on non-commodity groups were exchanged. While negotiations on Group commodities took place in a multilateral

⁸⁵ AECB BAC 122/1991-5 Note de la DG Agriculture, 25 July 1966. AECB PV 369, 26 July 1966; CM2 1966/48 PV de la 191 session du Conseil de la CEE, 22-23/26-27 July 1966; AECB BAC 122/1991-3, Note «Project d'Exposé de présentation des offre de la Communauté», 13 September 1966.

⁸⁶ CM2 1966/90 PV de la 203^{ème} session du Conseil de la CEE, 21-22 December 1966.

⁸⁷ Memorandum for the president from Bator "Another tactical decision on the Kennedy Round", 2 August 1966, NSF Subject Files: Trade- Kennedy Round, Box 48, LBJL; Memorandum for the President from Roth "Kennedy Round Agricultural offers", 2 August 1966, Roth papers, box 2, LBJL.

⁸⁸ For Roth and Ball it was of the foremost importance to get the approval of Johnson to table important offers and they moved to ensure that Freeman remained isolated in his opposition not enlarging the meeting to the Secretary of Commerce Connor. If Connor "mumbles in his beer [...] we are in for trouble," said Ball. Telephone conversation between Ball and Roth, 3 August 1966, Ball's papers, box 4, LBJL. Letter from Freeman to Johnson, "Kennedy Round Negotiations - Tabling offers, Agricultural Department exception", 1 August 1966, Department of State, Confidential files, TA, box 91, LBJL. For the full debate within the Johnson Administration see NA 364 Recs. Of the US Trade Representative on the Kennedy Round, box 1 Minutes of the Trade Expansion Act Advisory Committee, 29 July 1966. NA 364 Recs. Of the US Trade Representative on the Kennedy Round, box 1, Memorandum for Trade Expansion Act Committee from Roth, 22 August 1966.

context, the negotiations on the rest of products were essentially bilateral bargains product-by-product along the traditional negotiating method used since 1947: two countries negotiated and then, if concessions were agreed, they were extended to the other GATT member on the basis of the MFN rule.

When the EEC tabled its offers American pessimistic expectations proved to be right. The EEC offers made extensive use of minimum prices which the USA rejected as an unacceptable basis for negotiations, while offers of tariff cuts were limited in scope and shallow in depth.⁸⁹ Washington considered the EEC proposals on minimum price as an attempt to obtain international acceptance of the reference price/variable levy system for major commodities and a number of token tariff offers had been included for this purpose alone. The USA had always maintained a pragmatic approach towards this policy and had always claimed that rather than have a quarrel on the CAP compatibility with GATT, it would negotiate with the EEC to set up mutually acceptable ways to protect the legitimate trade interest of the USA. Unfortunately, the EEC offers did not lead in this direction, as its offers did not allow reducing protection. Washington held that the situation was serious. A substantial improvement of offers by the EEC was needed if the negotiations as a whole had to be concluded.⁹⁰

No much better appeared the situation for tropical products which were of crucial importance for the LDCs. For the EEC making offers on these products was a complicated affair. It had association agreement under the Yaoundé convention which granted preferential treatment to the associated African and Madagascan countries. The associated countries were opposed to any reduction of the preference and went to the extent of claiming in some cases that the EEC customs duties had to be raised against other LDCs. Aware of this situation, the Commission proposed to the Six only small tariff cuts. Among the Six, Germany and The Netherlands favoured the greatest reduction possible so to confirm the liberal attitude of the EEC and wanted the Commission to propose drastic tariff reductions on coffee, cacao, bananas and rum. For these two countries, the Kennedy Round had to be considered an instrument to reduce the difference between the treatment reserved to associated countries and that for the other LDCs. Couve de Murville held that as long as a solution was found to the problem of access to markets and stabilization of trade flow, the French government would support the Commission list as it was too long. Belgium, Luxembourg and Italy took a middle-ground position between the French and the Germans and the Dutch. Eventually the Six agreed to consolidate duties to the level of the level set by the Yaoundé convention and to do a 50% cut on some products, such as tea, on which duties had been suspended.⁹¹

The refusal of the EEC and its associated countries to meaningfully reduce the Yaoundé preference came to be under the attack of the non-associated LDCs, which held that there was little for them in the Kennedy Round, the United States and the

⁸⁹ Administrative History of the Department of State, Volume I.-Part VIII "International Economic relations", LBJL and Administrative History of STR, Narrative History, Vol. 1, Box 1, LBJL.

⁹⁰ NA 364 Recs. of the US Trade Representative on the Kennedy Round, box 6, Position paper "Kennedy Round Confrontations on Agricultural offers", 8 September 1966; NA 364 Recs. Of the US Trade Representative on the Kennedy Round, box 1, US delegation to the Sixth Round of GATT Trade Negotiations "Part 1: Delegation Evaluation of Offers", 1 November 1966 and ibidem US delegation to the Sixth Round of GATT Trade Negotiations "Assessment of offers as of November 30, 1966 and comparison of the offers of the EEC and the USA".

⁹¹ AECB BAC 62/1980-59 Note d'information «Consultation des EAMA sur les négociations en cours dans le cadre du Kennedy Round», 2 Juin 1966 and ibidem PV de la 3^{ème} session du Conseil d'Association CEE-EAMA, 18 May 1966 ; CM2 1966/34 PV de la 188^{ème} réunion du Conseil de la CEE, 13-14 June 1966 ; PRO FO 371/189599 Note "Tropical Products" by the Tariffs Division, October 1966.

United Kingdom and created division among LDCs.⁹² The British supported the LDCs' pressure on the EEC to improve offers as they held indispensable that the Six improved their offers so to compensate the Commonwealth countries for the reduction of the British tariffs.⁹³ As for the Americans, under the TEA they could reduce duties on tropical products, but only if the EEC did the same. Since the passing of the TEA, American aim was to reduce, and ultimately to eliminate, the tariff preferences extended to AOC's by the EEC under the Yaoundé Convention so to allow Latin American countries to increase their exports to the EEC and decrease pressure on the US market. However, the refusal of the Six to make serious reduction closed the way to any meaningful result in this sector.⁹⁴

Conclusion

The EEC's preparation for the cereals negotiations in Geneva was long and difficult. France, being an exporting country, wanted to increase production. In contrast, the Five were importers and wanted to import cheap cereals from third countries. These opposing aims made the reaching of a compromise difficult. But in the end, the need to get to Geneva with a bargaining stance prevailed. Economic and political interests to stay together were so strong, and were evident also in the Six's efforts to find a compromise to negotiate as a unit. It was really in the trade relations with third countries, where a common position was needed, that the interests of the Six to stay together and compromise was more evident. For the Six, the Kennedy Round attending as a unit meant reconciling often-conflicting economic interests. Agriculture and commerce with third countries was among these fields of conflicting interest, where the Six had to proceed without damaging the interests of domestic pressure groups or their economy as a whole. To stay together, the Six had to hammer out common policy based on compromise. The Commission had a major role in the agricultural part of the Round, bigger than in the industrial part. It had tabled precise proposals and during the discussions with the Ministers of the Six the Commission stuck to its proposals. And, in the end, the EEC negotiating position was due to the Member States, but above all to the Commission whose proposals prevailed ahead of those of the French. Clearly, the Crisis of the Empty Chair had not weakened the role of the Commission.

For the USA, the agricultural negotiations were a difficult task. US agricultural exports to the EEC were about five times as great as the EEC exports to the USA in the same sector. The US comparative advantage in agricultural products was large and, with substantial reductions of trade barriers, US exports to the EEC would increase significantly. There was little chance that the Six would be willing to compound the difficulties they already faced in developing the CAP by opening their markets to the greater volume of US agricultural products unless the USA could give the EEC trade concessions of equal value in return. Because the EEC had not the relevant interest in exporting to the USA, the USA could offer very little in the way of reciprocal concessions in agriculture. Therefore Washington insisted that the final package of concessions be balanced not sector by sector, but across the board on all items including the industrial sector and NTBs. But this was not enough to push the Six to make

⁹² AECB BAC 122/1991-5 Rapport 79 de la délégation de Commission pour le négociations du GATT, 22 August 1966 and PRO FO 371/189599 Note "Tropical Products" by the Tariffs Division, October 1966.

⁹³ PRO FO 371/189599 Note of Rot Denman (UK delegation in Geneva) to Carter (Board of Trade), 7 October 1966.

⁹⁴ NA 364 Recs. Of the US Trade Representative on the Kennedy Round, box 1, US delegation to the Sixth Round of GATT Trade Negotiations "Part 1: Delegation Evaluation of Offers", 1 November 1966; Administrative History of the Department of State, Volume I.-Part VIII "International Economic relations"

concessions. On top of this, the problem that the USA had was that it could not openly attack the CAP, it being a major tenet in European integration, and could not continuously put pressure on the EEC, unless it wished to be accused of interfering with EEC internal matters, and after the crisis of the empty chair, Washington was also scared that any attack to the CAP and the balance of compromise among the Six could provoke another crisis.

Chapter Twelve

The final bargain: setting the tone of international trade

Introduction

In the previous chapters we outlined the negotiations in the agricultural and industrial sectors. We concluded that in the latter sector, despite many difficulties, the opportunity to reduce protectionism existed, while the same chance did not seem to exist for agriculture. In this chapter, we shall first analyse the final bargain that took place in Geneva from January to June 1967. The aim is to show how a substantial reduction in tariff levels was achieved in the industrial sector, while only minor results were achieved in the agricultural sector. We shall conclude that these results of the negotiations set the tone of international trade along patterns, which are still valid nowadays, freer trade in the industrial sector and protectionism in agriculture. They also defined the place of the EEC in world trade, rather liberal in the industrial sector but a major stumbling block in agriculture. We shall also analyse the state of the relations between the EEC and the USA, to highlight that tensions characterised transatlantic relations and that Kennedy's original aim to also strengthen the unity of the Atlantic alliance through the new GATT Round seemed in trouble and that US support for European integration started to be challenged. This chapter also focuses on the internal EEC decision-making process, and on the role of the Commission. We shall conclude that the Commission was able to affirm its role of sole negotiator on behalf of the EEC and played a crucial role in the negotiations, and that it was able – thanks to its technical expertise and the fact that it was conducting the bargain in Geneva – to influence the positions of the Member States which, in any case, firmly kept the decision-making authority in their own hands.

12.1 Troubles in transatlantic relations

The initiative for a major round of GATT negotiations had been taken by President Kennedy in January 1962, with the presentation of the TEA. The aim was to set up a sweeping liberalization of international trade to be concluded by 1964. The new Round was the trade tool in Kennedy's Grand Design that together with the Multilateral Force and the British entrance into the EEC was meant to lead to an Atlantic Partnership between equals. It had therefore not only trade relevance but also the political aim of keeping together the two sides of the Atlantic in coherent policy under American leadership. Well before the negotiations got underway in 1963, the Kennedy Grand Design was already in trouble. French President de Gaulle blocked British bid to join the EEC, and, with his additional refusal to the MLF, dealt a serious blow to American program. The veto further strained the already nervous Franco-American relations and, when it was followed by the Franco-German Treaty in January 1963, American-German relations were also shaken. Thus, the Kennedy Round was negotiated in a totally different context than that imagined by the Kennedy Administration.

The beginning of the negotiations in Geneva further complicated transatlantic relations. EEC and American goals did not always coincide, and in agriculture were poles apart, and their tough confrontation in Geneva surely did not help to improve the atmosphere. French withdrawal from the EEC and the consequent stalling of the Kennedy Round during the crisis of the Empty Chair, de Gaulle's decision to withdraw troops from NATO in March 1966, together with French policy on the US dollar and the open criticism of Johnson's military effort in Southeast Asia further added to the

tension. The United States looked with apprehension at French foreign economic policy. Paris opposed the American plan for the monetary system and for the Kennedy Round. In July 1966, the Treasury Department concluded that France was “practicing economy warfare” against the USA “within a framework of a national policy which calls for the weakening of US strength and influence in Western Europe as a necessary condition of establishing French hegemony over that area”.¹ However, Washington did not have problems only in its dealings with France. The quarrel over the financing of American troops in Germany, which heavily hit the US balance of payments, and that the Johnson administration wanted Chancellor Erhard to fund in the context of the Offset agreement, along with the US non-proliferation policy troubled American-German relations. Erhard’s fall at the end of 1966 was followed by the formation of the Grand Coalition of the Christian Democrats with the Social Democrats, headed by the CDU leader Kurt Kiesinger. The new Chancellor, together with Foreign Affairs Minister Willy Brandt, had every intention of strengthening relations with France, and attempted to give new substance to the Franco-German Treaty. In addition to Kiesinger and Brandt, Minister of Finance Franz Joseph Strauss, in particular, was a strong upholder of the Franco-German relationship. Thus while German-American relations worsened, the new German government seemed on the verge of performing a Gaullist turn.²

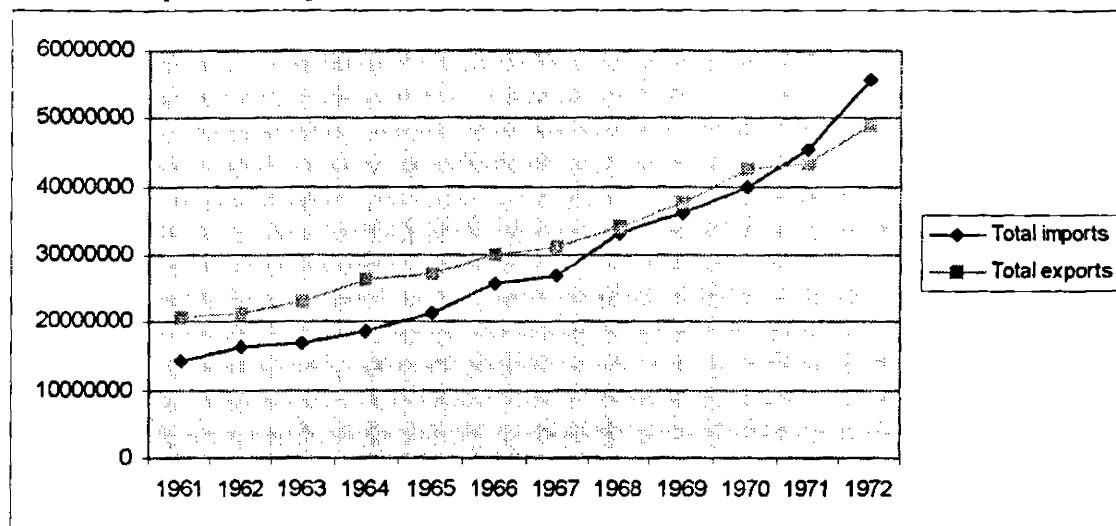
To make matters worse, with the US balance-of-payments deficit increasing, and all the strains this had on the monetary system, the Johnson administration, the Treasury Department in particular, reproached the Six for failing to share the security burden in a way proportionate to their economic strength and for not cooperating in supporting the US dollar. Washington continued place importance within relations on trade, security and monetary issues and kept having to face the refusal of the Six to do the same. Given this attitude within the Johnson administration, discussions multiplied on whether the USA had to reduce its military presence in Europe, above all if the Offset negotiations with the Germans were not successful. Moreover, Johnson had also relied on the increase in exports through the Kennedy Round to improve the balance of payments, but the Europeans had first slowed negotiations, then stalled them with the Crisis of the Empty Chair and then refused to reduce their protectionism in agriculture. Worse, in the meanwhile, from 1965, the US trade surplus with the EEC started declining as a result of major increases in EEC exports in the industrial sector and, specifically, in the machinery and transport equipment sector. US exports continued to increase but so did imports and by a higher rate.³

¹ Memorandum from Winthrop Knowlton to Fowler “France”, 11 July 1966, Fowler Papers box 68, LBJL.

² For the Johnson Administration and European see Schwartz A.T. *Lyndon Johnson and Europe: in the Shadow of Vietnam*, Cambridge, Harvard University Press, 2003, and Guderzo, M. *Interesse Nazionale e Responsabilità Globale: Gli Stati Uniti, L’Alleanza Atlantica e L’Integrazione Europea Negli Anni Di Johnson 1963-69* Firenze, Aida, 2000.

³ The details of US exports and imports by commodities with the EEC is shown in the following chapter dedicated also to trade patterns after the conclusion of the Round.

Table 1 US exports and imports to and from the EEC (1961-1972) in \$ thousand



Source: OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

Against this background, doubts about whether it was in the US interest to support European integration started to mount within the Johnson Administration. Since 1947, the United States had agreed to bear European economic discrimination as a way to unify Europe politically. But, by mid-1966, the economic EEC regional system continued to lack this political aspect, while it increased trade discrimination with the implementation of the CAP. Formal support for European integration still characterised US policy towards Europe, but discontent in Washington was mounting. With the failure of the EEC to achieve a higher level of political consolidation and the US economic problems, portrayed by the US deficit in the balance of payments, it was no longer possible for Washington to remain entirely deaf to protectionist requests of the domestic lobbies and Congress, to declare root and branch its support for European integration and to subordinate trade policy to foreign policy considerations.

On top of this, the worsening of the balance of trade made it more difficult for the Johnson Administration to justify reductions in protection. Johnson tried to oppose the protectionist mood of Congress emphasizing, at the end of March 1967, that the failure of the Kennedy Round would damage the Western world politically and economically and that the reductions in obstacles to trade would surely stimulate the growth of trade and help the US balance of payments. However, discontent in Congress was mounting as the Johnson administration was blamed of not protecting US interests in GATT and was warned against selling out US agricultural interests in Geneva. As Zeiler notes, liberal policy favoured by Kennedy and Johnson did not seem to unite the Western Alliance and favour US trade interests, while it undermined "support [...] for American liberal trade policy".⁴

The US change of mood towards Western Europe was also illustrated by US reaction towards the second British bid to join the EEC made by Prime Minister Harold Wilson. At the end of 1966, Wilson informed the Americans about his intention to probe the Six on a new application and then, if it seemed right, apply.⁵ The Johnson administration supported the EEC enlargement for the same reasons the Kennedy

⁴ Zeiler, T.W., *American Trade and Power in the 1960s*, pp.230-231 and Eckes, A.E. Jr, *Opening American Market. US Foreign Trade Policy since 1776* (Chapel Hill and London: The University Of North Carolina Press, 1995), pp.190-194.

⁵ On the second British attempt to join the see Daddow, Oliver. (ed.), *Harold Wilson and European Integration. Britain's Second Application to Join the EEC*, London, Frank Cass, 2002.

administration had. UK entry could strengthen the EEC in the Cold War context and could also give it a more liberal outlook. However, concerns arose in the Johnson administration, also reinforced by the insufficiently liberal EEC attitude in the Kennedy Round, and by the stance of the Six towards the principle of military burden sharing. Secretary of the Treasury, Henry Fowler started wondering whether it was in the US interest to support European integration and EEC enlargement, or whether the USA had to preliminarily ask the Six to share monetary and military costs. Concerns also existed in the Department of Agriculture, which looked with apprehension at the application of the United Kingdom to the CAP whose protectionism the Kennedy Round was not being successful in reducing. Washington also looked with apprehension at the EEC web of preferential agreements. The EEC already had associations under the Yaoundé convention and with Greece and Turkey, and was confronted with applications from Israel, Spain, Uganda, Kenya, Tanzania, Morocco, Tunisia, Algeria and Austria. The preferential web tended to divert the EEC from full economic integration, dilute the Community structure and weakened it politically, while weakening the multilateral system.⁶

The US had supported European integration and then the EEC as a first step towards political union supposing that it would remain outward looking. But the EEC, it was held in Washington, seemed to be heading in other directions. And, in fact, when German Economics Minister Schiller, while negotiating over monetary issues in June 1967, reminded US Treasury Secretary that the EEC had been a "US 'baby', with George Ball one of the fathers", Fowler was quick to note that that EEC had been designed as an "outward looking" baby, a characteristic that the EEC was lacking.⁷

In this context of troubled transatlantic relations, for the Johnson administration the successful conclusion of the Round remained crucial and not only because it represented a major element of US trade and foreign policy. A failure would have major negative consequences on relations with the Europeans allies and domestically. The isolationist and protectionist mood with the USA would be strengthened and the liberal trade policy of the Johnson Administration seriously endangered, while relations with the Europeans would be further strained. Moreover, Congress had conceded to the US government the large authority of the TEA in expectation that US negotiations would obtain meaningful reductions in other countries' levels of protection. Thus the Johnson administration had to be able to show Congress that such meaningful results had been obtained unless it wanted to endanger US authority to negotiate for the future.

To push the Europeans to conclude the Round, a lobby action was undertaken by Washington. At the end of February, Johnson threw his weight behind the efforts to get the Kennedy Round moving by emphasising its "greatest importance" both economically and politically.⁸ To further show that, for Washington, the GATT talks remained a priority, in February and March, Roth toured the capitals of the Six to stress the American adamance, and Johnson's personal willingness, to conclude the Round, to meaningfully include agriculture and the necessity that in Geneva the EEC started to quicken its decision-making process and to demonstrate more flexibility in negotiating.⁹

⁶ Draft Telegram from the State Department to all diplomatic posts "US policy on EEC Association", January 1967.

⁷ FRUS 1964-1968, Vol. VIII General and Financial and Monetary Policy, doc. 129. Memorandum of Conversation between Fowler, Bator, Schiller, Schoellhorn, in Washington 19 June 1967.

⁸ PRO BT 241/847 "Kennedy Round" Draft Paper for Ministers, undated.

⁹ Opening Statement of Roth before the Subcommittee of Foreign Economic Policy of the House Committee on Foreign Affairs, 15 February 1967, Solomon Papers, Chron. Files February 1967, box 15, LBJL. For the meeting between Roth and Couve de Murville see ANF 724.713, box 7, Note, 7 February 1967. For the meeting between Roth and the Belgian government see NA 364-130 Recs. of the STR, box 5 telegram 4354 3 from US Ambassador to Belgium Knight to State Department, 1 March 1967.

In February 1967, acting USTR Roth reported to Johnson the state of the Kennedy Round.¹⁰ The major imbalance between EEC and US offers remained the critical problem. Even if the USA did not expect sharp reciprocity, it sought at least comparable offers. Actually, Roth was aware that the EEC would improve offers in non-grain agriculture only slightly, but held that some further concessions remained essential, above all for poultry, tobacco, offal, fruits and vegetables. Roth was more optimistic on the possibility of signing of an Arrangement for cereals, with an access guarantee based on a SSR and a food aid program of 10 million tons standing on its feet, so to give US farmers higher prices and better access to the EEC markets. In the industrial sector, the USA aimed at increased offers in the mechanical and electronic sector, steel, aluminium and paper. However, the ASP, claimed Roth, remained "the single most difficult" conflict between the two sides of the Atlantic. Not only had no ground to bargain been established, but the issue had also assumed "a tremendous symbolic proportions within the EEC" that consequently toughened its negotiating position. The question of agriculture and of the ASP remained critical for the Johnson administration as the achievement of something valuable was essential to show Congress that the TEA had been usefully used. The US government could not turn up in front of the legislative body empty handed, above all if it aimed at requesting the abolition of the ASP. Therefore, in Geneva, the American negotiators would continue to insist that the Kennedy Round final settlement had to include not only industry but also agriculture and would press for a solution on ASP acceptable to Congress.¹¹

Roth was convinced that the Europeans had the political and economic interest to bring the negotiations to a conclusion, however four years of the Kennedy Round had clearly demonstrated that tough pressure was necessary to push them to make progress. Thus, in the last and crucial phase of the negotiations for the American negotiators it became urgent to keep the pressure the up on them. Only in this way, could US negotiators hope to rapidly conclude the bargain in Geneva and avoid a serious crisis across the Atlantic and in Washington.¹²

12.2 EEC directions for the final state: more flexibility to the Commission

While transatlantic relations deteriorated, the relations between the Six were improving. With the major decisions over the CAP taken in May-July 1966, one of the main issues that had strained relations and placed them in crisis was pulled out of the EEC agenda. And at this point, no big confrontation lay ahead, at least for the moment. Obviously, tensions accumulated during the crisis of the Empty Chair and then in its aftermath— when not only the CAP was settled, but the Six also took the final decision to implement the customs union and the CAP from 1 July 1968, and completed their position for the Kennedy Round – had not faded away.¹³ But with these key decisions taken, tensions diminished and the final phase of the Kennedy Round gave the Six the opportunity to regain cohesiveness, at least in international trade relations, in order to face the final bargain with the USA and the other Kennedy Round participants. In effect

¹⁰ Herter died on 30 December 1966. Roth, until that time Herter's deputy in Washington, became acting US Trade Representative until March 1967, when he was officially sworn in by Johnson. On Roth's role in the Kennedy Round see Dryden, S. pp.97-113. For US Congress pressure on Roth to achieve a valuable compromise in Geneva and not conclude the Round unless this was obtained see Eckes, A.E. Jr, *Opening American Market*, pp.192-193.

¹¹ Memorandum for the President from Roth, 24 February 1967, Bator papers, box 12, LBJL.

¹² NA 364-130 Recs. of the STR, box 5, Telegram 2197 from US delegation to GATT to State Department, 30 January 1967.

¹³ On the relations among the Six at the beginning of 1967 see Ludlow, N.P., *The European Community and the Crises of the 1960s: Negotiating the Gaullist Challenge* (London: Routledge, 2006), chapter 5.

the January-May 1967 period was characterized by a strong effort by the Six to stick together to resist US demands and defend their trade interests and, at the same time, by a strong awareness that concessions were necessary both in Brussels to maintain unity and to find a common position, and in Geneva to conclude the negotiations. On top of this, the Six finally understood that the EEC's cumbersome and time-consuming decision-making process for international trade negotiations had to be improved if the Kennedy Round was to be concluded, and the key of the question remained the authority of the Commission to negotiate. In effect, in this last phase of the Round, the Six gave more room to manoeuvre to the Commission, allowing this institution to bargain with more flexibility than in the past. And it was with this increased flexibility that the Commission attended its double bargain: in Brussels with the Member States to get to a common position and then in Geneva with the GATT partners.

The EEC had been the major recipient of the warning lists presented by other Kennedy Round participants on 30 November 1966. Consequently, the key question in January 1967 concerned the reaction to the threat of withdrawals in Brussels. The USA and the other participants, faced with what they considered insufficient offers by the EEC, adopted a muscle-flexing policy with the aim of pushing the Six to improve their offers. However, such a move was also risky as the Six could decide to react by stiffening their position and tabling a warning list too, so complicating the negotiations and scaling potential concessions down. Opportunely, in the two Council of Ministers meetings of late December 1966 and mid-January 1967, the EEC reacted in a flexible and pragmatic way in order to find an agreement with third countries and not risk a watering down of the final concessions, an outcome that would not have corresponded to its trade interest.

This flexible and pragmatic reaction, however, did not imply improvements in offers to the Americans and the British. In discussing the line of the EEC for the last final phase of the Round at the Councils of Ministers meetings of the end of December and beginning of January, Rey asserted that as the Scandinavians and the Swiss had not tabled exceptions in November 1964, a clear imbalance existed with the EEC in the industrial sector. On the contrary, American and British warning lists were absolutely unjustified, as a qualitative confrontation of the offers showed a clear balance, and therefore they had only a bargaining purpose to which the EEC did not need to respond with improvements. In any case, the EEC had not to respond with a withdrawing list of its own. Rather, it had to discuss with the Americans and the British the state of offers. The German Secretary of State Neef reacted with alarm both at the potential withdrawals of third countries and to Rey's assessment. The Kennedy Round and the expansion of international trade that was supposed to follow remained of the greatest importance to his government, above all in that period, in which the German economy was undergoing some difficulties. But now the success of the Round was threatened by the risk that contracting parties would scale down their offers, above all if the EEC reacted in a rigid way. Neef was especially worried about the possibility of Scandinavian and Swiss potential withdrawals, which undoubtedly hit German trade interests harder than the trade interests of the Five, and wished the EEC attention to be concentrated on improving offers to these countries. But Neef held that the EEC owed something also to the British and the Americans and, even if for tactical reasons; he could accept that a balance in concessions existed, but the EEC had to be prepared to improve its offers. Thus, concluded Neef, the Commission had to prepare concrete proposals to re-examine the exceptions list, to suggest global compromises for problems

that still affected key sectors, and to reduce the number of disparities it was still invoking.¹⁴

The Germans failed to get its EEC colleagues on board. In fact, the other five held that the time was not ripe for concessions. Couve de Murville, who felt that discussions of the Council of Ministers on the Kennedy Round often tended to overstate problems, to balance German readiness to improve offers, strongly underlined that the CET was lower than tariff levels of the other countries and that the EEC had made reasonable offers which were as generous as those of the Americans and the British. Therefore, the warning lists should not cause the EEC to modify its position and, if unjustified withdrawals were maintained, it would be obliged to table withdrawals of its own. Couve's tough position was aimed at preventing the EEC from finding itself in a corner in Geneva and making concessions without trying to get improvements from third countries, as the Germans tended to do.¹⁵ In fact, while taking such a stiff position, the French Minister was implying that an imbalance existed with the Nordic countries and Switzerland. However, as meaningful negotiations with these groups of countries largely also depended on solutions to be given to the ASP and disparities, which remained crucial in USA-EEC relations, he found concessions at that moment inopportune. Couve de Murville highlighted another key reason to oppose improvements. As three years of negotiations in Geneva had demonstrated, the EEC was unable to keep its negotiating positions secret because of its leaking attitude. If improvements were started to be immediately elaborated they would inevitably be leaked and the negotiating strength of the EEC undermined. The French minister raised a crucial problem that, as shown below, was linked to the negotiating authority of the Commission.

Italy, as Italian Minister of Commerce Tolloy declared, was ready to improve the EEC offers, despite the big sacrifice that this implied, but on the condition that these improvements led third countries to do the same and that a solution was given to ASP and the disparity issue. Benelux Ministers concurred on the need to improve offers towards the Nordic and the Swiss, but because of the impossibility of keeping the EEC negotiating position secret, agreed with Couve de Murville on the dangerousness of charging the Commission with adopting concrete proposals. The compromise to these positions was suggested by Neef and immediately picked up by Rey. For the German Secretary of State the only way to resolve the leak problem was to give larger and more flexible directives to the Commission, rather than precise instructions. Neef linked the problem of leaks to that of the negotiating authority of the Commission, which in view of the final bargain assumed a key relevance. Since 1963 the Commission had been negotiating under a strict mandate that, because of its inflexibility, had slowed down discussions in Geneva. Building on of what Neef suggested, Rey emphasised that in the final phase, to effectively conduct discussions in GATT, the Commission did not need a mandate but rather only general guidance by the Council of Ministers and more manoeuvring room and flexibility. Instead of a mandate, Rey suggested allowing the Commission to negotiate *ad referendum* with the Nordics and the Swiss, the countries to which improvements had to be made. His institution would work together with the 111 Committee that would be promptly informed on the content of the discussions with the EFTA countries and could bring any issue to the Council, in case disagreement

¹⁴ CM2 1966/90 PV de la 203^{ème} session du Conseil de la CEE, 21-22 December 1966 and CM2 1967/2 PV de la 205^{ème} session du Conseil de la CEE, 12 January 1967.

¹⁵ Since the beginning of the Round in 1963, the French government had been worried that the Germans could bend to American pressure and in 1967 it feared that Bonn could bend to American threat of withdrawing offers and insist that the EEC improved its offers. See also ANF 724.713, box 7, Note «Négociations commerciales multilatérales de Genève. Aperçu sur l'état général des travaux», 2 March 1967.

existed. In the end, the Council would give its approval. In this way the bargain in Geneva could be speeded up, leaks would be, if not avoided, at least limited and the negotiating position of the Commission – and consequently of the EEC – would be strengthened. Rey attended the Council of Ministers with the clear objective of obtaining more freedom to negotiate in Geneva and hoped, with his proposal, to gain some.¹⁶

Rey's suggestion, even if limited to the Nordic countries and Switzerland and to the industrial sector, was approved with no discussion by the Member States. They were so concerned with reaching satisfying compromises with European countries that had a relevant place in their trade to be disposed to give flexibility and manoeuvring room to the Commission. As a result, in mid-January 1967, the Council of Ministers recognised that an imbalance existed with the Swiss and Nordics and agreed to let the Commission negotiate *ad referendum* with these countries, to explore how offers could be improved. Following the Commission suggestion, the Council as a whole, and despite German doubts, concluded that no imbalance existed with the British and the Americans. However, the EEC would not table a withdrawing list, in order not to risk the watering down of the Round, but the Commission would take a severe line and condemned third countries' lists which, being unjustified, threatened to unravel concessions. Moreover, following a French suggestion, the Commission was instructed to continue negotiating with the British and the Americans, focusing on the critical questions of disparities and NTBs that, according to the French, had not made any progress until that moment. And for this task the Commission was given the same freedom of negotiating manoeuvre as with the EFTA countries.¹⁷

Hijzen and Rey were satisfied with the negotiating flexibility obtained and for the first time felt that some room for manoeuvre existed. Even if this authority was above all for discussions with the Swiss and the Nordics, the Commission negotiators held that useful discussions could be set up also with the Americans as some problems as paper, aluminium, chemicals and textiles concerned both these groups of countries and the United States. Thanks to the fact that the Six had realised that in order to conclude the Round the Commission had to be given the conditions to meaningfully negotiate and achieve results, this institution had finally got that flexibility it had requested since the outset of the Round, and that reinforced its role both within and outside the EEC.¹⁸

12.3 Negotiating round and round

Despite America's wish to rapidly conclude the Round, the first four months of 1967 were spent by the linear participants inflating the value of their own offers and playing down the value of offers of the other participants. US negotiators Blumenthal and Roth, the British Denman, Melville and Powell, Rey and Rabot for the Commission, together with representatives of the other governments, spent time not only dealing with major issues as chemicals, steel and grains but also on detailed discussions on duties on canned peaches or excavating machines. On top of this, the delay was caused by the fact that the Commission spent the January-March period

¹⁶ For Rey's aim see AECB PV 386, 6 January 1967 and PV 387, 10 January 1967.

¹⁷ CM2 1967/2 PV de la 205ème session du Conseil de la CEE, 12 January 1967; NA 364-130 Recs. of the STR, box 5, telegram 3325 from Schaetzel to State Department, 13 January 1967 and *ibidem* telegram 10499 from Bohlen to State Department reporting his conversation with Dromer and Corson, 14 January 1967; *ibidem* telegram 3468 from Schaetzel to State Department, 20 January 1967.

¹⁸ AECB PV 388, 18 January 1967; PRO BT 241/847 Telegram 1 from UK delegation to Brussels to Foreign Office, 18 January 1967; NA 364-130 Recs. of the STR, box 5, Telegram 3468 from Schaetzel to State Department, 20 January 1967.

discussing, in Geneva, the improvements the EEC could make, and those which third countries could make in return, and only in the middle of April did it present EEC Council of Ministers with a list of proposals to unlock the impasse. The Commission's tactics consisted in stretching the bargain until the very last moment, hoping in this way to get last-minute concessions from EEC partners in an effort to rescue the Round from eventual deadlock. To put an end to this trend, Roth first set the end of March as the deadline to conclude the negotiations and, when it turned out that not much would be attained by that date, he insisted that the Europeans accept 30 April as the final date. The Six accepted it, even if French Permanent Representative Boegner termed it as a "desirable objective" pointing out that overshooting this date by a week would still allow the round to be signed by 30 June.¹⁹ Unfortunately, by mid-April, very little had been achieved and, at this point, the Kennedy Round entered in a crisis situation that last until mid-May, when a framework agreement was eventually reached.

In addition to the question of reciprocity of offers, the major stumbling blocks remained chemicals and steel in the industrial context, and agriculture. And it was on these three matters that negotiators concentrated. Particularly difficult was the situation in steel, further complicated by the bilateral bargain between the EEC and the UK. The British challenged the ECSC "phony offer" and refused to cut their duties. Moreover, they were genuinely disconcerted by the Commission's claim that a balance in offers existed and that, consequently, the EEC would not improve its concessions.²⁰ Thus, they asked for further offers from the Six for lorries, machinery and whisky also because, unlike the Americans, they would not benefit from the EEC's increased offers to the Nordics in aluminium and paper.²¹ Actually, the British negotiators in Geneva had difficulties in bargaining with the EEC because Prime Minister Wilson's declared intention to apply for membership complicated their position. Wilson emphasised his determination to join and, at the same time, to successfully conclude the Round, and stressed that the two negotiations had to be kept separated. However, keeping the two negotiations separated did not prove possible.²² As the head of the British delegation to GATT, Eugene Melville, put it, if the United Kingdom pressed hard to obtain concessions from the EEC, the Six might think that London was not "serious in wanting to join the Community" and could ask why the British were trying so hard to reduce the CET that in few years would be applied also to them, doing, in this way, a favour for the Americans. Moreover, the EEC would not see any urgency in bargaining down the CET for reductions in the British tariffs.²³ At the same time, London needed to toughly bargain in Geneva with the EEC: given the opposition of de Gaulle, no assurance existed that the membership negotiations would succeed, and the opportunity to reduce

¹⁹ CM2 1967/11 PV de la 207^{ème} session du Conseil de la CEE, 7 March 1967.

²⁰ According to the British "To argue that the United Kingdom faced no deficit with the EEC in its balance of offers was so far removed from the facts as to be laughable. [...] To argue that the tiny initial exceptions list of the United Kingdom was on all fours with the mammoth exceptions list of the Community (quite apart from the problems of disparities and the ECSC's phoney offer on steel) was entering the realms of fantasy." PRO FO 371/189599 Telegram 296 from Melville to Foreign Office, 14 December 1966 reporting conversation between French official Corson and Melville.

²¹ PRO BT 241/847 Brief for the Secretary of the Board of Trade visit to the EEC Commission, 17 January 1967, and ibidem Telegram 1 from UK delegation to Brussels to Foreign Office, 18 January 1967.

²² PRO BT 241/848 Telegram 47 from Melville to Foreign Office, 1 February 1967. See also PRO BT 241/847 Brief for the Secretary of the Board of Trade visit to the EEC Commission, 17 January 1967.

²³ This argument was used by the Italians in December 1966 upon receiving the British warning list. Italy was especially hit by the list and Macchia, Italian official of the Permanent Representation in Brussels, questioned whether it was very wise for the British to antagonize the Italians at a moment when the British would need all Italian help to support London initiative to get into the EEC. Macchia also doubted whether there was much of a case for asking the EEC to give London more concessions. If the British were indeed serious about becoming members of the EEC, such extra concessions would simply end up as extra concessions to the Americans. PRO FO 371/189599 Memo from Hannay of the British delegation to the EEC, 20 December 1966.

tariffs through the Kennedy Round could not be lost. In this sense, London's intention to apply had weakened and complicated British position.²⁴

Chemicals remained a major source of conflict between the USA and the EEC, and a desperate case as not even a negotiating basis had been found. As a result of the Commission's increased flexibility to act, some progress was initially achieved, but not enough to reach an agreement. In the middle of January, the Commission suggested to the Chemical Group to negotiate under a completely different approach that was eventually retained in May as the final compromise. No exceptions were to be made to the 50% rule, and a ceiling would be adopted in order to reduce rates that would remain high even after a 50% reduction. A 20% ceiling would be established for the USA that would convert the ASP rates into ad valorem rates, limit them to 40% and then reduce them by 50%. A ceiling of 12,5% would be set up for the United Kingdom and the EEC. The EEC would reduce duties on chemicals by 50% without claiming disparities and virtually no exceptions. The USA found the plan negotiable as it had the advantage of providing a balanced solution, but the basic problem of how to make cuts remained. The USA insisted that some concessions had to be made unconditionally from, and separate to, the abolition of the ASP, so not to link them to Congress's decision on ASP.²⁵ Thus Washington pushed for a separation, for a *decoupage* as the issue was labeled, into conditional cuts subject to the removal of the ASP and unconditional cut to be made in the general negotiations.²⁶ Johnson was aware that because of the mood of Congress and of the chemical industry, even the decoupage solution would be difficult to sell to the legislative body, but at any rate it seemed the only solution that had some chance to of receiving approval and EEC would have, soon or later, to come to terms with this.²⁷

The Commission opposed decoupage on the ground that it would reduce the US incentive to ask Congress for the abolition of the ASP. In truth, it was not totally negative, even if it was prepared to offer very little on the non-conditional package. In fact, it was not disposed to get to an early compromise also in the hope of obtaining the best counter-concessions for an eventual last-minute acceptance of the two-package deal. Moreover, Hijzen held that the French, as was typical of them, would compromise only at the last moment and would therefore reject any premature settlement. Having to negotiate on two fronts, in Brussels with the Six and in Geneva with the USA, the Commission had to pursue the best tactics to convince Member States.²⁸

²⁴ PRO PREM 13/1869 Note of Burke Trend "Kennedy Round", 31 January 1967 and PRO BT 241/847 "Kennedy Round" Draft Paper for Ministers, undated. The EEC was fully aware of the ambiguous position of the British in Geneva. ANF 724.713, box 7, Note «Impression d'ensemble après la reprise des pourparlers à Genève», 26 January 1967 and CM2 1967/6, PV de la 207ème session du Conseil de la CEE, 8-9 February 1967; ANF 724.713, box 7, Premier ministre, Comité Interministériel pour les Questions de Coopération Economique Européenne, note «Négociations commerciales multilatérales de Genève», 7 February 1967.

²⁵ "Problem with one package is Finance Committee [of Senate] resistance to a gun-at-the head proposal on ASP with entire Kennedy Round at stake", claimed Bator. Telegram 764 from Bator to Rostow for the President, 24 April 1967, NSF, National Security Council History, Kennedy Round crisis April-June 1967, Book 2, tabs 25-53, box 52, LBJL.

²⁶ Preeg, H.E. Traders and Diplomats, pp.172-173; CM2 1967/328 PV de la 99ème réunion du Comité 111 à Genève, 24-25 January 1967.

²⁷ Memorandum for the President from Bator "Action Item for Tomorrow's meeting on the Kennedy Round", 21 February 1967, NSF, Confidential file, TA, box 91, LBJL. Memo "The Kennedy Round Crisis April-June 1967", NSF National Security Council History, Book 1-TABSI-6, box 52 BJJL.

²⁸ PRO BT 241/849 Confidential note "Kennedy Round: Chemicals" from Denman to Goldsmith, 21 March 1967 reporting conversation between Denman, Hijzen and Braun. While in 1966 the British had tried to put pressure on the Six to be more flexible towards US position, in 1967 they had their hands tied. They supported decoupage as they held that this method would have more chance of achieving the abolition of the ASP by Congress. However they were reticent to clearly say this and put pressure on the EEC for fear of being accused by the Commission, and above all the French, of being pro-American so endangering their chances of joining the EEC. PRO PREM 13/1869 Telegram 86 from UK mission to Geneva to Foreign Office, 25 January 1967. British Embassy in Paris held that British support for ASP and pressure on the EEC could be described by the French "as instruments of the Americans and the France's partners will

The only sector of the industrial negotiations to be rapidly settled was cotton textiles. As noted, discussions centered on the extension of the LTA, more liberal access to import markets and tariff reductions. At the end of March, LDCs finally accepted to extend the LTA for three years. In return, both the USA and the EEC agreed to slightly enlarge the quota but to make only a 20% reduction of tariffs, and not a full 50%, in order to compensate for the quota enlargement.²⁹ Even if the existence of quotas made the rate of tariff of secondary importance, the 20% reduction – remarkable lower than the 35% average cuts of the Kennedy Round – and the small increase of the quota confirmed the unwillingness of industrialised countries to make concessions to LDCs, despite the opening statement of 1963 that the Kennedy Round would be a major breakthrough for trade and development.

As for the cereals arrangement, to conclude the negotiations, four elements had to be settled. International prices of reference, access through the self-sufficient rate (SSR), the binding of the MDS and the food aid program. While on international prices of references the quarrels continued along the same lines as 1966, some apparent progress was made on the MDS. The USA accepted to reciprocate importers' binding of the MDS with a commitment to hold stock off the markets; Canada and Australia by binding their internal price, and Argentina by giving up any support for the future. Exporters, however, wanted to remain free to change their policy in case market conditions varied, so implicitly weakening the value of their offer. In contrast, negotiations on SSR remained blocked. The basic question remained whether the EEC would accept an independent food aid program, a decision tied to the room it wanted to concede to third countries on its markets and, generally, to its production and commercial policies. As Rey warned the Six, if the EEC refused food aid it would be inevitable to accept a lower SSR than the 90%, but after having found an agreement in July 1966 on the basis of a 90% SSR and a food aid program linked to the existence of a surplus, for the Six it was difficult to change it on the basis of what the Americans had requested. Belgium, Luxembourg and, above all, Germany remained root and branch opposed to an independent food aid program, and preferred to lower the SSR. Italy and The Netherlands adopted a more flexible position on food aid claiming to be prepared to accept it, if the Americans insisted. France, while opposing the reduction of the SSR, could approve food aid but in the very last phase of the negotiations and if exporters undertook serious commitments on their domestic policy.³⁰

While negotiations over the Cereals Agreement continued at a very slow pace, by the beginning of April it became clear that no commodity agreement would be negotiated for meat and dairy products. The USA was disappointed by the failure of the Meat Group as it had hoped that liberalization of meat in Europe and Japan would take some pressure off US beef imports. France and The Netherlands, exporters of beef meat, were also disappointed as they considered the agreement to be an instrument to organize trade in Europe. With the failure, negotiations between the EEC and the Nordics were moved to the bilateral level where the Commission had to face both the firm requests of Denmark, which refused to conclude the Round unless the EEC made suitable offers for meat and livestock, and the rejection of France and The Netherlands to make such concessions.³¹ By the same token, the failure of the Dairy Group shifted negotiations to

be invited to draw the appropriate conclusions about our fitness to be members of the EEC." PRO BT 241/848 Telegram 162 from Paris to Foreign Office, 15 February 1967.

²⁹ Department of State – Administrative History Volume I-Part VIII, LBJL and Administrative History of the Department of Commerce – Volume I, Part III "Report of Trade Policy Activities", undated, box 2, LBJL.

³⁰ CM2 1967/11 PV de la 207ème session du Conseil de la CEE, 7 March 1967; . NA 364-130 Recs. of the STR, box 5 telegram 4453 from Schaetzel to State Department, 8 March 1967.

³¹ AECB BAC 122/1991-9, Rapport n.99 de la délégation de la Commission pour les négociations du GATT (présenté par Rey et Marjolin), 24 February 1967. CM2 1967/328 Note «Travaux effectués par les membres du Comité 111 lors de

the bilateral level, but for the EEC it remained impossible to get concessions for its butter and cheese as neither the British nor the Americans had any intention of releasing their quota. And the Commission found it difficult to insist on quantitative guarantees when it opposed to do the same for grain. Negotiations in dairy products remained highly disappointing for the EEC and especially for the Dutch who were big exporters of dairy products.³²

To cap it all, trade negotiations between the Nordics and the EEC, the fate of aluminium and paper on which depended, took a dangerous turn. With the new authority to negotiate ad referendum, the Commission started bilateral discussions with the Nordics. After thorny discussions, in the middle of March, Hijzen presented the Nordic delegation with the improvements the Commission planned to suggest to the Council of Ministers. In particular, the Commission proposed a greater reduction on basic paper from 16% to 12%, rather than the previously suggested 14%, and to further increase the duty-free contingent on newsprint and the 5% contingent on aluminium. Hijzen also promised to do his best to convince the Six to improve offers on live cattle, poultry and eggs. In exchange, the Commission asked for the maintenance of the original offers in the industrial sector and improvements in offers for fruits and vegetables.³³ The Nordics remained disappointed by these proposals, which did not consider drastic tariff cuts. And Sweden remained dissatisfied with the lack of offers on trucks and Denmark thwarted by the imprecise engagements for agriculture. Convinced that the time had arrived to be tough with the EEC and to show their weight resulting from negotiating as a block, on 1 April the Nordics withdrew 53% of their offers made up until that moment and hit above all German interests in the mechanical sector and transport equipment.³⁴ The Nordic move infuriated Rey and led to stormy meetings with Swedish Ambassador Montan. Thanks to the authority to negotiate ad referendum, Rey hoped to reach a satisfying compromise to be presented to the Council of Ministers in mid-April 1967, where the Commission would need to convince Member States of the reasonableness of its proposals. But just while the Commission got ready to do so, the Nordics tabled their withdrawals and not only complicated the bargain, as faced with withdrawals the Six were unlikely to respond with improvements, but also undermined the authority of the Commission to negotiate ad referendum. Rey did not modify the list of improvements to be presented to the Council of Ministers in order not to risk a watering down of concessions, a priority for the Commission but, certainly, the Nordic move had complicated his task.³⁵

leur réunion en date du 17 février», 6 March 1967. CM2 1967/17518 Note d'information "Négociations commerciales multilatérales du GATT – Résultats des travaux effectués par le Comité spécial 111", (S/324/67) 5 April 1967.

³² CM2 1967/331, Note «Travaux effectués par les membres suppléants du Comité 111, 26/27 janvier 1967» S/109/67, 7 February; AECB BAC 122/1991-9, Rapport n.98 de la délégation de la Commission pour les négociations du GATT, 23 February 1967; CM2 1967/11 PV de la 210^{ème} session du Conseil de la CEE, 7 March 1967. CM2 1967/11 PV de la 207^{ème} session du Conseil de la CEE, 7 March 1967; CM2 1967/329 PV de la 103^{ème} session du Comité 111, 31 March 1967.

³³ CM2 1967/328 PV de la 101^{ème} réunion du Comité 111 à Bruxelles, 8 February 1967. AECB BAC 122/1991-9, Rapport n.99 de la délégation de la Commission pour les négociations du GATT, 24 February 1967 and AECB BAC 122/1991-9 "Négociations commerciales dans le cadre du GATT", Communication de la Commission au Conseil, NCG(67)18, 4 April 1967.

³⁴ AECB BAC 122/1991-22, Délégation de la Commission pour les négociations commerciales au GATT «Compte-rendu de la sixième réunion officielle exploratoire entre la Commission et la délégation nordique, 17 mars 1967», 18 March 1967. The Danish Minister of External Trade and European Affairs Dahlgaard warned Rey that the Danish delegation to the Nordic group was influential enough to push for withdrawals in the industrial sector, unless the EEC agricultural offers were improved for live cattle, cheese and cereals products. Rey warned that this move could cause a chain reaction of withdrawals so scaling down the liberalizing effect of the Kennedy Round. AECB BAC 122/1991-12 «Négociations commerciales dans le cadre du GATT», communication de la Commission au Conseil, NCG (67)35, 31 May 1967.

³⁵ PRO BT 241/849 Telegram 312 from Melville to Foreign Office, 8 April 1967. CM2 1967/17518 Note d'information "Négociations commerciales multilatérales du GATT – Résultats des travaux effectués par le Comité spécial 111", 5 April

Because of the lack of results in all fields, in the middle of March a sense of crisis prevailed. Roth hoped that the Council of Ministers of the EEC in mid-April could give Rey fresh instructions and be the decisive turning point to conclude the Round by the end of the April. The Commission also considered the Council of Ministers important in finally assessing the improvements the EEC could table, but the meeting did not turn into the final breakthrough to end the Round.

Despite the lack of progress in Geneva, at the Council of Ministers meeting of 10-12 April, the Six and the Commission showed satisfaction for the EEC performance. Rey noted "l'importance psychologique qui découle de l'unité de vue qui s'est jusqu'à présent manifestée dans les délibérations du Conseil et dont les effets ne manquent pas de renforcer la position de négociation de la Communauté". Neef and Tolloy expressed their full confidence in the Commission and their satisfaction with the way it was conducting negotiations, while Couve de Murville expressed satisfaction "pour la solidarité qui a marqué la définition d'une position commune au sein de la Communauté".³⁶ After this expression of satisfaction, the EEC dealt with the major sectors. For chemicals and grains, the Six expressed confidence in the ability of Rey and Mansholt to conclude the negotiations in an advantageous way for the EEC and did not alter the 1966 mandate. On the basis of the discussions the Commission had conducted in Geneva, Rey also presented his proposals to make improvements to the Nordics and also to the Americans both in the industrial and agricultural sector, provided they reciprocated and a reasonable solution was found for disparities. Rey aimed at avoiding a new discussion on each of the single products in his proposals, like the ones in 1966 when Ministers spent hours discussing tricky issues such as canned asparagus duties. The Six, warned the Commissioner, had to take the political decision to improve offers and accept the Commission proposals as they stood.³⁷ Unfortunately, only Neef was disposed to globally approve the orientations of the Commission, with the other governments initially holding reservations. The Commission made recommendations for improvements of offers on items of interest to the USA in the mechanical sector, among which excavating machines much reclaimed by Roth, and in the agricultural sector for tobacco, poultry, fruits and vegetables. Rey hoped in this way to get the USA to improve concessions to the EEC on cheese, fruits and vegetables. Initially, Couve de Murville, Tolloy and de Block did not want to make further concessions to the USA and did not want to request any. They had a negative attitude towards increasing offers in the agricultural sector, as the Americans had a negative attitude on meat, dairy products and fruits and vegetables. Despite this initial reservation, warned by Rey that some improvements were necessary, the Council of Ministers eventually stated that if the Commission could demonstrate that some quid pro quo was possible, protection could be lowered on some items.

As for the Nordics, as Rey had expected, the Six adopted a tough position. They showed genuine disappointment for the withdrawals and deemed that this group of countries had not appreciated the efforts the EEC was making to improve offers. Particularly annoyed was de Block who warned that the Netherlands would toughen their position so to balance the restrictive attitude in agriculture of Denmark and Switzerland who were setting bilateral agreements on cheese and butter and, in the meantime, asked for further concessions from the EEC under the threat of withdrawals.

1967. AECB PV 397, 3-6 April 1967; AECB BAC122/1991-22, Délégation de la Commission pour les négociations commerciales au GATT «Réunion entre la Commission et la délégation des pays nordiques, 6 avril 1967», 11 April 1967.

³⁶ CM2 1967/17 PV de la 212ème session du Conseil de la CEE, 10-12 April 1967.

³⁷ CM2 1967/17518 Note d'information "Négociations commerciales multilatérales du GATT - Résultats des travaux effectués par le Comité spécial 111", (S/324/67) 5 April 1967. AECB PV 397, 3 April 1967 "Négociations commerciales dans le cadre du GATT", Communication de la Commission au Conseil, NCG(67)18, 4 April 1967.

The Netherlands therefore also opposed concessions to the Danish on livestock. Disgruntled by the failure of the Meat and Dairy Groups that denied improved access to the British and American market, upset at the agricultural offers received in the vegetable sector by the British and the EFTA countries and annoyed at the bilateral deal between Denmark and Switzerland, the Dutch refused to grant concessions, in both the agricultural and industrial sectors.³⁸ As a result this country, that had started the Kennedy Round strongly supporting liberalization, attended the last part of the negotiations with positions more akin to those of the country that was generally considered the most troublesome and protectionist country of the EEC, France.³⁹ Rey was worried about the tough stance of the Six and feared they could even withdraw offers. His major preoccupation since December 1966 had been to avoid a downward escalation that could reduce tariff liberalization. Therefore, he took care in underlining that the Nordic withdrawals had been dictated by tactical reasons and not by a real willingness to scale down. And he proposed that the EEC make its improvements, especially for meat to the Danish and fish to the Norwegians, but on the conditions that the Nordics reestablish all offers. The Commission would endeavor to persuade the Nordics to moderate their position and together with the 111 Committee would decide which improvements were to be made. The Six, aware that it was not possible to deadlock discussion with these EFTA countries, accepted Rey's proposals.⁴⁰

What was remarkable in the Council of Ministers session was the readiness of the Six to follow the Commission's orientations, to approve its positions, and to delegate to it solutions of problems. The Commission and Rey in particular were highly satisfied for the member states' attitude and support.⁴¹ The lack of tension and recriminations among the Six, fundamental to maintain the necessary cohesion to bargain in Geneva, was also notable, above all in comparison with the long and extenuating Council of Ministers meetings of the previous years. The Commission and Rey in particular were highly satisfied for the member states' attitude and support.⁴² At any rate, the EEC had not changed positions on key issues such as steel, grains and chemicals and, consequently, when Rey returned to Geneva a major crisis with the Americans was just around the corner.

12.4 Looking for a confrontation

Faced with the general stalemate, Roth settled on adopting a confrontational attitude, seeking a showdown with the EEC and setting up a crisis atmosphere in order to raise the possibility of a failure and push the EEC to improve offers. Crisis, hard line and brinkmanship tactics seemed to be the only way to save the Round.⁴³ In the middle

³⁸ CM2 1967/17 PV de la 212ème session du Conseil de la CEE, 10-12 April 1967. NA 364-130 Recs. of the STR, box 5 telegram 5265 from Schaetzel to State Department, 12 April 1967; AAPD 1967 doc 128 Drahterlass des Ministerialdirigenten Frank, 13 April 1967.

³⁹ For the Dutch attitude towards the Nordic countries see CM2 1967/17519 Note informative «Résultats des travaux effectués par le Comité spécial de l'article 111 lors de sa réunion en date 10 avril» S/344/67, 10 April 1967. This session of the 111 Committee took place while the Council of Ministers was having place and had the task to analyze the Nordic attitude.

⁴⁰ CM2 1967/17 PV de la 212ème session du Conseil de la CEE, 10-12 April 1967. NA 364-130 Recs. of the STR, box 5 telegram 5265 from Schaetzel to State Department, 12 April 1967.

⁴¹ AECB PV 398, 13 April 1967.

⁴² This aspect was remarked also by French negotiators. ANF 724.713, box 7, Premier ministre, Comité Interministériel pour les Questions de Coopération Economique Européenne, Note «L'état actuel des négociations tarifaires de Genève», 6 April 1967.

⁴³ Roth also hoped that the US mission in Brussels would appreciate the fact that crisis and hard line with the EEC were the only way to move the Kennedy Round ahead. Telegram LIMIDIS-POTATOES 3299 from Roth to Bator, 20 April 1967, Roth papers, box 3, LBJL.

of April, Roth moved to Geneva to take charge of the final and crucial phase of the negotiations. Because of the complexity of the questions involved and the rapidity with which decisions were to be taken in this last phase, following the proposal of the Deputy Special Assistant for National Security Affairs Francis Bator, Johnson ordered the establishment of a small and secret inter-agency Common Group, operating from the White House under the direction of Bator himself, to "run last-minute Kennedy Round strategy" and provide the "necessary backstopping for the US negotiators in Geneva".⁴⁴ The aim of the group was to spell out critical issues for the President's decisions and offer ideas and suggestions to Roth. Since 1964 Bator had been playing a growing fundamental role in shaping Johnson's position in the trade negotiations and the setting up of the Command Group further strengthen his role and, at the same time, showed the political importance of the Kennedy Round and that matters in Geneva had to be analyzed not only from the trade point of view.⁴⁵ To prevent leaks in this critical phase of the negotiations, again under the recommendation of Bator, Johnson ordered the establishment of a special limited distribution cable series with the funny code name "LIMDIS (limited distribution)-POTATOES" as the primary means of communication between Roth in Geneva and Bator Common Group in Washington. As Bator put it to Johnson, this organization for concluding the Round sounded "like a battle plan. However, not only five years of work, but your entire trade policy is at stake". Bator appeared to be rather optimistic regarding the conclusion of the Round. "My own judgment at the moment" wrote Bator to Johnson "is that we have a 2-to-1 change of making a good bargain – one which will be good economics, good international politics, and, overall, even good domestic politics. But we will need cool nerves and fine negotiating judgment to pull it off".⁴⁶

On 19 April 1967, Rey, Hijzen, Roth and Blumenthal restarted the Geneva bargain. Both parties recognized that the fate of the whole Round depended on the fate of chemicals and agriculture and they decided to concentrate on these two issues. Rey proposed small increase in offers in non-grain agriculture on the condition that the USA accepted EEC disparity lists and made improvements in the agricultural sector. Roth and Blumenthal were shocked by Rey's requests, while Rey was shocked by the American refusal. To cap it all, the Commission could not engage on a food aid program and did not accept discussing decoupage. For Roth, it remained urgent that the EEC, in addition to accepting decoupage for chemicals, improved its token offers in non-grains agriculture – in particular on fruits and vegetables, poultry, and tobacco – from the 5% average cut it had offered to at least 13%. Agriculture remained of key importance as it was out of question to end the Round without something meaningful in agriculture, as this would cause problems with "an angry farm bloc".⁴⁷

Therefore, Roth decided to make crystal clear that unless agricultural offers were improved the USA would "not conclude the Round". Rey, however did not seem very impressed by US stance and "fired back" that if the USA wished to take the

⁴⁴ In addition to Bator, the common group was composed of Eugene Rostow, the Under Secretary of State for Political Affairs, Anthony Solomon, Assistant Secretary of State for Economic Affairs, Acting Secretary of Commerce Alexander Trowbridge, Under Secretary of Agriculture John Schnittker and John Rehm of the STR. Rostow and Schnittker had to keep Rusk and Freeman informed of the progress of the negotiations. Memo "The Kennedy Round Crisis April-June 1967", NSF National Security Council History, Book 1-TABSI-6, Box 52, LBJL.

⁴⁵ On this issue see Lee, D. Middle Powers and Commercial Policy. British Influence at the Kennedy Round (New York: St. Martin's Press, 1999), pp. 114-115.

⁴⁶ Memorandum for the President from Bator "Management of the Last Minute Strategy in the Kennedy Round", 18 April 1967, Bator papers, box 12, LBJL.

⁴⁷ Telegram LIMDIS-POTATOES 866 from Rusk to Roth, 21 April 1967, Roth papers, box 3, LBJL. For an excellent, even if a little bit gossipy, account of this final phase of the negotiations, see Dryden, S., Trade Warriors, pp. 97-113.

responsibility for "scuttling the Kennedy Round that was an American business".⁴⁸ Yet, the Commissioner underlined that the EEC was not able to make the same liberalizing effort in agriculture as in industry, therefore the "USA should not expect any meaningful concession". Because of the protectionist trade in agriculture, it was completely unrealistic to think that protection could be drastically reduced, claimed Rey. For this reason, the link the United States had put between agriculture and industry and the contemplation of industrial withdrawals due to a lack of benefits in agriculture would destroy a "historical opportunity" made possible by the TEA and could "even kill the Kennedy Round". Rey, however, remained optimistic as he held that in the next two weeks progress could be made and the EEC Council of Ministers meeting of 2 May would consider this possibility of tabling additional offers. In contrast, noting that no progress had been made on substantive issue, including grains where the transatlantic quarrel over the SSR and food aid continued, Roth fell into a "deep mood of pessimism" and wrote to Bator that Johnson would "shortly be faced with having to choose between a Kennedy Round with no offers of substance in non-group agriculture (and perhaps even no agreement) or no Kennedy Round agreement at all".⁴⁹

Because of the full crisis of the Kennedy Round at the end of April, Roth and Blumenthal returned to Washington to report to Johnson the state of the situation in Geneva and discuss how to proceed.⁵⁰ According to Roth and Blumenthal, in addition to brinkmanship tactics, the USA had to make fresh proposals to get things moving for agriculture and to emerge from the deadlock over grains. Therefore Roth suggested that the USA drop its demand on SSR in return for the elimination of feedgrains and MDS from the agreement, negotiating a Cereals Arrangement limited to an international price of reference for wheat and food aid. Dropping US requests on access would allow concentration on food aid and non-grains requests and compensating, in front of Congress, the dropping of access. Consultations with Congress had showed that a complex and ineffective access arrangement would be difficult sell to the legislative body and Johnson might be better off with an Arrangement involving only food aid and price. Roth's suggestion was of major importance as it implied abandoning the MDS that the EEC had presented as a major breakthrough and returning to the standard of the Wheat Agreement plus a food aid program.⁵¹ Roth was optimistic that in the end, with much pressure on the EEC, a reasonable deal would also be attained for non-grain agriculture on which, until that time, the EEC had made concessions only in bits and pieces. On chemicals, Roth was convinced that the EEC would come around on the two-package deal even it could be the "stopper in whole Kennedy Round bottle".⁵²

On top of this, in order to improve US ability to obtain concessions from the EEC, specifically for non-grains, Roth requested authority from Johnson to table modest new offers – "minor sweeteners" as Roth put it – to the Europeans and in particular to Italy. The Johnson administration believed that Italian Prime Minister Aldo Moro fully

⁴⁸ Telegram LIMIDIS-POTATOES 3299 from Roth to Bator, 20 April 1967, Roth papers, box 3, LBJL. PRO PREM 13/1869 Telegram 384 from UK delegation in Geneva to Foreign Office, 21 April 1967.

⁴⁹ Telegram 3388 LIMIDID-POTATOES from Roth to Bator, 26 April 1967, Bator papers, box 13, LBJL. See also Telegram 3390 from Geneva to Bator, 26 April 1967, NSF, National Security Council History, Kennedy Round crisis April-June 1967, Book 2, tabs 25-53, box 52, LBJL and PREM 13/1869 Telegram 402 from UK delegation to Geneva to Foreign Office, 26 April 1967; PRO BT 241/850 Telegram 422 from UK Mission to Geneva to Foreign Office, 30 April 1967.

⁵⁰ Memorandum for the President from Bator "Scheduling Kennedy Round Decisions", 28 April 1967, Bator papers, box 12, LBJL.

⁵¹ Memorandum for the President from Roth 1 May 1967, Bator papers box 12, LBJL. The dropping of the SSR had already been aired by Bator. See Telegram 764 from Bator to Rostow for the President, 24 April 1967, NSF, National Security Council History, Kennedy Round crisis April-June 1967, Book 2, tabs 25-53, box 52, LBJL.

⁵² Memorandum for the President from Bator "Meeting tomorrow on the Kennedy Round", 1 May 1967, NSF, National Security Council History, Kennedy Round crisis April-June 1967, Book 2, tabs 25-53, box 52, LBJL.

supported the trade negotiations for political reasons, but having been hit harder than most of the other Kennedy Round participants, Italy had retained a protectionist attitude. Receiving more offers, Rome would be encouraged to be more amenable to concessions and urge the other EEC countries to do the same. Thus, Roth asked authority to make a 20% reduction on some glassware products and to improve its offers on leather gloves.⁵³ Bator recommended to Johnson the full approval of Roth's requests, but at the same time asked Johnson to approve the recommendation of the Command Group to adopt a more confronting attitude towards the Six – to play “chicken” with the Europeans, wrote Bator – in order to get them to move on agriculture and chemicals. In Geneva, Roth had to announce that he was under instructions to leave for good on the evening of May 9 and that if no agreement had been reached by that time, Washington would consider the Kennedy Round a failure. With a precise time limit, the EEC would have “to face the tough political decisions necessary for a successful agreement”.⁵⁴ Johnson endorsed Roth-Bator's line, despite the opposition of Freeman on the US stance to drop access request for grains.⁵⁵

On the other side of the Atlantic, the huge task Rey had to overcome was to push the Six to make concessions and to give him much more flexibility to bargain. Rey appreciated the clear way with which the USA had stated that withdrawals would be made, as this would allow the Six to face the consequences of their lack of movement. The US stance allowed Rey to return to Brussels and make crystal clear to ministers that they had to increase offers.⁵⁶ Rey was performing a tricky balancing act between the Member States and his negotiating partners in Geneva and his success depended on his ability to conceal or to soften the impact of withdrawals by the other negotiating partners by diverting attention to demonstrable gains which he had obtained.

The discussions between the Six and the Commission took place at the Council of Ministers meeting of 2 May that in the end gave Rey fresh instructions to but not to the point of ending the Round. According to Rey, the fate of the Round would be decided on chemicals and agriculture between the two biggest partners, the EEC and the USA. In fact, obstacles that existed with the small EFTA countries and the UK would be overcome once the two economic powers had reached an agreement, as these European participants could not insist on their demand at the risk of endangering the Round. Hence, the Council of Ministers concentrated on these two problems. On chemicals Rey asserted that the time had arrived to consider decoupage as this seemed to be the only negotiating ground with the USA. He suggested that the EEC offer limited unconditional offers on the non-ASP package of 20% so to push US Congress to remove the ASP if it wanted a further and more substantial 30% cut. Rey also asked to be able to engage the USA in discussion on decoupage, with flexibility on its content. Being aware that suppleness was needed to unlock the bargaining in Geneva, all the Six easily accepted Rey's request and allowed the Commission to undertake exploratory discussions with the Americans on which the Council of Ministers would finally deliberate in its next session of mid-May. While the Six made some progress on chemicals, they remained unmoved on cereals. Despite Mansholt's proposals to accept a 3 million ton program in order to obtain in exchange US agreement to fix feedgrains

⁵³ Memorandum for the President from Roth “Supplemental Authority to Offer Tariff Concessions in the Kennedy Round”, 2 May 1967, NSF, National Security Council History, Kennedy Round crisis April-June 1967, Book 2, tabs 25-53, box 52, LBJL. For the judgement on Moro see FRUS 1964-1968, Vol. VIII, International Monetary and Trade Policy, Doc. 120 Attachment B “Memorandum From the President's Deputy Special Assistant for National Security Affairs (Bator) to President Johnson”, 22 April 1967.

⁵⁴ Memorandum for the President from Bator “Meeting tomorrow on the Kennedy Round”, 1 May 1967, NSF, National Security Council History, Kennedy Round crisis April-June 1967, Book 2, tabs 25-53, box 52, LBJL.

⁵⁵ Memorandum for the President from Bator, 4 May, NSF Subject File, Chronological Files, box 47, LBJL.

⁵⁶ Telegram 3374 LIMIDIS-POTATOES from Roth to Bator, 25 April 1967, Bator papers, box 13, LBJL.

prices, the Belgium and German Ministers for Agriculture Heger and Hoecherl maintained their opposition to the food aid program and asked to reduce the SSR, so at least to engage the EEC in a much more limited food aid program. The reduction of the SSR, however, was precluded by French opposition and Faure continued to lament the weak commitments exporters were prepared to undertake on MDS. The Six decided to let Rey, together with the 111 Committee, negotiate on the SSR and the size of the food aid with flexibility so to achieve a compromise with the USA, but bearing in mind the orientation of Member States.

As for steel, the Six decided to include the steel negotiation in the general negotiations, letting the Commission negotiate in cooperation with the High Authority. In fact, offers in this sector could not be dealt with separately from the general negotiations. However, the ECSC Council of Ministers President Wehenkel and Vice-President of the High Authority Coppé on the one hand, and Rey on the other, did not see eye to eye. Facing what they considered third countries' poor offers, Wehenkel and Coppé started talking about pulling steel out of the Round. On the contrary, Rey judged steel in the broader context and, consequently, opposed the withdrawal of the ECSC offers for the consequences this would have on the entire Round. As a matter of fact, the Americans had already made it crystal clear that if steel was pulled out, they would be obliged to withdraw offers in other sectors. Germany and The Netherlands tended to side with Rey, while France, Italy and Belgium, bearing in mind the difficult period for the steel industry, considered it a priority that the British improve their offers. The Council of Ministers decided to maintain its offers on steel, but asked the Commission to continue negotiations in Geneva to push third countries, and the UK especially, to improve offers.⁵⁷

When Roth and Rey returned to Geneva, Rey told journalists "I came back with a certain flexibility",⁵⁸ while Roth informed that he had been instructed to negotiate until 9 May, but, whatever the case, to return to Washington on 10 May 1967. From 4 to 9 May, negotiations were essentially a bilateral and informal bargaining process between the Commission and the USA in Wyndham White's office on chemicals and agriculture, and a trilateral confrontation with the British over steel. This meant that only the Commission negotiated on behalf of Member States which were kept informed by Rey and the other Commission negotiators through the 111 Committee.⁵⁹ Therefore, in the last and crucial phase of the Round, the Commission was able shed the presence of Member States and constitute the only negotiating agent, as it had sought since 1963.

Despite Rey's claim on flexibility, by 9 May no agreement was in sight, as agriculture, steel, chemicals were still blocked and the same was true for the Commission's Nordic delegation. In steel, the hard-hitting row continued between the Commission and the British. The British eventually accepted to make a limited reduction of ad valorem duty on steel from 10 to 8% so to prove that they "good Europeans" as Melville put it, but refused to make a 20% reduction on specific duties, as the Commission firmly demanded, and wanted the EEC to reduce duties on lorries.⁶⁰ Worse, relations between the Commission and the British were very bad. Rey defined the British attitude disappointing. "Sir Richard Powell garde les mains croisées sur son

⁵⁷ CM2 1967/25 PV de la 215^{ème} réunion du Conseil de la CEE, 2 May 1967.

⁵⁸ Quoted in Preeg, E.H., *Traders and Diplomats*, p.184.

⁵⁹ ANF 724.713, box 7, Ministère de l'Economie et des Finances - DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967.

⁶⁰ PRO PREM 13/1869 Telegram 441 from Melville to Foreign Office, 8 May 1967. See also ANF 724.713, box 7, Ministère de l'Economie et des Finances - DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967.

ventre et ne bouge ni sur les céréales ni sur l'acier ni sur l'agriculture".⁶¹ Faced with such attitude, the European Commissioner "hinted darkly that he might have nasty things to say about British attitude when he meets the Council of Minister". Melville refused to take this threat seriously and did not expect that "any temporary odium will affect" relations between the EEC and the UK.⁶² The Americans too were highly disappointed with the British. Roth held that "the British have played an entirely negative role within the KR over the last several days. They have been difficult if not impossible in steel and on the whole unctuously uncooperative in our general effort". As shown below, a strong American reaction was just in sight.⁶³

In chemicals, as the Commission accepted discussing the decoupage formula, the question became how to fill the package. Against the impasse, Wyndham White put forward his plan according to which the EEC would reduce its tariffs by 20% unconditionally from the ASP removal and without claiming exceptions and disparities; the USA would reduce its duties by 50% without claiming disparities and exceptions. Then the USA would abolish the ASP and in return the EEC would make a further 30% cut.⁶⁴ The Commission expressed a favorable position regarding this proposal, while the Americans refused it as they deemed the 20% reduction by the EEC too small in comparison to the US 50% cut. Moreover Roth refused to reduce duties on dyestuff to less than 30% rather than 20%, as not only Rey was demanding, but also the British and the Swiss.⁶⁵ In the rest of the industrial sector, the USA asked for an improvement of offers in the mechanical and electronic sectors and was prepared to increase its own offers. However, as Rey noted, these sectors were too sensitive for the EEC and no improvements could be expected.⁶⁶

On non-grain products, to solve the stalled situation, Rey took the responsibility – without consulting the 111 Committee – to instruct Commission negotiator for agriculture Rabot to make some concessions on tobacco and canned fruits to which the USA attached a political importance. Unfortunately, Roth continued to consider insufficient EEC offers and made additional requests on a list of seventeen products, otherwise, to fill the imbalance he declared that he was ready to reduce the offer to a value of \$75 million on manufactured tobacco, olive oil for which its duties would be reduced by 25 rather than 50%, and make only a 10% reduction – rather than 50% – on EEC priority exports as tomato paste and products, and only a 25% reduction on bluegrass seed, starch, cherries and wines. Moreover, on most of the other products, reduction would be of 25% rather than 50%. From the original \$39 million of offers the EEC had made improvements to \$100 million. Roth demanded further improvements to

⁶¹ ANF 724.713, box 7, Telegram 610/611 DELFRA Genève au Quai d'Orsay, 9 May 1967.

⁶² Rey took his disappointment out in the open and during a press conference he criticized the unhelpful British position on steel, disparities and balance of offers, including agriculture. In private conversation with the Americans Rey repeated his threat "of political consequences in Brussels". PRO PREM 13/1869 Telegram 441 from Melville to Foreign Office, 8 May 1967. Truly, Melville neither had nice things to say about the Commission. According to him, the "EEC pursued their accustomed tactic of pressing for concessions, pocketing without payments anything that they could pick up and then pressing for more: in the process using method for which bazaar haggling would be too dignified a term" PRO PREM 13/1869 Telegram 439 from Melville to Foreign Office, 8 May 1967.

⁶³ Telegram LIMIDIS-POTATOES 3565 from Roth to Bator, 9 May 1967, Roth papers, box 3, LBJL.

⁶⁴ The Wyndham White proposals had been floated by Powell at the end of March 1967. PRO BT 241/850 Telegram 446 from Melville to Foreign Office, 9 May 1967.

⁶⁵ CM2 1967/17519 Telegram from Schacht in Geneva (Consilium Genève) to Calmès and Megret (Consilium Bruxelles), 9 May 1967 and Telegram 3558 from Geneva to Bator, 9 May 1967, NSF National Security Council History, Book 1-TABSI-6, box 52 LBJL Telegram LIMIDIS-POTATOES 3565 from Roth to Bator, 9 May 1967, Roth papers, box 3, LBJL.

⁶⁶ CM2 1967/17519 Telegram from Schacht in Geneva (Consilium Genève) to Calmès and Megret (Consilium Bruxelles), 9 May 1967 and ANF 724.713, box 7, Ministère de l'Economie et des Finances – DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967; ANF 724.713, box 7, Ministère de l'Economie et des Finances – DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967.

a total value of \$200 million.⁶⁷ Rabot was annoyed by US threat to make such withdrawals above all on such sensitive products as olive oil and warned Roth that in the face of these withdrawals, there was no question of further EEC offers as the American move left him with no selling points to argue with the EEC ministers for an improvement in the offers. In this circumstance, Rabot claimed that "no more could be said" and declined to discuss the issue further. However, in order not to further complicate the negotiations, Rey instructed Rabot to leave on the table the offers made under his responsibility. Rey's move was surely a hazardous one as he had not been authorized by the Six, but the Commissioner held this the only way to make progress.⁶⁸

For cereals, following four days of prolonged and useless bargaining on the SSR, Roth decided to completely change the negotiating ground and on 9 May at three o'clock in the morning he advanced the "revolutionary idea" of giving up the US request for access and confining the agreement to wheat prices and a 5-5.5 million ton program of food aid. Roth grounded his proposal on the fact that effective and continual access to the EEC and the British markets was not attainable. The EEC and the US would agree only to a very high SSR and there was, therefore, no point in negotiating for worthless concessions for which, in turn, the USA had to undertake commitments of domestic policy and price for feedgrains.⁶⁹ Rey was shocked that Roth would make such a breakthrough so late in the negotiations and disappointed because the American proposal eliminated all those elements as the SSR and the MDS that the Commission had pushed forward to organize the world cereal market. At this point it Rey's return to Brussels became inevitable to discuss the issue with the Council of Ministers, as the American proposals were too radical to be accepted – even ad referendum – by the Commission.⁷⁰

On 9 May, at four o'clock in the morning, deadlock was complete. The disagreement between the Commission and the American negotiators stopped the whole Kennedy Round because other countries were waiting for the two biggest partners to make a deal, so that they could build up a general agreement on it. Roth took a tough position, claiming that no further progress was possible, spoke of the failure of the Kennedy Round and of the consequences to be taken. Rey claimed that discussions had to continue, and even if the situation was serious he seemed to be taken aback by Roth's reactions and asked for time to return to Brussels to talk to the EEC ministers.⁷¹ After an initial refusal and an attempt to force Rey to reach a broad ad referendum agreement before leaving for Brussels, Roth agreed to interrupt the negotiations – and not break them off – and give time to the Commissioner to go back to Brussels. However Roth obtained a final and fixed deadline to conclude the Round, hoping in this way to push the EEC to take the final decisions.⁷² Under US and Commission instructions, Wyndham White released a public statement to the press saying that all parties accepted

⁶⁷ Telegram LIMIDIS-POTATOES 3597 from Roth to Bator, 10 May 1967, Roth papers, box 3, LBJL.

⁶⁸ CM2 1967/17519 Telegram from Schacht in Geneva (Consilium Genève) to Calmès and Megret (Consilium Bruxelles), 9 May 1967.

⁶⁹ PRO BT 241/850 Telegram 446 from Melville to Foreign Office, 9 May 1967; Telegram LIMIDIS-POTATOES 3597 from Roth to Bator, 10 May 1967, Roth papers, box 3, LBJL.

⁷⁰ CM2 1967/17519 Telegram from Schacht in Geneva (Consilium Genève) to Calmès and Megret (Consilium Bruxelles), 9 May 1967.

⁷¹ PRO BT 241/850 Telegram 446 from Melville to Foreign Office, 9 May 1967, Telegram 3558 from Geneva to Bator, 9 May 1967, NSF National Security Council History, Book 1-TABSI-6, LBJL; Telegram 3359 from Geneva to Bator, 9 May 1967, NSF National Security Council History, Book 1-TABSI-6, LBJL.

⁷² Telegram LIMIDIS-POTATOES 3557 from Roth to Bator, 9 May 1967, Roth papers, box 13, LBJL. At this point the Command Group urged Roth to concede Rey the time he required and to ignore the 9 May deadline as because it would then be difficult to justify the failure of the Round only for the few hours Rey asked. Roth had already taken this decision in any case. Telegram LIMIDIS-POTATOES 190345 From Rusk and Bator to Roth, 9 May 1967, Bator papers box 12, LBJL.

that the final concluding date of the negotiations would be 14 May, "win or lose", which meant that the Kennedy Round would be concluded by that date whether or not an agreement was reached.⁷³ And to spell out to the Six that Rey had to come back to Geneva with constructive directions, Rusk warned the Europeans of "the incalculable consequences for the Americans attitude towards the whole Atlantic relationship" if the Kennedy Round failed.⁷⁴

12.5 The last Round of the Kennedy Round in Brussels...

On 9 May Rey returned to Brussels to submit to the Council of Ministers the latest proposals by the Commission and to get final instructions to bring to an end the painful and long drawn out Kennedy round. Because of the agreement reached in Geneva to conclude the negotiations by 14 May and because the Six had already agreed that the 9 May Council of Ministers meeting would be the last one dedicated to the Round, this meeting of the Council was the last round of the Kennedy Round in Brussels. Like the ones before it, it was also long, with Ministers of Foreign Affairs, Commerce and Agriculture eager to control every single duty of every single items. At the same time it was characterized by a lack of tension among the Six and a full awareness that concessions were required. On chemicals, Rey asked the Ministers to approve Wyndham White's suggestion – that the Commission had already approved ad referendum – even if this were to be considered the last concession envisaged by the EEC. The Six unanimously condemned the rigid American attitude, but then Couve de Murville's approval paved the way for the Council of Ministers' rapid endorsement. Actually, it also seemed difficult for the EEC to avoid doing so. The proposals for a compromise were put forward by who was considered the neutral and esteemed GATT Director General, and had already been approved ad referendum by the Commission. A refusal would represent a negative answer to Wyndham White, and a rebuff to the negotiating agent. On top of this, with the short time remaining, there was not much the Six could do if they wanted to keep chemicals in the Round. And to facilitate the agreement, France, Italy and Belgium agreed to revise their road tax in exchange for the abolition of the ASP.

By the same token, the Six speedily and easily found an agreement on cereals. Mansholt was highly disappointed that the Commission MDS plan conceived to organize world agricultural markets had been dropped by the USA, together with the SSR. In this way the USA gave up an opportunity to regulate world trade and freeze the level of protection in order not to commit on feedgrains or its domestic policy. At this point in the negotiations, Mansholt bitterly recommended the acceptance of the US proposals as the only way to reach an agreement. Mansholt asked the six governments to give the Commission some flexibility, rather than precise directives, in order to bargain on the ground of a 5 million tons food aid. The Dutch Minister of Agriculture Lardinois was upset by the new American stance as he deemed the EEC proposals on cereals a good way to arrange cereal trade. In any case, the Dutch were not prepared to accept a 5 million ton program, unless the EEC could contribute with other products. The Germans remained negative on food aid, refused to accept a program higher than 3 million and insisted that the Commission remain firm on its engagement on the SSR in order to be able to contribute in a smaller way to the food aid. The American move changed the attitude of Italy, France and Luxembourg. With the prospect of setting up a food aid program not linked to the SSR, these three countries wanted a proper program

⁷³ Telegram LIMIDIS-POTATOES 3577 from Roth to Bator, 9 May 1967, Bator papers, box 13, LBJL; Telegram LIMIDIS-POTATOES 3565 from Roth to Bator, 9 May 1967; Telegram LIMIDIS-POTATOES 3573 from Roth to Bator, 9 May 1967, Roth papers, box 3, LBJL.

⁷⁴ PRO PREM 13/1869 Telegram 1559 from Sir P. Dean (UK Embassy in Washington) to Foreign Office, 10 May 196.

to be set up. In order to underline the development policy aspect of the program, Tolloy, Faure and Gregoire wanted to separate commitments on food aid from the rest of the Kennedy Round in order to consider the program not as a commercial instrument but as a real and independent instrument of aid, and obtain all the political benefits in the relations with LDCs. For this reason, the food aid program had not to be incorporated in GATT, and the 3 million tons had to be minimum contributions. Faure, extremely eager to set the food aid program, and again demonstrating that the French did not oppose giving the Commission the freedom to act, when this corresponded to their trade interest, was even prepared to leave to the Commission maneuvering room, allowing this institution to negotiate the amount of the food aid program in Geneva, without issuing mandate. Against these stances, German opposition was rapidly removed, as at this point there was nothing the Germans could do to avoid the food aid program unless they wanted the collapse of the Round. As a result, the Council of Ministers agreed to give the Commission flexibility to set up in Geneva 3-4 million tons of food aid. Thus, the Six and the Commission speedily and painlessly set a bargaining position for the two thorniest questions in the negotiations with the Americans.⁷⁵

By contrast, the reaching of an agreement on the other questions was not so quick and trouble free, even if all the Six made efforts to reach a compromise and maintain their cohesion. In non-grain agriculture Rey, under his responsibility, had presented some further offers in Geneva that had not been removed despite the American withdrawals. After the Americans had requested improvements on a list of 17 products, Rey presented a report to the Council containing all new offers on 14 products that the EEC should make and, to pressure Ministers to approve it without changes, warned that such improvements were vital to conclude the Round. In Geneva, in the final confrontation with the American negotiators, the Commission would bear in mind the major worry of the Six, but for the moment these proposals had to be approved without changes. Rey aimed at avoiding a new time-consuming confrontation among the Six like the ones that had occurred previously in 1966, when the Commission presented global proposals and the Six asked to pull out. It is worth noting that, being aware that Rey's initiative was necessary, none of the Six criticised Rey for having tabled offers for which he lacked authorization. However, not all of the Six had the intention of approving the report as it stood, and were inclined to have a new round of discussions. Germany opened the way by firmly opposing reducing protection on poultry and on unmanufactured tobacco. Couve de Murville did not share Rey's stance that the attitude the EEC would take on these non-grains concessions would determine the success or failure of the Round. It was a simple question of bargain, "une simple opération de 'bazardage'", declared the French Minister. Thus he objected to reducing levies on sugar, fish, poultry, canned asparagus and peaches and cigarettes. Tolloy for Italy, while expressing his confidence in the Commission, objected the reduction on unmanufactured tobacco tariff from 28 to 24% and shared all French requests. The Belgian Heger and the Dutch de Block, while sharing Couve de Murville's position that the Kennedy Round was not at risk, could accept the Commission report as it stood, if this might push the USA to make counter-concessions on products of major interest to them such as cheese and potatoes. After further negotiations within the 111 Committee and a last round of discussions in the Council of Ministers, the Six finally decided to approve the Commission proposals, including those on unmanufactured tobacco. Couve de Murville gave up French reserves, accepting even to reduce duties on canned fruits. However, Germany and France refused to make further concessions on poultry. As for Italy, the German minister Schiller successfully put pressure on Tolloy to accept a

⁷⁵ CM2 1967/28 PV de la 216^{ème} réunion du Conseil de la CEE, 10-11 May 1967.

reduction of duties on cigarettes from 180% to 100-105%, and not 117% as Italy had requested, leaving to the Commission the freedom to negotiate the final rate in Geneva.

In the industrial sector, Rey presented to the Council of Ministers the proposals to improve offers in the mechanical sector for which the USA continued to demand improvements. The Commissioner had declined the majority of them, but could not object to all. Again, he did not want the Six to discuss the list of improvements, as this would put the Commission in a rigid negotiating position in Geneva. Rey merely wanted the Six to express their orientations, and then the Commission would bear them in mind in negotiating with third countries. Benelux approved the Commission proposals as they stood, Germany was even prepared to increase these offers, while France and Italy, even if disposed to increase some offers, wanted to reduce the Commission proposals, in particular for the sector of excavating machines and machines for public work. In any case, Tolloy and Couve de Murville expressed their full confidence in the Commission and the way it would conduct negotiations, and accepted Rey's request to be given flexibility and freedom to move.⁷⁶

While the talks moved relatively fast on these questions, they stonewalled on questions that concerned the small EFTA countries, as the Six adopted a rigid attitude. The Commission presented a list of improvements to be made to this group of countries touching on, among other things, aluminium and paper. While Germany and Luxembourg were ready to accept it as it stood, the other four had objections. The major problems remained paper and aluminium. On newsprint, the Commission suggested to increase the original 1966 offer for a tariff contingent of 420,000 tons to 625,000 tons, but met with the opposition of Italy, France, Belgium and The Netherlands. On basic paper and transformed paper products the Commission suggested a further reduction of 4 points, from 16% to 12%, and again met with the opposition of these countries. Moreover, the Dutch wanted to subject tariff reductions to a safeguard clause to be negotiated with the Nordics, and allowing a unilateral reduction of imports in case of market disruption. Rey warned that a refusal to make concessions for paper would have serious consequences on the relations with the Nordic blocs as this commodity took a considerable part of its exports to the EEC. On aluminium, the Commission insisted on reducing the duties from 9 to 7% or even to 6% and met the predictable opposition of France. On top of these two sectors, the Commission proposed to reduce from 18 to 15% the duty on frozen fillet to benefit Norway. This concession was considered so important in Oslo that the Norwegian delegation subordinated to it the reduction of duty on cars. However, France put up opposition on the ground that a common fishery policy had not been set yet. Moreover, France opposed new concessions to the Swiss in the watch sector and The Netherlands in cotton textiles. The former claimed that the Swiss had made only small concessions on their NTBs in watches, while the latter held that the small tariff concessions made by third countries and the crisis in the Dutch textiles sector did not allow major concessions. Rey was worried about the restrictive attitude of the four governments. He held these concessions indispensable in concluding negotiations with the small EFTA countries and warned that it was time for political decisions. The Commissioner also expressed his surprise for the fact that the Six had made a considerable effort to reach an agreement with the USA, while they maintained a reticent attitude towards the other European countries. Rey made exerted the pressure he could to push Member States and, against the refusal to move, he warned that they were simply putting at risk the Round and made clear that the Commission would not to be to blame. Rey's efforts to convince the four recalcitrant governments received the support of the Germans. Neef recalled that the EEC had always considered the GATT

⁷⁶ CM2 1967/28 PV de la 216^{ème} réunion du Conseil de la CEE, 10-11 May 1967.

talks as an opportunity to ease intra-European trade but this result would be achieved only if meaningful concessions were exchanged with the EFTA. German and Commission insistences were, in the end, successful. Italy and Belgium showed flexibility and decided to give up all their opposition. Couve decided to make a step forward, suggesting an increase in the 5% tariff contingent for aluminium – while maintaining the opposition to the 9% duty reduction – from 100,000 tons to 120/130.000 tons, agreeing to the Commission proposals on paper, except than for basic paper and transformed paper products for which he accepted only a 3 point reduction, but maintained opposition to the reduction on frozen fillet. The Dutch firmly maintained their opposition to concessions in the paper sector, unless the safeguard measure was negotiated, and on cotton textiles. Thus, in the end, the two countries that had often been poles apart and that were defined as the most protectionist along with the more liberal sided together in refusing concessions. After a second Rey's warning that the reserves requested would seriously complicate negotiations with EFTA countries that could withdraw offers on crucial sectors as cars, shoes, glass and machinery, and after having assured that he would not offer a decrease in the duty on aluminium and would try to negotiate a consultative clause on papers, the Council of Ministers eventually agreed to leave to the Commission the responsibility of negotiating the best solution possible, but bearing in mind the orientation of the six governments. Thus Rey had attained improvements of offers and the flexibility to bargain he had been looking for.

After having settled these issues, the Commission and the Six had still to deal with two thorny issues, steel and meat concessions to Denmark. On steel, against what he considered the poor offers of the United Kingdom, Coppé called for a mere binding of the existing duties, unless the British accepted a reduction in specific duties. As had already happened at the Council of Ministers meeting of 2 May, Rey objected Coppé's approach which considered steel to be outside of the context of the whole Round. A mere binding of duties would cause a dangerous and general scaling down of concessions in Geneva also outside the steel sector. What the EEC/ECSC negotiators had to do was to continue to push for getting improvements but had to be given flexibility and maneuvering freedom. Germany, Italy and the Benelux countries shared Rey's worries and Germany and the Netherlands were even ready to let Rey determine the final decision to be taken according to the development of the negotiations in Geneva. On the contrary, while not holding that steel had to be pulled out, France had a firmer attitude and wanted the EEC/ECSC negotiators to make crystal clear in Geneva that the Six were ready to put steel in the exceptions unless the British, the Americans and the Scandinavians improved their offers. Couve de Murville was disappointed by British offers both in the industrial and agricultural sector and held that if the British kept these insufficient offers, the Commission would be forced to withdraw the EEC concessions. The final compromise formula was elaborated by the German Minister Schiller. The Commission and the High Authority would receive flexible directives and would determine whether the EEC/ECSC offers could be maintained as they stood; if counter-concessions were not given they would decided on a simple binding of the steel duties; and if no sufficient counter-concessions were obtained they could proceed to withdraw the offers.

As for Denmark, both The Netherlands and France were against meaningful concessions on meat and live cattle to this country and this made it difficult for Mansholt to elaborate a proposal that would be acceptable for Copenhagen that had been highly disappointed by EEC offers from the very beginning of the Round. Copenhagen had already underscored that without a satisfying agreement, it would withdraw a major part of its offers and, given that Denmark negotiated as a member of the Nordic bloc, the Six and the Commission were aware that the threat could not be

ignored. The problem in making concessions to Denmark was how to do this without altering the mechanism of the CAP. This was a major priority for Mansholt who could not accept German proposals to grant quantitative assurances to Denmark. Under the Commission proposals, the Council of Ministers agreed to offer Denmark a reduction in tariffs on live cattle and to reduce the import levy, but not in the framework of the Kennedy Round but setting up a bilateral agreement with this country or offering a unilateral concessions, so to avoid extending the concession to other countries.⁷⁷

Having settled the Danish question, the session of the Council of Ministers was over. Rey was highly satisfied with the result of the Council of Ministers meeting. The Six had accepted a large proportion of his requests, dispelled confidence in the Commission's judgment and capacity to bargain to defend the trade interests of the EEC and give flexible directives that he would use to negotiate with his partners in Geneva to conclude the Kennedy round. All the Six showed flexibility and willingness to conclude the Round, and above all the need to maintain cohesiveness. Moreover, each of the Six had sector to protect and no clear distinction between liberal and protectionist could be said to exist. In closing the session, the Belgian President expressed "la reconnaissance du Conseil pour les efforts déployés par la Commission et par M. Rey en particulier, en vue de mener à bien ces négociations. Il exprime encore son entière confiance quant à l'aboutissement heureux du Kennedy round".⁷⁸ Thus the last round of the Kennedy Round in Brussels was over. Now it was up to Rey and to conduct the last, and more difficult, round with Roth and the other Kennedy Round participants.

12.6 ...and in Washington

On the other side of the Atlantic it also was the time for great decisions. In particular the US government had to decide whether the Round could be concluded despite the results in agriculture being substantially inferior than had been expected in 1963. A Command group meeting with Johnson had been set for 11 May to take the last decisions, and assess whether the conclusion of the negotiations would provide advantages to the USA. Bator sent a memorandum to Johnson illustrating the state of the situations and decisions to be taken. On chemicals, the United States and the EEC had accepted a two-package approach and the quarrel had moved on what to insert into the two packages. Bator labeled Wyndham White's proposal a good bargain for the USA. Roth had the intention of trying hard to improve it for cosmetic reasons, as Congress could not accept it as fair deal. In any case, Johnson needed to give guidance to Roth on whether the failure to get the EEC to move by the 14 May would be a serious enough "political business to force the USA to scuttle the negotiations". Bator did not think so, but Johnson would have to hear the positions of the others of the Common group. On non-grain agriculture, after three years of stonewalling, Bator indicated to Johnson that the EEC had finally offered benefits valued at about \$100 million with an average cut of about 12,5%. This corresponded to US cuts of the same size. While Freeman held that withdrawals were necessary, as balance did not exist, the other officials of the Command Group held that any withdrawal involved a serious risk of a general unraveling. The question Johnson had to settle was whether this bargain was enough to avoid a major political war with the farming community. What Bator suggested was that the US negotiators in Geneva pushed as hard as possible, but in the end, they concluded the final bargain even if the more pessimistic assumption about the EEC proved to be the case. Bator emphasized the absolute necessity of avoiding the

⁷⁷ CM2 1967/28 PV de la 216^{ème} réunion du Conseil de la CEE, 10-11 May 1967.

⁷⁸ At the conclusion of the session a standing was given to Rey. But as Rabot put it, after the agreement in Brussels, Rey had "to get out of the trenches!" and meet Roth.

collapse of the negotiations. In economic terms, the failure of the Round could lead to the kind of commercial warfare in which the USA, as trade surplus country, had a great deal to lose. But as Bator put it to Johnson, "The central point here is not primarily the level of tariff. Rather, it is holding to a reasonable set of trade rules without which international trade would become a jungle warfare. [...] The failure of the Kennedy Round would risk just that kind of deterioration into spiraling protectionism, with parliaments holding the whip hand. The direct political implication of the Kennedy Round failure would [...] be even more serious. It would encourage strong forces now at work to make the EEC into an isolationist, anti-US bloc, while, at the same time, further alienating the poor countries" Given these issues, noted Bator, the problems that still existed in Geneva were not worth these risks, "nor would they give the USA a plausible public basis for blowing up negotiations". Thus the negotiations had significant foreign policy implications, and particularly for US policy in Europe, and had to be successfully concluded.⁷⁹

Like Bator, the State Department also pushed for an agreement to be reached at any cost in Geneva and it forecasted all the worst developments from the collapse of the Round. Rusk was genuinely worried about the consequences of a failure of the Round. He held that isolationist and protectionist positions would gain great encouragement, while the "internationalists and liberal traders in the administration and their allies in Congress and in the country at large, would be confused and demoralized, and in no state to resist the pressure upon them".⁸⁰ The failure would be synonymous with the failure of American leadership of the Western world and would reverse the tide moving towards one cooperative world and encourage highly destructive economic rivalries. "The Atlantic partnership concept would be weakened; Gaullist nationalism strengthened; developed and developing countries further divided." In Europe, the difficulties between the EEC and the EFTA countries in adjusting to one another's internal elimination of duties would be aggravated and the chance of the USA benefitting from a generalized reduction in intra-European tariffs would be lost. If the United Kingdom succeeded in joining the EEC, the degree of resulting discrimination against the US and other third countries' exports would be higher than in case of Kennedy Round cuts. Failing the MFN rule, proliferation of preferential areas would be likely, also causing adverse consequences for the US balance of payments position which also depended on US export performance. And even if the achievement of the Round in liberalizing agriculture was modest, it would go further than any other multilateral negotiations. Failure would also call into question the existence of GATT with its rules of the trading game. It might compromise chances for agreement on international monetary reform and presage an eventual return to the economic nationalism and autarky of the Depression years preceding World War II. Moreover the onus for failure would inevitably fall on the Democratic Party and would inevitably result in Congressional recapture of the tariff determining authority, thereby greatly reducing the scope for Presidential action. As a result, the likelihood of receiving further grants of Congressional authority to pursue trade liberalization policies would be severely reduced. On top of all this, the failure would reverse a thirty year trend of progress in trade liberalization and it would unleash the forces of protectionism in the USA and abroad "driving the USA back to the Smoot-Hawley act". Thus, for the State Department the failure was not an option as it would carry with it all these bleak

⁷⁹ Memorandum for the President from Bator "Your meeting tomorrow on the Kennedy Round", 10 May 1967, NSF National Security Council History, Book 1-TABSI-6, box 52 LB3L.

⁸⁰ PRO PREM 13/1869 Telegram 1559 from Sir P. Dean (UK Embassy in Washington) to Foreign Office, 10 May 1966.

consequences, surely over dramatized to push Johnson to conclude the Round, against an eventual opposition of the Department of Agriculture.⁸¹

On 11 May, the Johnson administration had the final meeting on the key issues of the Kennedy Round. In addition to Johnson, Vice President Humphrey, Rusk, Rostow, Solomon, Freeman, Rehm, Trowbridge, Under Secretary of Labor Reynolds and Bator attended. After a full cabinet meeting to reflect on the achievable results, including a possible failure, Johnson asked each individual around the table to state whether he would vote for or against the Kennedy Round bargain even if US best efforts were not able to move the EEC from its present position. All the members of the Command Group, Freeman included, voted in favor. They shared Bator's reasons for avoiding the breakdown of the negotiations and held that the opportunity to conclude the Round could not be lost, despite the disappointing results in agriculture. An overall balance existed with the EEC and the USA got meaningful concessions from the other Kennedy Round participants and even Freeman, despite his recrimination for the small achievements in agriculture, was aware that a failure would bear too heavy costs. After having heard the Common group recommendation, Johnson authorized US negotiators in Geneva to approve the agreement as described by Bator. Johnson shared Bator's conclusion and held that for economic and political reasons the Round could not fail. Economically the USA would lose a considerable bargain in the industrial sector; politically the failure of the Round would be a major setback for relations with the Europeans, a set back that would inevitably influence the negotiations between the USA and the Europeans in other sectors, such as monetary relations. Therefore, Roth was instructed to conclude the negotiations.⁸²

12.7 The final bargain

With the major decisions taken in Washington and Brussels the final negotiating marathon in Geneva could start. The fact that both sides had the political willingness to conclude the negotiations did not imply that a rapid conclusion was just around the corner. A total breakdown was unlikely, since the political pressures in favour of a settlement were great, but the achievement of a final compromise remained tricky and the bargain between the EEC and the USA fierce. The last round of the negotiations took place as an open-ended marathon from 12 to 14 May night when the negotiations remained were fully blocked and at this point Wyndham White decided that the time had arrived to table his package deal for a final compromise containing imputable concessions for all parties.

In the industrial sector, the USA threatened massive withdrawals unless the EEC improved its offers on paper, aluminium, mechanical sector and give up half of disparities claims. The Commission improved offers by one third than what the USA demanded for the mechanical sector and accepted to reduce the disparities list. On aluminium, Rey, being aware that French refusal to cut duty was unmovable, offered to bind an annual tariff quota of 130,00 tons at 5%. In response the USA decided to reduce its duty by 20 and not 50%, while Japan and the EFTA countries made substantial cuts. By contrast, Norway was highly disappointed by the maintenance of the CET at 9% and as it was also dissatisfied by the reduction of the CET on frozen fillet from 16 to 15%, and not 11%, it decided to cut duty on cars from 10 to 8% rather than 5%, as requested by the EEC. On paper, the Nordic countries reluctantly accepted the Commission offers

⁸¹ Memorandum of the State Department written by Hinton, 10 May 1967, Bator papers, box 12, LBJL.

⁸² Memorandum for the records "Positions taken at the Meeting with the President on the Kennedy Round", 11 May 1967, Bator papers, box 12, LBJL; Memorandum of conversation between Roth and Bator, 11 May 1967, Bator papers, box 12, LBJL.

as presented at the Council of Ministers of 11 May.⁸³ With Denmark and Argentina, the Commission agreed to come to a bilateral agreement for live cattle and refrigerated meat. Denmark openly made its reduction of duties on cars dependent to EEC concessions on meat, thus the Commission could not avoid some kind of offer. The Commission and the two countries decided to negotiate from 15 May to 30 June 1967 on the basis of a reduction of duties from 16 to 13% and the settlement of the levies according to seasons and level of prices. This agreement would be concluded outside the Kennedy Round which meant that even if it extended an MFN rule to all countries it would not be bound in GATT.⁸⁴

With many difficulties, chemicals, steel and agriculture remained to be patched up. On chemicals, for Roth it was crucial to work out a compromise of decoupage formula that would at least give the USA some presentational advantage before Congress. By contrast, the Commission wanted to keep at the minimum the unconditional concessions and wanted to make exceptions on plastics. The Commission's stance provoked a reaction from the British who threatened of increasing their duty on plastics if the EEC made exceptions. Roth became furious with Powell because the British stance "could blow up the whole negotiations even if an agreement with the EEC on decoupage" was found. Worst, the British were also the only ones refusing to make NTBs concession in the ASP-package.⁸⁵

For grains, the dropping out of the SSR, MDS and price of feedgrains removed the major obstacles to an agreement between the Commission and Roth and only the question of the size of food aid remained opened. In addition to the EEC-US confrontation on this topic, the last days of negotiations saw a tough bargain between Canada, Australia on the one side and Japan and United Kingdom on the other, for wheat price, with the Americans in the middle to try to convince the two sides to moderate their requests, and between the USA on the one side and Japan and the United Kingdom on the other on food aid. In this area too, negotiations were deadlocked by 14 May.⁸⁶ The reaching of an agreement on non-grain stumbled on the EEC final concession to the USA. The USA stuck firmly to their requests on the seventeen products and threatened to reduce their offers unless the EEC made improvements. Rey suggested improvements on tobacco with a reduction of the duty from 28 to 24%, grapefruits, canned fruits, offals, and poultry, but Roth judged insufficient these improvements.⁸⁷

In steel the British had decided to offer a 10% reduction of specific duties if this proved to be necessary to end the Kennedy Round, but conceived this move a last resort to be taken only if they were forced to avoid a total breakdown and, possibly, if the EEC reduced duties on lorries in return.⁸⁸ The Americans were annoyed by the British attitude. They held that the United Kingdom was causing major troubles on steel, on grains with their refusal to agree on price and food aid, and on chemicals with their an unhelpful attitude. Worst, the British delegation claimed that an imbalance of offers

⁸³ AECB BAC 122/1991-12 «Négociations commerciales dans le cadre du GATT», communication de la Commission au Conseil, NCG (67)35, 31 May 1967.

⁸⁴ AECB BAC 122/1991-12 «Négociations commerciales dans le cadre du GATT», communication de la Commission au Conseil, NCG (67)35, 31 May 1967.

⁸⁵ Telegram 3652 LIMIDIS-POTATOS from Roth to Bator, 13 May 1967, NSF, Subject file-Trade Negotiations, box 47, LBJL.

⁸⁶ Telegram LIMIDIS-POTATOES 3668 from Roth to Bator, 15 May 1967, Roth papers, box 3, LBJL. According to Roth the Australians were "impossible".

⁸⁷ Telegram LIMDIS-POTATOES 3655 from Roth to Bator, 14 May 1967, NSF National Security Council History, Book 1-TABSI-6, box 52 LBJL.

⁸⁸ PRO PREM 13/1869 Note "The Kennedy Round: Final Stage" written by Michael Stewart, 10 May 1967.

existed with the EEC and submitted withdrawals that hit the EEC hard, including on steel and plastic. As a result, Rey decided to withdraw offers on whisky, gin and mechanical sector. He took this decision with hesitation because it had not been authorized by the 111 Committee and felt that the Germans would be unhappy about this move. However, as the British did not move from their position, Rey considered this the only way out.⁸⁹

The American negotiators were particularly upset by the British attitude that, according to them, occurred just when the Commission was making meaningful efforts to conclude the Round.⁹⁰ Blumenthal was particularly "furious at them". Whereas British offers had been originally very good, better in fact than the other participants, "they have been cut back substantially", noted Roth, and had an increasingly negative attitude towards a successful conclusion of the Round. "If their attitude and position continues over the next twelve hours it could tear down the entire structure of the KR. Under these circumstances I think it is absolutely essential that a phone call go at least from Rusk", wrote Roth to Bator. The American negotiator wanted Washington to exert pressure on the British in order to convince them not to cause trouble at this critical moment and, concerning steel, to make all the necessary concessions.⁹¹ As a result, on 13 May American officials "went to London on every channel" to make it clear to Wilson, the other ministers involved in the negotiations and to the British Embassy in Washington that Johnson was taking risk in supporting the Kennedy Round and the British had to improve their offers.⁹²

Rusk called on British Foreign Secretary George Brown to state the danger consequences of the British positions in Geneva. US Ambassador in London, David Bruce, talked with Wilson to emphasize the American concerns regarding the British attitude. Bator and Rostow called the UK Embassy in Washington to express Johnson and Rusk's concern for the British attitude in Geneva.⁹³ The British government reacted by assuring that a successful conclusion of the Round was its major interest and that it was determined to bring matters to a successful conclusion. Therefore it would check with its delegation to Geneva the questions raised by the USA, while Brown "for overriding political reasons" would direct Denman and Powell to soften their positions on crucial matters as steel, grains and chemicals so to conclude the Round and not be blamed for failure.⁹⁴ The British delegation in Geneva was shaken by what it considered America's unjustified onslaught. According to Powell, the Americans had exaggerated in their reaction which gave the impression that obstacles were caused principally by the British.⁹⁵

⁸⁹ ANF 724.713, box 7, Télégramme 638/43 DELFRA à Genève au Quai d'Orsay, 13 May 1967; ANF 724.713, box 7, Ministère de l'Economie et des Finances – DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967.

⁹⁰ Wyndham White too declared to be very depressed and unable to understand why Powell had been "instructed to dig in these last twelve, vital hours" PRO PREM 13/1869 Telegram 1603 from US Embassy in Washington to Foreign Office, 13 May.

⁹¹ Telegram 3652 LIMIDIS-POTATOS from Roth to Bator, 13 May 1967, NSF, Subject file-Trade Negotiations, box 47, LBJL.

⁹² Memorandum written by Bator "For the records", 13 May 1967, Bator Papers, box 5, LBJL.

⁹³ Telephone call to Foreign secretary George Brown (London) from Rusk 13 May 1967, Bator papers, box 12, LBJL; Note "Kennedy Round" from the British Embassy in Washington, 13 May 1967, NSF, Country File, UK, Memos, box 211, LBJL; Telegram 573 from Under Secretary Rostow to US Ambassador in London, 13 May 1967, Roth papers, box 3, LBJL.

⁹⁴ Telegram 581 from Under Secretary Rostow to US Ambassador in London, 14 May 1967, Roth papers, box 3, LBJL.

⁹⁵ Telegram LIMDIS-POTATOES 3655 from Roth to Bator, 14 May 1967, NSF National Security Council History, Book 1-TABSI-6, LBJL. As Roth recognised with Powell, he could not "suppose that Dean Rusk has been telephoning to Couve". PRO CAB 129/130 Report by Powell, 2 June 1967.

Against this deadlock across the board, Wyndham White decided that time for a package deal had arrived. He first mediated to fix the minimum price of wheat (Hard Winter No.2) at \$1.73 a bushel, against the \$1.85 asked by exporters and \$1.65 asked by Japan and United Kingdom, and the a maximum price of \$2.13, reached in the early hours of 14 May. The agreement on price, reached also thanks to Rusk's intervention in London, opened the way for the package deal for chemicals, steel, food aid and EEC offers on agriculture.⁹⁶

In chemicals, after impossible bilateral discussions between Rey and Roth, on 15 May Roth and Blumenthal persuaded Wyndham White to table a decoupage package, elaborated by them, as his own suggestion and as part of his final package. The EEC and UK would reduce tariffs by 20% generally, and by 30% on rates higher than 25%, unconditionally and as part of the Kennedy Round. The USA would make a 50% cut generally and 20% on rates of 8% or below. Japan and Switzerland would make a full 50% reduction. For the conditional ASP-package, the EEC, UK and Switzerland would make additional commitment on NTBs and a further 30% reduction (so to achieve a full 50% reduction), the USA would convert the ASP and lower rates where indicated to a general 20% level. All parties accepted the plan. As for the NTBs, Italy, France and Belgium agreed to remove their road tax, while the British offered a 25% reduction in the tobacco preference which would significantly enhance chances for Congressional action on ASP as the tobacco industry would be willing to support the its removal. As a result, an appropriate compromise was made and the logjam was broken.⁹⁷

On steel, the British accepted, as a part of Wyndham White package deal and after American move, to reduce ad valorem and specific duties by 20%, while the other countries maintained their offers, and despite the EEC not reciprocating with a reduction on lorries.⁹⁸ The British also maintained their offers on passenger cars despite the EEC exceptions on commercial vehicles and their parts. In effect, if the UK excepted cars, the EEC would follow suit and this would mean no tariff reductions at all on motor vehicles. But as the EEC market for cars was important for the British – trade surplus in motor cars and components was in their favor – the EEC reduction of duty on cars could not be forsaken.⁹⁹

For food aid it was only after Rusk's intervention that the British accepted the size of program requested by Roth. As part of the Wyndham White package deal, the Arrangement on cereals would be composed of a food aid program of 4.5 million tons, higher than Rey had been authorized to accept in Brussels, with the contribution divided as follows: 42% for the USA, 23% for the EEC, Canada 9%, Australia, the United Kingdom and Japan 5%, other countries 11%. As requested by the EEC, the Arrangement would be set up outside the Kennedy Round.¹⁰⁰

⁹⁶ Telegram LIMDIS-POTATOES 3655 from Roth to Bator, 14 May 1967, NSF National Security Council History, Book 1-TABSI-6, box 52 LBJL.

⁹⁷ Telegram LIMDIS-POTATOES 3660 from Roth to Bator, 14 May 1967, Roth papers box 3, LBJL; Telegram LIMDIS-POTATOES 3663 from Roth to Bator, 15 May 1967, Roth papers, box 3, LBJL; Telegram LIMDIS-POTATOES 3668 from Roth to Bator, 15 May 1967, Roth papers, box 3, LBJL; Memo "The Kennedy Round Crisis April-June 1967", NSF National Security Council History, Book 1-TABSI-6, LBJL.

⁹⁸ Telegram LIMDIS-POTATOES 3668 from Roth to Bator, 15 May 1967, Roth papers, box 3, LBJL. ANF 724.713, box 7, Ministère de l'Economie et des Finances – DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967.

⁹⁹ PRO PREM 13/1869 Note for the Prime Minister "The Kennedy Round" C(67)35, undated but written in March 1967.

¹⁰⁰ Memo "The Kennedy Round Crisis April-June 1967", NSF National Security Council History, Book 1-TABSI-6, LBJL. The text of the IGA was developed in Rome at the International Wheat Conference of July-August 1967. It was composed of two parts: the Wheat Trade Convention setting minimum and maximum prices for wheat and establishing procedures to be followed when prices reached minimum or maximum levels so to maintain and stabilize price in the range, and the Food Aid Convention which brought exporters and importers into partnership in the food aid program of 4.5 million tons annually along the shares agreed in Geneva. Administrative History of the Department of Agriculture,

On non-grain agriculture, an eleventh hour agreement was reached thanks to the fact that Rey, under his responsibility as it had not been authorized by the 111 Committee, and as part of the Wyndham White package deal, decided to go further than the orientation of the Council of Ministers and to improve cuts on tobacco from 28 to 23%, to cut duties on cigarettes by 50% so that the final duty was 90%, notwithstanding the Italian opposition at the meeting of the Council of Ministers of 10 May, to cut duties on canned salmon, to further reduce duties on offals from 15% to 13% and to make an offer on whisky. In response, the USA improved their offers on tomatoes and cheese, but made no offers on olive oils.¹⁰¹

The various proposals of the Wyndham White package were discussed at the 111 Committee meeting of 15 May. Germany, Belgium and Luxembourg were ready to accept Wyndham White's package deal, while Italy and The Netherlands were reticent to make further concessions on non-grains agriculture, and France asked for time to reflect. In the afternoon, the proposals of the GATT director general were accepted by USA, UK and Japan. In the meanwhile, Rey obtained from the USA a reduction of requests both in the agricultural and the industrial sectors, in particular, the USA accepted a reduction of the CET duty on poultry from 21 to 17% and not 15%, and small increase of offers in the mechanical sector. Rey, after a telephone conversation with Couve de Murville in Paris and Neef in Bonn, and after the further improvements on tobacco, cigarettes and offals taken to accommodate the American requests, during the night session of negotiations in Wyndham White's office, accepted the package deal.¹⁰² In the end, in the early morning of 16 May, a framework agreement was reached thanks to the fact that Wyndham White laid down before the main participants "a package which contained elements equally unpalatable to each". And at this point the Director General could announce to the press that the bargaining was finally over.¹⁰³

Together with this announcement, Wyndham White had to report also the full disappointment of the LDCs. As the Kennedy Round entered its final phase the problems of these countries were moved to a second level and developed countries constantly ignored their requests. This was even more the case during the last days in the negotiations when they mainly concentrated on matters of major concern to them. To try to reduce LDCs' disquiet, two meetings were organized by Wyndham White on 12 and 13 May during which the LDCs repeated their requests, notably maximum reduction on their exports, the bringing to zero of duties on tropical products and implementation of the reduction in one step and not scaled in five years. However, the developed countries did not modify their offers. Eventually the LDCs accused the developed countries of having continuously disregarded their interests and under their insistence, Wyndham White issued a statement noting that actions taken fell far short of the expectations of the LDCs and making this group of countries' disappointment with GATT clearer than ever.¹⁰⁴

Volume I, Chapter III International Trade "The Sixth Round of Trade Negotiations", undated. See this document for a full and technical analysis of the IGA agreement.

¹⁰¹ ANF 724.713, box 7, Ministère de l'Economie et des Finances - DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967; AECB BAC 122/1991-12 «Négociations commerciales dans le cadre du GATT», communication de la Commission au Conseil, NCG (67)35, 31 May 1967 and CM2 1967/16726 PV de la 284^{ème} réunion du Comité 111, 30-31 May 1967.

¹⁰² ANF 724.713, box 7, Ministère de l'Economie et des Finances - DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967.

¹⁰³ PRO PREM 13/1869 Note "The Kennedy Round", 16 May 1967.

¹⁰⁴ ANF 724.713, box 7, Ministère de l'Economie et des Finances - DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967; Telegram from State Department to various posts, 22 May 1967, Bator papers, box 13, LBJL; CM2 1967/48 PV de la 224^{ème} session du Conseil de la CEE, 26-27 June 1967.

Despite the announcement made to the press on 16 May that the Kennedy Round had been concluded, actually only an oral and framework agreement had been reached. The agreement had to be put on paper and numerous details had to be specified before 30 June 1967, the date agreed for the signature of the Final Act. As noted, in order to favor an accord with the United States, Rey tabled offers not agreed by the Council of Ministers. Already in the aftermath of 16 May, some delegations noted that the Commission had accepted a food aid program of a bigger size than that envisaged at by Ministers on 10 May.¹⁰⁵ Then, at the end of May, when the EEC list of offers was put on paper, Member States realized that offers not agreed by them had been conceded. Italy, France and The Netherlands complained about this attitude not only because it put the Council of Ministers in face of a fait accompli, but also because they opposed such improvements on an economic basis. Consequently, they asked for their removal from the list. The Dutch complained about the eleventh hour concessions to the Scandinavians in the fish sector. Italy and France complained about the improvements to the British in food industry sector, even if, in return, the EEC had obtained improvements on fruits and vegetables. The Dutch complained that these improvements from the British did not concern products of interest to them. The Commission tried to avoid the discussion, warning that these withdrawals would push third countries to remove the improvements to the EEC negotiated in the last hours of the 15 May.¹⁰⁶ The final agreement on the concessions was reached among the Six at the Council of Ministers of 26-27 June 1967. Here the greatest part of the concessions negotiated by the Commission was confirmed by the Six and only minor changes were made. However France did not acquiesce to the framework agreement elaborated with Denmark and Argentina and as a result, the EEC offered smaller tariff cuts and reductions in season levies. Argentina and Denmark found these concessions so poor that the first refused to sign the agreement, while the second resigned to it but withdrew some of its offers on cars.¹⁰⁷ Once the agreement had been reached, under suggestion of Rey, the Council of Ministers instructed Hijzen to sign the Final Act of the Kennedy Round.¹⁰⁸

On 28 June Johnson approved the series of multilateral trade agreements negotiated in the Kennedy Round and authorized Blumenthal to sign the agreement on behalf of the USA. The President's formal authorization was communicated to Geneva by telegram on 29 June, and the agreements were signed on 30 June, only hours before the expiration of the five-year tariff-cutting authority conferred on the US President by the TEA of 1962. At this time the Kennedy Round was truly over.¹⁰⁹

Conclusion: Trade and politics in the results of the Kennedy Round

At the conclusion of the Round, each of the participants expressed a mixture of satisfaction with the result and a sense of relief that the long and intricate negotiations

¹⁰⁵ CM2 1967/17936 Telex 23.05/01 from Consilium in Geneva to Consilium in Brussels, 23 May 1967 "Communication de M.Rey aux représentants permanents le 18 mai 1967, en ce qui concerne la conclusion des négociations commerciales multilatérales dans le cadre du GATT".

¹⁰⁶ CM2 1967/16726 PV de la 284^{ème} réunion du Comité 111, 30-31 May 1967.

¹⁰⁷ AECB BAC 122/1991-12 «Négociations commerciales dans le cadre du GATT», communication de la Commission au Conseil, NCG (67)35, 31 May 1967; AECB PV 409, 26-28 June 1967 ; CM2 1967/48 PV de la 224^{ème} session du Conseil de la CEE, 26-27 June 1967; CM2 1967/54 PV de la 2^{ème} session du Conseil de la CEE, 10/11 July 1967.

¹⁰⁸ Rey held that as it had been Hijzen to follow the negotiations since 1962 it was up to him to sign Hijzen would sign "sous réserve de conclusion" which meant that then the Council of Ministers had to definitely approve the Final Act of the Kennedy Round CM2 1967/48 PV de la 224^{ème} session du Conseil de la CEE, 26-27 June 1967.

¹⁰⁹ Memo "The Kennedy Round Crisis April-June 1967", NSF National Security Council History, Book 1-TABSI-6, LBJL.

had been brought to a conclusion.¹¹⁰ Despite the agriculture imbalance, the results of the negotiations remained remarkable and were praised by the press, experts and governments. Duties had been cut by an average of 35% and applied to \$40 billion worth of goods. Even if the 50% linear cut had not been achieved, the reductions were higher than in the previous round. On top of this, a food aid agreement of 4.5 million tons per year had been agreed. Efforts were also made to attack NTBs: an agreement to abolish the ASP was reached and an anti-dumping code among the United States, the EEC, the UK, Japan, Canada and most of the EFTA countries to uniform the antidumping practices was signed.

President Johnson emphatically defined the Kennedy Round as the "beginning of a new phase of international trade" and "the most successful multilateral agreement on tariff reduction ever negotiated". Roth underlined the impetus the positive results the Round would give to US exports and help in reducing the deficit in the balance of payments.¹¹¹ Rusk, referring to results, defined the deal fair and balanced, giving special advantages to the USA thanks to the food aid sharing.¹¹² A telegram of the State Department issued on 16 May highlighted that the Round strengthened world multilateral non-discriminatory trading system and was "the proof of the solidarity of the industrialized countries and their readiness and ability to deal successfully with highly charged problems. We have been drawn together by our overriding common interests than divided by economic differences".¹¹³ Thus, even if Roth also held that the USA "could have done better here or there" and that Johnson's remarks were also made in praise of his own policy, the fact remained that the Kennedy Round was a significant result for US economic diplomacy that had been able to move forward, and then conclude, a much complicated trade round of negotiations.¹¹⁴

Actually, US Congress remained skeptical, both as it held that no meaningful results had been achieved in agriculture and as it was not enthusiastic about the deal reached on the ASP. As shown in the next chapter, Congress would show its displeasure by refusing to approve the elimination of this NTB. Commerce Secretary Alexander Trowbridge and Freeman, while trying to loyally defend the results of the US negotiators, remained dissatisfied for the agreement that did not liberalized agriculture.¹¹⁵

The EEC also expressed satisfaction with the results of the Round. The French held that the EEC had achieved its major aims. The exceptions list of November 1964 had been almost maintained and the mechanism of the CAP had not been modified.¹¹⁶ The Germans too expressed their satisfaction for the liberalization achieved in the industrial sector, and also Italy and the Benelux countries claimed to have achieved rewarding results.¹¹⁷ In commenting upon the results obtained, Rey claimed that "dans le domaine industriel, les résultats de la négociation peuvent être considérés comme satisfaisants. La politique agricole commune est sortie intacte de la négociation. Dans

¹¹⁰ Memo "The Kennedy Round Crisis April-June 1967", NSF National Security Council History, Book 1-TABSI-6, LBJL.

¹¹¹ ANF 724.713, box 7, Telegramme 2747/66 Lucet au Quai D'Orsay, 26 May 1967, reporting Roth's press conference on the Kennedy Round.

¹¹² ANF 724.713, box 7, Télégramme 2747/66 Lucet au Quai D'Orsay, 26 May 1967.

¹¹³ Telegram 195839 CIRCULAR from State, 16 May 1967, Bator papers, box 5, LBJL.

¹¹⁴ Dryden, S. *Trade Warriors: USTR and the American Crusade for Free Trade* (Oxford: Oxford University Press, 1995), pp.112-113.

¹¹⁵ Eckes, A.E. Jr, *Opening American Market*, p.199.

¹¹⁶ ANF 724.713, box 7, Ministère de l'Economie et des Finances - DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967.

¹¹⁷ AAPD 1967, document 170 Ministerialdirigent Graf von Hardenberg an Staatssekretar Lahr, 17 May 1967 and CM2 1967/48 PV de la 224^{ème} session du Conseil de la CEE, 26-27 June 1967.

l'ensemble les résultats des négociations dans le secteur agricole sont modestes".¹¹⁸ By the same token, the British too were pleased by the results and Powell held that the final agreement was "a highly satisfactory outcome".¹¹⁹

In effect, as Rey noted, the Kennedy Round produced mixed results. In the industrial sector, it produced the remarkable 35% reduction of duties, with about two-thirds of the cut reaching 50%. In 1972, at the end of the Kennedy Round implementation period, Japan would have an average tariff level of 11.5%, United Kingdom of 10.4%, USA of 9.4% and the EEC of 8.2%. Actually, achievements varied across the sectors. Only limited results were achieved for textiles, steel, and aluminium, while major results were achieved in the mechanical sector and chemicals, if the APS was eliminated.¹²⁰

The rule of exceptions allowed the USA and the EEC to pull out of the linear cut the most sensitive industrial sectors, but at the same time they made important concessions that would open some economic sectors to increased competition. With an average reduction of 45%, machinery was the industrial sector where the greatest cuts were made and this was sure a major concession by the EEC, given that American and British products were competitive and that the existing CET was already low, between 6 and 12%. The EEC, however, because of the French and Italian opposition, excepted business machines and electronics, two new industries it did not want to subject to the competition of the USA. In the automobile sector, the EEC reduced the CET from 22 to 11% on cars, but refused to make any cuts on heavy commercial vehicles and tractors, at the displeasure of the British.¹²¹ The United States also obtained major benefits with all its major trading partners and was particularly satisfied of cuts achieved in machinery sectors. At the same time, Washington expressed regret at the minor cuts on aluminium, steel, business machines and electronics.

Table 1 shows that reduction of tariffs by major products made by the USA and the EEC. As already noted, the major cuts were made in the machinery sector and chemicals.

Table 1. EEC Tariffs before and after the Kennedy Round

	Before the Kennedy Round	After the Kennedy Round
All Chemicals	14,3	7,6
Leather manufactures	9,2	5,7
Rubber manufactures	15	7,8
Wood and cork manufactures, except furniture	10,9	8,8
Paper and Board manufactures	10,7	7,5
Textile	16	15,6
Mineral manufactures	9,4	5,5
Iron and steel	9,4	6,7
Manufactures of metal	12,8	7,2
Machinery other than electric	11,1	6,4
Electric machinery	14,2	9,1
Transport equipment	15,4	9,9

¹¹⁸ CM2 1967/17936 Telex 23.05/01 from Consilium in Geneva to Consilium in Brussels, 23 May 1967 "Communication de M.Rey aus représentants permanents le 18 mai 1967, en ce qui concerne la conclusion des négociations commerciales multilatérales dans le cadre du GATT".

¹¹⁹ PRO PREM 13/1869 Note of Powell "The Kennedy Round", 16 May 1967.

¹²⁰ For a detailed description of the Kennedy Round results sector by sector, see also Preeg, E.H. Traders and Diplomats, 204-236, Curtice, T.B. and Vastine J.R.jr, The Kennedy Round and the Future of American Trade

¹²¹ ANF 724.713, box 7, Premier ministre, Comité Interministériel pour les Questions de Coopération Economique Européenne, Note «Négociations commerciales dans le cadre du GATT» 16 May 1967.

Footwear	17,8	12,4
Instruments	13,3	8,4

Source: Preeg. E. *Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations under the GATT* (Washington, DC: Brookings Institute, 1970), p. 208-209.

Table. 2 US Tariffs before and after the Kennedy Round

	Before the Kennedy Round	After the Kennedy Round
All Chemicals	17,8	9,3
Leather manufactures	16,2	10,4
Rubber manufactures	11,3	6
Wood and cork manufactures, except furniture	7,1	6,8
Paper and Board manufactures	10,9	5,5
Textile	21,4	20,1
Mineral manufactures	9,9	7,5
Iron and steel	6,5	5,7
Manufactures of metal	14,7	7,7
Machinery other than electric	11,9	6
Electric machinery	13,6	7,1
Transport equipment	7,1	3,5
Footwear	21,1	12,1
Instruments	21,1	13,1

Source: see table 1

It is also worth noting that one of the aims of the EEC in attending the Round had also been to reduce intra-European discrimination. Certainly, the Kennedy Round, with its average reduction of 35%, lessened this discrimination, however it left out major sectors, such as heavy commercial vehicles, and made only token reductions on aluminium and minor ones on in the paper sector.

With the significant reduction in tariff barriers, NTBs became the major obstacle to trade exchanges and in this sense the anti-dumping code paved the way for to the inclusion of NTBs in the Tokyo Round, where the major focus was indeed on NTBs. However tariffs were not rendered redundant. Even if the average level was low, as table 1 and 2 show, in some sectors they remained high. Thus, in the industrial sector the interests of all the Kennedy Round participants to lower tariffs of the other participants led to a reciprocal substantial reduction of protectionism, both across the Atlantic and in Europe. Even if some sectors remained out of the liberalizing efforts as all governments had their trade sectors to protect, meaningful results were achieved and in this sense the Kennedy Round reduced protectionism. And the EEC, while maintaining its regionalism, was not heading to become a stumbling block in this regard. In this sense, the Kennedy Round surely enhanced economic interdependence in the industrial sector.

In marked contrast were the results in the agricultural sector. For the first time in international commercial conference, agricultural trade had been a key issue, but no major result was achieved apart from the clear awareness that negotiating in this sector was a difficult task. A commodity agreement on wheat and an food aid program were set up, and token tariff cuts were made on poultry, fruits and vegetables, offals and some more substantial cut on tobacco. But this result did not amount to a major result as the protectionist trend was not scratched. For the USA, agriculture was a major disappointment, as it had not been able to reduce the protectionism of the CAP, got no quantitative access guarantees and was not satisfied with the EEC token tariff cuts and sharing of food aid for cereals. For Freeman, the Kennedy Round met with only

"limited success" in removing or lowering trade barriers, and in the hard-core products had "no success at all". Above all the Secretary of Agriculture pointed at the lesson taught by the Kennedy Round. The negotiations showed "a fundamental difference among the major trading partners as to international trade philosophy". Big exporters like the USA trade on the basis of comparative advantages, the EEC adhered to this principle only in a few cases, while the LDCs never did. Because of these major conflicting views, no major achievement was made at the Kennedy Round.¹²²

In a statement before the Joint Economic Committee of Congress on 11 July 1967, the Under Secretary of Agriculture John Schnittker claimed that the "[CAP] system, which insulates home producers from the effects of outside competition regardless of the difference in efficiency, is perhaps the greatest unsolved problem in international trade today". The Kennedy Round, having failed to reduce the CAP's protectionism, did not succeed in reducing EEC protectionism. The Americans had started the Round with the clear intention of including agriculture in the liberalization of trade. The EEC was setting up its CAP, trade surplus in agriculture was crucial for the Americans and therefore, their aim was logical. However they were not able to push the EEC to start liberalizing trade. The EEC did not aim at liberalizing agriculture but at regulating it, so to bind the existing level of protectionism and defend EEC regionalism. Moreover, as the negotiations in the industrial sector had demonstrated, reduction of protectionism occurred only when a reciprocal interest in enhancing exports existed for a given sector. But in agriculture this situation did not exist. The USA was interested in increasing its foodstuff exports to the EEC, while the EEC did not share this priority. Thus, as the British had warned in 1963, from the beginning of the Round the Americans lacked the bargaining power to push the EEC to reduce its protectionism, because the priority of the Six was to set up a regional agricultural market and to regulate agriculture at world level, and not to decrease US protectionism and therefore be ready, in return, to decrease their own protection in this sector. Actually, it should also be recognized that US support for European integration further weakened US strength to reduce CAP protectionism. In effect, Washington supported the CAP as an instrument to give unity to the EEC and, as a result, never took a confrontational or challenging attitude towards this common policy and never questioned in Geneva its consistency with GATT. One can wonder what might have happened to the CAP, also given German disaffection to this policy, if the USA had decided to openly and confrontationally challenge it.

The EEC also considered the agricultural part of the Kennedy Round to be, if not failure, surely inferior to what had been hoped. Only meaningless cuts had been made on products covered by tariffs. On top of this, no commodity agreements had been reached on meat and dairy products and only a partial one had been signed for cereals. However, the great regret on the part of the EEC and above all of the Commission was the refusal of third countries to negotiate under the MDS. The EEC, and the Commission in particular had considered the Kennedy Round an opportunity to organize agriculture at world level, binding the existing level of protectionism and, hence, reducing the protectionist effects of the CAP. According to the Commission, this chance was missed and negotiations failed because exporters had not abandoned the classical concept of access and quantitative assurance. "Le souci du bénéfice 'cash' immédiat l'a emporté sur les bénéfices plus solides et plus réels à long terme d'une

¹²² Administrative History of the Department of Agriculture, Volume I, Chapter III International Trade "The Sixth Round of Trade Negotiations", undated, box 1, LBJL.

véritable coopération internationale".¹²³ Despite the regret for this missed opportunity, the EEC ended the Round with the CAP intact, thus it achieved a goal set upon entering the Kennedy Round. But this also meant that the EEC concluded the negotiations constituting major stumbling block in world agricultural trade, as GATT had not been able to overcome EEC protectionism with major consequences on world trade. In fact, in the following ten years, the EEC shifted from being the prime importing bloc to be the prime exporting bloc. In this sense, the results of the Kennedy Round set the tone of international trade: it led to freer trade in the industrial sector and protectionism in agriculture.

According to Eckes, "the United States achieved few of its initial goal. Although it negotiate down European tariffs on industrial products and preserve the open global system trading system, America failed to open agriculture markets or increase opportunities for exports from developing countries."¹²⁴ For Zeiler "pursuing trade liberalization for the sake of national security and economic health, the president forged an agreement at the Kennedy Round that hurt U.S. interests". Moreover, the EEC "won its aim of lowering industrial tariff while maintaining agricultural barriers".¹²⁵

Discussions which took place from 1963 to 1967 showed the problems on the way to the liberalization of agriculture, the nature and the size of the system of protection of the domestic policies. The problems of world agriculture had clearly surfaced, even if the political willingness to resolve them had still to mature. A last word on the MDS is necessary. The negotiations method proposed by the EC to tackle agricultural protectionism was technically a rational and sound one. All factors determining the degree of protection would have to be integrated in the MDS and become negotiable both by exporters and importers. Simply binding reduced customs tariffs would not liberalize agricultural trade in an effective, sustainable and politically acceptable way and would simply lead to circumvention through other distorting measures. It was, however, clear to all negotiators that calculations of existing "montant de soutien" for all the key commodities for the main participants would be a time consuming process that would involve massive research of data and thereafter painstaking and intrusive controls by GATT. While acceptance of the proposed modality by its partners would have led to binding the maximum levels of the ECC variable levies – something it had steadfastly refused until that time – the ECC was prepared to accept that kind of commitment provided that this would take place in the context of properly disciplined agricultural policies of all key trading nations. After the Kennedy Round, developments in the Tokyo Round again made it abundantly clear that the traditional way of tackling the agricultural sector in multilateral GATT negotiations only at the level of import border measures could never bring liberalization for the major agricultural products. In the end, it was to be the OECD, which towards the middle of the 1970s and during the 1980s, produced basic studies on overall support levels which helped the GATT in the Uruguay Round to begin dealing successfully with agriculture by encompassing all relevant measures: customs tariffs, domestic measures of support, export subsidization and sanitary and phytosanitary regulations. And now, in the ongoing Doha Round that started in 2001, the 'montant de soutien' approach in fact remains at the basis of the present sophisticated agricultural negotiating techniques.

At the first Council of Ministers meeting after the end of the negotiations in Geneva, Rey addressed "les remerciements les plus chaleureux au Conseil pour la

¹²³ AECB BAC 209/1980-297 PV 409, 31 May 1967 "Dixième rapport general". For the EEC dissatisfaction on agriculture see also ANF 724.713, box 7, Ministère de l'Economie et des Finances – DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967.

¹²⁴ Eckes, A.E. Jr, Opening American Market, p. 200.

¹²⁵ Zeiler, T.W. American Trade and Power in the 1960s,

confiance dont il a bien voulu témoigner à son égard. Il souligne que sans cette confiance et la cohésion communautaire qui ont caractérisé les travaux internes menés au cours de ces derniers mois, il n'aurait pas été possible d'aboutir aux résultats réalisés à Genève"¹²⁶ Rey's remarks at the Council of Ministers contained the two most noteworthy aspects of the EEC in the last phase of the Round: the confidence of the Six in the Commission and their cohesiveness.

One year after the end of the crisis of the empty chair, the Six had been able to maintain the necessary cohesion to attend the last phase of the Round. Such effort had required compromise by all the Six, which had to make concessions in Brussels so to achieve the elaboration of the common position and maintain the necessary cohesion to negotiate in Geneva. As the French remarked, on the political level "l'affrontement du monde extérieur a aidé les Six à prendre une conscience plus vive de leurs intérêts communs et les a conduit à faire preuve dans la phase finale des négociations d'une remarquable cohésion." And this cohesion was the principle strength of the Six.¹²⁷ Of the same opinion were the Germans who also emphasized the cohesion of the Six and their willingness to compromise so to reach a common position.¹²⁸ In this sense, the Kennedy Round strengthened the solidarity of the Six and marked their existence as a unit in world trade. To be sure the Six found themselves in disagreement on many issues that corresponded to different national economic interests and different commercial policies, nevertheless these disagreements did not preclude the reaching of compromises. They were aware that negotiating with a unified voice reinforced their bargaining strength and, consequently, concessions to achieve the necessary compromise to negotiate as a sole entity were indispensable. They had a relevant trade interest in staying together in a Community and, consequently in negotiating as a unit and making the necessary concessions. And this also when their commercial policies were poles apart, as was the case for grains. In effect, for the Six attending the Round as a unit meant elaborating a common commercial policy which needed reciprocal concessions to the different trade interests. In this sense, the GATT negotiations favoured the elaboration of the common commercial policy.

The second aspect worth emphasising is the confidence of the Six in the Commission. One of the aims of the Commission in attending the Kennedy Round was to establish itself as the sole negotiator on behalf of the EEC. In the last phase on the Round, that is to say after the crisis of the Empty Chair, the Commission was able to achieve this goal, confirming once more that the crisis had had no effect on the role of the Commission in such a fundamental field as trade relations with third countries. In 1963, Germany and The Netherlands had often challenged this aim by asking to attend the bargain between the Commission and the other Kennedy Round participants. As for the French, who during the crisis of the Empty Chair had strongly complained about the actions of the Commission, they never questioned the latter's negotiating role or its right to negotiate in the absence of the Member States. This had been the attitude of the French government before June 1965 and remained also so after January 1966. In 1967, the Six were very well aware that to effectively enhance their trade interests, the EEC had to be represented by the Commission that could show up in Geneva with a single position. Thus Member States allowed this institution to strengthen its role because this was in line with their trade interests. Step after step, the Commission was first able to

¹²⁶ CM2 1967/39 PV de la 221^{ème} session du Conseil de la CEE, 5-6 June 1967.

¹²⁷ ANF 724.713, box 7, Premier ministre, Comité Interministériel pour les Questions de Coopération Economique Européenne, Note «Négociations commerciales dans le cadre du GATT» 16 May 1967. See also ANF 724.713, box 7, Ministère de l'Economie et des Finances - DREE, Note «Négociations commerciales multilatérales de Genève. Bilan succinct des travaux du 8 au 15 mai 1967», 18 May 1967.

¹²⁸ AAPD 1967, document 170.

silence the representatives of the Member States that attended the discussions in Geneva and then, finally, to get rid of them. As a matter of fact, the last phase of the negotiations was conducted by Jean Rey and the other Commission negotiators, while representatives of the Member States waited outside the bargaining room to then be informed by the Commission itself. Therefore, there is no doubt that the Kennedy Round strengthened the role of the Commission in international trade relations. And it is worth noting that the sector in which the influence of the Commission was stronger was indeed the agricultural sector, despite the fact that the Treaty of Rome did not authorise this institution to negotiate with third countries. In fact, the Commission negotiated in Geneva with a plan, the MDS, that it had itself negotiated and Member States never questioned its authority and, on the contrary, they highly considered Mansholt and Rabot's opinion for this sector. In the last phase of the Round, member states were progressively inclined to defer to Rey's opinions.

At the end of Round Rey praised the major played by his institution and the high quality of the technical work of the Commission in general and of the Commission delegation in Geneva in particular. Beyond Rey's partisan satisfaction, it is worth noting that in fact it was also thanks to this high technical work that the Commission was able to retain a major role. The Commission underlined not only the major result obtained at international political level but also at the institutional level.¹²⁹

This does not mean that the Council of Ministers was ready to let the Commission decide. On the contrary, in Geneva, the Commission negotiated under the control of the 111 Committee and had to constantly to shuttle back to Brussels to get instructions from the Ministers who firmly retained the decision-making authority in their hands and controlled every detail of the Kennedy Round. And this was demonstrated by the long Council of Ministers meetings where ministers of the Six spent hours discussing tricky issues like duties on canned peaches. But this did not impede Rey from table offers not authorised by Member States. At the same time the Commission was able, thanks to its technical expertise and the fact that it was conducting the negotiations without Member States' presence, to influence the final decisions of Member States. In this sense, it actively participated in the decision-making process.

The Kennedy Round was a major confrontation between the EEC and the USA. The Six, thanks to their relevance in world trade given that they negotiated as a unit, were able to bargain with the USA as a partner of equal strength. The USA had launched the Kennedy Round in order to keep the two sides of the Atlantic together, under US leadership. By reducing barriers across the Atlantic, the Kennedy Round strengthened the Atlantic alliance's cooperation, but it is also true that, in 1967, major problems strained relations between the USA and the EEC and a successful GATT Round was not enough to hide these strains.

However, Washington highly resented the fact that the CAP protectionism had not been reduced. With Congress in a protectionist mood and the US deficit in the balance of payments it became more difficult to justify European discrimination and, therefore, to support the EEC. The results of the Kennedy Round clearly showed the direction the EEC was taking in international trade and this was a direction the US did not like. It would be with these unresolved problems that President Nixon would have to deal in 1969 when The Hague Conference paved the way to British entrance into the EEC and uncritical support for European integration and EEC enlargement became difficult for the US government to maintain.

¹²⁹ AECB PV 403, 17 May 1967.

Chapter Thirteen

Trade and politics across the Atlantic in the aftermath of the Kennedy Round

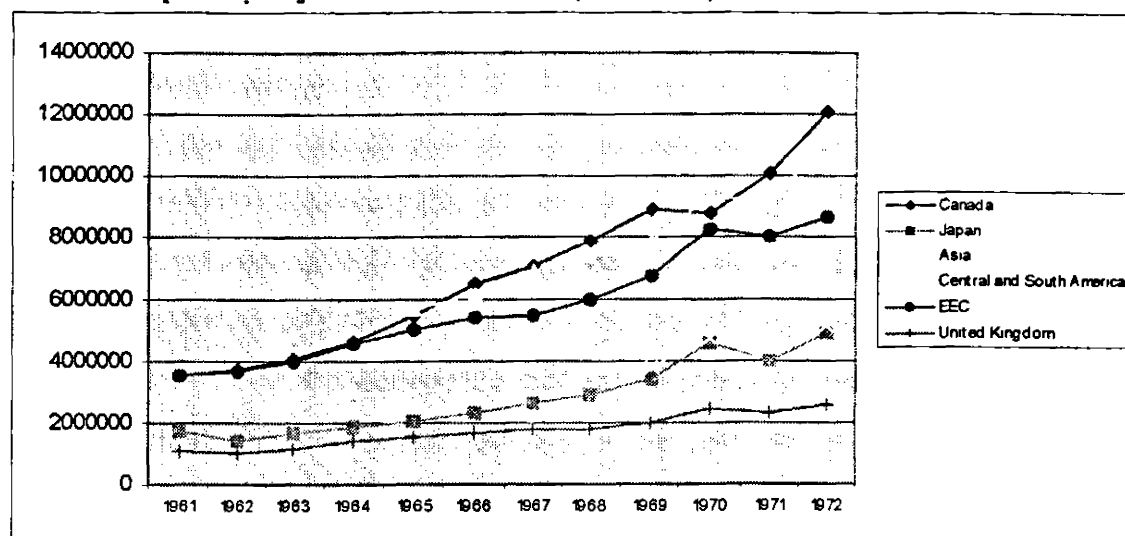
Introduction

The previous chapter described the final bargain reached at the Kennedy Round, and illustrated the results in the industrial and agricultural sector. We highlighted that, in Washington, support for European integration was coming to be challenged both by Congress and the economic departments of the Johnson Administration. It also emphasized that the EEC ended the Kennedy Round with a clear awareness of its commercial strength as a unit in world trade. In this last chapter, we shall analyze trade patterns across the Atlantic during the implementation period of the Kennedy Round (1967-1972), and the relations between the EEC and the USA in this same period. The analysis of the trade patterns will help us to understand the effects of the results of the Kennedy Round. The description of the relations between the two sides of the Atlantic allows us to describe the Nixon administration's reaction to the British entrance into the EEC, put on the EEC agenda again by The Hague Conference at the end of 1969. The Kennedy Round and the Atlantic partnership between equals initiative had also been launched to address changes that were taking place in Europe with British membership of the EEC envisaged. Analyzing the reaction of the Nixon administration to the EEC enlargement allows us to conclude this thesis by dealing with one of the topics analyzed at the beginning, and to shed some light on the crucial question of the extent to which Washington desired British entrance, describing the changes that were taking place in the US support for European integration. We shall, in fact, conclude that even if US support remained, US policy towards the EEC became more confrontational and challenging to such a point that it could be defined as a *hostile* support.

13.1 Trade patterns across the Atlantic

The Kennedy administration had launched the GATT round in order to enhance US exports in order to increase the trade surplus, possibly to a level adequate to compensate for the deficit in the balance of payments, and to integrate the EEC into the global multilateral system. In this section, we shall analyze what happened to US and EEC imports and exports in the aftermath of the Round. As table 1 illustrates, from 1967 to 1972, US exports to Canada increased at the fastest pace compared to all other areas, fell in 1969 and then started increasing again. US exports to the EEC rose at almost an equal pace until 1970, declined in 1971 and in 1972 got back to the 1970 level. In the same period, US exports to Japan increased, but at a slower pace in comparison to Canada and the EEC, and, just like exports to the EEC, also declined in 1970, only to again increase in 1971. US exports to Asia increased at a similar pace to those to the EEC. From 1967 to 1972, US exports to central and South America increased at a slower pace than those to the EEC and Canada, while exports to the United Kingdom also stalled. In general, the EEC remained among the most dynamic markets for US exports, until 1970 when US exports to Canada and Asia increased at a faster rate.

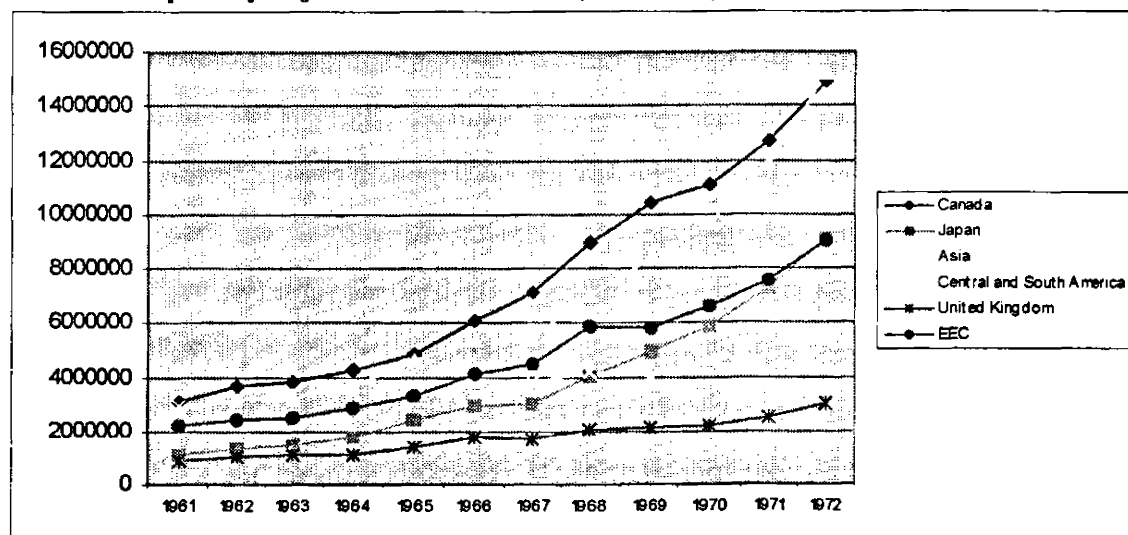
Table 1 US exports by major areas and countries (\$ thousand)



Source: OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

As table 2 highlights, US imports from Canada, Asia, Japan and the EEC grew at a faster rate compared to exports, as a result, it was believed, of 1969 recession, of lagging productivity gains, inflation and an overvalued dollar.¹

Table 2 US imports by major areas and countries (\$ thousand)



Source: OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

Table 3 summarises Tables 1 and 2 and highlights that the USA had a trade deficit with Canada and Japan from 1967 onwards, while it was only in 1972 that a trade surplus became a deficit with the EEC as well. Above all, the table shows that in 1971, for the first time since 1893, the US trade surplus had become a deficit. In this sense, therefore, the Kennedy Round did not help in rectifying the US deficit in the balance of payments that, in any case, by the end of the Round was heavily hit by the Vietnam War and the Johnson Great Society program.

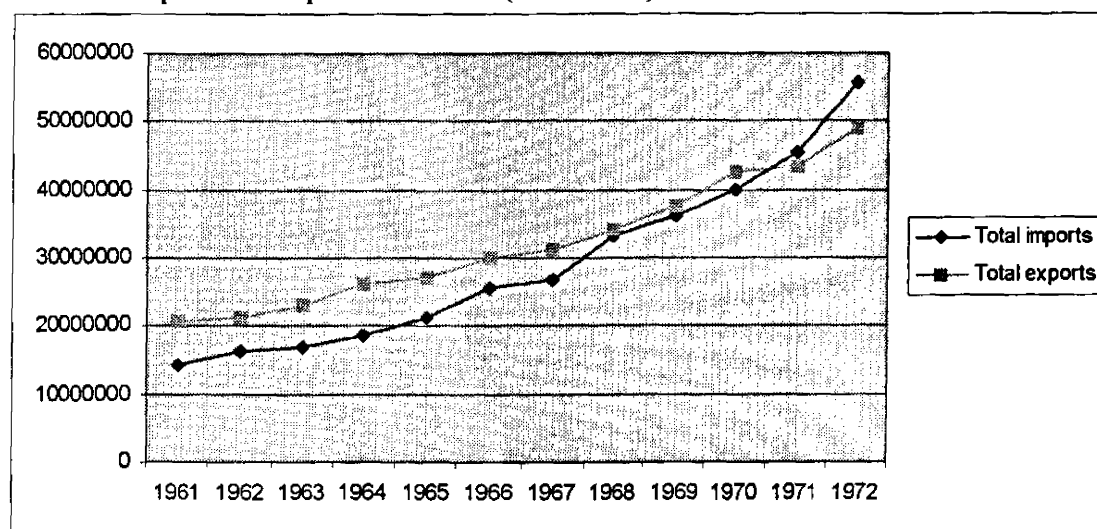
¹ Eckes, A.E. Opening American Market, p.203.

Table 3 US Exports and imports 1967-1972 (\$ thousands)

	1967		1968		1969		1970		1971		1972	
	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp
Total	31147204	26815530	33981658	33113950	37444244	36051731	42590090	39951347	43491775	45562521	48978610	55563193
Canada	7032994	7099343	7906273	8925154	8942573	10389918	8787339	11091968	10074961	12691503	12057421	14907354
Japan	2635416	2998659	2915466	4056622	3426652	4888330	4568834	5875410	3990349	7258770	4893613	9067569
Asia	6947564	5429267	7416589	7015801	7868963	8387651	9312502	9689809	9195642	11827598	11079142	15217731
C&S Am.	3190031	3839543	3622944	4169081	3770721	4062432	4732496	4608528	4749099	4766264	5154737	5359218
EEC	5486059	4462640	5961426	5891588	6761582	5808173	8272947	6618692	8056723	7532245	8677006	8993678
UK	1784022	1709850	1817789	2047851	1969923	2120570	2445127	2193566	2282094	2498516	2564906	2987080

Source: OECD

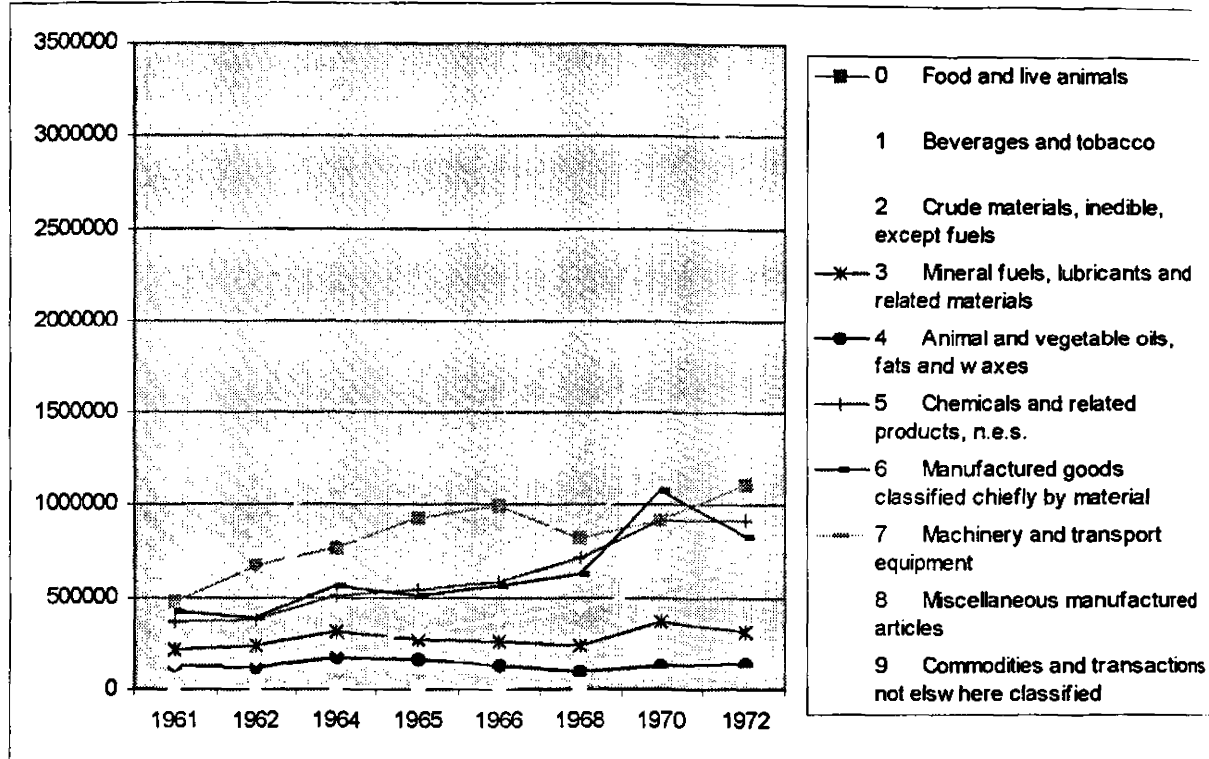
Focusing on US trade with the EEC, table 4 extrapolates US exports and imports to and from this area from table 1 and 2, while the following tables illustrate the composition of such trade.

Table 4 US exports and imports to the EEC (\$ thousands)

Source: OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

Table 5 illustrate the composition of US exports to the EEC. It shows that the major category of exports remained machinery and transport equipment. US exports in this category increased after 1966, while the others lagged behind.

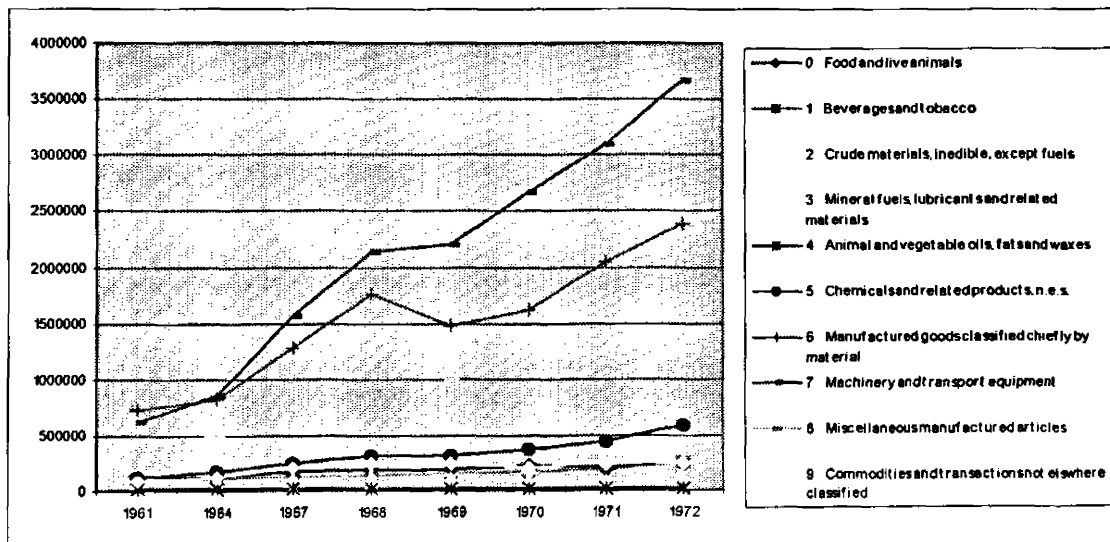
Table 5: US exports to the EEC by main commodities



OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

Table 2 on US imports from major areas shows that US imports from the EEC rose between 1969 and 1972. Table 6 shows that such an increase of imports took specifically in the fields of machinery and transport equipment and manufactured goods.

Table 6 US imports from the EEC by commodities



OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

Table 7 concentrates on US agricultural exports to the Six to allow us to appreciate the effects of the CAP. With the setting of the common price for cereals in 1967, US

exports decreased, even if, by 1972, they had regained 1967 level. Exports of fruits and vegetables, after a downturn in 1968, increased again in 1970. By 1972, the main US export commodity was oilseed, which entered the EEC duty free, and more than doubled between 1968 and 1970.

Table 7 US agricultural exports to the EEC

Commodity	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Variable-levy commodities										
wheat	63365	67085	70283	107259	96325	83044	56141	77422	59443	96507
Feed grains	295182	334433	478099	498405	394928	361179	250604	335816	364040	405724
Rice	13399	15378	10139	18823	25717	31205	31038	20957	18070	16891
Beef&veal meat	163	1064	1511	647	567	530	379	419	810	1035
Non variable-levy commodities										
Fruits & vegetables	102225	88695	106402	91851	82739	62421	93689	110444	108242	131215
Oilseeds	169860	235840	245208	301624	316847	301111	296970	417592	535373	648779
Unmanufactured tobacco	104983	106877	107738	122690	151295	129685	150069	123963	151276	157659

OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

Eckes takes a very negative position in judging the effect of the reduction of US tariffs on the US trade. He notes that as the US implemented the Round tariff cuts, its trade merchandise decreased and then vanished. For Eckes the Round is therefore a watershed in US trade policy. From 1983 the USA had been experiencing a trade surplus, while during the Round implementation period the surplus vanished and a major deficit emerged. According to this author particularly negative was the consequences of the Kennedy Round reduction capital goods, automobile and consumer goods. US exports in these sectors increased, but so did imports and by a higher percentage. Eckes, however, recognized that other factors bore on US competitiveness and therefore on the pace of exports. The Nixon administration and economists in general attributed this deficit to "Vietnam War inflation, lagging productivity gain, an overvalued dollar, and ballooning energy cost".²

As for the EEC, Table 8 shows that the EEC increased its exports to both the USA and the EFTA countries, and, in this respect, the Six achieved the major goals which they had had during the Kennedy Round.

Table 8 Exports of the Six and EEC 1959-1972 (in thousands US\$)

Exporting countries	1959				
	Total exports	EEC	EFTA	USA	Rest of the World
France	5350	1527	760	470	2953
BLEU	3279	1522	524	444	789
Netherlands	3579	1597	847	209	926
Germany	9756	2731	2649	913	3643
Italy	2876	792	642	345	1097
Total EEC	24840	8169	5422	2381	9408
In %	100	30,1	21,8	7,3	
Exporting countries	1962				
	Total exports	EEC	EFTA	USA	Rest of the World
France	7362	2712	1175	426	3049
BLEU	4325	2458	620	414	833
Netherlands	4584	2256	1057	200	1071

² Eckes, A.E. Jr. *Opening American Market: US Foreign Trade Policy since 1776* (Chapel Hill and London: The University Of North Carolina Press, 1995), pp. 202-203.

Germany	13264	4512	3687	965	4100
Italy	4666	1625	957	441	1643
Total EEC	34201	13563	7496	2446	10696
		1965			
France	10048	4115	1571	594	3768
BLEU	6382	3947	791	532	1112
Netherlands	6393	3561	1210	244	1378
Germany	17892	6306	4830	1436	5320
Italy	7188	2891	1199	618	2480
Total EEC	47903	20820	9601	3424	14058
		1968			
France	12672	5452	1795	765	4660
BLEU	8161	5249	887	770	1255
Netherlands	8341	4790	1426	436	1689
Germany	24842	9340	5632	2707	7163
Italy	10183	4079	1477	1089	3538
Total EEC	64199	28910	11217	5767	18305
		1972			
France	20344	10059	2722	1098	6465
BLEU	11969	8270	1218	815	1729
Netherlands	13534	8616	1989	541	2388
Germany	39040	15647	8740	3770	10883
Italy	14974	6688	2030	1469	4787
Total EEC	99861	49280	16699	7693	26252
In %	100	49.3	16.7	7.7	

Source: OECD SITC Rev.2 - Historical Series 1961-1990 (Paris: OECD 2000)

Table 8 also highlights another aspect which is worthy of attention. From 1959 to 1972, the Six's trade was centring on the regional area of the EEC. In effect, in 1959 EEC exports to the EEC represented 30,1% of total exports, while, by 1972, this share had increased to 49,3%.

13.2 The United States and EEC enlargement (1969-1973): from support to hostile support

In the previous chapter, we illustrated how, despite the success of the Kennedy Round, transatlantic relations remained strained, and that with Congress in a protectionist mood and the deficit in the US balance of payments it had become more difficult for the Johnson administration to justify European discrimination and, consequently, to support the EEC and its enlargement. Moreover, in the Round, the EEC had toughly bargained with the USA, and had firmly defended its regionalism, especially in the agricultural sector. This EEC attitude aggravated mistrust in Washington for the EEC. We concluded that it was these unresolved problems that the Nixon administration had to deal in 1969 when, after the failed application made by British Prime Minister President Wilson in 1967, The Hague Conference of the EEC paved the way for British entrance into the EEC. By that time, support for European integration still characterised US policy, but discontent in Washington was mounting.

As a result, uncritical and open support for European integration and EEC enlargement had become difficult for the US government to maintain.³

By the time Nixon entered the White House in January 1969, transatlantic relations were under considerable strain, and concerns about US support of European unity had proliferated. In addition to the tensions caused by de Gaulle's policy towards NATO and by the Vietnam War, the USA reproached the European partners for their failure either to take into account the economic interests of the United States, despite the EEC's economic strength, or to recognize the interrelationship between trade, monetary and security issues, and sharing the Cold War burden. According to Washington, the Six refused to assist the US in its aim to reverse the balance of payments deficit, which, in the former's eyes, was partly due US military expenditure to defend Europe. They had set up a heavily protectionist CAP, and were fully committed to establishing preferential trading arrangements that ran counter to US export interests. Congress looked suspiciously at these NATO allies which did not sufficiently cooperate in sharing US military and monetary-economic burdens. This was also the position of the economically oriented departments within the Nixon administration, in particular the Treasury department, the guardian of the US dollar. Nixon, like Kennedy and Johnson, repeatedly underlined the need to share the Cold War burden with United States to the European allies. However, for Nixon, burden-sharing became crucial and urgent. On 1 December 1969, Senate Majority leader Mike Mansfield introduced a resolution calling for a substantial reduction in American troops numbers in Europe. The Congress's general feeling was that the Europeans had not shared, and would not share, security costs with the United States unless they were forced to do so by threatening a partial withdrawal of American military efforts overseas. The US President disagreed, fearing that after a request to cut the military budget and repatriate the divisions stationed in Europe, the next step could be "let's the rest of the world go hang".⁴ Nixon considered NATO and US presence in Europe of foremost importance. As he put it, "we must remember we are there in Europe not to defend Germany or Italy or France or England, we are in Europe to save our own hides." Therefore, the US commitment abroad had to be maintained and a unilateral withdrawal was not a real option. Yet, Congress's mood could not be ignored.⁵

Nixon had also to face the protectionist mood of Congress. Tired of tolerating what was perceived as discriminatory trade policies – that the Kennedy Round had not eliminated sufficiently – and selfish monetary policies on the part of the EEC and Japan, both injuring US economic interests, Congress pushed for a reconsideration of foreign economic policy, and called for a more protectionist policy and less tolerance for EEC economic discrimination. Nixon was aware that this Congressional attitude could not be disregarded, partly because it made it difficult for the US government to maintain its support not only for NATO but also for European integration.⁶ For Nixon,

³ For the Nixon Administration policy towards European integration and EEC enlargement in 1969-1973, see the recently published article of GUDERZO, M. "Gli Stati Uniti e il primo allargamento della Comunità Europea (1963-1973)", in: LANDUYT, Ariane, PASQUINUCCI, Daniele, *Gli allargamenti della CEE/UE 1961-2004*, Bologna, Il Mulino, 2005. See also LUNDESTAD, Geir, *The United States and Western Europe Since 1945: From "Empire" by Invitation to Transatlantic Drift*, Oxford, New York, Oxford University Press, 2003. On Nixon's foreign policy, see FRUS 1969-1976, Vol. I, docs. 1, 29, 30 and 90 Editorial Notes; Bundy, W., *A Tangled Web. The Making of Foreign Policy in the Nixon Presidency*, New York, Hill and Wang, 1998; Garthoff, R. *Détente and Confrontation. American-Soviet Relations from Nixon to Reagan*, Washington DC, The Brookings Institution, 1994; Reeves, R. *President Nixon, Alone in the White House*, New York, Simon & Schuster, 2001.

⁴ FRUS 1969-1976 Vol I, doc. 19. Report on Meeting of the Cabinet Committee on Economic Policy, 10 April 1969.

⁵ FRUS 1969-1976, Vol. I, doc. 59. Memorandum from the President's Special Assistant (Buchanan) to President Nixon, 18 February, 1970, reporting on meetings between Nixon, Kissinger and other government officials and Senators and Representatives of the US Congress.

⁶ FRUS 1969-1976 Vol I, doc. 19. Report on Meeting of the Cabinet Committee on Economic Policy, 10 April 1969.

the link between NATO and trade issues – “NATO and soybeans” as he put it – was an important tenet of US foreign policy and, at a Cabinet meeting in April 1969, after having emphasized the primacy of the political aspects of foreign economic issues, the President made clear that his support of NATO and the EEC “would be seriously jeopardized if the Europeans took restrictive action against US exports.”⁷

Like the previous administrations, Nixon gave strong priority to the Atlantic alliance as a framework to contain the European unification process. Where the Nixon administration departed from previous policies was in the form it wished this unity to assume. The Nixon administration therefore did not push for supranational forms of integration, because it was up to the Europeans to decide on how they wanted to organize themselves. Even if the support for the European construction process continued, as Kissinger put it to Nixon in February 1969, it was necessary to: “1. Affirm our commitment to NATO; 2. Affirm our traditional support for European unity, including British entry into the Common Market”. However, “we should make clear that we will not inject ourselves into intra-European debates on the form, method and timing of steps towards unity.”⁸ This did not mean that Washington opposed European integration, but rather that Europe had to decide on its own form, while the United States had to work on strengthening the Atlantic framework.⁹

It was against this background that the Nixon administration reacted to the Britain’s potential entrance into the EEC. The Summit of The Hague on 1-2 December 1969 laid the foundation for further progress within the EEC, and opened the way for UK entrance, together with Ireland, Denmark and Norway.¹⁰ President Nixon too approved of EEC enlargement for the same reasons Kennedy and Johnson had. UK entrance was expected to reinforce European unity and give it a more open and Atlanticist outlook. However, because of the concerns of Congress and the economic departments, it had become so difficult for Nixon to continue the previous avocation and defence of European integration and EEC enlargement that it was difficult for Nixon to support this enlargement process. Furthermore, this difficulty was increased by the attitude of the EEC and the United Kingdom, who were so concerned by successfully concluding the membership negotiations that, as Washington saw it, they were failing to pay due attention to the problems thereby caused to third countries, and the USA in particular.

The first formal American reaction to EEC enlargement was expressed in February 1970 when Nixon informed Congress of the future course of US foreign policy. Referring to the EEC, the US President maintained that “our support for the strengthening and broadening of the European Community has not diminished. We recognise that our interests will necessarily be affected by Europe’s evolution, and we may have to make sacrifices in the common interest. We consider that the possible economic price of a truly unified Europe is outweighed by the gain in the political vitality to the West as a whole”. Nixon thus emphasized that the political benefits of EEC enlargement were greater than the economic difficulties which this process could bring to the USA, and he therefore decided to support the British request for

⁷ FRUS 1969-1976, Vol. III doc. 19. Information Memorandum from C. Fred Bergsten of the National Security Council Staff to the President’s Assistant for National Security Affairs (Kissinger), 14 April 1969.

⁸ KISSINGER, H. A., *White House Years*, Boston, Little, Brown and Company, 1979, p. 88-89.

⁹ Lundestad, G. *The United States and Western Europe Since 1945*, p. 175-185 and Kissinger, H. “What Kind of Atlantic Partnership?”, *The Atlantic Community Quarterly*, 7 (1969), p.32.

¹⁰ On the Hague Summit, see *Journal of European Integration History*, 2003, Vol.9, No.2, entirely dedicated to this topic, and Ludlow N.P. *The European Community and the Crises of the 1960s: Negotiating the Gaullist Challenge*, (London, Routledge, 2006), chapter 7.

membership and EEC enlargement.¹¹ Along with this support, Nixon also decided to take a detached and low profile approach during the enlargement negotiations in Brussels in order to enhance the chances of the UK gaining membership. By the same token, prior to enlargement, no major initiative was taken to strengthen links between the two sides of the Atlantic, contrary to what Kennedy had done, in order to avoid being accused of interfering with EEC affairs.¹²

Nixon was soon to discover, however, that his stance towards the enlargement was not shared by his administration or Congress, and was therefore difficult to maintain. Following the Hague Summit, the National Security Council sent Assistant for National Security Affairs, Henry Kissinger, a memorandum on US policy towards Europe, stating that US support for UK's entry was based on political considerations. On the economic side, the United States would have to face increasing trade discrimination. If the USA desired a stronger Western Europe, concluded the memorandum, it needed to subordinate US economic interests to broader political concerns.¹³ However, with the US economy in bad shape, Congress and the economic departments of the Nixon administration were not prepared for such subordination. EEC enlargement caused problems, and, among these, the CAP and EEC preferential agreements played a crucial role which could not be ignored. As EEC enlargement moved from theory to reality, concerns mounted and the economic departments started to voice protests for US support to it.¹⁴

Congress felt that Nixon's claim that the economic price of a truly unified Europe was outweighed by a substantial increase in Western political strength was an open-ended invitation to Europe to ignore US economic interests and strongly condemned US government's subordination of trade policy to foreign policy.¹⁵ Moreover, with the US trade surplus in declining, before eventually becoming a deficit in 1971, Congress came to believe that the traditional US slogan in favour of liberal trade was simply outdated, above all when dealing with the increased economic power of the EEC and Japan.¹⁶ US Congress was in a protectionist mood which was demonstrated also by its refusal, in 1970, to approve the elimination of the ASP.

Within the Nixon Administration, differences emerged between the Department of State on the one hand, and Treasury, Commerce, Agriculture and STR on the other. The two sides differed in their estimations of the impact of EEC enlargement on US exports, and their opinion regarding what reaction should be taken. The State Department expected no adverse effects on US industrial exports, and only moderate effects if free trade arrangements were extended to the neutral EFTA members not

¹¹ FRUS 1969-1976, Vol. I, doc 60. Report by President Nixon to Congress, 18 February 1970 and Historical Archives of the European Community - Florence (HAEC) EM 102, Statement by Ambassador Schaetzel to the House Foreign Affairs Subcommittee on Europe, 23 March 1970. In his statement Schaetzel reported on the Nixon statement on Foreign Policy.

¹² FRUS 1969-1976, Vol. III, doc. 44. Editorial note and KISSINGER, White House Years, p. 389-390.

¹³ NA Nixon Presidential Material Staff, National Security Council Files, Country File Europe, Box 667, Europe General, Memorandum "A Review of United States Policy Towards Europe", H. Sonnenfeldt to H.A. Kissinger, Washington, 14 January 1970, taken from GUDERZO, "Gli Stati Uniti e il primo allargamento della Comunità Europea", p. 1153-1154.

¹⁴ "In a few months it began to appear that matters were not quite so simple. The 'enhanced Europe' had its political promise, but it was also evidently capable of fierce economic competition with us [the United States], producing tensions not foreseen by the grand designs of the Sixties". KISSINGER, White House Years, p. 418.

¹⁵ For the general attitude of the Congress towards the EEC and Nixon's stance towards the EEC, see HAEC EM 102, Commission Note du bureau de liaison de Washington concernant la nouvelle administration Nixon, SEC (69) 288/2, 3 February 1969; HAEC EN 1525, Report by Senator Ribicoff to the Committee on Finance - US Senate "Trade Policies in the 1970s", 4 March 1971; FRUS 1969-1976, Vol. I, doc. 44. Special Message from President Nixon to the Congress, 18 November 1969 and Ibidem doc. 76. Statement by Secretary of State Rogers before the Senate Finance Committee, 12 October 1970.

¹⁶ ECKES, Alfred, *Opening America's Market: U.S. Foreign Trade Policy Since 1776*, Chapel Hill, University of North Carolina Press, 1995, p. 202-218 and FRUS 1969-1976, Vol. I, doc. 44. Special Message from President Nixon to the Congress, 18 November 1969; HAEC EN 1525, Nota informative, 23 March 1971.

joining the EEC. As for agriculture, State Department estimated moderate damages to US agricultural trade if the CAP remained unreformed. The State Department recalled that in the past the EEC had caused a boost to European growth and, consequently, to US industrial exports and investments. Therefore, British accession would stimulate economic growth in the United Kingdom and the EEC and, as a result, American exports and investments and would further reinforce the basically free-trade outlook of the Commission, Germany, the Netherlands and other liberal countries in the Community. As for preferential agreements, the State Department held that the relations between EEC and neutral EFTA countries were so fluid and delicate that Washington was better off maintaining a low profile and reserving its position until the situation in Europe was clarified; The United States should not force the neutral countries and the EEC to agree on full membership, because this could undermine the EEC's political development. Likewise, it should not oppose the EEC's preferential system, as this would be perceived in Europe as undue diplomatic behaviour.

Unlike the Department of State, the dissenting departments anticipated sharp losses for US exports and, most importantly, they were pessimistic about the future. They saw the American competitive position as likely to erode, and expected that enlargement and further reinforcing of the EEC would result in European autarkic measures, hurting US exports and investments. The Department of Agriculture looked with apprehension at declining US exports of cereals and held that if an enlarged EEC refused to reform the CAP, US exports would be curbed further, with aggravating effects for the balance of payments deficit. Thus, Nixon had to act to defend US agricultural interests.¹⁷ By the same token, the STR wanted Washington to "make clear" its opposition to EEC preferential agreements on the ground that they were inconsistent with GATT rules.¹⁸

Treasury, Agriculture, Commerce and STR longed for a "harder and more interventionist tone". In their view, the Nixon administration should use these negotiations to fight the CAP and the system of preferences. They wanted to make the US military presence in Europe and support for European integration and enlargement dependent on the EEC's adopting a more liberal policy – in particular in agriculture – and cooperation in monetary and military issues, emphasizing that the American willingness to maintain military positions in Europe would be reconsidered if the EEC seriously damaged US national economic interests. The economic departments asked the Administration to "make clear without delay" and "stress at the outset" that the US was "prepared to use such leverage as is available to us as a world power", to make Europe comply with American desires. As such, the economic departments were ready to oppose British membership, and made support conditional on a change of attitude by the EEC to make it comply with American requests.¹⁹

By contrast, the Department of State believed that opposition to the EEC would be interpreted as a clear reversal of America's policy of for European unity. Given that

¹⁷ FRUS 1969-1976, Vol. III doc. 42. Letter From Secretary of Agriculture Hardin to Secretary of State Rogers, 18 July 1970; *ibidem* doc. 196. Telegram from the Embassy in the Netherlands to the Department of State, 15 November 1971, and HAEC EM 102, Note "Aperçus sur la politique économique et la conjoncture aux Etats-Unis", undated, 1969.

¹⁸ FRUS 1969-1976, Vol. III doc. 40, Memorandum from the Deputy Assistant Secretary of State for European Affairs (Springsteen) to the Deputy Under Secretary of State for Economic Affairs (Samuels), 7 May 1970.

¹⁹ *Ibidem*. As early as in February 1969 the Treasury Department had shown a tough line with the Europeans. In a meeting with the President of the European Commission Jean Rey, Secretary of the Treasury Kennedy expressed US concern over the expected proliferation of preferential trading agreements. Against Rey's firm commitment to conclude arrangements, among others with Spain, Israel, Switzerland, and Sweden, Kennedy claimed that such a network could have adverse effects on US exports and call into question US support for the EEC. FRUS 1969-1976, Vol. III Foreign Economic Policy 1969-1972, 34. Memorandum from Secretary of the Treasury Kennedy to President Nixon, 15 December 1969 and HAEC EM 102, Note à l'attention de M. Martino (membre de la Commission) du Directeur Général de la DG 1, 20 February 1969.

the European agricultural policy represented one of the most difficult dossiers of the enlargement negotiations, American interference would be counterproductive, as long as discussions in Brussels between the Six and the acceding countries were still ongoing. A tough American stance could even jeopardize the overall enlargement process. In general, in the State Department's view, the tactical approach proposed by the four departments could be interpreted as challenging the EEC's right to develop an economic union on top of the existing customs union. The United States should certainly try to stimulate a liberal trade outlook in Europe, but opposition to the economic union basically meant opposition to overall US support for EEC unity, argued the State Department. Thus, the United States had to maintain a low profile and remain outside the negotiations in Brussels to avoid becoming "a handy scapegoat if for any reason the negotiations on British entrance would break down". Washington had to rely on normal diplomatic channels and existing international forums such as the OECD to make US views known, with the aim of influencing the enlargement negotiations, but without challenging them. Moreover, it was felt, Washington should propose a new GATT Round to reduce the negative effects of enlargement, to stimulate the outward-looking orientation of the Community and to cement the alliance in the economic field.²⁰

The economic departments, because of the protectionist attitude expressed by Congress, expressed doubts regarding the possibility of organizing a new GATT Round in the near future and, at any rate, did not consider GATT negotiations "as an acceptable substitute" for defending US interests during the accession negotiations, also because in a new Round the US would be forced to reciprocate tariff reductions. A more direct form of action was necessary as seen as necessary in relation to the EEC. In particular, they wanted the government to establish a permanent consultative mechanism in Brussels to be kept informed of the negotiations and immediately and toughly express US concerns.²¹

Despite opposition from the EUR Bureau of the State Department, and under pressure from the economic departments, the US government asked the European Commission for some form of consultative mechanism where problems caused to the USA by the enlargement could be discussed. On 5 August 1970, Deputy Under Secretary of State for Economic Affairs, Nat Samuels, approached Commissioner Dahrendorf, in charge of Foreign Relations and Foreign Trade, to set up a series of regular US-EEC consultations. The Commissioner responded positively to the American proposal with the aim, however, not of discussing the EEC enlargement, but rather to consider, in general, EEC-US problems. Samuels and Dahrendorf agreed to instigate semi-annual talks on matters of mutual interest, to start in October 1970.²²

In view of the consultation with the Commission, while the State Department wanted the US representatives to take a sympathetic stance towards the EEC, the economic departments wanted them to adopt a hard line, making clear that EEC preferential agreements and the CAP were not consistent with GATT, and, as a consequence, either the EEC redressed this situation itself, or the US government would address these issues in the GATT context. On top of this, they expressed their

²⁰ FRUS 1969-1976, Vol. III doc. 40. Memorandum from the Deputy Assistant Secretary of State for European Affairs (Springsteen) to the Deputy Under Secretary of State for Economic Affairs (Samuels), 7 May 1970.

²¹ Ibidem

²² FRUS 1969-1976, Vol. III doc. 43. Memorandum from the Deputy Under Secretary of State for Economic Affairs (Samuels) to the President's Assistant for National Security Affairs (Kissinger), 20 August 1970; HAEC EM 102, Note Rapports avec les Etats-Unis d'Amerique pour M. Deniau (membre de la Commission) de Jean Rey 8 April 1970, and Ibidem, Note pour Martino (membre de la Commission) de Jean Rey, 8 April 1970. The Commission's position was also consistent with the outcome of the meeting between the President of the Commission Rey and Nixon in Brussels in February 1969, when both parties had expressed the desire to avoid trade wars across the Atlantic and to elaborate on a solution to existing problems. HAEC EM 102, Telex de Jean Rey à Gaston Thorn, 25 February 1969.

deep-seated hostility towards the EEC and its enlargement. Political considerations that had led the US to support the EEC in the past were brushed aside as irrelevant and, instead, emphasis was placed on economic considerations, in a manner that the State Department considered "out of proportion to our long-term interests". The State Department rejected any formal action while the talks between the EEC and the potentially new members were still going on, and it wanted any concerns to be conveyed to the Europeans within the framework of US-EEC relations, without reference to the question of enlargement.²³

It was against this background, that the first bilateral consultation between the United States and the European Commission took place in Washington on 15-16 October 1970. The meeting was attended by Dahrendorf and a US interagency delegation led by Deputy Under Secretary of State Samuels. Searching for a middle-ground between the State Department position and that of the other departments, Samuels emphasised that the US continued to support EEC enlargement, but the Europeans had to take into consideration the economic effects of that process on third countries. Furthermore, Samuels proposed to use the bilateral consultative forum for raising specific trade problems that could arise during the membership negotiations. Dahrendorf did not prove to be receptive of the American demands. He deemed it dangerous to deal with third countries while the negotiations with the British were still going on, and he reaffirmed all the good political reasons why the EEC had to stick to CAP protectionism and preferential agreements. In short, each side stuck firmly to its own position.²⁴

The Commission's unresponsiveness to American claims was shared by EEC Member States, who also felt that the membership negotiations were already complex enough, and did not need to be further complicated by American requests. To cap it all, the United States could not even count on the UK to support its view. Prime Minister Heath was strongly committed to EEC membership and, as he considered the "special relationship" an obstacle to entry, he preferred to keep the United States at arm's length rousing mistrust on the part of Nixon, and above all on that of Kissinger. Significantly, during their bilateral meeting in London in November 1970, Nixon and Heath did not discuss the EEC enlargement. When they met again in Washington in December, Nixon wanted to address the economic problems caused by enlargement, but British Prime Minister made it clear that he had no intention of discussing EEC matters bilaterally with the United States while the Brussels negotiations were still going on.²⁵

Faced with the European allies ignoring US economic problems, and with the hostile attitudes of Congress and the economic departments, Nixon became less convinced of the wisdom of subordinating economic problems to foreign policy aims and of the sense in giving open support to European enlargement. Thus, while in 1970, the President had focused on the benefits of EEC and enlargement, in 1971 he came to openly emphasize that the problems the EEC created to the USA could not be ignored, partly in an attempt to pacify Congress and the economic departments.²⁶ Nixon, therefore, seemed unwilling to continue to subordinate US economic interests to the

²³ FRUS 1969-1976, Vol. III doc. 43. Memorandum from the Deputy Under Secretary of State for Economic Affairs (Samuels) to the President's Assistant for National Security Affairs (Kissinger), 20 August 1970. See also FRUS 1969-1976, Vol. III, doc. 44. Editorial note.

²⁴ FRUS 1969-1976, Vol. III Foreign Economic Policy 1969-1972, Tab A Memorandum from Acting Secretary of State Irwin to President Nixon on US-EC Consultation, 15-16 October, Washington, 29 October 1970.

²⁵ FRUS 1969-1976, Vol. III Foreign Economic Policy 1969-1972, 91. Report by the President's Assistant for International Economic Affairs (Flanigan), 20 June 1972. See also Kissinger, H., *White House Years*, p. 933-938. For Anglo-American relations at the time of British entrance, see Poggiolini, Ilaria, *Alle origini dell'Europa allargata. La Grande Bretagna e l'adesione alla CEE (1972-1973)*, Pavia, Edizioni UNICOPLI, 2004.

²⁶ Office of the Federal Register, Richard Nixon, public messages, speeches and statements of the president - 1971. Washington, US Government Printing Office, 1972, p. 231-232.

EEC enlargement, and he prepared to assume a more confrontational position towards the EEC. This shift was also demonstrated by the setting up, in January 1971, of the Council on International Economic Policy (CIEP), whose aim was to defend US interests in foreign economic policy. It was chaired by Nixon and composed of representatives of the Administration's main departments and agencies.²⁷ However, it is worth noting that, despite the apparent shift in Nixon's position, in practice no American initiative was instigated that could endanger the EEC enlargement negotiations. The United States became vocal in showing the Europeans their disappointment, but reluctant to take any concrete action. Despite the many complaints, US policy towards Europe basically continued along the same lines as previously, which meant that the State Department line was still prevailing.

In 1971, US relations with Western Europe deteriorated even further. While the Nixon administration voiced its concerns regarding German Chancellor Brandt's *Ostpolitik*, the European countries, in turn, looked suspiciously at Nixon and Kissinger's overtures towards the Soviet Union and China, fearing that Washington was considering "a deal over their head" on crucial security matters.²⁸ Of even greater importance for transatlantic relations, however, was the state of monetary affairs. In 1969, the instability of the monetary system, the dollar crisis and the inflation it caused to the European economies, pushed the German government to float the national currency and promote monetary cooperation at EEC level. The German move signaled a break with the previous monetary system and with the traditional German support of the US dollar. The promotion of European regional cooperation came as a reaction to long-standing transatlantic frustrations on this score. Washington obviously looked on with apprehension at this new attempt of European cooperation, but to make the situation even worse came the events of 1971. In this year, the dollar crisis forced the Nixon administration to take action, and it did so in a manner that had nothing to do with the international collaboration principles. In August, Nixon announced a "New Economic Policy" and unilaterally imposed a 10% surcharge on imports from abroad. Most importantly, he allowed the dollar to float, thereby bringing an end to the "gold window".²⁹ Understandably, these measures provoked negative reactions in Europe, both for their content and the manner in which they had been taken. Despite the Smithsonian agreement of December 1971, which temporarily gave a new impetus to transatlantic monetary relations, cooperation at EEC level gained momentum with the March 1972 decision on a common currency float, the so-called "snake in the tunnel", between the Six, the United Kingdom and Denmark. Thus, failing transatlantic cooperation in monetary matters was accompanied by achievements at the European regional level.

On 22 January 1972, the EEC, the United Kingdom, Ireland, Denmark and Norway signed the accession treaty, meaning that from 1 January 1973 the four countries would become members of the EEC. With the success of the enlargement negotiations, the Nixon administration started to think of new initiatives aimed at improving relations between the two sides of the Atlantic and reducing the negative impact of enlargement. Nixon had refrained from developing any major initiative while negotiations in Brussels were still proceeding, but with enlargement accomplished, and

²⁷ FRUS 1969-1976, Vol. III Foreign Economic Policy 1969-1972, 49. Editorial Note. The CIEP was composed of State, Defence, Treasury, Agriculture, Commerce, and Labour departments; the Director of the Office of Management and Budget; the Chairman of the Council of Economic Advisers; the President's Assistant for National Security Affairs; the Executive Director of the Domestic Council; and the Special Trade Representative.

²⁸ FRUS 1969-1976, Vol. III Foreign Economic Policy 1969-1972, 83. Memorandum from Secretary of State Rogers to President Nixon, 2 December 1971.

²⁹ ECKES, *Opening America's Market*, pp. 202-218 and FRUS 1969-1976, Vol. I, doc. 44. Special Message from President Nixon to Congress, 18 November 1969.

the negotiations on Vietnam in their final phase, the Administration estimated that the time was ripe for new initiatives.³⁰

While these initiatives were elaborated, the Nixon administration concluded that, with the enlargement achieved, the USA was freer to adopt a more challenging position towards the EEC in the hope of seeing its interests respected. This new course was clearly showed at the end of May 1972, when Nixon's assistant for International Economic Affairs, Flanigan, visited London, Paris, Rome, Bonn and Brussels to once again stress US concerns about EEC policies, and the importance of the Atlantic framework for US-EEC relations. Flanigan complained about European regionalism and the European preference for inward-looking solutions, the CAP and the web of preferential trade arrangements being good instances of this. European "blocism", as Flanigan labelled it, placed the European and Atlantic frameworks in opposition to each other. The European spokesmen defended themselves by pointing to the need of regional agreements for socio-political and economic reasons, but Flanigan was not prepared to accept the European explanations and "stressed that Americans see them [the CAP and the preferential agreements] as a conscious effort by the EC to discriminate against us commercially to Europe's advantage while calling upon us to accept these disadvantages on the grounds that they serve our common political and security interests". Most importantly, Flanigan spelled out that "this kind of argument is no longer acceptable in the US, and that Europe should be aware of the fact that the days when we were able to accept almost any commercial costs for political reasons are over". Therefore, it was necessary for the EEC to reorient its foreign policies in a more outward-looking manner.³¹

No more encouraging was the meeting between Flanigan and Mansholt, who by that time had become President of the Commission. In reply to Flanigan's complains about EEC discrimination and remarks that the strengthening of the Atlantic system deserved the highest priority, Mansholt pointed out that his priority concerned relations with developing countries. The current US-EEC problems were rather unimportant and "it was 'silly' to" spend so much time on trade problems between the EEC and the USA "when 20 percent of the world was starving". Therefore, more than with US soybeans - "to hell with your soybeans" - Mansholt was concerned with trade relations between developed and developing economies. Further, the President of the Commission took also the opportunity to criticize the USA for not spending enough of its GNP for development aid expenditure. In return, Flanigan replied that Europe was in the position to devote a larger percentage of its resources to aid, because it was not burdened by defence expenditures the way the United States was. In the absence of fundamental readjustments in monetary and trade systems, America was not prepared to increase expenditure on development aid. Unsurprisingly, reporting back to Washington, Flanigan characterized Mansholt as "hostile" towards the United States.³²

In view of the coming EEC summit in Paris in October 1972, Flanigan suggested to the European partners that they should issue a declaration favouring the Atlantic framework and recognizing that EEC enlargement imposed special responsibilities on members towards their partners outside. While Belgium and Germany gave positive reactions, Commissioner Raymond Barre contested that the summit should give attention to this issue, as the EEC was busy consolidating its internal system and the development of economic and social policies linked to monetary union. As for the

³⁰ KISSINGER, *Years of Upheaval*, p. 130-131.

³¹ FRUS 1969-1976, Vol. III Foreign Economic Policy 1969-1972, 91. Report by the President's Assistant for International Economic Affairs (Flanigan), 20 June 1972, reporting on Flanigan's trip to Western Europe.

³² *Ibidem*, Attachment 2, 1 June 1972.

British, while recognizing the danger of the existing imbalance between internal European preoccupations and external relations, at the same time they felt "a constraint as new members not to move out in front of the Six either too far or too fast", confirming once again to Nixon and Kissinger that for the time being London could not help.³³ At any rate, in the final communiqué of the Paris summit, the heads of state and government, in addition to their plan on reaching a European union by 1980, underlined the need to consider the "international political implications" of EEC economic policies and pledged for liberalisation on a reciprocal basis.³⁴

It was in this troubled context that the Nixon administration sought to develop a strategy towards the EEC. Nixon noted that the trading problems across the Atlantic were of foremost importance, as "more is involved here than just questions of 'horse-trading' between soybeans and cheese. The question is what Europe wants its position to be vis-à-vis the USA and the Soviet Union." A European anti-US trade policy "could affect attitudes in the US – bring about an unenthusiastic attitude toward Europe – and will carry over into the political area. There will be pressure to withdraw divisions and NATO would come apart. [...] If NATO comes apart, [the Europeans] will be an economic giant but a military and political pigmy. The USSR will encroach on them." As such, despite the economic problems across the Atlantic, political cohesion remained of overriding importance. "We should not allow the umbilical cord between the US and Europe to be cut and Europe to be nibbled away by the Soviets. We need to strengthen the bonds of trade, monetary relations, exchanges, etc." Among these, foreign trade was not the most important, representing just 4% of US GNP. "Trade is the froth on top of the beer, but beer without froth does not taste too bad", Nixon said. Washington had to look at the bigger picture. Trade mattered due to its relationship with security and its political dimensions and because it could keep together the two sides of the Atlantic. As for the Europeans, they "will have one hell of a time acting as a bloc. They do not get along with each other. The French don't get along with the Germans, the Germans don't get along with the British. It will be some time before they can learn to act as a group. This means we have to work with the heads of Government in the various countries and not that jackass in the European Commission in Brussels."³⁵ In this sense, Nixon suggested a change of attitude towards the EEC and the Commission. Meetings with this institution made the US government all the more convinced that the EEC was determined to maximize the economic potential of European regardless of the costs for the United States and the Atlantic system. "While paying lip service to the importance of Atlantic unity, specific decisions are resolved in favor of the Community and contrary to the interests of the United States". In particular, the Commission was "clearly dedicated to a course of action contrary to the US economic interests". For these reasons, the USA had to strengthen relations with the Member States. Therefore, America's stance in support for the Commission, clearly demonstrated during the Crisis of the Empty Chair, underwent a change, as Nixon did not appear worried about the future of the supranational institution of the EEC. The US President was more

³³ Ibidem.

³⁴ Helmut Sonnenfeldt and Robert Hormats to Kissinger, "EC Summit Conference, October 19-20, 1972," 27 October 1972, NMPM, NSCF, box 322, European Common Market Vol. III Oct 72 - Jul 1973, taken from Burr, W. and Wampler, R., "With friends Like These...". Kissinger, the Atlantic Alliance and the Abortive 'Year of Europe' 1973-1974", in Di Nolfo, E., Nuti, L., Guderzo, M., (eds.), NATO, the Warsaw Pact and Rise of Détente, 1965-1972, (Stanford: Stanford University Press, 2006).

³⁵ FRUS 1969-1976, Vol. I, doc 120. Memorandum for the President's File by the President's Assistant (Flanigan), 11 September 1972. The memorandum is a record of the President's meeting with the Council on International Economic Policy (CIEP). According to the note of this archival document, the "jackass" was presumed to be Mansholt.

concerned with the defense of US interests and, in his view, this aim could be better achieved on a bilateral level, with each individual member of the EEC.³⁶

On top of this, to defend US interests, Nixon decided that he would pursue a policy of modified confrontation, exercising controlled but mounting pressures concerning issues involving both US trade interests and the principles of the multilateral trading system. The United States had to keep a high level of pressure on the EEC in order to protect national economic interests, short of creating an irresolvable confrontation. Thus Nixon, who, in 1970, had expressed his support of the EEC, by 1972 had become more hard-nosed towards the Europeans.³⁷ To prove to the EEC that the United States was seriously perturbed by the dismissive European attitude regarding the problems caused by enlargement, Washington adopted a confrontational approach regarding EEC enlargement during the 1973 GATT negotiations under article XXIV. The United States set up a thorough examination framework in Geneva to protect its interests, in stark contrast to what Eisenhower had done in 1958 when the Treaty of Rome was presented to the GATT. In addition, the United States also took a firm stand against the EEC's preferential agreements with Spain and Israel, arguing that the EEC was acting in violation of GATT rules and damaged US trade. The three parties were notified that GATT procedures would be invoked to obtain adjustments, so as to reduce the preferential margin or compensate the United States with trade concessions.³⁸

At the same time, Nixon held it to be necessary to reaffirm the importance of the Atlantic framework in order to maintain the cohesion of the Atlantic alliance. In order to deflect the EEC from its inward-looking course, and create a climate for meaningful agreements in the broader areas of monetary and trade reforms across the Atlantic, Washington looked to the multilateral framework of GATT, exactly as Kennedy had done. Only in the context of a new GATT trade round could the US try to reduce CAP protectionism and the web of preferential agreements.³⁹ Washington considered a new Round useful not only to be an instrument to defend national trade interests, but also a means to promote an open EEC, integrated into the Atlantic alliance. It would enhance Atlantic interdependence, and would confirm the notion that Europe and America were moving closer together rather than drifting apart.⁴⁰ In April 1973, Congress gave Nixon the green light to launch new GATT negotiations, eventually leading to the "Tokyo Round" in Geneva from 1974 to 1979.⁴¹

At the same time, for the Nixon administration, the US strategy regarding economic relations with Europe could only be part of broader policy with this area, and, as such, a political initiative to strengthen Atlantic cooperation came to be required.⁴² At the end of November 1972, Peterson sent Kissinger a memorandum on relations with Europe, proposing a ten-year strategy on security, economic and political issues, and stressing the interrelationship between trade, defence, energy, monetary and other

³⁶ FRUS 1969-1976, Vol. III doc. 103. Memorandum from the President's Assistant for International Economic Affairs (Flanigan) to President Nixon, 11 October 1972.

³⁷ FRUS 1969-1976, Vol. III Foreign Economic Policy 1969-1972, 101. Memorandum from the President's Assistant for International Economic Affairs (Flanigan) to the Special Representative for Trade Negotiations (Eberle), 12 September 1972.

³⁸ FRUS 1969-1976, Vol. III doc. 100. Memorandum of Conversation, 11 September 1972, doc 103. Memorandum from the President's Assistant for International Economic Affairs (Flanigan) to President Nixon, 11 October 1972; and doc. 105. Memorandum from Acting Secretary of State Irwin to President Nixon, 20 October 1972.

³⁹ Ibidem.

⁴⁰ FRUS 1969-1976, Vol. III doc. 108. Paper prepared in the Department of State, undated but presumably written at the end of 1972.

⁴¹ ECKES, *Opening America's Market*, p. 215. FRUS 1969-1976, Vol. III doc, 94. Paper prepared in the Council on International Economic Policy, undated but presumably written in November 1972 and doc 103. Memorandum from the President's Assistant for International Economic Affairs (Flanigan) to President Nixon, 11 October 1972.

⁴² FRUS 1969-1976, Vol. III doc. 103. Memorandum from the President's Assistant for International Economic Affairs (Flanigan) to President Nixon, 11 October 1972.

policies, so that "we would articulate a new set of principles to govern our relationship – a new Atlantic Charter, as it were".⁴³ Kissinger and Nixon also believed that a major and comprehensive initiative was required to prevent transatlantic relations from taking a worrisome turn. It was necessary to "address the fundamental problem" of US-European relations and to give content to the somewhat empty concept of Atlantic partnership. In short, a structure had to be found which accentuated the positive and common aims, that subdued commercial and financial policy conflicts and that brought together the two sides of the Atlantic. Fearing that détente in East-West relations would weaken the incentive towards Atlantic cooperation, Nixon and Kissinger elaborated the "Year of Europe" initiative of 1973. The concerns about the uncertain future of the Atlantic alliance in the context of tensions regarding monetary, trade, diplomatic and security issues – brought to the forefront by EEC enlargement – incited the US government to shape a renewed political framework for the resolution of transatlantic disputes. Faced with the problems posed by enlargement, the United States responded by reaffirming the importance of the Atlantic framework, exactly as Kennedy had done.⁴⁴

Conclusion

When the 1969 Hague Conference opened the way for EEC enlargement, President Nixon responded in a constructive way, arguing that the United States supported the process due to the expected accompanying political benefits, notwithstanding the trade disadvantages it simultaneously caused to the US. However, Nixon soon came to realise that his position on Europe was controversial. With the US economy in a bad condition, and transatlantic relations strained, the economic problems resulting from the EEC's internal development could not be ignored. Washington constantly felt the pressure of US trade interests being damaged by an EEC united behind common policies. In these circumstances, it was no longer possible to remain deaf to domestic lobbies and to subordinate domestic economic interests to foreign policy considerations.

Back in 1961 and 1967, the prospect of EEC enlargement had created problems too, but at that time, with the US economy in a relatively healthier condition, the State Department and White House found it easy to defend their support of Europe. However, as time passed, with the balance of payments running a huge deficit, the balance of trade in deficit for the first time since 1893, a hostile Congress, economic departments in opposition and an economically strong and independent EEC, it became increasingly difficult to maintain the supportive stance. Nixon shifted from open support for the EEC and enlargement to a more sceptical attitude, caused by the economic problems enlargement posed to the United States.

Under Nixon, US policies towards the EEC changed in form: support remained, but Washington became less disposed to accept the disadvantages, less tolerant to what was perceived as the negative effect of European unity on US interests, and more inclined to openly confront the EEC. Moreover, this support became increasingly less ideological, less open to compromise, less concerned with the form of European unity and the destiny of the Commission, and more pragmatic, more openly defending US interests, to a point that it could even be defined as hostile support.

To the transatlantic problems, aggravated by EEC enlargement, the Nixon administration responded by adjusting American support for European integration according to the changing environment, and by reaffirming the importance of the

⁴³ FRUS 1969-1976, Vol. III Foreign Economic Policy 1969-1972, 106. Editorial Note.

⁴⁴ On the Year of Europe, see Burr, W. and Wampler, R., "With friends Like These..."

Atlantic alliance. To achieve these aims, Washington redefined its political and economic relationship with Europe and launched the Year of Europe initiative and a new GATT Round. However, despite these efforts to solidify the Atlantic framework and cooperation across the Atlantic, a new phase of US policy towards the EEC had begun, a phase characterised by less support and more confrontation.

Conclusion: The Kennedy Round in a Larger Perspective

As explained in the introduction, this thesis has been framed according to three levels of analysis: the history of the EEC, the US approach to European integration, and the history of the liberalization of trade and the GATT. In accordance with the method of historical narrative, this thesis has presented facts. Now it is necessary to draw some conclusions and to integrate these facts into the theoretical framework presented in the introduction for each level of analysis.

Concerning the first level of analysis, the history of the GATT and the liberalization of international trade, we noted in the introduction how the United States pursued the increasing liberalization of trade and economic interdependence at the end of WWII and how GATT played the key role of promoting and managing this process, thus favouring a process that had taken place up to the early years of the XXth century. From the facts presented in this thesis, it can be concluded that the Kennedy Round represents a watershed in history of GATT and trade liberalization: it was the first Round to address all of the problems that affected international trade at the time, it introduced negotiating rules that are still used today, and paved the way for the subsequent treatment of certain problems in successive rounds. Agriculture, the problems of LDCs and NTBs, the introduction of a linear reduction of tariffs, and the MDS approach to agriculture were all tabled by the Commission. Certainly not all of these problems were solved in a way that would support the liberalization of trade. In the industrial sector, the negotiation over the linear reduction of tariffs was able to achieve meaningful results. The 35% average tariff reductions were substantially higher than what had been achieved in previous Rounds, however, not all trade sectors were affected by the tariff reduction in the same way. Moreover, NTBs were clearly pinpointed as obstacles that had to be overcome to favour trade liberalization, but the only meaningful result of the negotiations was the antidumping code. Nonetheless, the Kennedy Round paved the way for a serious treatment of NTBs in the Tokyo Round (1974-1979), the first Round that fully included NTBs.

In what concerns agriculture, the Round did not achieve any degree of trade liberalization, and not even any regulation, apart from the International Wheat Agreement and the token tariff reductions on some products. The Round, however, pinpointed the direction that had to be followed in order to reduce discrimination in this sector, making it clear that domestic policies had to be included in the negotiations if protectionism was to be reduced, as the Commission had rightly emphasized with its MDS plan. The refusal of the EEC to reduce its protectionism and the refusal of the US to seriously consider the MDS plan, which in Mansholt's mind was to control CAP protectionism, prevented any progress on agriculture. The EEC ended the Round with its CAP intact and remained free to increase its protectionism in this sector. The US had no bargaining authority to reduce CAP protectionism. For security reasons – that is to say to protect European integration – it had chosen not to question the principle of the CAP and this represented the first weakening of its position. Most importantly, the US had nothing to offer the Six to entice them to renounce their regionalism and protectionism in this sector. In any case, their own GATT waiver of 1955 made it difficult for Washington to present itself as the sponsor of trade liberalization in agriculture in Geneva. In this way the Kennedy Round was a lost opportunity to try to come to some agreement on the regulation of agriculture. It would only be in the

Uruguay Round (1986-1994) that agriculture was seriously discussed and some initial, albeit limited, results were achieved. After this the EU began to accept timid changes in the CAP mechanism with the McSharry reform of 1992 which shifted from price support to direct payment support. Agriculture, however, remains a major stumbling bloc to the liberalization of international trade. The Doha Round initiated in 2001 is still attempting to reduce discrimination.

Despite the many obstacles and partial results achieved, the Round certainly increases economic interdependence across the Atlantic with its reduction of tariff barriers. GATT's flexibility, moreover, made it a suitable instrument to promote and, at the same time, to regulate the internationalisation of the world economy and the growth of world trade among developed countries since WWII. In addition, it proved the extent of its usefulness as an international multilateral framework to enhance cooperation among governments at the crucial time of the coming into existence of the EEC regional agreement. It was to the multilateral framework of GATT that the Eisenhower administration and, then, the Kennedy Administration looked to reduce EEC regionalism. And it was again to GATT that the Nixon administration turned to decrease EEC discrimination after British membership. In this sense, regionalism and multilateralism have always proceeded hand in hand throughout GATT history; one of the main functions GATT assumed since the end of the 1950s was precisely to attempt to reduce the discrimination of regional agreements, the discrimination inherent in the EEC/EC/EU and its progressive enlargements, and also the US after it established the North Atlantic Free Trade Agreement in 1994 with Canada and Mexico.

While the GATT provided a suitable framework for industrialized countries to address the problems of their trade relations, LDCs remained unsatisfied with the results. The problems of LDCs were considered in the Kennedy Round, even though no results were achieved, beyond further alienating LDCs from GATT. LDCs maintained that the industrialized countries had not devoted as much attention to their development problems as they had promised to. It should be recognized, however, that the non-reciprocity rule did not help the LDCs to obtain concessions from the industrialized countries. GATT worked like a bazaar, and to obtain concessions, it was necessary to provide concessions. Thus the non-reciprocity rules marginalized the LDCs from the negotiating game. At the same time, it should also be recognized that the industrialized countries had no intention of making any concessions at all in the two sectors in which the LDCs countries asked for concessions: textiles and tropical products. It would only be during the Uruguay Round in the 1980s that LDCs decided to more actively participate in GATT and the liberalization of international trade.

The second level of analysis of this thesis concerned the US approach to the EEC and European integration. According to Lundestad's interpretation, we noted that the US supported European integration as a means to contain Germany and the Soviet Union. Even though they promoted the build up of an alternative center of power, the United States did not want Europe to develop into a "third force". In fact, American support for European integration was subordinated to the desire to maintain such pole of integration within the wider Atlantic framework of NATO and GATT. By promoting the Round, the Kennedy Administration identified a set of goals to be achieved through a sweeping liberalization of international trade. In addition to helping rectify the balance-of-payments deficit by increasing the trade surplus, it also aimed to promote economic interdependence by integrating the EEC in the multilateral trading system and to favor political interdependence by containing the development of the EEC within the Atlantic framework under US leadership.

The United States achieved mixed results. By reducing tariffs in the industrial sector, the Round contributed to increasing economic interdependence across the Atlantic and, in this way, Kennedy's goal to integrate the EEC into the multilateral system was reached. However, this aim was not obtained in the agricultural sector, the EEC maintained all protectionist measures and, unquestionably, agriculture remains a major problem both politically and commercially across the Atlantic.

Despite the failure of the agriculture negotiations and the complaints of the LDCs, the success of the Kennedy Round contributed to strengthening an important framework for the Atlantic alliance, notably GATT. This was crucial given that the other central framework of the Alliance, NATO, was under considerable strain. In this sense, the success of Geneva was the success of the Atlantic alliance. At the same time, it is questionable whether the Round helped to maintain the alliance under US leadership. On the contrary, the Round clearly demonstrated that the EEC was an actor of equal commercial strength capable of defending its position and confronting the US.

The United States began the Round believing it had a great negotiating advantage over the EEC due to the fact that it was the largest partner of the Atlantic Alliance and concerning the support it could expect from the Commission, Italy, Benelux and above all Germany, which would strengthen the American vision for the Kennedy Round against that of the French. When the Round started, however, Washington soon discovered that being the biggest partner in terms of military power did not give them leverage over the Six when it came to trade. The US also discovered, moreover, that the Commission, Italy, Benelux and Germany's trade interests were more similar to the French than to the Americans and, even if these countries refused De Gaulle's policy towards the United States, when it came to trade they too wanted to defend the regionalism of the EEC.

The United States supported European integration and, as EEC regionalism emerged strengthened from the Kennedy Round, the Round enhanced European integration and, from this point of view, the security interests of the US. The problem, however, was that EEC politics were not necessarily in tune with American expectations. The US supported European integration and encouraged the EEC to speak with one voice. Unfortunately, when that single voice spoke up, it was not always so pleasant for the US and, in particular, the Treasury, and Agricultural and Commerce departments, which, contrary to the State Department, were more concerned with defending US domestic interests than security interests. The United States supported the EEC for security reasons and hoped that a reduction of EEC protectionism, particularly in agriculture, would make the EEC advantageous from the point of view of trade as well. The failure to reduce CAP protectionism, together with the transformation of a US trade merchandise surplus into a deficit, compounded by the strains of monetary and security relations, made it difficult for the Nixon administration to support European integration. This became evident in 1969-1972 during the enlargement negotiations when American support turned hostile. By tracing the evolution of US support for European integration from Eisenhower to Nixon we can see how such support evolved with the progressive development of the EEC. While Eisenhower's main concern in 1958 was to put the EEC on track and, therefore, he uncritically accepted it, when the EEC began to exercise its ability to stand up to the US as a partner of equal strength in the early 1970s, the Nixon administration was freer to consider the problems it raised and, therefore, to openly criticize it and its enlargement.

One of the most debated issues in the history of European integration and EU-US relations is the impact US support for European integration had on the creation and subsequent development of the EEC. Authors like Lundestad who ground their analysis

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in security relations contend that the role of the US was determinant because it guaranteed European security by containing Germany. Authors like Milward who focus their analysis more on economic questions hold that US support was not influential, as the EEC was a European answer to a strictly European problem.¹ Answering this question from the point of view of GATT history, international trade and the facts reconstructed in this thesis, the conclusion can be drawn that the creation of the EEC was a European answer to a European problem. At the same time, US support mitigated the hostility against the EEC that existed and sometimes even eased relations among the Six. This was clearly demonstrated in 1958 when the Treaty of Rome was presented to GATT and won approval, once again, despite the hostility of the United Kingdom, thanks to US support. By the same token, the US decision not to challenge the CAP or to oppose the approval of UGP in 1964 eliminated German arguments for not approving UGP and generally eased the way for the establishment of this policy. During the Empty Chair Crisis, the Johnson Administration waited for the crisis to be resolved before concluding the Round. This decision was surely dictated by the fact that the Kennedy Round without the EEC did not make sense, but also by the interest of the US in maintaining a framework within which the EEC could re-gain unity and the Commission could negotiate. It is worth noting that the situation changed under Nixon, by which time the EEC had clearly demonstrated that it did not need US support to exist. Thereafter Nixon was freer to criticize both the EEC and the Commission.

The third level of analysis of this thesis concerned the history of the EEC from the point of view of the Kennedy Round. The commercial policy of the Six and their interests to negotiate as a regional trade area in GATT were analyzed, as well as the links between the Kennedy Round negotiations and other issues that concerned mainly the Six in the 1960s, notably EEC enlargement, the establishment of the CAP, the Empty Chair Crisis, and relations with the US. In this thesis, the participation of the EEC in the Kennedy Round has been presented in the framework of Alan Milward's theory of European integration, according to which this process represents a means to achieve the goal of the nation state to provide a welfare policy and to ensure citizens' allegiances. This goal is not pursued in a national framework, but, rather, within the regional framework of the EEC through European integration and the surrender of sovereignty. The regional framework of the EEC was an instrument to accompany the increasing internationalisation of trade and the world economy and to promote economic growth and full employment through an expansion of trade at the regional level.

Analysing this period of EEC history from the point of view of GATT has allowed us to shed some light on the motivations the Six had for joining the EEC, the elaboration of the CAP, and the Empty Chair Crisis and Luxembourg compromise. The history of the creation of the EEC is often described as a *quid pro quo* between protectionist France and liberal Germany. According to this interpretation, France joined the EEC because it was interested in selling its agricultural products to the five partners, Germany in particular, while Germany joined the EEC because it was interested in selling its industrial products to the five partners while at the same time refusing the CAP. Yet, according to the facts that have been presented here, this vision downplays French interest in the customs union for industrial products. France had, in fact, a crucial interest in joining the EEC in order to obtain a regional market for its manufactures and this interest is demonstrated by its stances in the Kennedy Round as

¹ For the debate on this issue see Lundestad, "Empire" by Integration. The United States and European Integration, 1945-1997 (Oxford: Oxford UP, 1998), pp.126-146.

France negotiated to maintain EEC regionalism to preserve the market for its manufactures exports. At the same time, however, France was not the country with "protectionism in its blood", as the British often put it. France accepted to reduce tariffs in order to enhance its exports to EFTA markets and the US. And even if it asked for protection in given sectors, traditionally more liberal countries such as the Netherlands and Germany also had sectors to protect for which they were unwilling to reduce barriers. This vision further downplays German protectionism in the agricultural sector and ignores the fact that France was not the only country to support the CAP. This thesis demonstrated that German agricultural policy could be as protectionist as French policy and that the CAP was not only pushed by France, but also by the Dutch who had a strong interest in setting up a market for their meat and dairy products. The quarrel over UGP, moreover, showed that the CAP was not solely an instrument to obtain agricultural outlets for its foodstuff for France, but also a strategy to link Germany to the EEC. This *quid pro quo* vision also depicts EEC history in the 1960s as a bilateral deal-making between France and Germany, relegating the other four members to a minor role. An analysis of the Kennedy Round negotiations demonstrated that other actors played a full role in the Round and, it follows, in the elaboration of the EEC's commercial policy. The Dutch were far from passive players, on the contrary, they maintained an active and influential participation during all negotiations in both the industrial and agricultural phases of the Round. By the same token, Belgium and Luxembourg also played an active role proportionate to their commercial strength. It could be said that the only country who did not play a role commensurate to its political and commercial strength was Italy, who was often not adequately represented in Brussels and capable of mastering all of the technical questions debated in the Kennedy Round. But this is an issue that should be further investigated when the Italian archives will be accessible.

An analysis of the adoption of the CAP from the point of view of the Kennedy Round shows that this policy was not elaborated and adopted in isolation in Brussels. First, Germany, the Netherlands and Italy considered the effect of this policy on third countries, not because they were concerned about the trade balance of these countries, but because they hoped to maintain their flow of cheap imports from outside the EEC. Second, the CAP was negotiated under the pressure of the Kennedy Round. The Germans had to resign themselves to the fact that, to attend Kennedy Round as they wished to, they also had to permit a faster elaboration of this policy than they had hoped. In fact, it was in order to negotiate over grains in Geneva that Bonn finally resigned to the UGP and, similarly, it was in order to attend the Round that it agreed to the settlement of an important CAP lot in 1966.

There is a final point worth emphasizing in this conclusion. The description of the Empty Chair Crisis from a Kennedy Round perspective demonstrates that France was not the only country that refused to apply the principle of the unanimous vote when crucial interests were at stake. None of the Six wanted to be placed in a minority position. The Germans in particular did not want to find themselves in the minority on an issue as important as the CAP. This proves that despite the fact that de Gaulle appeared to be the only one screaming against the majority vote, the other Five also actually had an identical, even if silent, position.

This thesis showed the strong commercial interests that held the Six together, despite the tensions that existed between them. During the last phase of the Round, from November 1966 to May 1967, after the internal EEC dispute had been settled, the Six stuck impressively together to confront the United States and to defend their trade interests. In signing the Treaty of Rome in 1957 they had decided to face the further

internationalisation of trade through a regional agreement and a customs union. This required the establishment of a common commercial policy and, consequently, attending the Round as a negotiating unit. It was this interest that held the Six together and allowed them to overcome problems and to make the compromises necessary to reach a common position.

In reality, the elaboration of a common position was not an easy task. The Six agreed that their trade interests would impede the drastic reduction of trade barriers that Washington seemed to be pursuing because such reductions would endanger the regionalism of the EEC and its identity. At the same time, the elaboration of a common position for the Geneva negotiations overlapped with other negotiations taking place among the Six. Concerning the first point, the French veto of the British application gave rise to a period of tension among the Six that was worsened by the dragging of German feet on the question of the UGP and CAP. This major tension subsequently erupted into a full-blown crisis in June 1965, resulting in a postponement of completion of the EEC's offers for the Round to the end of July 1966.

The divergent trade interests of the Six further complicated the elaboration of a common position. The elaboration of common positions in sectors such as aluminium and mechanical and transport equipment were highly complicated as French and Italian interests diverged from those of Germany and the Netherlands. In the same way, negotiations concerning the automobile sector were complicated by the conflicting interests of France, Italy, Belgium, the Netherlands and Germany. In other cases, the Six had common commercial interests, but their positions diverged on tactics. In sectors such as paper and steel, for example, all Six were unenthusiastic about the prospect of granting concessions to the Nordics and the British successively. However, while Germany and the Netherlands were disposed to reduce protectionism in order to obtain counter-concessions from EFTA countries, Italy and France were more interested in protecting their industries. This proves that none of the Six were either in favour of free trade across the board or fully protectionist. They all had a sector to protect and this further complicated the elaboration of a common position. In the end, the commonly held interest to negotiate as a unit led all Six to make compromises that would ensure a successful conclusion of the Round.

The Kennedy Round was significant for the EEC because it defined its place in world trade and marked the existence of the EEC as a powerful regional unit capable of speaking with a single voice. The Round clearly demonstrated that the EEC had a liberal stance on trade in manufactures, but a complete protectionist stance on agriculture. In the industrial sector, the Six had a major interest in expanding exports outside the EEC, which led them to reduce the CET in order to obtain counter concessions. On the contrary, their priority in agriculture was to set up a common agricultural policy that would support the welfare of farmers and establish a regional market. In reality, the Netherlands, Germany and, to a lesser extent, Italy had hoped to use the Round to maintain cheap imports of food from outside the EEC, but the refusal of the Germans to set a lower price for grain and the refusal of the French to grant quantitative assurances to third countries prevented this outcome. An analysis of the CAP from the GATT point of view showed that this policy came to represent the sum of all of the protectionist policies of the Six. As a consequence, the EEC ended the Round as a major stumbling bloc in agricultural trade and soon transitioned from a major world importer to a major world exporter. As already noted, the CAP, along with the protectionist policies of other developed countries and the US, still represents a major obstacle to the liberalization of international trade.

Pooling sovereignty in international trade relations helped the Six defend their trade interests and acquire a predominant position in world trade. The EEC ended the Round as a major actor capable of confronting the US on equal terms. In this sense, the Round confirmed the existence of the EEC on the world stage and represented its first act of foreign policy. International trade is still, today, the only field where EU is able to act as a unit in the world arena.

The Six negotiating as a unit created a great deal of rigidity and provoked significant delays to the Kennedy Round. In fact, the Six had to coordinate their position in Brussels in meetings with the 111 Committee and, then, the Council of Ministers, all of which was complicated by the overlap that emerged between the Round and the creation of the common agricultural policy. This process took a great deal of time. Unfortunately there was no other way for the EEC to operate in international commercial negotiations and this continues to be a major characteristic of EC participation in GATT/WTO rounds today.

A clear conclusion can be drawn from the participation of the Six in the Kennedy Round concerning the relations between member states and the Commission. Member states had a pragmatic approach towards the Commission. In the Round they considered how their trade interests might be best represented. Thus governments who openly criticized supranationalism, such as Paris, supported the Commission because it had an almost identical vision. On the contrary, governments, such as the Hague and Bonn, *in theory supporters of supranationalism*, did not hesitate to question the role of the Commission when it did not represent the EEC in accordance with their wishes. In determining their position towards the Commission, member states did not consider ideological issues, but, rather, their trade interests. To successfully conclude the Round, member states relied on the Commission for its proposals and role as honest-broker in Brussels. In the last phase of the Round, they accepted to allow it to negotiate *ad referendum* in Geneva. Member states needed the Commission to negotiate as a unit in order to defend their trade interests and became aware that they could not challenge its role in Geneva. The pragmatism of member states was also demonstrated by their attitude towards the Commission after the Empty Chair Crisis. France never questioned the negotiating role of the Commission after the crisis and it was during the last phase of the Round that the Commission grew more powerful, maintaining its predominant role in the agricultural negotiations, continuing to negotiate on NTBs, and even conducting the negotiation concerning the entry of Poland, all issues for which the Commission lacked authority according to the Treaty of Rome. Thus, contrary to what is often claimed, the Empty Chair Crisis did not weaken the negotiating role of the Commission regarding the common commercial policy.

The Commission played a significant role. It had a vision of the Round and tried to enhance it. It was, significantly, in the sector for which it lacked authority under the Treaty of Rome, agriculture, that the Commission's role was most influential. Thanks to its technical skill and vision of how trade in agriculture should be managed, the Commission was able to elaborate a plan, the MDS, which the Six accepted as the EEC negotiating position in Geneva. The Commission also played an important role in elaborating lists of exceptions for negotiations in the industrial sector by presenting proposals and tabling compromises that could be accepted by all Six. Thus, this institution enhanced its role by exploiting the interest the Six shared in pooling their sovereignty in international trade. It was because member states allowed it to have such an active role, in line with their trade interests, that the Commission gained authority. It should be recognised that such an influential role was also earned thanks to its valuable Commissioners and officials – such as Rey, Marjolin, Mansholt, Colonna di Paliano,

Rabot and Malvé – who, with their technical skills and valuable proposals, were able to play a significant role both in Brussels and Geneva. In fact, the Commission was progressively able to rid itself of the presence of member states in Geneva and to negotiate as a sole agent.

Despite the importance of its role, the Commission was not independent. It had to play its role within a mandate issued by the Council of Ministers after prolonged negotiations. The negotiations among the Six and the Commission to determine a common negotiating position for Geneva clearly demonstrate that governments maintained a central role in the elaboration of the EEC's commercial policy and, hence, in this important field of the European integration process. The long and exhausting Council of Ministers, COREPER and 111 Committee meetings during which governments controlled and questioned every single item from canned peaches to sewing machines plainly proves that the elaboration of commercial policy remained in the hands of member states, even if the Commission was able to play an influential role. The fact that member states had allowed the Commission to play an active and important role did not imply that the battle between member states and the Commission over the conduct of foreign commercial policy and the representation in Geneva was over. The Commission negotiated over agriculture, tariffs in the industrial sector, some NTBs such as the anti-dumping code and the ASP. It also negotiated with Poland over its accession to GATT. At the same time, however, member states maintained negotiating authority for quantitative restrictions in the textile sector and in negotiations with Japan with whom they regulated trade with quantitative restrictions. Thus the Commission did not establish its negotiating role in all domains of EEC commercial policy and this shows that the economics and politics of the sector are the determining factors of the Commission's powers. This issue is still relevant because member states and the Commission continue still today to quarrel over the boundaries of their respective authority on new fields of international trade such as services and intellectual property.

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