the full implementation of the Anglo-Irish Free Trade Area Agreement without membership of the EEC would be even more severe on Irish industry than if combined with membership of the EEC. Among the reasons mentioned are

—Membership of the EEC would make it possible for industry to diversify into new markets, thereby reducing our dependence on Britain and specifically the danger of disruption of our economy from economic fluctuations in Britain.

—If Britain were a member of the EEC, many British firms would be looking towards Europe as well as towards Ireland for new markets instead of concentrating their attention here, as may happen within the next few years.

—Membership of the EEC would make Ireland increasingly attractive for new external investment in industry.

—The institutions of the EEC involve responsibility by the Community as a whole to safeguard the economic well-being of each member State, both big and small.

4.47 The structures, patterns and techniques of industrial production and trade throughout the world are at present in a period of rapid change and development. In this climate even the industrially powerful nations are changing their traditional trading policies in order to achieve their desired economic growth. In our circumstances, it is all the more important that we should adapt ourselves to this situation. The Irish home market, despite an expanding economy, is not big enough to provide adequate outlets for industrial production on the scale necessary to achieve the national objectives of a rising standard of living with full employment and reduction of emigration to an acceptable level. A satisfactory rate of progress in this direction is now almost entirely dependent on our ability to sell more and more of our production on export markets. A European Community comprising the existing member States and the applicant countries would provide a trading environment which would permit of the expansion of our exports in line with our growth objectives.

CHAPTER 5

AGRICULTURE AND FISHERIES

Common Agricultural Policy

5.1 As mentioned in the Introduction and Summary, a special study entitled *Irish Agriculture and Fisheries in the EEC* will be issued by the Minister for Agriculture and Fisheries. This will set out in detail the common agricultural policy of the European Economic Community, including the market régimes for the various agricultural commodities, and will assess the main implications of that policy applied in full to Irish agriculture in an enlarged Community. The study will also deal with the implications of membership for Irish fisheries, food prices and the country's external trade in agricultural products.

5.2 The EEC Treaty provides that the Common Market should extend to agriculture and trade in agricultural products. It defines the term "agricultural products" as meaning the products of the soil, of stock-farming and of fisheries and products of first-stage processing directly related to the foregoing.

5.3 The Treaty declared that the operation and development of the common market for agricultural products should be accompanied by the development during the transitional period, which ended on 31 December 1969, of a common agricultural policy for the Community. The Treaty laid down the objectives of that policy but left the details of it to be worked out by the Community's institutions. These objectives are:—

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of all factors of production, in particular labour;

(b) to ensure a fair standard of living for the agricultural community particularly by increasing the individual earnings of persons engaged in agriculture;

(c) to stabilise markets;

(d) to guarantee regular supplies;

(e) to ensure reasonable prices to consumers.

In order to achieve these objectives, the Treaty provided that a common organisation of agricultural markets should be established in the Community. It also provided for the setting up of one or more funds to finance the common agricultural policy.

5.4 During the transitional period a common organisation of the markets was established for the following products—cereals, cattle and beef, pigmeat, poultry and eggs, milk and dairy products, fruit and vegetables and sugar. Briefly, these arrangements provide for the free circulation of the commodities concerned between member States; common provisions in regard to imports from third countries; common price levels for most of the commodities in the Community's markets supported, if necessary, by intervention buying financed by the Community; common rules of competition; Community subsidies on exports to non-member countries and a common fund to finance the expenditure involved. A common organisation of the markets for a relatively small number of commodities including potatoes, flax, and mutton and lamb has yet to be introduced.

5.5 As well as common organisation of the markets, the common agricultural policy also aims at co-ordination of national policies for the improvement of agricultural structures in member States. The whole question of reforming the structure of agriculture in the Community was examined in detail in a comprehensive memorandum submitted by the Commission to the Council of Ministers in December 1968. This memorandum, which is normally referred to as the Mansholt Plan, examined the weaknesses which had become apparent in the operation of the common agricultural policy and which had resulted in serious surplus production of a number of commodities, e.g. milk, wheat

and sugar. In it the Commission made a number of recommendations aimed at improving the structure of agriculture and placing less emphasis on market and price policy. The recommendations comprised a variety of measures for (a) reducing the acreage of farmland in the Community, e.g. by afforestation, parkland etc., (b) increasing the size of holdings and agricultural enterprises, (c) facilitating the reduction of the numbers engaged in agriculture by the provision of vocational education and re-training, and (d) creating new non-agricultural employment in rural areas through regional industrial development. In addition, measures for improving the structure of agricultural marketing are suggested. The Plan has been under examination in the Community but no decisions have yet been taken on it by the Council. It is understood that the Commission is at present revising the Plan in certain respects.

5.6 In addition to the common organisation of markets and improvement of the structure of agriculture in the Community, the establishment of a common agricultural policy also necessitates the creation of common rules of competition for agriculture, e.g. as regards State aids, and harmonisation of national animal and plant health requirements which might otherwise impede the free movement of agricultural products within the Community.

5.7 So far as State aids to agriculture are concerned, the Council has not yet laid down general criteria for determining whether particular types of aid should be deemed to be compatible with the Treaty, although a proposal by the Commission has been before it for some time. However, in the case of products for which a common organisation of the markets has been adopted (see paragraph 5.4) the Treaty provisions on State aids have generally been applied. This means that the Commission is empowered in respect of these products to examine all relevant State aids and, if necessary, to demand their modification or abolition unless the Council, at the request of the member State concerned, unanimously decides otherwise.

5.8 As regards harmonisation of national veterinary policies, directives have already been adopted by the Council governing health requirements for intra-Community trade in cattle, pigs and fresh meat. These directives include standards for the preparation of fresh meat for the export trade. Proposals for directives governing trade with non-member countries in live animals and meat have been under consideration in the Community for some time past. A Veterinary Committee comprising experts of member States, presided over by a representative of the Commission, has been established to deal with such veterinary matters as may be assigned to it by the Council.

5.9 In the case of plant health, some directives have been issued by the Council in relation to certain diseases and pests of potatoes and the marketing of certain agricultural seeds. Proposals have been submitted by the Commission to the Council on the harmonisation of the import requirements of member States in regard to plant pest control but no decision has been taken on these.

5.10 Finally, in order to finance the operation of the common agricultural policy, the Community set up in 1962 a special fund called the European Agricultural Guidance and Guarantee Fund (EAGGF). The purposes of the Fund are:—

(a) to support prices on the internal markets of the Community by market intervention measures;

(b) to finance exports of agricultural products to non-member countries where necessary;

(c) to contribute towards the cost of appropriate changes in the agricultural structures in member States.

The Fund is divided into (i) the Guarantee Section out of which is financed expenditure arising on market support and export subsidies, (ii) the Guidance Section which finances structural improvements in agricultural production and marketing, and (iii) the Special Sections which were set up to meet comparatively minor and *ad hoc* expenditure such as compensation payments for certain price reductions, agricultural adaptation measures in Luxembourg and food-aid projects.

Implications for Irish Agriculture

5.11 In the paragraphs that follow, the main implications which membership of an enlarged Community would have for Irish agriculture are considered under the following broad headings:

(1) principal commodities and increase in agricultural output, (2) harmonisation of animal health and plant health measures, (3) State aids, and (4) trade in agricultural products. The implications for fisheries and the effects on food prices are dealt with in paragraphs 5.21 to 5.23. As no decisions have yet been taken on the Commission's recommendations for the reform of the structure of agriculture and as it is not clear how far these may yet be modified or applied in an enlarged Community, it is not feasible at this stage to make a meaningful assessment of their implications for Ireland.

5.12 It should be noted that the assessment made is based on the full application here of the EEC régime at the final "single market stage" in each case for the main commodities and that prices have been converted at current rates of exchange. Accordingly, exceptional measures of a transitory nature, such as those taken by the Community during 1969 arising from the devaluation of the French currency and the revaluation of the German currency, have been ignored. The terms " target price " and " guide price " used in these paragraphs are practically synonymous—the former being used in the case of cereals, dairy products and sugar and the latter in the case of beef. A target or guide price is not a guaranteed price but rather the level of price which is aimed at in the internal market of the Community. In order to show the relative importance of the various commodities in the composition of Ireland's agricultural output, Table 9 in Appendix 4 sets out in respect of each commodity the value of output in 1968 and its relative contribution to gross agricultural output. Table 7 shows the degree of self-sufficiency for each of the main agricultural commodities in the present Community and in a Community of Ten.

COMMODITIES

5.13 The following is a summary of the position for the main agricultural commodities:

(i) *Cattle and Beef:* The common guide price for cattle in the Community is 287s. 10d. per live cwt. This is approximately 60 per cent above the level of Irish prices for fat cattle in 1969. Thus, even allowing for the fact that any intervention or support measures would operate at about 7 per cent below the guide price and for the fact that transport costs to export markets would have to be covered, it is clear that cattle prices here would show a very substantial increase which should serve as a strong stimulus to increased beef production.

The long-term outlook for beef in an enlarged Community, on the basis of OECD forecasts for the period up to 1985, is one of consumption exceeding production leaving a sizeable deficit to be met by imports. On the basis of these forecasts the long-term outlook for Irish beef is good. Of course, this situation could be affected by many factors such as trends in consumers' income, beef prices and the prices of other meats, and from the production aspect the relative profitability of different commodities, structural improvements, increased productivity and technical progress.

The value of exports of cattle and beef would increase significantly. Having regard to our geographical position our main export market for cattle and beef would probably continue to be the U.K. but some increase in exports to the present member States could be expected following the termination of the customs duty and import levies. Under the EEC system, the present arrangements for the support of exports of beef to the U.K. would have to be terminated as would, of course, British deficiency payments which apply to Irish store cattle fattened in the U.K. In an enlarged Community there would be a possibility that fat cattle exports might increase at the expense of store cattle and carcase beef in view of the termination of the support payments referred to. On the other hand, the efficiency of the present beef factories should offset any such tendency and developments in regard to transport could also operate in favour of the carcase meat trade. As regards store cattle, an important factor would be the traditional and long-standing nature of the trade. It should be borne in mind that the store cattle trade developed before there was any price support for cattle in Ireland or the U.K. and that for many years it thrived and prospered in conditions of equal

competition with exports of fat cattle. Ireland should continue to be in the best position in an enlarged Community to supply store cattle to the U.K. but the raising of cattle prices here and in the U.K. to a common level could make Irish store cattle less attractive to British feeders. Also, British demand for Irish stores might be somewhat weakened by the effects on British beef farming of the U.K.'s entry into the Community. There might also be an opportunity for developing exports of store cattle to Continental countries of the Community.

As regards imports, our quantitative controls and tariffs on beef would have to be abolished *vis-à-vis* member States and replaced by the Community arrangements *vis-à-vis* non-member countries.

(ii) *Milk and Dairy Products:* The common target price for milk (delivered at dairy) with 3.5 per cent butterfat is 3s. 9d. per gallon. The average price for manufacturing milk (with an average butterfat content of 3.5 per cent) to the Irish farmer in 1968 was about 2s. 4d. per gallon (including about 3.4d. a gallon for skim milk). The target price is not, however, a guaranteed price for producers but is defined as the price which it is aimed to maintain for all milk sold by producers during the dairying year within the limits of the outlets offered on the market of the Community and external markets. The capacity of Irish creameries and manufacturers of dairy products to pay their suppliers a return equivalent to the common target price would depend on the ruling prices of the manufactured products and on the efficiency of the manufacturing industry. The common intervention prices at present operating in the Community are 734s. 6d. per cwt. for butter and 174s. 6d. per cwt. for skim milk powder but the Commission has submitted a proposal to the Council to alter these to 602s. 3d. per cwt. for butter and 214s. 6d. per cwt. for skim milk powder. Even after allowing for such factors as the point at which intervention purchases of butter and skim milk powder could take place and the fact that the EEC target price for milk is not a guaranteed price, it is clear that membership of an enlarged Community would result in a substantial increase in the price of milk to Irish producers. (The EEC regulations on milk do not apply to liquid milk; a common régime for liquid milk has yet to be finalised.) An appreciable increase in the value of the output and exports of dairy products would also result. The application of the Community system for dairy products would mean that the present support arrangements for creamery milk would be terminated and replaced by the Community system. For example, the floor price for butter would be replaced by the Community intervention price and there would also be an intervention price for skim milk powder. In the short-term, the extent to which overall milk production would increase as a result of the higher producer price would be limited by such factors as the time taken to expand cow numbers and to raise the yield of milch cows.

It should not, however, be overlooked that the outlook for milk and dairy products in the present Community is one of continuing surplus and even in an enlarged Community the outlook, according to the OECD forecasts, would also be one of production exceeding consumption for some years to come.

The U.K. market would probably continue to be the main market for Irish dairy products. The quantitative arrangements for imports of butter and cheese into that market would, of course, have to be removed. The position in the U.K. market would be affected not only by the effects of EEC policy on British milk production but also by any special arrangements made for imports of dairy products into the U.K. from, as the U.K. has proposed, New Zealand. In a White Paper issued in 1967 the British Government stated that the application of the EEC system to the U.K. could be expected to reduce production.

Our import restrictions and duties would have to be abolished *vis-à-vis* other member States and replaced by the Community system so far as third countries are concerned. Irish creameries and manufacturers should, however, be able to meet any competition in the home market from imports.

(iii) *Sheep and Lambs:* A common organisation of the market has not as yet been introduced in the Community for sheep and lambs. Production and consumption in the Community are at present relatively small. Given the equal terms of competition with Continental and British producers which would result from accession, Irish producers should fare quite well and the higher prices should stimulate increased production. The bulk of our export trade would probably be with the U.K. but there should be scope for developing trade with some Continental member States.

(iv) *Cereals:* The common target prices for wheat and barley in the EEC are £45 and £40 8s. per ton, respectively, and the common intervention prices are £41 16s. and £37 8s. per ton, respectively. It is estimated that allowing for costs of transport etc. the intervention prices which would be applicable to Ireland under the present Community arrangements might be about £39 per ton for wheat and £34 10s. per ton for barley. The comparable guaranteed prices here at present for grain of equivalent standard are £39 2s. per ton for wheat and £28 8s. per ton for barley. Thus, the application here of the EEC régime and prices would involve little change, or possibly a slight reduction, in the price of wheat and an increase of about 20 per cent in the barley price. (The foregoing price comparisons have been based on the assumption that in an enlarged Community the derived intervention prices for various regions would continue to be related to the common target price fixed for Duisburg as at present.) While there is no intervention price for oats in the EEC system, it is likely that, having regard to the level of the minimum import price for oats on which the levy is calculated and the level of the intervention price fixed for barley, the price to producers here for oats would also increase. It could, therefore, be expected that there would be some swing from wheat to coarse grains, especially feeding barley, but because of increased costs of inputs to the tillage farmer (e.g. if subsidies on fertilisers had to be terminated) and the relative increased attraction of the production of livestock and livestock products, the overall acreage under cereals might not be significantly affected. While Irish flour millers would be free to import their requirements of wheat either from other member States or from third countries subject to compliance with the regulations, wheat imported from outside the Community would be dearer than native wheat and the cost of imports from other parts of the Community would be up to the level of the Irish price. Irish flour millers could accordingly be expected to use as much native wheat as possible assuming that the quality met requirements.

The existing production quota system for Irish flour mills would have to be abolished as well as the requirement that a prescribed percentage of the quotas must be native wheat. With the freeing of imports from member States Irish flour mills could expect to meet some competition, especially from mills in Northern Ireland and Britain.

The prices of animal feedingstuffs would rise because of the higher grain prices on the domestic market and the increased cost of imported grain whether imported from other member States or from third countries. The existing quantitative import controls on animal feedingstuffs would have to be removed but the retention of some controls on animal health grounds might be necessary. As regards cereal seeds, the standards of our Seed Certification Scheme are higher in many respects than the EEC standards.

(v) *Pigs:* There is no common target or guide price for pigs in the EEC. Protection for the domestic producer is achieved by measures at the frontier, i.e. import levies and minimum import prices to restrict imports from third countries. There is, however, a basic price for pigmeat, which is used as a "trigger" point for determining intervention in the market. When the market price throughout the Community falls below this basic price and is likely to remain so for some time, intervention measures are applied and the prices at which intervention purchases are made cannot be below 85 per cent of the basic price. The current basic price in the Community is 317s. 6d. per cwt. deadweight and 85 per cent of this is about 270s. per cwt. However, this would be only the floor price represented by intervention purchases and market prices could be

expected to be closer to the basic price. The average price paid at markets here for bacon pigs in 1969 was about 276s. per cwt. deadweight and so some increase in the producer price for pigs would be likely to result from membership of the Community. Feed costs would, however, be higher here than at present and there could be some reduction in the rate of profit per pig here, but this could be offset by more efficient production.

Ireland's pattern of exports would be unlikely to show any significant change, the bulk of the trade continuing to be with the U.K. where the existing quantitative import arrangement for bacon would have to be removed. Our existing restrictions would have to be abolished *vis-à-vis* other member States and replaced by the Community levy system so far as non-member countries would be concerned.

(vi) *Poultry and Eggs:* There are no target prices for poultry and eggs under the EEC system. Protection is provided against imports from outside the Community but within the Community there is free competition. In the light of the prices obtaining in the Community at present, there would seem to be little prospect of higher prices for poultry and eggs here on accession to the EEC. As in the case of pigs, feed costs here would increase with the higher grain prices. Accordingly, efficiency of production, processing and marketing would be vital and development of the industry on the basis of larger production units would help to meet competition from such units elsewhere in the Community. Irish production would probably continue to be mainly for the home market and exports might not be very significant.

(vii) *Sugar-beet:* The minimum grower's price for sugar-beet in the EEC for the year 1969-70 is 143s. 10d. per ton. This price applies only to a basic production quota in each member State, relates to sugar-beet of 16 per cent sugar content delivered at a collection centre and, in general, is based on the assumption that all pulp is returned to growers free of charge. The comparable Irish price for 1970-71 for sugar-beet of 16 per cent sugar content is about 159s. per ton plus 13s. per ton freight subsidy. The Irish grower can, however, buy dry pulp from Cómhlucht Siúicre Éireann at a specially reduced price. It has been estimated that the EEC grower is about 10s. per ton of beet better off than his Irish counterpart so far as pulp is concerned. Allowing for this and ignoring the freight allowances, the Irish price for sugar-beet is slightly above the EEC price. On the other hand, due mainly to lower refining costs, the current Irish ex-factory price for sugar is considerably below the EEC target price. Raising the ex-factory price to the level of the EEC target price should help towards maintaining the present beet price after Ireland's accession to the Community. As regards beet and sugar production after Ireland's entry into the Community, the position would be affected by numerous factors such as the level of any production quotas that might be fixed,* the level of the common prices, any special concessions for Commonwealth supplies, as proposed by the U.K., and the relative profitability of other lines of production for farmers here. It would be hoped that any quota fixed for Ireland would enable Cómhlucht Siúicre Éireann to produce sufficient sugar to meet the full requirements of the home and export trades. There should be scope for increased exports of refined sugar to Northern Ireland and the adoption of the EEC sugar régime should not adversely affect our export trade in goods containing sugar.

(viii) *Potatoes:* A common organisation of the market has not yet been introduced in the EEC and pending information on the type of arrangements that might be adopted it is difficult to forecast what the effect of membership would be on commercial potato production here. Having regard to prices prevailing in the EEC and the levels of production there, it is not expected that production of potatoes here would be affected to any great extent although the removal, on accession to the Community, of the British import restrictions might provide an outlet for some main-crop ware potatoes at certain times of the year. Irish seed-potato exports are already graded to higher standards than those in force in the EEC.

*The production quotas fixed under the current Community arrangements cover the period up to 1975.

(ix) *Horticulture:* This sector of our agricultural industry would be likely to encounter some difficulty under EEC conditions. At present it is well protected both by import duties and quantitative restrictions and with the removal of these restrictions against other member States there would be keener competition from Continental producers who have climatic and other advantages. This would apply in the case of apples, soft fruit pulp and onions. Producers here might have to accept lower prices for some fruit and vegetables and the level of production could decline unless the highest levels of efficiency were attained. This would be likely to apply in particular to the higher-priced items but not to the cheaper and more bulky items.

5.14 In brief, therefore, the position is that for cattle, sheep and lambs and milk, which account for 63 per cent of agricultural output, the outlook is favourable. For other livestock products, mainly pigmeat, poultry and eggs, which account for 16 per cent of output, costs of production are likely to increase with a consequential decrease in profitability per unit of production but this could partly be offset by more efficient production, particularly in larger units. As regards tillage, which accounts for about 15 per cent of output, barley production could be expected to increase at the expense of other cereal crops; sugar-beet production should be maintained or possibly increased somewhat while potato production should show little change. The most sensitive sector and the one most likely to meet severe competition is horticulture, which accounts for 3 per cent of output.

5.15 As there are so many variable factors involved, it is difficult to assess precisely the extent to which Irish agricultural production would increase on the basis of the full application here of the EEC agricultural régime. It has, however, been tentatively estimated that, assuming Ireland acceded to an enlarged Community at the beginning of 1973, the volume of gross agricultural output might be expected to show an increase by the latter years of the decade of the order of 30-40 per cent over the present level. Because of the change to higher producer price levels, the increase in the value of gross agricultural output would, of course, be considerably higher.

ANIMAL AND PLANT HEALTH

5.16 So far as the animal health directives already adopted by the Community are concerned, no serious difficulties are foreseen in complying with the standards prescribed in the directive governing trade in fresh meat. Many of the factories in the export trade have been modernised in recent years and most of them are well up to the EEC standards. They are also capable of handling an increased throughput. A small number of factories not up to the EEC standards would need to be improved. In the case of the directive on trade in live animals, however, certain matters arise which would require further consideration in view of Ireland's disease-free status and the nature of this country's trade in livestock with the U.K., some of which is a cross-border trade with Northern Ireland. Some special derogations might be needed if the present directive were applied without modification to an enlarged Community. The making of special arrangements to protect Ireland's position should not create serious problems since the main objective of a common animal health policy for the Community is to protect and improve animal health in the member States.

5.17 As regards plant health, such measures as have been adopted to date by the Community would not create any problem for Ireland but, as in the case of animal health, it is likely that in connection with the general harmonisation of plant health measures in an enlarged Community particular issues would arise for Ireland which would have to be specially examined so as to ensure that Ireland's freedom from certain major plant diseases and pests was not endangered.

STATE AIDS

5.18 Pending the adoption of criteria by the Council of Ministers for the determination of the types of aid to agriculture that may be deemed compatible with the Treaty, it is difficult to assess precisely the effects of membership so far as current State expenditure in relation to agriculture here is concerned. However, some modifications would obviously be necessary, such as the elimination of price supports and export subsidies and their replacement by the Community system of market organisation for the products concerned. Other aids would fall to be examined

by the Commission. On the basis of expenditure in 1969-70 the saving in respect of agricultural price supports and export subsidies which would no longer have to be met by the Irish Exchequer would be £36 million. If certain other State aids were not allowed, the total saving could be of the order of £46 million. In addition, projects of a structural nature qualifying for aid would benefit from assistance from the Guidance Section of the EAGGF.

AGRICULTURAL TRADE

5.19 At present almost one-half of all the output coming off Irish farms is exported, of which livestock and livestock products account for over 90 per cent. The main effect of membership for Ireland's agricultural exports would be improved access to a large market at remunerative prices, thus enabling Irish products to compete on equal terms with similar products produced in other member States. This would mean a considerably higher return for our main exports, viz. cattle and beef, dairy products, lamb and pigmeat. Exports to non-member countries would qualify for aid from the European Agricultural Guidance and Guarantee Fund. Because of our geographical situation the bulk of the export trade would probably continue to be with the U.K., where existing import arrangements for dairy products, bacon, sugar and ware potatoes would have to be terminated; exporters of agricultural products would, however, have to meet increased competition in the British market. Exports of cattle and beef, lamb and possibly pigmeat to Continental countries of the Community would probably increase but the prospects of developing exports of dairy products or of sugar to those countries would seem limited until the current surplus problems there are solved.

5.20 So far as imports are concerned, existing quantitative restrictions and other protective measures would have to be removed *vis-à-vis* other member States and in the case of third countries these restrictions and duties would have to be replaced by levies and/or the common customs tariff. Irish producers would encounter more competition in the home market from products from other member States. The cost of imports of a number of commodities, e.g. cereals and animal feedingstuffs, would rise irrespective of whether these were purchased from within the Community or from third countries. There would probably be a change in the pattern of imports inasmuch as imports from member countries which would have a Community preference would tend to replace those from third countries.

Fisheries

5.21 A common policy for fisheries has not yet been adopted in the Community. In 1968 the Commission submitted proposals to the Council for a common fisheries policy. These proposals cover structural policy and the common organisation of the markets, and are largely based on the common agricultural arrangements.

5.22 Membership of an enlarged Community should be advantageous for the fishery industry inasmuch as trade with the EEC, which is Ireland's biggest customer for fish, would be on more favourable terms and should be capable of considerable expansion if production could be increased. Freshwater fish (salmon, trout and eels), shellfish (lobster, crawfish, etc.) and pelagic fish (herring, mackerel, etc.) which are at present largely exported would benefit from the abolition of EEC import duties and quantitative restrictions. On the other hand, Ireland would lose the preference at present enjoyed on the British market, but the advantages of improved access to the EEC market should more than offset this. In addition, some difficulties could arise from any decision which might be adopted by the Community, within the framework of the proposed common policy for fisheries, in regard to access to fishing grounds within the exclusive fishery limits of the member States. The elimination of quantitative restrictions on imports could lead to greater imports of demersal fish (whiting, cod, plaice, etc.) and possibly to a slight reduction in the prices of the varieties most sought after by Irish consumers. On balance, however, the prospects for Irish fisheries in an enlarged Community are favourable.

Effect on Food Prices

5.23 Higher producer prices for agricultural products would mean an increase in the cost of food to the consumer which, in turn, would be reflected in an increase in the cost of living. It is not possible, at this stage, to calculate accurately the effect of the adoption of the Community's common agri-

cultural policy on the cost of living. The levels of EEC and world food prices at the time of Ireland's accession to the Community would be important factors and these cannot be predicted at this stage. In addition, changes in the pattern of consumption which might be induced by the new conditions obtaining would affect the outcome. Notwithstanding these difficulties, it is tentatively estimated, on the basis of the main price differentials for which data are available, that the full application of current EEC agricultural prices here would involve an increase of the order of 11-16 per cent on the present level of the retail price index for food. Allowing for some change in the pattern of food consumption, induced by the new conditions obtaining, the consequential change in the overall consumer price index might be of the order of 3-4½ per cent. The increase would, of course, be spread over a number of years depending on the length of the transitional period.

CHAPTER 6

FREE MOVEMENT OF PERSONS, SERVICES AND CAPITAL

Free Movement of Workers

6.1 The EEC Treaty provides for the right of freedom of movement for workers within the Community. This right entails the abolition of any discrimination based on nationality between workers of the member States as regards employment, remuneration and other labour conditions. The Treaty requirements were to be fulfilled by the end of the transitional period, i.e. by the end of 1969, but they were, in effect, complied with by October 1968. The main obligations on the member States are:

(a) Any national of a member State must be granted the right to take up a wage-earning position in another member State and must be given equality of rights as regards employment and access to available posts. There must be no restrictions on the exchange of offers of, and applications for, employment or on the conclusion of contracts between employers and nationals of the member States.

(b) In the legal or other procedures in a member State, all discrimination must be abolished against nationals of another member State in regard to their seeking or being offered employment in that State. Where procedures exist for limiting the employment of foreigners, the nationals of other member States must be exempted. In addition, the Employment Exchanges must offer the same assistance to nationals of another member State as they do to their own nationals.

(c) Workers from another member State must be given equal treatment as regards conditions of work, including pay and dismissal. They must enjoy the same social and tax advantages as national workers and

must be permitted to benefit on the same conditions from instruction in vocational training centres. They must also be given the same trade union rights as nationals and must be allowed to participate in bodies representing workers.

(d) Provided only that accommodation is available, wives, children and dependent relatives must be allowed to accompany workers employed in another member State and must be given the same rights to take up employment there. These workers must be given equal treatment in regard to access to housing, including ownership. In addition, their children must be able to benefit on equal terms from the State's general education and vocational training courses.

6.2 The Treaty requirements are subject to limitations justified on the grounds of public policy (*ordre public*), public security and public health and do not apply to employment in the public service.

6.3 Machinery has been established for the dissemination of information to facilitate the filling of vacancies within the Community and also of information to discourage labour movements where disequilibria occur in the labour market which would involve serious risk for living standards or employment in a particular area or occupation. When any such disequilibrium occurs, the member State concerned may request that the vacancy clearance machinery should be partly or wholly suspended in respect of that area or occupation. The Commission has the power, subject to the overriding authority of the Council, to decide on the request.

6.4 The Treaty also requires the introduction of measures to ensure that workers who move from one member State to another come under social security cover in the same way as nationals of the host State, that periods of cover in different member States are aggregated so as to give title to benefits and that these may be received anywhere within the Community.

6.5 At present, persons born in Northern Ireland or Great Britain are free to take up work in the State without formality and in this regard no changes would be required on our accession to the Community. Irish employers proposing to employ workers from the present member States and from the other applicant countries, Norway and Denmark, must at present obtain employment permits in respect of those workers before they can enter employment in this country. Membership of the Community would involve the removal of this requirement.

6.6 As the migration of workers for employment depends upon individual decisions, it is not possible to make realistic forecasts of its volume as affecting this country. Nevertheless, it is expected that the provisions of the Treaty of Rome on the free movement of workers would not have a notable impact on the labour market in Ireland. Within the present Community, the only significant movement of labour has been into areas having exceptionally attractive employment opportunities, which suggests that the main attraction for Continental workers would remain centred in such areas.

6.7 While it is expected that the overall inflow of Continental workers to this country would be relatively small, some indication of the nature of the possible inflow may be obtained from the permits issued for the employment of foreign workers here. These fall into two main categories. The first category covers specialists employed by firms concerned with the erection of plant or new buildings or the establishment of new industries here. Most of the firms concerned also employ substantial numbers of Irish workers. This temporary type of movement is usually associated with the creation of new job opportunities in Ireland. The second category relates to employment in hotels, catering, hairdressing and entertainment. This is a two-way traffic and if Irish skills are to keep pace with Continental skills then training abroad for Irish workers will continue to be required. In general such movements are of a fairly temporary character.

6.8 Under the provisions on the free movement of workers, Irish workers would be permitted to take up employment in any country of the enlarged Community. The number emigrating would depend primarily on the employment opportunities available at home. In view of the traditional patterns of emigration and of the absence of language difficulties, it is considered that

Britain would remain the main attraction for Irish workers prepared to emigrate and that the movement to the Continent would not be significant.

6.9 The existing member States progressed towards the free movement of workers over a period. The transitional arrangements to be applied by acceding countries will be a matter for negotiation.

6.10 Fulfilment of the obligations in respect of social security for migrant workers should not present any special difficulty.

Right of Establishment and Supply of Services

6.11 The provisions of the EEC Treaty with regard to the right of establishment and the supply of services are summarised in the White Paper of April 1967 (paragraphs 342-358) as is, also, the implementation of those provisions up to that time. Briefly, the Treaty provided that nationals of or firms in any of the member States would, over the course of the transitional period, be given the right to set up in business, or supply services, in another member State under the same conditions as are applied to nationals or firms in that State. In 1961, the Community adopted two General Programmes, one in respect of establishment and one in respect of services, setting out timetables for liberalisation in respect of the various branches of economic activity.

6.12 Although a number of sectors have been liberalised since April 1967, liberalisation has not kept pace with the Programmes and, notwithstanding that the end of the transitional period has passed, certain sectors have not yet been liberalised.

6.13 From an Irish point of view the most important sectors liberalised so far are (i) industry generally, exceptions being shipbuilding and the manufacture of aircraft, railway equipment, pharmaceutical products and tobacco, (ii) retail and wholesale trade generally, (iii) mining, (iv) reinsurance, (v) real estate dealings and business services, (vi) catering (restaurants, public houses and hotels), and (vii) sylviculture and forestry.

6.14 Amongst the sectors yet to be liberalised are agriculture (apart from the degree of liberalisation already achieved—see paragraph 6.17 below), the various liberal professions, the manufacture, wholesale and retail of pharmaceutical products, the tobacco industry, insurance other than reinsurance, banks and other financial institutions and the press. Measures designed to liberalise these sectors are at various stages of consideration within the Community. Also under consideration are measures to enable nationals or firms in a member State to compete for public works contracts in another member State.

6.15 One of the main difficulties with regard to the liberal professions arises from the question of mutual recognition of qualifications for the professions. The Commission has sent proposals to the Council concerning the achievement of the right of establishment and the freedom to supply services in respect of doctors, dentists, nurses, midwives, opticians, pharmacists, architects, engineers and lawyers* and these proposals have been accompanied by proposals for the mutual recognition of qualifications.

6.16 The principal implications for Ireland in regard to the implementation of the Treaty provisions on the right of establishment and the supply of services arise in respect of the purchase of land, insurance, banking and the purchase and importation of tea.

6.17 As regards land purchase, the EEC Treaty envisages that nationals of one member State should be enabled to acquire and use land and buildings situated in another member State to such an extent as does not conflict with the following principles which are required to be taken into account in working out the common agricultural policy—

(a) the particular nature of agricultural activity which results from agriculture's social structure and from structural and natural disparities between the various agricultural regions;

*In the case of lawyers the proposal relates only to the supply of services.

(b) the need to effect the appropriate adjustments by degrees; and

(c) the fact that agriculture constitutes a sector closely linked with the economy as a whole.

So far, progress towards achieving the right of establishment in farming has been confined to (i) the right to acquire farms which have been abandoned or left uncultivated for more than two years and (ii) the right of member State nationals who have worked as paid agricultural workers in another member State for an unbroken period of at least two years to acquire farms in that State. In January 1969, however, the Commission forwarded to the Council a draft directive which would, in effect, grant full right of establishment in farming to Community nationals. It is as yet too early to say whether this proposal will be adopted in its present form.

6.18 Under Irish legislation (Land Act 1965) all non-nationals who have lived in Ireland for less than seven years require the consent of the Land Commission to acquire rural land other than land required for industrial purposes or holdings of up to five acres for residential purposes. In view of the need to improve the structure of Irish agriculture in certain areas, the Government will endeavour to ensure the retention of sufficient control over the disposal of land to enable policies adequate to Irish needs to be applied.

6.19 Progress towards liberalisation in the insurance sector in the Community has so far been confined to the right to set up in reinsurance or to supply a reinsurance service. It is, however, envisaged that greater freedom in the insurance sector will eventually be realised. Certain aspects of Irish legislation affecting insurance are protective in their nature and would have to be reviewed to bring them into line with whatever arrangements are adopted in the Community. This would involve greater competition for Irish insurance companies.

6.20 The Council has had before it, since 1965, a draft directive on liberalisation in respect of banking and other financial institutions. Our present legislation on banking is not contrary to the terms of the draft directive. However, under the Central

Bank Bill 1969 it is proposed to provide certain powers with regard to the licensing and supervision of banks. The draft directive, if adopted in its present form, would be relevant in connection with the criteria to be applied to the licensing and supervision of banks, in particular any criteria involving conditions as to nationality.

6.21 Existing Irish legislation concerning the purchase and importation of tea, the main purpose of which is to ensure that Ireland's tea requirements are imported direct from the country of origin, provides that tea may be imported only by Tea Importers (1958) Limited in which shares can be held only by Irish citizens or by Irish companies. This legislation might have to be amended.

Free movement of capital

6.22 The Treaty provides that, during the transitional period and to the extent necessary to ensure the proper functioning of the Common Market, member States shall progressively abolish between themselves restrictions on the movement of capital belonging to persons resident in member States and any discrimination based on the nationality or the place of residence of the parties or on the place where such capital is invested. The Council is required to issue directives for the implementation of this provision on proposals from the Commission.

6.23 Two directives have been issued. They are based on the OECD Code of Liberalisation of Capital Movements which has been accepted by all the OECD countries, including the EEC member States, the United Kingdom and Ireland, subject to individual reservations on particular items of the Code. The directives have the effect (a) of consolidating as between the EEC member States the obligations they had undertaken under the OECD Code, (b) of lifting in so far as they apply to other EEC countries the reservations which individual EEC countries had entered to the Code, and (c) of providing for the liberalisation, as between EEC countries, of certain types of transactions not included in the Code.

6.24 There are no exchange control restrictions on transfers of capital between the United Kingdom and Ireland. Britain,

however, applies a system under which potential British investors operate a voluntary restraint on direct investments in the developed countries of the Sterling Area including Ireland. Capital transfers to the EEC countries and to other countries outside the Sterling Area are subject to control both in the United Kingdom and Ireland but the transactions included in the OECD Code of Liberalisation of Capital Movements are approved automatically, subject to the reservations entered by the two countries to the Code. (For the most part the Irish reservations are the same as the British.)

6.25 The British authorities regard their exchange control on capital movements as an important element in the machinery for safeguarding the British economy and maintaining the strength of sterling. In Ireland's case the control is not so much aimed at safeguarding the Irish economy but rather at fulfilling her obligations as a member of the Sterling Area and at ensuring that British restrictions on capital dealings with the non-sterling world are not circumvented by transactions channelled through Ireland.

6.26 The application of the EEC directives to the United Kingdom and Ireland would have the effect of requiring both countries to liberalise *vis-à-vis* the members of the enlarged EEC a number of capital transactions at present subject to restriction. The more important are:—

(1) *Direct Investments:* At present, subject to certain exceptions, new direct investments in EEC countries by British or Irish firms can only be made with "investment currency"*, which is limited in supply and which commands a premium above the normal exchange rate. Under the relevant directive, transfers for direct investment must be allowed at the normal exchange rate. (Direct investment can be broadly defined as investment in an undertaking in the running of which the investor plays a direct part.)

(2) *Purchase of property for private use:* At present, residents of the United Kingdom or Ireland who wish to acquire property in EEC countries for private use must

*See footnote on page 56.

use "property currency"*. The supply of "property currency" is also limited and it commands a substantial premium over the normal exchange rate. Under the EEC arrangements such transfers would have to be permitted at the normal exchange rate.

(3) *Purchase of securities quoted on a stock exchange:* Member States are required to give general authorisation for these transactions and, if the transfers are effected on a market in which the fluctuations in the exchange rate are not officially limited, they must endeavour to ensure that the transfers are made at rates which do not vary widely and for long periods from those applied to current transactions. Residents of the United Kingdom or Ireland may not, subject to certain exceptions, purchase securities quoted on a stock exchange, (i.e. make portfolio investments), in an EEC country unless the purchase is made with "investment currency" which, as indicated at (1) above, commands a substantial premium rate. The rate for currency required for portfolio investment in EEC countries would, therefore, have to be brought more closely into line with the normal rate of exchange.

6.27 It is considered that implementation of the two directives would not be likely to have any important implications for Ireland. There might be some increased investment in EEC countries on the part of Irish investors but this would possibly represent a diversion of investment which would otherwise be made in the United Kingdom. On the other hand the inflow of capital into Ireland should increase both from the Community and from other sources, since membership of the enlarged Common Market should stimulate increased external investment in export-oriented industry here.

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*"Investment currency" and "property currency" are derived, respectively, from the sale of non-sterling securities and non-sterling private property by existing holders who are resident in the Sterling Area. As the demand for these currencies exceeds the supply and as the market is not supported by the monetary authorities, transactions normally take place at rates substantially above the official rate of exchange.

CHAPTER 7

TRANSPORT POLICY

7.1 The EEC Treaty envisages the establishment of a common transport policy and to this end requires the Council to lay down common rules for international transport between the member States and to prescribe the conditions under which carriers of one member State may provide transport services in other member States. The Treaty also contains provisions prohibiting freight rates or conditions which discriminate on the basis of country of origin or destination of goods or which involve any element of support or protection for particular undertakings or industries. Supports which are applied in the interests of regional policy may however be authorised by the Commission.

7.2 State aids to transport are compatible with the Treaty provided they are required to meet the needs of transport co-ordination or are in reimbursement of an obligation in the nature of a public service discharged by a transport company.

7.3 The provisions of the Treaty apply to transport by rail, road and inland waterway. The Council is empowered to decide whether appropriate provisions should be adopted for sea and air transport. So far it has not exercised this power. The Commission, in its Opinions of 1967 and 1969 on the applications for membership, suggested that the question of bringing international sea and air transport within the scope of the projected transport policy should be examined during the accession negotiations.

7.4 Progress towards the establishment of a common transport policy has been slow. A certain number of implementing provisions has however been agreed on. Of these, the most interesting, from an Irish point of view, are:

(a) the establishment of a Community quota for road haulage vehicles under which licences are issued to road hauliers authorising the licensees to engage in the international transport of goods throughout the member States. The grant of a licence would not, however, authorise the licensee to engage in point-to-point haulage within another member State. At present the scheme provides for the issue of licences in respect of 1,200 vehicles allocated as follows: France and Germany, 286 each; Netherlands, 240; Italy, 194; Belgium, 161; and Luxembourg, 33.

(b) the introduction of a bracket rate system whereby charges by hauliers for road transport between member States must be fixed within limits agreed between the member States directly concerned. The width of the bracket is fixed at 23 per cent of the upper limit of the rate and contracts at rates outside the limits of the bracket are not allowed except in special cases.

(c) the issue of a Community regulation relating to the harmonisation of working conditions in road transport and specifying the minimum age for drivers, the composition of crews for long and heavy vehicles, driving times and rest periods.

Proposals which are still the subject of consideration in the Community include such matters as the problem of State aids to transport, and the harmonisation of the taxation of road transport vehicles.

7.5 A number of reduced transport rates in favour of regional development have been authorised e.g. reduced rates applied by the Italian Railways for the benefit of Southern Italy.

7.6 Ireland as a member of the Community would have to take action to comply with the specific Treaty provisions with regard to transport and also with the various provisions adopted in implementing the common transport policy.

7.7 The provisions on State aids to transport undertakings have important implications for this country. Córas Iompair Éireann are in receipt of an annual subvention, the main purpose of which is to enable the Board to maintain the railway system at a level appropriate to the country's needs. Most other national

railway undertakings in Europe are in receipt of similar assistance. The EEC Treaty recognises the need for subsidies for transport related to public service obligations and the main objective of the measures so far adopted in the Community in this matter is to ensure that a uniform pattern of subsidies is applied in all member countries. The effect on CIE's position will not be fully apparent until the concepts of public service obligations and of the aids which may be granted in reimbursement of such obligations have been more fully developed.

7.8 In order to comply with the Community quota arrangements, Ireland would have to modify the existing restrictions on entry to the State of externally owned goods vehicles. This would involve increased competition for Irish hauliers who would, however, have the right to engage in haulage to and from other member countries and in the Community generally within the limit of the quota allocated to Ireland.

7.9 Prior to the introduction of car-ferry shipping services between Ireland and Britain and Ireland and the Continent in recent years, the Community quota for road haulage vehicles would have had little significance for Ireland. Since the commencement of these services, however, considerable interest has been shown by British and Continental hauliers in the transport of goods to and from this country in road vehicles operating through the ferry services. Irish participation in this traffic has so far been insignificant and it is expected that it will take some time for Irish hauliers to build up the necessary organisation and business connections essential to economic operation in this field.

7.10 The bracket rate system referred to at (b) of paragraph 7.4 could have implications for transport undertakings in this country, particularly for CIE. Special rates quoted by CIE for package deals involving transport outside the country would have to comply with the provisions of the regulation on this subject.

7.11 In regard to the harmonisation of working conditions, the domestic law in this country on driving times and rest periods in road transport is at present less stringent than the EEC requirements and would have to be amended.

7.12 At this stage in the formulation of the other provisions for the establishment of the common transport policy, it is difficult to make a detailed assessment of their implications for transport undertakings in this country. The entry of Ireland, Britain, Denmark and Norway would bring to the forefront the question of sea and air transport for which no provision has so far been made. Taking account of the fact that membership would give Ireland a voice in the further development of the common policy for inland transport as well as in decisions on proposals for sea and air transport, there is no reason to believe that the transport requirements of the Communities would raise any insurmountable problems for this country.

CHAPTER 8

TAX PROVISIONS

8.1 The provisions in the Treaty of Rome which deal expressly with fiscal matters relate to :—

(a) the elimination of customs revenue duties in line with the removal of protective tariffs. These duties may be converted into internal charges e.g. excise duties charged on both home-produced and imported goods (Article 17);

(b) the prohibition of discrimination as between imported and domestic products in the application of internal charges (Article 95);

(c) the requirement that where refunds of internal charges are allowed on goods exported, the refunds may not exceed the charges imposed (Article 96);

(d) the prohibition of exemptions or repayments of direct taxes in respect of exports to other member States, except where approved by the Council for a limited period (Article 98);

(e) the harmonisation of indirect taxes (Article 99).

8.2 Compliance with the provisions at (a), (b) and (c) of paragraph 8.1 would not have any serious fiscal implications for Ireland. These provisions are aimed at the elimination of any element of protection or subsidisation for home-produced goods in revenue charges and their implications for Irish industry are part of the overall implications of the removal of industrial protection (see Chapter 4).

8.3 Our system of tax reliefs on export profits (including the Shannon reliefs) would come up for consideration in connection with the prohibition at (d) of paragraph 8.1 above. These reliefs, which came into operation in 1957-8 and are in force until 1990, have had a significant effect in accelerating industrial development in Ireland. The Government would hope that it would be possible to secure the Council's agreement to the retention of these measures.

Indirect taxes

8.4 As regards the harmonisation of indirect taxes, a decision has been taken by the Council requiring the member States to introduce a uniform type of general sales tax known as the added-value tax.* The added-value tax is to be applied at all stages, including the retail stage, to the production and distribution of goods, to services affecting the production and distribution of goods (e.g. advertising, storage and transport), to building and services connected with building, and to imports. For the time being, however, member States have the option, subject to consultation with the Commission, to apply the tax down to and including the wholesale stage only and to impose, where appropriate, an independent turnover tax either at the wholesale or retail stage.

8.5 Transactions concerned with agricultural products are included in those covered by the tax, and the Commission has issued a draft directive setting out the terms and conditions for the application of the tax to agriculture. A final decision to accept the methods proposed in the draft directive of applying the tax to those transactions has not yet been made, and, in the meantime, each member State is free, subject to consultation with the Commission, to apply to farmers who would encounter difficulties by the application of the normal system of added-value tax such particular arrangements as may be suited to its own circumstances. In practice, the countries which have introduced the tax have incorporated the proposed recommendations of the draft directive in their tax systems.

8.6 Member States are still free to fix the rates of added-value tax and the exemptions, subject to consultation with the Commission in the case of the latter. It is, however, the aim ultimately to harmonise both the tax rates and the exemptions and this would enable charges on imports and repayments on exports to be dispensed with in respect of trade between the member States. The Council has asked the Commission to submit to it as soon as possible proposals for harmonisation and has acknowledged the need both to include retail trade in the tax and to apply only a very small number of rates.

*A White Paper entitled "Added-Value Tax" issued in June 1968 describes the added-value tax system in more detail and discusses whether, apart from any question of membership of the EEC, the system possesses intrinsic merits which might justify its introduction in Ireland.

8.7 The main difference between the added-value tax and the sales taxes operating in Ireland is that while, in general, our wholesale and turnover taxes are levied mainly at the wholesale stage and at the point of final sale, respectively, the added-value tax is chargeable on the entire turnover at each link in the chain of production and distribution and credit is given for the tax borne at previous stages.

8.8 Since the added-value tax would apply to agricultural and industrial goods at all stages of production and distribution and to services having a bearing on the cost of goods, its introduction would involve in liability certain classes of persons who are not within the scope of the existing turnover and wholesale taxes. These are mainly farmers, builders, persons transporting goods, and those, such as engineers and architects, who provide professional services affecting the cost of goods. If, however, an added-value tax system in this country were to follow the lines adopted in relation to agriculture in, for example, Germany or the Netherlands, only a small number of farmers would come directly within the charge to that tax.

8.9 Under the provisions of the draft directive on agriculture, farmers would have the option of coming fully within the added-value tax system in the same way as traders generally or of adopting a special arrangement under which they would pay no tax direct to the State—their liability being assumed to be balanced by the tax element in the cost of their purchases. The farmer who was fully within the system would be liable to pay tax on his sales and could take credit against his liability for the tax element in his purchases. All farmers would be entitled to pass on a tax credit to accountable persons to whom they had sold their produce and the price paid might be expected to take account of such credit. In the case of farmers coming within the special arrangement, however, the credit would not be at the full rate of tax but at a flat rate designed to compensate for the tax suffered on purchases.

8.10 It is also likely that in due course Ireland would have to harmonise her *excise duties* with those of the other member States of the enlarged Community. A Commission programme of fiscal harmonisation, drawn up in 1967, envisages the abolition of excise duties on goods other than tobacco, beer, spirits, wines, petroleum products and sugar and the harmonisation of the structures and rates of the duties retained. So far, the only decision taken by the Council relates to the harmonisation of the structure—but not of the rates—of the duty on tobacco products.

8.11 The introduction of a harmonised rate of added-value tax and of harmonised rates for the principal excise duties could have significant fiscal implications for Ireland, depending on the rates applied in each case. The equivalent of the yield from our present wholesale and turnover taxes could be secured by an added-value tax of the order of 5 per cent, but a harmonised rate substantially higher than this might possibly be decided upon. On the other hand, it is possible that if harmonised rates for excise duties were introduced, they might in some instances be fixed at lower levels than those obtaining here. What the overall *net* effect of these changes might be is impossible to estimate at this stage. It may, however, be assumed that where harmonised rates are agreed on, they would be introduced gradually and accordingly the effect of harmonisation would be spread over a period of years.

Direct taxes

8.12 The Treaty does not provide specifically for the harmonisation of direct taxes. However, the general provisions in the Treaty dealing with the approximation of laws which directly affect the operation of the Common Market can be availed of to deal with any measures considered necessary in this field.

8.13 The Community has not yet adopted any such measures. The Commission considers, however, that the introduction of some measures would be desirable in the light of the gradual liberalisation of capital movements, the development of competition in investment and the need to encourage changes in the

structure of industrial enterprises including tax arrangements to facilitate companies in different member States combining across frontiers. With these ends in view, the Commission has put forward draft proposals on the tax treatment of mergers and of companies in one member State with permanent establishments (branches) or subsidiaries in other member States. The Commission has also proposed the abolition of deduction of tax at source on debenture and bond interest.

8.14 It is considered that the adoption by this country of the measures proposed by the Commission would not be likely to involve any significant change in the yield of revenue.

8.15 As a measure designed to promote the free movement of capital the Community has adopted a directive providing for the abolition of *stamp duties* on the creation or issue of negotiable securities. Member States are also required to levy a duty of between 1 per cent and 2 per cent on the real value of assets contributed to a company on its formation. It is envisaged that a common rate of duty will be laid down at a later stage. The adoption of these measures here would result in a *net* annual loss of revenue but the amount would not be significant.

Tax Structure

8.16 Because of the late development of industry in Ireland the base for direct taxation is relatively narrow compared with EEC countries. Accordingly, the structure of Irish tax yields shows a heavy dependence on indirect taxation, especially on customs and excise duties applicable to a narrow range of commodities. Social security contributions play a far greater role in the EEC than in Ireland in the financing of social expenditure. The introduction of an added-value tax in place of the existing turnover and wholesale taxes would not necessarily involve a major change in the structure of tax yields. However, the eventual harmonisation of the rates of the added-value tax and the excise taxes would be likely to cause a change in the structure of indirect taxation in Ireland. The yield of the specific excise taxes would be likely to diminish somewhat in importance, while the general sales tax would form a greater proportion of the total.

CHAPTER 9

ECONOMIC POLICY

Economic and Monetary Policies

9.1 The EEC Treaty provides for the co-ordination of the economic policies of the member States.

9.2 Member States are required to regard their policies on short-term economic trends as a matter of common concern and review and consultation procedures have been introduced to facilitate the fulfilment of this obligation. A Short-Term Economic Policy Committee examines the short-term policies of the member States and, where appropriate, makes critical comments and suggestions for improvements. The Council, when it deems it necessary to do so, issues recommendations to all the member States urging them to take specified measures to deal with the economic situation. It is, in fact, empowered to issue directives requiring the member States to take appropriate measures to deal with the current economic situation but to date this power has not been invoked.

9.3 Quarterly surveys of the current economic situation and outlook for each member State and for the Community as a whole are issued by the Commission which also makes annual reports to the European Parliament reviewing economic developments and prospects.

9.4 With a view to the co-ordination of medium-term economic policies the Community has adopted medium-term economic policy programmes. The first programme, issued in February 1967, covers the period up to end 1970 and is complemented by a second programme issued in December 1968. These programmes do not imply a single unified economic policy for the Community but are rather aimed at the co-ordination of the separate economic policies of the member States within a broad framework based on general guidelines. No quantitative targets were set for the individual member countries or for the Com-

munity as a whole. A Committee, known as the Medium-Term Economic Policy Committee, studies the economic policies of the member States and considers to what extent they can be reconciled with the medium-term programme.

9.5 The Treaty also aims at the co-ordination of the policies of the member States in monetary matters to the full extent necessary for the functioning of the Common Market. Each member State is required to pursue the economic policy necessary to ensure equilibrium in its overall balance of payments and to treat its policy with regard to exchange rates as a matter of common interest, while taking care to ensure a high level of employment and the stability of price levels.

9.6 A Monetary Committee carries out periodic reviews of the monetary and financial situation in member States and reports to the Commission and the Council. Member States are required to consult within the Monetary Committee before taking major decisions in the field of international monetary relations, including decisions regarding the general functioning of the international monetary system, recourse to international monetary assistance or the grant of large-scale financial assistance to third countries. A Committee of Governors of Central Banks holds consultations on the general principles of the central banking policies of the member States, particularly in regard to credit and the money and foreign exchange markets. There is also a Budget Policy Committee, which studies the broad lines of the budgetary policies of the member States.

9.7 If a member State is in, or is threatened with, balance-of-payments difficulties the Treaty envisages that a remedy should be sought in the adoption of appropriate internal policies and in the grant of assistance by the other member States. In such cases, the Commission investigates the position, examines the action which the member State has taken or proposes to take and suggests remedial measures. If the action taken by the member State and the measures suggested by the Commission are insufficient, the Council may, on the recommendation of the Commission, grant assistance to the country in difficulties; this may include the grant of financial assistance by the other member States, subject to their agreement. If the assistance recommended by the Commission is not granted or is insufficient, the

Commission may authorise the country concerned to take protective measures. Such authorisations may be revoked or changed by the Council.

9.8 In the event of a sudden balance-of-payments crisis the member State concerned may take unilateral action subject to review by the Council. The action should be such as would cause the least possible disturbance in the operation of the Common Market and should not be wider in scope than is strictly necessary to remedy the difficulties.

9.9 Member States are required to treat their policies regarding exchange rates as a matter of common interest and have agreed to consult each other before changing the parity of their currencies.

9.10 The arrangements outlined above provide mainly for consultations. However, the implementation of the Treaty, particularly the establishment of the customs union and the introduction of the common agricultural policy, has greatly increased the interdependence of the economies of the member States and has led to suggestions that closer integration of economic and monetary policies is necessary. The Heads of State or Government, at the Hague Summit meeting on 1/2 December 1969, agreed that, on the basis of a memorandum submitted by the Commission to the Council in February 1969, a plan in stages should be worked out during 1970, in close collaboration with the Commission, with a view to the creation of an economic and monetary union. They also agreed that the possibility of setting up a European reserve fund should be investigated.

9.11 The Commission memorandum of February 1969 (also known as the Barre Memorandum) proposed measures aimed at achieving a greater degree of integration of the economies and policies of the member States and at providing monetary aid to member States in difficulty. On the basis of these proposals the Council have agreed—

(1) to adopt a procedure under which each member State is required to consult in an appropriate Committee before introducing any important measures which would have a significant effect on its own internal or external equilibrium, or on the economies of the other member States or which might cause a serious divergence between the evolution of its economy and the objectives of the Community's Medium-Term Economic Policy Programme. Such consultation may be demanded by any other member State or by the Commission;

(2) to accept the principle that medium-term economic objectives for the member States and for the Community as a whole should be defined at Community level with the aim of achieving more effective harmonisation of the medium-term policies of the member States. The Commission has been asked to draw up, by Autumn 1970, a draft third medium-term economic policy programme, for 1970-75, containing definitive targets for the individual member States, and the Community as a whole, in respect of gross national product, employment, current balance of payments and prices. The aim is that the member States would use these targets in fixing their national policy objectives for the five years in question. The third programme is also to indicate the main structural actions (e.g. changes in the structure of agriculture or industry) which should be carried out either at national or Community level in order that the targets can be achieved.

9.12 A third proposal in the Barre Memorandum concerned the grant of short-term monetary support to a member State in balance-of-payments difficulties. The Central Banks of the member States have since established machinery for this purpose*. The establishment of this machinery is a concrete application of the grant of assistance to a member State in

*Under the system a total of $2,000 million (£833 million) will be available for short-term support, in two stages. In the first stage, a member State's Central Bank can automatically draw up to the quota of its contribution to the first $1,000 million. The quotas are: $300 million each for France and Germany, $200 million for Italy and $100 million each for the Netherlands and for Belgium-Luxembourg. In the second stage, subject to the agreement of the other Central Banks, the Central Bank concerned can draw up to a further $1,000 million to the extent that this has not already been drawn.

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balance-of-payments difficulties envisaged by the Treaty and referred to in paragraph 9.7 above. A fourth proposal—the establishment of machinery for the grant of medium-term financial aid to a member State in difficulties—is still under discussion in the Community.

9.13 As regards the decision at the Hague Summit meeting on the preparation of a plan for the creation of an economic and monetary union, the Commission submitted to the Council, in March 1970, a draft plan for the achievement of such a union by 1978 or possibly by 1980. The draft plan provides for the achievement of the objective by stages, each of which would be characterised by parallel progress in four sectors—co-ordination of economic policies, the gradual creation of a unified capital market, fiscal harmonisation and the strengthening of economic policies.

9.14 The broad objectives of Ireland's economic and monetary policies are in line with the aims of the EEC and the means adopted by the Community to achieve these aims are acceptable. Generally, it is not expected that membership would give rise to difficulties for Ireland in the implementation of these policies. We would stand to gain in so far as Community policies were successful in achieving greater stability and balanced growth throughout the enlarged Community. The review and consultation procedures should be helpful to us in dealing with economic trends, in formulating medium-term economic programmes best suited to the development of the economy in EEC conditions, and in dealing with balance-of-payments difficulties.

9.15 The agreement to define medium-term economic targets for the individual member States at Community level would facilitate Irish medium-term economic planning as a member of the Community in that the targets, which would be fixed in agreement with the Government, would be set against the background of the expected trend of economic development in the other member States which would include our principal export markets.

9.16 Consideration within the Community of the Commission's draft plan for achieving economic and monetary union (paragraph 9.13) is still at an early stage. It would be premature to

attempt to assess the implications of the plan for Ireland before decisions are reached on its final content.

9.17 As regards the balance-of-payments provisions, the application of the Community arrangements to Ireland would contribute towards the maintenance of a stable balance-of-payments position and would, also, provide a source of external aid should difficulties arise. Moreover, the arrangements would assist the maintenance of balance-of-payments equilibrium throughout the enlarged Community and the avoidance of recourse to restrictive measures which could seriously affect or limit demand in our principal export markets.

9.18 The machinery recently established for the provision of short-term monetary support, and envisaged for medium-term financial aid, to a member State in balance-of-payments difficulties (see paragraph 9.12 above) would provide a facility of which Ireland could avail in the event of such difficulties. Ireland would, of course, be expected to participate in the grant of assistance to other member States; the financial commitments which this would involve for Ireland will be a matter for negotiation.

9.19 Membership of the Community would impose some additional obligations on Ireland in regard to the action she might take to cope with balance-of-payments difficulties. The most important of these relates to our freedom to introduce measures directly affecting imports. At present, under the Anglo-Irish Free Trade Area Agreement and the GATT, Ireland could unilaterally impose quantitative restrictions on imports for balance-of-payments purposes, or, on the precedent of the action taken by Britain in 1968, could introduce an import deposit scheme. However, any such measures are subject to consultation in the GATT. Under Community rules such measures would be subject to Community authorisation. Although in the event of a sudden balance-of-payments crisis a member State may introduce protective measures provisionally, these are subject to review by the Council which may decide that they shall be amended, suspended or abolished.

9.20 The Community requirement with regard to changes in currency parities is one of consultation, and we are already