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Too far away, too rich and too stable : the EEC and trade with Australia during the 1960s

Originally published in [Australian economic history review](#), 41 (3). Pp. 267-286 © 2001 Blackwell Publishing.

You may cite this version as:

Ludlow, N. Piers (2001). Too far away, too rich and too stable : the EEC and trade with Australia during the 1960s [online]. London: LSE Research Online.

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Too Far Away, Too Rich & Too Stable

The EEC and trade with Australia during the 1960s

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Abstract

The 1960s EEC had little reason to prioritise trade with Australia: trade flows were too small and political ties between Australia and continental Europe too weak. That trade with Australia did become an issue of concern, it thus largely due to Britain's 1961 EEC application. The shape of the deal which looked like emerging in 1961-3 was, however, highly ungenerous – a fact which reflected both the nature of Australian exports and a strong European belief that Australia was less 'deserving' than other Commonwealth countries. Australian relief at de Gaulle's veto may, however, have been premature, since early British membership of the Community might well have been in Australia's medium term commercial interest.

The formation of the EEC in 1958 helped give continental Europe a centrality in world trade which it had not enjoyed since the nineteenth century. The collective size and wealth of the six member states, their extremely high growth rates, their role as major importers of raw materials and as significant exporters of manufactured goods, as well as the intrinsic interest of their experiment in far-reaching economic integration all ensured that few trading nations

could afford to ignore developments in Brussels. That Australia was one of many states to establish a mission to the European Communities in the early 1960s should thus come as no surprise.¹ But as the Australian representatives would quickly find, a mere presence in Brussels was not enough to guarantee a reciprocal level of interest from either the Community institutions or the EEC member states. Although far less uniformly protectionist than some of its critics alleged, the EEC of the 1960s was primarily focused on its own internal development and could hence be largely unresponsive to the interests of outside countries, particularly if like Australia they were geographically distant, relatively prosperous, and lacking in great political clout.² It was thus only once Britain applied to join the EEC, in 1961, that the needs and interests of Australian exporters were thrust onto the Community agenda. And even then a detailed examination of the 1961-3 negotiations suggests that the commercial impact of EEC enlargement on Australia was of less concern to the Six than were the effects of British membership on a number of other 'more deserving' Commonwealth states. Despite this, Australian relief in 1963 when Britain's first membership bid was brought to its abrupt end by General de Gaulle's intervention may well have been premature, since it can certainly be argued that long-term Antipodean interests might have been better served by a Community which included the UK during its formative years rather than one from which Britain was excluded.

An asymmetrical pattern of trade

Trade between Australia and the Community rose during the 1960s. European exports to Australia increased each year, with particularly significant climbs being registered in 1965 and 1966 followed by a levelling off thereafter. Trade flows in the other direction meanwhile

¹ The Community agreed to the Australian request to open a mission on 3/3/1960. The Australian government appointed Sir Edwin McCarthy as its first representative six days later. Council of Ministers Archives, Brussels (CMA) CM2/1960, No. 824; -1.88 Procédure d'ouverture d'une mission de l'Australie auprès de la CEE et de la CEEA.

² Harold Wilson, for instance, claimed that the Six intended 'to erect an arid, sterile and tight trading block'. *The Times*, 4/12/1961. Such comments rather overlooked the fact that the average level of protection amongst the

were more erratic, rising annually until 1964, then registering significant falls in both 1965 and 1967, and finally bouncing back to more than regain their lost ground at the end of the decade. This reflected the volatility of the Italian and French markets in particular, the latter constituting the EEC's largest importer of Australian produce in all years other than 1967. Despite the fact that European imports from Australia grew more slowly and more erratically than EEC exports, however, the Community ran a trade deficit with the Australians throughout the decade except for in 1968 (Figure 1).

The difficulty from the Australian government's point of view, however, sprang not from this moderately satisfactory, if shrinking, trade surplus, but rather from the relative importance which these figures assumed in the overall trade patterns of Australia and the

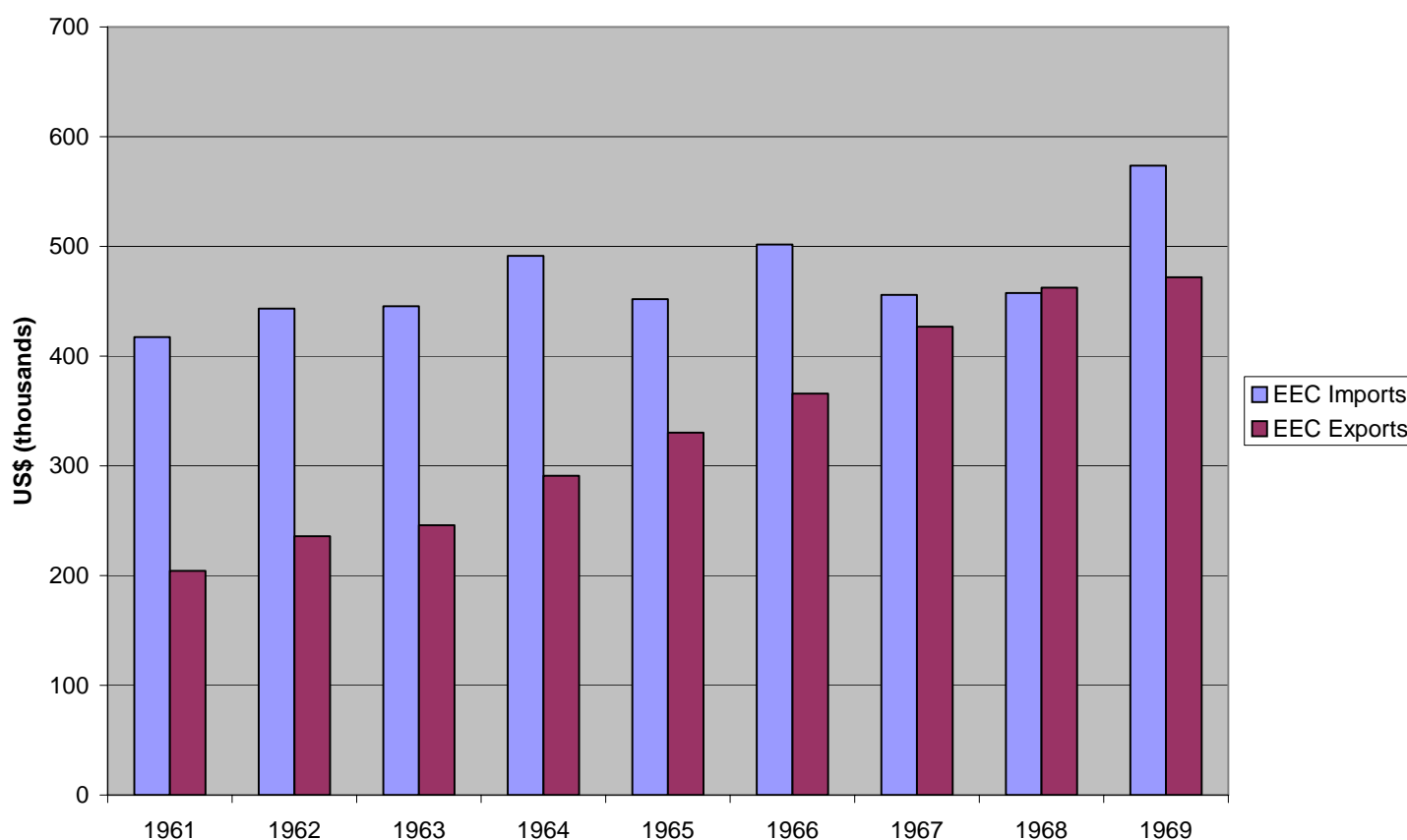


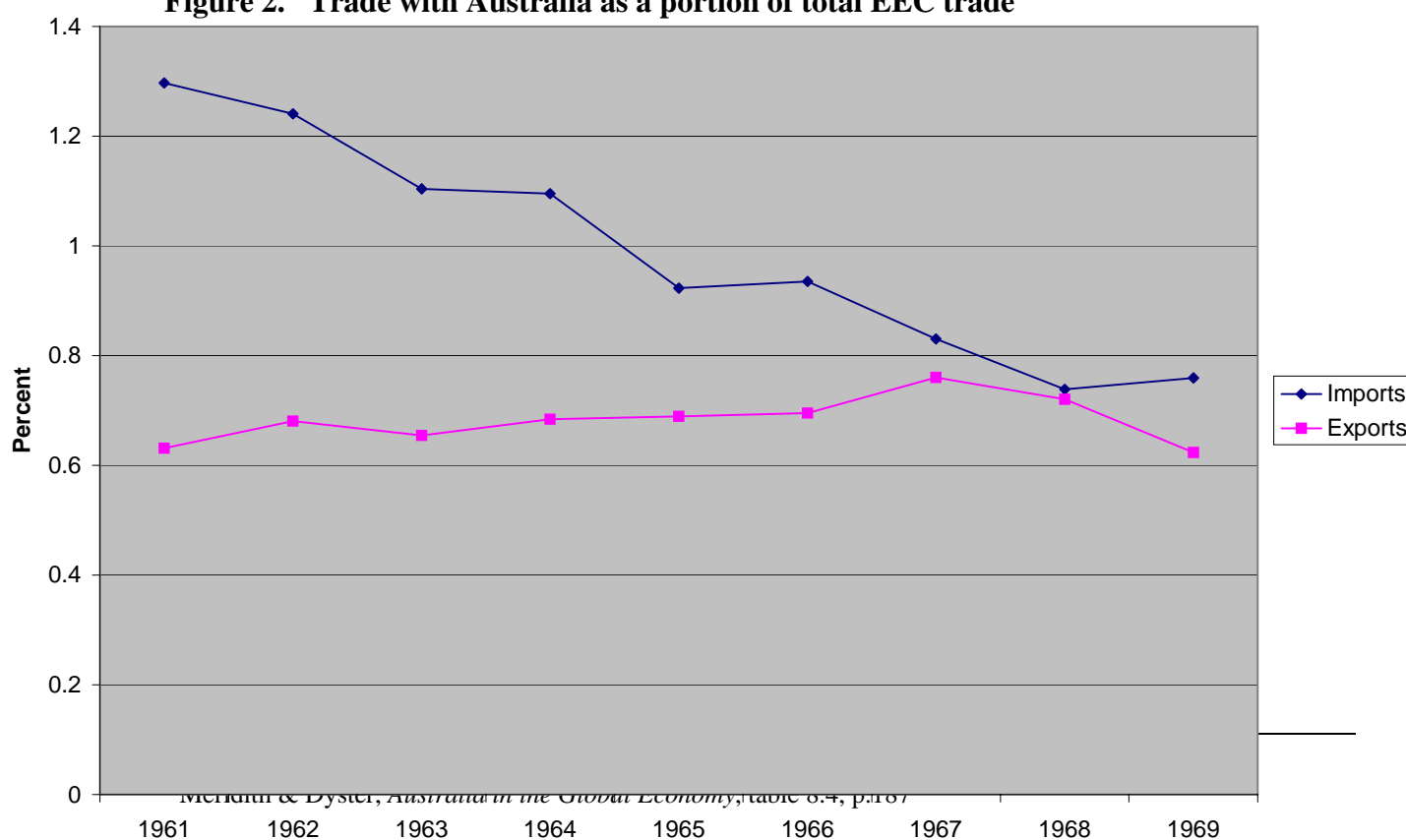
Figure 1. EEC/Australian Trade Balance, 1961-9

Source: *Commerce exterieure 1963-70* (Office Statistique des Communautés Européennes)

Six was lower than that of the UK throughout the 1960s. For comparative figures see Preeg, *Traders and*

EEC. For the Australians, commercial links with the Six mattered greatly, especially at the start of the decade. Between 1960 and 1962, 11.2 percent of Australia's imports came from the Community and just under 16 percent of the country's exports were EEC bound.³ At a time when the relative importance of Australia's traditional sales in the UK were dropping fast, this trade with continental Europe assumed some significance. Viewed from Brussels, however, the economic worth of the commercial relationship seemed much lower. At their peak in the early 1960s, EEC imports from Australia represented a mere 1.2 percent of the Community's total imports (a percentage which would then decrease steadily over the next nine years), while exports to Australia never rose above 0.76 percent of the EEC's total exports. (See figure 2.) For a Community which traded primarily with other European countries, or with the United States, and which was gradually building up a series of special economic links to other economic regions (Africa, the Middle East, Latin America and later ASEAN), but not with Oceania, trade with Australia was a detail all too easily overlooked at a time when its internal agenda was all but bursting with more pressing concerns.

Figure 2. Trade with Australia as a portion of total EEC trade



Source: *Commerce exterieure 1963-70*

The Community's trade policy in the 1960s was deeply shaped by political considerations, however, and so by themselves the raw figures cited above need not have led the EEC to neglect its ties to Australia. After all the 1960s EEC devoted much more time and money to Europe's farmers than either their economic or demographic importance would warrant, and similarly lavished a great deal of economic and political attention on a series of African and Caribbean countries whose trade flows with the Community were much lower than those of Australia.⁴ Had there been political motives to nurture the bonds with Australia, the EEC might well have been more attentive, notwithstanding the relatively small value and volume of the trade. But unfortunately for Canberra political factors only worsened Australia's position rather than improving it.

For the EEC in its formative years, at least four categories of political consideration affected its trade policy. The first of these centred on the geographical distance between the EEC and the trading partner in question, with a distinctly positive bias being adopted towards those countries and areas which were near neighbours of the EEC. The countries of the Mediterranean basin, whether European states like Greece, or non-European countries like Israel or Libya, were thus able to draw up a range of commercial arrangements with the Community, varying from the fully-fledged Association agreements concluded by Greece and Turkey, to the much less elaborate trade agreements signed by Israel and most of the North African states.⁵ Discussions with EFTA member states like Austria, Sweden or Finland also loomed large on the Community agenda, as of course did the actual membership requests submitted in 1961 and again in 1967 by the British, Danes, Irish and Norwegians. And even in the context of the Kennedy Round negotiations, the Community sought to limit the impact

⁴ von der Groeben, *The European Community*, pp. 83, 101-8, 149-50, 199-203, 205

⁵ von der Groeben, *The European Community* pp.84-5 & 206

on its Nordic and Alpine neighbours of the exception list it had requested by means of a specially designed 'Europe clause'.⁶ Indeed, it was as the GATT negotiations were being concluded, that almost the clearest incidence of this 'positive discrimination' in favour of near neighbours occurred, with EEC ministers refusing to offer Argentina as generous a deal on beef imports as was being proffered towards the Danes. This inequitable stance was repeatedly justified by the participants in the Council discussions by the fact that Denmark was a European country whereas Argentina was not.⁷

A second factor taken into account were any historic ties linking individual member states with third countries. Most former French colonies, for example, were incorporated into the Association regime, a system which both gave them access to the Community market and provided for aid payments and institutionalised dialogue with the Six, while those former French colonies for whom this was deemed inappropriate benefited from special protocols affixed to the Treaty of Rome. Reasoning of a similar sort, exempted all trade between West Germany and the German Democratic Republic from the Common External Tariff. A third consideration was the poverty and political instability of would-be trade partners. Although they did not always prevail when confronted with European self-interest, there were many in the early Community, both at a member states and a Commission level who were highly conscious of the need to address the economic problems of the Developing World.⁸ In the long-term this would doubtless reap economic rewards, but in the more immediate future it would have the major political advantage of making Africa and Asia less susceptible to the charms of Moscow. Cold war considerations thus blended with humanitarian instincts to raise the profile of EEC trade with the poorer countries of the world. This explains for instance why discussions about an association agreement linking the Community to Nigeria were able

⁶ Preeg, *Traders and Diplomats*, pp.67-8

⁷ CMA. R/1016/67 (MC/PV/R 8), Procès-Verbal de la réunion restreinte tenue à l'occasion de la 224^{ème} session du Conseil de la CEE (Bruxelles, les lundi 26 et mardi 27 juin 1967)

⁸ See for instance Sicco Mansholt's speech to the European Parliament, *Debats de l'Assemblée Parlementaire Européenne 1961-2*, vol.1, pp.78-82

to continue, despite the failure of the British membership bid.⁹ And a final factor was the importance of staying close to Washington. In the 1960s the US was not only the EEC's main non-European trading partner, but also the Community's principal external sponsor, with a track record of supporting European integration stretching back to the 1940s.¹⁰ The European Commission, in particular, was thus highly sensitive to America's commercial needs and wary of acting in any fashion which might undermine the US's valuable political backing.¹¹ Few of the member states, either, took lightly a decision which was contrary to Washington's wishes.

Unfortunately for Australia none of these factors helped its case – indeed they all arguably made matters worse. Geography was clearly not on Australia's side – few trading partners were further removed from Europe than Australia – and history was not much more useful. Despite the fact that significant numbers of Italians and Germans had emigrated to Australia, the closeness of the former Dominion's ties to Britain had all but precluded tight political bonds being developed with any of the Six. In the absence of a significant British voice in Brussels, there was thus no insider willing or able to act as a proxy for Australian needs. Nor could the Australians realistically plead poverty or major security concerns. By most economic measures Australia was as prosperous as most of the Six and geo-politically it was much further removed from the principal areas of cold war confrontation than either Western Europe itself or than all of Africa or Asia. And finally, the Community's close ties with US counted against Australia rather than for, since Washington had never concealed its distaste at the whole Imperial Preference system. The US was thus highly unlikely to employ its good offices in Brussels in Canberra's favour.

To make matters worse, the nature of Australia's exports to the Community made EEC generosity much more unlikely. The majority of Australian sales to Western Europe was not

⁹ For a detailed French review of the EEC's policy towards associates, see Archives Nationales (Fontainebleau), SGCI files, Versement 900638, article 26, note 'Les relations de la CEE avec les pays tiers', 10.10.1966

¹⁰ US policy towards early European integration is explored in Winand, *Eisenhower, Kennedy and the United States of Europe* and Lundestad, "Empire" By Integration. *The United States and European Integration*

made up of manufactures – the sector where Europe's liberalizing instincts were most apparent. Instead, the bulk of Australian exports were either agricultural commodities or metals and minerals. Sales of farm products in particular thus ran foul of the EEC's most protectionist attitudes, and would be seriously endangered throughout the 1960s as the Community's Common Agricultural Policy (CAP) gradually took shape. Not only would the CAP replace the plethora of national agricultural protective policies which had characterised Europe in the 1950s with a single, levy-based, protective wall which would be particularly hard to circumvent, but the Community's artificially inflated internal prices were also likely to boost significantly Europe's own agricultural production, thus further reducing the openings for agricultural producers outside of the EEC.¹² Admittedly the CAP was unlikely adversely to affect Australia's single biggest export to Western Europe, namely wool, for the simple reason that sheep farming would not be included amongst the sectors initially targeted by the Community's agricultural rules. But given that sales of wool in Europe were dropping anyway, as competition mounted both from alternative suppliers and from synthetic fibres, the way in which the CAP would probably prevent a compensatory rise in sales of wheat, meat or dairy produce was worrying from an Australian point of view.¹³ Mitigating the impact of the CAP would be a hard task, however. Countries whose exports threatened to harm European farmers, were wont to find that even the political predispositions to commercial generosity analysed above ceased to apply. Thus in the early 1960s, Turkey's quest for an association agreement was delayed and severely complicated by Italian anxiety about competition from another producer of Mediterranean agricultural produce.¹⁴ And in 1961-2 even the Americans were to discover the limitations in their ability to influence the EEC. Despite vociferous protests, led by Orville Freeman, the US Commerce Secretary, but backed up by

¹¹ A good example of Commission sensitivity about its links with Washington, is the anxiety caused by Nixon's seeming refusal to meet Rey during his 1969 trip to Washington. European Community Historical Archives (ECHA), Brussels, COM(69) PV83, 2ème partie (24-5.6.1969)

¹² For the formation of the CAP see Neville-Rolfe, *The Politics of Agriculture in the European Community*, pp. 193-237

¹³ Meredith & Dyster, *Australia in the Global Economy*, p.216

repeated deputations to Brussels, the US had little success in its attempts to persuade the Community to alter its putative agricultural policy in a more liberal direction.¹⁵ If not even the US could divert Europe from its chosen path, a country like Australia, with far fewer political and economic bargaining counters at its disposal, stood little chance of making any difference at all.

The stark reality in the 1960s thus appeared to be that Australia would have next to no capacity to bargain commercially with Europe. Its market was just too small and marginal from Europe's perspective for any reciprocal deal to be likely, it was too distant, too stable and too wealthy to win the sympathy of European officials or politicians, and its traditional sales to Europe were concentrated in sectors which were either declining naturally or which were likely to bear the brunt of the EEC's agricultural protectionism. Despite the best efforts of the Australian delegation in Brussels, there thus appeared to be little Canberra could do to safeguard its sales in Europe, and instead it would have to place its faith in the multilateral liberalisation process underway through GATT, and in the increased sales which might result from Western Europe's ever-growing prosperity. Direct efforts to tilt the uneven playing field back in Australia's favour were exceedingly unlikely to have an effect.

The British Effect

That EEC officials and ministers did in fact spend a considerable amount of time debating trade policy towards Australia in the early 1960s, is entirely due to Britain's 1961 application to join the Community. Macmillan's decision to submit a membership bid transformed the situation, elevating the issue of trade flows between Western Europe and Australia from a marginal concern, handled at most by a clutch of junior officials, into a problem of political significance, worthy of lengthy ministerial debate and the subject of detailed analysis by the

¹⁴ Calandri, 'L'Italia e le relazioni esterne della Comunità europea 1957-1964', pp.53-66

¹⁵ *Foreign Relations of the United States. Western Europe & Canada, 1961-3*, pp.97-100, 113-6 & 128-34. See also Zeiler, *American Trade and Power in the 1960s*, pp.134-9

European Commission.¹⁶ Quite why this transformation should have been so acute is explained by the manner in which most of the Six reacted to the prospect of British membership and the fashion in which the British government chose to approach Brussels.

The overwhelming majority of EEC leaders warmly welcomed Britain's 1961 decision. There is no scope here to analyse this reaction in detail, but it is enough to point out that the governments of five out of the six Community member states greeted with enthusiasm the idea of EEC enlargement, while those leaders who did harbour misgivings, de Gaulle of course, but also Konrad Adenauer, the German Chancellor, and Walter Hallstein, the President of the European Commission, were initially unable to express their doubts in the face of so clear a pro-British consensus.¹⁷ Such enthusiasm meant that any concerns that Britain chose to raise were likely to be taken very seriously by the Community. As a result, the Six had to pay a great deal of attention to the three special groups whose interests, Macmillan had promised to the House of Commons, would have to be adequately addressed before Britain would join the EEC.¹⁸ The three groups were Britain's six partners in the European Free Trade Association (EFTA), the UK's own farmers, and the Commonwealth.¹⁹ Of the three, most observers concurred that the last mattered most. If their goal of securing British membership was to be achieved, Western Europe's political leaders would thus have to concern themselves with aspects of Commonwealth trade which a few months earlier would have seemed of no relevance whatsoever. As one Italian newspaper put it, the Community would have 'to take account of the "imperial" interests of Great Britain which, from a certain point of view, have become "European" interests.'²⁰

¹⁶ The most detailed analysis of the Commonwealth 'problem' carried out by the Commission is in CMA, 07.151. Premier document de travail de la Commission CEE contenant une analyse des propositions contenues dans la déclaration de M. Heath faite lors de la session ministérielle à Paris, tenue le 10 octobre 1961. S/05700/61

¹⁷ For details see Ludlow, *Dealing With Britain*, pp.43-8

¹⁸ *Hansard 1960-1*, vol.645, cols.928-31

¹⁹ For a detailed analysis of Britain's requests, and the Community's response see Ludlow, *Dealing With Britain*, pp. 79-106

²⁰ *Corriera della Sera*, 1/8/1961 (my translation)

Once the negotiations got underway, Australian interests were certainly defended with some energy by the British. The starting point of the UK's case for the Commonwealth as a whole to be accorded special dispensations from the EEC's normal commercial rules, was the way in which Six themselves had treated their former colonies when the Treaty of Rome had first been negotiated. As Britain's chief negotiator, Edward Heath, pointed out in the course of his opening statement, delivered in Paris on 10 October 1961, 'It is a striking fact, and very relevant to the Commonwealth problem, that in no case was a tariff imposed upon trade where one had not been in force before the Treaty was signed.'²¹ But the British were aware that the Six were unlikely to react well to a straightforward request that the Community allow all Commonwealth produce to enter the EEC without hindrance. They therefore backed up this general statement with a number of more specific requests which focused on the needs of particular Commonwealth members. As far as Australian interests were concerned there were three relevant parts to Britain's opening bid. The first, and the weakest, centred on the relatively small volume of Australian manufactured products which enjoyed a preferential position on the British market. On these, Heath was obliged to acknowledge that 'the indefinite and unlimited continuation of free entry over the whole of this field may not be regarded as compatible with the development of the common market and we are willing to discuss ways of reconciling these two conflicting notions'.²² Before the talks with the Six had even begun, the British were hence all but admitting that the status quo for Australian exporters of manufactured products would have to change. For a second, rather more important group of products, ranging from lead and a variety of mineral products to tinned fruit, and (to the joy of satirists) canned kangaroo, the British suggested that the easiest solution would be for the Community's Common External Tariff (CET) to be set at nought.²³ Predictably, they became known in the jargon which quickly surrounded the negotiations as the 'zero tariff items'. And the third, and most important category of Australian exports, were

²¹ *The United Kingdom and the European Economic Community*, Cmnd 1565, p.8

²² Cmnd 1565, p.11

those agricultural products liable to be affected by the CAP. On these the British were again ready to concede that some change over time could occur. If Britain was going to play a full role in CAP system it could hardly be otherwise. Britain's negotiators were insistent, however, 'that full regard should be paid to the interests of the Commonwealth producers, and that they should be given in the future the opportunity of outlets for their produce comparable to those they now enjoy.'²⁴ Various different methods, according to Heath, could be used to ensure this, ranging from long-term contracts to tariff quotas; the key was that 'comparable outlets' be guaranteed. Overall the British thus started the negotiations with the request that virtually the entirety of Australia's trade with Britain be shielded from the likely impact of the CET and CAP.

There was nothing sentimental about this stance. British determination to secure a good deal for Australia did not reflect either a pro-Australian bias on the part of Whitehall or some deep-rooted sense of indebtedness reflecting the two nations' shared history. Rather, it denoted a hard-headed realisation that strong Commonwealth protests, particularly from Australia, Canada or New Zealand, could shatter the fragile Conservative party consensus on EEC entry and undermine popular approval. As Macmillan acknowledged ruefully in his diary Robert Menzies, and his Canadian and New Zealand counterparts, John Diefenbaker and Keith Holyoake respectively, had the power seriously to endanger the whole British bid.²⁵ Britain had no choice but to fight hard for Australia's interests.

Britain's efforts on Australia's behalf were augmented where possible by direct Australian diplomacy. Early in 1962, John McEwan, the Minister for Trade, left on an extensive tour, pressing Australian concerns on the Americans, the British and most of the Six.²⁶ Menzies too visited both Washington and London, clearly hoping to maintain the

²³ Cmnd 1565, p.11

²⁴ Cmnd 1565, p.12

²⁵ Macmillan, *At The End of the Day*, p.129

²⁶ Gelber, *Australia, Britain and the EEC*, pp.131-40

pressure on Britain as much as on the Six.²⁷ And in April 1962 the Australians pulled off something of a coup, by becoming the first and only country not directly party to the negotiations to be allowed to make a presentation of its needs to the EEC negotiators. In the course of a lengthy exposition by Alan Westerman, the Deputy Secretary of the Department of Trade, the Australians were able to set out their priorities and outline a number of possible solutions which the Six might adopt.²⁸

The combined efforts of British and Australian representatives had little effect, however. Despite the hopes that the British had built up in the course of their bilateral pre-negotiations with the Germans and Italians in particular that the Six might be prepared to show great flexibility on the vexed issue of Commonwealth trade, the stance adopted by the Community during the negotiations themselves was much more cautious and defensive.²⁹ France's desire to safeguard the nascent CAP, to limit to an absolute minimum the number of exemptions allowed to the Community's external tariff, and to prevent the Community from opening itself up to undue external competition, seemed to prevail over Germany's declared aim of smoothing Britain's path into the EEC and ensuring that the EEC remained as liberal as possible. Australia in particular found that scant attention appeared to be paid to its commercial interests. It is therefore important to establish why the Six proved so much less forthcoming towards the Australians than had initially been hoped.

Part of the problem reflected the economic and political difficulties which Australian exports posed to the Community. Of all the Commonwealth goods discussed at such length during the 1961-3 negotiations, three products of direct interest to Australia proved amongst the most intractable. Tinned fruit constituted the first problematic category, since the acute sensitivity of the Australian and British governments on the issue (the canning industry had been used to provide employment for a large number of war veterans; the potential for embarrassing headlines and emotive Parliamentary speeches was thus exceptionally high)

²⁷ Gelber, *Australia, Britain and the EEC*, pp.141-8

²⁸ *Agence Europe*, 27/4/1962. See also Robertson & Singleton, 'Britain, the Dominions and the EEC', pp.119-20

collided head on with the economic self-interest of the Italians, in the early 1960s still the poorest of the Six. It was thus quickly made clear to Heath and his fellow negotiators that to reduce the CET to zero on these imports was not a viable option. Apart from anything else, an elimination of this tariff would most probably allow large US companies to gain a dominant position in the European market, an outcome which was in the interest of neither Europe nor Australia. Equally difficult was lead, another item the British hoped could be allowed to enter the Community without encountering a tariff barrier. Here too the Community felt unable to be liberal. The appropriate tariff level for the metal had been one of the issues the Six had been unable to agree about during the negotiations setting up the Community and it had been placed on the so-called List G, a series of tariff positions on which the Six agreed to disagree. Their internal divisions on the lead tariff had only been overcome in 1960, after delicate and lengthy negotiations, and there was no desire whatsoever on the part of the EEC member states to reopen so recent a bargain. Once again, therefore the British 'solution' stood no chance of being adopted. And most difficult of all was the issue of Australia's wheat exports. Unlike the hard wheat that Canada sold to Britain, the soft wheat produced by Australia was in direct competition with that grown in France.³⁰ While the Canadians could thus look forward to a degree of openness on the part of the Six, the Australians had far less reason to be optimistic. France was extremely unlikely to allow Britain to go on buying its wheat primarily from Australia, since to do so would not only deprive French farmers of a valuable new market, but might also encourage other states to seek exceptions to the CAP rules. In particular, the Germans might step up their campaign to limit agricultural trade within the EEC and to be allowed to continue their traditional habit of buying much of their food from non-European suppliers. Were this to happen French access to the large German market – one of the key benefits which the CAP was meant to deliver – would be called into question. Generosity towards Australia was hence much too expensive

²⁹ For a discussion of the pre-negotiations, Ludlow, *Dealing With Britain*, pp.33-4

for France to contemplate, even without de Gaulle's more political misgivings about British membership.³¹

As important, however, was the way that the political calculations underpinning EEC trade policy which were analysed above continued to count against Australia even after the British had applied. In the eyes of the Six, the three former dominions were the Commonwealth members least deserving of European liberalism. Trade concessions towards India, Jamaica, or Nigeria could be largely justified on the grounds that the EEC, as a wealthy group of countries, had a duty to show generosity towards much poorer developing countries.³² As explained above such sentiments were underpinned by political and humanitarian considerations as well as possible long-term economic gains. But it was much harder for the Six to see why they should forego some of the economic benefits which EEC enlargement might bring, or still worse take steps which could threaten the economic integration upon which they had already agreed, in order to help three countries as wealthy, as prosperous and as distant as Australia, New Zealand and Canada. As one Commission official commented to a British journalist in the course of the negotiations, New Zealand farmers were 'millionaires compared with the peasants of Calabria'.³³ The same reasoning could be applied to the farmers of Australia and Canada also. In the case of New Zealand, however, such sentiments were tempered by a recognition that the whole of the country's economy was unduly dependent on agricultural sales to Britain. So great a portion of New Zealand's trade would be compromised were the CAP to be immediately applied, that many within the Community were prepared to acknowledge the need to soften the blow. There was hence a strong lobby among the Six, led significantly by the still influential Jean Monnet, who

³⁰ All of these problems were explored in some detail in the so-called Deputies Report of April 1962. CMA. 07.15. Rapport sur l'état des négociations: texte définitif. RU/S/59/62, 12.4.1962.

³¹ For a controversial attempt to explain French policy solely in terms of agricultural self-interest see Moravcsik, *The Choice for Europe*, pp. 176-97

³² Paul-Henri Spaak, the Belgian Foreign Minister, made this point very clearly during the November 1962 ministerial meeting. ECHA. S/08146/62. Report No.39 on the thirteenth ministerial meeting 15-7.11.1962; BDT 145/88, No.245

³³ *The Observer*, 22/7/1962

maintained that a special deal ought to be offered to New Zealand.³⁴ If this happened, Australia and Canada both of which were deemed to be far more able to cope without Britain were likely to pay the price and be offered distinctly less advantageous terms. Nor was there any sign that the Americans might offer Australia assistance despite their strong support for British membership. As McEwan was to discover when he visited Washington in the Spring of 1962, not only did the US's dislike of Commonwealth preferences remain intact, but some State Department officials considered their role in the ongoing negotiations to be that of persuading the British not to demand too much of the Six and bolstering the Six in their defence of the existing Community system.³⁵

This almost uniquely unfavourable constellation of economic and political difficulties has persuaded some observers that the Commonwealth problem in general and the question of Australia in particular was all but insoluble in 1961-3 and hence all but doomed Britain's first entry bid. Such retrospective wisdom is certainly implied by Heath's various assertions that it was the Commonwealth, fundamentally, which blocked Britain's path. And it is the much more explicit theme of the arguments advanced by Alan Milward, the official historian of Britain's policy towards European integration, who maintains that Britain could never have entered the Community in the early 1960s because of the absolute incompatibility between European aspirations to an organised agricultural policy and the long-established British habit of buying its food primarily from what he terms 'neo-Europe' – the former Dominions of Australia, Canada, New Zealand (and to a lesser extent South Africa).³⁶ The implication of this argument is that Britain was only able to join the EEC in the early 1970s because of the precipitous decline in Commonwealth economic interdependence which occurred between 1963 and 1973.

³⁴ Ward, 'Anglo-Commonwealth relations and EEC membership', p.99

³⁵ George Ball, Under Secretary of State for Western Europe compared his role to that of Horatio guarding the bridge to the Community against the British and their Commonwealth entourage. Ball, *The Past Has Another Pattern*, p.218

A Poor Deal?

Despite their appealing logic, however, such arguments overlook the awkward fact that a deal was done between Britain and the Six on the majority of Commonwealth issues. It bore scant resemblance, admittedly, to either Britain or Australia's initial hopes. And Commonwealth consent was only given, in the most grudging of fashions, after the ill-tempered and somewhat fraught Commonwealth Prime Ministers' Conference at Marlborough House in September 1962.³⁷ But having made their displeasure obvious, neither Menzies, nor Holyoake, nor even Diefenbaker were ready to denounce Britain's efforts entirely, since ultimately they all recognised the UK's right to make up its own mind on the European issue. As a result the deal stood, and would have governed relations between Europe and Australia throughout the 1960s had not other factors, notably de Gaulle's opposition, halted Britain's path. It is therefore worth looking in a little more detail at what had been agreed between Britain and the Six.

The first portion of the package concerned manufactured goods exported to Britain by Australia, Canada and New Zealand. For the Australians these were of relatively little intrinsic importance; what mattered was the way in which this initial part of the Commonwealth solution would set a precedent for the more important agreements, particularly those centring on agricultural exports, which were likely to follow. There was hence some alarm when the British and the Six agreed in late May 1962 that the CET should be phased in for all such products and apply fully by 1970. Regular consultations with the Commonwealth countries concerned would be used to ensure that no undue economic damage was caused. Menzies and the Deputy Prime Minister of New Zealand, John Marshall, issued a joint statement criticising the agreement reached and warning that it should be considered as no more than a provisional deal until ratified by the Commonwealth Prime Ministers in

³⁶ Milward, Alec Cairncross lecture, St Peter's College, Oxford, September 30, 1996

³⁷ Camps, *Britain and the European Community*, pp.434-444

September, but neither felt able to demand a renegotiation.³⁸ Both recognised, moreover, that the key agreements still lay in the future.

Matters grew still worse from an Australian point of view in August 1962 when details emerged of the likely deal on temperate zone agricultural products. Strictly speaking, the British were correct to assert that no definitive arrangement had been decided. Despite strenuous efforts by all of those involved in the Brussels negotiations, the August ministerial meeting had been adjourned without a final deal being done. But while a few details did still remain uncertain, the fundamental shape of an agreement had been settled – Heath indeed told the Cabinet that the document drawn up could be 'considered to contain acceptable provisions for the interests of the Commonwealth countries concerned.'³⁹ It can therefore be taken as an accurate indication of how far the Six were willing to go in order to accommodate Australia's agricultural exporters.

At the heart of the agreement lay the principle that Britain would participate fully in the CAP and would therefore introduce the levy system on all of its food imports. This potential blow to Australia was softened, however, by a number of EEC concessions. First of all the Six declared themselves willing to allow Commonwealth exporters to benefit from the levy reductions (known as the *abattement forfaitaire*) in all member state markets which had been designed to give producers from elsewhere in the EEC an edge over third country exporters. The Commonwealth countries, in other words, would initially be treated as if they were EEC insiders. Such privileges would, however, dwindle over time (the exact rate of 'degressivity' remained to be agreed) and would in all events vanish by 1970 once the CAP system was fully up and running and the *abattement forfaitaire* would cease to apply. After this date Commonwealth producers would have to put their trust in two further pledges. The first was the Six's declaration that the Community remained ready and willing to work actively towards the conclusion of world wide commodity agreements, addressing the global

³⁸ *Le Monde*, 5/6/1962

³⁹ PRO. CAB 134/151; CMN(62)49, 8/8/1962; Record of a meeting at Admiralty House, 6/8/1962

problem of agricultural surpluses. And the second was the commitment to set a 'reasonable' price for cereals within the CAP.⁴⁰ This last mattered greatly, since the level of common price selected by the EEC would to a very large extent determine the level of the EEC's own production of agricultural produce, and hence also affect the amount of space in the enlarged Community's market which remained for outside producers such as Australia. The EEC also acknowledged the need to provide special assistance to New Zealand; no such concessions were likely to be forthcoming for either Australia or Canada.

The final element of the package deal concerning Australia and the other former Dominions – the deal on the 'zero-tariff items' – had not been concluded when the negotiations came to their premature end. Already, however, it had become clear that the Six would not agree to Britain's suggestion of setting the CET at nought. Instead, the UK and its Commonwealth partners would have to content themselves with a mixture of tariff quotas, which would permit a fixed quantity of imports to enter the UK at a substantially reduced tariff rate, a series of smaller reductions in the CET for some of the lesser items, and the staggered introduction of the Community tariff for the remainder. Once again the Community's policy had been shaped by the twin principles that any special dispensation granted to the Commonwealth should be temporary and that Britain should be subject to almost the full range of Community rules from the moment of entry. Transitional arrangements were acceptable, but they were not in any way to call into question the UK's long term acceptance of the Treaty of Rome. By 1970, when the EEC's own transitional phase came to an end, Britain's preferential ties with its former Empire were to be no more than a memory.

These putative agreements were of course swept aside in January 1963 when General de Gaulle intervened to veto British membership. Despite frantic attempts by the British and the five EEC member states other than France to defy the French President and to continue

⁴⁰ For the text of the agreement see CMA. RU/M/45/62 (part 2), Annex VII.

the enlargement negotiations, London and the 'friendly Five' had finally to bow to the inevitable and allow the negotiations to be suspended indefinitely on 28 January 1963.⁴¹ But the shelving of these arrangements was to prove only temporary. In 1967 when the British, now led by the Labour Prime Minister Harold Wilson, once more applied to join the Community, the Commission made clear its belief that the 1961-3 agreements should be dusted off and reapplied.⁴² Had the French not vetoed once more, it is therefore reasonable to believe that the terms for Australia which would have been negotiated by the Labour applicants would have borne a close resemblance to those arrived at by Edward Heath and his colleagues. And in 1972, when a package to bring Britain into the EEC was finally concluded, the basic principles of the agreement were similar, but now applied only to New Zealand which was still viewed as the most vulnerable of the three former dominions. Once more the Six were willing to allow the British to go on buying Commonwealth produce for a finite amount of time, but such special dispensation was to be temporary only and was to be operated in a fashion which did not hinder Britain's immediate acceptance of the full panoply of Community policies and rules.⁴³ It can therefore be concluded that the outcome of the 1961-3 discussions represented a fair indication of how the European Community regarded the Commonwealth in general and Australia in particular.

Overall the stance of the Six was fairly tough. Australia's own commercial needs and expectations counted for little in Brussels – the country was deemed rich enough and stable enough to fend for itself. All that mattered in the Six's view, was that an arrangement could be drawn up which would smooth the UK's path into the Community, and prevent the applicant from withdrawing its membership bid in the face of cries of anguish from the Commonwealth lobby. Such special dispensations, however, while slowing the rate at which the UK's commercial ties would switch from the Commonwealth to Europe should certainly

⁴¹ Ludlow, *Dealing With Britain*, pp.213-226

⁴² ECHA, COM(67)750, *Avis de la Commission au Conseil concernant les demandes d'adhésion du Royaume-Uni, de l'Irlande, du Danemark et de la Norvège*, 29/9/1967

⁴³ Kitzinger, *Diplomacy and Persuasion*, pp.140-2

not halt this process nor protect the new member state from the realities of life within the EEC. Within fewer than ten years of entry, the UK's position would have to be indistinguishable from that of its EEC partners.

A Reprieve or a Missed Opportunity?

In the light of this rather harsh reality, it is not surprising that many in Australia were relieved when the French President barred Britain's path to Europe. Although it was recognised that the UK would probably still join in the long run, Australia would have several years more at least to adapt before the type of arrangements outlined above would apply to its sales in Britain. Diversification, while still necessary, could thus take place at a less frenetic pace. Few tears were shed in Canberra after de Gaulle's press conference.⁴⁴

With the benefit of hindsight, however, it is worth asking whether the postponement of British membership was so advantageous for Australia. In essence the key question is whether the stay of execution which the Australians obtained for their privileged position in the UK market place was not obtained at the expense of wider Australian trade with the European Community. The rationale for such speculation centres on the influence which the UK within the Community might have been able to exert over the CAP as drawn up in the years following the failure of the first application. As with all counterfactuals in history, the ideas that follow are impossible to prove; enough is known, however, about the Community's development during the 1960s for such speculation to be grounded on a relatively solid set of economic and political calculations.

Had the UK joined in 1963 it would have been able to exercise a significant influence on the CAP in its formative stage. The basic shape of the system, as set out in the January 1962 agreements, was admittedly all but fixed. One of the clearest points to emerge from the 1961-3 negotiations was that the Six were not prepared to undo what they had already done.⁴⁵

⁴⁴ Gelber, *Australia, Britain and the EEC*, pp.240-5

⁴⁵ Ludlow, *Dealing With Britain*, pp.103-4 & 186-7

But the levy system agreed upon in 1962 did not of itself mean that the EEC would produce ever more of its own food, thereby squeezing third country producers out of the European market. Whether this happened or not would largely depend upon the level at which European agricultural prices were set – something which the Community had not yet done in 1961-3. If they were low, close say to the prices which prevailed in France, many of Europe's marginal producers would disappear and those who were more efficient would face few incentives to overproduce. The EEC would therefore continue to import significant quantities of its food from outside of its borders. Australia, in common with all other major agricultural exporters, would hence be able to retain a sizeable market share. A high price level, by contrast, would spur Western Europe towards self-sufficiency and overproduction, since even the most inefficient of European producers would continue to operate and the more productive farms would generate huge amounts of food irrespective of demand. Surpluses would be the inevitable result, and the existence of stock-piled European produce would not only rule out substantial imports from non-EEC suppliers, but would also have a disruptive effect on the wider world market, since the only manner in which they could be disposed of would be for them to be exported at a subsidised rate. It was thus greatly to Australia's disadvantage that the 15 December 1964 agreement on cereal price levels, the decision which would set the tone for all subsequent choices of price level, fixed a Community price which was much closer to the high German level than it was to the relatively low French price.⁴⁶ The Community had taken a decisive step towards agricultural overproduction.

The effects on Australian exports were serious enough in the short to medium term and likely to be still more worrying in the longer term,. Sales of foodstuffs to Germany in particular had already been hit by the introduction of the CAP in 1962. Under a more liberal price regime, however, they might have been expected to bounce back strongly – as it was, their recovery was much less fast. (Figure 3) Furthermore, Australian sales of wheat, the one

⁴⁶ For details of the 1964 agreement see Neville-Rolfe, *The Politics of Agriculture*, pp.230-1

commodity where Europe was already running a near-surplus, became still more volatile in the mid-1960s, all but vanishing altogether in 1964-5, and never regaining the heights they had reached at the start of the decade.⁴⁷ In the medium term this boded ill for the substantial Australian sales of barley and oats since European production of these commodities also was likely to rise. Nor was there much prospect of a compensatory increase in sales of meat or other foodstuffs of animal origin. Italian imports of meat from Australia had in fact briefly risen during the mid-1960s (a reflection of Italy's growing prosperity) but this trend had resulted in Italy being faced with a much larger than expected contribution to the CAP.⁴⁸ The Italian government thus had every incentive to encourage its consumers to buy meat from European suppliers rather than from Australia, Argentina or the US.⁴⁹ The effects of the 1964 cereal price decision, and of the consolidation of the CAP in the years that followed, were therefore highly detrimental for all non-European agricultural exporters. From an Australian point of view, the prospects of diversifying the nature of its sales to Western Europe and diminishing the relative importance of wool exports, had been seriously undermined.

The nature of the 1964 decision might, however, have been very different had Britain been a member of the EEC. After all the British had no incentive whatsoever either to see European food prices rise (the increase in the cost of living was already a sensitive part of the European debate) or to see third country producers squeezed out of the EEC market. Their voice would hence have been added strongly to that of France and the Commission in favour of a much more moderate price level. Furthermore German calls for high prices would almost certainly have been constrained by the pledge about a 'reasonable' price policy which had been included in the temperate zone agricultural produce deal outlined above. As they had been amongst the most fervent advocates of enlargement, the Germans would have found it particularly difficult to disregard a central element in a package which they had been so eager

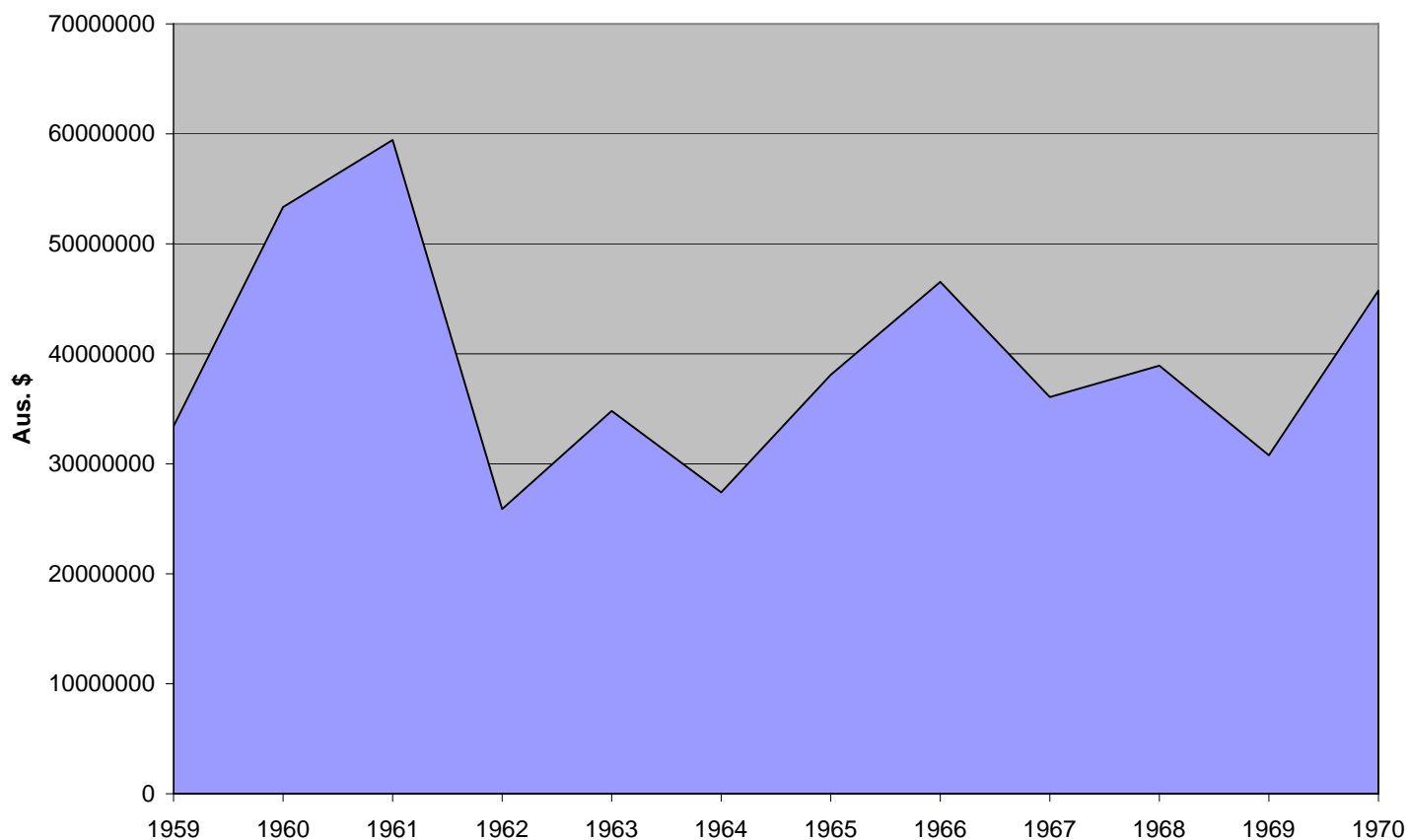
⁴⁷ These trends are apparent in *Overseas Trade*, Nos. 61-8

⁴⁸ *Overseas Trade*, Nos. 61-8

⁴⁹ The growing Italian discontent with the early pattern of CAP development is discussed at more length in Ludlow, *Challenging French Leadership in Europe*, pp.237-8

to see concluded. Their ability to steamroller the EEC into accepting a disastrously unreasonable price policy would have been decisively reduced as a result.

Figure 3. Australian sales of foodstuffs of vegetable origin, 1959-1971



Source: *Overseas Trade* (Canberra: Commonwealth Bureau of Census and Statistics), Nos. 61-8

From an Australian point of view, the price of British non-membership should perhaps be measured in the relative stagnation of agricultural exports which occurred after 1964.

After all it has been a central contention of this article that the EEC's commercial policy in the 1960s was highly politicised, and subject to a wide variety of pressures which had little to do with a straightforward economic rationale. From this point of view one of Australia's central problems was its lack of historical ties with the EEC and the absence of an advocate within the Community which could systematically defend its interests. British membership would

have addressed both of these disadvantages, and would have done so at a time when the Community's agricultural and commercial profile was still at a formative and hence very flexible stage. By 1973 when Britain did belatedly enter, the agricultural rules were by contrast all but set in stone and consequently next to impossible to alter. When the totality of Australia's sales to Western Europe are taken into account, rather than just the exports bound for the UK market, any sighs of relief heard in Canberra on the day that de Gaulle vetoed may thus have been rather premature.

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