

Note for the Minister.

1 1/2 20 min. H. P. Rijk

Re: Your visit to Denmark.

With reference to note GS/DIO 14 I have the honour to submit to Your Excellency some points that might provide general lines for the talks at the Danish Ministry of Agriculture relating to the economic-agricultural policy of an agricultural community.

It would appear to me that a discussion of this subject could only be fruitful, if emphasis is placed on full participation of Denmark in the Community and the need for a supra-national authority, as set out under II of the above-mentioned note. Therefore, it would be desirable for Your Excellency to restrict the talks as far as possible to the principles of the economic policy to be followed. Apart from the consideration that, in view of the Danish position and attitude so far, it would be very undesirable to give up preliminary studies made by us, any discussion bearing on the technical details of the problem rather than on principles, would weaken the force of our arguments.

- I
1. By way of introduction Your Excellency might put forward that the Netherlands is wholeheartedly in favour of the economic basis of the integration: an increase of productivity by better specialisation, supplemented by measures in the agricultural-technical sphere, provided this should be achieved under circumstances precluding any danger of development of economic-nationalism (autarchy).
 2. It might be emphasized that the Netherlands Government places a broad construction on the reservation relating to the development of economic-nationalism, but that it holds the view that not only the protection between the participating countries, but also that between the Community and the outer world, should be gradually reduced. In other words, the increase of the productivity may never take place within an area isolated from the world market; on the contrary, this area will have increasingly to open itself to the influences of the world market, as it becomes (agricultural-) economically stronger.
 3. Further, the Dutch view is that the contact with the world market should be as wide as possible, and that, from the start, there should be exports from such countries as are already agricultural-economically strong enough for this.
- II
1. Following up this "statement of principles", and supplementary to my note GS/DIO 14, the attitude of the Netherlands might be viewed from an economic point of view. As preliminary remark might serve that it is fortunate that the Danish agricultural position is so much like the Dutch that the Dutch views must be understandable for the Danish.
 2. Further to what has been remarked under 1b and c, it might be put that the participation of the Netherlands in the Community does not mean in any way that the Netherlands Government should be in favour of letting

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prices rise to a relatively high level, which, for the time being, is considered normal in other countries, where agriculture is still considerably in technical arrears.

The adjustment of price levels within the framework of the increase of the productivity will have to be based neither on countries with high price levels, nor on an average, but, for every product, on the level in such countries as are the most advanced and the most suitable for the product concerned. In passing, it might already here be concluded that this points to the need for a price-lock system in a probably protracted transitional stage.

3. The maintenance of such a relatively low price level in the Netherlands for internal reasons - the downward price adjustment within the framework of an increase of the productivity - will provide a sound foundation for the maintenance of the contacts with the world market of such countries as can retain their relatively low prices. This is essential for the continuation of the export relations with non-participating countries. Perhaps some attention might here be paid to the great importance of maintaining relatively low prices in the most advanced countries as these low prices partly determine the lines of specialisation: the danger that a withdrawal from third markets may have serious consequences in a later stage, when the Community as a whole would become an exporter of some products as a result of the increase of the productivity/specialisation. Finally, it may here be remarked that the maintenance of export relations with non-participating countries by the exporting members of the Community, will relieve the pressure on the price formation within that Community and will, therefore, be favourably viewed by the other members.
4. It may be expected that this line of reasoning will exercise a double stimulating action on the Danish. On the one hand, it may make participation in the Community attractive when it is known that the Netherlands will be a champion for open export relations with third countries, on the other hand, it will make it clear to the Danish that Dutch participation would not mean that Denmark would have one competitor fewer in the markets outside the Community.
5. Finally, it might be pointed out that participation in the agricultural community may result in a strong preferential position in a densely populated market area such as Western Europe for a weak export packet (mainly processed and converted products). Especially in times of depression, monetary difficulties etc. one-sided dependence on England would have very serious consequences.

III 1. Thirdly, on the basis of I and II, Your Excellency might give a recapitulation of the principal starting-points for a European economic-agricultural policy:

- a. This policy should cover all products within the framework of the increase of the productivity;
- b. It is essential to allow the freest possible trade with non-participating countries, which trade will at first have to be carried on mainly by such countries as are agricultural-economically the strongest;

- c. Partly for these reasons it is unavoidable that the countries mentioned under b should be able to maintain their low (cost) price level, which is also very desirable for other reasons: the determinative effect of specialisation;
relieving the pressure of prices within the group;
 - d. The maintenance of low prices by some of the technically forward countries by the side of the far higher prices in other countries of the Community will probably require a system of price locks in inter-European trade during a long transitional period;
 - e. This price-lock system will virtually not bring about a fundamental change in the present state of affairs.
2. The principal consequences may be indicated as follows:
- a. If the Agricultural Community is to surpass the objective of OEEC and GATT, which is now pursued on a voluntary basis: the gradual opening of national locks, it is essential that the policy which leaves national sovereignty unimpaired, should be abandoned. It is necessary that the handling of the locks should be placed under some degree of common control.
 - b. If, however, the task of a common organ should go no farther than a control over protection and its gradual removal, the influence of this organ would continue to be restricted to the exercise of a certain pressure without lending positive assistance. It is for this reason that the Netherlands considers it necessary to extend the scope of this organ so as to include stable price development, regional improvement projects, research, education and information.
 - c. The control of national protection in combination with regulations for greater stability of prices, form the core of the economic-agricultural policy.
3. About the technique of the economic-agricultural policy Your Excellency might put forward the following points:
- a. The common organ fixes minimum prices for inter-European trade, for all products that are of strategic importance in the European market: the minima should be based on the prices in the countries with the lowest production costs.
 - b. The common organ fixes a generally permissible, maximum of national protection on the basis of the minimum prices per product or group of products and periodically a minimum of reduction of this protection.
 - c. If in European trade the prices of one or more products should reach the minimum and also exportation to non-participating countries at remunerative prices appears impossible, measures relating to storage, processing or preservation should be taken for account of the Community.
 - d. When the minimum price is reached, the common organ specifies the circumstances under which the above-mentioned measures will be carried out.

- e. The protection against third countries is virtually the same as the maximum of protection permitted in the trade between the participating countries. A small additional common protection against third countries is, however, necessary for creating a preferential position for the members.
- f. If, however, imports can take place from third countries at prices below the minimum price referred to under a, extra protection is necessary against third countries to stabilize the price level in the European market.
- g. If prices in the integrated area should rise sharply, the export of a number of basic products for consumption, may be reduced or stopped temporarily.
- h. The financial consequences of the national protection permitted between the members in the transitional period and the protection against third countries should be under a certain supervision of the Community. Part of the funds should be used for the execution of the measures mentioned under c and d and, if possible, with or without supplementation from other sources, for agricultural-technical development.

The Hague, 5/1/'53.

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