

actual figures. He wondered if this sort of approach had our approval.

6 Dr Ossola spoke about the future of sterling in an enlarged Community. Because of the Community's agreement in principle to work towards a unified currency as part of European economic and monetary union, it would not be possible for any particular currency of the Community to be used as a reserve currency. The United Kingdom had recognised this. There were now two questions. First, would the enlarged Community have a reserve currency of its own? Some people thought it should not; and certainly it was not a matter for the issuing authorities to decide. The second question was whether it would be in the interests of the enlarged Community that the ex members of the sterling area should gravitate round European economic and monetary union. Dr Ossola thought the answer to both questions should be yes. There were two ways of dealing with the future of the sterling balances: either they could be taken over by the world monetary community, perhaps against an issue of SDRs; or else they could be used as the foundation of The European Reserve Fund.

7 Signor Donbassei said that the Italian delegation in Brussels were very conscious of the needs of the timetable. No progress had been made at the latest meeting of the Six over sugar or New Zealand. The Italian view was that it was important to think of the needs of the enlarged Community as a whole. One could not determine now precisely what decisions the enlarged Community might make in a few years time. As for the British contribution to the budget the need was to find a formula which would enable Britain to start from a plausible figure; thereafter the progression should be parabolic not linear.

8 Mr Rippon expressed gratitude for these views. We fully recognised how hard the Italian delegation had been working to achieve reasonable and practical solutions. He happily gave a general blessing to the ideas which had been expressed at this meeting: in particular, he agreed with what had been said about sterling.

9 Sir C O'Neill said that all the major problems -

New Zealand/

New Zealand dairy products, sugar, our contribution to the budget - were essentially agricultural; and since we had already accepted the common agricultural policy they should not be too difficult to solve. We had six weeks before the Ministerial meeting in May and we must use that time to the best advantage. If the Community was able to make progress on any particular issue, then he hoped it would report it to a meeting of the Deputies rather than keep an account of it in reserve for the Ministerial meeting. He had been interested to hear what Signors Guazzaroni and Bombassei had said about the Community developing a common attitude to the question of finance. It was right that the Community should now make counter proposals - even though for the time being these might only be confined to principles. On the whole, we would find it fairly easy to accept the principles now under discussion among the Six. A parabola was all right so long as it did not go too high in the fifth year. Full use should also be made of the three year period of correctives. It should not be used solely as a means of rectifying any mistake made in assessing the level of our contribution for the definitive stage. Nor did we necessarily want to rule out some jump at the end.

10 Sir C O'Neill said that we must also make progress with the other questions. Capital movements was one: there were Community directives about this to which we would need to conform. (And this question should be distinguished from the general issues of the reserve role of sterling and the sterling balances.) Then there were the European Investment Bank, tariff quotas and agricultural transition. On this last point we hoped the Community would soon have new material to give us. While it was important that we should make progress in these next six weeks, it was more important still that the Community should not make bad proposals to us. Haruel had spoken of the "general balance of mutual advantage": if we stuck to that concept all problems were solvable.

11 Signor Moro turned to the question of the political development of the Community. The Community was now active in many fields - economic and monetary union, social questions, nuclear energy and others. But the political element was still lacking.

Italy/

Italy knew from the Anglo-Italian declaration of 1960 that the United Kingdom shared her views about the need for developments in this direction. This was also important in the defence sector. Europe needed the American alliance; but at the same time it must take up its own responsibilities in that alliance and play a more authoritative role. The unity of Europe was a vital factor not only for world equilibrium, but also for equilibrium within Europe. As far as institutions were concerned, the French had recently made some rather vague suggestions, and these were now under discussion. But no conclusions could be reached without Britain. The present arrangements for political consultations among the Ten were cumbersome; but Signor Moro thought they had operated fairly successfully.

12 Mr Rippon said that he was glad that Signor Moro had ended on a political note. It put matters in the right perspective. Compared with the creation of a wider West European Community, the problems of the transitional period seemed very small indeed. The whole foundation of the West European Alliance was contained in the Brussels Treaty, and in its three elements - military, economic and political co-operation. The Alliance needed all three elements. The purpose of British policy was to build up co-operation over the whole field. It was important that Europe should have its own influence and its own capabilities. This did not mean any sort of attack on the North Atlantic Alliance. Europe simply had to play her proper part. It was therefore essential to emphasise that our objectives were political ones. We had re-affirmed that Anglo-Italian declaration; and recently Mr Heath had spoken of the possibility of developing new institutions for new purposes. The Community, as we saw it, would not be a static creation. It would develop - for example in the social field, in education, in regional policy (and here we looked forward to full use being made of Articles 92 and 94). We were also interested in seeing a Community approach to such questions as housing, town planning and the environment. Whether at the end of the day we ended up with a confederation or a federation was something we need not concern ourselves with at present. Our approach should be realistic, stop-by-stop, to bring about a

truly/



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