results, and could not be disappointed. He himself was very ready to get away from the game of statistics and to be flexible. It was important that all should avoid a doctrinaire approach.

- S. N. Schumann said he had the impression that the conceition in the House of Commons to Dritish membership of the Communities was harder but at the same time weaker than in the past. Mr. Rippon said this could be so. The problems which worried people today might seem derisory in the years to come. It was nevertheless vital to give the imression that we were working together to succeed, and that it would not all take too long. H. Schumann said that his own approach to the problem was somewhat uncomfortable. "We feel more strongly than ever for all conceivable political reasons - I speak from the heart - that enlargement should take place as soon as possible." But there was a long way to go. The stumbling blocks were high and the bones of contention were big. The French willed the end, but the means of achieving it were far from easy. There were certain basic rules based on the documents of the case which could not be ignored. At the same time he much appreciated Hr. Rinnon's flexible approach and felt sure this was the right way to proceed. In. Rippon said that the Community must be flexible too. II. Schumann agreed. ir. Rinnon should nevertheless know that in preparing the negotiations the Six had to choose between a bargaining position and a realistic position. They had chosen the realistic position but this left them with little room for annoguvre.
 - 7. In Rinner said that he accepted the rules and procedures of the Six and would respect them. The proposals we had put to the Commission were realistic but they were not hard or fast, and were open to discussion. He hoped that the unjor problems could be dealt with in

the same spirit as the minor ones on which agreement had been reached on 27 October. We would think again about our proposals when we saw the Community's comments on them. As for the question of a transitional period or periods, there was no rule or principle involved so far as we know. It might be the most practical solution to the The vital point was that we should help each other to find solutions, avoid battles and see to it that no-one was victor or vanquished. II. Schumann agreed. There was, Ir. Rippen continued, some conflict between the reference in ... hardel's paper of 30 June to transitional measures and the reference in the piece of paper given him at Luxenbourg to a single transitional period. II. Schumann said that we would see what the position of the Community was. A lot depended on the length of the transitional period. ir. Rippon said the essential thing was to find a commonsense solution to the problem. But he particularly urced II. Schuuann not to present one particular solution as a sort of ultimatum.

8. II. Schumann said he did not like the word ultimatum. Having different transitional periods might produce a different sort of Community. General de Gaulle had always said that British entry would make for a different Community and that this would be no bad thing. But the present French Government thought otherwise, and strongly believed, with the other members of the Community, that we should adhere to the existing rules. Ir. Rippon said that this was not his point. He had mentioned the dispute over a transitional period or periods to show the sort of demand and counter-demand that we should seek to avoid. It would have been easier if the French had put their views on the question differently. As it was any change of ground on either side could be represented as a victory or a defeat. What was required was the best solution to the problem reached after amicable discussion of the

/possibilities.

possibilities. He honed that this would be the approach which would be followed under H. Schumann's chairmanship.
H.H.G. realise the need not to put forward proposals that infringed the existing rules. H. Schumann said he wanted to be optimistic. He would obviously like to see the essentials of the negotiations settled during his chairmanship.

- 9. W. Schumann asked what was the main stumbling block in the eyes of British public opinion. Lir. Rippon replied that it was their pockets. W. Schumann said that British entry represented a great chance for British industry. As he understood it the Confederation of British Industry had not changed its view that entry would bring great advantages to the British economy. Lir. Rippon agreed. A lot of the anxieties now current in Britain were similar to those expressed in France in 1957 and 1958. He hoped they would prove equally illusory. Our concern now as the French was then was the impact. There had to be step by step changes to avoid upset or dislocation. The French did not always seem to realise what great opportunities there would be for French agricultural products in the British market.
- On the Rippon said that some of the problems regarding Britain's present oversess suppliers could be solved if the enlarged Community saw its relations with these countries as an aspect of its general relations with the outside world. It. Schwann said he had lectured at Oxford on the Commonwealth aspect of the problem some years ago and then foresaw that this would become less important with time. The Japanese were now eating more butter and this should give huge new outlets. It was bad for any country to rely on others at the other end of the world for their food. It. Rippon said that he had told the New Zealanders that they would have to think about their own long term future. But they were without anything like the resources of Australia and would be in difficult circumstances for a long time to come if they were deprived of the British market for their dairy

Japanese were protecting their own dairy industry. His own view of the right solution for New Zealand was a special arrangement subject to review. He had carefully avoided saying that this would be permanent. Nothing was permanent in this world. We must now bend our efforts to find a solution to what was now a British problem but would become a Community problem once we had joined. M. Schumann said that this was a good way of putting it.

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RECORD OF CONVERSATION BETWEEN THE ORANGELIOR OF THE DUCHY OF LANCASTER AND THE FRENCH MINISTER OF FOREIGN AFFAIRS

QUAI D'ORSAY, PARIS: 9 NOVEMBER, 1970 at 1500 hrs

Rt. Hon. Geoffrey Rippon, QC, MP. H.E. Rt. Hon. Christopher Soames Sir. C. O'Neill

Mr. Tickell

M. Maurice Schumann
H.E. M. Geoffroy de
Courcel

H.E. M. Boegner

M. Alphand

M. Cuvillier

M. Schumann asked how Mr. Rippon saw the next steps ahead.

2. Mr. Rippon said that the negotiations should be lifted on to the political level as soon as possible. He hoped that during the forthcoming French Chairmanship of the Council of Ministers the essentials of the negotiations could be settled as a result of Anglo/French co-operation and initiative. At the very least he hoped no-one would think or have reason to think that the negotiations constituted another duel between Britain and France. There must be an agreement between the candidates and the members as a whole. As for the conduct of the negotiations he wished to repeat that we were not putting forward demands but rather discussing problems and the possible solutions to them. If the British and French did sometimes find themselves in conflict, it was perhaps because the French were better negotiators than their colleagues. It was therefore all the more important that there should be a broad Anglo/French consensus Herr Brandt had said recently that Germany was the

driving force for the enlargement of the Communities. This was not a healthy idea: we hoped the French were equally forceful in that respect. M. Schumann interjected that Herr Brandt had been addressing the Bundestag. Mr. Rippon continued that, so far as he could judge, all were now agreed on the objective of enlargement. It had been argued that during the last negotiations we were not sufficiently single-minded and ready to draw the necessary conclusions. But whether this was true or not then, it was not true now, and we were ready to make the necessary sacrifices provided the right terms could be found. He had several times referred to the need for haste. Apart from his desire to see the essentials of a settlement during the French Chairmanship, there was also the political problem of how to present the negotiations to public opinion in Britain as in Europe. He did not want anyone ever again to have the occasion for saying that the negotiations were interminable. Public opinion simply would not understand how a matter of this historic importance for Europe could not be settled fairly quickly if the political will to succeed was present on both sides. No British political leader would like to face a Party conference next autumn with the same story which he had given to the Party Conferences this autumn; in other words that we wre looking for fair terms and that when these were found they could be recommended to Parliament and the country.

- 3. M. Schumann said he hoped very much that it would be possible to decide the essentials of the negotiations during his Chairmanship. He nevertheless had to be cautious and could make no promises. It would be difficult to fix too clear a timetable in advance. Mr. Rippon said we should still do our best and make early success our objective. There were only four major problems: New Zealand dairy products, sugar, transitional arrangements and Community finance.
 - 4. M. Schumann said that he did not know whether the answers on these four points would make a satisfactory package. The key problem was that of Community finance. The French approach was strictty practical: the French wanted all members to enjoy fair and competitive conditions on the same terms. There were provisions in the Treaty of Rome for all members to help each other in the event of unusual or special conditions of strain arising for any one of them. The French had used these provisions in the past and the Britishwould be entitled to do so once they were full members. Was the British Government fully aware of this? Mr. Rippon said that no-one wanted a bad apple in the barrel. It was reasonable for all concerned to make sure that there would not be one, or that conditions of entry did not make Britain one. Mr. Schumann repeated that there were sufficient safeguards in the Treaty of Rome and Britain could count on them if need should arise. Mr. Rippon said that it would be useful if the French could

emphasise this. We did not want to play the numbers game any more than the French. But we had to have solid assurances. In the case of New Zealand for example, we wanted a continuing arrangement to help the New Zealanders, subject of course to review.

- 5. Mr. Rippon went on that in M. Harmel's original statement of 30 June, he had said that the Community would give us some guidelines on how to cope with Commonwealth problems. Those who criticised our proposals for New Zealand or Commonwealth sugar should know that we had not yet received any such guidelines. We would in fact value them. He nevertheless wished to get away from the whole idea of the negotiations being a series of demands and counter-demands. We had to settle things between friends and allies. The British public was apprehensive about what would happen when we joined the Community, and these fears could only be allayed by discussing the major problems as we had discussed such minor ones as pig meat, eggs and liquid milk in a friendly and co-operative spirit. It was interesting that he faced questions in the House of Commons not on these questions where fears had generally been allayed but on others where fears remained lively.
- 6. Mr. Rippon continued that it would be mistaken to regard the problems over New Zealand dairy products and Commonwealth sugar as British problems. They were rather an aspect of the Community's relations with the outside world. M. Schumann said that this was an interesting thought. Perhaps

relations with New Zealand and the Commonwealth sugar producers should be regarded in the same category as those with the non-candidate countries of EFTA. Mr. Rippon said that the vital requirement was to see all these problems from a Community point of view. We would be very ready to do so as soon as we were members.

The assumption that the negotiations would succeed. He did not like to think what would happen if they failed. There would certainly be a period of very sour relations between Britain and the members of the Community but he thought at the end of it we would have to take things up again. All this was avoidable and with M. Schumann's help could be avoided. Mr. Schumann said that the negotiations represented a great chance for Britain. So far as Europe was concerned it represented a risk but it was a risk that the French were ready to take for political more than economic reasons. Mr. Rippon replied that it was a great chance for Europe. The British were ready to take the same reasons.

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Foreign and Commonwealth Office

London S.W.1 11 November, 1970

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The Belgian Ambassador in Paris, Rothschild, has recently told Palliser in the strictest confidence of a proposal made to Schumann by Harmel that the French, in their capacity as Chairman of the Six from January, should call a summit meeting of the Six early in the New Year. Rothschild said that this proposal had not been mentioned to anyone but the French, and that, in telling us of it, he was acting without instructions. He emphasised that for this reason the very greatest care should be taken to ensure that there was no leak from any British source. We have ensured that only a very limited number of people within the FCO are aware of this matter. I am sure you will exercise similar discretion, for all that there must be by now quite a few people in the capitals of the Six who have had wind of it. (We have an independent report that the French are thinking of a summit of the Six in June; and the summit of the Six in June; and the summit of the Six.)

Harmel, in a letter to Schumann which Rothschild showed Palliser, argued that two major events, the German-Soviet Treaty and a change in the American attitude to Europe made it necessary for the countries of Europe to concert together the best policy to filow, otherwise the Americans and Germans would resolve the problems bilaterally. There was therefore a need to strengthen by all possible means co-operation in Europe and the political trends that had emerged at the summit meeting at The Hague in December 1969. The summit meeting which Harmel proposed could verify what progress had been made in the following fields:

- (1) progress towards monetary and economic union.
 (This would help to accelerate progress towards European unity.)
- (ii) technical and nuclear policy (supplies of enriched uranium and post-Apollo space programme)

/(111)

P. J. S. Moon, Esq., 10 Downing Street.

SECRET AND PERSONAL

- (iii) the enlargement negotiations (the Six should take stock and confirm their determination not to see "the substance of the Community" modified)
 - (iv) political consultation (the meeting should seek to enhance the results of the first steps in consultation among Foreign Ministers; there would also be advantage in demonstrating cohesion on the subject of European Security at a time when we might be on the eve of a European Security Conference)
 - (v) U.S.-European relations in the defence field. (Bekjum hoped that Britain and France would tackle directly their problems of military co-operation, including co-operation in nuclear defence matters.)

Schumann's first reaction was positive, as was that of Jobert, Secretary-General at the Elysee. Schumann said that he would show the letter to President Pompidou. He has since told Rothschild that he is still considering the Belgin proposal, in an "increasingly constructive" mood.

Meanwhile there has been a leak in the French satirical weekly "Le Canard Enchaîné" of 21 October.

Although some of his premises are questionable Harmel's aim of getting the Germans more deeply involved in European consultation is one which is in our interests; for the same reason it is also in our longer term interests that the French should become similarly involved. Moreover anything which can help to give a push to the enlargement negotiations is clearly welcome. On the other hand in the shorter term there are potential snags - presentational and real - in a Summit meeting of the Six on the Belgian time scale. If there is to be another Summit meeting of this sort from which we are absent it is better that it should take place when our negotiations with the Six have reached a number of points of difficulty (asopposed to a general point of crisis) so that the heads of Government could have a clear idea of the crucial points at issue.

We should also want to be sure that the "determination not to see the substance of the Communities modified" does not make the Six's position more rigid in the enlargement negotiations. What we want is more flexibility.

Against this background, the Chancellor of the Duchy of Lancaster suggests that if Pompidou refers to the possibility of a summit of the Six next year, or if this should come up in the context of the timetable for our negotiations with the Community, the Prime Minister should make it clear that a new Summit of the Six which discussed major political issues without Britain would create presentational difficulties for the Government at home at a time when there will be public anxiety about the negotiations. However, a decision on a /summit

SECRET AND PERSONAL

summit of the Six is naturally a matter for the Community. If it should go ahead its timing and content would be of the greatest importance for the success of enlargement negotiations. We would hope therefore that it would not be held at a time when it would hold up decisions on outstanding issues in the enlargement negotiations. If a summit of the Six were arranged towards the middle of 1971 there would be an obvious danger that all major decisions on the Community side in the context of negotiations with us would be postponed until the summit of the Six took place. This could effectively destroy the prospect of breaking the back of the negotiations by the middle of next year and might lead to stagnation and failure after the summer holidays.

your eves

RECORD OF THE PRIME MINISTER'S RESTING WITH M. MONNET AT 1, 1970 AT 10 DOWN

Also present:

Mr. Robert Armstrong Mr. Douglas Hurd

Mr. Peter Moon

The Prime Minister told M. Monnet of the proposed new Conservative representation on the Action Committee. M. Monnet said that the Labour Party were also changing their representation. There had been some dispute within the party and also some question of whether they would continue to contribute financially to the Action Committee. It now seemed settled that they would be represented by Mr. Jenkins, Mr. Healey and Mr. Padley.

The Prime Minister referred to the meeting of the Action Committee to be held in January and expressed the hope that the meeting would be used for urging the need to resolve quickly the problems of enlarging the Communities. M. Monnet confirmed that this subject would be discussed.

M. Monnet want on to say that he thought it most important that the negotiations should be completed by June. The problems were not big if there was determination to reach a settlement. It was essential to keep up the pressure and he thought that Herr Brandt was the best man to do this. He believed that Bonn were determined to see negotiations brought to a successful conclusion.

M. Monnet went on to suggest that the Action Committee could be helpful to the British Government when the moment came for the Government to present entry into the Communities to the British Parliament and public. He asked that the Prime Minister should lethim know in due course what line

he could consider what could be done through the Committee The Prime Minister said that we would give thought to

Returning to the question of the Agenda for the January meeting of the Action Committee, M. Monnet said that the two main items would be a report on the state the negotations which would be written by M. Robert Ler and a proposal to form a group within the Committee who job would be to work out in the course of the next your what should be the future political organisation of Eur M. Monnet said that he had spoken to Herr Brandt about proposal and had asked him to nominate authoritative people to participate. Herr Brandt had spoken of Herr and Dr. Barzzel. He indicated that he would greatly well it if the Foreign and Commonwealth Secretary were able to serve on the group. The Prime Minister drew attention to the heavy pressures on the Foreign and Commonwealth Secretary but said that he would discuss the matter with him.

At the close of the meeting M. Monnet said that he had told the Chancellor of the Duchy of Lancaster that it would be very usefulin relation to our negotiations for into the European Communities to invite M. Deniau to Me understood that Mr. Rippon had agreed to do this.

Prime Minister took note of this.

Top copy filed

November 11, 1970

Distribution:

Private Secretary to the Foreign and Commonwealth Secretary.
Private Secretary to the Chancellor of Lancaster.
Sir Burke Trend.

Following page appears to be out of sequence in the original file.

- 28. Rather firmer conclusions emerge on two other important aspects of the UK's economic position if she joins the EEC:-
 - The indications are that the UK balance of payments will (i) deteriorate by a substantial margin. It is true that any estimates of balance of payments changes are subject to a wide margin of error but, on the other hand, we have deliberately chosen a relatively optimistic set of assumptions not only with respect to the effects of the CAP. but also with regard to trade in manufactures. The figure of -£520 million given in the table should therefore be regarded as a minimum estimate. Since the UK's external accounts must in the long run be kept in balance, it seems inescapable that if we are to draw advantage from entry we shall need to have an efficient means of adjustment to balance of payments deficit, and to be prepared to use it. In practice this must take the form of altering UK prices relative to world prices. in other words, using the exchange rate.
 - (ii) During the transition period there is likely to be need for strict curbs on the growth of consumption in the UK, public as well as private, so as to free resources to meet the pressures on the balance of payments and to permit the rise in investment that is likely to be called for.

Thus, whatever the net effect of MEC membership on the UK's national income, it is reasonably certain that during the early years of the UK's membership of the MEC some difficult and painful Government decisions will be called for.

4 pm. wed. y November

PRINE EDVISTER

Meeting with M. Monnet at 4 p.m. on Wednesday, November 11

You recently agreed Conservative Party
representation on Mr. Monnet's Action Committee;
namely the Foreign and Commonwealth Secretary to
stay on as Leader, Mr. Selwyn Lloyd also to continue
and Mr. Rippon to replace Mr. Maudling. The Foreign
and Commonwealth Office tell me that those
concerned have now been informed, and there is no
reason why you should not tell M. Monnet who does
not yet know.

There is to be a meeting of the Action Committee at the end of January and the Foreign and Commonwealth Office hope that M. Monnet will discuss with us his plans for that meeting in due course. You may wish to urge him to do this.

You may also wish to suggest to M. Monnet that the January meeting should be an occasion for concentrating on the need for resolving the problems of enlargement of the Communities and for calling on all concerned to give the negotiations the necessary political priority over other matters.

I am putting with this brief a note on the d'Avignon Report (Flag A). You may wish to look at paragraphs 11 to 16 (I have not for this purpose included the enclosures).

cluded the enclosures).

TOP SECRET

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Treasury Chambers, Great George Street, S.W. 1 01-930 1234

PRIME MINISTER

ECONOMIC IMPLICATIONS OF ENTRY INTO THE E.E.C.

I spoke to Robert Armstrong this morning about the attached papers. They consist of a memorandum summarising the results of the latest work which has been done in the Treasury on the effects of entry, and also a minute by Sir Frank Figgures commenting on the memorandum.

- 2. These papers were, of course, designed for internal use at this stage, and it may well be that the Foreign Secretary and the Chancellor of the Duchy would have substantial reservations about them. Indeed, I would wish to consider them more critically myself before expressing full agreement.
- 3. For the above reasons, I am sending them only to you, and I am doing so because I thought that you ought to glance

/at them



at them before our meeting at Chequers on Sunday.

They do at least give some idea of the order of magnitude of the problem raised by joining the E.E.C., and the likely consequences on confidence.

BB.

10th November 1970

GOPY NO. !.. /3

CC Mr Carroll Mr Cowdy Sir S Goldman Sir D MacDougall Mr Hopkin

Mr Ryrie

It will soon become necessary for the Chancellor of the Duchy to make some specific proposals about community finance if he is to keep the negotiations moving.

- These will have to have some show of reasonableness in Community terms if they are not to have a damaging effect on the negotiations, and indeed if they are not to be damaging to confidence generally.
- The attached paper sets out in some detail the implications of 3. what we all feel is the minimum sort of offer we could table. suggests that by 1978 we should have to deal with a prospective deficit of over £500 m. - ie we should have to transfer resources of Whether or not the dynamic effects on our economy of joining would have generated sufficient additional resources so that we should not be worse off in resource terms by 1978 will always be an open question. But that we shall have to make a transfer of this order should be taken as so probable a consequence that policies must take account of it.
- All such forecasts are hazardous. But into this forecast are fed all the reasonably optimistic assumptions we can make. It is more likely to be too low than too high. And of course we may not be able to get community agreement to so low a "key" as is here implied.
- A transfer of this order almost certainly requires a devaluation. If these matters were entirely within the control of Governments the devaluation would become appropriate by about 1975, ie halfway through the transition period, provided that the economy was in good shape in 1973, generating a sufficient surplus on current account to manage all the calls on us, including adequate repayment of debt. (Of course

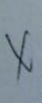
if we were running a very large current account surplus, far beyond what was needed for existing policies and obligations, things would be different.)

- world will be well aware of the size of the burden membership will imply. These calculations are not based on secret information.

 Those outside government will reach different conclusions; some lower than us, some higher. But there will be more than sufficient who will conclude that devaluation is inevitable. It is possible that once we appear to be moving towards entry there will be such movements of funds as to make it impracticable for us to maintain the present parity without borrowing on a scale even greater than that reached in December 1968.
- 7. Thus though devaluation might not really be appropriate until 1975, it might be pressed on us in 1972 or even in the summer of autumn of 1971. The weaker confidence is at that time, the more probable is such forced devaluation. A premature forced devaluation would not necessarily be an adequate substitute for the devaluation which might be required by say 1975 as the burden of the transfer of resources built up.
 - 8. These calculations are made as a minimum programme, an arrangemen whereby the UK'S share of the common budget would be about the same as the UK's probable share in the combined GNP. It could hardly be less; for us to suggest it should be less would be to imply one of two things both equally objectionable:
 - a) that the whole Community arrangements be changed
 - b) that the UK have a special status ie a non "communautaire" solution.

Either would suggest that we had such doubt in our strength as to





undermine all the Government's economic policies.

9. None of this is very new. As long ago as 1962, during the first bid for membership, the markets confidently assumed that entry meant devaluation. Nonetheless, the Chancellor will no doubt want to discuss this matter with the Prime Minister and perhaps a very few of his colleagues.

negotiations, and it is difficult to see what other tactical course is open to them, it appears to me that our major concern must be to avoid a premature devaluation. The main part of such a policy must be the policies which are necessary anyway. It will be vital to create the impression by next summer at the latest that the Government is master of the UK economy. By then it must at least give the impression that inflation has been brought under control. A Budget that creates maximum confidence in sterling will also be essential on any account, but not least in connection with the EEC negotiations.

11. Within the context of the negotiations themselves it seems to me

that the Government will have to take a robust and confident attitude. It must show itself confident that entry into the EEC will be on balance beneficial. Its negotiating tactics must be directed to securing something which can be represented politically as reasonable and equitable and abjuring any arguments in support which are based on what we can afford. Since we can in any sense not really afford anything, the whole argument based on the balance of payments is more likely to undermine our position in the markets than have any influence on the outcome of the negotiations. This may imply now a significant switch of tactics, accepting the Commission's analysis and the lines of solution which are contained in its report.

F E Figgures 6 November 1970

14

THE ECONOMIC IMPLICATIONS OF JOINING THE EEC

- determining the consequences of UK accession to the EEC for the British economy. Many of these consequences will take the form of changes in the UK's balance of payments, but the fundamental issue is what effect Common Market membership will have upon the UK's national income, for this will determine whether or not membership will make the UK better or worse off than she would be if she remained outside. The paper therefore looks at balance of payments changes in terms of their effect on income and not only as absolute quantities; the policy implications of this approach will be discussed at the end of the note.
 - 2. Two important assumptions made in the paper should be stated at the outset:-
 - (i) It is assumed that signature of the accession instrument to the EEC would take place in January 1972, and UK entry in January 1973. There would be a transition period of five years from 1973 to 1977. 1978 would be the first year of full membership obligations. It is assumed, however, that the UK's contribution to the Community budget would be limited for a further number of years, otherwise there would be a sharp increase after 1978.

- (ii) The estimates we have made of necessity compare the situation if the UK enters with the "no-entry" case, i.e., with the situation which will exist if the UK does not become a member. The "no-entry" position is arrived at by assuming that if the membership negotiations fail, the factors determining our trading position will in effect remain much as they are now. It is unlikely that this is a realistic assumption, though the course which events would actually follow is largely a matter of speculation. It is possible to argue that some of the losses which would be incurred because of EEC entry - notably the accelerated shrinkage of Commonwealth Preference Area markets - will have to be faced in any case, simply because the UK is negotiating with the EEC and countries like Australia and New Zealand are already actively looking for alternative trade partners; furthermore, a UK decision to "stay out" could lead to at least a partial break-up of EFTA, again with adverse effects on our trade and hence income. On the other hand, failure of the negotiations might, in due course, help to bring about another Kennedy Round. so that the UK might obtain some of the gains from freer trade without EEC membership.
- 3. The figures referred to in the paper all relate to 1978
 (the first year after the end of the transition period) but, as
 will be explained later, some attention must be paid both to the
 intervening period and to the years following. All estimates

are in terms of present (1970) prices.

- 4. The main argument is conducted with reference to the following four headings:-
 - (A) the effect of the Common Agricultural Policy (CAP)
 on our food import bill and on our contribution to the
 EEC's funds;
 - (B) the effect of the CAP on the cost of living and on the UK's competitive position;
- (C) the effect of joining on capital flows; and
 - (D) the effect on trade in industrial products and so on industrial productivity and investment.
- 5. This list probably covers the main ways in which our accession to the EEC would affect the UK economy, but it is not fully comprehensive. In particular, it does not try to assess the possible impact of "structural policy harmonization" (the removal within the EEC of non-tariff barriers in their widest sense) which is part of the objectives of the Community, nor of the possible acceptance by the EEC of the plans for monetary union as set out in the Werner Report (see accompanying paper).
 - A. Food Imports and Community Finance
 - 6. Food imports. One of the probable effects of the UK's adoption of the CAP is a marked diversion of food imports to (high-priced) Community sources, since under the CAP system

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a price preference over those from third countries. Even after allowance for a relative fall in domestic food consumption and a relative rise in UK agricultural production (both of which would reduce the volume of food imports below its "no entry" level) this is likely to lead to an increase in the value of food imports, tentatively put at £90 million by 1978.

- 7. The Community budget. In addition, the UK will have to contribute to the Community's budget; the scale of the British contributions and receipts will be the central issue in the negotiations. The size of the budget in the late 1970s cannot be predicted with any confidence. The best estimate that can be made in Whitehall of the possible level of Community expenditure in 1978 was taken from a projection made by the EEC Commission. We used this estimate in the paper we presented to the Six in July, which showed the Community's 1978 budget at 4,500 million units of account (= US \$). This projection has since been challenged by the Commission themselves, but it remains, in the view of Departments, the best working estimate that can be adopted.
 - 8. Under the arrangements adopted by the Six, each individual Member's share of the budget for 1970 is determined by a "key", or agreed percentage of total expenditure. With modifications, these "keys" will continue to operate for the Six up to the end of 1977. In the negotiations it will be necessary to agree upon an appropriate "key" for the United Kingdom contribution which in the UK's case would apply to 1978. The lowest key

which it is thought would be in any way negotiable is 15 per cent of Community expenditure. After allowing for the possible level of United Kingdom receipts from the Community budget, this "key" would result in a net payment by the UK to the Community budget in 1978 of about £175 million. This would be reached in stages over the transition period. (If, in or after 1978, the existing Community rules were in fact to be applied in full, the UK share would rise very sharply; given a constant Community budget, we believe that the figure could be of the order of £450 million. It is because of this that we have assumed that the UK contribution to the budget would be limited even after 1978 - see paragraph 2(i).)

- 9. According to the EEC Commission, the estimates of the main determinants of the Community's budget on which the figure of 4,500 units of account is based are expressed in 1978 prices.

 We have some reservations about this aspect of the estimates.

 More particularly, we feel that unless inflation is virtually stopped, the budget figures may well be exceeded. For this reason the figures have in effect been treated as being expressed in terms of present (1970) prices; they are therefore comparable to the other estimates referred to in this note. To the extent that our interpretation of the budget determinants is wrong, the CAP cost may be overstated.
 - 10. Both the CAP contribution and the rise in import prices (which together come to £265 million) imply a transfer of resources from the UK to the rest of the EEC and ipso facto a reduction in the resources available to the UK. However, in

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addition we must allow for the fact that the UK has to earn a surplus on her current balance of payments sufficiently large to accommodate the transfer. The achievement of this surplus implies that UK prices must be somewhat lower relative to prices in the rest of the world than would otherwise be the case - the terms of trade would be worse - which again adversely affects the UK's real income. In the past we have generally assumed that this terms of trade loss amounts to about one quarter of the balance of payments effect, so that the total reduction in real income on account of the CAP consequences so far discussed comes to £330 million (£265 million for the amount to be transferred, and £65 million for the resource cost of the deterioration in the terms of trade). It is important to add that if attempts were made to achieve the necessary improvement in the balance of payments by means of deflationary measures rather than by a relative lowering of UK prices, the real income cost of adopting the CAP would be several times larger than the figure stated and thus almost certainly unacceptable.

B. Food Prices and Industrial Costs

wholesale prices paid for agricultural output by about one quarter, ce which in turn would imply a rise in the overall retail price index of between 3 and 4 per cent. Subsequent effects on wages, industrial costs and (ultimately) prices for non-agricultural output, would lead to a deterioration in our competitive position and a worsening of the current balance. It is extremely difficult to arrive at any firm estimate of the quantitative

effect, but it is possible that the adverse movement in the current balance could amount to something of the order of £50-100 million. If a payments deficit emerges, we must look to an adjustment of relative prices to restore the position. However, in this instance the process as a whole is neutral with respect to income. The rise in UK prices which caused the deterioration of the current balance implied that the UK's terms of trade improved; the worsening of the terms of trade associated with the price adjustment thus in principle simply means a reversal of the process - the terms of trade return to what they would have been if the original rise in UK costs had not taken place. It should be added that, in so far as the present deficiency payments system for agriculture will have been replaced by import levies by the time the UK joined the EEC, this particular consequence of entry would diminish in importance.

C. The Effect of Membership on Capital Movements

12. UK entry to the EEC would also mean that some of the restrictions at present applied to capital movements between the UK and the EEC would have to be relaxed. The net effect of this on the balance between capital outflows and inflows is likely to be adverse. Moreover, the size of the additional outflowould probably change a great deal from one year to the next, which in turn would reduce the authorities' control over the

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balance of payments. It has been suggested that in a typical year in the later 1970s the net deterioration on the capital account may be put at about £100 million. The attainment of an offsetting improvement in the current balance implies a resource cost (because the UK's terms of trade will be slightly worse); for an additional capital outflow of £100 million the income loss would be about £25 million. It should be added that the £100 million estimate excludes the effect of any additional liberalization of capital movements as envisaged in the recommendations of the Werner Report. It also assumes that HMG is successful in providing against any "leak" of outward portfolio investment via the rest of the Community to third countries.

- 13. In principle some account should be taken of the earnings from the additions to the capital stock held abroad which would result from larger overseas investment. However, if restrictions on capital movements are relaxed only gradually during the transition period (which is our negotiating aim in Brussels) the quantitative importance of this factor in 1978 will be small.
- 14. The effects of UK accession to the EEC which have been considered so far may thus be put at a real income loss by 1978 of about £350 million a year. This is a minimum figure, because of the low budget contribution key (15 per cent) which has been assumed. The next section of the paper turns to the industrial sector and examines how far the various consequences of EEC entry on that part of the UK economy can be expected to result in offsetting benefits.

D. Trade in Industrial Products

- 15. Entry to the EEC will affect the flows of international trade in industrial products in several different ways and, our calculations suggest, by very substantial amounts. effects will be of two kinds - (a) the creation of trade, which arises when as a consequence of the removal of trade barriers country A begins to supply country B with goods which country B previously made for itself, and (b) the diversion of trade, which arises when as a consequence of tariff reduction country A replaces country C (outside the scope of the reduction) as the most attractive source for B of some particular class of imported goods. Trade between the UK and the Six will be increased, after entry, by both creation and diversion. Trade between the UK and EFTA will be reduced by diversion towards the EEC (assuming that other EFTA countries will in one way or another follow the UK into the EEC). Trade between the UK and countries in the Commonwealth Preference Area will similarly be reduced, but to a somewhat greater degree because here new barriers to trade will be created where at present trade is encouraged by preferences. Uk imports from the rest of the world will also be reduced by trade diversion, though the effect should not be as sharp as for the Commonwealth Preference Area.
- 16. The creation of trade between the UK and the Six may be expected to be unequivocally beneficial to UK real income (and indeed also to that of the Six). There will be a redistribution of factors of production from import-competing lines of

manufacture for export where it is high. This is the classical free trade argument for international specialization. The extent of the gain to be made in this way will probably be considerably greater than might be expected on the basis merely of the average level of the tariffs which are being eliminated; the way will be opened to the realization of economies of scale which previously none of the countries was exploiting.

- be much less important than those of trade creation. Where

 UK imports are diverted from a relatively cheap overseas source
 in the Commonwealth Preference Area or in the rest of the world
 to a relatively dear one in the EEC, we should suffer a small
 income loss. On the other hand there will also be sources of
 gain for instance, where the effect is to abolish, in favour
 of a cheaper EEC supplier, a comparative advantage at present
 enjoyed by a higher cost EFTA or Commonwealth supplier.
 - of the probable effect of entry on UK trade in industrial products, using as a guideline the experience so far accumulated of the effects of the EEC, and of EFTA. on trade flows. There are many difficulties in this work and the range of possible error is certainly considerable. Nevertheless we have a certain amount of confidence in the broad magnitudes of the estimates. It is expected that by the late 1970s the

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entry would be of the order of 40-50 per cent of the "no-entry" level on both sides, and would be predominantly trade creation.

On the other hand, there would be relative reductions in trade with EFTA, the Commonwealth Preference Area, and the rest of the world, resulting from trade diversion.

- is that the overall rise in British imports of manufactures will be larger than the rise in exports; our very provision figures suggest a deterioration in the trade balance on manufactures by something of the order of £80 million, even if we make relatively optimistic assumptions on several of the variables on which the calculation depends. A number of factors combine in producing this outcome, but the two principle considerations which prompt us to expect some deterioration in the balance of trade on manufactures are the following:
 - the EEC's so that the size of the reduction in trade barriers
 would be bigger on the import side than it would be on the exposite; (b) the loss of UK exports in our trade with the
 Commonwealth is likely to be larger than any fall in imports
 of manufactures from the Commonwealth resulting from the
 imposition of the Common External Tariff on Commonwealth trade

(a) the British tariff on manufactures is somewhat higher than

20. In relation to the increase in the total flow of trade in manufactures a deterioration in the trade balance by £80 mills would be quite small. As a result only a relatively insignificant part of the income gain obtained through the processes of specialization and realization of economies of

scale would be lost because of the resource costs of rectifying the balance of payments deficit. The <u>net</u> addition to the national income resulting from free trade in manufactures is very provisionally estimated at £100-150 million.

- 21. It is important to stress that the estimates of trade flows from which we have derived the forecast of a deterioration in the balance of trade on manufactures and calculated the gains from increased specialization, etc., are based on the average experience of the EEC countries to date (some account has also been taken of developments in EFTA). It is clearly possible that the UK's experience as a member of the EEC will diverge from the average of past trends. For instance, the response of British firms to the new conditions may be more powerful than was the case with German, French and Italian firms, the transfer of resources to expanding industries more marked, and so on. On the other hand, the UK's experience may equally well be less favourable.
 - 22. Investment and productivity. Besides the direct effects on the trade flows just discussed, there are other, indirect ways in which British entry to the Community may affect the industrial sector. First, it is likely that the opening up of new export opportunities will lead to an increase in industrial investment: and though there may be some decline in investment by industries affected by increased imports this is not likely to offset more than a part of that increase. The consequential rise in the proportion of national income invested (which would necessitate a relative reduction in the quantity of resources devoted to private and public consumption) would tend to raise total GDP. The size of this benefit is

very hard to determine; very provisionally we have put it at between £50 million and £100 million by 1978.

- 23. Secondly, and possibly much more important, the increase in the strength of competition is likely to have an effect on efficiency and productivity which goes beyond what is manifested in the form of increased flows of international trade. The fact that UK markets will be opened to EEC producers is likely to stimulate British firms and industries to make more use of the potential for improvements in techniques and in production methods than they would have had the incentive to do as long as they had a relatively protected home market to themselves. The consequent saving of resources and relative lowering of costs would be additional to the effects resulting from the actual rise in the volume of trade. We are not able to put forward any kind of measure of the effect of the process described upon the UK's real income. On the other hand, we do not think that by 1978 there is likely to be any sizeable effect on the balance of trade in manufactures.
 - as follows. Our tentative estimates of the income gains from free UK/EEC trade in industrial goods and from higher investment come to £150 million £250 million, which is, of course, considerably smaller than the sum of the income losses resulting from the UK's contributions to the Community budget (which were put at the lowest negotiable figure), from the other effects of the CAP and from free capital transfers. The difference between the two sums could be bridged by taking a relatively optimistic view of either (or both) of the two major areas of

uncertainty which we have not been able to resolve :-

- (a) the extent to which the UK's trade experience as a member of the EEC will turn out to be more favourable than average past EEC experience;
- (b) the extent to which the competition effect turns out to be sizeable.

With regard to the balance of payments, on the other hand, we have not found any offset to the adverse movement arising from the CAP, food prices, and a rise in the capital outflow; on the contrary, the balance of trade in manufactures is also likely to deteriorate somewhat.

25. Apart from examining the trade performances of the EEC countries (see paragraph 18 above) we have also analysed trends in their national incomes, manufacturing production, investment, productivity, etc., to establish whether the creation of the Community can be shown to have had a measurable impact on the variables concerned. No hard and fast conclusions have so far been reached; further work is continuing, but the statistical problems are very serious.

The Time Path

26. Most of the argument so far has been concerned with the situation in 1978. However, the economic effects both before and after the end of the transition period are clearly of considerable importance. We have therefore carried out some experimental calculations of the probable time-path of the economy on the basis of hypothetical assumptions (though not.

we hope, totally unreasonable ones) about the way in which the various factors described earlier will change over time.

(No account has been taken of the competition effect because of our inability to put any numbers on this.) The principal results are as follows:-

- (i) Factors making for a reduction in real income are
 likely to build up more quickly than those tending to
 raise income; on the other hand income costs should
 reach a ceiling (when the UK's contributions to
 Community finance have risen to their agreed long-term
 level) whilst the benefits may, on the experience of
 the EEC and EFTA to date, be expected to continue
 increasing for some time. In other words, the further
 we look into the future the more likely is it that
 benefits will exceed costs.
- (ii) During the transition period and possibly for some time after there is likely to be need for substantial diversion of resources into the balance of payments and towards investment in manufacturing, so that the growth in resources available for consumption (private or public) would be sharply curtailed.
- (iii) As a corollary of (i) and (ii) it would seem prudent
 to try to shift the burdens of membership as far into
 the future as possible, in order to avoid creating an
 intolerable transitional problem. Acceptance of
 relatively larger costs in the more distant future matters
 relatively little if the benefits are sizeable by then.

Summary and Conclusions

27. The various quantitative estimates put forward in the paper (all relating to 1978) are summarized in the following table:-

		£ million
	Balance of payments effects	Real income effects
	(1)	(2)
CAP - import prices	- 90	-110
CAP - FEOGA contribution (minimum)	-175	-220
CAP - cost of living effects	- 75*	-
Capital movements	-100	- 25
Manufactures and other non-food trade	- 80	+125
Stimulus to investment	-	+ 75
Total	-520	Say, -150

May be less, depending on UK agricultural policy in the meantime.

Column (1) adds up to a large adverse balance of payments effect; this aspect is taken up in the next paragraph below. Column (2) shows that quantifiable income gains fall short of income losses. The answer to the question whether the UK can "afford" the relatively modest contribution to the Community's finances which has been assumed, let alone any higher figure which our negotiators may be obliged to accept, thus depends in large part on the view taken on two important points - the applicability of the REC's past experience to the UK, and the size of the competition effect.

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your letter of 2 November.



Foreign and Commonwealth Office

London S.W.1

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Den Peter,

I enclose the full brief on the Davignon Report for which you asked in

In your letter of 3 November you said that the Prime Minister would not need any further brief for his meeting with M. Monnet on 11 November. You may however like to see the enclosed copy of the brief prepared for Mr. Rippon's use with M. Monnet in Paris on 9 November. It covers some points which M. Monnet might raise with the

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P. J. S. Moon, Esq., 10 Downing Street.

Prime Minister.

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Political Unification -

The Davignon Report

The Prime Minister has asked for a full brief on the report setting out the background, the significance of this latest development, and its consequences for us. A copy of the report and of H.M.G.'s comments are attached.

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The Background

- 2. After the failure of the attempts to establish a European Defence Community and a European Political Community in the Fifties, the two Rome Treaties, like the Treaty of Paris, are ostensibly economic treaties. The only sign of their political purpose is in the preamble of the EEC Treaty, and particularly in the first words 'Determined to establish the foundation of an ever closer union of the European peoples'.
- 3. The Bonn Declaration (copy attached) issued by the Six after their summit meeting in July 1961 was the first attempt to match the process of economic integration with parallel action in areas not covered by the Community Treaties, particularly the co-ordination of foreign policy towards third countries, known in the jargon as 'political union' or 'political
- 4. The Fouchet Committee, set up after the Bonn summit, tried for over a year to produce a draft 'treaty of political union' (the title was more grandiloquent than the substance merited) but failed to reach agreement between the Five and the French, on the questions which have continued to bedevil action in this field, to wit a) what kind of institutions should there be? b) how would they fit in with the existing Community

unification' to distinguish it from economic measures.

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institutions? c) should defence be included and if so how would this fit in with the Atlantic Alliance? d) should HMG be allowed to play a full part in working out the framework for the future? Meanwhile HMG had applied for membership of the European Economic Communities. Mr. Heath, in his opening statement in Paris on 10 October, 1961, spoke approvingly of the Bonn Declaration, and on 10 April, 1962, in WEU (a copy of statement Flag D attached) reiterated our great interest in the political development of Europe and asked that we should take part. 6. Following the failure of the Fouchet Committee to agree in 1962, and the first French veto on British membership of the Communities in 1963, there was no more multilateral activity in this field for some years. But the Franco-German Treaty (signed in January 1963) embodied much of the substance of the Fouchet Committee drafts, with provision for regular meetings between the two heads of State and Government, between Foreign Ministers, Defence Ministers, Chiefs of Staff, and Ministers of Education, as well as regular meetings at official level. It also provided for a big programme of youth exchanges and language teaching (French in Germany, German in France). Over the years, Franco-German co-operation under the Treaty has waxed and waned, but the meetings go on and the framework for very close consultation is there. Only the element of compulsion obligatory consultation before important decisions - and of progressive integration - the essence of the Community method laying down a programme, with a timetable, for increasingly far-reaching measures - are absent.



- as a demonstration that Britain had now learnt the lesson of the abortive Free Trade Area negotiations and fully accepted and shared the political aspiration of Community Europe. And in 1967 the Labour Government emphasised that our motives were political as well as economic see especially the key passage in Mr. George Brown's statement in WEU on 4 July 1967 "We believe that Europe can emerge as a Community expressing its own point of view and exercising influence in world affairs, not only in the commercial and economic, but also in the political and defence sphere. We shall play our full part in this process".
- 8. At the meeting of Western European Union in October 1968, nine months after the second French veto, the Belgian Foreign Minister suggested a procedure for intensified consultations on foreign policy issues. The Italian Foreign Minister put forward a paper (to which we and others had contributed) at the next Ministerial meeting in Luxembourg in February 1969.

 WEU Ministers agreed (with the exception of the French, who reserved their position) that before taking decisions on important foreign policy questions (a list of which was to be agreed later) they would consult together in order to harmonise their policies to the greatest possible extent. The French objected to a UK proposal made at and pursued immediately after the Luxembourg meeting, to discuss the Middle East crisis in the Council at Permanent Representative level; the meeting nevertheless took place in London (the then Secretary of State

/attended



of the Council. The French refused to attend the meeting and forthwith withdrew from participation in the activities of WEU. The German position later weakened to the extent that they did not (as did the other five) signify their agreement to consult on the list of issues when it was put forward in the Permanent Council by the Benelux members in May 1969. Regular fortnightly consultations at Permanent Representative level on current issues of foreign policy nevertheless took place subsequently, with some limited success in harmonisation.

9. After President de Gaulle's departure, France returned (in June 1970) to take part in WEU under conditions which allow her to prevent any further moves towards increased consultation which do not suit her. Attention shifted to preparation for the enlargement negotiations.

is (or was) quite important for two reasons. First, while the French veto prevailed, it gave us a chance to demonstrate our fitness for full membership in Europe and our solidarity with the other members of the Community, and so keep our application alive during two and a half lean years. (It would have been more difficult to resist the spurious attractions of a 'trading arrangement' if there had been no alternative European activity). Second, it was the first attempt at regular, frequent and at least in theory compulsory consultations on Foreign Policy issues before decisions were taken by a group of European Governments. It was not intended as a move to isolate

/the French;

the French; as might be expected the Germans and others bent over backwards to bring them back in. But it demonstrated that HMG was as much part of political Europe as any other Government.

The Davignon Report

11. Meanwhile, for the first time since 1962, the Six as such decided to make another attempt in the political field. On Chancellor Brandt's initiative paragraph 15, commissioning the report, was included in the December 1969 Hague Summit Communique. HMG were assured the following day by a special emissary from Herr Brandt that we should be offered full and equal participation from the outset, as part of political Europe if not yet a member of the Community. But explicit German assurances faded gradually into increasingly absentminded apologies, and we have had to settle - for the period of the enlargement negotiations - for less than full participation.

Significance of the Davignon Report

12. The report, commissioned by the six Heads of State or Government at the summit bears the name of the Political Director of the Belgian Foreign Office who took the chair of the official committee that prepared the draft. Part I of the report sets out the reasons for attempting progress to political union in high-sounding terms. Part II proposes sixmontly meetings of Foreign Ministers, and quarterly meetings of Political Directors to co-ordinate foreign policies. frequent meetings could take place if there were crises. The chair is to be taken by the Government in the chair of the Community Council of Ministers. Governments are to consult on

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all important questions of foreign policy. Part III of the report calls for a further report in two years. Part IV provides for the association of the applicant countries with the work envisaged in Parts II and III above, by holding meetings of the Ten Foreign Ministers at an interval after the meetings of the Six Foreign Ministers.

13. The Six's agreement on the Report brings a new area of activity into the scope of the Community system - an area which not many months previously the Five argued came rather within the scope of the Revised Brussels Treaty. Herr Scheel said of the Report that most people did not realise what a significant step had been taken. But its content is meagre. It does not really answer any of the questions which stymied the Fouchet Committee. There are no new institutions at all. The Commission is given only a foot in the door - it 'will be invited to make known its views!, 'should the work of the Ministers affect the activities of the European Communities!. Defence is not mentioned, but the Italian Government intimated that they accepted the omission only because they assume that any consideration of foreign policy issues must naturally take account of defence aspects. And HMG and the other candidates are half in and half out. The only trace of 'engrenage' of the basic Community method of progressive integration with deadlines, is the provision for a second report, to suggest further measures, within two years. It is true that the Community method was designed for economic harmonisation, and

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could in theory be more easily extended, for example, to the field of arms procurement than to foreign policy co-ordination which is rather intangible. Furthermore, we have found that even fortnightly meetings of the WEU Permanent Council are barely frequent enough to keep up with a developing foreign policy situation, let alone a real crisis. Quarterly meetings of Political Directors, as provided for under the Report, could scarcely affect the day to day conduct of the Six Governments' foreign policy, even if that were intended. 14. At the same time, it would be wrong to dismiss the proposals of the Davignon Report (or consultation in WEU) as without any practical value. The habit of working together counts for something. And as a former Foreign Secretary observed, if there had been a co-ordinated foreign policy over the Nigerian war, we should have been spared much anguish and bloodshed.

Consequences for HMG

15. The French Government used to complain that HMG were seeking to use WEU as a 'court of appeal' for our application for membership of the European Community. Taken literally, this complaint makes no sense. Figuratively, it presumably meant the French wanted to prevent us from having a political horse in the arena which might distract attention of the judges - that is the Community and European opinion generally - from the economic issues at the negotiating table. The way things have turned out in WEU and the arrangements proposed for consultation

/rather



rather than participation of the candidates in Davignon work until we join the Community, have served France's purpose here. 16. In the longer term, however, the inclusion of foreign policy co-ordination in the Community's activities is in line with the declared policy of successive British Governments, and in Europe's and HMG's interests. There is no question of quick moves to federal institutions. The Six's declaration of political objectives may help strengthen the hand of the 'Europeans' in the US Administration. As Signor Malfatti has pointed out in the European Parliament (albeit as part of some rather special pleading for a bigger role for the Commission) there is no rigid line between the Community's present activities and foreign policy. For example, if the Community as such operates association or trading agreements with every country round the Mediterranean, it makes sense at least to avoid wildly divergent national policies towards individual Mediterranean countries, or towards the area as a whole.

emergence of a Community foreign policy will be a logical development as common interests of the member Governments vis a vis third countries are identified. An entity as economically powerful as the enlarged Community will scarcely be able to avoid playing an active part in world affairs. As a member of an enlarged Community, the UK, because of our experience and extensive connection and interests overseas, will have a prominent part to play in formulating common policies. It seems likely that in these circumstances we should

/be able

which furthers specific British, as well as European interests.

18. In the meantime, for the duration of the negotiations,
we shall need to prevent the proliferation of different
occasions for foreign policy consultations - WEU Ministerial
meetings of Seven, NATO Ministerial meetings, meetings of the
Six followed at several weeks' interval by meetings of the Ten,
from causing confusion and from discrediting the process of
co-ordinating foreign policy.

SECURITY CLASSIFICATION From paranton. Mr. Tickell To:-Top Secret. Secret. Telephone No. & Ext. Confidential, Restricted. Unclassified. PRIVACY MARKING In Confidence MEETING BETWEEN THE CHANCELLOR OF THE DUCHY LANCASTER AND THE SECRETARY GENERAL OF THE PRESIDENCY OF THE FRENCH REP British Embassy Paris, 9 November 1970 1700 h BE WRITTEN IN THIS MARGIN M. Jobert, the Secretary General at the Elysée, called on the Chancellor of the Duchy at the British Embassy on 9 November. The Ambassador and I were present. M. Jobert spoke French and Mr. Rippon English. Mr. Rippon went through the main points he had made earlier to the Minister of Foreign Affairs. He said that the NOTHING TO forthcoming French Chairmanship of the Council of Ministers was a great chance for France and Britain as well as for Europe. He hoped very much that the back of the negotiations would be broken before the French Chairmanship ended. Covernment saw the negotiations as an affair between friends united in working towards a common objective rather than a piece of litigation in which each side sought to gain maximum advantage. There should not be too much bargaining over details. sooner the issue was decided the better. Uncertainty was damaging for all concerned. H.M.G. accepted the Treaty of Rome and what had from it, including the common

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ponding Financial Regulation. The vital problem for Britain, and of course British public opinion, was how to make sure that the impact of membership was not too severe and that we did not bear an unfair proportion of the burden of Community finance. Given goodwill and understanding, the three other main problems—New Zealand Lairy products, sugar from developing Commonwealth countries and transitional measures—could be settled without excessive difficulty.

3. M. Jobert said that the negotiations were taking place in the best possible political circumstances. We all hope for success; and the British and French had a particular interest in achieving it within the next six months. For their part the French would certainly not drag their feet. He agreed that neither side should get bogged down in details, but thought it hard to deprive the negotiators of their fun. Anglo/French relations were now much better across the whole board and he hoped this would continue.

4. Mr. Rippon said that the negotiations were of course our primary
preoccupation, but he much welcomed
Anglo/French & co-operation in other
fields. We were working effectively
together over the Middle East.

Concords

Concorde was going well. It was . natural that the new British Government had a look at it in the context of its review of public expenditure, but the French should not be alarmed. Both Governments now awaited the results of the tests next year. On the dir bus and related questions, he hoped it would be possible to secure the future of Rolls Royce in a European dero Engine Industry. As for European space activities, H.M.G. had been criticised for not endorsing some very vague proposals which required careful study and evaluation. Such problems would have a quite different aspect so far as H.M.G. was concerned if Britain was inside rather than outside the Community.

- were naturally ready to participate in discussions on sterling. People should not think we were reluctant or had something to hide. Mr. Rippon added that such discussions would have to be extremely discreet. Anything like the negotiations proper, which seemed to unroll in the market place, was out of the question. M. Jobert warmly agreed.
 - S. M. Jobert listened more than he spoke. I think he understood what was said to him and certainly registered the main points. For his own part no radiated amiability and goodwill.

RECORD OF THE PRILE MINISTER'S MEETING WITH DR.A BAUNSGAARD, FRIME MINISTER OF DEMMARK, AT 12.30 p.m. ON THURSDAY, OCTOBER 22, 1970, AT THE WALDORF TOWERS, NEW YORK.

ALSO PRESENT:

Mr. Paul Henning Fischer (P.M.'s Permanent Under-Secretary) Sir Denis Greenhill Mr. R. T. Armstrong

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NOTE FOR THE RECORD

Dr. Baunsgaard, the Danish Prime Minister, accompanied by his Permanent Under-Secretary, called upon the Prime Minister, who was accompanied by Sir Denis Greenhill and Mr. R. T. Armstrong, at the Waldorf Towers, New York, on Thursday, October 22, 1970, at 12.35 p.m.

Dr. Baunsgaard said that Danish entry into the E.E.C. would be conditional upon United Kingdom accession. He was well content with the arrangements which had been made for discussion and consultation between Britain and Depmark during the negotiations. The Danish Government's main concern lay in the problems of the transitional period. The Danish Government had proposed officially that there should be no transitional period for Denmark. Unofficially they accepted that this was unrealistic, and they would be prepared to settle for a transitional period of three years. They took the view that the six years proposed by the United Kingdom was too long. It was also extremely important to Denmark that the transitional period should be the same for industrial as for agricultural commodities: entry into the Community would expose Danish industry to stiffer competition from the E.E.C. countries, and it was important to be able to show that this adverse effect on Danish industry was counter-balanced by the advantages to Danish agriculture of entering the Common Market.

The Prime Minister said that the main reason for proposing a transitional period of six years for the United Kingdom was the need to provide time for the major change in the system of agricultural support which would be required. A start was already being made on this, but the process could not be completed quickly. From the industrial point of view, the United Kingdom would have been prepared to complete the

different transitional periods for industry and agriculture need be completely ruled out. He saw the intellectual argument for keeping the periods the same for industry and for agriculture but doubted whether over periods of the sort of length indicated the inequities and anomalies that would arise would be very serious or lasting.

Dr. Baunsgaard said that another difference between
Britain and Denmark was over the rate of progress during
the transitional period. The Danes would propose that their
agricultural prices should be raised in three stages, of 40
per cent, 30 per cent and 30 per cent each. That did not
appear to correspond with the British concept of a small first
step, with larger steps later on. The British were also
proposing that there should be no change in the initial year.

The Prime Minister said that represented no more than a realistic approach in the light of what would have to be done in the first year. It would not be possible to embark on the changes necessary for facilitating entry into the Market until the processes of ratification by all the countries concerned, which might take up to a year, were completed, since until then British entry into the Market could not be taken as assured. Thereafter, there would be a period of getting on for a year while the necessary legislative provisions were introduced and passed through Parliament.

It was for these reasons that the British were suggesting that there should be no first step until after a year.

Dr. Baunsgaard said that a preparatory year of this kind would not present difficulties for Denmark; but the problems of the

length of the transitional period and the progressions within it remained difficult.

Dr. Baunsgaard said that some Danish horticultural

interests would benefit from entry into the E.E.C., though some of their less competitive growers would face a difficult time.

Germany in 1955 had expired. He was not clear that there would be a much larger market for Danish meat in Germany, though they might get better prices for their meat.

As far as the Norwegians were concerned, provided that a solution could be found for their special problems, notably on agriculture and fishing, <u>Dr. Baunsgaard</u> believed that the necessary majority in a referendum would be forthcoming.

The Swedish Government appeared to be taking a similar line on the implications for EFTA to that which they had taken in 1967, of waiting until negotiations for accession of new members into the E.E.C. were complete before tackling the problems for the EFTA countries which were not entering. There was a danger that, if the EFTA countries postponed thinking about the problems in this way, they would be faced with a situation in which they were unable to exert any significant influence upon the outcome as far as they were concerned. Dr. Baunsgaardsaid that he had told Mr. Palme that Sweden should be taking an initiative with other EFTA countries in this matter. The Prime Minister and Dr. Baunsgaard agreed that Britain and Denmark should use the opportunity of the next EFTA Neeting to try to start seriousconsideration of these problems.

Dr. Baunsmand asked whether Britain was seeking a longer transitional period for the financial arrangements.

The Prime Minister said that Britain had not suggested any particular length of transitional period for financial

matters. The basic question was what the proportionate shares should be at the end of theperiod, and this question ought to be faced at an early stage.

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October 22, 1970

Distribution:

P/S to the Foreign and Commonwealth Secretary

P/S to the Chancellor of the Exchequer
P/S to the Chancellor of the Duchy of Lancaster
P/S to the Minister of Agriculture.
P/S to the Secretary of State for Trade and Industry

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Sir Burke Trend Sir William Nield Summary of the Report of the
Werner Group

fle. Mr. :5/11

I. Principles.

- 1. The achievement of an economic and monetary union culminating in a stable Community is both necessary and possible within a period of 10 years, to the extent that political will to that end is not relaxed.
- 2. Procedure towards economic and monetary union is of fundamental political importance and includes a reform of institutions; economic and monetary union is the leaven of political union, without which the latter will not see the light of day.
- 3. A double parallelism is to be seen between on the one hand the renunciation of national autonomies and the transfer of authority to the Community, and on the other hand between economic union and monetary union which must proceed in parallel without either one or the other being considered as having absolute priority.
- 4. The calendar of monetary union cannot yet be fixed in an absolutely definitive manner and must include a certain flexibility. That is why really concrete propositions must be concerned essentially with the first stage of the process, whilst for the following stages it is necessary to be satisfied with indications of the essential steps to be taken towards the final objectives, the outline of which can already be seen fairly clearly.

II. First Stage - January 1, 1971 to end 1973

- The procedures of consultation already agreed on shall be reinforced and their prior and obligatory character guaranteed.
- The action to be taken is for the Council, the Commission, and the Council of Governors of Central Banks.

The Council shall meet three times a year to draw out the main lines of economic policy and to determine in quantitative terms the directions of budgetary policy. After its autumn session, the Council shall approve an annual economic report for transmission to the Parliament of the Communities and to their Economic and Social Committee.

There shall be a Co-ordinating Committee to supervise the development of the plan in its appropriate stages and to prepare for the meetings of the Council by co-ordinating the work of the Technical Committees.

- There shall be consultations between the social organs in the most appropriate form.
- National budgetary policies shall be defined in terms of Community objectives, and there shall be synchronisation of the relevant procedures.
- Co-ordination of monetary and credit policies and of fiscal harmonisation, in particular for the value-added tax, excise taxes, and ther taxes affecting the conditions of competition.
- The Committee of Governors of Central Banks will play an increasingly important role and shall present twice a year recommendations to the Central Banks, to the

Governors, and to the Commission.

- On the monetary plan, the common position of the Community vis-a-vis third countries and the IMF must be closely defined; there should be no increase in flexibility in the regime of inter-Community parities, even if the IMF were to decide on an enlargement of the margins of fluctuation in the world as a whole; there shall be a strengthening of obligatory prior consultations in the event of there being any possible change of parities.
 - From the beginning of the first stage, the Community shall adopt a specific parity policy which will give to the Community a monetary personality; this regime will be reinforced in successive stages as a result of the parallel harmonisation of economic policies; from the start there shall be a de facto reduction in the parity margins between Community currencies before the formal proclamation of such reductions. This operation will be pursued by successive alternations of de facto and de jure narrowing of margins, achieved through a concerted action on the dollar, completed by interventions in Community currencies, first at the limits and then moving towards the inner part of the margins.
 - A "Community Agent" (the embryo of that which will later become the Community Reserve Fund) will have the responsibility of recording members' balances and of informing Central Banks daily, and of suggesting balancing transfers or compensations (the non-communautaire services of the Bank of International Settlements will be dispensed with.)

- The Working Group shall be set up to study the modifications of the Treaty of Rome necessary for the achievement of economic and monetary union. It shall also study the creation of a Community Reserve Fund with the duty of market intervention during the second stage and of outlining the Community system for Central Banks (Federal or other) to be introduced during the final stage.
- An inter-Governmental Conference of members shall be convoked to agree modifications in the Treaty of Rome in accordance with Article 236 of the Treaty.
- There shall be a special meeting of the Council to order the timetable of the first stage and to establish the programme for the second stage (the question whether the passage to the second stage shall be made under obligatory terms of "automaticity" are still the subject of discussion. The French view is that of a strong desire for this passage to be automatic, in other words that the "juridical exigencies of the Dutch would not be too much formalised").

III. Second Stage

- Starting January 1, 1974.
- Progress to be continued of all the above fronts; global economic guide-lines to be fixed; macro-economic policies to be co-ordinated by monetary and fiscal means; a common economic structural policy to be adopted: money markets to be integrated: exchange rate fluctuations to be eliminated: a Stabilisation and Reserve Fund to be set up developing into a sort of

"Federal Reserve System" (last three words in English).

This Fund will be the successor of the "Community Agent" established to intervene in the way described during the first stage, and will have the responsibility of absorbing the short-term monetary support mechanisms as well as supervising the system of harmonisation of medium-term policy: it should administer a growing proportion of the reserves of the Central Banks.

At the end of the period the national balances of payment will have no more significance in relations between member States; only the global balance of payments of the Community as a whole vis-a-vis the outside world will continue to give rise to monetary and parity changes.

However, this monetary action of the proposed Fund will do more than round-off financial compensations between national budgets, long-term equilibrium within the Community being assured by the mobility of the factors of production and by financial transfers between public authorities.

IV. In the final phase (1980) monetary parities will be fixed, but it is the opinion (presumably of the authors of the plan) that a single currency would be a better guarantee of the irreversibility of the whole enterprise than would a simple inter-locking of the parities of the five currencies. But this will be a question of political will.



C.C. Mr. Carroll Mr. Hudson Sir F. Figgures

Mr. Bell Mr. Liesner Mr. Rawlinson

Treasury Chambers, Great George Street, S.W. 1

01-930 1234

Prince Amidia

Mr. Slater

CHANCELLOR OF THE DUCHY OF LANCASTER

EEC NEGOTIATIONS: UK OPENING BID COMMUNITY FINANCING

You told Cabinet on Thursday what you had in mind for the opening bids in respect of New Zealand and Commonwealth sugar. I understand that we shall shortly be making a similar bid in respect of Community financing.

2. We all recognise that this is the crux of the negotiations and, of course, I have a particularly close interest in it and in the way we play our hand. I hope therefore that you will circulate a paper to the Approach to Europe Committee in good time before we have to table our proposals in Brussels. No doubt you already have this in mind, but the matter is so important that I thought it right to mention it to you specifically.

A.P.L.B.

November 1970

CONFIDENTIAL. C. See last para.

SIR WILLIAM NIELD

You saw the Prime Minister on Friday, October 30 to discuss the future planning of our negotiations for entry into the European Communities. Sir Burke Trend was also present.

With regard to joint Ministerial consideration of the handling of the negotiations the following was agreed:-

- (i) that you would prepare a condensed version of your recent submission to the Prime Minister to be agreed inter-departmentally and with the Chancellor of the Duchy of Lancaster;
- (ii) this paper would then be for consideration by the Economic Strategy Committee and subsequently, if appropriate, by the Cabinet.

Once the main strategy had been agreed through the procedure above you would work directly with the Chancellor of the Duchy of Lancaster on implementation.

on your submission to him but as soon as he does so I will let you know.

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I am sending a copy of this minute to Sir Burke Trend only.

(SGD) P. J. S. MOON

Da

November 3, 1970

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PRIORITY UKMIS GENEVA TO F C O

TEL NO 773

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ADDSD TO F C O TEL NO 77% OF 2 NOVEMBER REPTD FOR INFMN TO COPENHAGEN AND SAVING TO VIENNA OSLO STOCKHOLM HELSINKI REYJAVIK LISBON AND BERNE

2 NOVEMBER 1973

MY THO I FOLLOWING IS THE SECRETARY-GENERAL'S DRAFT:

QUOTE IN CONCLUDING THE DISCUSSION, MINISTERS INSTRUCTED THE COUNCI AT OFFICIAL LEVEL TO CONSIDER, IN THE LIGHT OF THE DEVELOPMENT OF THE NEGOTIATIONS IN BRUSSELS, THE PRACTINAL MEASURES RELUIRED TO MAINTAIN THE FREE TRADE REALISED BY THE ASSOCIATION UNQUOTE

F C O PASS TO COPENHAGEN AND SAVING TO VIENNA OSLO STOCKHOLM HELSINKI REYJAVIK LISBON AND BERNE

SIR E. MELVILLE

[REPEATED AS REQUESTED].

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ADDITIONAL DISTRIBUTION:

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JEL NO 769

2 NOVEMBER 1970

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ADDSD TO F C O TEL NO 769 OF 2 NOVEMBER REPEATED FOR INFMN TO COPENHAGEN AND SAVING TO VIENNA OSLO STOCKHOLM HELSINKI REYJAVIK LISBON BERNE



FOLLOWING IS TEXT OF DANISH INFORMAL PAPER:

QUOTE

1. PROVIDED THAT THE MINISTERIAL COUNCIL IS IN AGREEMENT THAT EFTA SHOULD DEAL WITH THIS PROBLEM, THE COUNCIL SHOULD TAKE A POSITION ON THE FOLLOWING QUESTIONS:

- A) A MANDATE TO THE COUNCIL AND THE SECRETARIAT.

 A TIMETABLE FOR PREPARATION OF A REPORT BASED ON INFORMATION SUPPLIED BY THE MEMBER STATES.
- B) AGREEING ON A DATE FOR A SPECIAL MINISTERIAL MEETING TO DISCUSS THE REPORT (IF THE CONTENTS OF THE REPORT WILL JUSTIFY A MEETING). A MEETING SHOULD NOT TAKE PLACE LATER THAN THE BEGINNING OF FEBRUARY GIVEN THE PROBABLE PROGRESS OF THE NEGOTIATIONS IN BRUSSELS.
- 2. THE PROCEDURE TO BE FOLLOWED BY THE COUNCIL AND THE SECRETARIAT.
- A) TO EXAMINE THE FOLLOWING PROBLEMS ON THE BASIS OF MINISTERS'
 DISCUSSIONS AND INFORMATION SUPPLIED BY MEMBER STATES:
 MAINTAINING TARIFF-FREE TRADE BETWEEN THE EFTA COUNTRIES (CONCERNS
 ALL OF THE 9 COUNTRIES).

THE FORM AND CONTENT OF AGREEMENTS BETWEEN THOSE EFTA COUNTRIES WHICH DO NOT BECOME MEMBERS OF THE EC (CONCERNS ONLY 6 OF THE EFTA COUNTRIES).

THE NON-CANDIDATE COUNTRIES* WISHES AND POSSIBILITIES AS REGARDS PARTICIPATION IN PLANNED EC CO-OFERATION E G IN THE FIELD OF ECONOMIC AND MONETARY POLICY, INDUSTRIAL POLICY ETC. (CONCERNS ALL OF THE 9 COUNTRIES).

B) PREPARATION OF A REPORT TO A MINISTERIAL MEETING. THE TIME LIMIT SHOULD BE NO LATER THAN THE MIDDLE OF JANUARY 1971.

3. COMMENTS.

A) MAINTAINING EFTA TARIFF FREEDOM THE FIRST QUESTION TO BE CLARIFIED IS WHETHER ALL SIX NON-CANDIDATE COUNTRIES INTEND TO ASK FOR COMPLETE ABOLITION OF INDUSTRIAL TARIFFS. IF THE ANSWER IS NEGATIVE THE EXTENT OF THE EXCEPTION SHOULD BE INDICATED. THE NEXT ISSUE IS THE FORM OF THE TARIFF FREE ARRANGEMENT (FREE TRADE AREA OR CUSTOMS UNION). ONLY THOSE TWO POSSIBILITIES SEEM RELEVANT AS ARTICLE XXIV OF THE GATT WILL PROBABLY HAVE TO BE RESPECTED. EC'S TRADITIONAL OPPOSITION TO THE IDEA OF AN ORIGIN SYSTEM SHOULD BE CONSIDERED. THE QUESTION THEREFORE ARISES WHETHER THE EFTA COUNTRIES IN QUESTION ARE READY TO UNDERTAKE AT LEAST A HARMONIZATION OF DUTIES ON AM AUTONOMOUS BASIS. IF SO, WITHIN WHICH BAND WOULD SUCH HARMONIZATION BE ACCEPTABLE. IT IS REALISTIC TO ASSUME THAT IN ANY CASE THE ADOPTION OF RULES OF COMPETITION AND PART OF THE OBLIGATIONS IN THE FIELD OF HARMONIZATION WITH A VIEW TO REMOVING NON-TARIFF BARRIERS TO TRADE WOULD BE DEMANDED BY THE EC ON THE PART OF THE EFTA COUNTRIES. IT IS THEREFORE RELEVANT TO ASK HOW FAR EACH COUNTRY IS READY TO PARTICIPATE IN EC CO-OPERATION APART FROM THE TARIFF FIELD.

ARRANGEMENTS IN THE AGRICULTURAL FIELD IF FULL TARIFF FREEDOM IS TO BE ACCEPTED IN THE INDUSTRIAL FIELD. IT IS THEREFORE RELEVANT TO ASK WHAT TYPE OF ARRANGEMENT THE INDIVIDUAL COUNTRY COULD ENVISAGE (SPECIFIC COMMODITY ARRANGEMENTS OR ABOLITION OF DUTIES AND/OR Q.R.'S IN CONNECTION WITH MINIMUM PRICE ARRANGEMENTS).

IT WOULD FINALLY BE RELEVANT TO KNOW THE POSITION OF EACH COUNTRY AS REGARDS EC OBLIGATIONS IN THE FIELD OF ESTABLISHMENT, THE CAPITAL MARKET, THE MOBILITY OF LABOUR, FISHERIES POLICY AND TRANSFORT POLICY.

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B) AGREEMENTS BETWEEN THE SIX EFTA COUNTRIES WHO ARE NOT CANDIDATES.

THE EFTA CONVENTION MUST PROBABLY BE TERMINATED BY THE THREE COUNTRIES WHO APPLY FOR MEMBERSHIP OF THE EC. THE QUESTION ARISES WHEN NOTICE OF SUCH TERMINATION SHOULD BE DEPOSITED. AS REGARDS THE REMAINING COUNTRIES IT NIGHT BE POSSIBLE TO CONTINUE TO APPLY THE EFTA CONVENTION, OR A SYSTEM OF BILATERAL AGREEMENTS BETWEEN THE SIX COUNTRIES MIGHT HAVE TO BE CREATED.

IT SHOULD BE CONSIDERED WHETHER MAINTAINING THE EFTA CONVENTION BETWEEN THE SIX NON-MEMBERS WOULD GIVE RISE TO PROBLEMS FROM THE POINT OF VIEW OF THE EC (IN CERTAIN CIRCUMSTANCES THE QUESTION OF DISTORTION OF COMPETITIVE CONDITIONS MIGHT ARISE). KEEPING THE EFTA CONVENTION AND EFTA INSTITUTIONS MIGHT PROVE TO HAVE PRACTICAL ADVANTAGES. IT MAY FOR INSTANCE BE EASIER TO CARRY OUT A HARMONIZATION OF TARIFFS WITHIN THE FRAMEWORK OF EFTA THAN AS A RESULT OF AN AGREEMENT WITH THE EUROPEAN COMMUNITIES. A NEED MIGHT WELL EXIST FOR A COMMON INSTITUTION WHERE THE SIX COUNTRIES MIGHT DISCUSS AND DECIDE QUESTIONS WHICH CONCERN THEM ALL. DEALING WITH SUCH QUESTIONS IN A SERIES OF BILATERAL TALKS WITH THE COMMUNITY MIGHT BE A VERY SLOW PROCEDURE. THE INSTITUTIONAL PROVISIONS MIGHT BE ADAPTED IN ORDER TO PERMIT A COMMUNITY REPRESENTATIVE TO BE OBSERVER IN MEETINGS, AND TECHNICAL COOPERATION BETWEEN THE EFTA SECRETARIAT AND THE COMMISSION SEEMS TO BE NEARLY INDISPENSABLE. ALSO THE QUESTION OF NEW OR ADDITIONAL INSTITUTIONS WOULD HAVE TO BE CONSIDERED. WOULD AN ASSOCIATION COUNCIL FOR EACH EFTA COUNTRY BE NECESSARY-FOR INSTANCE IF THE AGREEMENTS WOULD BE RATHER DIFFERENT - OR WOULD ONE COMMON ASSOCIATION COUNCIL PERHAPS WITH ITS COMPETENCE RESTRICTED TO CERTAIN COMMON PROBLEMS BE INDICATED? ARTICLE 238 OF THE TREATY OF ROME FORESEES AGREEMENTS BETWEEN THE COMMUNITY AND AN INTERNATIONAL ORGANISATION.

ANOTHER QUESTION WHICH DESERVES FURTHER THOUGHT IS THE PRINCIPLE THAT THE PRESENT CANDIDATE COUNTRIES SOONER OR LATER WILL HAVE TO TAKE A POSITION JOINTLY WITH THE PRESENT COMMUNITY MEMBERS AS REGARDS THE ASSOCIATION AGREEMENTS WITH THE OTHER SIX EFTA COUNTRIES. IF EFTA DISCUSSIONS ARE TO SERVE ANY USEFUL PURPOSE

/ THEY SHOULD

THEY SHOULD AT ANY RATE TAKE PLACE EARLY ENOUGH BEFORE THE
THREE CANDIDATE COUNTRIES FIND THEMSELVES AT THE OPPOSITE SIDE
OF THE NEGOTIATING TABLE WHERE THEY MIGHT RUN INTO DIFFICULT
CONFLICTS OF LOYALTY IF THE EFTA CONSIDERATIONS HAD NOT BEEN
COMPLETED. FOR THE SAKE OF COMPLETENESS IT SHOULD ALSO BE
REMEMBERED THAT CERTAIN PRACTICAL PROBLEMS IN CONNECTION
WITH THE TERMINATION OF PRESENT EFTA CO-OPERATION (FINANCE
AND PERSONNEL QUESTIONS) SHOULD BE DEALT WITH. THESE COMMENTS DO
NOT PRETEND TO BE EXHAUSTIVE. THEY TOUCH UPON SOME OF THE PROBLEMS
WHICH IT IS NATURAL TO DRAW ATTENTION TO IN A FIRST DISCUSSION.

C) PARTICIPATION BY THE NON-CANDIDATE COUNTRIES IN SECOND GENERATION EC COOPERATION.

THE FIRST THING TO CLARIFY IS THE EXTENT TO WHICH EACH OF THE SIX COUNTRIES WISHES TO PARTICIPATE IN THESE FIELDS. IT WOULD NOT MAKE SENSE THAT COUNTRIES WHO MIGHT WISH TO GO FAR SHOULD BE HAMPERED IN THEIR EFFORTS BECAUSE ONE OR MORE EFTA COUNTRIES COULD NOT SEE THEIR WAY TO PARTICIPATE. THERE IS A DECISIVE DIFFERENCE BETWEEN PARTICIPATION IN SUCH SPECIFIC PROJECTS AS THOSE IN THE TECHNOLOGICAL FIELD IN WHICH MOST OF THE EFTA COUNTRIES ARE PARTICIPATING ALREADY AND ON THE OTHER HAND PARTICIPATION IN SUCH POLITICALLY INSPIRED AREAS OF CO-OPERATION AS THE ECONOMIC AND MONETARY UNION. THIS NEW BRANCH ON THE TREE OF EC INTEGRATION WILL EVEN MORE THAN THE COMMON AGRICULTURAL POLICY NECESSITATE STRONG CENTRAL INSTITUTIONS WITH CONSIDERABLE SUPERNATIONAL AUTHORITY. THE MOST DIFFICULT PROBLEM WHICH ARISES IN THIS CONNECTION AND WHICH IS A DOUBTFUL SUBJECT FOR EFTA DISCUSSION IS THE QUESTION OF HOW THE NON-MEMBER STATES COULD PARTICIPATE IN SOME WAY IN THE DECISION MAKING PROCESS. IT WILL PROBABLY DEMAND A GREAT AMOUNT OF CAREFUL PREPARATION JUST TO OBTAIN THAT THE SIX CONSIDER THE POSSIBILITY OF NON-MEMBER STATES BEING PRESENT IN PREPARATORY -NOT TO SPEAK OF THE CONCLUDING - DISCUSSIONS WHICH LEAD TO EC DECISIONS.

THIS QUESTION IS OF INTEREST TO OTHERS THAN THE NON-CANDIDATE
COUNTRIES AS THE MEMBERSHIP CANDIDATES OR SOME OF THEM MAY HAVE
A CONSIDERABLE INTEREST IN SOME OF THE NON-CANDIDATE COUNTRIES
PARTICIPATING AS FAR AS POSSIBLE IN THE WORK IN THIS FIELD. BECAUSE
OF THE POSSIBLE INFLUENCE, WHICH THE NEW MEMBER STATES MAY HAVE ON

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THE COMMUNITY DECISION ON HOW TO ACCOMMODATE THE NON-MEMBER STATES IN THIS RESPECT, IT IS HOWEVER IMPORTANT TO GAIN A SUBSTANTIAL UNDERSTANDING OF THE INTENTIONS AND THE POSSIBILITIES OF THOSE EFTA COUNTRIES WHICH ARE NOT CANDIDATES FOR MEMBERSHIP AS REGARDS THEIR UNDERTAKING WHOLLY OR IN PART THE OBLIGATIONS FLOWING FROM PARTICIPATION IN THIS FIELD OF CO-OPERATION. THERE SEEMS THEREFORE TO BE SOME ARGUMENT FOR SPECIAL DISCUSSIONS BETWEEN THOSE COUNTRIES WHICH ARE INTERESTED IN THIS QUESTION AND THE THREE EFTA COUNTRIES WHICH ARE CANDIDATES FOR MEMBERSHIP.

EC INDUSTRIAL POLICY WILL COMPRISE SUCH FIELDS AS PUBLIC PURCHASES AND OTHER CONTRACTS, STANDARDISATION NOT LEAST IN THE PUBLIC SECTOR COMPANY LAW, TAXATION, AID TO RESEARCH AND OTHER INDUSTRIAL DEVELOP-MENT, REGIONAL POLICY, AID IN SUPPORT OF INDUSTRIAL CO-OPERATION ACROSS THE BORDERS, HIGHER EDUCATION SUCH AS MANAGEMENT TRAINING. COMMON RESEARCH, CREATION OF A FREE CAPITAL MARKET. COMMON RULES AS REGARDS FOREIGN INVESTMENT ETC. IT IS CLEARLY NOT SUFFICIENT TO PARTICIPATE IN SPECIFIC TECHNOLOGICAL CO-OPERATION. THIS MIGHT MEAN THAT THE NON-MEMBER STATES WOULD CONTRIBUTE WITHOUT BEING ABLE COMPLETELY TO REAP THE ADVANTAGES ACCESSIBLE TO THE COMMUNITY MEMBER STATES. PARTICIPATION IN THESE MANY FIELDS WOULD ON THE OTHER HAND ENTAIL CERTAIN OBLIGATIONS WHICH SOME OF THE NON-MEMBERSHIP CANDIDATIS MIGHT FIND IT DIFFICULT TO ACCEPT. THE WHOLE FIELD DESERVES CAREFUL STUDY.

THE PROBLEMS ARE EXTREMELY COMPLEX AND IT SHOULD NOT BE EXPECTED THAT THE COMMUNITY ON THEIR OWN WOULD PAY MUCH ATTENTION TO THIS ASPECT AS REGARDS THE NON-MEMBER STATES. UNQUOTE

F C O PASS TO COPENHAGEN AND SAVING TO VIENNA OSLO STOCKHOLM HELSINKI REYJAVIK LISBON AND BERNE

SIR E. MELVILLE

[REPEATED AS REQUESTED].

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TELEGRAM NUMBER 768

2 NOVEMBER 1970

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FRAME

ADDSD TO F C O TEL NO 768 OF & NOVEMBER REPTD FOR INFMN TO COPENHAGEN AND SAVING TO VIENNA OSLO STOCKHOLM HELSINKI REYKJAVIK LISBON AND BERNE.

E F T A MINISTERIAL MEETING: MAINTENANCE OF E F T A FREE TRADE.

M I, F T CONTAINS THE TEXT OF A PAPER WHICH THRANE (DENMARK) HAS CIRCULATED TO DELEGATIONS INFORMALLY, MY SECOND I F T CONTAINS THE TEXT OF THE SECRETARY-GENERAL'S PROPOSAL FOR A MANDATE FROM MINISTERS.

- 2. THRANE ASSURED ME THAT THE DANISH PAPER HAS NO STATUS AND IS NOT INTENDED FOR CIRCULATION AT THE MINISTERIAL MEETING. IT WAS AT HIS REQUEST THAT COPENHAGEN AGREED TO ITS BEING SHOWN TO HIS GENEVA COLLEAGUES. THE THOUGHTS IN IT WILL HOWEVER PROBABLY INSPIRE THE CONTRIBUTION WHICH THE DANISH MINISTER IS PREPARING FOR THE DEBATE ON INTEGRATION.
- 3. THE SWISS REACTION IS LIKELY TO BE FAVOURABLE, (THE PAPER WAS PREPARED AFTER CONTACTS BETWEEN JOLLES AND CHRISTIANSEN ALTHOUGH IT IS PURELY A DANISH DRAFT). HOWEVER, ACCORDING TO THE SWISS DELEGATION, IT GOES TOO FAR IN REQUIRING INFORMATION FROM MEMBER COUNTRIES ABOUT THEIR NEGOTIATING POSITIONS. THE SWISS OPENING STATEMENT FOR THE DISCUSSIONS WITH THE COMMUNITY ON 12 NOVEMBER TILL NOT CONTAIN AS MUCH DETAIL AS WOULD BE REQUIRED IF THE DANISH SUGGESTIONS WERE FOLLOWED. ON THE OTHER HAND THE SWISS BELIEVE THAT THE SECRETARY-GENERAL'S IDEAS FOR A STUDY (SEE PARAGRAPH 6 OF UKMIS GENEVA TELEGRAM NUMBER 161 SAVING) DO NOT GO FAR ENOUGH AND THAT IN PARTICULAR ANY STUDY SHOULD CONCENTRATE ON THE PROBLEM OF MAINTAINING FREE TRADE AMONG THE NON-CANDIDATES.
- 4. THE DANISH SUGGESTIONS MAY GO BEYOND SWISS DESIRES BECAUSE OF DANISH CONCERN OVER NORDIC TRADE. THIS IS LIKELY TO BE VELCOME TO THE SWEDES. HOWEVER, THE SWEDISH DELEGATION SAY THAT THEY HAD NO PRIOR INFORMATION OF THE DETAILS IN THE DANISH PAPER. ALTHOUGH THE UBJECT IS OF SPECIAL INTEREST TO THEM, THEY CONSIDER THAT IT IS UNLIKELY THAT THE NECESSARY INFORMATION CAN BE MADE AVAILABLE SOON ENGUGH TO MEET THE TIMETABLE SUGGESTED BY THE DANES, I.E. A REPORT TO BE CONSIDERED BY MINISTERS AT A SPECIAL MEETING NOT LATER THAN I FEBRUARY NEXT.

5. THE DANISH IDEAS WILL UNDOUBTEDLY BE DISCUSSED DURING THE MINISTERIAL MEETING EVEN IF THEY DO NOT COME UP IN DETAIL IN THE CONFERENCE ROOM. I HAVE TOLD THRANE THAT UNITED KINGDOM MINISTERS WILL BE RELUCTANT TO GET INVOLVED SO DEEPLY IN THIS PROBLEM AT THIS STAGE, AND HAVE ASKED HIM TO EXPRESS THE HOPE IN COPENHAGEN THAT HIS MINISTER WILL NOT COME WITH ANY DRAFT MANDATE ON THESE LINES AND TO SUGGEST THAT ANY FURTHER INITIATIVE SHOULD AWAIT DISCUSSION BETWEEN THE MINISTERS OF THE THREE CANDIDATE COUNTRIES AT THE NORWEGIAN DINNER ON WEDNESDAY. THIS WOULD BE A CONVENIENT OCCASION FOR US TO TRY TO GET AN AGREED LINE WITH THE NORWEGIANS AND THE DANES. AS THE LATTER HAVE EMPHASISED THAT THEIR INTENTION IN PUTTING FORWARD THESE IDEAS IS TO MAKE A SERIOUS ATTEMPT TO BRING OUT THE PROBLEMS THAT WILL ARISE AND AS THIS WILL BE WELCOMED AT LEAST BY THE SWISS AND THE SWEDES, I SUGGEST THAT WE MIGHT TAKE THE LINE THAT THE DANISH IDEAS ARE HELPFUL IN CLARIFYING ISSUES BUT THAT THE TIMETABLE ENVISAGED IS UNREALISTIC AND THAT IS IS DOUBTFUL WHETHER GOVERNMENTS WOULD IN FACT BE ABLE TO PROVIDE THE INFORMATION SUGGESTED UNTIL ADVANCED STAGE IN THEIR DISCUSSION AND NEGOTIATIONS IN BRUSSLES.

SECRETARY-GENERAL THAT IT MIGHT BE PREFERABLE THAT THE MANDATE BE GIVEN TO HIM RATHER THAN TO THE OFFICIAL COUNCIL, AS THE FORMER COURSE MIGHT HELP TO RESTRICT THE STUDY TO FACTS AND AVOID POLICY ISSUES COMING UP TOO SOON. I UNDERSTAND THAT IT IS THE SECRETARY-GENERAL'S INTENTION TO CARRY OUT THE WORK ON THE LINES OF HIS REMARKS TO HEADS OF DELEGATION (PARAGRAPH 6 OF UKMIS GENEVA TELEGRAM NUMBER 161 SAVING). IN ADDITION TO SUPPORTING THOSE IDEAS IT WOULD BE HELPFUL VIS-A-VIS THE NON-CANDIDATES IF UKMINISTERS COULD ALSO EXPRESS APPROVAL OF THE SUGGESTION THAT MAINTAINING FREE TRADE BETWEEN THE NON-CANDIDATES.

F C O PASS TO COPENHAGEN AND SAVING TO VIENNA OSLO STOCKHOLM HELSINKI REYKJAVIK LISBON AND BERNE.

SIR E. MELVILLE

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November 2, 1970

The Prime Minister has seen Bonn Telegrams
Nos. 1268 and 1269 of October 28 about the
D'Avignon Report. The Prime Minister would like to
have a full brief on the Report setting out:
(1) the background;

- (ii) the significance of this latest development;
- (iii) its consequences for us.

Perhaps you could let me have a note as soon as possible.

P. J. S. Moon

I. McCluney, Esq., Foreign and Commonwealth Office. Tid betie Lune brighen peger a the d'Arighen typet, the riches in expressed on it what Rust Lote fra formas Bom Lecry pers. - Smikers 1268 + 1269 - Lecky for An, Guten. And

PM/GR/70/120

PRIME MINISTER

European Community Negotiations.

I promised you one or two personal impression of where we now stand after the Ministerial Meeting at Luxembourg on 27 October.

- First we have cleared away some of the minor issues and shown that Ministers have been able to start the process of agreement at their first working meeting.
- 3. The fact-finding stage is over, and we hope next month to get down to the major issues: the complex of transitional periods, New Zealand butter and cheese, Commonwealth sugar and our contribution to Community finance.
- 4. We shall have to put forward proposals on these questions ourselves. The Community have asked us to shoot first. There are obvious disadvantages in exposing our positions in this way, but I think on balance that it is in our interest to determine the ground of debate and see that our proposals rather than theirs are discussed. I propose to start with New Zealand and sugar. As I explained at Cabinet yesterday, we are bound to begin by asking for more than we shall get, especially in the case of New Zealand. But Marshall's tour of the Community next month is well-timed to give him an idea of what is possible.

- I told the Community that we must aim to break the back of the negotiations by next Summer, and that that meant making time for meetings and giving these negotiations priority over other things. There was no sign of people on the Community side wanting to hold things up or go slow. On the contrary they seemed ready to agree to pursue the main problems with a new and proper sense of urgency. I think they mean it: the longer uncertainty about the outcome goes on, the more complicated their internal development and external relations become. But we shall have a hard job pinning them down to the necessary programme of Ministerial meetings next year, and we must see to it that we are always ready with our own position when required. We have two advantages denied to them - secrecy in 6. preparation and flexibility in operating in Brussels - and we shall make all we can of both. As you know the Community's procedures are even more wooden than they were in 1962. Only the Chairman is allowed to speak while we are present, and he can neither agree to nor comment on anything we say, however trivial, without prior agreement within the Community or an
 - 7. On substance, I think I can say: so far, so good. For the next stages we should have no illusions about the difficulties. The French may sometimes misjudge their interests, and play the diplomatic game for its own sake. As you know they are more legalistic than we are and can thereby

adjournment. This in turn means that the Community tends to

progress - or regress - on the basis of elaborately worked out

texts.

do themselves harm. But they will fight hard and effectively for what they judge their interests to be, and none of the Five or the Commission seems able to stand up to them in the end.

- 8. The vital question for us is what political price they attach to the consequences of success or failure. Either could be costly for them as it could for us. If they opt for success, the big issues can be settled fairly quickly, at least in the next eight months. I remain an optimist.
- 9. You will remember that you raised in Cabinet the question of a progress report. I would be grateful for your guidance about how you would like this handled.
- 10. I am sending a copy of this minute to the Secretary of State for Foreign and Commonwealth Affairs.

G.R

(GEOFFREY RIPPON) 30 October, 1970.

Summary of the Report of the Werner Group

I. Principles.

- 1. The achievement of an economic and monetary union culminating in a stable Community is both necessary and possible within a period of 10 years, to the extent that political will to that end is not relaxed.
- 2. Procedure towards economic and monetary union is of fundamental political importance and includes a reform of institutions; economic and monetary union is the leaven of political union, without which the latter will not see the light of day.
- 3. A double parallelism is to be seen between on the one hand the renunciation of national autonomies and the transfer of authority to the Community, and on the other hand between economic union and monetary union which must proceed in parallel without either one or the other being considered as having absolute priority.
- 4. The calendar of monetary union cannot yet be fixed in an absolutely definitive manner and must include a certain flexibility. That is why really concrete propositions must be concerned essentially with the first stage of the process, whilst for the following stages it is necessary to be satisfied with indications of the essential steps to be taken towards the final objectives, the outline of which can already be seen fairly clearly.

II. First Stage - January 1, 1971 to end 1973

- The procedures of consultation already agreed on shall be reinforced and their prior and obligatory character guaranteed.
- The action to be taken is for the Council, the Commission, and the Council of Governors of Central Banks.

The Council shall meet three times a year to draw out the main lines of economic policy and to determine in quantitative terms the directions of budgetary policy. After its autumn session, the Council shall approve an annual economic report for transmission to the Parliament of the Communities and to their Economic and Social Committee.

There shall be a Co-ordinating Committee to supervise the development of the plan in its appropriate stages and to prepare for the meetings of the Council by co-ordinating the work of the Technical Committees.

- There shall be consultations between the social organs in the most appropriate form.
- National budgetary policies shall be defined in terms of Community objectives, and there shall be synchronisation of the relevant procedures.
- Co-ordination of monetary and credit policies and of fiscal harmonisation, in particular for the value-added tax, excise taxes, and other taxes affecting the conditions of competition.
- The Committee of Governors of Central Banks will play an increasingly important role and shall present twice a year recommendations to the Central Banks, to the

Governors, and to the Commission.

- On the monetary plan, the common position of the Community vis-a-vis third countries and the IMF must be closely defined; there should be no increase in flexibility in the regime of inter-Community parities, even if the IMF were to decide on an enlargement of the margins of fluctuation in the world as a whole; there shall be a strengthening of obligatory prior consultations in the event of there being any possible change of parties.
 - From the beginning of the first stage, the
 Community shall adopt a specific parity policy which will
 give to the Community a monetary personality; this
 régime will be reinforced in successive stages as a
 result of the parallel harmonisation of economic policies;
 from the start there shall be a <u>de facto</u> reduction in
 the parity margins between Community currencies before
 the formal proclamation of such reductions. This
 operation will be pursued by successive alternations of
 <u>de facto</u> and <u>de jure</u> narrowing of margins, achieved
 through a concerted action on the dollar, completed by
 interventions in Community currencies, first at the
 limits and then moving towards the inner part of the
 margins.
 - A "Community Agent" (the embryo of that which will later become the Community Reserve Fund) will have the responsibility of recording members' balances and of informing Central Banks daily, and of suggesting balancing transfers or compensations (the non-communautaire services of the Bank of International Settlements will be dispensed with.)

- The Working Group shall be set up to study the modifications of the Treaty of Rome necessary for the achievement of economic and monetary union. It shall also study the creation of a Community Reserve Fund with the duty of market intervention during the second stage and of outlining the Community system for Central Banks (Federal or other) to be introduced during the final stage.
 - An inter-Governmental Conference of members shall be convoked to agree modifications in the Treaty of Rome in accordance with Article 236 of the Treaty.
 - There shall be a special meeting of the Council to order the timetable of the first stage and to establish the programme for the second stage (the question whether the passage to the second stage shall be made under obligatory terms of "automaticity" are still the subject of discussion. The French view is that of a strong desire for this passage to be automatic, in other words that the "juridical exigencies of the Dutch would not be too much formalised").

III. Second Stage

- Starting January 1, 1974.
- Progress to be continued of all the above fronts; global economic guide-lines to be fixed; macro-economic policies to be co-ordinated by monetary and fiscal means; a common economic structural policy to be adopted: money markets to be integrated: exchange rate fluctuations to be eliminated: a Stabilisation and Reserve Fund to be set up developing into a sort of

"Federal Reserve System" (last three words in English).

This Fund will be the successor of the "Community Agent" established to intervene in the way described during the first stage, and will have the responsibility of absorbing the short-term monetary support mechanisms as well as supervising the system of harmonisation of medium-term policy: it should administer a growing proportion of the reserves of the Central Banks.

At the end of the period the national balances of payment will have no more significance in relations between member States; only the global balance of payments of the Community as a whole vis-a-vis the outside world will continue to give rise to monetary and parity changes.

However, this monetary action of the proposed Fund will do more than round-off financial compensations between national budgets, long-term equilibrium within the Community being assured by the mobility of the factors of production and by financial transfers between public authorities.

IV. In the final phase (1980) monetary parities will be fixed, but it is the opinion (presumably of the authors of the plan) that a single currency would be a better guarantee of the irreversibility of the whole enterprise than would a simple inter-locking of the parities of the five currencies. But this will be a question of political will.

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in the Public Record Office.

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AP.

J R Green Prime Minister's Office Records Hepburn House, Marsham Street STATEMENT BY THE CHANCELLOR OF THE DUCHY OF LANCASTER, THE RIGHT HONOURABLE CHOFFREY RIPPON. Q.C., M.P., ON THE PROGRESS OF BRITAIN'S NECO TAITONS WITH THE EUROPEAN COMMUNITIES. 29TH OCTOBER.

With your permission, Mr. Speaker, and with that of the House, I should like to make a brief statement on the progress of the negotiations for British membership of the European Communities since my right honourable Friend the Chancellor of the Exchequer made his report, as Chancellor of the Duchy of Lancaster, on the 23rd of July. During the period since I assumed my present office 2. I have had contacts with many Commonwealth Governments on the subject of the negotiations, which I believe to have been of great mutual benefit. I thought it right to visit Hong Kong, Australia and New Zealand during September in order to see myself, on the spot, the nature of the problems which might arise; and I was able to have extensive discussions with representatives of all three Governments. I have also had the pleasure of meeting Ministers of Canada, Fiji and Commonwealth Caribbean Governments in London. In addition I am in the course of making visits to all Community Capitals. I have already been able to meet several of my community colleagues including the President of the European Commission.

- 3. I turn now to the progress of the negotiating conference. As my right honourable Friend explained in his statement on the 23rd of July, fact-finding work was instituted on a broad range of subjects by the Ministerial meeting on the 21st of July. As has been recognised by the Six themselves, this phase is now over.
- 4. Four useful meetings have taken place at the Deputies' level in the meantime, largely concerned with preparing the ground for the Ministerial meeting which I attended this week.
- 5. I am happy to report that as a result of this preliminary work it was possible to record on the 27th of October the first agreements of the negotiations.
- whether the Communities' existing arrangements would be adequate, in the circumstances of the enlarged Community, to ensure stability in the markets for pigmeat and eggs and to allow adequate supplies of liquid milk. On the 27th of October the Community recorded its agreement with our understanding of the possibilities that will be open to us and which would ensure the provision of adequate supplies of liquid milk to meet consumer demand throughout the country and throughout the year; they accepted our views on the importance and characteristics of the bacon market in an enlarged Community and the need for keeping the situation under careful review during the

- transitional period and thereafter; and recognised the desirability of stability for pigmeat and eggs. We concluded therefore that no further points need be raised on these items during the negotiations, except in the general context of transitional arrangements.
 - 7. We ware also able to reach agreement on procedures for an annual review of the economic conditions and prospects of the agricultural industry in the enlarged Community. The Commission will draw up this review for the Council of Ministers on the basis of all the relevant information and after contacts with the agricultural organisations. These arrangements will ensure effective contacts with producers.
 - 8. The Community confirmed that in principle they saw no objection to British dependencies being associated with the enlarged Communities under Part IV of the Treaty of Rome; and that Gibraltar would be covered by Article 227 (4) of the Treaty which covers European territories of member states. On the other hand they indicated that they did not regard the case of Hong Kong as comparable with other dependencies and that it posed special problems which would have to be examined in greater depth. In reply I stressed the importance of providing for Hong Kong's interests. The question of Hong Kong will therefore need further discussion with the Six.

9. Finally, in response to a suggestion from the Community side, I confirmed that as a member of the Community we would accept the Common Commercial Policy, subject to the development of that policy, and that we should be prepared to make every effort in the meantime to harmonize our policies. We agreed that a mutual exchange of information in this field would be of value to both sides.

10. These then are the results achieved at the meeting on the 27th of October. They indicate that the negotiations have got off to a serious and positive start. They represent an achievement reached by both sides working together towards a common objective. The political will to make the negotiations a success was evident. It was clear that all realised that a successful outcome is a major interest for Europe as a whole. This was shown not only by the agreements I have outlined but by the desire expressed by both the Community and ourselves to step up the pace. We have in fact agreed to tackle all the major issues before the end of this year and to continue to discuss them urgently in the coming months.

CYPHER CAT A. "TIME FACTOR" TO BE ON DESKS BY 0900 HOURS ON 29 OCTOBER.

FROM PRIORITY BONN TO FOREIGN AND COMMONWEALTH OFFICE. TEL NO 1269. 28 OCTOBER 1970.

CONFIDENTIAL. 2818317. [FRAME]

ADDRESSED TO FCO TEL NO 1269 OF 28 OCTOBER 1970 RFI TO CODEL BRUSSELS UKNIS GENEVA THE HAGUE LUXEMBOURG PARIS ROME OSLO COPENHAGEN DUBLIN AND BRUSSELS.

- POLITICAL UNIFICATION -N.I.P.T.

FOLLOWING IS TEXT REFERRED TO IN PARAGRAPH 1 OF MY TELEGRAM UNDER REFERENCE:-

ON BEHALF OF THE SIX MINISTERS FOR FOREIGN AFFAIRS I HAVE THE HONOUR TO INFORM YOU THAT AT THEIR MEETING IN LUXEMBOURG ON 27 OCTOBER 1970 THE FOREIGH MINISTERS HAVE. ON BEHALF OF THEIR GOVERNMENTS, FINALLY APPROVED THE REPORT THEY SUBMITTED ON 20 JULY 1970 PURSUANT TO PARAGRAPH 15 OF THE HAGUE COMMUNIQUE.

THEY HAVE NOTED WITH GREAT SATISFACTION THAT THE REPORT MEETS WITH THE APPROVAL OF YOUR GOVERNMENT AND THAT OF THE GOVERNMENTS OF THE OTHER THREE APPLICANT STATES. THE SIX FOREIGN MINISTERS AGREED TO REPLY TO THE COMMENTS MADE BY THE FOUR APPLICANT COUNTRIES BY IDENTICAL COMMUNICATIONS.

AS REGARDS THE SUBJECTS FOR CONSULTATION, IT IS POINTED OUT THAT UNDER THE TERMS OF THE SAID REPORT "THE GOVERNMENTS WILL CONSULT ON ALL IMPORTANT QUESTIONS OF FOREIGN POLICY''. NONE OF THE SUBJECTS IN THIS SPHERE SHOULD BE EXCLUDED A PRIORI.

IN THE EXCHANGE OF VIEWS AMONG THE TEN THE SUBJECTS TO BE DISCUSSED SHALL, IN PRINCIPLE, BE THOSE FOR CON-SULTATION AMONG THE SIX. THIS DOES NOT EXCLUDE THE INCLUSION ON THE AGENDA, WITH THE APPROVAL OF THE SIX. OF A SUBJECT PROPOSED BY ONE OF THE APPLICANT STATES. CONFIDENTIAL

AS REGARDS THE ASSOCIATION OF THE APPLICANT STATES
IN THE PROPOSED CONSULTATION MACHINERY, I WISH TO POINT
OUT THAT A CLOSE CONNEXION EXISTS BETWEEN THE CONSULTATIONS OF THE SIX AND THE EXCHANGE OF VIEWS AMONG THE TEN.
THE EXCHANGE OF VIEWS WILL BE PREPARED BY INFORMING THE
APPLICANT STATES OF THE RESULTS OF THE MINISTERIAL CONSULTATIONS AND OF THE WORK OF THE POLITICAL COMMITTEE AND
BY RECEIVING THEIR POSSIBLE REACTIONS. THE CHAIRMAN-INOFFICE OF THE MINISTERIAL MEETINGS AND THE CHAIRMAN OF
THE POLITICAL COMMITTEE WILL TAKE THE NECESSARY MEASURES
TO THAT END.

I HAVE THE HONOUR TO CONFIRM THAT THE SIX MINISTERS,
IN VIEW OF SUCH OCCASIONS WHEN THE TEN MINISTERS OR SOME
OF THEM MEET ANYHOW, SUGGEST FOR THE MINISTERIAL
MEETING OF THE TEN A DATE WHICH WILL BE AS CLOSE AS
POSSIBLE TO THE MEETING OF THE SIX, IN ORDER THAT THE
EXCHANGE OF VIEWS WILL BE AS FRUITFUL AS POSSIBLE IN
ACCORDANCE WITH THE WISH EXPRESSED IN THE REPORT OF THE
FOREIGN MINISTERS.

THE QUESTION OF HOW FURTHER PROGRESS IN THE FIELD OF POLITICAL UNIFICATION CAN BEST BE ACHIEVED WILL BE EXAMINED IN THE SECOND REPORT, TO BE PRESENTED NOT LATER THAN TWO YEARS AFTER THE COMMENCEMENT OF CONSULTATIONS ON FOREIGN POLICY. THE APPLICANT STATES WILL BE KEPT INFORMED ABOUT THE PROGRESS OF THIS WORK BY THE CHAIRMAN——IN-OFFICE OF THE MINISTERIAL MEETINGS AND OF THE POLITICAL COMMITTEE, WHO HAVE BEEN INSTRUCTED TO RECEIVE ANY COMMENTS THEY MAY WISH TO MAKE.

THE SIX FOREIGN MINISTERS WILL NOT LOSE SIGHT OF THE OTHER SUGGESTIONS RELATING TO THE CONSULTATION MACHINERY. THEY WILL EXAMINE IN THE LIGHT OF THE FOURTH PART OF THE REPORT HOW A PRACTICAL CO-OPERATION WITH THE APPLICANT STATES CAN BE DEVELOPED AS CLOSELY AND AS ACTIVELY AS POSSIBLE PRIOR TO THEIR DEFINITIVE MEMBERSHIP OF THE EUROPEAN COMMUNITIES.

CONFIDENTIAL

BONN TELNO. 1269 TO F.C.O.

ON BEHALF OF THE SIX FOREIGN MINISTERS, I WISH TO ASSURE YOU THAT THEY WILL DO EVERYTHING IN THEIR POWER TO ENABLE THE APPLICANT STATES TO PARTICIPATE IN POLITIC--AL CO-OPERATION IN A SPIRIT OF GENUINE PARTNERSHIP.

FCO PASS TO CODEL BRUSSELS UKMIS GENEVA THE HAGUE LUXEMBOURG PARIS ROME OLSO COPENHAGEN DUBLIN AND BRUSSELS (ALL PRIORITY).

MR. RICHARDS

[REPEATED AS REQUESTED]

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CYPHER CAT A

FACTOR. TO BE ON DESKS BY 0900 HOURS ON 29 OCTOBER.

FROM PRIORITY BONN TEL NO 1268. TO FOREIGN AND COMMONWEALTH OFFICE. 28 OCTOBER 1970.

CONFIDENTIAL 281830Z.

ADDRESSED TO FCO TEL NO 1268 OF 28 OCTOBER 1970 RFI TO CODEL BRUSSELS UKMIS GENEVA THE HAGUE LUXEMBOURG PARIS ROME OSLO COPENHAGEN DUBLIN AND BRUSSELS.

CODEL BRUSSELS TEL. NO. CODEL 162:

- POLITICAL UNIFICATION -

HERR SCHEEL SENT FOR THE DANISH, NORWEGIAN AND IRISH
AMBASSADORS AND MYSELF THIS AFTERNOON AND HANDED US A FORMAL
COMMUNICATION ON BEHALF OF THE SIX MINISTERS FOR FOREIGN
AFFAIRS. IN ADDITION TO THE ORIGINAL TEXT OF THE LETTER IN
GERMAN, HE GAVE US A CORRESPONDING TEXT IN FRENCH AND THE UNOFFICIAL ENGLISH TRANSLATION CONTAINED IN M.I.F.T.

- P. SCHEEL SAID THAT THE SIX MINISTERS HAD CONCLUDED IT WOULD
 BE POSSIBLE TO MEET THE POINTS MADE BY THE FOUR APPLICANT GOVERN—
 MENTS WITHOUT MODIFYING THE TEXT OF THE D'AVIGNON REPORT ITSELF.

 THE REPORT HAD THEREFORE BEEN APPROVED. THE FIRST CONSULTATION
 BETWEEN THE SIX WOULD BE HELD ON 19 NOVEMBER IN MUNICH. HE
 WISHED NOW FORMALLY TO PROPOSE ON BEHALF OF THE SIX THAT THE
 SUBSEQUENT EXCHANGE OF VIEWS WITH THE CANDIDATES SHOULD
 BE HELD ON 2 DECEMBER IN BRUSSELS. HE PROPOSED THAT THE TEN
 FOREIGN MINISTERS SHOULD MEET FOR LUNCH AT VAL DUCHESSE AND
 EXCHANGE OF VIEWS COULD FOLLOW. THE REASON FOR THIS
 CHOICE OF DATE WAS TWOFOLD:
- (A) HE AND HIS COLLEAGUES ANTICIPATED THAT THE QUESTION OF A EUROPEAN SECURITY CONFERENCE WOULD BE ONE OF THE SUBJECTS THEY WOULD WISH TO DISCUSS ON 19 NOVEMBER AND THEY FELT IT WOULD BE DESIRABLE FOR THE TEN FOREIGN MINISTERS TO HAVE A CORRESPONDING EXCHANGE BEFORE THE NATO MEETING, AND

CONFIDENTIAL

-2-

(B) NINE OF THE TEN MINISTERS CONCERNED WOULD HAVE IN ANY CASE TO BE IN BRUSSELS FOR THE NATO MEETING ON THE FOLLOWING DAY AND FOUR OF THOSE CONCERENED INCLUDING YOU, SIR, WOULD PROBABLY BE MEETING ON THE EVENING OF 2 NOVEMBER ANYWAY: THOUGH IT WOULD MEAN ARRIVING IN BRUSSELS EARLIER THAN WOULD OTHERWISE HAVE BEEN NECESSARY, HE HOPED THIS WOULD PROVE THE LEAST INCONVENIENT ARRANGEMENT.

HE VERY MUCH HOPED THAT EVERYONE COULD ACCEPT THIS DATE,
SINCE IT WOULD BE DIFFICULT, AND VERY PROBABLY IMPOSSIBLE,
TO FIND AN ALTERNATIVE.

THE D'AVIGNON REPORT WOULD BE RELEASED TO THE PRESS AT 1900 HOURS ON OCTOBER 30 - A TIME CHOSEN SO THAT IT WOULD APPEAR IN THE SATURDAY MORNING PRESS. SCHEEL SAID THAT HE WOULD BE GLAD TO KNOW URGENTLY WHETHER THE FOUR APPLICANT GOVERNMENTS WISHED EITHER AT THE SAME TIME OR SHORTLY THEREAFTER TO PUBLISH THE COMMENTS ON THE REPORT WHICH THEY HAD PUT FORWARD OFFICIALLY. IF THIS WERE THE CASE THE SIX WOULD WISH TO PUBLISH THEIR OWN REPLY.

4. HERR SCHEEL SAID THAT HE HAD WISHED TO MAKE THIS COMMUNICATION IN A FORMAL MANNER BECAUSE HE BELIEVED THE OCCASION TO BE A VERY IMPORTANT ONE. INDEED THERE WERE FEW ACTS IN HIS POLITICAL CAREER THAT HAD CAUSED HIM GREATER PLEASURE. MOST PEOPLE DID NOT REALISE YET WHAT A SIGNIFICANT STEP HAD BEEN TAKEN. BUT HE BELIEVED THAT IT WOULD IN COMING YEARS ALLOW EUROPE TO MAKE ITS VOICE HEARD IN THE WORLD. THE FEDERAL GOVERNMENT HAD BEEN CRITICISED FOR NOT TAKING A BOLDER INITIATIVE. BUT THEY HAD DELIBERATELY NOT PITCHED THEIR AIM TOO HIGH INITIALLY IN ORDER TO MAKE SURE OF A CONSENSUS. THEY THOUGHT IT WISE AS A FIRST STEP TO TRANSLATE THE PRACTICE OF CONSULTATION INTO REALITY AND ONLY TO ATTEMPT TO INSTITUTIONALISE THE PROCESS AFTER IT HAD BEEN SHOWN TO WORK. HE VERY MUCH HOPED THAT NOT MORE THAN THREE CONSULTATIONS WOULD TAKE PLACE -A SIX- AND THAT BY THE END OF 1971 THE NEGOTIATIONS FOR THE ENLARGEMENT OF THE E.E.C. WOULD HAVE BEEN COMPLETED THOUGH, HE ADDED WITH A SMILE, MR. RIPPON HAD SUGGESTED AT THEIR MEETING YESTERDAY, THAT THIS WAS A DEFEATIST ASSUMPTION AND THAT THE NEGOTIATIONS SHOULD GO FASTER STILL.

CONFIDENTIAL

BONN TELNO. 1268 TO F.C.O.

-3-

FCO PASS PRIORITY CODEL BRUSSELS, U.K.MISSION GENEVA, THE HAGUE, LUXEMBOURG, PARIS, ROME, OSIO, COPENHAGEN, DUBLIN AND BRUSSELS.

MR. RICHARDS

PREPEATED AS REQUESTED]

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E.R. y 0416

MR. ARMSTRONG

4.30 pm 28/10

c Sir Burke Trend

The attached memorandum, as promised in my minute of leth October, seeks to give an up-to-date overall picture of the major issues, omitting details and "technical complexities", so as to provide a comprehensive basis for consideration of strategy. It discusses in its text, and, summarises in its Annexes:-

- (a) our present position (Annex A)
- (b) a programme to July 1971 (Annex B)

The memorandum is written from the viewpoint that our entry into Europe on acceptable terms is an object of policy second only to the achievement of economic growth and stability. The concluding section of the memorandum, on the main lines of our strategy for entry, may therefore need to be discounted to the extent that a full European policy is not at present compatible with the exigencies of our present position in other fields, as e.g. currently in aviation policy.

I understand the Prime Minister may wish to discuss with Sir Burke Trend and myself on 28th October.

A-A

D. S. I very much veget that it man be necessary to sent forward Armer b on honday owning to the afficulties of compressing the wateriel wito a Typable table. But the broad sease of true b is clare from the memorandum aspecially paragraphs 21 - onwards.

23rd October, 1970

THE EEC NEGOTIATIONS - STRATEGIC REVIEW

The need for a negotiating strategy and programme to July 1971

The arguments against undue prolongation of the negotiations need only formal statement. Until the outcome is known there will be uncertainty and tension in both political and economic fields in the United Kingdom, EFTA, EEC and in European relations generally with other countries, notably the Commonwealth and the United States; and within international organisations such as the GATT and perhaps the IMF. The longer the negotiations drag on, the less their prospect of success: the will to succeed is eroded, positions harden, differences multiply and the whole process is brought into public disrepute. Moreover the talks will not be taking place in a vacuum, but in the context of developments, (not necessarily favourable) in the United Kingdom, the Community and the world at large.

- 2. The negotiations also present problems of phasing as well as of duration. As the discussions pass, as they are now beginning to do, from the initial phase of non-committal exploration into the second phase of tense negotiation, especially in sectors of high financial and commercial interest, news reporting and commentaries, and so speculation of all kinds as to the outcome, are bound to intensify. This will be particularly likely when our contribution to the Community Budget, our ability to meet it and the plan for economic and financial harmonisation come under discussion. Still more will speculation intensify, if a final settlement on other important items remains provisional pending the outcome of the central economic and financial discussions. Thus the order in which real negotiation on the main issues takes place is also very important.
- 3. It is therefore necessary to consider a negotiating strategy and programme for the negotiation as a whole, and for its main parts, in the context of likely developments during the period of negotiation. Annex A to this memorandum accordingly sets out in convenient tabular form the progress made so far in the negotiations, with brief indications of our current negotiating objectives. Annex B, in similar form, looks forward over both the negotiating areas and events outside them to July 1971, as the first realistic date by which the negotiations might be brought either to a conclusion or within clear sight of it. The rest of this memorandum discusses the main obstacles to the progress and success of the negotiations and outlines the strategy for overcoming them.

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The main obstacles to the progress and success of the negotiations

- 4. The constitution and internal differences of the Community are notoriously such as to make it very difficult for them to take negotiating initiatives at all, and even to reach agreement on a common reaction to initiatives we make to them. Since we must take the initiative, we should follow their own technique of agreeing a programme and timetable of action before they have agreed, and indeed as a compulsion to agree on, the substance of its constituent items, and ourselves put forward fairly soon at least a broad and provisional programme (i.e. subjects and deadlines) for the whole negotiation. This has two additional important advantages, apart from the maintenance of momentum. The more negotiating time we get, the less the Community have for development of new common policies which we must then either accept or negotiate on. And the reaching of a deadline for agreement on a subject, as is customary with the Community, facilitates the calling of special and if necessary higher level meetings to resolve the issues.
- selected from our own negotiating programme and presented so as to reduce the risk of outright rejection. The essential elements of it are as follows. There are only three issues for negotiation whose importance and difficulty are such that they could conceivably be, if not breaking points, at least major obstacles. These are New Zealand dairy products, Commonwealth sugar and Community financing. There is a fourth key area, i.e. our financial and economic prospects, where by its nature what we have to do is "to satisfy the examiners" rather than to negotiate with them. Any strategic plan must take account of these four problems and also fifthly of the disposition towards us of the individual members of the Six. The following paragraphs discuss each of these five problems in turn. New Zealand dairy products
- deliberate. Mutton and lamb present no significant problem so long as the community regime is a 20 per cent tariff (which New Zealand can easily surmount) and not a variable levy scheme for sheepmeat. On dairy products, given that both the present and the enlarged Community will have a domestic surplus, whereas the United Kingdom meets most of its consumptions from imports, we cannot hope to negotiate for New Zealand the arrangement she would like to have, which would allow her to export present volumes of dairy products to us or to the enlarged Community, and to do so indefinitely. We can only hope for a settlement of a decalage type,

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- i.e. phasing down the volume of New Zealand exports whilst phasing up the price level paid to her, so as to maintain her export earnings over a limited period, as long as is negotiable, and with provision for periodic reviews.
- Even so, this involves our negotiating agreement by the Six, as an 7. exception to the principles of the C.A.P., an arrangement whereby New Zealand would be given, as part of her price, some or all of the levy payments due at each stage on her dairy products, instead of putting these The Community will be resistant to this. to the Community Fund. are saying that New Zealand, on an income per head basis, is as wealthy as or wealthier than European countries; that the proportion of her export earnings arising in the United Kingdom is declining anyway - over the last decade from 56 per cent to 38 per cent, and that her earnings from dairy products are now down to 20 per cent of total export earnings: that she is in a position to, and should for her own sake, diversify her economy further: and that this will only happen if a definite term is set to any special arrangements negotiated for her. Nevertheless the Community cannot in the end show itself totally unsympathetic to New Zealand's position.
 - 8. Repeated searches over the years however have found no other solution than variants on the decalage model indicated above a world commodity agreement would be no help so long as supplies overall are greater than the markets available for them and New Zealand accepts this. We cannot therefore look to new ideas or formulae for a settlement of this problem, but only to a process of grinding out in hard negotiation the best terms we can get somewhere between New Zealand's pressure for a continuing arrangement at something near present volumes, and the Community's pressure for a finite solution which sooner or later can be brought within the principles of the C.A.P. The only conclusion this memorandum can draw therefore, is that the sooner this grinding process is begun by tabling a negotiating proposition on New Zealand dairy products, the sooner we are likely to discover the best terms available.

Commonwealth sugar arrangements

9. The basic position here is that the Six have a current annual surplus of about 1½ million tons, the four applicants a net import requirement of over 2 million tons, so that the overall position of the Ten is currently a deficit of about ½ million tons, met by imports from other countries including Commonwealth countries. But United Kingdom beet sugar

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production has been held down by price and by production quotas for many years, and at the higher Community prices (about £95 a ton of refined sugar as against our £75) our relatively efficient beet industry would soon expand to take up the deficit if it were allowed to do so. For many reasons - balance of payments, political, agricultural (bigger root break for cereal expansion) - we should want it to expand. But the Six will want to limit our expansion, which implies limiting theirs also, and in turn limiting Commonwealth supplies too. Certainly the Six would do nothing for Australia even if we pressed them.

Our present negotiating position (not yet tabled) is for (i) an 10. increase in production by up to 1 million tons for the United Kingdom; (ii) for the Commonwealth, decalage to lower volumes, i.e. from 12 million tons (excluding Australia) to not less than 1 million tons at correspondingly higher prices and (iii) part of the levy proceeds, in proportion to the volume reduction, to be paid to Commonwealth countries as part of their price. But, in addition to the obvious negotiating difficulties with both the EEC and the Commonwealth inherent in this scheme, there are special problems with Commonwealth monocultures especially Mauritius and Fiji where lower volumes mean even higher unemployment, and a host of technical complexities on every point. On the other hand there is a possibility of some alleviation of the difficulties with Commonwealth suppliers by a switch from aid-viasugar to aid-direct. But this switch can only be an alleviation and not a solution, so that as with New Zealand dairy products, there are no easy answers and a long hard grinding out of a settlement is the prospect. Given that, the only conclusion this memorandum can draw is, thatit would be better to start this grind sooner than later, by putting a negotiating proposition on the table at an early date.

Community financing

cussed later, Community financing is the only major issue in the negotiations which might cause us to conclude that in the interests of the United Kingdom itself - not Commonwealth countries - we could not afford to accept the terms available. This is because a British contribution to Community financing which imposed too large a burden on our resources could inhibit the economic growth and stability we need to hold our own in the enlarged Community. Our present position is that the arrangements which fit the more self-sufficient Six may well, on our calculations, impose on us a burden which is too large both absolutely in the above sense, and also in relation to the burdens on the Six. The Six's present position is that the