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PART _____ 3 _____ ends:-

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PART _____ 4 _____ begins:-

_____ 100 to PJH & encl. 8/3/71 _____

AIDE MEMOIRE

Community Finance

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Bohien
10/13
[Handwritten signature]

Contributions and GNP Shares of the Six

1. There will still be some discrepancies in 1975 under the "ressources propres" arrangements between the GNP shares of the Six and their shares of total contributions. This is because:

- a. it was not an objective of the Six's financial agreement to equate GNP shares and shares of contributions, but only to go some way towards correcting imbalances which had previously developed;
- b. the only countries who will be paying a much higher share of contributions than their GNP share are Holland and Belgium/Luxembourg. Both benefit from substantial entrepot trade through Rotterdam and Antwerp and the duties and levies they collect on this trade can quite reasonably be regarded as "belonging" to the Community as a whole. Holland is, in addition, a major beneficiary from the financial system, getting more back for every dollar she puts in than even France does.

The United Kingdom Share of Contributions

2. The paper we circulated to the Six last July showed that on our estimates of how the "ressources propres" system would affect us, we would by the end of the transitional period be paying 31 per cent of the enlarged Community's budget. This estimate was built up as follows:

- i. The enlarged Community's budget was estimated as £4,500 million largely spent on agriculture - this was derived from published estimates by the Commission.
- ii. We estimated that we would contribute £440 million from levy receipts and £700 million from duties.

iii. We made similar estimates of levy and duty contributions by the other Nine.

iv. The remaining contributions needed to make the total up to \$4,500 million were assumed to be collected on a VAT basis and to be proportional to GNP shares.

v. Thus, although we would only pay 17 per cent of all VAT contributions (our GNP share), our share of the budget as a whole is much higher (31 per cent) because we are estimated to account for 45 per cent of all levy contributions and 33 per cent of all duty contributions (this reflects the fact that our imports from third countries, especially of food, would be far larger in relation to GNP, than those of the other members of the enlarged Community).

The Six have suggested that our estimates rather over-stated our likely contributions and substantially under-stated some of their contributions (e.g. German levies). We have never received a definitive reply from the Six (and the Commission's reply tried to show that forecasting was really impossible), but they would probably expect our share of total contributions to be about 25 to 26 per cent.

The Hague Communique

3. The Hague Summit Communique said (paragraph 7) that "the acceptance of a financial regulation for the final period does not exclude its adaptation by unanimous decision, especially in the context of an enlarged Community and on condition that the principles of this regulation are not altered". Mr Rippon, in commending our present proposals to the Six, has pointed out that we could have used this part of the Communique as justification for a request that the "ressources propres" system should be altered to make it more favourable to us; but we recognised that any such request would cause the Six great difficulty and therefore decided to accept the system as it stands, subject only to satisfactory transitional arrangements and a "safeguard clause".

Extract from a note of a meeting (PM:CBi) 8.3.71
Top copy on Industrial Relations, June 1970

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~~Mr. Adamson said that at present there were only loose ideas and much would depend on what stage of the inflationary down-turn had been reached and what the prospects were for growth. It was possible that the C.B.I. and the T.U.C. might come to an arrangement whereby both wage settlements and price changes would be scaled down over a period. Exceptions might have to be made for the lower paid.~~

~~Mr. Partridge said that the policy would inevitably need to bite on prices as well as wages but it would be difficult to see how prices could be dealt with unless there was some investigatory system which, as past experience showed, had tended to work against profitability. But the possibilities would need to be studied. The Chancellor said that it would be useful if both he and the Secretary of State for Employment could be kept in touch with the development of the C.B.I.'s thinking.~~

Europe

Mr. Partridge said that the C.B.I. had no evidence of any weakening in support by industrialists for entry into the E.E.C. If a recession developed, sentiment might change, but at present the majority of British industry remained firmly in favour of entry. Both he and Mr. Adamson felt that the Government might do more to stress the political advantages of entry. The Prime Minister said that it was hoped to get the main issues settled by July. As solutions to the main problems emerged, this would make it easier to develop the case for entry, including the political advantages.

The Prime Minister asked what impressions Mr. Partridge and Mr. Adamson had formed from their recent visit to the United States. Mr. Adamson said that there were some anxieties in the United States about the Common Agricultural Policy and about the build-up within Europe of multi-national companies in fields of advanced technology where the United States had hitherto been pre-eminent. There was also a feeling that the United States, Britain and the E.E.C. should join together to put pressure on Japan to liberalise her own home market.

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10, Downing Street,
Whitehall.

P

Prime Minister
EUROPE

Here are the papers for which you asked Sir W. Nield last weekend.

What his covering personal note says is:

(a) A final, "munch" summit of 10 is inevitable (and probably desirable, so as to get Heads of Government committed to the hilt);

(b) A bilateral talk with Pompidou ^{in April} is an optional extra, probably desirable as a means of clearing the path to the summit.

I think this view is widely held in the European team.

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WM PSSM 4/3 9
Prime Minister

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~~RA~~
MR ARMSTRONG

1. I attach the two papers for Ministers which your letter of 1 March requested me to prepare. The papers have been agreed with Sir Con O'Neill and his principal colleagues of the Brussels Team.
2. The first paper, Flag A, answers request i. in your letter. The "implications" it deals with are, as I think you intended, confined to implications for the conduct of the negotiations.
3. The second paper, Flag B, answers the questions in paragraph ii. (a) to (d) of your letter in its first paragraph. The implications in your (d) are set in terms of the United Kingdom position in May being much what it is now. This is because the Six seem unlikely to move significantly before May, unless new events, e.g., a meeting between the Prime Minister and M. Pompidou alter the position of France and so of the Community, which would, of course, correspondingly alter our assessment of our position.
4. The questions in your ii. (e) and (f) are dealt with in paragraphs 2 and ^{and onwards} 3 of the second paper, the underlined side headings indicating the considerations affecting summits of different kinds. This is necessary both for clear analysis, and to take account of the new decision for Mr Soames to respond to French suggestions for a bilateral meeting with M. Pompidou.
5. I am sending copies of this minute to Con O'Neill, Raymond Bell, Patrick Shovelton and Peter Preston (representing Roy Denman in the latter's absence in Brussels) and Freddie Kearns.

W A NIELD

5 March 1971

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Copied to H.J. Barrington
FCO. V.M. Cullen
14/3.

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ENLARGEMENT OF THE EUROPEAN COMMUNITIES

The Arguments for and against Breaking the Back of the Negotiations by July 1971

1. To break the back of the negotiations for entry into the Communities, we must be sure of a satisfactory settlement of:

- a. Community finance;
- b. New Zealand butter and cheese;
- c. developing Commonwealth sugar.

2. These issues are likely to form the crux of the negotiations, both for us and the Six. But the French will not agree to a settlement of b. and c. until they are equally sure of satisfactory agreement on transition in agriculture, particularly Community preference for French agricultural exports to our market. The French may also raise questions outside the formal negotiations regarding sterling and the United Kingdom economy, both in general terms, and more specifically in relation to the renegotiation of the sterling agreement and the Basle facility.

3. Enough groundwork has already been done on Community finance to enable agreement (or disagreement) on what we have to pay to be reached by Ministers quickly. Little more work will be required before the same is true of New Zealand butter and cheese and developing Commonwealth sugar. But because of the French position, we will not be able to settle any of the three major issues until we have settled agricultural transition. And a few weeks more of discussion at official level will be necessary before agricultural transition is ripe for Ministerial decision. (See paper B, paragraph 1 d).

4. Ministerial meetings in Brussels have been arranged for 16 March, 11 May and 22 June. All three major issues are likely

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to be ripe for Ministerial decision by 11 May. If they are not decided on 11 May, the confrontation of positions on both sides and the fact that only 2½ months will remain before the end of July, together with the exigencies of the Parliamentary situation at home will produce an atmosphere of crisis. The negotiations will therefore tend naturally to move to a conclusion on the main issues in May/June.

5. It will be to our advantage to break the back of the negotiations by July for the following reasons:

i. once the groundwork has been completed and the respective positions have been defined, the atmosphere of crisis in with the final package will have to be negotiated cannot be maintained for very long. To drag the negotiations out until after the summer holidays (or even until July) will risk boredom, loss of momentum and consequent failure; and if the outcome is still in doubt after July, additional risks will attend the Party conferences;

ii. the longer the negotiations continue, the greater the risk of some new difficulties arising. By the autumn, Italy will be approaching her Presidential elections; the atmosphere in the United States is likely to be less favourable; and the possibility of trouble from a sheepmeat regulation will increase. Our balance of payments is now strong enough to prevent the French using it as a reason for making new difficulties; but we cannot count on the same degree of strength persisting until the autumn;

iii. if we fail to break the back of the negotiations by the summer, we could well find the outcome in doubt, given Community procedures, until the end of the year. We might then not succeed in joining the Communities by 1 January 1973.

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The passage of the necessary legislation could be uncomfortably late in the life of this parliament and there would be greater risk of new decisions being taken by the Community without us before we join.

6. It might be argued against breaking the back before July that if we want to bring the negotiations to a rapid conclusion we will have to pay for it, and that we might get better terms by prolonging negotiations. But the momentum of negotiations will enable matters to be brought to a head in May or June without any special efforts or extra concessions to speed things up; to prolong negotiations will be to risk them turning sour. And, there are no likely developments (such as an announcement of United States troop withdrawal or a breakthrough in Herr Brandt's Ostpolitik) which could radically alter the balance in our favour in Brussels later in the year.

Conclusion

7. The arguments for breaking the back of the negotiations by July 1971 are overwhelming; and we should aim to achieve this in May or June, in accord with the natural momentum of the negotiations. The implications, if we are successful, are that some lesser though important and still difficult issues in the negotiations, together with the drawing up of a treaty of accession, will remain to be agreed in the last months of 1971; and that this timetable should permit entry on 1 January 1973.

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ENLARGEMENT OF THE EUROPEAN COMMUNITIES

A Summit Conference

1. Paragraphs 1 and 2 of paper A set out the essential issues on which the outcome of the negotiations will turn. By May the positions of the two sides on the crucial items should have been sufficiently clarified, and officials estimate that the decision will then lie:

a. on Community finance, between the United Kingdom position of 16 December (starting with 3 per cent and moving to 15 per cent over five years and to 16 per cent in the eighth year) and a Community position which might start at 8 or 10 per cent, moving to 22 per cent over six or seven years;

b. on New Zealand butter and cheese, between the present United Kingdom position amounting to present quantities for five years with a review about the future and a Community position amounting to the equivalent of degression to about half these quantities at the end of five years;

c. on developing Commonwealth sugar, between insistence on our part on detailed assurances relating to Commonwealth access to the enlarged Community market in the years after 1974, and an offer on the Community's part of an assurance only in very general terms;

d. on agricultural transition, between the United Kingdom request for flexibility in making the necessary price escalations and gradualness in introducing Community preference; and a Community position where the former will depend on full application of Community preference on entry. (We do not yet know the Community positions in detail, but expect to get a statement from them next week).

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France will not agree to settle b. and c. until she can see the settlement on d. The question is, how might we best break the present log jam on these issues?

Is it in our interests to go for a Summit Conference?

2. It is important to distinguish between different kinds of summit conference. A multilateral summit meeting may have to take place in June or July if a deadlock is reached at Foreign Minister level, but the meeting would then not be part of a deliberate plan, but a summit of the last resort, and we should try to avoid such a contingency.

3. This possibility has already been discussed privately between some of the Six bilaterally. But since the steam will go out of the negotiations as soon as a multilateral summit becomes generally accepted, and since such a summit would not in any case be in our interest, we should not do anything to suggest or encourage it.

A Summit designed to break a deadlock at Foreign Minister Level

4. It is not going to be in our interest to plan to conclude negotiations by means of any summit (whether bilaterally with France or of the Seven or Ten) designed to retrieve a deadlock at Foreign Minister level. Our interest in such a meeting would be to put additional pressure on Pompidou, but Pompidou's own interest will be to avoid isolation from the Five, and he would therefore seek a prior summit of the Six. The concessions we would have to offer in these circumstances, with Pompidou's personal prestige committed to a satisfactory outcome for France, would inevitably be greater. And concessions outside the field of the negotiations in Brussels are either already the subject of controversy between France and the Five (e.g. institutional development) or relate to issues where we shall not be in a position to make a concrete offer during the spring or summer (defence). To threaten the Community openly with the consequences for our policies of failure to enter the Community would be counter-productive.

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5. A bilateral meeting between the Prime Minister and Pompidou designed to break a deadlock at Foreign Minister level would be even more hazardous since it would highlight publicly the position of France as the principal obstacle to agreement, and, since we should be without allies at such a meeting, we would either have to countenance failure or ourselves make most of the concessions necessary to reach agreement. Indeed a bilateral meeting of this kind could only be attractive to us in circumstances in which Pompidou would almost certainly refuse to attend.

A bilateral with Pompidou designed to avoid (not break) deadlock

6. A meeting between the Prime Minister and Pompidou of a different kind could be the means of ensuring that deadlock at Foreign Minister level is avoided and so obviate the need for a post-deadlock summit of the kind discussed above. If such a meeting could be arranged before the crunch comes in Brussels (i.e. before 11 May) it might be possible to lay the foundations for a settlement of the main outstanding issues without the outcome being subject to a public assessment of victor and vanquished. Such a meeting could be presented as a natural event in the course of the Prime Minister's meetings with other heads of government following those with Nixon and Brandt and preceding that with Colombo, and could include discussion of general foreign policy issues as well as the Brussels negotiations.

7. There have been suggestions from Paris that if the Prime Minister were to seek a meeting of this kind it could help to ensure a positive attitude in the final stages of the negotiations. The outcome might be an understanding that France would enjoy Community preference in the agricultural field on our entry in return for agreement to a presentable offer for New Zealand and developing Commonwealth sugar, and the differences on Community

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finance might be narrowed. The Prime Minister would no doubt also be able to give Pompidou some general assurances regarding policies not directly involved in the negotiations (including sterling), though detailed agreement on these policies would be neither possible nor appropriate.

8. This would leave the main lines of the settlement on the crucial issues to be defined, if possible, at a meeting or meetings of the Foreign Ministers in May.

Conclusions

9. We should try to avoid having to conclude the negotiations by means of a summit designed to break deadlock at Foreign Minister level. But there are good arguments for trying to arrange a meeting between the Prime Minister and Pompidou in the second half of April as a means of avoiding deadlock at Foreign Minister level in May.

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PERSONALMR ARMSTRONG

1. The advice in my submission about Europe is consistent with that which I gave to the Prime Minister a week ago tonight subject to two points:

a. since last Friday it has been decided that Mr Soames should respond to signals that M. Pompidou would welcome a bilateral. This is one form of the contingency to which I subjected my advice, namely that the negotiations would move towards a summit crunch in June or July unless there were earlier developments which altered its course. (I also said that we should not ask for a bilateral with Pompidou, but we should have no option but to respond if he asked for one - I take this to be the current situation);

b. I personally believe that we shall, whatever developments intervene, have to end up with a final and crucial summit, because: i. the Foreign Ministers of the Six are never given sufficient authority to make a move at negotiating conferences; ii. the French, i.e. ~~Mr~~ ^{except} Pompidou will never declare the French position ^{except} under pressure with the final clock stopped and the world watching.

2. Subject to these considerations, I think the advice I gave on Friday and that given in tonight's submission is consistent.

T.A.N.

W A NIELD

5 March 1971

Copied to N.J. Barrington
F.C.D. V. McClean 14/3.

COVERING SECRET

European Policy 8



Chancellor of the Duchy of Lancaster

Foreign and Commonwealth Office
Downing Street London SW1
Telephone 01-930 8440

4 March 1971

Am s/3

Dear Peter,

— You may like to see, for your information, copies of the draft papers which Con O'Neill has sent to Bill Nield in response to Robert Armstrong's letter of 1 March setting out the Prime Minister's queries on Europe. I think these drafts were discussed this morning, and new versions will presumably emerge during Mr. Rippon's absence in North America. In the meantime the drafts broadly represent Mr. Rippon's line of thinking.

Yours sincerely

C.C.C. Tickell

(C.C.C. TICKELL)
Private Secretary

P.J.S. Moon Esq.,

COVERING SECRET

Keep

~~Mr Tickell~~

Approach to Europe

I attach two draft papers which we have prepared for discussion with Sir W Nield and other officials tomorrow morning, in response to Mr Armstrong's request in his letter of 1 March.

mfr

J A Robinson

3 March 1971

Copied to
Sir C O'Neill

M^r. R. J. J. has seen & agreed. I have sent copies on a personal basis to M^r. Morn at No. 10.

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Foreign and Commonwealth Office

London S.W.1

3 March 1971

Sir William Nield KCB
Cabinet Office
London SW1

Approach to Europe

We spoke on Monday about Armstrong's letter of 1 March to you (not copied to all), and agreed that we should in consultation with Peter Thornton prepare draft papers analysing the arguments for and against breaking the back of the negotiations by July 1971; and analysing the factors relating to a summit conference of heads of government of the Six and the Four.

2. You have since arranged to hold a meeting tomorrow morning to consider these drafts.
3. I enclose draft papers which we have prepared after discussion with Peter Thornton.

C O'Neill

Copied to

P E Thornton Esq Cabinet Office
G R Bell Esq CB Treasury
G R Denman Esq CMG DTI
W P Shovelton Esq DTI
F M Kearns Esq CB MC MAFF

SECRET

Enlargement of the European Communities.

The Arguments for and against breaking the back of the Negotiations by July 1971.

To break the back of the negotiations for entry into the Communities, we must be sure of a satisfactory settlement of

- (a) Community finance;
- (b) New Zealand butter and cheese;
- (c) developing Commonwealth sugar;

The French will not agree to a settlement of (b) or (c) until they are equally sure of satisfactory agreement on transition in agriculture, particularly Community preference for French agricultural exports to our market.

2. Enough groundwork has already been done on Community finance to enable agreement (or disagreement) to be reached by Ministers quickly. Little more work will be required before the same is true of New Zealand butter and cheese and developing Commonwealth sugar. But because of the French position, we will not be able to settle any of the three major issues until we have settled agricultural transition. And a few weeks more of discussion at official level will be necessary before agricultural transition is ripe for Ministerial decision.

3. Ministerial meetings in Brussels have been arranged for
- 16 March
 - 11 May
 - 22 June.

All three major issues are likely to be ripe for Ministerial

decision by 11 May. That meeting is likely to bring about an atmosphere of crisis in the negotiations. There are strong arguments for aiming to maintain this atmosphere of crisis through to as early a conclusion on the main issues as possible. This could be either on 11 May or at an additional meeting or meetings in May or in June.

4. The negotiations will therefore tend naturally to move to a conclusion on the main issues in May/June. This will be to our advantage for the following reasons:

- (i) once the groundwork has been completed and the respective positions have been defined, the atmosphere of crisis in which the final package will have to be negotiated cannot be maintained for very long. To drag the negotiations out until after the summer holidays (or even until July) will risk boredom, loss of momentum and the risk of failure; and if the outcome is still in doubt after July, additional risks will attend the Party conferences;
- (ii) the longer the negotiations continue, the greater the risk of some new difficulties arising. By the autumn, Italy will be approaching her Presidential elections; the atmosphere in the US is likely to be less favourable; and the possibility of trouble from a sheepmeat regulation will increase. Our economic position and balance of payments is now strong enough to prevent the French using it as a reason for making new difficulties; but we cannot count on the same degree of strength persisting until the autumn;
- (iii) if we fail to break the back of the negotiations by the

summer, we could well find the outcome in doubt, given Community procedures, until the end of the year. We might then not succeed in joining the Communities by 1 January 1973. The passage of the necessary legislation could be uncomfortably late in the life of this parliament and there would be greater risk of new decisions being taken by the Community without us before we join.

5. It might be argued against breaking the back before July that
 - (a) if we want to bring the negotiations to a rapid conclusion we will have to pay for it;
 - (b) some new development might occur, if negotiations were prolonged, which could help us.

But neither of these arguments carry conviction. The momentum of negotiations will enable matters to be brought to a head in May or June without any special efforts to speed things up; and, although we are likely to be without an effective Dutch Government for two or three months from April, there are no other developments (such as an announcement of US troop withdrawals or a breakthrough in Herr Brandt's Ostpolitik) which could radically alter the balance in our favour in Brussels.

Conclusion

6. The arguments for breaking the back of the negotiations by July 1971 are overwhelming; and we should aim to achieve this in May or June, in accord with the natural momentum of the negotiations. The implications, if we are successful, are that some lesser issues in the negotiations, together with the drawing up of an instrument of accession, will remain to be agreed in the last months of 1971; and that ^{this} timetable should permit entry on 1 January 1973.

Enlargement of the European
Communities
A Summit Conference

Paragraphs 1 and 2 of paper A set out the essential issues on which the outcome of the negotiations will turn. It seems likely that the decision

- (a) on Community finance will lie between the UK position of 16 December (starting with 3 per cent and moving to 15 per cent over five years and to 16 per cent in the 8th year) and a Community position which might start at 8 or 10 per cent, moving to 22 per cent over six years;
- (b) on New Zealand butter and cheese between a UK position amounting to present quantities for five years with review and a Community position amounting to the equivalent of depression to 60 per cent at the end of 5 years;
- (c) on developing Commonwealth sugar between insistence on our part on a detailed assurance relating to quantities and earnings for the years after 1974, and an offer on the Community's part of an assurance in very general terms;
- (d) on agricultural transition between a UK request for flexibility in price adaptations and gradualness in introducing Community preference, and a Community position where the former will depend on full application of Community preference on entry.

Something like this position is likely to be reached by May. France will not agree to settle (b) and (c) until she can see the settlement on (d).

2. If we were negotiating with the Community alone we could settle the outcome in March or April within the Brussels Conference framework. Only France stands between us and agreement, and the negotiations are essentially between the Five and France within the Community and between Britain and France in the Conference.

A Summit designed to break a deadlock at Foreign Minister level

3. Because of the possibility that negotiations at Foreign Minister level might reach deadlock, the possibility of a summit conference of the Six, the Seven or the Ten, has been mentioned as a means of breaking such a deadlock. Brandt and Colombo, and later Brandt and Pompidou, have discussed it and Harmel has written to Pompidou about it. It would not be difficult to make or provoke a proposal of this kind, if it appeared to be in our interest to do so. But whatever judgement we make of our interest in a summit to break a deadlock in Brussels, we should not give currency to it before we need it, since once it is accepted that a summit will be held, the steam will go out of the negotiations in Brussels: decisions will be left to the summit.

4. A summit meeting of this kind - designed to break a deadlock between Foreign Ministers - could be envisaged as

- (i) a multilateral meeting of the Six, Seven or Ten
- (ii) a bilateral meeting with Pompidou;
- (iii) a combination of (i) and (ii).

5. Our interest in a summit of any of the kinds mentioned in paragraph 4 above would be as an additional means of putting

pressure on Pompidou personally and on the French Government generally. Pompidou's interest will be to avoid isolation from the Five. In this context, the fact that a summit of the Seven or Ten would be preceded by a summit of the Six (which in turn might be preceded by a summit of Brandt and Pompidou) at which the Six would agree on the position to put to us, our own position at the summit might not be an easy one. If we were to use it successfully to retrieve a breakdown at Foreign Minister level we should have to be able to break the common front of the Community and so force concessions from France.

6. This would be a difficult and even hazardous operation. It could only succeed if we could be confident that last minute concessions at, or immediately before a summit of the Seven or the Ten would be sufficient to line up the Five with us so that the French had to choose between conceding what we wanted and breaking the enlargement negotiations. It is not an impossible scenario. But it would involve (if we were to avoid paying twice) withholding all concessions at the May Ministerial meeting in Brussels and playing for a crisis and deadlock at that meeting; and we could feel no certainty that the pressure which we would exert on the Five by means of our concessions would outweigh the pressure which the French would certainly exert on the Five in the cause of the Community's cohesion and further development.

7. Our position at a summit of the Seven or Ten might be less difficult if we were in a position to offer something significant and concrete to either the Five or the French outside the context of the negotiations proper. But, the possibilities for a concession of this kind either lie in fields which are already the subject of controversy between France and the Five (for example, institutional

development) or relate to issues where we shall not be in a position to make a concrete offer during the spring or summer (defence.)

8. As an alternative to concessions in the context of a summit of the Seven or Ten designed to retrieve deadlock at Foreign Minister level we would contemplate threatening the Community at the summit with the consequences of failure to enlarge the Community. But, although we shall wish to ensure discreetly that the Six are aware of the possible consequences of failure for our own policies, it would be counter-productive to threaten these consequences overtly at a meeting at the summit or Foreign Minister level.

9. A bilateral summit meeting between the Prime Minister and Pompidou designed to break a deadlock at Foreign Minister level, whether we conceived this meeting as preparatory to a summit of the Seven or Ten or as a means of reaching agreement with the French in isolation, would be equally, if not more hazardous.

Many of the factors outlined in paragraphs 5-8 above would apply equally in the case of a bilateral meeting with Pompidou following deadlock at Foreign Minister level. In addition, such a bilateral meeting would highlight publicly the position of France as the principal obstacle to agreement, and would involve Pompidou's personal prestige and face to a degree which would make it the more necessary for him to show that he had come out of the meeting successful. We should be without allies at such a meeting, and would have to either countenance failure or ourselves make whatever concessions were necessary to reach agreement. Indeed the circumstances in which such a bilateral meeting with Pompidou could appear attractive from our point of view would almost certainly dissuade Pompidou from agreeing to attend.

10. We therefore conclude that we should not contemplate a summit meeting, whether of the Two or of the Seven or Ten as part of a deliberate plan for the conclusion of the negotiations. This is not to say that a multilateral summit meeting may not have to take place if deadlock is reached at Foreign Minister level. But it would then be a meeting of the last resort, not part of a deliberate plan: it is unlikely to be beneficial to us, and we should play our hand in Brussels with a view to trying to manage without it. A Bilateral meeting with Pompidou designed to avoid a deadlock

11. A meeting between the Prime Minister and Pompidou of a very different kind could be the means of ensuring that deadlock at Foreign Minister level is avoided and so obviate the need for ^{the} kind of dramatic post-deadlock summit discussed above. If a meeting could be arranged between the Prime Minister and Pompidou before the crunch comes in the Brussels negotiations (i.e. before 11 May) it might be possible to ^{lay} leave the foundations for a settlement of the main outstanding issues in the negotiations, without the outcome of such a meeting being subject to a public assessment of victor and vanquished. Presentationally such a meeting could be represented as a natural event in the course of the Prime Minister's meetings with other heads of Government, following those with Nixon and Brandt and preceding that with Colombo. If the meeting were held in April, the atmosphere would not be one of crisis. Pompidou might be led to feel that his prestige and personal position would not be endangered by such a meeting; and indeed the meeting could be so arranged as to include discussion of a number of general foreign policy issues not related to the Brussels negotiations.

12. We have received a number of suggestions from Paris that, if the Prime Minister were to seek a meeting of this kind, it could be helpful in ensuring a positive French attitude in the final stages of the negotiations. There is some evidence that Pompidou's apparent reluctance to take a clear line regarding enlargement is inhibiting progress in Brussels, and it has been represented to us that means must be found of getting Pompidou himself to focus on the main issues involved in the negotiations.

13. The outcome of a pre-crunch meeting with Pompidou in April might be an understanding that France would enjoy Community preference in the agricultural field in return for agreement to a presentable offer to New Zealand and developing Commonwealth sugar. A meeting might also narrow the differences on Community finance for example by establishing that there could be give in the French position on the earlier years in return for some give on our part in the later years over the transitional period. The Prime Minister would no doubt also be able to give Pompidou some general assurances regarding policies not directly involved in the negotiations (including sterling), which could help to achieve a satisfactory settlement. But detailed agreement on these policies would be neither possible nor appropriate.

14. This would leave the detailed settlement to be defined at the meeting of Foreign Ministers on 11 May, which could if necessary be supplemented by prolonging the meeting in to 12 and 13 May (which have been reserved for a meeting of the Six Foreign Ministers on political unification) and renewed if necessary on 18 May (which has been reserved for a meeting of the Ten Foreign Ministers on political unification.)

Conclusions

15. It would be undesirable to plan to conclude negotiations by means of a summit (whether bilaterally with France or of the Seven or Ten) designed to retrieve deadlock at Foreign Minister level. (A summit of the Ten could on the other hand be arranged to crown the success of the negotiations, once this was assured.)
16. But there are good arguments for trying to arrange a meeting between the Prime Minister and Pompidou as a means of avoiding deadlock at Foreign Minister level in Brussels (i.e. well before 11 May) at which an understanding could be reached with France on the essential elements of an agreement on the main outstanding issues. It would be desirable to begin now to try to arrange a meeting of this kind on a date in the second half of April.

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European Policy

RECORD OF THE PRIME MINISTER'S MEETING WITH SGR. MALFATTI,
PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES,
AT 6.15 P.M. ON WEDNESDAY 3 MARCH 1971 AT THE HOUSE OF
COMMONS

Also present:

Sgr. Renato Ruggiero

Mr. R. T. Armstrong

Sgr. David Reinert

Mr. P. J. S. Moon

The Prime Minister said that he welcomed the opportunity for a talk with Sgr. Malfatti at this stage in our negotiations for entry into the E.E.C. when some progress had been made but certain major problems remained. We wanted to bring the negotiations to a successful conclusion quickly. They had been going on for ten years. This was a long time to hold people's interest. However the Prime Minister was confident that there would be a good response both from the House of Commons and from the British public to good news from Brussels.

The Prime Minister said that a further reason why he wished to see the negotiations concluded quickly was that the Community itself had to progress. Steps were already being taken in the monetary and economic field. With regard to political development he had recently spoken of this to the meeting in London of European parliamentarians. He had urged the need for the same originality and ingenuity of thought which had been shown at the time of the founding of the Community.

Sgr. Malfatti said that he agreed with the need to move ahead quickly. So far the pace of the negotiations

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had been satisfactory. One inevitable problem was that of getting an agreed negotiating position among the Six. For its part the Commission had always taken a favourable stand on Britain's application. Sgr. Malfatti said that he had found that this attitude was shared in all the capitals of the Six.

Turning to the immediate problems in the negotiations, Sgr. Malfatti said that the most important were now the financial mechanism, New Zealand and sugar. It was important that the negotiations should not stall and there should be no crisis. With regard to the financial mechanism, he thought it would be a mistake to fall into the trap of comparing figures. This would transfer the negotiations from political hands to those of the statisticians. The British proposals had been rejected by all the Six. The best course would be to get back to a study of methods and principles. There was no need to lose time in the negotiations. Other things could be dealt with meanwhile, and it should still be possible to keep to the timetable of bringing all the major issues to a decision before the autumn.

Referring to what the Prime Minister had said about political institutions, Sgr. Malfatti said he had read his speech to the European parliamentarians. He would be interested to hear the Prime Minister's ideas in more detail. The Prime Minister replied that he had been looking to the future and at what would eventually be required in the political and later in the defence field. People argued about federation and confederation. He thought this was likely to be a sterile debate. He believed that what

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was needed were totally new concepts.

The Prime Minister asked Sgr. Malfatti to say why the British financial proposals were inadequate.

Sgr. Malfatti said that first there was the political difficulty that they had been rejected by all the Six. Secondly, he thought that the British approach was wrong in that we were tending to look too much at the burden for individual countries. We should also give consideration to the solidarity of the Community and the financial system which was made up of the three elements of levies, tariffs and V.A.T. Mr. Rippon had said that if our proposals resulted in burdens for others we would be prepared to look at them again. Sgr. Malfatti thought that this was a limited approach and not the correct one. Moreover the proposed initial figure of 3% would not in fact cover our costs, taking into account the social fund, the fund for research and development, the guidance part of the agricultural fund and restitutions arising, for example, from Danish agricultural exports to the United Kingdom.

The Prime Minister said that we had undertaken to accept the 'ressources propres' in full as the final stage.

With regard to our initial payments and the point

Sgr. Malfatti had made about covering costs, he asked whether the Commission could say what we would get back from our contribution. Sgr. Malfatti said that he thought this was just the kind of approach we should not adopt.

This was the approach of "a fair return". The Prime Minister said that he accepted this but we had to deal with the point which Mr. Schumann and now the President of the Commission

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had made about our not covering our costs.

Sgr. Ruggiero drew attention to what Sgr. Malfatti had said about restitutions on Danish agricultural exports to the United Kingdom which could be very large. The Prime Minister said that he was not sure that this need be so. It was very difficult to explain to his colleagues and to opinion here why our proposed financial contribution was too low and why it would not cover our costs if we could not say what those costs were. He asked Sgr. Malfatti what initial contribution would, in the view of the Commission, cover our costs. Sgr. Malfatti again said that he could not give a figure and that he did not think that this was the right approach. He repeated that he thought the search should be for methods and principles. One of these was the principle of progressivity. The Commission itself had at the beginning produced two models. These had perhaps been abandoned too quickly. When the elements for a satisfactory mechanism had been worked out then there could later be discussion of figures.

The Prime Minister said that Sgr. Malfatti had referred to the political objection that the Six had all rejected our proposals. If by political objections was meant that the Six had decided that Britain must simply be made to pay this was difficult to accept. If it could be shown that our proposals would not cover our costs this was of course a different matter. Sgr. Malfatti said that he wished to dispel any idea that the atmosphere in Europe was one of "let us make Britain pay". He urged that it was necessary to keep the problem in perspective and to

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create the feeling that there was room for discussion.
The Prime Minister agreed that it was important that this problem should not be allowed to get out of proportion and that there should be no crisis.

M.

Distribution:

- ✓ Private Secretaries to
 - Foreign and Commonwealth Secretary
 - ✓ Chancellor of the Exchequer
 - ~Chancellor of the Duchy of Lancaster
- ✓ Sir Burke Trend
- ✓ Sir William Nield

3 March 1971

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MR MOON

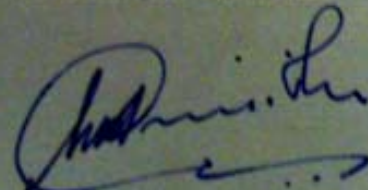
Private Secretary, Mr.

5/3

1. You sent me on 22 February a request for further information on the Six's contributions to and receipts from the Community Chest in relation to GNP shares. The tables at Annex A compare the Six's national contributions to and receipts from the EEC Agricultural Fund in 1968-69 with estimates of the Six's national contributions and receipts in 1975 under their ressources propres arrangements. France's favourable ratios of course disturb correspondingly the ratios of the other Five.

2. The 1975 estimates show shares of contributions for each of the Six (except Belgium/Luxembourg) which are nearer to their shares of GNP than they are in the 1968-69 figures. Germany, however, continues to contribute less, and to receive a lot less than her GNP share; and the Dutch to contribute more, and to receive a lot more, than their share. As in the 1968-69 figures France is the only country to contribute less and receive more than her share.

3. Enlargement of the Community will, of course, affect the Six's national contributions and receipts. The precise effect will depend on the arrangements made for us. At Annex B is a table containing our estimates - not wholly accepted by the Six or the Commission - of the position in a Community of Ten in 1978 assuming no special arrangements are made and the Community budget is £4,500 million, spent, as now, predominantly on agriculture. According to these estimates our share of contributions would be 31 per cent, of receipts 6 per cent and of the enlarged Community's GNP 17 per cent. (National shares of GNP are the figures in brackets in the line giving estimated VAT contributions). None of the Six would on this basis contribute much above their GNP shares; and the German and French shares of contributions would be well below their GNP shares. The French and Dutch would also enjoy shares of receipts much above their GNP shares.



Private Secretary

3 March 1971

Approved by Sir William Nield
and signed in his absence

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CONTRIBUTIONS TO AND RECEIPTS FROM
THE COMMUNITY BUDGET OF THE SIX

TABLE 1

	Estimated 1969 share of GNP of EEC	Community Agricultural Fund: 1968/9 ⁽¹⁾				
		Contributions ⁽²⁾		Receipts ⁽³⁾		Net receipts
	%	£m	%	£m	%	
Germany	35.7	614	29.7	442	21.4	-172
France	33.0	502	24.3	730	35.3	+228
Italy	19.3	526	25.4	456	22.1	- 70
Netherlands	6.4	251	12.1	308	14.9	+ 57
Belgium/ Luxembourg	5.6	175	8.5	132	6.4	- 43
Total	100	2,068	100	2,068	100	-

1. 1968-69 is the latest year for which reasonably complete figures are available for the Six's national contributions to and receipts from the Community Agricultural Fund which accounts for the great bulk of EEC expenditure.
2. In 1968-69 contributions to Community agricultural fund were based on handing over 90 per cent of levies plus a fixed key.
3. Receipts are in part estimated because complete accounts are not yet available.

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TABLE 2

	Estimated 1975 share of GNP of EEC	Community Budget, 1975				
		Contributions ⁽¹⁾		Receipts		Net receipts
	%	£m	%	£m	%	
Germany	37.0	1,390	33.4	720	18.0	-670
France	31.6	1,100	26.4	1,520	38.0	+420
Italy	19.7	850	20.5	720	18.0	-130
Netherlands	6.4	455	10.9	760	19.0	+305
Belgium/ Luxembourg	5.3	365	8.8	280	7.0	- 85
Total	100	4,160 ⁽²⁾	100	4,000 ⁽³⁾	100	-160 ⁽³⁾

1. These are based on estimated levy and duty collections by the Six 90 per cent of which would be handed over to the Community budget in 1975; in addition we estimate that substantial balancing VAT contributions would be necessary totalling £1,660 million. Allowance has been made for the arrangements limiting changes in national shares of contributions which operate until 1978.
2. Total of 1975 budget is derived from a recent Commission estimate.
3. £160 million is assumed to be retained by the Commission for administrative expenses and has accordingly not been distributed as national receipts.

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TABLE 1

Estimated Contributions to and receipts from

Million us at constant prices

	Germany		France		Italy		Netherlands
CONTRIBUTIONS:							
Levies	150	(15)	50	(5)	160	(15)	90
Duties	400	(18)	360	(17)	275	(13)	135
Total levies and duties	550	(17)	410	(13)	435	(14)	235
Value added tax ⁽¹⁾	390	(28½)	340	(25)	220	(16)	70
Total Contributions (2)	940	(21)	750	(16)	655	(15)	305
RECEIPTS							
From FEOGA	540	(14)	1,440	(36)	610	(15)	720
Other ⁽³⁾	65	(25½)	75	(25)	50	(16)	15
Total Receipts	605	(15)	1,515	(35)	660	(15)	735
CREDIT	-		765		5		430
DEBIT	315		-		-		-

Figures in brackets show the percentage allocation between countries.

- Notes: (1) Contributions from value added tax have been allocated between countries in proportion to GDP shares, projected from OECD growth rates.
 (2) Includes contributions to FEOGA, the European Social Fund, Euratom's common programme, and other contributions to the Community's research and development and the Communities' administrative expenses.
 (3) Allocated between countries in proportion to GDP shares, projected from OECD growth rates, but excluding receipts for the administration of the Community.
 (4) "Other" receipts exclude those for administration expenses and consequently 200 million U.S. of contributions have not been allocated.

Community budget for a Community of Ten: 1978

la	Belgium/Luxembourg		Total Six		Total Three		UK		Total Ten
(9)	50	(5)	500	(50)	50	(5)	440	(45)	990
(7)	130	(5)	1,310	(61)	130	(6)	700	(33)	2,140
(8)	100	(6)	1,810	(55)	100	(6)	1,140	(36)	3,130
(5)	55	(4)	1,075	(78½)	60	(4½)	235	(17)	1,370
(7)	235	(5)	2,835	(64)	240	(5)	1,375	(31)	4,500
(18)	290	(7)	3,600	(90)	200	(5)	200	(5)	4,000
(5)	10	(4)	235	(78½)	15	(4½)	50	(17)	300(1)
(17)	300	(7)	3,835	(89)	215	(5)	250	(6)	4,300
	65		950		-		-		-
	-		-		25		1,125		200(4)

to GDP shares, projected from OECD growth rates.

of research and development and the Communities' administrative expenses.
 rates, but excluding receipts for the administration of the Community.
 million U.S. of contributions have not been allocated.

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Chancellor of the Duchy of Lancaster

Foreign and Commonwealth Office
Downing Street London SW1
Telephone 01-930 8440

3 March 1971

P.A.

Am.

3/3

Dear P. J. S. Moon

I enclose, as promised, an advance copy of the record of the private conversation between the Chancellor of the Duchy and the President of the European Commission which took place this morning. The conversation lasted about an hour. I gather nothing new was said at the twenty minute plenary meeting with officials that followed.

Yours sincerely

(C. C. C. Tickell)

P. J. S. Moon, Esq.

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RECORD OF PRIVATE CONVERSATION BETWEEN THE
CHANCELLOR OF THE DUCHY OF LANCASTER AND THE
PRESIDENT OF THE EUROPEAN COMMISSION
FOREIGN AND COMMONWEALTH OFFICE
3 MARCH 1971 AT 11.00 hrs

The Rt. Hon. Geoffrey Rippon
Q.C., M.P.

Signor Malfatti

Signor Ruggiero

Mr. Tickell

Interpreter

Mr. Rippon said that Signor Malfatti's visit was very opportune. We were now arriving at the heart of the negotiations. He would much value his advice both on how to tackle some of the points at issue and on the timing. ~~So far as the British Government were concerned,~~ He hoped that important progress would be possible at the Ministerial meeting on 16 March, and that the May meeting could, if necessary, be extended to settle the remaining major items. ^{2. M. R. said he} ~~He would take~~ advantage of the ^{private} talk to make what were perhaps the most important ^{points}. On the negative side, few problems had caused ~~us~~ more trouble in Britain than the new Fisheries Regulation,

and none would cause more than the imposition of a Sheepmeat Regulation before the conclusion of the negotiations. The problems of Community finance were in the forefront of our minds, but ~~politically~~ those of New Zealand dairy products and sugar from the developing Commonwealth countries ^{had perhaps} ~~were even more~~ important ^{greater importance.}

3. Signor Malfatti said that before replying to Mr. Rippon's specific points, he would like to say something general. First, he wished the British Government to know that the European Commission believed in the enlargement of the Community and would do all in their power to bring it about. Europe was at present incomplete. ~~Secondly~~ On his visits to the various Community capitals, he had found all the Governments ~~concerned~~ without exception in favour of enlargement. This evident goodwill was a vital factor. ~~Thirdly~~ There had been remarkable progress so far in the negotiations. It might not always be apparent, although no-one could deny the value of the agreements on ~~such subjects as~~ Hong Kong, the mechanisms of industrial transition, the arrangements for the ^{Asian} ~~general~~ Commonwealth, and the offer of association to the African Commonwealth, but given the laborious way in which - inevitably - the negotiations had to be conducted, it was remarkable how far they had already got. He was particularly pleased at the progress at the Council meeting on 1 March.

4 Signor Malfatti said that he agreed with Mr. Rippon that ^{it would be} ~~for political~~ ^{useful to make further progress in the} ~~reasons we should try and accelerate the~~ negotiations. He hoped that the essential issues would be settled before the autumn. ~~It would indeed be valuable to make progress on 16 March and he hoped~~ ^{The meeting would be} ~~that agreement would be possible on three~~ ^{important, and he hoped} questions: the European Investment Bank, the mechanisms of agricultural transition, and Community preference. The Community had taken up positions on the last two at the Council meeting on 1 March. ~~He wished to emphasise that~~ the Community realised there might be practical and technical problems for Britain and had agreed on means for providing flexibility. ~~The problem of~~ Community preference had great political importance and its solution could open the way to the settlement of problems which were of much greater real importance. ^{S. Signor Malfatti} ~~He~~ then turned to Community finance. In his view there was a danger of the argument ^{on this subject} ~~over Community finance~~ becoming a sort of sporting event. This could lead to the adoption of excessively rigid positions by both sides from which both would find it difficult to move. ~~He thought~~ ^{We} had to find means of defusing the problem by adding new elements to the equation. Some new formula was necessary. Mr. Rippon would know that the present British proposals were unacceptable as they stood to the Community (all members were in agreement about this), and he trusted

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there was ~~no~~ flexibility on the British side. He had been much encouraged by what he had heard Mr. Rippon saying on the BBC "What's My Line" programme last night. ~~Lastly he referred to Mr. Rippon's remarks about~~ ~~mentioned~~ sheepmeat. ~~He said that the~~ Commission had not been asked to pronounce on a sheepmeat regulation, and would take full account of the political aspects of the problem. ~~to which Mr. Rippon had referred.~~

6. Mr. Rippon said ~~that he was going to Canada and the United States.~~

He was leaving for Canada on 4 March and would then go to Washington. He did not expect his discussions to be easy in either place, but he hoped that both ~~the~~ Canadians and ~~the~~ Americans realised that changes ~~was~~ ^{taking} place in Europe: if some of these ~~had implications for certain vested interests, they should be welcomed for the sake of the higher good of a united Europe.~~

~~The trouble about the Americans was that~~ ^{about the problem} ~~they spoke differently at different levels.~~ At the top political level President Nixon was firmly in favour of the enlargement of the Community; but at the levels of the Departments of Agriculture and Commerce there ~~was~~ ^{sometimes} ~~more concern~~ ^{certain} for the short term economic effects on ~~American trading interests.~~ ^{took up}

7. Mr. Rippon ~~referred to~~ Signor Malfatti's remarks on Community finance. ~~Speaking in strict confidence,~~ He said that he wanted Signor Malfatti to understand that the British proposals on Community finance had been put forward in good faith, and represented what we thought to be a fair arrangement. This was not to say that

Seemed to have
unwelcome implications
for this or that
particular interest,
they should nevertheless

they were not negotiable. There was no prospect of the British putting forward any ^{revised} ~~new~~ proposals on the subject. We were glad that the Community had not taken up a rigid position at the outset. Since then there had been a lot of talk about the British proposals, and such people as the Dutch and Luxembourgish were ^{now} ~~evidently~~ thinking in not unreasonable terms. If some sort of formula for discussion was now to be found, would this not be an opportunity for the Commission, acting as honest brokers, to come up with some ideas which could bridge the gap? He much valued the work of the Commission and thought that it was in this sort of field that ~~it~~ they could contribute most.

6. Signor Malfatti said that there had been a good deal of talk about bad relations between the Community on one side and the United States and Canada on the other. Although there ^{was an obvious conflict of} ~~were certain obvious~~ interests ^{on} ~~in~~ ^{certain points,} ~~conflict,~~ relations were not on the whole too bad. American exports to the Community were now larger than they had ever been. He himself was going to Washington early in April to talk things over with the United States Administration. On 16 March there would be a lunchtime meeting of the Six Ministers of Foreign Affairs and himself to determine the Community position. He warmly agree with Mr. Rippon that the Americans spoke with

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two voices. There was a great contrast between the attitude of the White House and State Department on one side and the Department of Agriculture on the other. Mr. Hardin scarcely seemed able to look further than oranges and tobacco.

7. Mr. Rippon said that when he got to Washington he would strongly urge the Americans not to pursue their campaign against the association of the Commonwealth African and Caribbean countries with the Community. The Americans were putting the Caribbean in an impossible position ^{by pressing them} ~~with their pressure~~ against association, and ^{by threatening} ~~threat~~ not to include the Caribbean countries in their ^{American} offer under the General Preferences Scheme if they ^{were to} ~~give~~ reversed preferences to the enlarged Community. He relied upon the Community to be tough enough to resist American pressure and to confirm the extension of the 1963 Declaration of Intent to the Caribbean countries as soon as possible. ~~He repeated that~~ The Community should not underestimate the importance of what no doubt seemed to people to be ^{peripheral} ~~peripheral~~ problems. Reasonable settlements on sugar from the developing Commonwealth and New Zealand dairy products would be worth a percentage or two on the British contribution to Community finance during the transitional period. Signor Malfatti said that he had much appreciated Mr. Rippon's message to him about his trip to the Caribbean. He hoped very much for early progress.

10. Signor Malfatti reverted to the problem of Community preferences. He said it would be a great move forward in the negotiations if agreement could be secured on this at the next meeting. He had said that there was flexibility in the Community position, but that did not mean that the Community welcomed the idea of progressive application of Community preferences though they were ready to tackle the problems raised by particular commodities. He would ~~very much~~ like to know more about the British position on this point. So far as the Community were concerned, they wanted to find practical and technical solutions to ~~what~~^{what} might otherwise become a major political problem. Mr. Rippon asked Signor Malfatti to explain the Community position in more detail at the forthcoming meeting with officials. The British Government accepted the principle of Community preference but had to have regard to their traditional suppliers. Moreover the immediate application of Community preference would lead presumably to the ~~corresponding~~^{immediate} termination of Commonwealth preference and thus/freshen burden on the balance of payments. This would scarcely be helpful in the context of the discussion on Community finance. // [At that point Mr. Rippon and Signor Malfatti left to join their meeting with officials]

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European Policy
File AH

3 March 1971

Thank you for your letter of 2 March about the E.E.C. negotiations. The Prime Minister has asked for a meeting to be arranged as soon as possible after 10 March to discuss the matters raised in your letter and its enclosures. Alan Simcock will be in touch with your office and the Foreign and Commonwealth Secretary's Private Office about the timing of this.

I am sending a copy of this letter to Sir William Nield.

(SGD) P.J.S. MOON

C.C.C. Tickell, Esq., M.V.O.,
Office of the Chancellor of the
Duchy of Lancaster.

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1 SECRET

7



Chancellor of the Duchy of Lancaster

Prime Minister,
Mr. Rippon suggests a
meeting between 10 & 16 March

to discuss negotiating tactics.

Shall we arrange this? If

so, you may prefer to defer
comment on this paper until
Dear Peter, that discussion.

Foreign and Commonwealth Office
Downing Street London SW1
Telephone 01-930 8440

2 March 1971

Agreement possible
after 10 March 71.
A.H.

EEC NEGOTIATIONS

M. 2/3

The Chancellor of the Duchy has been giving further thought to the tactics we should pursue in the EEC negotiations in the coming weeks and months. The last time these were discussed between Ministers was, I think, on 31 January at the dinner party given by the Prime Minister. Mr. Rippon held a meeting on the subject in the Foreign and Commonwealth Office on 25 February, which was attended by Sir Con O'Neill and other
... Foreign Office officials. I attach a summary note of what was tentatively concluded at that meeting. I also
... enclose copies of our telegrams no. 47 to The Hague (about Mr. Rippon's meeting with the new Dutch Ambassador on 25 February) and no. 143 to Paris (giving his message to the Six Foreign Ministers and the President of the European Commission about his Caribbean tour).

If we are to get agreement at the next Ministerial meeting on 16 March that the May meeting should be the occasion for an attempt to reach conclusions on the major outstanding issues (see (e) of the enclosure), we shall have to instruct Ambassadors in Community capitals to warn the Governments to which they are accredited of our intentions in the next week or so. We shall also need a firm decision on tactics if the Prime Minister is to be able to take full advantage of his visit to Germany at the end of the month.

Mr. Rippon

P. J. S. Moon, Esq.

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Mr. Rippon would be grateful if the Prime Minister could run an eye over the conclusions in the enclosure and let him know whether they are in his own line of thinking. The Prime Minister may think it would be useful to have a meeting with the Foreign and Commonwealth Secretary and Mr. Rippon fairly soon after the latter's return from North America on 10 March to discuss negotiating tactics, before circulating another paper on this subject to the AE Committee. This meeting could also discuss the issues raised in Robert Armstrong's letter of 1 March to Sir William Nield, which has just been received here.

I am sending a copy of this letter with enclosures to Sir William Nield.

Yours sincerely

C. C. C. Tickell

(C. C. C. TICKELL)
Private Secretary

SECRET

EEC Negotiations

Record of conclusions of meeting held by the Chancellor of
the Duchy of Lancaster in the Foreign and Commonwealth Office
on 25 February 1971

(a) Mr. Rippon said that he did not intend to propose making any formal change in our negotiating position on Community finance. Our proposals would remain on the table until the Community answered them. But he was anxious that the Six should be encouraged to harden on an acceptable percentage. That was the reason why he had encouraged the Netherlands Ambassador informally to think that 5% would not be an unreasonable basis for discussion.

(b) Looking further ahead, it might in the end be necessary to think in terms of moving up from our present opening position of 3% to something between, say, 5% and 7%; perhaps marginally up (within the latitude given by the Cabinet) for our contribution at the end of the five years of transition; and thereafter moving a little further than we had so far hoped in each of the three years of correctives. Upward moves of this kind could be the means of ensuring an acceptable solution for New Zealand.

(c) Although it was still an open question whether there should be a vote in the House of Commons before or after the summer holidays, the aim should be to settle the essential issues in the negotiations in June, and if this could be done in May so much the better.

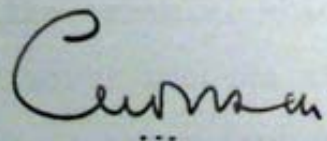
(d) Although there would have been reasons for trying to settle before Easter, if that had been possible (the new Dutch Government in particular would not be functioning effectively in May), it was agreed that a conclusion in March was not practicable.

(e) The March Ministerial meeting was not likely to be productive. The Community might have something to say to us on Community preference in the agricultural field but it was unlikely to be acceptable and we should have to say so. It was unlikely that the Community would have detailed proposals to put to us in other fields. We should therefore attempt to get agreement on 16 March that the May Ministerial meeting should last for two days and should be the occasion for an attempt to reach conclusions on the major outstanding issues: Community finance, New Zealand dairy products, sugar from the developing Commonwealth and Community agricultural preference. If we were to do this, we should soon alert the Six Governments.

(f) He would not say much on Community finance on 16 March. But he would say something on New Zealand and we should try to get as far as possible towards an agreement on sugar on 16 March. (In this connexion, Mr. Rippon's message to Community Ministers on his visit to the Caribbean was amended to make our wishes on this point clear). He might also take the occasion of the 16 March meeting to try and raise the level of the debate; say how much we all had in common; and how much we all had to lose if the negotiations failed.

SECRET

(g) The possibility of accelerating the negotiations and the general question of business for the March Ministerial meeting should be explored informally with Signor Malfatti on 3 March and perhaps with M. Harmel on 11 March.



(C. C. C. Tickell)

25 February 1971

SECRET



with compliments

file
M.
for your own info 5/3

Private Secretary to the
CHANCELLOR OF THE DUCHY OF LANCASTER
Foreign and Commonwealth Office
Downing Street London SW1
Telephone 01-930 8440

COMMUNITY PREFERENCE

NOTE FOR THE CHANCELLOR OF THE DUCHY OF LANCASTER

At its simplest, Community preference must mean the trade advantage which Member countries have with each other as compared with a third country supplier. The French are now elevating it into a great principle in the negotiations and the Commission are busy defining exactly what it means in terms of the Common Agricultural Policy.

2. With the major agricultural products, like cereals, which are subject to levies, the system within the Six works because all imports are levied up to a minimum import price which is above (roughly 7 per cent above) the level at which the home producer can be sure of finding a market (the intervention price); and another Member country (because there is free movement within the Community) can sell, and undercut the third country supplier, at any price between the two. This is the measure of full Community preference: it only disappears if the market price rises above the minimum import price, ie there is a shortage of supplies within the Community.

3. Our idea has been that, just as we shall progressively move towards the EEC price levels, and progressively erect the levy and other barriers against third countries, we should progressively give preference to the Community. We have proposed to do this by establishing two minimum import prices - one for imports from third countries and one just below it, for imports from the rest of the Community ^{thus giving them} the competitive edge over third countries, and our idea is to widen that margin as we progress through the transitional period.

4. The French say they want full Community preference from the beginning of the transitional period, although this is illogical because with industrial goods (as with agricultural products subject to tariff protection) they have accepted a gradual phasing out of intra-Community tariffs and a gradual phasing in of the Common External Tariff over the period. The Commission has however tried to devise a system which achieves this and at the same time puts Community producers immediately on all fours with UK producers. Essentially, the Commission's idea is to calculate what minimum import prices and intervention prices we should be applying at the end of the transitional period and apply to these fixed adjustments, corresponding to the current gap in price levels and which would degress each year during the transitional period. Thus, while third country suppliers will pay variable levies to bring them up to the (adjusted) minimum import price, Community suppliers to the UK market will receive a fixed rate of export restitution related to the difference in price levels for that year.

5. The Commission's approach is obviously worse for third country suppliers. Indeed it means no transitional period at all for them in leviable products except to the extent that our market prices will still only be rising gradually and hence any effects on consumption will only be gradual. Presentationally vis a vis countries like the US, Canada and Australia this would be extremely difficult to accept. The practical effect may not be all that different from our own proposals. As the paper considered by the AE Committee some time ago (AE(70)45) explained, where a commodity is in surplus in the Community, third country suppliers may be excluded as soon as any Community preference is given, however small. Ministers have already agreed that special arrangements will be needed for some commodities to ensure that traditional suppliers are phased out in an orderly way.

6. The Commission's approach is also likely to be less acceptable to British producers. On the face of it, they too will be exposed to full competition from Community producers from the outset; but how important this will be depends upon the pricing arrangements which are made for the individual commodities (and on what arrangements are negotiated for continuing deficiency payments).

7. Thirdly, the two approaches have different implications for the other applicants, assuming that whatever system is decided upon for the UK will also apply to them. The Germans have shown some hesitation over the idea of full Community preference because they see the Danes invading their market. From our point of view, since we shall have to continue the favourable terms of access which the Irish and the Danes already enjoy here anyway, early access to the rest of the Community could help to relieve the pressure on our market.

8. MAFF officials have had informal contacts with Commission officials and, as reported notably in Brussels telegrams Codel 79 and 116, it is clear that they have not yet thought through the implications of their ideas for all commodities eg those which carry both tariff and levy protection, and those which are not subject to market intervention in the Community. Further exploratory meetings are being arranged to clarify more precisely what the Commission have in mind for the various commodities, to help us to judge whether, and if so under what conditions, it might be possible for us to accept the Commission's approach and concepts. It is hoped to put conclusions to the AE Committee before Easter, after discussion among Departments.

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6.7

NOTE FOR THE RECORD

The British Ambassador at Paris, Mr. Christopher Soames, came to see the Prime Minister in his room in the House of Commons on Monday, 1 March, 1971 at 5.30 p.m.

Mr. Soames said that he had^{had}/a long talk with M. Jobert. The main purpose of his talk with M. Jobert had been to explain the reasonableness of the case which we had put to The Six on Community financing and to talk about the next stages in the negotiations for British entry. His talk with M. Jobert had made him think that a meeting with M. Pompidou would be useful. He had reported his meeting with M. Pompidou in his telegrams Nos. 235, 236, 237 and 238.

The Prime Minister said that he had been concerned with the question how to carry on the discussion of the financial arrangements for our entry into the Community without running the risk of the negotiations turning sour. He had been interested in M. Pompidou's suggestion, reported in Mr. Soames's telegram, that this subject might be put on one side while other subjects were discussed; but he was not clear that the other Five were prepared to set this subject on one side. He also noted that M. Pompidou had said that from his point of view Community preference was more important than a high British financial contribution in the early years.

Mr. Soames said that he thought M. Pompidou had two main concerns. On Community finance, he regarded it as important that we should by the end of the transitional period be subscribing a sum not far short of what our bill in the definitive period was likely to be; and on Community preference he would like to see us adopt it as quickly as possible.

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On the first of these points, the Commission had put forward estimates which suggested that the British share of the Community budget in the definitive period was likely to be between 20 and 25 per cent. Our proposals provided for a contribution of 15 per cent at the end of the transitional period. This looked as if it would involve a leap of eight or nine percentage points at the end of the transitional period. M. Pompidou regarded this as a risk too large for him to take.

Mr. Soames thought it important that we should not have a series of concessions on Community preference dragged out of us; this would only further sour the negotiations and antagonise public opinion at home. He would like to see the British negotiators indicate that Britain was ready to adopt Community preference as early as possible, subject to two qualifications:

- (a) the need to avoid an excessively large increase in British food prices in any one year;
- (b) the need to avoid an excessively harsh effect on the market on any particular commodity over a short period of time.

Mr. Soames believed that, if we could deal with Community preference in this way, we should have no difficulty in achieving a low starting figure in our financial contribution - as low as six or perhaps even five per cent - and a reasonable progression over eight years, to a point which fell not too far short of our bill in the definitive period. We should have no difficulty in getting French agreement to a total period totalling eight years, though we should need to continue to speak

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in terms of a transitional period of five years followed by a further three years of "correctives". Our present proposals provided for a level of 15 per cent after five years, followed by very small "corrective" adjustments in each of the following years, and thus still implied a substantial "cliff" into the definitive period. We should be able to achieve something more like a "straight line progression" over the period of eight years, carrying us to a level which implied at most a small jump into the definitive period: for instance, a move from 6 per cent to 16 per cent over the transitional five years, with correctives of up to two percentage points in each of the following three years. Mr. Soames believed that that would be acceptable to the French if we were forthcoming on Community preference, and he believed that it would be sufficiently near our initial proposals to be sellable to British public opinion.

Mr. Soames explained that our early adoption of Community preference, with the benefits to French trade that it would imply, mattered more to France than the figures of our financial contribution, where France's main desire was that Britain should not be in a position where she could not adopt the Community system of "ressources propres" in the definitive period. From the French point of view, there was nothing to be gained by further discussion of the starting figure at this stage. The Commission had put forward two figures; 21.5 per cent and 10 per cent. The French had latched on to 21.5 per cent and had blocked discussion of any other figure, but they knew that that was unrealistic. Any further negotiations

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would therefore start from a ceiling of 10 per cent. If the Commission were now to be asked to prepared alternative proposals, it could only be on the basis of a lower starting point. The French were not wishing to make any move of this kind at this stage.

There was, in Mr. Soames's view, the making of a package deal (as M. Schumann had described it) covering the Community preference, the financial contribution and the length of the transitional period.

The Prime Minister asked Mr. Soames how he saw these matters being resolved: whether in his view it would be a case of a Summit of the Ten, with M. Pompidou in the chair, the outcome of which had been carefully prepared in advance, or whether the right course was for him to have bilateral talks with M. Pompidou, and leave the negotiations to be concluded thereafter at Ministerial level at Brussels.

Mr. Soames's clear preference was for the latter.

The prospect of a Summit of the Ten had no appeal for him: it was more than likely to be unproductive unless it was very carefully prepared. He thought that M. Pompidou would want to settle these matters himself with the Prime Minister. He thought it highly desirable for this bilateral talk to happen before the end of April, so that it could be reflected in the Ministerial meetings to be held in Brussels on 2 May. Mr. Soames did not think that the other members of The Six would be unhappy at such a development; and he thought that problems of New Zealand and Commonwealth sugar would fall into place in the subsequent negotiations in Brussels, once the central issues had been resolved. He did not think that M. Pompidou would need a lot of time to prepare for such a meeting.

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the timing of which would depend on when we were ready to discuss Community preference with him.

Mr. Soames did not think that M. Pompidou would take the initiative in suggesting talks with the Prime Minister; he would look for the initiative to be taken by the Prime Minister. In the talks with M. Pompidou there might well be other matters that the two men could usefully discuss; notably defence and cultural relations. Any discussions on future defence cooperation would have to be on the basis of what would happen after the British entry into the Community.

Mr. Soames concluded by saying that he would now like to see M. Jobert again and say that he had reported to the Prime Minister what M. Jobert had said, that the Prime Minister agreed that an understanding between himself and M. Pompidou would be an important element in the negotiations, that the timing of any meeting between them was important in view of the need to avoid the Brussels negotiations turning sour, and that such a meeting might discuss other topics besides British entry into the Community.

The Prime Minister agreed that Mr. Soames should speak to M. Jobert on these lines.

As to the March meeting in Brussels, Mr. Soames suggested that it might be possible to handle the subject of the financial contribution at this meeting by indicating to the Six that, while we should be perfectly happy that they should put in a paper for the March meeting, if they were not yet ready to do so we were content to leave the subject on one side for later consideration.

RTA

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- 6 -

Distribution: ✓ Secretary of State for Foreign and Commonwealth
Affairs

✓ Chancellor of the Duchy of Lancaster

✓ His Excellency The Right Hon. Christopher
Soames, C.B.E.

(4) ✓ Sir Burke Trend

2/3/71 ✓ Sir William Nield.

2 March 1971

European 5A
Policy:
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1 March 1971

Approach to Europe

The Prime Minister would be grateful if two papers could be prepared for Ministers:

- (i) an analysis of the arguments for and against "breaking the back" of the negotiations with the Six by July 1971, and of the implications of seeking to do so.
- (ii) an analysis of the issues which would be likely to be raised at a summit conference of Heads of Government of the Six and the Four, were such a conference to be held this summer:
 - (a) what issues should we want to reserve for a summit negotiation;
 - (b) what issues would the Six want to reserve for a summit negotiation;
 - (c) on each of these issues, in what position should we wish to enter a summit negotiation;
 - (d) what would be the implications of this analysis for forthcoming discussions of New Zealand butter (and cheese), Commonwealth sugar and Community finance;

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- (e) is it in our interests to go for a summit conference;
- (f) if so, how and at what stage do we feed the idea of a summit conference into the present negotiations?

The outcome of these analyses may have a bearing on decisions about the posture to be adopted by the Chancellor of the Duchy of Lancaster at the Ministerial meeting on 16 March. The Prime Minister would be grateful, therefore if these analyses could be submitted to him by close of business on Friday 5 March.

I am sending copies of this letter to John Graham, Crispin Tickell, and Burke Trend.

(sgd) R.T. ARMSTRONG

Sir William Nield, K.C.B.

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copy also on Belgium January 1971.

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IF
File

cc see last para

26 February 1971

M. Fayat, the Belgian Minister for Foreign Trade called on the Prime Minister at 12.30 p.m. today, Friday, 26 February.

M. Fayat began by speaking about Anglo/Belgian trade. The Belgian Government were not satisfied with the level of this and wished to see it improved. Arrangements were being made to promote contact between BNEC and the Belgian Foreign Trade Agency.

M. Fayat then went on to speak of the initiative which the Belgians had taken in OECD to propose closer coordination of policies. They had found the United States and France sympathetic but had been surprised that British officials had not been encouraging. The Prime Minister said that in his view OECD was a large empire-building organisation. The only really useful part was the Committee dealing with monetary matters. If OECD continued as at present there was risk of serious duplication once the Community was enlarged. He thought that the kind of coordination which the Belgians wished to see could best be organised, not through OECD but directly under the Community. M. Fayat said that OECD, which included Japan, went wider than the Community and had a body of expertise. He agreed, however, that there was risk of duplication of effort. The important thing was that there should be coordination of policies rather than how it was done.

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The Prime Minister went on to speak of relations between the Community and the United States. There was growing concern in the United States at the spreading tentacles of the Community. Moreover, enlargement of the Community would result in a further major increase in the number of countries with special relations with the Community, for example one third of the Commonwealth. Both the Prime Minister and M. Fayat agreed that it was important that there should be discussion between the Community and the United States on major problems.

In a discussion of the British proposals with regard to Community finance, the Prime Minister said that we could not agree with the alternative proposals which had been put forward by M. Harmel. What was necessary was for the Community to discuss our proposals. If there could be rational discussion, then there would be a better prospect for reaching understanding. While there was room to adapt, we were not taking up negotiating positions and what we had put forward was what we saw as a reasonable basis for membership. We understood French fears that we should not be able to take the final step; the problem was to find means of allaying these fears. M. Fayat said that he feared there was general agreement among the Six that our proposal for a starting figure of 30 was much too low. It gave an opportunity to some members of the Community to raise difficulties. The need for gradualness in building up the British contribution was recognised, but he thought that something much nearer the Belgian proposals was right. The Prime Minister pointed out that there was a very wide difference between the British and Belgian proposals in terms of hard cash. M. Fayat argued that in fact the difference

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between a starting figure of 3% and their proposal of 7½% was no more than half the present Belgian trade deficit with the United Kingdom.

I am sending copies of this letter to Tickell (Chancellor of the Duchy of Lancaster's Office), Manley (Department of Trade and Industry), Ryrie (H.M. Treasury), Sir William Nield (Cabinet Office) and Norbury (Cabinet Office).

P. J. S. Moon

H.J. Farrington, Esq.,
Foreign and Commonwealth Office.

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TOP SECRET

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COPY NO. 1 OF 2 COPIES

NOTE FOR THE RECORD

When the Chancellor of the Exchequer and the Governor of the Bank of England came to see the Prime Minister at 11.15 a.m. on Friday, 26 February 1971, the Governor said that there had continued to be a considerable inflow of foreign exchange, to an extent that was almost embarrassing. The immediate impact on ^{the} reserves had been spread by operations in the forward market. The authorities had also made considerable sales of gilt-edged stock, to such an extent that they were now net sellers to the tune of £200m or more since 1 April 1970. It might well be necessary to make a further new issue before very long.

In these circumstances the Governor had been considering the future of the Bank Rate. His own view, with which the Chancellor concurred, was that it would not be appropriate to make any change in Bank Rate for the time being, though it would be right to review the situation after the Budget.

The Prime Minister agreed generally. He said that it might well be that before very long the United States Administration would be bringing pressure to bear upon the British authorities to start bringing their interest rates down.

RM

26 February 1971

cc. Prime Secretary

to the Chancellor of the Exchequer

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IMMEDIATE

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(EID)

FCO 261533Z

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TO IMMEDIATE PARIS TELNO 143 OF 26/2 AND TO BOUN ROME LUXEMBOURG
BRUSSELS THE HAGUE UKDEL BRUSSELS INFO WASHINGTON OTTAWA AND
UKNIS GENEVA INFO SAVING TO KINGSTON GEORGETOWN PORT OF SPAIN
CASTRIES BRIDGETOWN.

PLEASE SEE MY IMMEDIATELY PRECEDING TELEGRAM.

DEAR COLLEAGUE,

1. I HAVE JUST RETURNED FROM A VISIT TO THE COMMONWEALTH COUNTRIES
OF THE CARIBBEAN. MY PURPOSE WAS TO LEARN ON THE SPOT THE VIEWS
OF THE GOVERNMENTS, INDUSTRIES AND PEOPLE CONCERNED ABOUT THE
LIKELY EFFECTS OF OUR ENTRY INTO THE COMMUNITY. I HAVE SINCE MADE
A STATEMENT ABOUT MY TOUR TO THE HOUSE OF COMMONS.

2. I THOUGHT YOU MIGHT BE INTERESTED TO HAVE AN IDEA OF MY PERSONAL
IMPRESSIONS.

3. FIRST I CAME TO UNDERSTAND IN REAL RATHER THAN ABSTRACT TERMS
THE DEGREE OF DEPENDENCE OF THE COMMONWEALTH CARIBBEAN COUNTRIES
ON SUGAR. SOME ARE OF COURSE MORE DEPENDENT THAN OTHERS, BUT ANY
RESTRICTION OR DISLOCATION OF THE MARKET NOW OR IN THE FUTURE,
WOULD SEVERELY AFFECT THEM ALL. THIS IS NOT SIMPLY AN ECONOMIC
PROBLEM. THE PROPORTION OF THE LABOUR FORCE EMPLOYED IN EACH
COUNTRY ON SUGAR NATURALLY VARIES BUT IN EACH CASE WORKERS AND
THEIR DEPENDENTS MAKE UP A SUBSTANTIAL PART OF THE TOTAL
POPULATION. SUGAR IS A VERY LABOUR-INTENSIVE INDUSTRY.

4. NONE OF THESE COUNTRIES HAS MUCH CHANCE OF DIVERSIFYING ITS
ECONOMY IN THE FORESEEABLE FUTURE. THE SOILS AND CLIMATES GIVE
LITTLE FLEXIBILITY, AND IN SOME THERE IS NO FLEXIBILITY AT ALL.

5. THE MAIN CONCERN OF MINISTERS, OPPOSITION LEADERS, SUGAR
PRODUCERS AND TRADES UNION REPRESENTATIVES ALIKE WAS UNCERTAINTY
ABOUT THE FUTURE. PRODUCTION OF CANE SUGAR, UNLIKE THAT OF BEET, HAS
TO BE PLANNED YEARS IN ADVANCE, AND THOSE RESPONSIBLE ARE NOW HAVING
TO THINK WELL BEYOND 1974, WHEN, IF WE JOIN THE COMMUNITY, THE
COMMONWEALTH SUGAR AGREEMENT WILL EXPIRE. IN THESE CIRCUMSTANCES
ALL ASKED ME TO PROVIDE WHAT THE JAMAICAN MINISTER OF TRADE AND
INDUSTRY DESCRIBED TO ME AS "BANKABLE" ASSURANCES: IN OTHER
WORDS ASSURANCES WHICH WOULD PERSUADE BANK MANAGERS TO PROVIDE
CREDITS NECESSARY FOR THE ROLL-ON OF SUGAR PRODUCTION BEYOND 1974.

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/6. I KNOW

6. I KNOW THAT THE COMMUNITY HAS NOT YET TAKEN UP A POSITION ON THE PROPOSALS WE HAVE MADE ON SUGAR, BUT THE PRELIMINARY VIEWS OF THE COMMISSION ARE OF COURSE KNOWN IN THE CARIBBEAN AND HAVE CAUSED CONSIDERABLE ANXIETY. THE GOVERNMENTS CONCERNED ALL FELT THAT MERELY GENERAL ASSURANCES THAT THEIR INTERESTS WOULD BE LOOKED AFTER IN THE PERIOD AFTER 1974 WOULD NOT BE NEARLY ENOUGH TO KEEP THEIR INDUSTRY GOING UNTIL THEN.

7. I WAS PARTICULARLY STRUCK BY THE SOCIAL ASPECTS OF THE PROBLEM. AS ONE MINISTER REMARKED TO ME, THESE ECONOMIES WERE MADE OVER THE CENTURIES TO SERVE THE INTERESTS OF THE METROPOLITAN POWER, AND THE METROPOLITAN POWER THUS HAD A STRONG MORAL OBLIGATION TO LOOK AFTER THEM. I REPLIED THAT BRITAIN WAS NOT THE ONLY METROPOLITAN POWER AMONG THE MEMBERS OF WHAT I HOPED WOULD BE THE ENLARGED COMMUNITY AND THAT I WAS SURE THAT THE DEVELOPING COUNTRIES CONCERNED COULD COUNT ON YOUR SYMPATHETIC UNDERSTANDING.

8. ANOTHER POINT WHICH CAME UP WAS THAT OF ASSOCIATION OF THESE COUNTRIES WITH THE ENLARGED COMMUNITY. HERE I FOUND A GOOD DEAL OF MISUNDERSTANDING. SOME OF THOSE I MET HAD THE IMPRESSION THAT THE 1963 DECLARATION OF INTENT HAD ALREADY BEEN RENEVED, AND THAT IT WAS NOW UP TO THEM TO CHOOSE WHAT FORM OF ASSOCIATION THEY WANTED WITH THE ENLARGED COMMUNITY. THIS BELIEF WAS I THINK FOUNDED ON THE LANGUAGE OF THE ORIGINAL DECLARATION AND ON WHAT WAS SAID IN BRUSSELS IN 1969 TO DELEGATION FROM CARIFTA

(THE COMMONWEALTH CARIBBEAN FREE TRADE AREA, TO WHICH DEPENDENT AS WELL AS INDEPENDENT COMMONWEALTH COUNTRIES IN THE AREA BELONG).

I WAS OBLIGED TO SAY THAT THE COMMUNITY HAD NOT YET REAFFIRMED TO US THAT THE DECLARATION OF INTENT STILL APPLIED TO THE CARIBBEAN COUNTRIES BUT THAT I HOPED IT WOULD DO SO BEFORE VERY LONG.

9. AS I WAS ABLE TO SEE FOR MYSELF, THE PROBLEM OF THE COMMONWEALTH CARIBBEAN IS NOT SIMPLY ONE OF SUGAR. WITHOUT CONTINUING ACCESS TO THE BRITISH AND ULTIMATELY THE EUROPEAN MARKET, SUCH AS ASSOCIATION WOULD PROVIDE, THOSE COUNTRIES WHO DEPEND TO A GREATER OR LESSER DEGREE ON OTHER TROPICAL PRODUCTS, FOR EXAMPLE BANANAS, CITRUS FRUITS AND RUM, WOULD BE IN VERY GREAT DIFFICULTY. INDEED RESTRICTION OR DISLOCATION HERE WOULD BE ALMOST AS BAD AS IN THE CASE OF SUGAR. IN THIS CONNEXION I SHOULD MENTION THE SATISFACTION OF THE WEST INDIES ASSOCIATED STATES THAT THEY HAD BEEN OFFERED ASSOCIATION UNDER PART IV OF THE TREATY.

10. THE ECONOMIES OF THE CARIBBEAN COUNTRIES ARE VERY PRECARIOUS. THEIR PROBLEM IS NOT SIMPLY ONE OF FOREIGN EXCHANGE. THEY NEED

/TO MAINTAIN

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TO MAINTAIN EMPLOYMENT WHERE UNEMPLOYMENT IS ALREADY VERY HIGH. ABOVE ALL THEY WANT TO BE IN A POSITION TO ENJOY THEIR POLITICAL INDEPENDENCE ON THE BASIS OF ECONOMIES WHICH HAVE ASSURED MARKETS FOR THEIR GOODS. OTHERWISE I THINK WE RISK CREATING, AS I REMARKED AT A LOCAL PRESS CONFERENCE, SEVEN OR EIGHT NEW CUBAS.

11. I CANNOT EMPHASISE TOO STRONGLY THE DAMAGE THAT IS BEING DONE IN THESE SMALL DEVELOPING COUNTRIES BY CONTINUED UNCERTAINTY AS TO THEIR FUTURE. I LOOK FORWARD TO DISCUSSING THE WHOLE PROBLEM WITH YOU AT OUR NEXT MEETING ON MARCH 16 ALONG WITH THE SIMILAR PROBLEMS OF MAURITIUS AND FIJI: AND I FEEL WE OUGHT AT THAT MEETING TO GET FAR TOWARDS FINAL AGREEMENT ON THIS ISSUE.

12. I AM WRITING IN SIMILAR TERMS TO THE OTHER FOREIGN MINISTERS OF THE COMMUNITY AND TO THE PRESIDENT OF THE EUROPEAN COMMISSION.

YOURS SINCERELY

GEOFFREY RIPPON.

DOUGLAS-HOME

DEPARTMENTAL DISTRIBUTION

EID

CARIBBEAN D

RES D (AMERICAN SECT)

COPIES TO:

MR G R DENHAM, DTI

MR G R BELL, HM TREASURY

MR W P SHOVELTON, DTI

MR F M KEARNS, MAS

MR J L BUIST, ODA

PRIORITY

SECRET

4B

CYPHER/CAT A

FM FCO 251540Z

SECRET

TO PRIORITY THE HAGUE TELEGRAM NUMBER 47 OF 25 FEBRUARY INFO
BRUSSELS ROME LUXEMBOURG PARIS BONN CODEL BRUSSELS.
FOLLOWING PERSONAL FOR AMBASSADOR.

THE NEW DUTCH AMBASSADOR CALLED ON MR RIPPON ON 23 FEBRUARY AND
TRIED TO DRAW HIM ON THE STATE OF THE EEC NEGOTIATIONS AND IN
PARTICULAR OUR POSITION ON COMMUNITY FINANCE.

2. MR RIPPON SAID THAT HE HAD BEEN ASKED ON THE PREVIOUS DAY IN
THE HOUSE OF COMMONS WHICH CONCESSIONS THE COMMUNITY HAD SO FAR
MADE TO BRITAIN. HE HAD RACKED HIS BRAINS FOR A REPLY, AND COULD
THINK ONLY OF OUR AGREEMENTS ON TRANSITIONAL PERIODS AND HONG KONG.
BY CONTRAST BRITAIN HAD TAKEN THE MAJOR DECISIONS TO ACCEPT THE
COMMON AGRICULTURAL POLICY AND THE COMMUNITY'S DIRECT INCOMES
SYSTEM, AND HAD NOT TAKEN ADVANTAGE OF THE OPENING PROVIDED IN
THE HAGUE COMMUNIQUE OF DECEMBER, 1969, TO SEEK ADAPTATIONS.
HE REGRETTED THE PRESENT BLOCKAGE OVER COMMUNITY FINANCE, BUT DID
NOT TAKE IT TOO TRAGICALLY. THE CONFERENCE IN BRUSSELS WOULD HAVE
TO MOVE FORWARD SOON, AND THE SOONER THE BETTER. BEFORE THE
MINISTERIAL MEETING ON 2 FEBRUARY THE POSITIONS OF BRITAIN AND THE
COMMISSION HAD BEEN SO FAR APART THAT WE HAD BEEN GLAD THE COMMUNITY
HAD NOT ADOPTED A FIRM POSITION WHICH MIGHT HAVE MADE THE GAP STILL
LESS BRIDGEABLE. BUT NOW A MORE PRACTICAL TONE SEEMED TO HAVE
CREPT IN, AND THERE WERE IDEAS WORTH TALKING ABOUT. IT WOULD NOT BE
WORTH TALKING ABOUT THE IDEA OF AN INITIAL BRITISH CONTRIBUTION
OF 10%: NOR PERHAPS 8%, NOR EVEN 7%: BUT SOMEWHERE AROUND 5% WOULD
NOT BE UNREASONABLE AS A BASIS FOR DISCUSSION.

3. MR RIPPON ALSO SPOKE OF THE GREAT POLITICAL IMPORTANCE OF
A SATISFACTORY SETTLEMENT FOR NEW ZEALAND DAIRY PRODUCTS AND SUGAR
FROM DEVELOPING COMMONWEALTH COUNTRIES, AND SAID THAT AS REGARDS
THE LATTER, HE WAS SURE THAT THE BASIS FOR AN AGREEMENT ALREADY
EXISTED, AND HE HOPED IT WOULD COME SOON.

/4. YOU

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4. YOU SHOULD MAKE NO REFERENCE TO THIS CONVERSATION UNLESS THE DUTCH RAISE IT WITH YOU. IF, BUT ONLY IF, THE DUTCH QUESTION YOU ABOUT MR RIPPON'S REFERENCE TO 5%, YOU SHOULD SAY THAT WHAT MR RIPPON HAD IN MIND WAS THAT THERE WAS NO POINT EVEN IN A DISCUSSION BETWEEN US AND THE COMMUNITY UNLESS THE COMMUNITY WERE PREPARED TO SUGGEST A FIGURE, SUCH AS 5%, WHICH WAS SUFFICIENTLY WITHIN REACH OF OUR OWN SUGGESTION OF 3% TO WARRANT A DISCUSSION. YOU SHOULD NOT LET IT BE THOUGHT THAT WE ARE CHANGING OUR OWN PROPOSALS, ON WHICH WE AWAIT A REACTION FROM THE COMMUNITY.
5. STRICTLY FOR YOUR OWN PERSONAL INFORMATION YOU SHOULD KNOW THAT MR RIPPON'S REMARK WAS MADE DELIBERATELY TO THE DUTCH, SO THAT THEY SHOULD KNOW THAT A PROPOSAL, SUCH AS THEY HAVE MADE IN BRUSSELS, THAT WE SHOULD START AT 5%, IF THEY COULD PERSUADE THEIR COMMUNITY PARTNERS TO PUT IT FORWARD, WOULD BE AN ACCEPTABLE BASIS FOR DISCUSSION. WE DO NOT WANT TO REPEAT THIS SUGGESTION ELSEWHERE IN THE PRESENT STAGE OF THE NEGOTIATIONS.
6. POSTS TO WHICH THIS TELEGRAM IS REPEATED SHOULD BE GUIDED BY THE ABOVE.

DOUGLAS-HOME

[Copies sent to No 10 35]

FILES
E.I.D
PRIVATE SECRETARY
SIR C. O'NEILL
MR FORD
P.S. TO C.D.L.
W.E.D.
P.S. TO P.U.S.
MR ROBINSON

COPIES TO
MR THORNTON, CABINET OFFICE
MR BELL, H.M. TREASURY
MR KEARNS, M.A.F.F.
MR DENMAN, D.T.I.

European Policy

COVERING CONFIDENTIAL

25 February 1971

I should be grateful if you would arrange for the enclosed letter to Christopher Soames to be forwarded to him in Paris.

I attach a copy of the letter.

RTA

J.A.N. Graham, Esq.,
Foreign and Commonwealth Office.

SECRET

4A

Y 0535

MR ARMS

RAA

*Discussed with Prime Minister
who for W.N. + intentions
26/2. Given A 287*

In my minute of 25 January I suggested that it would be well to review progress in the European negotiations about the middle of February. Intense pre-occupation with Rolls-Royce affairs has held up production of such a review, but I now attach it. The Prime Minister may wish to discuss.

I am sending copies of this minute and its enclosures to Sir Burke Trend and Peter Thornton.

WA

WA NIELD

25 February 1971

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PROGRESS OF THE EEC NEGOTIATIONS

Future meetings at Ministerial level with the EEC have been fixed for 16 March, 11 May and 22 June. Between these meetings the Deputies meet at about fortnightly intervals.

2. Considerable progress has now been made in clearing away the secondary (though important) issues in the negotiations: a progress report is annexed.

3. The position on the crucial problems - Community finance, New Zealand dairy products and developing Commonwealth sugar - is as follows.

Community Finance

4. We are standing firm on our bid of 2.6-3 per cent rising to 13-15 per cent over five years (followed by three years of correctives) and our firmness is beginning to produce some results. At a meeting of the Permanent Representatives of the Six on 18 February the following proposals were canvassed:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
Netherlands	5	6.5	9	12.5	17	per cent
Belgium	7½-9½	10-12	12½-14½	15-17	17½-19½	
Germany	7	-	-	-	18	
Luxembourg	5	-	-	-	-	Tabled on 1 February
Upper end of UK proposal	3	6	9	12	15	

The Italians have indicated that they were broadly in agreement with the Belgian proposal. The French reacted very sharply, referred to their support for an initial contribution by us of 21.5 per cent, and said they had instructions not to attempt to define a Community position until the United Kingdom had made more reasonable proposals. We must now await developments, continuing to explain the reasonableness of our proposal.

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-2-

New Zealand

5. Our opening bid was for the maintenance for at least five years of New Zealand's current level of exports of butter and cheese to the enlarged Community. The Commission have proposed that during the first five years New Zealand butter exports to the United Kingdom should be halved but that increased prices should reduce the effect on her export earnings; and that no special arrangements should be made for access for New Zealand cheese after the first five years. The Commission look unrealistically to an international dairy product agreement to solve New Zealand's problems after the first five years. The Six are about to discuss the Commission's proposals. The Dutch have proposed that New Zealand butter exports might be reduced to 70 per cent instead of 50 per cent by the end of five years.

Sugar

6. We have asked for maintenance of the current level of sugar imports from the developing Commonwealth into the enlarged Community. The Commission have suggested to the Six that, as the Community's existing sugar arrangements run to June 1974 and will be coming up for review in 1973, we should be enabled to fulfil our existing obligations under the Commonwealth Sugar Agreement until the end of 1974, and that the enlarged Community should work out a new regime for domestic sugar and for imports to operate after 1974. The Commission's proposal in effect is that we leave the details of the arrangements until after enlargement, giving some general assurance to the developing Commonwealth in the meanwhile. The difficulty is that an assurance which is firm enough for developing Commonwealth countries will be very difficult for the Six to accept before they have worked out their post-1974 arrangements. But if a suitable formula can be found it would be advantageous for the Commonwealth and for the negotiations since we can expect to negotiate better arrangements when we are members than before we join.

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Future Development of the Negotiations

7. Our objective remains to settle over the next two to three months the secondary issues so that the three major ones can be the subject of undivided and continuous attention during May, June and July. (The settlement of satisfactory transitional arrangements for agriculture in the near future would have the additional advantage of providing a considerable incentive for the French to conclude the negotiations successfully). As for the three major issues, we should be most unwise to budge at all from our present bid on Community finance before the very last stages of the negotiations, and then not by much. The French are at present apparently isolated in their hard line and we must hope that by maintaining our pressure on the Five that they in turn will bring the French to accept something closely to our original bid. Even if the French are not particularly keen to see us join, they will not wish to appear to be alone in keeping us out because of their obstinacy over transitional, i.e. purely temporary arrangements. We shall on the other hand have to move at the appropriate time from our present unrealistic bids on New Zealand dairy products and Commonwealth sugar.

8. At the Ministerial meeting on 16 March we may receive counter proposals from the Six on both New Zealand and sugar, but it seems unlikely that we shall get any proposition on our financial contribution. This would suit us well. It would give time to get more of the minor issues cleared out of the way and carry forward negotiations on New Zealand and sugar without having to make any fresh moves on Community finance.

9. The Prime Minister's meeting with the Federal German Chancellor at the end of March will provide a timely occasion to reinforce our views on the three main issues. It is possible that sometime in April a meeting between the Prime Minister and M. Pompidou might help. But at present this seems very doubtful. M. Pompidou will not wish to appear either to have made concessions or to have refused to be helpful in bilateral discussions. It therefore seems doubtful,

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-4-

especially in the light of the current hard line taken by the French in the Six's discussions, and of recent reports you have seen about M. Pompidou's views, whether we can count on Anglo-French bilateral discussions to help smooth our patch, at any rate in the next few weeks.

10. By the Ministerial meeting on 11 May it should have been possible to clear nearly all the minor issues and the differences between us on the three main issues should have been clearly established and defined. This would clear the decks for a final effort - almost certainly at Prime Ministerial level - in June or July to bridge the remaining gap. It is just conceivable that the Six might make a proposition to us on finance on 16 March and we might then need to move swiftly to avoid an air of crisis developing with positions far apart and the next Ministerial meeting not until 11 May. In such circumstances we might need to arrange an additional Ministerial meeting in April, and the final effort would then come a few weeks earlier.

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ANNEX

Provisional agreement (subject, of course, to a satisfactory outcome of the negotiations as a whole) has now been reached on:

- a. our difficulties about milk, pigmeat, eggs and an annual review of agriculture;
- b. a transitional period of five years for industrial tariff changes and the timing of the changes within this period;
- c. association of United Kingdom dependencies except Hong Kong and Gibraltar for which special arrangements have been agreed;
- d. an offer of association, following the line of the 1963 Declaration of Intent, for all Commonwealth African countries. A declaration by the Six that they would wish to extend and reinforce trade relationships with the Asian Commonwealth.

Agreement has still to be reached on the following but no really serious difficulties or prolonged negotiations are foreseen:

- e. EEC secondary legislation, i.e. directives, etc;
- f. our request for duty quotas for 12 industrial raw materials. We expect to have to battle hard to get helpful solutions for three of these but the others should not cause difficulty.
- g. ECSC
- h. Euratom.

The issues which still require a good deal of further discussion and negotiation but are not expected to throw up crucial difficulties are:

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j. discussions on financial and monetary matters including sterling. Our replies to the Six's questionnaire have just been handed over to them;

k. method of agricultural transition. This is a complex matter affecting the interests of our traditional suppliers as well as our farmers. We have not yet got very far towards agreement on detailed methods;

l. the common fisheries policy and EEC animal health regulations. Both these could be very troublesome and we are trying to find ways of making them acceptable.

The main issues requiring resolution in order successfully to complete negotiations remain:

m. Community finance;

n. New Zealand dairy products;

o. developing Commonwealth sugar and the association of the developing sugar-producing countries in the Caribbean, Pacific and Indian oceans. The Community have declined to discuss association for these countries in advance of a settlement on sugar.

SECRET

CONFIDENTIAL

25 February 1971

Thank you very much for your message in telegram no. 228 of 24 February.

I write simply to record that we spoke on the telephone, and I said that you were absolutely right. When the Prime Minister made his speech on 12 February, there was no question in his mind of our wanting to reforge existing Community institutions if we got in to suit our own ends. His point was that in the wider political development of Europe all concerned would no doubt display the same ability to develop new types of institutions and relationships as the Six had shown in developing the institutions and relationships of the EEC; and that to discuss all this in terms of "federal" or "confederal" solutions was to invite people to think in terms of labels which they instinctively referred back to existing or past arrangements; this tended to fetter discussion rather than to release imagination.

RTA

His Excellency The Right Honourable Christopher Soames,
C.B.E.

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PRIME MINISTER

To see Mr. Soames's message attached.

I spoke to him on the telephone and said that he was absolutely right. There was no question in your mind of reforging existing community institutions. Your point was that in the wider political development of Europe ^{all concerned} ~~==~~ would no doubt display the same ability to develop new types of institutions and relationships that the Six had shown in developing the community institutions; and that to discuss in terms of "federal" or "confederal" solutions was to invite people to think in terms of labels which referred back to existing or past arrangements, and thus to fetter discussion rather than release imagination.

RM

24 February 1971

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No. 10—

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FM PARIS 241620Z

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Prisec

TO FLASH FCO TELNO 228 OF 24 FEBRUARY.

FOLLOWING PERSONAL FROM AMBASSADOR FOR ARMSTRONG (DOWNING STREET).

AT LUNCH TODAY A MEMBER OF THE ELYSEE STAFF WHO IS VERY CLOSE TO PRESIDENT POMPIDOU TOLD ME THAT THE PRESIDENT HAD BEEN CONSIDERABLY SHAKEN BY THE PRIME MINISTER'S REMARKS ABOUT INSTITUTIONAL EUROPE AT THE END OF HIS SPEECH TO THE PARLIAMENTARY COUNCIL OF THE EUROPEAN MOVEMENT ON 12 FEBRUARY (THE FOURTH AND FIFTH PARAGRAPHS FROM THE END OF TEXT IN VERBATIM 048/71).

2. POMPIDOU HAS APPARENTLY INTERPRETED THIS TO MEAN THAT WE WOULD LIKE TO CHANGE THE EXISTING COMMUNITY INSTITUTIONS IN ORDER TO REFORGE THEM TO SUIT OURSELVES AFTER ENTRY. I WOULD LIKE TO BE ABLE TO ASSURE HIM THAT THIS WAS FAR FROM THE PRIME MINISTER'S MIND: THAT WHAT HE MEANT WAS THAT IN THE CREATION OF INSTITUTIONS TO DEAL WITH DEVELOPMENTS ALONG THE ROAD TO POLITICAL EUROPE WE, LIKE HIM, WERE ADOPTING AN ESSENTIALLY PRAGMATIC APPROACH: AND THAT WE DID NOT WISH, IN WORKING OUT HOW TO MEET THE REQUIREMENTS OF POLITICAL EUROPE, TO BE BOGGED DOWN BY PRECONCEPTIONS ABOUT INSTITUTIONS WHICH ALREADY EXIST OR HAVE EXISTED IN VARIOUS PARTS OF THE WORLD.

3. I SHOULD BE GRATEFUL IF YOU COULD CONFIRM (BY TELEPHONE IF IT IS SIMPLE OR BY FLASH TELEGRAM IF IT IS MORE COMPLICATED) THAT I CAN SPEAK TO THE PRESIDENT ALONG THESE LINES WHEN I SEE HIM TOMORROW AT 11:30 A.M.

SOAMES

NNNN

SENT AT 24/1642Z CC

RCVD AT 24/1642Z RJ

PRIORITY

EN CLAIR

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[FRAME]

TO PRIORITY FCO TELNO. 242 OF 24 FEBRUARY 1971 INFO PARIS THE
HAGUE ROME LUXEMBOURG BRUSSELS UKDEL EEC BRUSSELS INFO SAVING
WASHINGTON.

FOLLOWING IS TEXT OF RESOLUTION ON BRITISH ENTRY INTO THE EEC
PASSED BY THE MONNET COMMITTEE FOR THE UNITED STATES OF EUROPE
DURING THEIR MEETING IN BONN ON 23 AND 24 FEBRUARY. TEXT OF
DECLARATION AND OTHER RESOLUTIONS FOLLOWS BY BAG.

2. BEGINS.

QUOTE BRITISH ENTRY.

1. THE COMMITTEE NOTES:

(A) THAT THE PRINCIPAL RESULT OF THE NEGOTIATIONS BETWEEN THE
SIX AND GREAT BRITAIN WILL BE TO TRANSFORM ECONOMIC PROBLEMS
UNTIL NOW TACKLED SEPARATELY INTO COMMON PROBLEMS AND WILL
MAKE IT POSSIBLE FOR THEM TO CONFRONT TOGETHER THE OBSTACLES IN
THE WAY OF THEIR DEVELOPMENT.

(B) THAT THE ENLARGEMENT OF THE EUROPEAN ECONOMIC COMMUNITY
SHOULD, AFTER A PERIOD OF GRADUAL AND TRANSITIONAL ARRANGEMENTS,
AS REFERRED TO IN (E) BELOW, BRING ABOUT A SIGNIFICANT INCREASE IN
THE RESOURCES OF GREAT BRITAIN. THIS HAS BEEN SHOWN TO BE THE
EXPERIENCE OF THE SIX. ONE OF THE OBJECTIVES OF THE NEGOTIATION
MUST BE TO MAKE IT POSSIBLE FOR THIS INCREASE IN RESOURCES TO
ENABLE GREAT BRITAIN TO FINANCE HER PARTICIPATION IN THE
COMMUNITY BUDGET WITHOUT SERIOUS DIFFICULTY.

(C) THAT THE FINANCIAL POLICY OF THE COMMUNITY, INSTEAD OF BEING
MAINLY LIMITED TO AGRICULTURE, AS IT IS TODAY, SHOULD EXTEND DURING
THE COMING YEARS TO OTHER FIELDS SUCH AS SOCIAL POLICY, REGIONAL
POLICY, ADVANCED TECHNOLOGY, ETC..

(D) THAT THE PROBLEMS RAISED BY THE POLITICAL ORGANISATION OF
EUROPE SHOULD BE DISCUSSED AND RESOLVED BY THE COUNTRIES
OF THE ENLARGED COMMUNITY. THE PARTICIPATION OF GREAT BRITAIN,
WITH HER STRONG DEMOCRATIC TRADITION, WILL BE PARTICULARLY IMPORTANT.

THE EUROPE THUS ESTABLISHED WILL THEN BE IN A POSITION TO EXERT
AN ESSENTIAL INFLUENCE IN THE WORLD IN FAVOUR OF THE DEVELOPING
COUNTRIES AND THE PROGRESS OF PEACE.

/(E) THAT

(E) THAT THE PROGRESS MADE IN THE NEGOTIATIONS BETWEEN THE SIX AND GREAT BRITAIN HAS CONSIDERABLY REDUCED THE MARGIN STILL SEPARATING THEM. IN PARTICULAR, THE BRITISH GOVERNMENT HAVE MADE IT CLEAR THAT THEY ACCEPT THE COMMUNITY'S DIRECT INCOME SYSTEM AND THEY INTEND TO APPLY THIS SYSTEM FULLY AT THE END OF THE TRANSITION PERIOD AND THE PERIOD OF CORRECTIVES ON THE LINES AGREED BY THE SIX FOR THEMSELVES. THE NEGOTIATIONS AT PRESENT UNDER WAY CENTRE ON THE QUESTION OF BRITISH PARTICIPATION DURING THE TRANSITION PERIOD.

THE COMMITTEE DOES NOT UNDERESTIMATE THE IMPORTANCE OF THE OTHER PROBLEMS INVOLVED IN THE CURRENT NEGOTIATIONS, PARTICULARLY THOSE CONCERNING NEW ZEALAND AND THE SUGAR-PRODUCING COUNTRIES. NEVERTHELESS IT BELIEVES THAT THESE SHOULD BE DISCUSSED AND SETTLED IN THE LIGHT OF THE PROSPECTS DESCRIBED ABOVE.

CONSEQUENTLY, THE COMMITTEE JUDGES THAT IT IS NECESSARY AND POSSIBLE, WITH GOODWILL ON ALL SIDES, FOR THE NEGOTIATIONS STARTED EIGHT MONTHS AGO BETWEEN THE COMMUNITY AND GREAT BRITAIN TO BE CONCLUDED RAPIDLY, AND TO THIS END, IT CONSIDERS THAT THE ESSENTIAL QUESTIONS CAN AND MUST BE DECIDED BEFORE THE SUMMER.

II. THE COMMITTEE WISHES TO STRESS THE IMPORTANCE OF THE STATEMENTS MADE BY HER MAJESTY'S GOVERNMENT CONFIRMING THAT WHEN THE UNITED KINGDOM IS A MEMBER OF THE COMMUNITY IT WILL PARTICIPATE IN THE GRADUAL ACHIEVEMENT OF ECONOMIC AND MONETARY UNION.

III. THE COMMITTEE CONSIDERS THAT THE NEGOTIATIONS WITH THE OTHER CANDIDATE COUNTRIES MUST BE PURSUED IN THE SAME SPIRIT AS THOSE WITH GREAT BRITAIN UNQUOTE.
ENDS.

FCO PASS SAVING WASHINGTON.

[REPEATED AS REQUESTED]

JACKLING

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European Policy
BIF 2.3.71.

Sir William Nield,
Cabinet Office.

The Prime Minister has seen your minute to me No. Y 0526 of 19 February about the meaning of the sentence quoted in my minute of 15 February from paragraph 3 of the Brussels telegram No. 55 of 12 February.

2. The Prime Minister was grateful for this explanation. He has now asked to see a summary of the contributions and receipts of each of the Six as proportions of G.N.P. at present, and what the position will look like in 1975.

5. I should be grateful if you could let me have a paper answering the Prime Minister's enquiry.

PJSM

22 February 1971.

R.

CONFIDENTIAL *Reuter. CF*
pl. see a summary of the
Prime Minister, contribution of receipts of
Mr. each of the six is
19/2 proportion of what was, &
that it will look like in 1975

Y 0526

MR MOON

1. Your minute of 15 February sought a note on the meaning of the last sentence of your quotation from paragraph 3 of Brussels telegram 55 of 12 February. The following is the broad meaning.

The Community system of ressources propres consists of three elements:

a. the first element is the agricultural levies, which as revenues resulting from a Community policy must be surrendered by each member 100 per cent to the Commission, save for a 10 per cent allowance to member countries for administrative expenses in collecting and accounting for the revenues;

b. the second element is the revenues resulting from the common external tariff to which exactly similar considerations apply;

c. any additional finance to balance the Community budget is to be found by a contribution by each member state of not more than the yield of a 1 per cent VAT. This "residual" financing element does not come into effect until 1975, because until then not all of the Six will have adopted the full VAT system. The Community's budget is not expected to require it, and uniform rates and coverage of VAT have still to be decided.

2. Broadly speaking, the amount of revenue payable by any member country under the first two elements above is a function of two things - the size of the country's economy, and its degree of national self-sufficiency.

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3. But the third element - given that the Community's VAT covers a very wide field of consumer expenditure - is very closely related to the size of each country's consumption and thus of its gross national product.

4. In practice the financial bargain between the Six has the effect that in general the expected contributions from Member States from all three sources (duties, levies and VAT) will be fairly closely related to their expected GNP. The arrangement is biased in favour of France who make relatively low contributions and secure relatively large receipts. The duties and levies the other Five will pay are in each case not widely divergent from their shares of GNP, and the VAT contribution is neutral in this respect. For the United Kingdom, both levies and duties would be substantially greater than our share of GNP of an enlarged Community - because of our greater dependence on food imports and on trade with non-European countries: and the VAT contribution is, again, only neutral (i.e. it merely ensures that that element alone is related to our GNP).

5. Finally, one point of fact on the extract you quote from the telegram. The German share of GNP of the existing EEC (in 1969) was 36 per cent not 46 per cent - and 36 per cent is a little above the German percentage of gross contributions - a position they have more than once in past years refused to exceed.

W.A.

W A FIELD

19 February 1971

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DESKBY 0930 HRS

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TO IMMEDIATE F C O TELNO. CODEL 108 OF 18 FEBRUARY 1971 INFO PRIORITY TO BONN THE HAGUE LUXEMBOURG PARIS ROME SAVING BRUSSELS

MY I P T

COMMITTEE OF PERMANENT REPRESENTATIVES: 18 FEBRUARY
COMMUNITY FINANCE

1. WE HAVE RECEIVED THE FOLLOWING ACCOUNT OF THE DISCUSSION OF COMMUNITY FINANCE IN THE COMMITTEE OF PERMANENT REPRESENTATIVES ON 18 FEBRUARY FROM A MEMBER OF THE DUTCH PERMANENT REPRESENTATION.

2. AFTER THE BELGIANS HAD INTRODUCED THE PROPOSALS SET OUT IN MY TELEGRAM NO. 105, SASSEN (NETHERLANDS) RECALLED THAT LUNS HAD EXPRESSED INTEREST AT THE COUNCIL MEETING ON 1 FEBRUARY IN THORN'S PROPOSAL FOR A 5% BRITISH CONTRIBUTION IN THE FIRST YEAR. THE ADVANTAGES WHICH THE BRITISH WOULD GET FROM COMMUNITY MEMBERSHIP WOULD BE SMALL AT THE BEGINNING AND WOULD ONLY RISE GRADUALLY. IT WAS THEREFORE NOT IN THE INTEREST OF THE COMMUNITY TO BE TOO EXACTING. THE BELGIANS HAD PROPOSED A LINEAR PROGRESSION: SPEAKING PERSONALLY HE THOUGHT THIS COULD EQUALLY WELL BE A FIVE YEAR PROGRESSION ON THE BASIS OF THE FOLLOWING FIGURES:

YEAR 1	5
YEAR 2	6.5
YEAR 3	9
YEAR 4	12.5
YEAR 5	17

HE NOTED THAT THE BELGIANS NOW PROPOSED THAT THERE SHOULD BE THREE YEARS OF CORRECTIVES AFTER THE FIVE YEAR TRANSITIONAL PERIOD.

3. THE GERMAN PERMANENT REPRESENTATIVE SAID THAT THE BELGIAN IDEAS WERE NOT FAR FROM GERMAN ONES. THE GERMANS HAD BEEN THINKING OF A LINEAR PROGRESSION FROM 7% TO 18% DURING THE FIVE YEAR TRANSITIONAL PERIOD. HE WAS HOWEVER INTERESTED IN THE DUTCH IDEA THAT THE INITIAL CONTRIBUTION MIGHT START LOWER. /4. THE LUXEMBOURG

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4. THE LUXEMBOURG PERMANENT REPRESENTATIVE SAID THAT THE BELGIAN PROPOSALS WERE SENSIBLE AND WERE NOT TOO FAR FROM THOSE PUT FORWARD BY THORN ON 1 FEBRUARY.
5. THE ITALIAN REPRESENTATIVE REFERRED TO THE OBJECTIVE CRITERIA WHICH THE ITALIANS BELIEVED SHOULD BE APPLIED TO THE BRITISH CONTRIBUTION. THE BRITISH SHOULD CONTRIBUTE FULLY TO ALL COMMUNITY ACTIVITIES OTHER THAN AGRICULTURE AND ON AGRICULTURE THEIR CONTRIBUTION SHOULD BE PHASED IN GRADUALLY. THE RESULT OF THEIR WORK LED TO CONCLUSIONS WHICH WERE NOT FAR FROM THE BELGIANS PROPOSALS.
6. BOEGNER (FRANCE) SAID THAT HIS GOVERNMENT HAD MANIFESTED SOME SYMPATHY AT AN EARLIER STAGE FOR THE COMMISSION'S FIRST PROPOSAL INVOLVING AN INITIAL BRITISH CONTRIBUTION OF 21.5%. THE FRENCH HAD SO FAR COOPERATED IN THE DISCUSSIONS WITHIN THE COMMUNITY BUT (FOLLOWING FIVE WORDS UNDERLINED) LE JEU EST FAUSSE ACTUELLEMENT. THE BRITISH HAD PUT FORWARD PROPOSALS WHICH WERE TOO LOW AND THEY WERE BEING VERY FIRM ABOUT THEM. THEY INTENDED THE COMMUNITY TO MOVE TOWARDS THEIR PROPOSALS AND OF COURSE, WHEN THE COMMUNITY HAD DONE THIS (FOLLOWING TWO WORDS UNDERLINED) A SIX, THE COMMUNITY WOULD THEN HAVE TO MOVE EVEN FURTHER IN NEGOTIATION WITH THE BRITISH. THE BELGIAN PROPOSALS SHOWED THE WAY IN WHICH THIS WOULD DEVELOP.
7. BOEGNER WENT ON TO SAY THAT HE NOW HAD INSTRUCTIONS NOT TO CONTINUE THE ATTEMPT TO DEFINE A COMMUNITY POSITION UNTIL THE UK HAD CHANGED ITS PROPOSALS. THE PRESENT BRITISH PROPOSALS WERE NEITHER (FOLLOWING WORD UNDERLINED) CONVENABLE NOR (FOLLOWING WORD UNDERLINED) DECENT. THESE INSTRUCTIONS REPRESENTED A LINE OF POLICY WHICH HAD BEEN WORKED OUT IN JANUARY AND WHICH SCHUMANN HAD DISCUSSED WITH SOME OF HIS COLLEAGUES FROM THE OTHER MEMBER STATES (PRESUMABLY MORO AND SCHEEL). ONLY WHEN THE BRITISH CAME UP WITH NEW PROPOSALS OF A SERIOUS AND REASONABLE NATURE WOULD THERE BE A BASIS FOR DISCUSSION. MEANWHILE THE BELGIAN PROPOSALS REPRESENTED NEITHER A BASIS FOR DISCUSSION NOR FOR REFLECTION. SCHUMANN WOULD REITERATE THESE POINTS IN THE COUNCIL ON 1 MARCH.
8. VAN DER MEULEN (BELGIUM) SAID THAT THE PROPOSALS HE HAD PUT FORWARD WERE FULLY IN LINE WITH THE FRAMEWORK PROPOSED BY HARMEL ON 1 FEBRUARY WHICH HAD THEN BEEN ACCEPTED BY THE COUNCIL UNANIMOUSLY AS THE BASIS FOR FURTHER WORK. A MANDATE HAD BEEN GIVEN TO WORK ON THIS BASIS. MEANWHILE THE COMMISSION SHOULD CONTINUE ITS TECHNICAL STUDIES.
9. SASSEN (NETHERLANDS)

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9. SASSEN (NETHERLANDS) SAID THAT THE BRITISH PROPOSALS HAD BEEN KNOWN SINCE DECEMBER. HE AGREED THAT THE BRITISH PROPOSAL FOR A FIRST YEAR CONTRIBUTION WAS NOT ACCEPTABLE. BUT THE FRENCH HAD SAID NOTHING OF WHAT THEY WERE NOW SAYING WHEN THIS HAD ALL BEEN DISCUSSED IN THE COUNCIL ON 1 FEBRUARY. THE PERMANENT REPRESENTATIVES HAD ON THAT OCCASION BEEN GIVEN A CLEAR MANDATE. THE COMMUNITY COULD NOT MERELY WAIT FOR NEW BRITISH PROPOSALS OR IT WOULD LOSE ALL FREEDOM OF MOVEMENT. IN ANY CASE THERE HAD, IN THE MEANTIME, BEEN SIGNS OF MOVEMENT IN VARIOUS POSITIONS. ALTHOUGH SIR CON O'NEILL HAD BEEN VERY FIRM IN THE MEETING OF DEPUTIES ON 10 FEBRUARY, THERE HAD BEEN REMARKS MADE BY MINISTERS TO THE PRESS: AND BRITISH MINISTERS WERE NOT THE ONLY ONES WHO HAD TALKED TO THE PRESS (A REFERENCE TO SCHUMANN'S PRESS BRIEFINGS ON 2 FEBRUARY). THE COMMUNITY SHOULD BE ABLE TO MAKE PROGRESS WITHOUT WAITING FOR THE BRITISH. IF THE COMMUNITY WERE TO ASK TOO MUCH THEY WOULD ONLY HAVE TO HELP THE BRITISH OUT AFTER THEY HAD JOINED AND THAT WOULD NOT BE IN ANYONE'S INTEREST.

12. THE GERMAN AND ITALIAN REPRESENTATIVES SUPPORTED SASSEN, THE GERMAN READING OUT THE MANDATE GIVEN TO THE PERMANENT REPRESENTATIVES BY THE COUNCIL ON 1 FEBRUARY AND SAYING THAT THIS WAS QUITE CLEAR.

13. BOEGNER CONCLUDED THAT THERE WAS A NEED FOR EVERYONE NOW TO CONSIDER THE POSITION: THERE SHOULD BE A FURTHER DISCUSSION AT NEXT WEEKS MEETING OF THE COMMITTEE OF PERMANENT REPRESENTATIVES. PASSED SAYING TO BRUSSELS

SIR J MARJORIBANKS

/REPEATED AS REQUESTED/

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ADVANCE COPIES TO : SIR C. O'NEILL ROBINSON STATHAM (FCO) BELL
(TREASURY) DENMAN (DOT) KEARNS (MAFF)TO IMMEDIATE FCO TELNO CODEL 105 OF 18 FEBRUARY INFO PRIORITY TO
BONN THE HAGUE LUXEMBOURG PARIS ROME AND INFO SAVING BRUSSELS

BRUSSELS TELS. NOS. 60 AND 63.

COMMUNITY FINANCE

A MEMBER OF THE BELGIAN PERMANENT REPRESENTATION HAS GIVEN US IN
STRICT CONFIDENCE AN ACCOUNT OF THE PROPOSALS ON COMMUNITY FINANCE
WHICH WERE PUT FORWARD BY THE BELGIANS IN THE COMMITTEE OF
PERMANENT REPRESENTATIVES ON 18 FEBRUARY.

2. VILAIN QUATORZE SAID THAT THE BELGIAN PROPOSALS CONTAINED THE
FOLLOWING ELEMENTS:

(I) THE BRITISH CONTRIBUTION DURING THE FIVE YEAR TRANSITIONAL
PERIOD SHOULD MOVE UP WITHIN THE FOLLOWING BRACKETS:

YEAR 1 7 AND ONE HALF - 9 AND ONE HALF

YEAR 2 10 - 12

YEAR 3 12 AND ONE HALF - 14 AND ONE HALF

YEAR 4 15 - 17

YEAR 5 17 AND ONE HALF - 19 AND ONE HALF

(II) DURING THIS PERIOD THERE SHOULD BE A CORRECTIVE WHICH WOULD
PREVENT THE BRITISH CONTRIBUTION FROM RISING BETWEEN ONE YEAR
AND ANOTHER BY MORE THAN THREE PERCENTAGE POINTS.

(III) AFTER THE END OF THE FIVE YEAR TRANSITIONAL PERIOD THERE
SHOULD BE THE FOLLOWING CEILINGS ON BRITISH CONTRIBUTIONS FOR
A FURTHER PERIOD OF THREE YEARS:

YEAR 6 - 22%

YEAR 7 - 24%

YEAR 8 - 26%

(IV) AFTER YEAR 8 THE UK WOULD BE INTEGRATED FULLY INTO THE SYSTEM
OF RESOURCES, PROGRES: AND IF, AN ANY YEAR DURING THE THREE YEAR PERIOD
OF CORRECTIVES, THE BRITISH CONTRIBUTION CAME TO LESS THAN THE
CEILING THE CORRECTIVES WOULD CEASE TO APPLY. BUT HE ADMITTED THAT
THE BELGIANS' CALCULATION INDICATED THAT OUR FULL CONTRIBUTION WOULD
BE BETWEEN 24 AND 26%.

3. VILAIN QUATORZE SAID THAT THE BELGIANS HAD ALSO PUT FORWARD RATHER TENTATIVELY CERTAIN IDEAS FOR ENSURING THAT THE BRITISH CONTRIBUTION TO THE COMMUNITY BUDGET DURING THE TRANSITIONAL PERIOD UNDER EACH OF THE THREE ELEMENTS OF RESSOURCES PROPRES SHOULD NOT BE EXCESSIVE AND SHOULD, IF POSSIBLE, FILL EACH YEAR WITHIN THE BRACKET PROPOSAL.

HE SAID THEY HAD REFERRED TO THE POSSIBILITY THAT THE BRITISH LEVY CONTRIBUTION SHOULD RELATE NOT TO THE TOTAL DIFFERENCE BETWEEN THE WORLD PRICE AND THE THRESHOLD PRICE BUT ONLY TO THE DIFFERENCE BETWEEN WHATEVER PRICE UNDER OUR INTERIM LEVY ARRANGEMENTS WE WERE APPLYING TO IMPORTS AT THE TIME OF OUR ENTRY AND THE THRESHOLD PRICE APPLIED AFTER OUR ENTRY. HE ALSO SAID THAT THEY HAD REFERRED TO THE POSSIBILITY OF PHASING IN THE CUSTOMS DUTIES ELEMENT BY DISTINGUISHING BETWEEN CUSTOMS DUTIES ACCRUING FROM THE PRESENT UK TARIFF AND CUSTOMS DUTIES THAT WOULD ARISE FROM OUR MOVEMENT TOWARDS THE COMMON EXTERNAL TARIFF. AND THEY HAD POINTED OUT THAT BUDGETARY OR TVA CONTRIBUTION WOULD ONLY BE REQUIRED IN THE EVENT OF THE LEVY AND CUSTOMS DUTY CONTRIBUTIONS NOT BRINGING THE TOTAL UK CONTRIBUTION UP TO THE BOTTOM EDGE OF THE ANNUAL BRACKET.

4. VILAIN QUATORZE SAID THAT THE REACTIONS OF ALL THE MEMBER STATES, APART FROM THE FRENCH, HAD BEEN POSITIVE, ALTHOUGH SEVERAL PERMANENT REPRESENTATIVES HAD INDICATED THAT THEY WOULD FAVOUR LOWER FIGURES. THE FRENCH, HOWEVER, HAD BEEN TOTALLY NEGATIVE AND HAD STATED IN TERMS THAT THEY DID NOT REGARD THE BELGIAN PROPOSALS NOW PUT FORWARD (AS OPPOSED TO THE FRAMEWORK PROPOSALS MADE BY HARMEL ON 1 FEBRUARY) AS AN ACCEPTABLE BASIS FOR FURTHER DISCUSSION.

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EID

19 February 1971

PERSONAL AND CONFIDENTIAL

Thank you very much for your letter of 17 February.

What you are proposing to say is perfectly in line with the Prime Minister's current thinking.

On the first point, President Pompidou will understand as well as anyone that our position on Community financing as set out by Geoffrey Rippon on 2 February is a position for negotiation, and not necessarily the last word. At the same time the position is not just irresponsible, or a joke. You may like to remind the President that the Government has to think not only about British public opinion but also about the other net costs which entry will entail, at any rate in the short term.

On the second point, you may like to have two thoughts in the back of your mind:-

- (a) The Prime Minister sees some risk of disadvantage in a series of unfruitful Ministerial meetings, which could sour the negotiation rather than strengthen our position.
- (b) He believes that both Pompidou and Brandt want and expect a summit meeting before the negotiations are concluded.

It will be in our interests (as well as theirs) that there should be a package of issues to provide the room for manoeuvre in a summit meeting.

He therefore foresees the possibility that the main negotiation may come to a head in a summit meeting perhaps quite early in the summer (May or June); and I am sure that he has not precluded the possibility that there may be advantage in a bilateral meeting with Pompidou before a summit meeting of the Seven (or the Ten).

I am not suggesting that you should hint at any of this to Pompidou himself; but you may like to have it at the back of your mind when you talk to him.

I hope that this gives you what you need. If so, the Prime Minister does not think that there is any need for you to come over before you see Pompidou.

RTA

His Excellency The Right Honourable Christopher Soames,
C.B.E.

PRIME MINISTER

I have received the attached Personal and Confidential letter from Christopher Soames, wanting to clear his lines before he sees President Pompidou on 25 February.

Do you agree that I should reply as in the draft attached?

RA

18 February 1971

DRAFT LETTER TO THE RT. HON. CHRISTOPHER SOAMES, CBE
BRITISH EMBASSY, PARIS.

PERSONAL AND CONFIDENTIAL

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