

PREM

PART 5 ends:-

Record Conversation Cetween Foreign Lee and N.2. Officition Leader. 21/4/71

PART 6 begins:-

UK. Onbarador, Paris to Si D. Grandille - 21.4.71 (F.Co to RTA + excls of 21 4 71) RECORD OF CONVERSATION BETWEEN THE FOREIGN AND COMMONWEALTH SECRETARY AND THE LEADER OF THE NEW ZEALAND OPPOSITION HELD AT THE FOREIGN AND COMMONWEALTH OFFICE ON WEDNESDAY, 21 APRIL, AT 4.40 P M

PRESENT:

The Rt Hon Sir Alec Douglas-Home MP

Mr N E Kirk

Mr R M Miller

Mr I McCluney

Mr K W Kelley

EEC

- Sir Alec Douglas-Home said that Mr Kirk would know that l. he had seen Sir Keith Holyoake. Mr Kirk said that there would be little difference between what he and Sir Keith Holyoake had to say. New Zealand had serious economic problems and the farmers in particular were more agitated than at any time since the depression. They were suffering from a series of cost increases and depressed prices in overseas markets. He said that there had been a great deal of diversification in the dairy industry but that production of milk powder for example depended on the market for butter. Sir Alec Douglas-Home mentioned the rise in the price of butter and said that it was clear that there was now less butter on the world market. Mr Kirk said that the surplus had disappeared. New Zealand farmers had also, of course, suffered from drought.
- Sir Alec Douglas-Home said that Sir Keith Holyoake was 2. to visit Common Market countries and asked whether Mr Kirk would be doing this. Mr Kirk said that he would be visiting Sweden.

Germany and Brussels and that he would also be attending the Council of Europe. Sir Alec Douglas-Home said that the British Government had been making the New Zealand case but that it was better when this was also done by New Zealanders. He thought the work done by Mr Marshall was particularly valuable. Mr Kirk said that he was glad a case had been made for New Zealand butter but that he was also concerned about lamb. Sir Alec Douglas-Home said that he knew there was the possibility of an EEC regulation on sheepmeat. Mr Kirk said that he was afraid this might come sooner than expected and that a cutback in New Zealand lamb exports would be a very serious matter. New Zealand was trying to diversify her exports and her markets but increased exports to Japan, for example, prompted a Japanese request for a preferential tariff, which would affect United Kingdom exports to New Zealand. This was the sort of problem New Zealand faced.

EEC

Sir Alec Douglas-Home said that Mr Kirk should do every-4. thing possible to ensure that the French fully understood what the New Zealand problem in the EEC negotiations was all about. Sir Keith Holyoake would certainly be doing so. Mr Kirk said that it should be possible for the EEC countries to accommodate New Zealand and that it would help greatly if they would only bring up their own domestic consumption a little. Sir Alec Douglas-Home said that Mr Marshall would be coming to Britain again after the May meeting in Brussels and that this would be

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useful. Mr Kirk said that he would come with the unanimous support of the people of New Zealand.

Distribution:

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Foreign and Commonwealth Office

London S.W.1

21 April, 1971.

Den Rober,

Meeting on the EEC Negotiations on 23 April

Peter Moon wrote on 16 April about the meeting which the Prime Minister has called for 23 April to discuss the EEC negotiations. In that letter he suggested that we might prepare a paper setting out the advantages of the various alternative courses and methods of approach, which could be taken at the meeting.

I enclose a short paper, which has been approved by the Foreign and Commonwealth Secretary, setting out the main factors relating to the possibility of a meeting between the Prime Minister and Pompidou. The Prime Minister will no doubt have seen Tickell's earlier letter of 7 April to you and the draft telegrams to Paris enclosed with that letter.

The question of defence co-operation with France is dealt with in an annex to the enclosed paper.

I am sending a copy of this letter and enclosures to Norbury.

Jaw sincerely Violates Banington

R. T. Armstrong, Esq., 10 Downing Street.

COVERING SECRET



The EEC Negotiations and a Meeting between the Prime Minister and President

Pompidou

Mr. Soames has reported that the Secretary General at the Elysee told him on 27 March that the vital meeting in the context of the negotiations for our membership of the Communities would be the talk between the Prime Minister and M. Pompidou; that M. Pompidou's choice was the end of May; but that it was imperative to keep this secret. We have still to send Mr. Soames instructions on how to reply substantively to M. Jobert's approach.

Do we want a bilateral summit with M. Pompidou?

- 2. There are dangers in planning a meeting of this kind:
 - (i) if the meeting failed, negotiations for our entry into the Communities would also probably fail, though the Six might attempt a summit of their own to retrieve the position;
- (ii) once a decision to hold a bilateral summit becomes generally known, the Five will be more disposed to leave us to settle things bilaterally with France, and the steam will go out of efforts to make progress in Brussels.
- 3. But (i) can be argued the other way: the price of failure will be evident to M. Pompidou as well. And (ii) can be met by delaying precise arrangements until a late stage.



- 4. Moreover it is difficult now to avoid a summit, since
 M. Pompidou himself suggested it; the idea is clearly approved
 by the Germans and by France's other partners in the Community;
 and if we do not arrange a bilateral summit, there will be
 increased pressure for a summit of the Six which might
 present greater dangers for us.
- 5. So we should accept and plan on the basis that there will be a meeting between the Prime Minister and President Pompidou in the next six or seven weeks.

What should the meeting aim to achieve?

- 6. The meeting should in any case be presented as far as possible as one in the series of meetings between the Prime Minister and other heads of Government, following the meetings with President Nixon and Herr Brandt and preceding that with Signor Colombo. But the main business will be in relation to EEC negotiations, and the objective could be of three kinds:
- (a) the aim could be to create the right general atmosphere regarding Anglo/French relations, particularly in a European and Community context, in the hope that this would lead France to take a reasonable line in Brussels so that the negotiations could be successfully concluded;
- (b) in addition to (a) the meeting could aim to achieve either

/(i)



- (i) an understanding with M. Pompidou in general terms regarding the points of importance to both sides and the general direction in which each side would be prepared to move; or
- (ii) specific agreement on the main outstanding points at issue (Community finance, New Zealand butter and cheese, Commonwealth sugar and Community preference, as well as a general reassurance for France's sterling anxieties.)

Since one of the main dangers about a meeting with M. Pompidou will be the risk of subsequent misunderstandings, the more agreement can be reached in detail the better. The issues to cover are not extensive, and the Prime Minister should aim, if he cannot establish agreement with M. Pompidou on the main basic figures, at least materially to narrow present differences, to the point at which agreement will come out of the Brussels Conference.

7. Discussion at a meeting with President Pompidou will also have to cover more general questions not strictly relating to the EEC negotiations including H.M.G.'s general attitude to the development of a European identity; and the position of the French language in the Communities after enlargement. The line we take on these issues will be important in establishing the essential climate of confidence ((a) above).

/And



summit.

And the Prime Minister will also want, following Herr Brandt's advice, to make plain to M. Pompidou not only the consequences of accession, but also the consequences of failure.

Should the meeting be prepared?

8. The more we aim at a detailed agreement, the more essential it will be to prepare it before the Prime Minister sees M. Pompidou. It is unlikely that the Prime Minister's meeting with M. Pompidou would last more than two days (and undesirable that it should do so). And adequate preparation could give some reassurance that the French intended to use the meeting genuinely in an attempt to reach agreement. Indeed M. Pompidou's remarks to the Belgian Ambassador in Paris on 5 April show that M. Pompidou is persuaded of the need for a meeting to take place when matters are sufficiently prepared to ensure agreement. We could send one or two officials discreetly to Paris for meetings with anyone M. Pompidou cared to nominate, or could talk to his representatives in London. The French would no doubt choose the former. Two meetings ought to suffice to prepare the ground. It would probably be best to avoid using M. Schumann's visit to London on 21 May as part of the detailed preparation though that meeting could no doubt contribute to creating the right atmosphere for a

When should the meeting with President Pompidou take place?

9. M. Pompidou has said that the meeting should take place
"at the end of May" (and after the May Ministerial meetings
in Brussels on 10-12 May). We want to be sure that the

/negotiations

negotiations on the major issues are concluded in Brussels before the summer holidays, and Herr Brandt wants this measure of agreement achieved in June. M. Pompidou is paying a visit to Belgium from 24-26 May. Whit Monday is 31 May. This points to the Prime Minister offering to visit Paris either in place of M. Schumann's visit here on 20/21 May or in the first days of June.

Implications for the May meeting in Brussels

- We should not cancel these meetings, although it will be difficult to avoid a sense of crisis arising at them.
- But we should represent to the French President, in 11. replying to M. Jobert's approach, that it will be important to make significant progress in mid-May to ensure the right atmosphere for a meeting with M. Pompidou. We must try to use this argument to get the French to move in Brussels in May. But to the extent that it is not possible to get them to move to meet us on the major issues, we must try to persuade our friends in the Community to ensure that the crisis resulting from an unsuccessful May meeting occurs within the Six, rather than between Britain and the Community as a whole.

Immediate Action

The Prime Minister should send President Pompidou a written message on the lines enclosed with Mr. Tickell's letter of 7 April to Mr. Moon. It will be right that the Prime Minister should now take the matter up personally in writing with M. Pompidou. (Herr Brandt, Signor Colombo and M. Pompidou are all corresponding personally on the enlargement



of the Communities.) And this will serve to commit M. Pompidou from now on as closely as possible to the outcome, including our objectives for the Brussels meetings in May, and avoid misunderstandings.

13. Herr Brandt should be told of the action taken immediately after the delivery of the message in accordance with the request which he made to the Prime Minister in Bonn.



Annex

Prime Minister's Meeting with President Pompidou

Defence Issues

General

It is neither possible nor desirable to omit defence issues completely at any meeting between the Prime Minister and President Pompidou in May or June. We need to be able to show that no subjects are taboo between our two countries. Moreover press speculation in recent weeks will almost certainly have aroused curiosity in Paris. But there is an obvious need for caution. We must not promise more than we can deliver nor risk seriously upsetting our other main allies (especially on the nuclear side). Nevertheless we do want to try to get a clearer picture of how M. Pompidou sees the way ahead for European defence.

Nuclear Co-operation

2. Officials had until recently envisaged that at this meeting the Prime Minister would, on the political plane, offer the prospect of nuclear collaboration with France, the broad terms of his approach having been cleared with President Nixon beforehand. However, following discussions during his recent visit to London, Lord Cromer has advised strongly against this method of approach. His arguments are set out in detail in his Top Secret telegram No. 1329 of 17 April.

13.



- 3. Moreover the French position remains obscure. There have been two specific indications of interest on their part (paragraphs 11-13 below). On the other hand M. de Courcel told the Foreign and Commonwealth Secretary on 7 April that he thought it undesirable for us to raise the question of defence in the context of our negotiations for entry into the EEC. He had just returned from Paris and his remark could mean that opinion there is also against Anglo-French discussion of defence in any depth at this time. M. Monnet is also very hesitant, though for reasons largely connected with German attitudes. President Pompidou remains studiously non-committal. 4. In the light of all this the Foreign and Commonwealth Secretary believes that any exchange with President Pompidou on defence questions should be of an even more general and preliminary kind than first conceived. This would make it unnecessary to have a prior discussion with or clearance from the Americans, although it may be thought expedient for the Prime Minister to send a short message to President Nixon beforehand, perhaps delivered only to Mr. Kissinger. This might simply let the President know the meeting was imminent and that the Prime Minister would inform him of the outcome. 5. If this approach is adopted it would have the following possible advantages:
 - (a) We should be able to choose a moment for the substantive approach to President Nixon when the American domestic political scene is more favourable;



- (b) we would avoid giving the Americans any impression that we want to offer France nuclear secrets, based on US know-how, to help the British EEC negotiations;
- (c) we would avoid the real risk of a leak taking place in Washington at a particularly awkward time;
- (d) we should be in a better position to gauge precisely how to make the substantive approach to President Nixon;
- (e) we might get credit from the French for being able to show that the Prime Minister is not acting at all stages with the precise approval of President Nixon;
- (f) we should reduce the possibility of the French using our approach to cause delay in the enlargement negotiations.
- 6. The French will expect the Prime Minister to say something about defence issues. M. Debré told Lord Carrington in November last year that "it was now really up to the UK: we should tell the French what we felt and wanted". If the French really wished to use the nuclear issue as a delaying tactic, they could exploit our failure to mention it at all as easily as anything positive we might be able to say. The French are doubtless interested in the degree to which we could carry the Americans with us or operate without them.



If we cannot give them any guidance on either score, they are perhaps unlikely to give us much information on their own thinking. This is not of course to say that President Pompidou would expect the Prime Minister to open a defence negotiation at this meeting. What he would expect is evidence of Britain's Europeanness of mind.

Line to take

- 7. Assuming the arguments for caution on the nuclear front are accepted, the best way for the Prime Minister to minimise the problems set out above may be to focus on our concern about the state of Europe's defences in the next 10-15 years. His remarks could be based on the opening section of the paper prepared by officials on European defence co-operation (GEN 29(71)4). (He could if necessary offer to hand over a piece of paper on these lines.) In discussion he could concentrate on:
- (a) the danger of possible American force withdrawals;
- (b) the need to be ready for this moment, but to avoid accelerating its arrival;
- (c) the fact that Anglo-French co-operation is clearly a key to European defence.

He could emphasise that if Britain joined the EEC the two countries would inevitably and rightly come closer together and would want to consider how they could co-operate more closely in defence. Notwithstanding the obvious difficulties, there would be every advantage in due course in seeking jointly to overcome them.



8. Given the change of plan, and the lack of prior consultation with the Americans, it would be necessary to avoid any detailed discussion of the nuclear issue. The Prime Minister might say that the constraints which existed for the UK were well known and he could not for a moment pretend otherwise. But new prospects for defence collaboration would be opened up after enlargement of the community. Our defence relationship with France would be bound to intensify in the changed circumstances. There would be new opportunities for Britain and France to work together on defence issues - not excluding the nuclear field.

Pluton and nuclear submarine training

- 9. These are two specific questions on which the French have put proposals to us and which the Prime Minister will wish to have in mind.
- 10. The French have offered us through Ministry of Defence channels a technical presentation of the Pluton delivery system. The French motive may be largely commercial. But we believe there would be political advantage in accepting the offer. Nuclear technology is not involved and we need not therefore tell the US in advance, though we shall wish to inform them of the offer in due course. A suitable opportunity for informing the French of our acceptance in principle will arise at a meeting of technical experts on 4 May and we believe it should be taken.
- 11. More difficult is a French proposal for discussions on the training of nuclear submarine crews. We cannot accept this without detailed discussion with the Americans first



and to have any real prospects of success these would need to follow not precede a general approach. It would, however, be damaging to turn the French down at this stage. We should, therefore, continue to temporise for the time being.



THE CHARGELLOR OF THE DUCKY OF LANCASTER AND THE DUTCH FOREIGH HAMISTER THE NAGUE 20 APRIL 1971, 10 45 hours

P.A. m.

The Pt Hon Geoffrey Rippon QC, IP

HE Sir E Toukins
The Hon Sir C O'Heill
Niss J J Collings
Hr H A Pakenhan

Dr Joseph Luns IE IIIr Hartogh IIE IIIr Sassen IIIr Huydecoper IIII Italianer

lir Luns invited iir Rippon to open the discussion by giving his views on the best tactics for the weetings on 10-12 May. Air Rippon emphasized the need to wake substantial progress in May on as many points as possible. The Community must move on sugar and New Zealand. In return Britain would be willing to negotiate on Community finance, provided the Community view was not totally unreasonable; and would do her best on Community preference though this was a difficult question. Now far could the Community agree on proposals to put to the British?

2 Mr Luns replied that Five weabers of the Community could reach agreement with Britain very quickly. The French position on the other hand he found difficult to fathom. If de Lipkowski had said to him the previous day, as President Poupidou had done in Paris, that technical matters should not be allowed to stand in the way of agreement. What mattered to the French were the principles. They doubted however if the

Pritish really accepted these principles. Hr Luns' reply had been: ask the British then.

- believe our good faith. We had said countless times that we accepted the principles of the Community. In Wilson had said, as Prime Minister in 1967, that we accepted the common agricultural policy. There had been no change in this. But we kept on being asked to subscribe to some new principle.
- In Lons and that he was always propared to speak toughly if this would help. He had done so on sterling. The Germans had congratulated him on this though they did not done to speak out themselves. But he sonsed that the key to the profescular had between Paris and London. He had told Poupidou and Schumann that he would release an Anglo-French summit meeting. He was afreid that on 16 Hay there would still be done-lock. He has commented an passant that H Schumann was in a very weak position since the departure of President de Gaulle, being closely supervised by the Quai and not helped by frequent success as to his departure. Hide Lipkowski had told he so Koster in confidence that he disagreed strengly with President Poupidou from time to time but get on with him better than H Schumann did.
- that nothing could happen in May and that we would have to wait for a suunit. M de Lipkowski had said to him that a suunit must be well prepared since nobody wanted another Rambouillet. Since the questions at stake were technical, progress in the negotiations was needed. Me urged Mr Lune /to press

to press the French for progress.

Hir Luns wondered whether the British wight make some s tement on questions unrelated to the negotiations in order to get things moving. Periors the British Government might make a declaration that they considered the McMahon Act was now without value, because the Russians already had the secret information it concerned, and because there was no reason to discriminate against France. He thought this would make an excellent impression on the French though he had no hard evidence. Did the British Government consider that the McMahon Act was unfair? Ilr Rippon replied that various people has spoken publicly of the need for a separate and distinct European defence capability which should be nuclear as well as conventional. But it would create difficulties if this question were brought into the enlargement negotiations. This was a sensitive issue in some parts of the Labour Party and it would not holp matters if ING denounced the Nichahon Act. He asked hir Luns not to press us too hard on nuclear matters or on a summit. Hr Luns replied he had only been thinking aloud, though even the Dutch were unhappy about the Hellahon Act which had prevented them getting nuclear submarines.

7 In Luns said that even if the British wished to side with the French against the Five they would have full Dutch sympathy. What could the Dutch do to help? In Rippon said that if the Six could move towards us on New Zealand and sugar, it would be possible to consider further negotiation on our proposed contribution to Community finance. Community

/preference

on this too. Sugar was a test of the Community's attitude to the developing world. It was impossible for us to abandon New Zealand any wore than we had abandoned Belgius. when it was invaded. There were four elements to a deal. If we could settle two in May, that might do. Mr Rippon asked the Dutch Government to press the French to move towards reasonable proposals.

fir Luns said there were two possibilities open to the Dutch; either they could stand firm on their present positions in the hope that the other four, and then eventually the French, would gove to a position which was acceptable to the British; or they could try to reach agreement between the Six by moving from their present stand on the main issues. The danger was that the second alternative would result in terus which were unacceptable to Britain. Ur Luns said that in no circumstances would be allow this to happen since he kne it would wean the end of the negotiations. He would continue to stand firm on present Dutch positions even if it meant that no agreement was possible among the Six. In that case he would continue to try to secure dovement on the part of his partners in a direction which he thought we could accept. The problem was how to achieve this and for the moment he had to confess that he could not see how it could be achieved in practice; it would in any case require time and it was therefore difficult to see how which progress could be made at the May meeting.

Sir C O'lleill suggested that one should not despair of /results

CONFIDENTIAL

if the Six made no progress on 10 May it might be best if when Mr kippon wet them on 11 May he put pressure on the Six to produce something better, and then left them to get on with it à Six. Then M Schumann would be going back to Paris for a Cabinet meeting on the morning of 12 May. No progress might be possible until late that day when M Schumann got back. If there were movement amongst the Six it would be possible to make progress à sopt in an hour or so. Mr Luns explained that he and Mr de Koster would be obliged to return to The Mague on May 11 but they would fly straight back to Brussels.

June that they would always negotiate through their Chairman. In 1992 progress had often been achieved by the Cix Ninisters expressing their different points of view. He wondered whether it would be possible to change this procedure. Mr Hartogh pointed out that such a change would require unanimity among the Jix, and was unthinkable.

possible to propose that the discussion on finance should deal with figures rather than the Belgian principles which were a sucke-screen. Br Luns suggested that if we accepted 7% as a starting figure, the Five would support us and put the French on the spot. 3% had not been a good opening bid and even the Jutch thought it was too low.

We should say that we were prepared to constarted their figures.

In Rippor pointed out that we had already done so. Br Sassen /and Br Huydecoper

at the end of the transitional period. If our ultimate contribution was to be about 22% our proposal for 15% in year five made it possible for the French to have doubts about British intentions. Perhaps Dritain could do something to meet this point.

on this sort of practical basis. It was absurd to concentrate on our contribution in the first year. If the steps in the transitional period were reasonable we would be able to conform to them without a crisis. The three-year corrective period gave a possibility of bridging the gap to our final contribution. We should test French intentions, and this time "to destruction". In 1862 it had been possible for the French to suggest that our commitment to Europe was less than whole-hearted. This time the commitment was clear and total so that breakdown could only be the result of bad faith. He believed the outcome would be all right but public opinion required progress now.

for drawa. He did not believe the French were ready to wove. He did not see how the Dutch could wake progress without abandoning their own positions. Perhaps it no progress were wade on May 10 the Dutch should say to the Six that there was no point in seeting the British. He Rippon said that if this happened he thought the affair would be finished. He thought the taction suggested by Sir C O'Heill were right. He wust work towards a final position where there were no winners and no lesors, and the Six must nove towards

interjected that he did not think the Six would be able to do this. The French had said to him in Paris that they would not nove until there was a package. In Rippon replied that if the Six did not nove they must explain why. Britain wanted to talk about a vue d'ensemble as much as France. He hoped that the Dutch would work to put pressure on the French on 10 May to produce a package on the basic four items; it had of course to be a package which we could accept, or at least nearly accept. Mr Luns said that he would in any case send instructions to the Dutch Ambassadors in Brussels, Bonn, Rome and Luxembourg to express grave disgivings to their four Comments about the lack of progress. Mr Martogh would speak similarly to the four Ambassadors in The Mague.

- 14 <u>Air Rippon</u> said that he intended to apackstrongly to the Cardinois when he called on him later in the day on the fisheries question. <u>Air Luns</u> commented that the Dutch had reserved the right to rediscuss this issue.
- 15 Hr Luns, (who had to loave the meeting at this point), said that he intended to say to the press only that he had discussed with Hr Rippon the general situation and still hoped for some progress in May.
- Outch officials.) in Nortogh sked how the Dutch could take progress amongst the Six without abandoning some of their own positions. In Novdecoper doubted whether the French would be ready to move in Nay anyway. He thought they wanted several more rounds of discussions. He hoped that expectations of

/progress

progress from the May aceting were not too high. Mr Rippon replied that so far at each Ministerial weeting it had been possible to argue that some sort of progress had been unde. At the woment there was none. The British position was not as rigid as the French, and the Butch could hint that Britain would nove on finance if the Six woved on New Zealand and sugar — though he hoped they would speak of 5% rather than 6%. If the French did not want us in the Community the somer the break came in the negotiations the better, since we would have a better chance of picking up the broken pieces of European unity. Everyone should seriously examine the consequences of failure. He thought even the French would see that failure was not in their interests.

17 <u>Hr Sassen</u> thought the best chance of taking progress by the summer was to have a crisis in Hay. <u>Hr Rippon</u> commented that he did not like working to produce a crisis.

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20 April, 1971.

You wrote to me on 19 April and again on 20 April about the briefing for Raymond Bell and Jeremy Morse for their meeting with the ad hoc group of the Six on economic and financial questions.

The Prime Minister has two points on the briefing proposed.

The first relates to paragraph 4 of Annex A to your letter of 19 April which was entitled "Future of Sterling Balances: U.K. Line for Discussions with Ad Hoc Group". The Prime Minister thinks that this is not the time for a declaration on the lines of paragraph 4. As you say, the nature of the contact with the group may not permit the making of such a statement; but in any case the Prime Minister feels that for the present at any rate, such a statement goes too far. He would prefer that our representatives should make the point that it really is not possible simply to decide to run down the reserve role of sterling without having a clear idea of what to put in its place. They could rehearse the objections to any other conceivable form of reserve asset, as set out in paragraphs 2 and 3 of the notes, describe the desiderata which any scheme would in our view have to meet (as listed in paragraph 5 of the main note), indicate a willingness to consider the whole question in the context of the Community objections for economic and monetary union and in a fully European spirit.



but put onto the French at this stage the onus of putting forward ideas for new arrangements.

The Prime Minister's other point arises on articles 108 and 109 of the Treaty of Rome, and the 6th paragraph of your letter of 19 April. While it may at some time become appropriate to give an assurance that we should not invoke articles 108 and 109 in the event of balance of payments difficulties arising from falls in the sterling balances, the Prime Minister does not think that the time has yet come for us to indicate our willingness to give such an assurance. His point here is that the position of the Five is different from the position of the French. The French are arguing that we should behave in all respects as full members of the Community; but in this context they are arguing that, in the event of a crisis arising from falls in the sterling balances, we should look for appropriate international action outside the Community. The point to make is that they really cannot have it both ways: do they want us to try to solve such problems as members of the Community in a Community spirit, or do they want us to look to action which would inevitably involve Basle, the U.S. and other non-Community bodies. The implications of acting outside the Community in this context could be very far-reaching.

The Prime Minister is content with the rest of the briefing.

I am sending copies of this letter to Johnny Graham and Crispin Tickell. I gather that Raymond Bell has already left for Brussels; you may think that the right course would be, if the Chancellor agrees, for the text of this letter to be telegraphed to Bell and Morse in Brussels.

(SGD) R.T. ARMSTRONG

W.S. Ryrie, Esq., H.M. Treasury.

RECORD OF A MESTING BETWEEN THE CHANCELLOR OF THE DUCHY OF LANCASTER AND THE DUTCH MINISTER OF AGRICULTURE

The Hague, 20 April 1971 at 15.30 h

The Rt Hon Geoffrey Rippon QC, MP. Mr. Lardinois
HE Sir E Tomkins HE Mr. Sassen
The Hon Sir C. O'Neill Mr. Wijnmaalen
Mr Pakenham

Mr. Rippon said that Britain would do all she could to give the Community satisfaction on Community preference. We were grateful for Dutch help on New Zealand, although the position was still not altogether satisfactory. We now needed Dutch assistance on fisheries, although we had not yet decided on when to raise the issue in the negotiation.

2. Mr. Rippon said that we had no problem with deepsea fishing. Our difficulty was with inshore fishing,
particularly in Scotland, Cornwall and Wales and Northern
Ireland. There was great resentment in Britain about the
new regulation. He had accepted that its introduction
at the start of negotiations had been coincidental. This
view was still tenable so long as the Community did not
now introduce a regulation on sheep meat. If that
happened the negotiations would be finished. It would
/not be

not be possible to get Parliament to accept the fisheries regulation as it stood.

- 3. Mr. Lardinois said that Britain would benefit from the present regulation so far as marketing was concerned. Mr. Rippon agreed that this would be so, but only if our coastal waters were not open to Community fishermen. He believed that the Norwegian case for exceptional treatment over fishing was unanswerable. Fishing in Britain played a smaller role in the economy, but it was very important both politically and socially. The present regulation had given rise to a very tense political situation in Britain, and at least twenty IPs dedicated to the success of the negotiations would be unable to vote for entry if the present fisheries regulation stood. The conservation sections of the regulation were acceptable to Britain but it would be necessary to arrange derogations for certain areas of the country.
- 4. Mr. Lardinois doubted whether Scotland would be invaded by Community fishermen. Mr. Rippon asked whether he would be prepared to visit Britain and discuss the issue with the Fisheries Commission of the House of Commons. Mr. Lardinois said that he would be prepared to do so, and to talk with the press. He agreed that it would be necessary to review the present regulation, in order to meet the new requirements of a Community of Ten. He had already advised the Norwegians to take /up the issue

up the issue. Mr. Lardinois pointed out that special treatment had already been arranged for Brittany, and suggested that it might be possible to go further in the case of Britain. He doubted whether the fears of British fishermen were realistic.

- problem above all. Every British fisherman thought that his own particular stretch of coastline was going to be invaded by competitors from the Community.

 Mr. Lardinois explained that the regulation had been necessary to provide one market. He pointed out that Britain had already given six-mile rights to the Dutch for certain types of fishing.
- 6. Mr. Lardinois repeated that he was prepared to visit Britain after the Dutch election on receipt of an invitation from the Fisheries Committee of the House of Commons. Dealing with the Fisheries problem could be included in Community proposals for regional development. Sir C. O'Neill said that Mr. Mansholt had told us that five year derogations were possible, and that these could be prolonged indefinitely.
- 7. Mr. Rippon said he wished to emphasize the political importance of the issue and the need to assist Britain in this field. The new members of an enlarged Community would provide 60% of its fishing industry. There was thus some justice in the claim for a review of the regulations. Mr. Lardinois explained the history behind /the present

the present regulation and the need to introduce it, after the Community had already failed to meet two deadlines.

- 8. Mr. Sassen expressed concern about the possibility of fisheries being raised at the May Ministerial meeting. Mr. Rippon said he would prefer not to discuss it then. There was a danger that Parliament while ratifying the rest of the agreements reached in negotiations would refuse to do so in the case of the fisheries regulation. Mr. Lardinois suggested that fishing should be linked with regional development for the applicants, except for Denmark.
- 9. Mr Lardinois asked for Mr. Rippon's views on the recent agricultural decisions by the Community, including those on structure. He thought Britain should be able to take advantage of the latter. Mr. Rippon said they were not unhelpful. Sir C. O'Neill said he hoped Mr. Lardinois was right in thinking we could make claims on the Fund under these decisions, especially for hill farmers. We accepted that the rise in prices which the Community had agreed could have been worse.

 Mr. Rippon commented that the new regulation helped to demonstrate that industrialised countries were always faced with agricultural problems.

/10.

- Mr. Lardionois said that the Dutch Government had considered British figures and estimated that Britain, on adopting Community policy on the structure of agriculture, could save £80 million. They might have to modify some of their farm-assistance to bring them into line with Community arrangements. But he advised the British Government to get cracking and submit their bills in this field to the Community from the very start of British membership. It would surely be important to begin getting money back from the fund even in the first year. The Italians had a hopeless administration, and could never get the money they might be entitled to for structures because they could not get their schemes in order or their accounts completed. But the British had a good administration. In reply to a question from Sir C. O'Neill, he confirmed that it would be some five months before the new decisions were expressed in the form of a regulation.
- 11. Mr. Sassen said that Britain had not yet expressed a willingness to restrain her domestic sugar production after entering the Community. Mr. Rippon replied that we were bound to do so until the end of 1974.

 After that, as the Australian quota was phased out, there would be room for increased production. Britain, like other Community countries had a vocation sucière

/12.

- 12. Mr. Lardinois suggested that the British
 Government might suggest restraint to its farmers
 on sugar since British farmers would find an expanded
 market for grain. He said that the French were
 concerned about the expansion of British sugar production
 with the lapse of the Commonwealth Sugar Agreement.
 Sir C. O'Neill said that developing countries would
 become a Community responsibility. He asked whether
 the burden of maintaining room for Commonwealth sugar
 should then be borne only by Britain. Mr. Lardinois
 replied that the Community already exercised restraint
 under a quota system. Sir C. O'Neill pointed out that
 the quotas were extremely high.
- of sugar production as consumption increased.

 Mr. Lardinois suggested that a formula might be reached limiting British sugar production to its present quantity until 1978, after which Britain would enjoy the same rights as other Community members. This would be psychologically helpful since the farmers of the Six knew that they themselves had little room to expand grain production. Britain would be able to expand in this field and hence might limit her sugar production.

 Mr. Rippon agreed to discuss this issue with

 Mr. Prior.

/14.

14. Mr. Lardinois asked whether British farmers had agreed the last Annual Price Review. Mr. Rippon replied that they had not done so formally, but agreement had been reached in effect. He pointed out that the new British arrangements foreshadowed entry to the Community. Mr. Lardinois asked whether the arrangements had involved problems with overseas suppliers. Mr. Rippon replied that they had, and it was only with great difficulty that agreement had been finally reached. Wider political arguments had triumphed especially with the United States and Canada, over short-term economic interests.

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RECORD OF A MEETING BETWEEN THE CHANCELLOR OF THE DUCHY OF LANCASTER AND THE DUTCH MINISTER FOR ECONOMIC RELATIONS THE MAGUE at 12 Noon, 20 April 1971

The Rt Hon Geoffrey Rippon GC, IP Ilr Helissen

HE Sir E Toukins
The Hon Sir C O'Meill
Hr H A Pakenhau

HE Nr Sassen

Nr de Grooth

- arrangements could be agreed, with a balance of untual advantage, the negotiations chould not present too many problems. There was much discussion in Britain of the effect of entry, but this discussion centred on the practical problems of transition. The problems which might arise later would be of a different nature. Britain's economic situation was now much better than in 1067. The balance of payments was stronger and would continue so, as long as the impact of entry was not over-burdensome.
- 2 <u>Mr Welissen</u> did not see any particular problems in the economic field. There were some financial problems, especially in relation to the British contribution to the Community budget. The Butch Government supported proposals designed to ease British entry to the Community. Both sides must be reasonable in the negotiations.
- 3 <u>Ur Rippon</u> said so far only one side had appeared reasonable.

 Britain had accepted all she had been asked to accept. We uset /onter

thought was fair. We were prepared to be reasonable, but the Six must also be so. In Rippon agreed with Hr Helissen that we should show progress at the May meeting. We believed that the Community might move towards our position on New Zealand and sugar. A British move towards the Community on the financial contribution and Community preference would then be possible.

4 <u>Hr Billsen</u> asked how Hr Rippon felt about a package deal.

Hir Rippon replied that we were prepared to work one out if the
Six also wanted it. Public opinion expected a certain amount of
give and take between friends and allies. <u>Hr Helissen</u> commented
that Britain had not changed her proposal of 3% contribution to
the Community budget, despite French charges that it was ridiculous.

the light of a sympathetic reply from the Six on other issues.

Our finance proposals were well-intentioned. Huch depended in any case on the shape and size of the future Community budget.

It was wrong for the Community to shed tears over our opening bid. It was now necessary to get down to concrete discussion. When one considered that it had only taken three months to negotiate successfully with the third countries affected by the new British agricultural levy system, it should be possible to make faster progress on the EEC negotiations. The Community were right to stress the need for us to accept the Community principles. But apart from the accepted special problems of New Zealand dairy products, and sugar, the negotiations were concerned eventually with the transition period.

/6 Ilr Helisson

- any proposals from the Community. In Rippon replied that we were, but the Six could not impose upon us burdens which would rob all members of the enlarged Community of the advantages which enlargement would bring. A great prize awaited us all. Failure would be disastrous. When such issues were at stake, the present discussions on percentage points were not wholly realistic.
- proposal. <u>Ur Rippon</u> said it was impossible to negotiate on a basis of continual fresh proposals from Britain. In political terms such a process was unrealistic. It should be remembered that Britain was neither at present, nor would she be in the future the wealthiest member of the Community. Our <u>per capita</u> income was lower than that of any of the present members of the Community, except Italy.
- beggar Britain. He regretted the British offer of 3%. The Community failure to reply was due to a wish to see a more acceptable proposal. He would be very interested to hear what the British considered acceptable. He Rippon said that there were a lot of possibilities: say, 1% for a kind word, 1% for help on New Zealand and a further 1% for help on sugar. There was room for negotiation on these issues and on the starting and finishing points of our financial contribution.
- Views on sugar. On New Zealand there was some difference between us but no real argument. Or Sassen said the question of 12 more or less on the Dritish contribution was not the real problem.

 Britain had accepted the principles of Community /finance

CONFIDENTIAL

finance, which meant that by the end of the transitional period she would be due to pay a contribution of 22%. It was difficult to see how she could nove from 3% to 22%. This was the reason for French distrust. It was better for the Six to remain silent, rather than to make their own proposal which might be unreasonable and unacceptable.

10 <u>Nr Rippon</u> agreed. However the problem still had to be resolved. It would be helpful if the Community could comment sympathetically on the British proposals. He hoped that the Dutch Government would be able to get the Community to make a proposal which moved in our direction; we would then be able to move towards them.

It is itelissed asked about the state of public opinion in Britain, and support for the Government's policy. Is Rippon said there had been a clear majority in favour of entry throughout the 1960s. The second veto had turned public opinion against entry. The majority were now doubtful, but successful negotiaitions could calm many of their fears and reverse the present state of public opinion. In Parliament there was a clear majority for entry within the Conservative Party, although there were signs of mavering in the Labour Party. Given a fair bargain, the Government should have a majority, which would have an effect on public opinion. It was necessary for the British public to see progress in the negotiations.

12 <u>lir Helissen</u> asked if the French Government shared the British sense of urgency. <u>lir Rippon</u> said we must assume a French wish to show progress, because of their agreement to set aside extra days for the Hay Hinisterial meeting. <u>Hr Helissen</u> expressed /cencern

meeting. <u>Ur Rippon</u> explained that this was coincidental. There was no special significance in the date of the visit, which had been the next convenient time after the failure to find suitable dates in Narch. Ur Rippon mentioned that II Schumann had told him that his visit to London would be considerably eased if all had been settled by then,

13 <u>lir Sassen</u> asked for British understanding of the Dutch position on Community finance, in view of the fact that the Butch shared our position on New Zealand and sugar. <u>lir Rippon</u> replied that we understood the Butch position but expected the Community to come forward with a proposal. Ne would not be surprised by a Community proposal of 2 to 0%, with reference to the concept of progressivity and the need for friends and allies to reach agreement. <u>Hr Nelissen</u> commented that progress on the financial contribution was as necessary as on other issues. <u>Hr Rippon</u> agreed that suggested that a package deal would be the best plan. Could the Five try to produce a package which they then night sell to ourselves and the French? <u>Hr de Grooth</u> commented that once agreement had been reached within the Six, it was difficult to change the Community position.

an agreement which would be unacceptable to us. He pointed out that the present problems would not be eased by the passage of time. Britain could only negotiate with the Six and was not trying to play off France against the Five. We must wait for the Community to hander out its own solution. It was wrong to allow the present drift to continge. It allowed those hostile to enlargement to take the iniative. If the Community proposal /comprised

comprised a financial contribution of 10% rising to 25%, with 500,000 tons of sugar for CSA countries, a degression for New Zealand butter to 20% over the transition period, and full Community preference applied from the beginning of the period, Britain would obviously reject this.

principles and not figures. <u>Ur Rippon</u> agreed, so long as the principles established led to acceptable figures. <u>Ur Sassan</u> asked what the British reaction would be to a Community proposal of 12% for the financial contribution rising to 10%.

13 <u>lir Rippon</u> said this was totally unacceptable. Community insistence on a 12% starting figure would mean the end of the negotiation. The same situation would apply to a 10% proposa). There was room for negotiation between 10% and the original British proposal.

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Prime Minister

This material on steeling seems to me to be all right; but you should see it. It is briefing for our representatives who meet he six homorum.

Atot 20:1.



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

20th April 1971

971 (A) 4

I sent you

I sent you last night some drafts for use in the meeting tomorrow with the ad hoc group of the E.E.C. about sterling. I said that I would let you have today the answers proposed to the questions set out in Brussels telegram No. 255.

Questions 2(b) and (c) and 3(b) are in effect already covered by the draft statement at Annex A to my letter of last night, but there is some additional material on these questions in the attached notes. Question 3(a) about articles 108 and 109 of the Treaty of Rome is covered by Annex B which I sent you yesterday.

The attached drafts deal with all the other questions. This is fairly detailed material. The Chancellor has, of course, seen and approved it. But in view of your letter of 29th March to Johnny Graham I assume that the Prime Minister will wish to look at it also.

I am sending copies of this letter and the enclosures to Johnny Graham and Crispin Tickell at the Foreign and Commonwealth Office.

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(W.S. Ryrie)

R.T. Armstrong, Esq.



QUESTION 1(A)

- 1. <u>Direct Investment</u>. The terms under which investment is permitted in Voluntary Programme and N.S.A. countries are broadly similar. Companies are in general expected to finance investment by means other than sterling remittances, usually with currency borrowed abroad, retained profits or exports free of payment. In two respects, however, investment in the Voluntary Programme countries is slightly less restricted:-
 - (1) For Voluntary Programme countries, sterling is allowed for the whole of any investment which is likely to produce earnings of a similar scale to the outflow within three years. Under the "super-criterion scheme" N.S.A. investment must produce commensurate earnings within 18 months and the amount of official exchange allowed is limited to £250,000 for each investment (or 50%, whichever is the greater).
 - (2) The rules governing the use of retained profits in reinvestment, which are normally limited to one-third of earnings, are
 less restrictive in the case of Voluntary Programme countries,
 though in practice the behaviour of companies is much the
 same in respect of both areas.
- 2. Portfolio investment. Under the Voluntary Programme institutional investors have been asked to ensure that there should be no net increase in the total value (as at May 1966) of their overseas holdings denominated in the currencies of the four countries, except where this results from underlying capital appreciation. This has effects which differ in two ways from the effects of exchange control as currently applied to investment in N.S.A. securities:-
 - (a) It is less restrictive in that no penalty is placed on switches by individual investors within the May 1966 total

value of their holdings. By contrast, N.S.A. securities are traded among UK residents at a premium but one-quarter of each sale is not eligible for premium or associated re-investment, but has to be surrendered for sterling at the official exchange rate, resulting in an overall gradual diminution (leaving aside appreciation and depreciation) of the total of securities held.

(b) In another respect, the Voluntary Programme arrangement is more restrictive, in that the individual institutional investor is limited to the value of holdings at May 1966, even where that value was nil or very small. He has no opportunity, of the kind available to the N.S.A. investor, to obtain holdings of Voluntary Programme securities, even in competition with other U.K. investors.

It is also worth mentioning that active investment institutions make considerable use of permissions to run N.S.A. security portfolios financed by borrowed foreign currency, an arrangement which is unattractive to potential investors in Australian, etc., securities.

3. Finally it must be remembered that compliance with the Voluntary Programme cannot be enforced. Nevertheless the UK authorities believe that there has been a high level of cooperation by companies and institutions.

DRAFT REPLIES TO QUESTIONS IN BRUSSELS TELEGRAM CODEL 255
QUESTION 1(B)

SPEAKING NOTE

The freedom of capital movements between the United Kingdom and the countries of the Overseas Sterling Area is not the subject of any specific inter-governmental agreement with the countries concerned. Before the 1968 Sterling Agreements, there were however tacit and imprecise understandings on two points. First, it was understood that all Sterling Area countries would operate sufficient exchange control machinery to ensure that each other's own exchange control rules vis-a-vis the Non-Sterling Area were not evaded - e.g. that U.K. residents could not export capital to the Non-Sterling Area via other countries in the Sterling Area - the "ring fence" concept. This, of course, still applies. Secondly, it was understood that a substantial part of the reserves of countries of the Overseas Sterling Area would continue to be kept in sterling, or alternatively that if a country wished to diversify its holdings, there would be prior consultation with the U.K. to ensure that any change was made in an orderly fashion and would not cause disruption in the international monetary scene. Some countries did in fact diversify substantially within this arrangement.

The 1968 Sterling Agreements contain no formal commitment by the United Kingdom on capital movements; but the freedom of capital movements was undoubtedly an essential underlying assumption and was clearly expected to continue - see for example paragraph 1(3) of the Agreement with Australia (published in Cmnd. 3834) which states that:

"If, during the operation of the Agreement, the United Kingdom imposes further restrictions on the flow of capital from the United Kingdom to Australia, there shall be immediate consultation between the parties."

All the Agreements also provide for their provisions to be reviewed "at any time by agreement between both parties", and there is little doubt that if some major change in the underlying arrangements occurred - such as a restriction on

capital movements - this provision would be invoked.

BACKGROUND NOTE

Although it should not be revealed, the UK representatives should be aware that we have secret understandings with Australia, New Zealand and the Irish Republic, entered into at the same time as the Sterling Agreements, and providing that if we contemplate the imposition of restraints on capital movements, we must consult those countries; that if we impose such restraints, we must review the Agreements; and if such review does not lead to a satisfactory arrangement in the eyes of the Sterling Area country concerned, that country has the right unilaterally to terminate the Sterling Agreement.

Most of the (unpublished) Letters of Implementation which fill out the details of the way in which the Sterling Agreement will be implemented, contain a clause whereby the OSA country undertakes to do its best to ensure that the sterling balances of its own private residents are not transferred to the Non-Sterling Area save in the normal course of current business.

Both of the above could be regarded as a kind of intergovernmental agreement affecting capital movements. It would however be unwise to refer to their existence with the Six, because it would lead them to suspect that there were other, and possibly more damaging, secret agreements with the OSA in this connection.

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INVESTMENT IN OSA AND THE UK BALANCE OF PAYMENTS

Over the last twelve years private UK investment overseas has increased from an annual average of just over £380 million in 1959/61 to just under £700 million in 1970. Of this increase much the greater part has been in the NSA, where UK investment went up from £129 million in 1959/61 to £394 million in 1968/70; investment in OSA, on the other hand, only rose from £184 million in 1959/61 to £302 million in the last three years. Details of the composition of these investment flows are set out in the accompanying table.

- 2. The effect of the investment flows to the sterling area upon the UK balance of payments is best considered with reference to three main points the current account, other investment flows, and sterling balances.
- had a favourable effect on the UK current account. In other words, without the investment flows the current account would have been worse than it actually turned out to be. In the first place, the IPD balance must have benefited from UK investment in sterling countries. UK IPD receipts from OSA rose from an annual average of £230 million in 1959/61 to £417 million in 1968/70, and there is little doubt that this increase would have been less if investment had been lower. Secondly, as the Reddaway Report showed, direct investment in particular tends to have a favourable effect on visible exports; it is therefore proper to assume that the visible balance also benefited.

- 4. Other investment flows. UK investment in OSA is likely in part to have been at the expense of investment in the NSA. As explained in the first paragraph, investment in the NSA in fact rose faster than investment in the OSA, but it is probable that if investment in OSA had been less, capital flows to the NSA would have risen even faster than they did. In other words, a reduction in investment in the OSA would probably not have led to a commensurate reduction in total UK private investment overseas.
- 5. Sterling balances. Because some of the effects referred to, especially those on the current account, take time to work through the system, the rise in investment in the OSA probably also led to an initial increase in sterling balances. Some, though not all, OSA countries probably reacted by increasing their expenditure overseas; depending on the nature of their trading relationships with the UK a greater or smaller part of this additional expenditure was directed at the UK, thus further raising UK receipts.
- 6. The points outlined above by no means exhaust the effects which may be assumed to have followed from UK investment in OSA over the last twelve years but other factors effects via the influence on the domestic policies of the recipients, effects on UK imports, etc. are perhaps rather more speculative.

 Much more important, the argument is presented in qualitative terms only. To work out what would have been implied in quantitative terms would be a major task. What is called for is in effect an enquiry on the lines of the Reddaway Report, confined, on the one hand, to the OSA, but on the other hand extended to cover not only direct investment (Reddaway's point of reference) but also portfolio investment and other capital flows. In the

absence of the necessary information no firm conclusions about the net effect of investment in OSA on the UK balance of payments are possible. All that can be said with reasonable confidence is that the net effect was very likely much smaller than the gross effect [and may indeed have been positive rather than adverse].

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OVERSEAS STERLING AREA		By. I		9 1		2.0							
Direct	-106	-160	-124	-122	-135	-161	-186	-119	-142	-177	-237	-224	-158
Portfolio - London Market Issues Other	- 15 + 10	- 9 + 22	- 17 + 6	- 6 + 11	- 26 + 34	- 8 + 33	+ 12 + 38	+ 16 + 23	- 20	+ 8 -165	+ 33	+ 15	- 1
Oil and Miscellaneous	- 54	- 54	- 51	- 33	- 36	- 51	- 63	- 61	- 43	- 50	- 44	- 34	- 45
Total	-165	-201	-186	-150	-163	-187	-199	-141	-226	-354	-277	-275	-210
HOM-STERLING AREAS												1.8	
Direct	- 90	- 90	-102	- 87	-101	-102	-122	-157	-139	-233	-294	-276	-149
Portfolio - London Market Issues Other	+ 3 + 34	+ 3 + 21	+ 2 + 37	+ 4 + 30	+ 5 - 16	+ 2 - 30	+ 2 + 42	+ 2 + 42	+ 2	+ 2 - 81	- 26 + 26	+ 1 - 64	+ 2
Oil and Miscellansous	- 85	- 55	- 64	- 39	- 43	- 82	- 77	- 49	- 80	- 69	- 46	-121	- 68
Total	-138	-121	-127	- 92	157	-212	-155	-162	-237	-331	-340	-460	-215
ALL AREAS													
Direct	-196	-250	-226	-209	-236	-263	-308	-276	-281	-410	-531	-500	-307
Portfolio - London Market Issues Other	- 12 + 44	- 6 + 43	- 15 + 43	- 2 +41	- 21 + 16	- 6	+ 14 + 80	+ 18 + 65	- 18 - 41	+ 10 -246	+ 7 - 3	+ 16	- 1
Oil and Miscellaneous	-139	-109	-115	- 72	- 79	-133	-140	-110	-123	- 89	- 90	-155	-113
Total	-303	-322	-313	-242	-320	-399	-354	-303	-463	-735	-617	-735	-425

SPEAKING NOTE

It is true that if the total reserves of the Overseas Sterling Area continued to rise, the effect of the Sterling Agreements is automatically to produce an increase in their official sterling holdings. It should however be noted that the increase will be only proportionate, since Sterling Area countries are not required to put the whole of any reserve increase into sterling.

Although it is true that favourable interest rates in London generally make it more attractive to put funds into sterling, in practice the level of London interest rates does not appear to have been a motivating factor in determining the disposition by the countries of the Overseas Sterling Area of their In September 1967, some 50 per cent of Sterling Area reserves was in sterling. By September 1968 (when the Sterling Agreements were entered into) it had dropped to about 40 per cent. Since then, it has at no time up to the end of 1970 (the latest date for which figures are available) risen more than 3 or 4 percentage points above that level. Thus, the attraction of London interest rates, even when coupled with the dollar value guarantee, has not, it would seem been an important element in the calculation of Sterling Area countries. (On a covered basis, London rates have of course been generally unattractive compared with the dollar).

BACKGROUND NOTE

In reply to Question No.5 of the last EEC Questionnaire, we said:

"Confidence considerations apart, movements in these balances /official gross OSA sterling balances are now largely a function of the balance of payments surpluses or deficits of the OSA as a whole; and in the years 1968 and 1969 those surpluses were exceptionally high. In 1970 we expect a surplus of a similar order of magnitude, but thereafter a much more modest surplus is more likely. While this could still lead to some increase in 1971 and after in the absolute level of OSA official sterling balances, the increase should be less than that which has occurred in the last 18 months."

If this is referred to in this connection, it would be proper to say that we would now expect a rather more substantial increase of the balances in the period which would be covered by extension, as a result of the recently negotiated increases in all prices. In fact our forecast is of an increase of about £400 million a year; but such forecasts are notoriously unreliable and it would be wiser to avoid naming a figure with the Six.

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QUESTIONS 2(B) and (C)

BACKGROUND NOTE

What can be said on the question of what might replace the Sterling Agreements in 1973, on the assumption that the UK joins the EEC, is contained in the "Draft Statement" on the future of the sterling balances. We cannot give any firmer undertaking than is set out there, since it will be a matter for international negotiation.

It is of course probable that, given the unlikelihood that any of the more grandiose funding schemes will prove practicable, we shall in 1973 be looking for some further extension of the Sterling Agreements; and it would not be impossible to envisage modifications in such an extension which would cover the points referred to in Question 2(B). Thus, we might seek to guarantee a a lower proportion of the sterling holdings; we might seek to have reduced (or sliding, or some form of "limited") MSP's; or we might try, if a practicable way which was acceptable to the OSA could be found, to organise lower interest rates for official holdings. Arrangements of this kind, or some combination of them, could discourage official holders from holding as much sterling as they do at present. But all such modifications would have to be considered in the context of the financing problem which stabilisation (let alone a rundown, however gradual) of the balances would impose on the UK.

QUESTION 3(B)

BACKGROUND NOTE

Here, as with Questions 2(B) and (C), what can be said is really in the existing "Draft Statement" on the future of the sterling balances. (This Question sits oddly under the general heading of "The Application of Article 108 of the Treaty of Rome". Presumably the thought may be that, if the UK renounce the right to benefit from Article 108, she will.— if a fall in the sterling balances occurs — be looking for assistance elsewhere, possibly from some of the Six in a different grouping

e.g. Basle). The UK does not of course envisage - as perhaps this Question does - reverting to a pre-1968 condition in which OSA holders are free to run their balances down at will. We would look to some continuation, however modified, of the Sterling Agreements and/or the Basle facility (with perhaps a more fundamental scheme in the longer term) and this would thus either prevent a rapid rundown in the balances from occurring, or would provide the financing necessary to meet such rundown.

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NAME AND ADDRESS OF THE PARTY OF PERSONS ASSESSED.

E.R.



Question 4: THE BRITISH AUTHORITIES' ATTITUDE TOWARDS PRIVATE
OVERSEAS INVESTMENT.

Over the past decade, the secular growth in the volume of gross overseas investment, both inward and outward, has been of the order of 10% per year, taking one year with another. The rise between 1963 and 1970, quoted in the question, from £320 million to £735 million in outward investment was matched by a comparable rise from £233 million to £665 million in inward investment.

A good deal of the increase in both directions, as much as one-half in the case of outward investment, generates itself from the reinvestment of a proportion of the growing profits on a rising value of existing investment.

- 2. There is no reason to suppose that this secular growth will not persist for the foreseeable future, and at much the same underlying rate. Except in relation to investment transactions with E.E.C. members, however, it is not expected that this growth will in itself impose additional burdens on U.K. reserves or additional constraints affecting other features of the U.K. balance of payments. For this view there are two reasons.
- 3. First, it is essentially the net cost of any excess of outward over inward investment which, at least for a period, might be expected to impose burdens, rather than the gross cost of outward investment alone. Since both are expected to continue to grow broadly in parallel, the prospective net difference, which is in any case not very large, will be unlikely to change by any large amount.
- 4. Secondly, a great deal of the total investment flow both ways, but particularly in the outward direction, is in an important sense self-financing. Under this heading the major contrubution of reinvested profits has already been mentioned. In addition.



exchange control in relation to investment in N.S.A. countries, to which an increasing proportion of new British investment has for some years been directing itself, has as its main objective the choice of methods of financing which will protect U.K. reserves from the incidence of cost of the investment unless or until it is matched by balance of payments earnings in profits, exports, etc, arising from the investment. It is of course through the relaxation of these financing requirements that compliance with E.E.C. directives on capital movements will impose additional burdens on U.K. reserves.

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

19th April, 1971

Dean Robert,

As you will have seen from recent telegrams from Brussels, the Permanent Representatives of the Six have set up an ad hoc Group to advise them in connection with the economic and financial questions which are to be discussed outside the main negotiations. Telegram No. 254 of 16th April from Brussels reported an invitation to us to appoint representatives to meet the Group. This meeting is to take place on Wednesday 21st April. Our representatives will be Bell of the Treasury and Morse of the Bank of England.

The composition of the Group is as helpful as we could have wished. It is made up of people who have some understanding of the problems and people who should understand well the importance of discretion in discussing them. The manner in which the arrangements for the meeting have been made is also reassuring in that it shows a proper concern to maintain security.

In general, the necessary briefing for the discussion of these questions has been cleared through the A.E. Committee. But there are three specific questions which the French have raised with their colleagues and on which our representatives will need briefing.

On the first question, the sterling balances, the French claim that there would be a contradiction between the U.K.'s role as manager of a reserve currency and her membership of the Community - our vulnerability to extra-European pressures through movements in the balances might seriously disturb the sound working of the Community. Therefore, they argue, the U.K. should in the transitional period bring about "a progressive diminuition in the volume of reserves held in sterling".

/The line



The line proposed is set out in Annex A. Paragraph 4 is perhaps a more specific declaration of its kind than any we have yet made. Whether in fact the nature of the contact with the ad hoc Group will permit the making of such a statement we do not know - if not, it can be drawn on in answering questions; but the Chancellor feels that tactically to gain the support at least of the Five - there is much to be said for it, and that ultimately we shall need to give an assurance of this kind at Ministerial level if we are to satisfy French views.

The second question is that of articles 108 and 109 of the Treaty of Rome. Under Article 108, financial assistance may be provided to a member who is "in balance of payments difficulties". Under Article 109, a member may take "protective measures" in the case of a "sudden crisis in the balance of payments". The French have said that the U.K. should not be free to invoke these Articles if our difficulties derive from falls in the sterling balances, for assistance with which we should look to "appropriate international action". The Chancellor sees no reason why we should not give an assurance which would meet this point, and if need be embody it in a protocol or some similar document.

The third question is that of Exchange Control Discrimination. The French want us to end on entry all discriminatory measures on capital movements which favour the White Commonwealth. Our line on this - already made clear to the Six - is that we will comply fully with the E.E.C. Directives by the end of a transitional period; but this would not mean the end of discrimination. The line proposed on this is set out more fully in Annex B, but our first position would be to go no further than just suggested. If pressed to do more we should have to reconsider the matter.

The Chancellor would be grateful to know whether the line proposed on these three points is acceptable to the Prime Minister.

There is also some more material being prepared, in the form of answers to the questions in telegram 255 of 16th April from Brussels. I hope to let you have drafts of these early tomorrow.

> I am sending copies of this letter to Johnny Graham and Crispin Tickell at the Foreign Office.

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(W. S. Ryrie)	13.14
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Annex A

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FUTURE OF STERLING BALANCES: UK LINE FOR DISCUSSIONS WITH AD HOC GROUP

Draft Statement

- 1. We welcome the opportunity to discuss this subject. We share your objective of economic and monetary union, and we welcome the progress you have made towards it. We shall look forward to playing a full part when the time comes. What follows should be seen in this perspective.
- 2. We start from certain facts. Sterling is used internationally both as a trading and as a reserve currency. These functions find expression in the sterling balances. The centre of the questions now under discussion is the officially-held balances of the OSA, for which the latest published figure is £2244 million (for end-1970). Although these official balances have been rising in the last two years, there has been a secular decline over the last two decades in their significance in relation to the total reserves of the OSA, the total reserves of the world, and world trade.
- 3. British Ministers have made clear on several occasions that it is not the policy of the British Government to seek to arrest this secular decline, which is likely to continue, in the relative significance of official sterling balances in the world monetary scene.
- 4. Furthermore, the British Government will be ready and willing to work out with all concerned at the appropriate time suitable new arrangements, for the transitional period and for the longer term, to run down the reserve role of sterling.

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5. New arrangements of this kind will involve other countries besides the United Kingdom, and require international agreement. This is not a matter which the British Government can settle on their own.

In our view, any successful scheme must meet certain basic desiderata:

- i) It must not involve unacceptable resource costs
 for the United Kingdom, especially at the time
 when we shall be assuming the initial costs of
 entering the Community. In this the interest of the
 United Kingdom is not different from that of the
 Community as a whole. It would not be in the
 interests of the Community to create for one of
 its members an insoluble financing problem.
- ii) It must be acceptable to the official holders of sterling as well as other participants.
- iii) It must avoid damage to, and should if possible promote, the healthy development of the European Monetary Union and of the international monetary system generally.

opious the development of a new reserve oursener of this hind).

NOTES

1. If questions are raised about the present UK policy on renewal of Sterling Agreements

The United Kingdom has proposed that, as an interim course, the present Basle arrangements and Sterling Agreements, reflecting as they do detailed negotiation and balancing of interests in 1968, should be continued as they stand for a further two years, extending them to the 5 years originally envisaged. This is the simple and sensible arrangement for the period between now and our entry into EEC.

2. If questions are raised about what sort of ideas might be considered for new arrangements in due course

Any proposal to reduce or eliminate the present official OSA holdings of sterling must involve substituting another reserve asset, for which the main alternatives are: US dollars (at present suspect, and disliked in principle by the French); SDR (not yet sufficiently established; too soon to amend scheme); a European currency, eg D-marks (which the Germans do not want) or some new asset based on an integrated EEC currency system (but the French oppose the development of a new reserve currency of this kind).

3. Another alternative is some further extension of the present combination of Sterling Agreements and Basle arrangements, with modifications to incorporate some disincentive to the further growth of official sterling balances. This may well be appropriate in 1973, and is what the French seem to be suggesting. But at present we are concerned with the next two years, and do not want

to commit the UK or others to this or any other course in 1973 by which time other solutions on the lines of one of the alternatives in paragraph 2 may have become more practicable.

4. Whatever scheme is adopted, a further desideratum is that any resulting reserve cost on the UK should be tolerable; and here account must be taken also of its relation in time to the period when we shall be assuming the initial costs of EEC entry. In this the interest of the United Kingdom is not different from that of the Community as a whole. It would not be in the interest of the Community to create an insoluble financing problem for one of its members. Because of financing consequences, reduction in the absolute level of sterling balances may not be in the interest of the EEC any more than of the UK.

[A.K.R.]

CAPITAL MOVEMENTS & NON-DISCRIMINATION IN EXCHANGE CONTROL

The French Statement of 18 March said: "Great Britain's entry into the Common Market must be accompanied by the immediate suppression by that country of discriminatory measures which, in regard to capital movements, at present favour the countries of the White Commonwealth (basically Australia and New Zealand) in comparison with the member states of the Community. The maintenance by any member country of a preferential system benefiting third countries in relation to the treatment applied to the other member countries appears to us in fact to be incompatible with the principles of our Community. Moreover, by facilitating exports of capital from Great Britain to other Sterling Area countries this system tends, other things being equal, to swell the volume of the sterling balances and aggravate Great Britain's external monetary vulnerability."

- 2. If this point is put in the forthcoming discussions, our first position should be this:
 - i) We accept that in substance UK exchange control of capital movements covered by EEC Directives should not discriminate against the EEC in favour of the Sterling Area. We have already made clear our intention to move to this position not later than the end of the transitional period.
 - cannot comply immediately with the EEC Directives in

relation to PEC because of the reserve cost. We shall of course do our best to move as fast as possible.

NOTES

- a) Paragraph 2(i) above limits the commitment to capital movements covered by EEC Directives. This excludes, notably, short-term capital movements which are at present unrestricted between the UK and the Sterling Area but which are not liberalised within EEC and not covered by the present Directives, and which we do not envisage liberalising for EEC. If EEC were to adopt fresh Directives covering these items, we should have to reconsider our position.
- b) Paragraph 2(1) also refers to non-discrimination in substance. This is to cover the point that we shall need still to retain the formalities of exchange control in relation to the Six because, unlike OSA countries, they are not all willing to cooperate in operating a harmonised EEC exchange control in relation to the rest of the world, notably the USA. These formalities will not disadvantage the EEC in any material way; rather the reverse, for it is not in the interest of the Community that we upset our balance of payments by making portfolio investment in the US a charge on the reserves.
- native possibility of removing the discrimination, and earlier, by introducing restrictive control of capital movements to the

A.K. 2. Bterling Area, the answer is that this would involve substantial

difficulties both political and practical, and involve risks of potential reserve cost in relation to sterling balances.

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FROM CODEL BRUSSELS. 162000Z

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TO IMMEDIATE FCC TELEGRAM NO CODEL 255 OF 16 APRIL 1971 .

MY TWO IMMEDIATELY PRECEDING TELEGRAMS - ECONOMIC AND FINANCIAL QUESTIONS.

FOLLOWING IS TEXT :-

QUESTIONS A POSER A LA DELEGATION BRITANNIQUE.

1. RELATIONS FINANCIERES PARTICULIERES ENTRE LE ROYAUME-UNI ET LES PAYS DE LA ZONE STERLING.

LES INDICATIONS DONNÉES PAR LA DELEGATION BRITANNIQUE EN REPONSE AUX DIVERSES QUESTIONS POSEES LAR LA COMMUNAUTE EN CE DOMAINE PERMETTENT D'AVOIR UN TABLEAU ASSEZ COMPLET DU REGIME PREFERENTIEL ACCORDE PAR LE ROYAUME-UNI AUX AUTRES PAYS DE LA ZONE STERLING, EN CE QUI CONCERNE LES MOUVEMENTS DE CAPITAUX. CES DONNÉES CONDUISENT À POSER À LA DELEGATION BRITANNIQUE LES QUESTIONS COMPLEMENTAIRES SUIVANTES:

- (A) COMPTE TENU DE L'EXISTENCE DU "PROGRAMME DE RESTRICTIONS VOLONTAIRES", QUELLE EST, EN PRATIQUE, LA PORTEE DES PREFERENCES ACCORDEES, EN MATIERE DE MOUVEMENTS DE CAPITAUX (DIRECTS OU DE PORTEFEUILLE), AUX SOCIETES BRITANNIQUES INVESTISSANT DANS LES PAYS LES PLUS DEVELOPPES DE LA ZONE STERLING (AUSTRALIE, NOUVELLE-ZELANDE, AFRIQUE DU SUD, IRLANDE) PAR RAPPORT AU REGIME QUI CARACTERISE LES RELATIONS FINANCIERES AVEC LES PAYS EXTERIEURS A LA SONE?
- (B) LE REGIME PREFERENTIEL APPLIQUE PAR LE ROYAUME-UNI EN MATIERE
 DE MOUVEMENTS DE CAPITAUX À DESTINATION DES AUTRES PAYS DE
 LA ZONE STERLING FAIT-IL L'OBJET D'ACCORDS DE CARACTERE
 GOUVERNEMENTAL AVEC LES PAYS BEFEFICIAIRES? À CET EGARD,
 LES ACCOPUS CONCLUS ENTRE LA GRANDE-BRETAGNE ET LES ETATS
 DE LA ZONE STERLING DANS LE CADRE DES ARRANGEMENTS
 CONCERNANT LES BALANCES STERLING OU DANS LE CADRE D'AUTRES
 ARRANGEMENTS, PREVOIENT-ILS LE MAINTIEN DES DISPOSITIONS
 PREFERENTIELLES EXISTANTES?

- (C) QUEL A ETE, DE L'AVIS DE LA DELEGATION BRITANNIQUE, L'IMPA SUR LA BALANCE DES PAIEMENTS DU ROYAUME-UNI, DEPUIS LES 15 DERNIERES ANNEES, DU REGIME PARTICULIER ACCORDE AUX RESIDENTS DRITANNIQUES QUI INVESTISSENT OU TRANSFERENT LEURS AVOIRS DANS LES AUTRES PAYS DE LA ZONE STERLING? IL SERAIT INTERESSANT DE DISPOSER D'INDICATIONS RELATIVES AUX PRINCIPALES CATEGORIES D'OPERATIONS (INVESTISSEMENTS DIRECTS, ACHATS DE PORTEFEUILLE, PRETS, EMISSIONS SUR LE MARCHE DE LONDRES.....) ET, SI POSSIBLE, DE DISTINGUER LES OPERATIONS INTERESSANT LES PAYS DEVELOPPES ET SOUS-DEVELOPPES DE LA ZONE STERLING.
- 2. LES ARRANGEMENTS BILATERAUX ENTRE LE ROYAUME-UNI ET LES PAYS DE LA ZONE STERLING CONCERNANT LES BALANCES STERLING.

CES ARRANGEMENTS COMPORTENT ESSENTIELLEMENT DEUX DISPOSITIONS:

- L'OCTROI PAR LE ROYAUME-UNI AUX ETATS DE LA ZONE STERLING D'UNE
GARANTIE DE CHANGE EN DOLLARS SUR L'INTEGRALITE DE LEURS AVOIRS
OFFICIELS EN LIVRES EXCEDANT 18% DU MONTANT TOTAL DE LEURS
RESERVES=

- LE MAINTIEN, EN CONTREPARTIE, PAR LES ETATS INTERESSES, D'UN POURCENTAGE MINIMUM DE LIVRES STERLING DANS LEURS RESERVES.

L'ATTRAIT EXERCE PAR LES TAUX D'INTERET SERVIS A LONDRES SUR LES
AVOIRS EN LIVRES, TAUX QUI ONT ETE CONSTAMMENT SUPERIEURS A CEUX
DES PLACEMENTS OFFICIELS EN DOLLARS-N'APPARAIT-ELLE PAS DE
NATURE A PROVOQUER AUTOMATIQUEMENT, COMPTE TENU DE L'AUGMENTATION
ATTENDUE DES RESERVES DES ETATS INTERESSES, UN ACCROISSEMENT DU
MONTANT DES BALANCES STERLING DETENUES PAR LES AUTORITES OFFICIELLES
DE LA ZONE AU COURS DES ANNEES A VENIR?
LES AUTORITES BRITANNIQUES ENVISAGENT-ELLES, DANS LA
PERSPECTIVE DE L'ADHESION, LE MAINTIEN OU LA MODIFICATION DES
ARRANGEMENTS ACTUELS ENTRE LE ROYAUME-UNI ET LES PAYS DE LA
ZONE STERLING?

DANS LA DEUXIÈME HYPOTHÈSE, PEUVENT-ELLES FAIRE CONNAITRE
LES MODALITES TECHNIQUES QUI POURRAIENT ETRE RETENUES, NOTAMMENT
EN CE QUI CONCERNE L'ETENDUE DE LA GARANTIE ACCORDEE, LE MONTANT
DES RESERVES À MAINTENIR EN LIVRES, LES CONDITIONS DE REMUNERATION DES AVOIRS OFFICIELS, ETC.?

3. L'APPLICATION DE L'ARTICLE 188 DU TRAITE DE ROME. IL A ETE DECLARE EN 1967 QUE LE GOUVERNEMENT DU

SECHET

/ROY AUTIE

ROYAUME-UNI ETAIT DISPOSE A REMONCER AU BENEFICE DE
L'ARTICLE 188 DU TRAITE DE ROME EN CAS DE DIFFICULTES
RESULTANT DU REMEOURSEMENT OU DE LA CONVERSION DE BALANCES STERLING.
QUELLE EST AUJOURD'HUI LA POSITION DU GOUVERNEMENT
BRITANNIQUE A CE SUJET, COMPTE TENU NOTAMMENT DES DISPOSITIONS ADOPTEES PAR LA COMMUNAUTE RELATIVES A L'UNION
ECONOMIQUE ET MONETAIRE?
COMMENT, DE L'AVIS DES AUTORITES BRITANNIQUES,
CONVIENDRAIT-IL DE RESOUDRE LES DIFFICULTES SUSCEPTIBLES
D'ETRE PROVOQUEES PAR DES REMBOURSEMENTS OU DES CONVERSIONS EVENTUELS DE BALANCES STERLING, DANS LA PERSPECTIVE
DE L'ELARGISSEMENT DE LA COMMUNAUTE.
4. OBJECTIFS DES AUTORITES BRITANNIQUES EN MATIERE D'EXPORTATION
DE CAPITAUX PRIVES A LONG TERME.

IL EST CONSTATE QUE LES SORTIES DE CAPITAUX AU TITRE DES INVESTISSEMENTS PRIVES BRITANNIQUES A L'ETRANGER SONT PASSEES DE 320 MILLIONS DE LIVRES EN 1963 A 735 MILLIONS DE LIVRES EN 1970. LA GRANDE-BRETAGNE SE SITUE AINSI PARMI LES PLUS IMPORTANTS PAYS EXPORTATEURS BRUTS DE CAPITAUX. LA DELEGATION BRITANNIQUE A INDIQUE DANS SA REPONSE AU QUESTIONNAIRE DE LA COMMISSION QUE LES SORTIES DE CAPITAUX CONTINUERALENT SANS DOUTE DANS L'AVENIR ET CONNAITRAIENT MEME PEUT-ETRE UNE AUGMENTATION MODEREE. QUELS SONT LES OBJECTIFS OU LES PREVISIONS CHIFFREES QUE LES AUTORITES BRITANNIQUES POURRAIENT PRESENTER A CET EGARD (CHIFFRES BRUTS ET NETS)? COMMENT CES PREVISIONS OU CES OBJECTIFS SE SITUENT-ILS DANS LE CADRE DES OBJECTIFS GENERAUX DE LA BALANCE DES PAIEMENTS, COMPTE TENU DES AUTRES PRIORITES QUI ONT ETE EVOQUEES DANS LA REPONSE BRITANNIQUE AU QUESTIONNAIRE DE LA COMMUNAUTE (REMEGURSEMENT DES DETTES, RECONSTITUTION DES RESERVES) ET DES PERSPECTIVES EVOQUEES PAR AILLEURS CONCERNANT L'AIDE PUBLIQUE AU DEVELOPPEMENT ET LES CREDITS COMMERCIAUX? ADVANCE COPIES TO MR ROBINSON (FCO) MR BELL (TREASURY) AND RESIDENT CLERK.

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CYPHER CAT/A

FROM CODEL BRUSSELS. 162030Z

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GILL.

TO IMMEDIATE FCO TELEGRAM NO CODEL 254 OF 16 APRIL 1971.

MY 1.P.T. - ECONOMIC AND FINANCIAL QUESTIONS.

MOSCA SAID THAT HE WAS INSTRUCTED TO INVITE THE UK TO SEND REPRESENTATIVES TO MEET THE AD HOC GROUP IN BRUSSELS ON WEDNESDAY 21 APRIL AT 1530 HOURS. THE AD HOC GROUP HAD DELIBERATELY RESTRICTED ITS OWN NUMBERS TO TWO PER MEMBER GOVT. AND TWO FROM THE COMMISSION AND, THOUGH NO LIMIT WAS PLACED ON THE NUMBERS WHO MIGHT REPRESENT THE UK, THE GROUP HOPED THAT, IN THE INTERESTS OF DISCRETION, WE WOULD KEEP OUR NUMBERS SMALL. 2. MOSCA STRESSED THAT THE PURPOSE OF THE MEETING WAS NOT TO NEGOTIATE. ITS OBJECT WAS FACT-FINDING, ON THE BASIS OF WHICH THE AD HOC GROUPS WOULD REPORT TO THE COUNCIL SO THAT THE COMMUNITY COULD DRAW UP A COMMON POSITION.

- 3. AS A MATTER OF CONVENIENCE, THE GROUP HAD DRAWN UP A LIST OF QUESTIONS (TEXT IN MY I. F.T.) WHICH MOSCA HAD BEEN INSTRUCTED TO GIVE TO ME INFORMALLY. ITS PURPOSE WAS TO GIVE US A GENERAL IDEA OF WHAT THE GROUP WOULD WISH TO DISCUSS WITH US. BUT HE WAS INSTRUCTED TO STRESS THAT THE QUESTIONS WERE NOT BINDING AND THAT NO COMMUNITY POSITION HAD BEEN ADOPTED ON THE QUESTIONS OR ON POSSIBLE ANSWERS TO THEM OR ON ANYTHING OTHER THAN THE PROCEDURE.
- 4. MOSCA SAID THAT THE GROUP DID NOT WISH TO TACKLE THE STATUS OF THE POUND. THIS WAS AN ABSTRACT PROBLEM. THE QUESTIONS HAD THEREFORE BEEN DRAFTED IN A WAY WHICH WAS DESIGNED TO STRESS THE UNDERLYING PROBLEM AND WE WERE ASKED TO KEEP THIS IN MIND IN PREPARING OUR REPLIES. IT WAS-
- (A) THE CO-ORDINATION OF ECONOMIC AND MONETARY POLICY IN AN ENLARGED COMMUNITY
- (B) THE PROBLEMS WHICH WOULD ARISE IF THE UK, INSIDE AN ECONOMIC AND MONETARY UNION, WERE ALSO THE CENTRE OF ANOTHER PREFERENTIAL SYSTEM.

5. BEARING THIS IN MIND, MOSCA SAID THAT IT WOULD BE HELPFUL
IF WE WERE TO GO BEYOND THE QUESTIONS AND WERE TO DEAL AS
FULLY AS WE COUL D WITH THE PROBLEM SET OUT IN PARA 4 ABOVE.
6. IN ORDER TO PRESERVE THE MAXIMUM DISCRETION, THE GROUP WAS
NOT SENDING THE TEXT OF THE QUESTIONS EVEN TO THE PERMANENT
REPRESENTATIVES. IT WAS FOR THIS REASON ALSO THAT IT WAS HE
RATHER THAN THE PRESIDENCY WHO HAS SUMMONED ME TO MAKE THIS
COMMUNICATION. FURTHERMORE ONLY THOSE DIRECTLY CONCERNED WOULD
BE INFORMED OF THE EXACT MEETING PLACE (WHICH I WILL NOTIFY TO
OUR REPRESENTATIVES WHEN THEY ARRIVE).

7. PLEASE TELEGRAPH WHETHER I MAY ACCEPT THE DATE AND TIME PROPOSED AND, IF SO, WHO OUR REPRESENTATIVES WILL BE. MOSCA STRESSED THAT IT WOULD THROW THEIR TIMETABLE SERIOUSLY OUT OF JOINT IF THIS DATE WERE NOT ACCEPTABLE TO US.

ADVANCE COPIES TO MR ROBINSON(FCO) MR BELL (TREASURY) AND RESIDENT CLERK.

CADVANCE COPIES SENT AS REQUESTED)

CHRISTOFAS

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Published Papers

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

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PRIME MINISTER

Agreed in three!

Agreed of the

When you see the Foreign and Commonwealth Secretary and the Chancellor of the Duchy next Friday afternoon to discuss the EEC negotiations, Mr. Soames and Sir Roger Jackling will also be present. Sir Denis Greenhill has enquired whether he and Sir Con O'Neill should also be present. If you agree to this, it will be desirable also to invite Sir William Nield. Shall we have all three?

PLG

PIC.

Done.

FCS Canc/Duc Sommes packling Greenhill O'Neill Nield.

Ages 2014



Y 0563

MR Mgon Primis Minister. Mr.

EEC Negotiations

- The Prime Minister may find it convenient to have a note bringing together the most recent documents in this field, and commenting on them, before his meeting next Friday. There are three documents (you will have copies of all of them to attach to this minute).
 - Mr Tickell's minute of 7 April to you, entitled "Visit by the Prime Minister to Paris" with attached [in Box of Conven] draft telegram.
 - Mr Rippon's minute and enclosures entitled "Shape of the Final Package in the EEC Negotiations. Lattached]
 - iii. Buro Intelligence Digest 10(71) of 15 April. [held ni the Box at N'10]
- On i., may I set out again my own reasons for agreeing with it. I think I can say I have pretty consistently urged that:
 - a. we should have to have a bilateral exchange with the French before we can get into the EEC.
 - b. We should not enter such a bilateral without careful prior preparation.
 - c. We should not assume that the French will approach the bilateral with any fixed idea that it should or should not end with them facilitating our entry - they will want to inspect our wares without exposing themselves more than is necessary.
 - We should assume first, that the French will wish to know whether we are prepared to show ourselves "sufficiently

-2-

European" in agricultural, commercial, industrial, economic and monetary policy and indeed in political and defence matters also: and that our convincing them of this is the first prior condition of entry.

- e. We should assume second, that if we satisfy the French on d. they will then wish to drive a hard bargain with us on both the terms of entry and on any bilateral co-operation of interest to them.
- f. We should assume third, that satisfying the French on d. and e. will extend beyond the bilateral meeting into the subsequent multi-lateral negotiations.
- g. We should consequently assume, fourth, that the terms of entry will be stiff and that approval of the decision to enter can only be secured on the broadest basis of policy.
- 3. On the text of i. I have two points.
 - a. Before the bilateral, or at least during the bilateral, we should indicate informally to the French that we are prepared to move our offer of a 3 per centyfinancial contribution to say 5 per cent as soon as we have some evidence that the French are prepared to move on other major points of interest to us. I do not see M. Pompidou agreeing to break the log jam in the negotiations until he has got some assurance on this point not necessarily a public assurance.
 - b. The French may (perhaps wrongly) fear an American reaction to extending the 1963 Declaration of Intent to the Caribbean. The Americans are not anxious to pick up any further burdens themselves and would be happy to see the Caribbean looked after from Europe provided the arrangement was not an exclusive one.
- 4. On ii., whilet accepting a good deal of its argument on financial percentages. I feel bound to point out that Parliament will wish to know what is the absolute burden in pounds per annum of our net

-3-

contribution to the Community Budget, because of its effect on the balance of payments and so on our general economic policy. This is not to say that ii. is wrong in its percentages: but that they will need to be looked at in terms of the balance of payments and resource burden.

- 5. On New Zealand, Parliamentary and public opinion will be perhaps mainly influenced by what the New Zealand Government says about any settlement. Unfortunately, one does not know to what extent the present French position on New Zealand is tactical. But to the New Zealanders three things will be important, not two: these are the period of years over which the volume of their dairy products exports is scaled down: the percentage to which it is scaled down; and how far the degression in volume is offset by a higher price, i.e., in effect giving some of the levy back to New Zealand. Probably only negotiation can show what is the maximum achievable permutation of these three items and this could well be almost the last thing to be settled.
- 6. On sugar, the memorandum at ii. does not take the point (the official papers have hardly done so) that if only in terms of time, the renegotiation of the International Sugar Agreement comes between our likely entry date and the introduction by the enlarged Community of a new sugar regime. It seems essential to explore in the context of a new and higher-price international sugar agreement negotiated in 1973 how far the loss to the Commonwealth of British sugar commitments can be replaced by improved international sugar commitments (the agreement concerns primarily price and the sharing out of exports, the world free market among exporting countries).
- 7. On agricultural transitional arrangements, realism suggests that for both French and Community reasons we shall have to accept alternative b. in paragraph 28; and that thereafter, as a member, we can do better for third country suppliers on the basis of "remedial action" than we can possibly do before entry from the position of demandeur. The "exceptions" admitted even by France are the commodoties at present under quota (bacon, butter, sugar and certain

-4-

fruit and vegetables) of which the middle two are really the New Zealand and Commonwealth sugar issues, the first is largely a Danish and Irish issue, and the fourth is largely domestic, and will probably have to be settled on a roundabouts and swings basis (British horticulture has climatic disadvantages, but its marketing arrangements have needed improvement for many years).

- 8. On the Sterling paragraphs of ii., an official brief will be coming forward. But of the three issues the French are raising, we can hardly object to the second, i.e., that Sterling area (as distinct from the United Kingdom) operations should not be a burden on the Community under Articles 108 and 109 of the Treaty, which was only designed to cover metropolitan countries. On the first and third, the financial advantages of the United Kingdom do not rest so much on the roles of Sterling, as on the immense capacity of the institutions of the City of London to deal more effectively than other countries institutions in any currency, e.g., their achievements in the Euro currency field. In any event the future roles of Sterling be settled save in a world context, and over a much longer period of time than is available for the negotiations: so that the most we can be asked for is a declaration of intent. I stress these very general points because the Treasury is rightly interested in the specific detail of what they will have to do under any accession agreement: but I believe the French are mainly interested in committing us to what they would see as a more European monetary posture which probably comes down to stopping us from (as they see it) getting all the advantages of the EEC whilst retaining such advantages as we have from the present position of Sterling. It would therefore be important to avoid disagreement arising from misunderstanding between specific arrangements behind which the French will suspect general intentions, and a statement of general intentions the specific application of which will have to be settled internationally over a longer period.
- 9. Buro Intelligence Digest 10(71) of 15 April contains so much immediatly relevant information that I recommend the Prime Minister read it save perhaps for the longer items in paragraphs 3 and 4 fo that document.

-5-

Finally, to revert to the document in i. above. The careful preparation of a bilateral will need to be done as secretly as possible. The appearance in Paris of any known figure from London whether Ministerial or official will clearly unleash speculation. Any preparations will have to be done with our Embassy in Paris. But a reliable and senior "third party" might enable the preparations (in effect of an agenda) to be done more secretly. I suggest that the Senior Treasury Counsel, Mr J P Warner might be considered. has a French mother (his initials stand for Jean Pierre), he is bilingual (he did the Rolls-Royce patents negotiations in Paris in French), he has the reputation of being one of the best legal brains in commercial law, and I understand he has helped with Conservative Party committees; and the Attorney General knows him well and thinks highly of him. It might even be that Rolls-Royce business in Paris could if necessary be a useful cover. He could be intensively briefed by Ministers and the official team.

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

That

WILLIAM NIELD

16 April 1971

CONFIDENTIAL M. MOON

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16 April 1971

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Meeting on the EEC Negotiations

17/4 This is to confirm my telephone call to say that the Prime Minister has in mind a meeting with the Foreign and Commonwealth Secretary and Mr. Rippon to be held on the afternoon of Friday next, 23 April, to discuss the REC negotiations.

The Prime Minister would like to have both Mr. Soames and Sir Roger Jackling at this meeting and you are inquiring whether this would present any difficulty. Since the Prime Minister wishes there to be ample time for full discussion, the meeting would have to be earlier than the time of 5.30 p.m. which had been previously fixed for the meeting with Mr. Soames. Alan Simcock will discuss detailed timings with you.

One main purpose of the meeting would be to discuss the handling of the French. Subject to your views, it might be useful if there could now be con-sultation among those attending the meeting on this aspect in particular, and possibly the preparation of a paper setting out the advantages of the various alternative courses and methods of approach, which could be taken at the meeting.

Cabinet Office). Tickell and Daunt (Foreign and Commonwealth Office).

(SGD) P.J.S. MOON

N.J. Barrington, Esq., Foreign and Commonwealth Office.

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Live loss have approved.

Chancellor of the Duchy of Lancaster

Prime Minister 1 Do you agree with the deaft replies?

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

15 April 1971

Dear Peter,

I enclose copies of two draft replies to written
Parliamentary Questions on sterling by Mr Arthur Lewis, to
be answered by Mr Rippon on Monday, 19 April.

We do not think this an appropriate moment to be putting new formulae to the House. The answers, in which the Treasury concur, draw on existing material approved for use in supplementary answers in the House on earlier occasions.

In view of Robert Armstrong's letter of 29 March to Johnny Graham, about the Prime Minister's interest in the question of sterling and the EEC negotiations, I would be grateful for confirmation that you see no objection to these draft replies.

Yours ever Michael Pakenham

(M A Pakenham) Assistant Private Secretary

P J S Moon Esq 10 Downing Street

RESTRICTED

Under-Secretary by

NEW Wed 14/4

*La.

Mr. Arthur Lewis (West Ham, North): To ask the Secretary of State for Foreign and Commonwealth Affairs, whether he will make a statement on Great Britain's policy on the question of the status of sterling as placed on the agenda at the Brussels discussions held on Thursday 18th March.

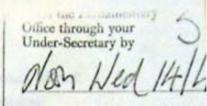
Beken to omit "No"?

Flags A and B

No. I have nothing to add to what I said on this House sterling in the debate on the 21st January and in answer to Questions on the 22nd March. The discussions on this subject in Brussels on the 18th March took place in a meeting of the Council of Ministers of the EEC, the proceedings of which were confidential.

REFERENCES

Flag B 22 March Vol 814 Cols 6-8



*La.

Mr. Arthur Lewis (West Ham, North): To ask the Secretary of State for Foreign and Commonwealth Affairs, to what extent during the present negotiations in Brussels for Great Britain's entry into the European Economic Community the French are still persisting in their demand that Great Britain cannot join the European Economic Community as long as sterling is retained as a world reserve currency; and what is Her Majesty's Government's attitude to this demand.

Flag A

HMG is negotiating with the Communities and not with individual member governments. In the opening statement on the 30th of June on behalf of the Communities reference was made to discussions with the UK on certain special questions relating to economic, monetary and financial problems. There is nothing new or surprising in a member state raising questions in this field. I have at present nothing to add to what I said on sterling in the debate on the 21st of January, and in answer to questions on the 22nd of March.

Flag B

REFERENCES

Flag A 30 June M Harmel on behalf of the

there Flag A 21 January Vol 809 Cols 1405-6
Flag B 22 March Vol 814 Cols 6-8



29 March 1971

Dear Johnny,

The Prime Minister wishes to be consulted in advance about any statements or reactions by the Foreign and Commonwealth Office or by the Treasury on the question of sterling and the European negotiations.

(H.M. Treasury).

Yours are Robert

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

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Sir C. O' Neill Mr Bottmley Dr Ford Dr Ford Mens Deft

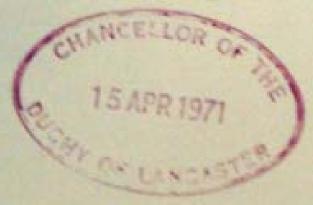


Chancellor of the Duchy of Lancaster

Mr. Armstrong.

We spoke. Herewith copy of M. Harmel's speech on 30th June last year.

Miss. J. Stamper.



HARMEL 30 JUNE 70 Luxembourg, 30 June 1970

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Declaration by the Spokesman of the Communities
His Excellency P. HARMEL,
President in Office of the Council

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Your Excellencies, Ladies and Gentlemen and dear colleagues,

On this important date for Europe, 30 June 1970, the Council of Ministers of the European Communities is happy to welcome the representatives of the United Kingdom, Ireland, Denmark and Norway. I mention these countries in the order in which their applications were made.

Your States wish to become members of the Communities. That is why we are meeting with you today in order to open negotiations. As it is expressed in Article 237 of the Treaty of Rome, the object of these negotiations is to establish, by joint agreement between the Member States of the Communities and the applicant States, the conditions of admission and the consequential adjustments to the Treaties.

The Council of Ministers is well aware that it is performing, at a happily chosen moment, one of the fundamental acts which mark Europe's march towards its unification.

A march, the first step of which was taken 24 years ago.

This was on 19 September 1946, at Zürich. The ruins of our old continent had hardly ceased smoking when Winston Churchill, the first to do so, spoke there of reconciliation. We must, he said recreate the European Family, and provide it with a structure which could well be christened the "United States of Europe".

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The idea of Europe, so strongly supported by our peoples, then found its first expression in the establishment of the Parliament at Strasbourg. I mention the Council of Europe because, in its Parliament and its Committee of Ministers, it has for a long time brought together the ten States represented here, and because it has always been the forum of human rights and of Parliamentary democracy in which the new Europe recognises its cornerstone.

But it was on 9 May 1950 that the work of European integration which your States are now approaching was started. On that day, by the voice of Robert Schüman, the French Government proposed a limited but decisive step, that of placing French and German production of coal and steel under a common High Authority, in an organisation open to the participation of the other States of Europe. The economic union which was then commencing was an audacious attempt, now largely accomplished, in which a group of States is working towards the achievement, product by product, of the conditions proper to an internal market to which common rules will apply and ultimately common policies.

We have not met here to write the history of European integration, but to make it. It is not the moment therefore to recount successes and failures, the moments of creation and the delays which occurred, all the patience and impatience which adorns every political achievement.

We knew, from the beginning, that it would be a gradual achievement, for Robert Schüman had warned us: "Europe will not be created all at once, nor as part of an overall design; it will be built through practical achievements that will first establish a sense of common purpose".

.../...

The important thing is that Europe is progressing quite rapidly, and we can at least record, on the whole, with the six Heads of State or of Government of the Member States, at the summit meeting at The Hague on 2 December last, that, at the end of this quarter of a century "the European States have never perhaps advanced their co-operation further".

The Institutions of which you wish to become part are therefore engaged in a process of continuous creation; they are living communities which open with you the negotiations for your accession.

But people who live together must have the same objectives.

We believe, Ladies and Gentlemen, that our European aims coincide with yours; they are concerned with, although at once going beyond, the economic progress which our Governments expect from the enlargement of the Communities.

In addition to the material aims and their favourable social results for our peoples, the entry of four countries which are rich in long parliamentary and democratic traditions, will reinforce the central nucleus of Europe.

This central nucleus is more than ever necessary to the idea of total Europe. In Europe we must maintain and reinforce a type of civilisation and a political system which we do not aspire to impose on any State; but which in our eyes is the best guarantee of liberty and of the progress of our peoples.

.../...

Other States may perhaps gather round this nucleus in due course, thus taking part in an enterprise whose institutions are founded on the freely expressed will of the people.

but our common thoughts go further still. If we place the effort which is starting today in a world context, we are obliged to think of the role to be played and the duties to be performed by a Community of peoples, favoured by high intellectual, technical and material development, counting more than 250 million inhabitants, united by geography, tradition, history, culture and a common civilisation! To what new missions of peace, to what generous acts, may not such a Europe devote all the power born of its unity?

For the six Member States of the Communities, these objectives, these political aims, are those which animate our Heads of States or of Government. They solemnly restated them at The Hague in terms which we should read once more: "We have a common conviction that a Europe composed of States which, in spite of their different national characteristics, are united in their essential interests, assured of its internal cohesion, true to its friendly relations with outside countries, conscious of the role it has to play in promoting the relaxation of international tension and a rapprochement among all peoples, and first and foremost among those of the entire European continent, is indespensable if a mainspring of development, progress and culture, world equilibrium and peace is to be preserved.

These, Ladies and Gentlemen, are the thoughts which inspir and fortify our wills as we set out for you the actual context in which these negotiations are situated, and how we would propose to conduct them.

II. THE CONTEXT OF THE NEGOTIATIONS

The context of the negotiations is that of a three-fold movement, decided upon at the summit meeting at The Hague: the transition to the final period of the Common Market, the internal development of the Communities, and their enlargement.

These three themes are not linked in such a way that one is a precondition for the others. Instead we must see in them three complementary aspects of the second decisive stage in the construction of Europe.

1. Completion-

The proclamation at The Hague of the political will to move on to the final stage of the Common Market on 1 Januar 1970 involved, in accordance with the Treaty, stamping the work accomplished in twelve years with an irreversible nature, by noting that the essential part of the objectives of the Treaty have been accomplished, comprising in particular the establishment of the customs union and of common policies in the fields of trade and agriculture, as also the abolition of obstacles to the free movement of persons, services and capital.

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But the Council wanted to complete what had been achieved by far-reaching decisions:

- (1) It wished to adopt the definitive financial regulation for the years to come, without excluding the possibility of adapting it unanimously, to meet the demands of an enlarged Community, but on condition that the principles of the regulation should not be changed.
- (2) It also wished to decide that by 1975 the Communities will have their own resources to take the place of the annual financial contributions now paid by the Member States.

The latter decision has a considerable political import, since at the same time the powers of the European Parliament are extended both as regards the preparation of budgets, and their supervision and implementation. It will also be recalled that the Council is continuing work on the problem of the procedure for direct elections to the European Parliament.

These are the significant decisions which have marked the transition to the final stage.

2. Internal development

The second compartment of the triptych relates to the internal development of the Communities. It was necessary, not only to keep the old promises recorded in the Treaties, but to formulate new ones, in order to mark the progress of European integration. It was also at The Hague that renewed expression was given to the will to progress more rapidly with the subsequent development required to strengthen the Communities, and that these new developments were announced and construction started, mainly along the following lines.

- (a) The Heads of State or of Government agreed that a multi-stage plan should be worked out during 1970 with a view to the creation of an economic and monetary union.
- (b) As regards the technological activity of the Community, they reaffirmed their readiness to continue the Community's activities more intensively with a view to co-ordinating and promoting industrial research and development in the principal advanced sectors, in particular by means of common programmes, and to supply the financial means for the purpose.
- (c) They further agreed on the necessity of making fresh efforts to work out in the near future a research programme for the European Atomic Energy Community designed in accordance with the exigencies of modern industrial management, and making it possible to ensure the most effective use of the Common Research Centre.
- (d) They also acknowledged the desirability of reforming the social fund, within the framework of a close concertation of social policies.

Work on these various subjects, as on others, is being actively continued within the Community, and we may congratulate ourselves that discussions have since then been initiated with the Applicant States, as with a certain number of other European countries, in the fields of technology, industrial research, and patents.

I refer to this work, because it is the Community's intention that, as the examination of these problems leads, within the Community, either to guidelines or to resolutions for action, these will be put to the Applicant States in the negotiations as Community positions.

As for the decisions in question, the implicant States will be asked to accept them on the same basis as the other decisions which have been taken since the Treaties came into force.

Finally, attention must be drawn to the work which has been undertaken in accordance with paragraph 15 of the Communiqué issued at The Hague. Fursuant to this paragraph, the Linisters of Foreign Affairs of the Lember States of the Community are now studying the best methods of making progress in the field of political unification, while bearing the enlargement of the Communities in mind.

III. THE COMMUNITY'S FOSITION

We must now describe to you the positions and procedures which the Community has decided upon for the purpose of the negotiations.

(a) he assume in principle that your States accept the Treaties and their political objectives, all the decisions of every type which have been taken since the Treaties came into force, and the choices made in the field of development.

These decisions also include the agreements concluded by the Community with third countries.

- (b) Under these conditions, the Community wishes, at the opening of the negotiations, to state a certain number of principles which it intends to apply:
 - 1. The rule which must necessarily govern the negotiations is that the solution of any problems of adjustment which pay arise must be sought in the establishment of transitional measures and not in changes in the

.../...

existing rules.

2. The object of the transitional measures will be to allow for the adjustments which prove to be necessary as a consequence of the enlargement. Their duration must be restricted to that required to schieve this aim. .s a general rule, they must incorporate detailed time tables and must commence with an initial significant mutual tariff reduction on the entry into force of the accession treaties.

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5. The transitional measures must be conceived in such a way as to ensure an overall balance of reciprocal advantages.

ensure an adequate synchronisation of the progress of freedom of movement of industrial goods with the achievement of the agricultural common market. This consideration must be taken into account in respect of the Curation of the transitional measures in the industrial and agricultural sectors.

- 4. In the field of trade, the duration of the transitional period should be the same for all the applicants.
- 5. In the other fields in which transitional measures prove to be necessary, the duration of such measures could, if possible and desirable, be varied according to their subject matter and the applicants involved. These questions will be examined during the negotiations.
- 6. The various accession treaties should come into force on the same date.