



The United Kingdom and the European Communities

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THE UNITED KINGDOM AND THE EUROPEAN COMMUNITIES

PART ONE

The decision now before us

1. The prime objective of any British Government must be to safeguard the security and prosperity of the United Kingdom and its peoples. Since 1961 successive British Governments have taken the view that these fundamental interests would be best served by British accession to the European Communities.* It has accordingly been their declared policy that the United Kingdom should become a full member of the European Communities provided that satisfactory arrangements could be negotiated for our entry.

2. Our security has been bound up with that of our European neighbours for over a thousand years. No Government in these islands has been able to ignore for more than a short time, or without disastrous consequences, the course of events on the Continent of Europe. For the last twenty-five years the maintenance of our security, together with that of the rest of Western Europe, has been dependent on the Western Alliance, in which the United States of America is, of course, a major partner. In the last twelve years we have seen the development of a more united Europe, based on the European Communities, whose six member countries are also members of the Western Alliance. Whatever the future holds, it is indubitable that our security and that of Western Europe will remain interlocked. We have to consider whether it will be better served by joining the European Communities than by not doing so.

3. The strength and prosperity of the United Kingdom depend partly on the efforts of its peoples, and partly on the economic conditions prevailing in the world outside. We live, and have for long lived, by manufacturing for and trading with that world. The conditions under which we manufacture and trade are of vital national interest to us. We have to consider whether these conditions will be more favourable to us if we join the European Communities than if we do not.

4. Events of recent years—revaluations, devaluations, and the emergence of new economic powers—have shown that international monetary and trade arrangements need to be adapted from time to time to meet changing circumstances. We have to consider whether our influence on changes in those arrangements will be greater if we are members of the European Communities than if we remain outside them.

5. Our security and our prosperity alike will be profoundly influenced by the decision we now have to make about our accession to the European Communities. Nor will our decision affect ourselves alone: it is for question whether the Communities without the United Kingdom can be as secure and prosperous as they need to be in the modern world. The entry of the United Kingdom into the European Communities is therefore an issue of historic importance, not only for us, but for Europe, and for the world.

* There are at present three Communities—the European Economic Community (EEC), the European Coal and Steel Community (ECSC) and the European Atomic Energy Community (EURATOM); since 1967 all three have had common institutions.

6. Our first round of discussions with the Six member countries of the Communities about arrangements for entry, between 1961 and 1963, had progressed far towards a successful conclusion when it was terminated by a political decision by the then French Government. The second round was similarly brought to a premature stop. In the third round of discussions, initiated early in 1970, the political will to reach a successful conclusion has been established, and arrangements covering the main problems which would arise from our entry have now been negotiated. The outcome of these negotiations is set out in detail in Part II of this White Paper. The opportunity to join the Communities is open to us: we have now to decide whether to take it.

7. As this White Paper shows, Her Majesty's Government are convinced that our country will be more secure, our ability to maintain peace and promote development in the world greater, our economy stronger, and our industries and people more prosperous, if we join the European Communities than if we remain outside them. The Government are also convinced—and this conviction is shared by the Governments of the present six members of the Communities—that British membership of the Communities will enhance the security and prosperity of Western Europe. The Government are satisfied that the arrangements for our entry agreed in the negotiations will enable us to adjust satisfactorily to our new position as members of the Communities, and thus to reap the full benefits of membership.

8. The Government will therefore seek the approval of Parliament in the autumn for a decision of principle to take up full membership of the Communities on the basis of the arrangements which have been negotiated with them.

Origins of the Communities

9. The European Communities have their origin in the fundamental changes which have taken place in the position of the countries of Western Europe in little more than a generation. In 1945 the main continental powers of Europe emerged from the second of two world wars, in which millions of lives had been lost and enormous material damage done, with their economies strained and distorted to breaking point. It was not just that they had been weakened by war. They had lost or were in process of shedding their imperial links, as former colonies loosened their ties with the mother countries and sought their independence. And they found the world dominated no longer by the great powers of Europe of nineteenth century history, but by new super powers outside the heartlands of Europe, whose military and economic resources none of them could match.

10. The end of the war saw the creation of a new framework of world organisation designed to re-establish the fabric of international co-operation for peace, security and economic collaboration and recovery. The United Nations and all its subsidiary organisations came into being, together with the International Monetary Fund (IMF), the International Bank for Reconstruction and Development, and the General Agreement on Tariffs and Trade (GATT). In all these one or both of the new super powers played, as was fitting, a large part; and the post-war struggle for reconstruction and

recovery in Western Europe could never have been carried through as successfully or as quickly as it was without the massive and generous assistance that came from across the Atlantic.

11. But the countries of Western Europe felt the need for something more than this, for closer co-operation among themselves to re-establish collective defence arrangements against threats from outside Western Europe, to prevent future wars between European nations, and particularly to replace their economic rivalry with a more productive collaboration. This deeply-felt need for closer co-operation amongst European nations gave rise successively to the Brussels Treaty Organisation (later known as Western European Union)*, the Council of Europe, and the Organisation for European Economic Co-operation (OEEC), all established in the four years after the war.

12. These new European organisations provided new means of consultation and co-operation among sovereign European states; but they did not meet in full the need of the continental nations of Western Europe for greater security and prosperity. They decided that this could come only from a more effective pooling of their economic resources. It was to meet this need that in 1951 the European Coal and Steel Community and in 1957 the European Economic Community and the European Atomic Energy Community were founded by France, Germany, Italy, Holland, Belgium and Luxembourg. In establishing the Communities as the means for increasing economic integration and unity of action by the member states, provision was also made for the overseas countries associated with them to have associate status with the Economic Community with preferential advantages in the development of trade and aid. The Communities together formed a European economic grouping of some 180 million people, with a further 70 million people in their associated states, mainly in Africa, in close economic relationship with them.

Purposes of the Communities

13. These, broadly, were the origins of the Communities. Their purposes are set out in their basic documents, notably the Treaty of Rome, by which the major organisation, the EEC was established. The preamble to the Treaty of Rome lists the basic objectives of the Community. These include the establishment of the foundations of an ever closer union among European peoples, the furtherance of economic and social progress by elimination of the barriers which divide Europe, improvement of the living and working conditions of its peoples, progressive abolition of restrictions on international trade and development of the prosperity of associated overseas countries. The second Article of the Treaty affirms that the task of the Community is "by setting up a common market and progressively approximating the economic policies of member states, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living, and closer relations of the member states". These are objectives to which this country can wholeheartedly subscribe.

* WEU soon merged its defence arrangements with the North Atlantic Treaty Organisation, the basis of the Western Alliance.

14. The Communities were thus founded to ensure the peace and prosperity of the six member countries and, as the preamble to the EEC Treaty stated, of any other European countries who wished to join them, by a gradual elimination of the economic barriers and differences which had divided them in the first half of the century and before. The member states retained their national institutions and identities, but established the institutions of the three Communities to formulate and administer common policies. At first, each Community had its own institutions, but in 1967 they were merged so that there is now one European Parliament, one Court of Justice, one Council of Ministers and one Commission or executive, whose members are nominated by the member states, though the staff of the Commission is in part recruited directly.

Development of the Communities

15. The communiqué issued after The Hague Conference of the Six in 1969 called for the completion, the deepening and the enlargement of the Communities. This would help them "to grow to dimensions more in conformity with the present state of world economy and technology". In the communiqué the members expressed their "common conviction that a Europe composed of states, which, in spite of their different national characteristics, are united in their essential interests, assured of 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 the rapprochement among all peoples, and first and foremost among those of the entire European continent, is indispensable if a mainspring of development, progress and culture, world equilibrium and peace is to be preserved."

16. Since the foundation of the Communities, their programme for the establishment over a twelve year transitional period of a common market with free movement of persons, goods, services and capital and the development of common agricultural and commercial policies has unfolded steadily. The cohesion of the Communities and the functioning of their institutions has been maintained, despite severe strains imposed on them by internal and external difficulties; and the influence of the Communities in the economic councils of the world has increased impressively, as has the prosperity of their members. The interests of each member state have been preserved and promoted, as well as the interests of the Community as a whole, so that there is no significant body of opinion inside the Six which is opposed to the Communities.

The United Kingdom's part in European developments

17. The United Kingdom participated in some of the European co-operative ventures which were started in the immediate aftermath of the war: in Western European Union, in the Council of Europe, in the OEEC (now the Organisation for Economic Co-operation and Development) and above all in the North Atlantic Treaty Organisation. But the realities of our position in the world, and the similarities between our position and that of other Western European countries, were masked. Our physical assets

and our economy had suffered less disastrously than those of most other Western European countries as a result of the war: nor did we suffer the shock of invasion. We were thus less immediately conscious of the need for us to become part of the unity in Europe, and we were preoccupied with the changes in our relationship with the countries of the Commonwealth.

18. For these among other reasons we were not ready to go as far and as fast as the other countries of Western Europe in the move for a more integrated European economy, though at this time we should have been welcomed as partners by all the Six countries, and the reserves of economic strength with which we emerged from the war would have given us a leading position in this development. During the 1950s the transformation of our position in the world was increasingly borne in upon us, in terms of recurring economic problems at home and in the balance of payments, of the quickening move to independence among former colonies, and of a sense of diminishing influence in world councils. By the end of the decade the need to participate more closely in European economic integration had already become powerful. It had been thought from 1956 onwards that when the Community of Six came into existence it would be possible for other European countries which did not become members of this closer grouping to join with the Community in establishing a wider European free trade area. But although this plan had earlier secured the support of the Governments concerned, in 1958 it became apparent that the basis of general agreement did not exist. Subsequently, Her Majesty's Government, together with a number of other European countries who had not felt able to join the Community, established the European Free Trade Association (EFTA). From the outset EFTA had as its objective, not only the establishment of industrial free trade between the signatories of the Stockholm Convention which established the association, but the removal of trade barriers and the promotion of closer economic co-operation between all the members of the OEEC, including the members of the Community. From the outset, too, it was recognised that some members of EFTA might eventually wish to join, and others to seek closer trading arrangements with the European Communities.

Negotiations with the Communities

19. In 1961 the Conservative Government decided to apply for negotiations to determine whether satisfactory arrangements could be made to meet the needs of the United Kingdom, of the Commonwealth and of EFTA. The statement to the Six introducing this application said that this decision was reached "not on any narrow or short-term grounds, but as a result of a thorough assessment over a considerable period of the needs of our own country, of Europe, and of the Free World as a whole. . . . We desire to become full, whole-hearted and active members of the European Community in its widest sense and to go forward with you in the building of a new Europe".*

* The United Kingdom and the European Economic Community: Statement by the Lord Privy Seal, the right hon. Edward Heath, M.P., at the meeting with Ministers of Member States of the European Economic Community at Paris on 10 October 1961. (Cmd. 1565: November 1961.)

20. In 1967 the Labour Government, in setting out their reasons for renewing the application for membership of the European Communities, spoke of "the long-term potential for Europe, and therefore for Britain, of the creation of a single market approaching 300 million people, with all the scope and incentive which this will provide for British industry, and of the enormous possibilities which an integrated strategy for technology on a truly continental scale can create". They stressed that "the Government's purpose derives above all from our conviction that Europe is now faced with the opportunity of a great move forward in political unity and that we can—and indeed we must—play our full part in it . . ." The statement went on to say that the Government intended "to pursue our application for membership with all the vigour and determination at our command".*

21. Both Governments were baulked in their objective, so that it was not possible for either to determine whether satisfactory conditions of entry could be obtained. On both occasions the Government of the day decided not to withdraw our application, but to leave it lying on the table. The third round of discussions flowed from the decisions of the Heads of Government of the Six at The Hague Conference in December 1969, which was convened on the initiative of the President of the French Republic. These decisions envisaged the completion and strengthening of the arrangements to establish a common market and the enlargement of the Community by admission of new members. This opened the way for the latest negotiations to take place in more promising circumstances and a more constructive atmosphere than those of 1961-63 and 1966-67. The Labour Government declared in May 1970 that they wanted to start negotiations as soon as possible, and the Head of the United Kingdom Delegation to the European Communities was able to say, when the formal invitation to open negotiations on 30 June, 1970 was conveyed to him on 11 June, that he was confident that the date proposed would be acceptable to Her Majesty's Government.

22. When the present Government took office, they confirmed their predecessors' decision to open negotiations at a first Ministerial meeting on 30 June. They picked up the hand which their predecessors had prepared for the negotiating table, accepting as the basis of negotiations that they would be prepared "to accept the Treaty of Rome subject to the necessary adjustments consequent upon the accession of a new member, and provided that we receive satisfaction on the points about which we see difficulty".* They accepted also that those points were the limited number of major issues defined in their predecessors' statement of 4 July, 1967.† In the negotiations on these major issues, initiated by one British Administration and carried on by another, the six Governments of the Community, recognising the historic importance of the outcome for both sides, have consistently sought with us that common ground on which both British and Community interests could be satisfied.

* Membership of the European Communities: Statement by the Prime Minister, the right hon. Harold Wilson, M.P., to the House of Commons on 2 May 1967. (Cmd. 3269: May 1967.)

† The United Kingdom and the European Communities: Statement made by The Secretary of State for Foreign Affairs, the right hon. George Brown, M.P., at the Meeting of the Council of Western European Union at The Hague on 4 July 1967. (Cmd. 3345: July 1967.)

23. As on the previous occasions, two fellow members of EFTA, Norway and Denmark, and the Irish Republic, applied to join the Communities at the same time as we did. Negotiations for their entry are also well advanced. Discussions have also been started between the Community and the other members of EFTA who for either political or economic reasons feel unable to seek full membership of the Community. The decisions of the other European applicants about their negotiations for membership of or some other relationship with the Communities depend to a large extent on those of the United Kingdom. The agreements now reached between the United Kingdom Government and the Community on virtually all major issues of substance mean that our negotiations have reached the stage where it is both necessary and possible for us to take a decision of principle whether to enter the Communities. The procedure the Government proposes to follow was announced in Parliament on 17 June, 1971 (see Annex C).

The Case for British Membership of the European Communities

24. The European Communities have been established because the member countries have far more interests in common than differences. Western Europe is one of the great centres of world events, but individually none of its countries is now powerful enough to exert a decisive influence. They have a mutual interest in each other's security; they are determined never again to go to war with each other, and recognise that a threat to any of them threatens all. They have similar economic and social interests and standards of life. Their industries cannot operate efficiently with different policies and standards. No single member country can afford more than a limited part in the full range of modern technological and industrial advance, upon which both security and prosperity greatly depend. In all these respects our position is similar to that of our neighbours.

25. The Six countries have recognised these facts. They have already shown in the years in which they have built up their Communities that by harmonising their economic policies and developing their economic resources in common they have been able to increase their prosperity, to provide a stronger base for their security, and to exert a major influence in world economic affairs. The contrast between their experience in recent years, as members of the Communities, and ours outside, when our resources have not been growing sufficiently to do all we should like to do at home and abroad, suggests that they chose the right road. The Six are certainly convinced of this; and they now plan to develop common policies and common action not only in economic affairs, but also in matters of foreign policy. They recognise that we have similar interests and they wish us to join them.

THE POLITICAL CASE

26. Our geographical, military, political, economic and social circumstances are so similar to those of the Six, and our objectives so much in common, that it is in our best interest to join forces with them in the creation of a wider European Community of free nations, whose joint strength and influence on the world can be so much greater than that of its individual members. If we remained outside the Communities, we should

have to maintain our national interests and develop our national resources on a narrower base. No doubt we could do this; but the task of doing so would impose progressively heavier burdens on us, and would become progressively more difficult, as European political and economic unity proceeded without us in a neighbouring Community several times our size.

27. We have grown accustomed to the political and military predominance in the world of two super powers whose strength is based on their great size and economic resources. A third—China—is emerging in the Far East. In economic affairs, the European Communities and Japan are also well on the way to super power status. In the IMF and the GATT, and in many other ways which set the pattern of international economic life, the three economic super powers that are emerging in the non-Communist world will increasingly and inevitably be the decisive influences. Individually no European country can ensure that its voice is heeded; collectively, as the Six have shown already in the Kennedy Round, the voice of the Communities cannot be ignored. If we join, therefore, we shall be making sure that British trade and manufacturing interests are represented at the summit of the negotiations where the terms on which we earn our living are decided.

28. If the political implications of joining Europe are at present clearest in the economic field, it is because the Community is primarily concerned with economic policy. But it is inevitable that the scope of the Community's external policies should broaden as member countries' interests become harmonised. That is the Community's clear intention. As regards the co-ordination of foreign policy, the practical obligations which the United Kingdom will assume if we join now will involve no more than we have already assumed in WEU. But we will be joining at a moment when we shall be able to influence the process of development. This will also be true of progress towards economic and monetary union. No firm timetable has yet been agreed for this in the longer term; the immediate steps agreed so far will not involve practical difficulties for us. If we were not to join, this would not stop the Community of Six moving forward in both the economic and political fields. Thus the options open to future British Governments would be limited without their having any say in the matter.

29. We shall have full opportunity to make our views heard and our influence felt in the councils of the Community. The Community is no federation of provinces or counties. It constitutes a Community of great and established nations, each with its own personality and traditions. The practical working of the Community accordingly reflects the reality that sovereign Governments are represented round the table. On a question where a Government considers that vital national interests are involved, it is established that the decision should be unanimous. Like any other treaty, the Treaty of Rome commits its signatories to support agreed aims; but the commitment represents the voluntary undertaking of a sovereign state to observe policies which it has helped to form. There is no question of any erosion of essential national sovereignty; what is proposed is a sharing and an enlargement of individual national sovereignties in the general interest.

30. All the countries concerned recognise that an attempt to impose a majority view in a case where one or more members considered their vital interests to be at stake would imperil the very fabric of the

Community. The Six have not lost any of their national identities or their national institutions and points of view, nor shall we lose our national identity. They retain their own ways of life: as any tourist knows, France and the French are no less French, Holland and the Dutch are no less Dutch, after 20 years of Community life. They retain their own Monarchs and Heads of State, their own Governments, their own Parliaments, Courts and local administrations. Where the members reach common agreement to pool resources and authority, it is done because they consider it is in their interests to do it. At present the Communities' institutions are purely economic. But if the development of European policies in non-economic fields calls for new institutions, then as a member Britain will play a full and equal part in devising whatever additions to the institutional framework are required.

31. The treaties establishing the European Economic Community and Euratom are concluded for an unlimited period; that establishing the European Coal and Steel Community for fifty years. Those treaties contain no provision expressly permitting or prohibiting withdrawal. Nor do some other important treaties to which the United Kingdom is a party, for example the United Nations Charter. The Community system rests on the original consent, and ultimately on the continuing consent, of member states and hence of national Parliaments. The English and Scottish legal systems will remain intact. Certain provisions of the treaties and instruments made under them, concerned with economic, commercial and closely related matters, will be included in our law. The common law will remain the basis of our legal system, and our courts will continue to operate as they do at present. In certain cases however they would need to refer points of Community law to the European Court of Justice. All the essential features of our law will remain, including the safeguards for individual freedom such as trial by jury and *habeas corpus* and the principle that a man is innocent until proved guilty, as well as the law of contract and tort (and its Scottish equivalent), the law of landlord and tenant, family law, nationality law and land law.

32. In the political, as in the economic field, the strength of the Community lies not so much in the safeguards limiting its operation, as in the common interests which member countries share. In a world where so much power is concentrated outside Europe, and where in international terms Europe has become one region among others, the differences between European neighbours are insignificant, compared with what we have in common. In history and culture, in political, legal and social framework, in social structures, in standards of living and in national interests and objectives, the countries of the Communities and the United Kingdom have a European heritage.

33. So one half of the political case for joining Europe is that it will make us and our European neighbours stronger to defend our own national interests. The other half is that it will enable us to work together for our common objectives. This was summed up by the then Prime Minister in his statement to the House of Commons on 2 May, 1967: "Together we can ensure that Europe plays in world affairs the part which the Europe of today is not at present playing. For a Europe that fails to

put forward its full economic strength will never have the political influences which I believe it could and should exert within the United Nations, within the Western Alliance, and as the means for effecting a lasting *détente* between East and West: and equally in contributing in ever fuller measure to the solution of the world's North-South problem, to the needs of the developing world.”*

34. These are also the common objectives of the Six, and they can best be pursued by common endeavour. Our presence in a Europe which is banding together to end ancient rivalries and to find a new strength in unity of purpose and action will help to cement the newly formed ties. This will reinforce our security, which throughout history has been bound up with events on the Continent. The Channel is no longer a barrier when the greater Powers are bridging space itself.

35. Because of the weakness of Europe after two World Wars the defence of Europe, including the United Kingdom, has greatly depended since 1945, as it did not before, upon the strongest member of the North Atlantic Alliance. The United States of America have played and are playing a great and generous role: but it is a burdensome one, and they feel it is now time for Europe to play a larger part in maintaining her own security. It is for that vital reason—the strengthening of the Western Alliance—that successive Administrations in the United States have consistently supported the development of unity among the Western European democracies, including the United Kingdom, in a more self-reliant community of nations, even though they have recognised that such a development will from time to time give rise to differences of view and interest in particular fields of policy.

36. There is no alternative grouping of countries with similar circumstances and interests which could offer us the same opportunities to safeguard our national security and prosperity. A North Atlantic Free Trade Area has been suggested from time to time; but the United States with its great business corporations would be so dominant a partner in any such arrangement that we as members would find our economy increasingly tied to theirs and our political choices therefore increasingly determined by theirs as well. Nor has such a grouping interested successive United States Administrations, who have made it clear that they would prefer to see us as members of a stronger and more united Europe than as a satellite of the United States. Similarly, the Six have firmly and repeatedly made clear that they reject the concept that European unity should be limited to the formation of a free trade area.

37. Nor does the Commonwealth by itself offer us, or indeed wish to offer us, alternative and comparable opportunities to membership of the European Community. The member countries of the Commonwealth are widely scattered in different regions of the world and differ widely in their political ideas and economic development. With the attainment of independence, their political and economic relations with the United Kingdom in particular have greatly changed and are still changing. They

* Membership of the European Communities: Statement by the Prime Minister, the right hon. Harold Wilson, M.P., to the House of Commons on 2 May 1967. (Cmd. 3269: May 1967.)

have developed and are still developing with other countries trade and investment arrangements which accord with the requirements of their basic geographical and economic circumstances. The United Kingdom's share of the trade of the Commonwealth has declined sharply over the last decade. In absolute terms United Kingdom exports to the Commonwealth have grown only slowly, whilst our exports to the EEC have expanded much more rapidly, and in 1970 exceeded our exports to the whole of the Commonwealth. For many Commonwealth countries, too, the European Communities increasingly appear as a more attractive trading partner than the United Kingdom. It is significant that the East African Commonwealth countries have now given the Community trade preferences over us.

38. But this in no way implies that in joining the Communities we should become increasingly "inward-looking" and trade and invest only with the member countries. It is the declared objective of the Six that the formation and enlargement of the Community should lead to increasing overseas trade and investment, and their experience bears this out. When the changes agreed in the Kennedy Round of international tariff negotiations are fully implemented the average level of the external tariff of the EEC on industrial goods will be about 8½ per cent, and that of the United Kingdom about 10 per cent. The Community already accounts for 30 per cent of world trade, and its members' trade with the outside world has increased more than 2½ times in the twelve years since its formation—as fast as the increase in world trade as a whole. In agricultural trade the Community remains a very large market for third countries' foodstuffs: they import three times as much as we do. The Six are large investors in other countries, both developed and developing, and the enlargement of the Community should enable all their members to achieve a rapid increase in trade and investment overseas as well as in Europe.

39. Similarly the aid given to the poorer nations by our European neighbours is proportionately greater than ours, and the Community has been the first of the major aid donors to introduce a generalised preference scheme which will provide for duty-free access for a wide range of goods from the developing countries. To provide new markets and aid for the less prosperous countries on a scale anything like adequate to their needs, Europe must be united, strong and wealthy. We in the United Kingdom think particularly of the countries of the Commonwealth, who have much to gain from close association with a wider European Community of nations, just as other European countries think of the lands with which they have particular ties of history and of culture, and which are already associated with the Community. The divisions of Europe in the present and past centuries played an undoubted part in building up the tensions and troubles of the developing world: Europe unified in a stronger Community can play a constructive and sympathetic part in relieving them.

THE ECONOMIC CASE

40. The central question here is how membership of the Community would affect the structure of our economy and so the prosperity of our people. For many years we have faced familiar problems: difficulties with the balance of payments, a disappointing record in industrial investment,

and an inadequate rate of economic growth. The result is that we have begun to drop seriously behind other countries, and particularly the members of the Community, in attaining a higher standard of living.

41. The Government believe that membership would provide the most favourable opportunity for achieving the progress which we all desire. Studies made by the Confederation of British Industries show that this belief is shared by a substantial majority of British industry. Our entry would not, of course, of itself bring about some automatic improvement in our performance and it would involve us in costs as well as benefits. The following paragraphs discuss the costs and advantages of membership in more detail.

42. All member countries contribute to a common budget for certain specific purposes, such as agricultural support, the European Social Fund, and administrative costs (see Annex A). We shall be required to pay a contribution to the Community budget which—after allowing for our estimated receipts from the budget—will involve a net cost to our balance of payments of some £100 million in the first year. The cost in later years will depend primarily on whether it becomes possible gradually to reduce the predominant share of the budget which agricultural expenditure at present takes up. If the structure of the budget were to remain unchanged the net balance of payments cost would rise to some £200 million in the fifth year. Thereafter our contribution will be limited for two further years (see paragraph 94 below).

43. Gradual adoption of the common agricultural policy will stimulate British farm output and open Community markets to our food exports, but at the same time will raise food prices in the United Kingdom and the cost of our food imports. The extent of this increase in food prices and import costs will naturally depend on the difference between Community and world food prices. This difference has narrowed significantly in the last two or three years. But assuming a continuation of the present price gap and allowing for likely changes in patterns of United Kingdom production and consumption, the additional cost to our balance of payments on account of food imports seems unlikely to amount to more than about £5 million in the first year, and £50 million a year by the end of the transitional period. On the same assumption about world and Community prices it is estimated that the rise in average retail food prices during the transitional period resulting from our adoption of the common agricultural policy will amount to about 2½ new pence in the £ each year. As a result, the cost of living will increase by about half a new penny in the £ each year, but at the same time tariff reductions should lead to lower prices for manufactures which will go some way to offset this increase. The influence on wage movements of the increase in the cost of living is not expected to have any significant effect on the costs of industry nor, therefore, on our balance of trade. In addition, we should be asked to subscribe £37·5 million in sterling to the paid-up capital of the European Investment Bank: it is expected that the greater part of this sum will remain in the United Kingdom (see paragraph 136). We should also subscribe £24 million to the reserve funds of the ECSC; this would be primarily if not wholly spent in this country (see paragraph 160).

44. The effects of membership on British industry will stem principally from the creation of an enlarged European market by the removal of tariffs between the United Kingdom and the Community countries, and, less importantly, from other tariff changes.* The response of British industry will be broadly of two different kinds. First, there will be the immediate reaction of a British exporter to each annual reduction in the tariff on his exports to the Community. This response will involve a decision whether, for example, to maintain his prices and so increase his profit margins, or reduce his prices and so expand his sales. But secondly, and in the long run far more significant than this response to relatively small annual changes in tariffs, will be industry's decisions on how to take advantage by structural changes of the opportunities opened up by the creation at the end of the transitional period of a permanent, assured, and greatly enlarged market. Manufacturers will be operating in a "domestic market" perhaps five times as large as at present, in which tariff barriers cannot be put up against them however well they do. There will in consequence be a radical change in planning, investment, production and sales effort.

45. Any calculation of the effects on the balance of trade of these tariff changes will only produce a valid estimate if it takes account of the parallel existence of both these influences operating on industry. And a simple summation of estimates of industry's immediate responses to the small annual tariff changes involved would reflect only the false assumption that no other changes were taking place. The Government do not believe that the overall response of British industry to membership can be quantified in terms of its effect upon the balance of trade. They are confident that this effect will be positive and substantial, as it has been for the Community.

46. Growth and prosperity in any country, including of course each of the six Community countries, depend first and foremost upon the size and effective use of its resources of manpower, plant, equipment and managerial skill. It is essential to deploy these resources to the maximum benefit, and this requires the pursuit of appropriate economic policies. This requirement would be mandatory upon the United Kingdom in any event. However, the general economic and commercial environment within which a country operates is also a vital element in its success in creating wealth and promoting welfare. The environment can be conducive to growth, or it can be unfavourable to growth. It is generally agreed that for advanced industrial countries the most favourable environment is one where markets are large, and are free from barriers to trade. These conditions favour specialisation, the exploitation of economies of scale, the developing and marketing of new products, and a high level of investment in the most modern and up-to-date equipment. Through increased competition, they foster the more efficient use of resources over a wide area of industry and help to check the trend to monopoly positions on the part of large-scale organisations.

* British exporters will benefit from preferential access to those markets associated, or having special trade arrangements, with the Community. On the other hand they will share with Community exporters their present preferential position in other EFTA countries and in the Irish Republic; and must expect a faster erosion of existing Commonwealth preferences, which have, however, been steadily eroded over recent years and which would probably continue to diminish in future even if we remained outside the Community.

47. In particular, the development and exploitation of modern industrial technology, upon which so much of our employment and income increasingly depends, requires greater resources for research and development and wider markets than any one Western European nation can provide. The different national systems of corporate law and taxation in Western Europe make it difficult for European firms to combine and co-operate effectively to meet competition from the great firms whose resources are based on the much larger home markets of the United States and, more recently, of Japan. In recent years Western European markets for jet aircraft and aero engines, for computers and advanced electronic equipment, for nuclear fuel and power, for motor vehicles and for many other products have been increasingly dominated or penetrated by the much larger international corporations based outside Europe. Together, the Western European nations can organise themselves to compete with these giants, which are otherwise bound to go on increasing their share of European industrial markets.

48. If we enter the Communities we shall be able to profit from the general advantages of a larger market and, in particular, to play a full part in the development of industries based on advanced technology. If we do not join, we shall forgo these opportunities which the members of the Communities will increasingly enjoy. Their industries will have a home market of some 190 million people, with preferential markets in other European and overseas countries. Our industries would have a home market of some 55 million people, with perhaps another 45 million in EFTA, as against the home market of some 290 million people we should have if we joined the Communities.

EXPERIENCE OF THE SIX

49. The economic growth of the Six countries had already been considerable in the 1950s, as they recovered from the disruptions of war and occupation. The formation of the European Economic Community then created an environment within which they have each made further and striking progress over the past decade. In considering the likely effect upon our economy of membership of an enlarged Community we must first examine the evidence of that decade.

50. The members of the Community created a common market in industrial goods by steadily eliminating the tariffs on imports from one another over the years 1959-68. The abolition of tariffs provided a strong and growing stimulus to the mutual trade of Community countries. It is estimated that by 1969 the value of this "intra-trade" in manufactured products was about 50 per cent higher than it would have been, had the Community not been formed; moreover it appears that the stimulus to intra-trade is continuing. The abolition of tariffs and this consequent increase in intra-trade were accompanied by important changes in the performance of manufacturing industries in the Six countries. Those industries which competed with imports faced an intensification of competitive pressure as tariffs fell, obliging them to seek ways of raising efficiency and reducing costs. By the same token, prospects for exporting dramatically improved. Import competition and export expansion were closely associated with a growth in investment. The outcome of these processes was a significant improvement in the rate of growth of

manufacturing productivity, and, therefore, higher national incomes in the Community than the member countries believe they would have enjoyed otherwise. Moreover, the increase in productivity was accompanied by a low level of unemployment, even though large numbers of farm workers left the land for industry.

51. The rate of growth of manufacturing output per head in the five major Community countries had already been at a generally high level over the 1950s and early 1960s, faster than in nearly all other comparable industrial economies. In the latter half of the 1960s, however, this growth rate showed a further marked increase (with the one exception of Italy, where the very high rate achieved in the earlier period was not quite maintained).

52. The rapid growth in manufacturing productivity in the Six was a key factor in their impressive economic record in the past decade. But other indicators also show clearly the extent of the advances made by comparison with the United Kingdom. For example, in 1958 average earnings in Britain were similar to those in France, Germany, Belgium and the Netherlands and well over half as high again as those in Italy. By 1969 average earnings in Italy had caught up with British earnings, and in the other Community countries, earnings were now between a quarter and a half higher on average than those in Britain. In real terms (*i.e.*, after allowing for price inflation), average British earnings had increased by less than 40 per cent between 1958 and 1969, while in the Community countries average real earnings had gone up over 75 per cent. Similarly, all the Community countries enjoyed rates of growth of gross national product (GNP) per head of population, or of private consumption per head, roughly twice as great as Britain's.

53. Moreover, at the same time a high proportion of the Community's output continued to be channelled into investment, so providing the basis for further rapid growth. In the period 1959-69, the Six devoted 24 per cent of their GNP to investment, whereas the figure for Britain was 17 per cent.

54. Finally, the Community as a whole have maintained a strong balance of payments position, earning a surplus on current account of more than \$25,000 million over the period 1958 to 1969; by comparison the United Kingdom had a small cumulative deficit on current account over these years.

Prospects for our economy

55. This, then, has been the experience of the Community. It is the conviction of the Governments, of the industries, and of the trade unions in the Six countries that their economic progress has been promoted in large measure by the changes brought about by the creation of the Community. The economic structure of the United Kingdom is in many respects similar to that of the member countries of the Community. We, like they, are a highly industrialised society, without large indigenous resources of raw materials, and thus heavily dependent upon foreign trade. Like the three larger members of the Community—which in size of population are closely comparable to ourselves—we have a widely diversified industrial structure, which has great potential for development in a larger market.

56. In the light of the experience of the Six themselves, and their conviction that the creation of the Community materially contributed to

their growth, and of the essential similarity of our economies, the Government are confident that membership of the enlarged Community will lead to much improved efficiency and productivity in British industry, with a higher rate of investment and a faster growth of real wages. The studies, mentioned earlier, made by the Confederation of British Industries show that this belief is shared by a substantial majority of British industry, whose own interests are at stake, and who are in the best position to judge. A more efficient United Kingdom industry will be more competitive not only within the enlarged Community but also in world markets generally.

57. These improvements in efficiency and competitive power should enable the United Kingdom to meet the balance of payments costs of entry over the next decade as they gradually build up. The improvement in efficiency will also result in a higher rate of growth of the economy. This will make it possible to provide for a more rapid improvement in our national standard of living as well as to pay for the costs of entry. For example, if a rate of growth of national income a $\frac{1}{2}$ per cent higher were to be achieved as a result of membership, by the end of a period of five years our national income would be some £1.100 million higher in the fifth year.

Conclusion

58. Her Majesty's Government have now carefully considered the outcome of the negotiations and the arrangements which have been agreed to resolve the problems identified both by the present Government and their predecessors. Like their predecessors, the present Government have also sought to ensure that changes in trading patterns, especially those concerning the Commonwealth, will be gradual, and will give time and opportunity for those concerned to make any adjustments which might prove necessary. They believe these aims have been achieved.

59. The costs of joining the Community—set out in this White Paper—are the price we should have to pay for the economic and political advantages. These advantages will more than outweigh the costs, provided we seize the opportunities of the far wider home market now open to us. If we do, we shall obtain, as the Six have done since the Communities were founded, a substantial increase in our trade, a stimulus to growth and investment, and a greater rise in real wages and standards of living than we have known in recent years or would be possible if we remained outside the Communities.

60. Beyond these economic considerations are the broad political perspectives. In an enlarged Community we could better serve our own interests and those of our traditional friends and allies. Together with the other members of the enlarged Community we could do more and better than any of us could do alone. Together we could tackle problems of technological innovation and development which would be too big for any one of us. Together we could create a more civilised environment. Together we could compete more effectively overseas. Together we could help the poorer countries of the world more generously than if we were working on our own. And together the members of the enlarged Community would be able to help each other.

61. The enlargement of the Community would create a framework for more harmonious relationships in Western Europe. The relationships between Europe and the other countries of the world, particularly the United States, the Soviet Union and, one day, China would become more evenly balanced. A Europe united would have the means of recovering the position in the world which Europe divided has lost.

62. The choice for Britain is clear. Either we choose to enter the Community and join in building a strong Europe on the foundations which the Six have laid; or we choose to stand aside from this great enterprise and seek to maintain our interests from the narrow—and narrowing—base we have known in recent years. As a full member of the Community we would have more opportunity and strength to influence events than we could possibly have on our own: Europe with the United Kingdom in her councils would be stronger and more influential than Europe without us.

63. A decision not to join, when at last we have the power to do so, would be a rejection of an historic opportunity and a reversal of the whole direction of British policy under successive Governments during the last decade. No one can predict the consequences of such a reversal. They would touch all aspects of our national life, and affect our future as much as, if not more than, acceptance of the opportunities now offered to us.

64. In a single generation we should have renounced an imperial past and rejected a European future. Our friends everywhere would be dismayed. They would rightly be as uncertain as ourselves about our future role and place in the world. Meanwhile the present Communities would continue to grow in strength and unity without us. Our power to influence the Communities would steadily diminish, while the Communities' power to affect our future would as steadily increase.

65. Her Majesty's Government believe that the terms which have been negotiated are fair and reasonable, and provide this country with an opportunity which may never recur. They will accordingly invite Parliament to approve a decision in principle that the United Kingdom should take up full membership of the Communities on this basis. They believe that such a decision would be in the best interests of the peace, security and prosperity, not only of the British people, but of the peoples of Western Europe and of the world as a whole.

66. Every historic choice involves challenge as well as opportunity. Her Majesty's Government are convinced that the right decision for us is to accept the challenge, seize the opportunity and join the European Communities.

PART TWO

THE OUTCOME OF THE NEGOTIATIONS

67. Negotiations with the Communities opened on 30 June, 1970. Twelve months of intensive discussions have taken place since then and, apart from fisheries, all the crucial issues have now been dealt with. The following paragraphs set out the agreements arrived at and also the stage reached on the small number of matters which remain to be settled.

68. More work remains to be done, however, including detailed elaboration of some agreements already reached in principle and the drafting of the Treaty of Accession. In addition, we shall be continuing to examine closely with the Community their detailed rules and provisions in order to determine what adaptations may be necessary to meet the circumstances of this country and of the enlarged Community. A number of adaptations have been agreed to suit our needs and in certain cases appropriate transitional provisions or delays to the entry into force of Community rules have been decided upon. It now seems most improbable that any significant problems remain to be identified. English texts of all the instruments by which we should be affected, including the agreed adaptations, would be made available to Parliament when any legislation was introduced to give effect to the obligations that we should be assuming on accession to the Communities.

Participation and voting in the Communities' institutions

69. No problems arose over Britain's participation in the institutions of the Communities. It has been agreed that from the start the United Kingdom should have a position in the institutions equal to that enjoyed by France, Germany and Italy.

70. The Council of Ministers is the body which takes all the major decisions about Community policy. In the Council the appropriate British Minister will be present together with representatives of the nine other member states. As has been made clear in paragraph 30 above, where member states' vital interests are at stake, it is Community practice to proceed only by unanimity. Most Council decisions are taken on the basis of a proposal by the Commission. It is already provided in the Treaty that certain Council decisions have to be taken by unanimous vote. In those cases where qualified majority with weighting of votes is provided for in the Treaty, the votes of the members of the Council would have the following weighting:

Germany	...	...	10	France	...	...	10
Italy	...	...	10	United Kingdom	...	...	10
Belgium	...	...	5	Netherlands	...	...	5
Luxembourg	...	...	2	Denmark	...	...	3
Ireland	...	...	3	Norway	...	...	3
							<hr/> 61

In these cases, where the Council decision follows a proposal by the Commission, the decisions of the Council are to be effective only if at least 43 votes are cast in their favour. In some cases the Treaty provides that

voting shall take place by qualified majority without the Commission having made a proposal. In these cases decisions are approved only if 43 votes are cast in favour by at least 6 members. In those cases in which a simple majority is provided for, the majority will, of course, be 6 out of the 10 States.

71. The European Commission is the body responsible for executing the decisions of the Council, for putting forward proposals which take into account the interests of the Community as a whole, and for safeguarding these interests. In an enlarged Community, the European Commission would be composed of 14 members, two members each from Germany, France, Italy and the United Kingdom and one from each of the other states. The members of the Commission are nominated by the member Governments. There would be an appropriate British contribution to the staff of the Commission. This staff is, in effect, the civil service of the Community.

72. The European Parliament's present role is largely consultative, though it has certain powers of control over the Commission. In the European Parliament the number of members will be as follows:

Germany	...	...	36	France	...	...	36
Italy	...	...	36	United Kingdom	...	...	36
Belgium	...	...	14	Netherlands	...	...	14
Luxembourg	...	...	6	Denmark	...	...	10
Ireland	...	...	10	Norway	...	...	10

Members of the European Parliament which meets at Strasbourg are nominated by the respective national Parliaments.

73. The Economic and Social Committee is also a consultative body, consisting of representatives from employers, trade unions, professions, farmers, etc. Membership of the Economic and Social Committee will be as follows:

Germany	...	...	24	France	...	...	24
Italy	...	...	24	United Kingdom	...	...	24
Belgium	...	...	12	Netherlands	...	...	12
Luxembourg	...	...	6	Denmark	...	...	9
Ireland	...	...	9	Norway	...	...	9

74. Provisions have been agreed for equal representation of France, Germany, Italy and the United Kingdom in the organs of the European Investment Bank.

75. On enlargement, English would be an official language, together with the present official languages—French, German, Italian and Dutch.

76. The arrangements outlined above will ensure that the United Kingdom will be able from entry to play a full part in the management and future development of the Community. It has been agreed that in the period between the signature of the Treaty of Accession and its entry into force joint procedures will be established to ensure that decisions taken by

the institutions of the Community take due account of the interests of the United Kingdom as a prospective member of the Community, and that to this end consultations will take place before such decisions are taken. This will ensure that the British Government will be able to influence Community decisions during this period. This procedure will also apply to decisions to be taken in this period by the United Kingdom which would affect the obligations we shall have undertaken as a prospective member.

Transitional arrangements for industry and agriculture

77. At the outset we made it clear that we accepted the common external tariff (CET), subject to special arrangements for the twelve industrial materials dealt with in paragraphs 140 and 141 below. We also accepted that the common agricultural policy would apply throughout the enlarged Community, subject to the arrangements for New Zealand and for sugar, and to clarification on a number of issues. However, we required adequate transitional arrangements. Our objective in seeking these was twofold. On industrial tariffs we wished to secure as quickly as possible the advantages for British industry of integration within a single European market, while providing an adequate period of adjustment for our Commonwealth and other trading partners. For agriculture and horticulture, we needed arrangements which would permit an orderly adjustment by our producers to the Community's system of support and marketing; avoid sharp increases in food prices; and prevent abrupt dislocation of the exports of our Commonwealth and other third country suppliers.

78. These objectives have been achieved by the arrangements described in paragraphs 79-87 below.

INDUSTRIAL TARIFFS

79. There are two main processes involved here. First, all tariffs on trade between the United Kingdom and the Six have to be eliminated. This is to be done in five equal stages, starting three months after accession. Second, subject to the special tariff arrangements referred to in paragraphs 140-142 below, we have to apply the CET to all countries neither belonging to, nor enjoying any special arrangements* with, the enlarged Community. For those countries affected which at present have no preferential position in our market, this will involve only fairly minor adjustments to the duties we apply to their goods: in general the CET is rather lower than our own tariff. However, for the countries affected which currently enjoy free entry to our market, it will mean the gradual application of the CET to their exports to this country. It has been agreed that our move to the CET should

* The countries expected to have special arrangements with the enlarged Community include: those members of the European Free Trade Association who do not become members of the Community; the independent Commonwealth countries in Africa, the Caribbean, the Indian Ocean and the Pacific; our dependent territories, except Gibraltar and Hong Kong (for which see paragraph 118 below); and the countries with which the existing Community has special arrangements, which include the countries associated under the Yaoundé Convention, the dependent territories of the Six and the countries mentioned in paragraph 145 below. The enlarged Community will also be offering preferences to most developing countries under the United Nations Conference on Trade and Development Generalised Preference Scheme.

be carried out in four stages, starting a year after accession. The table below shows how these arrangements would work out if we join the Community on 1 January 1973:

TABLE 1

	<i>Abolition of tariffs between the Six and the United Kingdom (per cent)</i>	<i>Cumulative reduction (per cent)</i>	<i>Adoption of the CET by the United Kingdom (per cent)</i>	<i>Cumulative movement towards adoption of the CET (per cent)</i>
April 1, 1973 ...	20	20	—	—
January 1, 1974 ...	20	40	40	40
January 1, 1975 ...	20	60	20	60
January 1, 1976 ...	20	80	20	80
July 1, 1977 ...	20	100	20	100

80. These arrangements have two substantial advantages for us. In the first place they will ensure that within three years of entry (when the Community's tariffs will have been cut by 80 per cent) our exporters will have virtually duty-free access to the large and rapidly growing market of the Six. The opportunities will be considerable. The CET is not on average high, but tariff averages can be misleading: in several sectors of importance to British industry the barriers we face are still substantial—22 per cent on commercial vehicles, up to 18 per cent on organic chemicals, 16–18 per cent on plastics, 18 per cent on tractors and 14 per cent on diesel engines. In the second place, the delay of a year before our first move to the CET should usefully lengthen the period of adjustment for our Commonwealth partners.

AGRICULTURAL TRANSITION

81. Under the common agricultural policy the level of market prices for the main agricultural commodities is maintained in two ways. The price of imports is kept up to a minimum or threshold price by means of variable import levies; and the internal market is supported at an intervention price, slightly below the threshold price, at which any surpluses are bought by the Community's agricultural fund. These arrangements apply to cereals, milk products, beef and veal, pigmeat and sugar and (except for support buying) to poultry and eggs, though they vary in detail for each commodity. The agricultural fund also compensates Community exporters when their sales to third countries are made at prices below Community levels.

82. We shall adopt this Community system of support—though not Community prices—in the first year of membership. We shall introduce threshold and intervention prices of our own. These will be lower than the full Community threshold and intervention prices—the difference corresponding to the difference between our market price levels and those of the present members. We shall then increase our threshold and intervention prices gradually to full Community levels by six steps over the five years of the transitional period. These will be equal steps, subject to a 10 per cent tolerance up or down if needed in the interests of flexibility. As market prices are increased, British farmers will increasingly get their returns from the market, and deficiency payments will be phased out.

83. There will be free trade with the Six in the products concerned, subject only, throughout the transitional period, to arrangements to compensate for the difference in price levels. These will take the form of fixed levies on our exports to them and fixed compensatory payments on their exports to us. These levies and export payments will be gradually reduced by six steps over the five years, as prices come into line. There will be comparable arrangements for trade between the present members of the Community and the other applicant countries, and between the applicant countries.

84. The operation of the levy system will give producers in the enlarged Community preference over imports from other countries whenever market prices are below the threshold. British producers will share in this preference throughout the Community and will have the safeguard of the intervention prices to support their market.

85. For those agricultural commodities for which the Community has a common external tariff instead of, or in addition to, levies, the transitional arrangements will take the form of tariff adjustments similar to those agreed for industry (paragraph 79). Our tariff will gradually be adjusted to the common external tariff and eliminated against other members of the enlarged Community. The precise arrangements remain to be worked out in detail. For horticulture, which depends on the tariff as its main form of protection, there will be a slower rate of tariff adjustment with no change at all in the first year of transition. For apples and pears our existing import quotas will be replaced by compensatory import levies offsetting the difference between British and Community prices. These levies will be phased out over five years so as to bring prices gradually into line, with the same provision for flexibility as in the case of agricultural prices. The horticultural industry is subject to some climatic and structural disadvantages, but there are many sectors in which it is competitive and in all sectors there will be opportunities for efficient growers who can adapt to the new situation. Assistance for new investment is already given under the horticulture improvement scheme and the Government have recently announced a high rate of grant for grubbing up old orchards to improve the market for commercial producers. Where efficient growers face special problems of adjustment they will be given the necessary help to meet them. The Government will consider with the industry how this can best be done.

86. It has further been agreed that the enlarged Community will be ready to take prompt and effective action to remedy any difficulties arising out of the transitional arrangements for agriculture and horticulture or any threat of abrupt dislocation to Commonwealth and other third country suppliers.

87. The transitional arrangements provide a sound basis for a smooth and orderly transition for our farmers and growers under conditions of fair competition and stability. They also allow time for the adjustment of trading patterns, with safeguards against dislocation. British farm output is on a rising trend and it has been the policy of the Government to encourage this. In the enlarged Community British farmers generally can expect better overall returns for their produce despite higher feed costs. There

will also be better prospects for our exports of agricultural and food products in the markets of the enlarged Community at higher prices. Our efficient agricultural and food industries are well placed to take advantage of these opportunities. Thus, as a result of our entry, home agricultural output can be expected to expand more quickly. The Government expect additional expansion of some 8 per cent overall on this account by 1977. With these prospects, the industry can plan ahead and invest with confidence.

88. It is estimated that membership will affect food prices gradually over a period of about six years with an increase of about 2½ per cent each year in retail prices. As food accounts for about a quarter of total consumer expenditure the effect on the cost of living would be about ½ per cent each year. There is, of course, no harmonisation of retail prices in the Community. The effect of entry on the retail prices of foodstuffs here will therefore depend on many factors, including the efficiency of our own system of processing and distribution. It will vary from commodity to commodity. Some, such as butter, cheese and beef, are likely to rise by significantly more than the average; others, such as bread, flour and eggs, by about the average; and others, such as milk, fish, oils and fats, tea and coffee should show little change in price. For some fruit and vegetables prices should be lower at certain times of the year. Moreover, the increase in food prices will be offset to some extent by lower prices for other consumer goods as a result of tariff reductions.

89. These estimates compare with an estimated increase of 18.26 per cent in food prices over the transitional period set out in the 1970 White Paper.* Since that White Paper was published, however, the gap between United Kingdom and Community food prices has narrowed considerably, partly because world prices have been rising faster than Community prices.

90. Retirement pensioners and those dependent on other social benefits will be protected from the effects of the increase in food prices through adjustments in those benefits. These effects will not begin to be felt until the spring and summer of 1973, and, as indicated in paragraph 88, are likely then to be small. The Government are committed at least to maintain the purchasing power of national insurance pensions and related benefits through regular reviews every two years. In the normal cycle the next review will take place in 1973. Supplementary benefits are kept under close review. The Government undertake that in these reviews, both in 1973 and subsequently, full allowance will be made for the effect on prices of joining the EEC. National Insurance pensioners and beneficiaries, as well as those entitled to supplementary benefits will share in the increased prosperity flowing from membership of the Community. Accession to the Community will not alter in any way the National Health Service.

Contribution to the Community budget

91. From the outset the Government recognised, as did their predecessors, that it would not be possible to seek to make fundamental alterations in the system of providing funds for the Community. The

* "Britain and the European Communities: An Economic Assessment", (Cmd. 4289, February 1970.)

existing members had finally agreed this system among themselves early in 1970 only after considerable difficulty and regarded it as an essential part of the process of "completing" the Community envisaged in The Hague Communiqué. (The system is described in Annex A.) The negotiations have therefore been directed to finding a method to enable us gradually to adapt to the Community system over a period of years, without placing an undue burden on our economy.

92. The solution which has been reached is as follows. A percentage or "key" has been set, broadly corresponding to our present share of the total gross national product (GNP) of the 10 countries likely to form the enlarged Community. This will represent the proportion of the budget which we should *nominally* be expected to pay in the first year of membership. This key will then increase marginally in each of the four subsequent years, under similar arrangements to those agreed by the Six for themselves (see paragraph 5 of Annex A).

93. However, we shall pay only a proportion of our *nominal* contribution over these first five years. The proportion will increase in annual steps. The effect of these arrangements is shown in the table below. Column 2 sets out the *nominal* key which has been agreed. Column 3 shows the proportion of this nominal key which we shall in practice be required to pay. Column 4 gives our resulting share of the Community budget in each year. Column 5 sets out the possible size of our gross contributions on the assumption that the budget amounts to £1,400 million in 1973 and rises to £1,600 by 1977. Column 6 shows the estimated build-up of our receipts from the budget, and the resulting estimates of our net payments are shown in the final Column.

TABLE 2

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Year	United Kingdom key (percentage of Community budget)	Percentage of key to be paid	United Kingdom contribution (percentage of Community budget)	Possible United Kingdom gross contribution (£m.)	Possible United Kingdom receipts (£m.)	Possible United Kingdom net contribution (£m.)
1973	19.19	45.0	8.64	120	20	100
1974	19.38	56.0	10.85	155	40	115
1975	19.77	67.5	13.34	195	55	140
1976	20.16	79.5	16.03	245	75	170
1977	20.56	92.0	18.92	300	100	200

It will be seen that we should be required to pay 8.64 per cent of the budget of the enlarged Community in the first year, rising to 18.92 per cent in the fifth year—the latter being broadly comparable to our proportion of the gross national product of the enlarged Community.

94. After the first five years there will be a further period of two years during which the size of our contribution will continue to be limited as follows. The Commission will calculate what our contribution to the budget would have been in 1977 if we had been required in that year to apply the direct income system in full (see Annex A, paragraphs 3 and 4).

In 1978 our contribution will not increase above that for 1977 by more than two-fifths of any difference between the Commission's calculation and our actual contribution in 1977. In 1979 the increase in our contribution over 1978 will be limited similarly.

95. In 1980 and subsequent years we shall be required to contribute 90 per cent of our agricultural levy and customs duty receipts and such value added tax (VAT) (not exceeding the yield of a 1 per cent VAT) as is necessary from each member country to close any gap between Community expenditure and Community revenues from levies and duties. It is not possible to make any valid estimate of the size of our levy and duty receipts in the 1980s. The outcome depends on a large number of unpredictable factors. For example, earlier estimates of our levy receipts in the mid-1970s have already been invalidated by the recent substantial narrowing in the gap between world and Community food prices. Nor is it possible to make any reliable forecast of the future size and pattern of our trade and so of the sources of imports, on which any estimate of both levy and duty receipts must depend. Finally, it is impossible to foresee the likely size of our VAT contribution. The size of this contribution (if any) would be a function of the size of the Community budget and of aggregate receipts of levies and duties from all member countries. The gap between these two amounts would have to widen very considerably indeed if member countries were to be required to contribute the full 1 per cent of VAT. This gap is only likely to widen in this way if the enlarged Community were to spend much more on non-agricultural activities, such as industrial and regional development, in which case the United Kingdom could expect to enjoy much larger receipts.

96. Thus, in the Government's view, neither our contribution to, nor our receipts from, the Community budget in the 1980s are susceptible of valid estimation at this stage. And it is for this reason that the Community declared to us during the course of the negotiations that if unacceptable situations should arise "the very survival of the Community would demand that the institutions find equitable solutions".

The Commonwealth

97. As has been made clear, the interests of Commonwealth countries have been a major concern of Her Majesty's Government throughout the negotiations.

98. Provision has been made to safeguard New Zealand exports of dairy products by arrangements acceptable to the New Zealand Government. Both the British Government and the New Zealand Government consider that the position which will obtain on entry into the Community in respect of trade in New Zealand lamb is satisfactory.

99. For all British dependent territories with the exception of Hong Kong and Gibraltar (see paragraph 118) and for all independent Commonwealth developing countries with the exception of those in Asia, arrangements have been made which provide the opportunities of Association—or in the case of the independent developing countries the alternative of a trade agreement—with the enlarged Community, thereby permitting

these countries access on favourable terms to the markets of the enlarged Community. Sugar producing countries in the developing Commonwealth have the assurance that within the framework of an association agreement or a trading arrangement it will be the Community's firm purpose to safeguard their interests.

100. Independent Asian Commonwealth countries will not only benefit from the generalised preference scheme of the enlarged Community, but have an undertaking that it will be the enlarged Community's continuing objective to expand and reinforce existing trade relations and that the Community will be ready to examine trade problems which might arise in future with a view to finding appropriate solutions.

101. For the more highly industrialised members of the Commonwealth—Australia and Canada—it has been recognised since 1967 that special arrangements of the kind negotiated for New Zealand and developing Commonwealth countries would be inappropriate. The Common External Tariff will be applied to their industrial exports into the United Kingdom gradually over the transitional period, and their exports of agricultural produce to the United Kingdom will also be affected by the arrangements made with the Community. But they stand to benefit from the agreements on tariffs on certain industrial materials (see Annex B); and it has been agreed that the Community will take speedy and effective action to deal with any abrupt dislocation of trade in agricultural products.

NEW ZEALAND DAIRY PRODUCTS AND LAMB

102. Butter accounts for about 11 per cent of New Zealand's total export earnings, and cheese for about 4 per cent. About 85 per cent of her export earnings from butter and cheese come from exports to the United Kingdom. Our aim has been to secure satisfactory arrangements for continuing access for New Zealand exports of these products to the markets of the enlarged Community. This was particularly desirable for butter, both because butter is much the more important to the New Zealand dairy industry and because New Zealand butter will be in direct competition with supplies from within the enlarged Community; the Community countries are not major producers of cheddar cheese.

103. It has been agreed that there will be special arrangements to guarantee New Zealand a market for agreed quantities of dairy products. For butter, the guaranteed quantity for the first five years will be reduced by 4 per cent per annum so that in the fifth year of the transitional period New Zealand will be able to sell at least 80 per cent of her present entitlement in the United Kingdom. For cheese, the quantities guaranteed will gradually be reduced through steps of 90, 80, 60 and 40 per cent in the first four years to 20 per cent of the present level by the fifth year. This means that in terms of milk equivalent New Zealand can be assured of selling at least 71 per cent of the present quantity in 1977. Moreover, New Zealand will under these arrangements enjoy a guaranteed price for these sales at the average of prices on our market during the four years 1969-72. We estimate that this will result in prices to New Zealand substantially higher than the average of recent years, when New Zealand has not had a guaranteed price in our market.

104. During this first five-year period, it will be open to the Council of the Community, of which we would of course be a member, to make adjustments as between guaranteed quantities of butter and of cheese, provided that the tonnage expressed as milk equivalent corresponds to the total quantities approved for the two products for the year in question.

105. The effect of these arrangements is that New Zealand will still be guaranteed in six years' time minimum sales of 136,000 tons of butter and 15,000 tons of cheese (and considerably more meanwhile). These are minimum guarantees, and depending on market requirements New Zealand may have the prospect of selling more under the normal Community arrangements, especially in the case of cheese. Since we estimate that the price which New Zealand will receive will be substantially above the level of recent years, this will give her the prospect over the five years of total export earnings in our market at or above the level of those which she has enjoyed in recent years.

106. During the third year after our accession, the institutions of the Community will review the butter situation, taking account of the supply and demand position and trends in the major producing and consuming countries of the world, particularly in the Community and New Zealand. They will decide, in the light of this review, on suitable measures for ensuring beyond 1977 the continuation of special arrangements for New Zealand butter. There will be no guarantee for cheese after 1977, but substantial sales are expected to continue as New Zealand cheese does not compete directly with Community production.

107. Among the considerations of which account will be taken during this review will be the progress made towards an effective world agreement on milk products and the question of New Zealand's progress towards diversification of its economy and its exports. The Community have undertaken to make every effort to promote the conclusion of an international agreement on dairy products; and to pursue a trade policy which will not frustrate New Zealand's efforts to diversify. This should help New Zealand to increase her earnings in other markets.

108. These agreements have been accepted by the New Zealand Government as adequately safeguarding her interests and as a major concession by the Community. Although they have some reservation about the basis for determining the guaranteed price (because they naturally wanted the best possible price), they have expressed their confidence that on the basis of this settlement New Zealand can meet the challenge of British membership of the Communities and have described the agreement as highly satisfactory.

109. The arrangements described above represent a satisfactory settlement of the problems raised for New Zealand's butter and cheese exports. The Government have recognised that New Zealand also depends heavily on the British market for her exports of lamb. These three products play a vital role in the economic and social well being of New Zealand.

110. There is no common organisation of the market in the Community for sheepmeat and each member state at present sets its own conditions for entry from third countries. There is however one common element. This

is the CET set at a level of 20 per cent and we have agreed to adjust to this tariff over the transitional period. Both we and New Zealand consider that an acceptable volume of trade in New Zealand lamb will continue to flow over such a tariff. Forward estimates of production and consumption indicate that the United Kingdom in the enlarged Community will remain a substantial importer of New Zealand lamb. Both the United Kingdom and New Zealand are closely concerned with arrangements for sheepmeat following British entry, as the United Kingdom will be by far the major consumer of sheepmeat in an enlarged Community. The Government has therefore been able to express to the New Zealand Government its confidence that there will continue to be adequate and remunerative access for lamb from traditional sources of supply.

SUGAR

111. Our aim has been to obtain a firm assurance of a secure and continuing market in the enlarged Community on fair terms for the sugar exports of the developing countries which are members of the Commonwealth Sugar Agreement (CSA).

112. The Government's contractual obligations to buy agreed quantities of sugar under the CSA from all participants, including Australia, until the end of 1974 will be fulfilled and domestic beet sugar production will accordingly continue to be limited until then. Thereafter it has been agreed that the arrangements for sugar imports from developing Commonwealth sugar producers should be made within the framework of an association agreement or trading agreement with the enlarged Community.* It has further been agreed that the enlarged Community will have as its firm purpose the safeguarding of the interests of the developing countries concerned whose economies depend to a considerable extent on the export of primary products and in particular of sugar. After consultations held in London on 2-3 June 1971, this solution was accepted as satisfactory by the countries concerned on the basis of the following statement which has been placed on record with the Community:

"The Governments represented (United Kingdom, Antigua, Barbados, Fiji, Guyana, India, Jamaica, Kenya, Mauritius, Swaziland, Trinidad and Tobago, Uganda, St. Kitts-Nevis-Anguilla and British Honduras) expressed their satisfaction at the Community's readiness to offer the Governments concerned a choice of forms of association or a trading agreement; and also at the readiness to recognise the United Kingdom's contractual commitments to all the CSA member countries up to the end of 1974.

They noted that, in negotiations with the enlarged Community on association or trading agreements, it would be open to the Governments concerned to act individually or collectively. They further noted that the negotiations were due to be concluded by 1975, and that pending conclusion their existing patterns of trade with the United Kingdom would be maintained.

There was a full discussion of the Community's offer made on sugar after 1974. The British Delegation assured other delegations that the

* The arrangements for India are dealt with in paragraph 119.

Community's proposals constituted a specific and moral commitment by the enlarged Community, of which the United Kingdom would be a part. The British Government and other Commonwealth Governments participating regard this offer as a firm assurance of a secure and continuing market in the enlarged Community on fair terms for the quantities of sugar covered by the Commonwealth Sugar Agreement in respect of all its existing developing member countries. The developing Commonwealth countries will continue to plan their future on this basis."

In addition, representatives of the Governments concerned stressed the importance of a continuing and viable International Sugar Agreement to all sugar-producing countries.

TRADE RELATIONS WITH DEVELOPING MEMBERS OF THE COMMONWEALTH AND DEPENDENT TERRITORIES

113. We made it clear in the negotiations that we needed to ensure that trade relations between these countries and the enlarged Community should be safeguarded *either* by the establishment of association arrangements, comparable with those already accorded to developing countries enjoying similar traditional relations with members of the present Community, *or*, where this was not appropriate, by alternative solutions.

114. There are various ways in which developing countries are at present associated with the Community. Under the Yaoundé Convention certain African States and the Malagasy Republic enjoy preferential or duty-free access to the markets of the Community, usually in return for preferences which they grant on exports from the Community in their markets; they receive development aid from the European Development Fund; and they participate in a Council of Association. The present Yaoundé Convention expires on 31 January 1975 and the negotiations for its renewal are due to begin in 1973.

115. Other association arrangements providing for mutual rights and obligations, particularly in matters of trade, are also possible. As an example, three Commonwealth African countries, Kenya, Tanzania and Uganda, already have a form of association under the Arusha Convention, which is similar to the Yaoundé Convention, except that the range of goods covered by the preferential arrangements is more limited, and there is no provision for development aid from the Community.

116. Dependent territories of the existing members of the Community are associated with the Community under Part IV of the Treaty of Rome. The benefits, in trade and aid, enjoyed by countries so associated are broadly the same as those provided under the Yaoundé Convention to independent States associated with the Community.

117. The independent Commonwealth countries in Africa, the Caribbean, the Indian Ocean and the Pacific will be able to choose between three options: association under a renewed Yaoundé Convention (the renewed Convention will have to make provision for development aid both to the existing associates and to new associates); some other form of

association, of the kind exemplified by the Arusha Convention; or a commercial agreement to facilitate and expand trade with the Community. The countries concerned are:

Barbados	Guyana	Mauritius	Trinidad and Tobago
Botswana	Jamaica	Nigeria	Tonga
Fiji	Kenya	Sierra Leone	Uganda
Gambia	Lesotho	Swaziland	Western Samoa
Ghana	Malawi	Tanzania	Zambia

They will not need to make their choice immediately and it has been agreed that until 31 January 1975 (when the present Yaoundé Convention expires) the present trading arrangements between us and these countries can be maintained.

118. All British dependent territories (and the Anglo-French Condominium of the New Hebrides) will be offered association under Part IV of the Treaty of Rome, except for Gibraltar and Hong Kong. The territories concerned are:

Bahamas	Gilbert and Ellice Islands Colony
Bermuda	Montserrat
British Antarctic Territory	New Hebrides (with France)
British Honduras	Pitcairn
British Indian Ocean Territory	St. Helena and Dependencies (Ascension and Tristan da Cunha)
British Solomon Island Protectorate	Seychelles
British Virgin Islands	Turks and Caicos Islands
Brunei	West Indian Associated States (Antigua, Dominica, Grenada, St. Lucia, St. Vincent, St. Kitts- Nevis-Anguilla)
Cayman Islands	
Central and Southern Line Islands	
Falkland Islands and Dependencies	

Gibraltar will be covered by Article 227 (4) of the Treaty of Rome which enjoins that the Treaty provisions should apply to the European territories for whose external relations a member state is responsible. But, since Gibraltar is not a part of the United Kingdom's customs territory, it has been agreed, at Gibraltar's request, that she should not be included in the customs territory of the enlarged Community. The Community agreed, as a result of the negotiations, to help **Hong Kong** by including her within the scope of their scheme of generalised preferences from the date of its implementation.

119. India, Pakistan, Ceylon, Malaysia and Singapore. We and the Community have said that it will be our continuing objective to expand and reinforce existing trade relations with these countries. The Community will be ready after enlargement to examine with them trade problems (including the question of Indian exports of sugar to the enlarged Community) which might arise, taking into account the scope of the Generalised Preference Scheme, from which they will derive considerable benefit. The continued suspension of the Community tariff on tea, which has been secured in the negotiations, is also of considerable importance to India and Ceylon.

120. Malta already has an association agreement which offers preferential trading arrangements but not aid; Cyprus is currently negotiating for a similar agreement.

AUSTRALIA

121. Our entry into the Communities will place at some risk only a small proportion—at most only 7½ per cent—of Australian export trade. In 1969–70 Britain took under 12 per cent of Australia's exports—a very different situation from ten years previously when we were still buying more than 25 per cent. Products affected by the common agricultural policy, in particular, now represent a very low percentage of Australia's total exports—for example, dairy products sent to Britain in 1969–70 represented only 1.1 per cent of her total world exports; sugar only 0.7 per cent; and wheat only 1.2 per cent. Moreover, well over one-third of Australian exports to Britain are products which will enter duty free under the CET or benefit from the duty quotas agreed during the negotiations. For example, there will be no duty on raw wool which accounts for nearly 10 per cent of our imports from Australia; on metalliferous ores (6.4 per cent) or copper (2.7 per cent). Lead bullion (10.6 per cent) will benefit from the special duty arrangements described in Annex B.

CANADA

122. In 1970 only 9 per cent of Canada's total exports came to the United Kingdom, compared with 17 per cent in 1960. About 30 per cent of Canada's exports to the United Kingdom in 1969 were products which will continue to enter duty-free. A further 10–15 per cent would benefit from the special duty arrangements described in Annex B—the most significant of these for Canada are those on newsprint, plywood, wood pulp and phosphorus. The duty quota secured for plywood will extend to nearly all Canada's exports to the whole of the enlarged Community, and not merely those to the United Kingdom. Almost a further 8 per cent of Canada's exports to this country are likely, although facing levies under the common agricultural policy, to be affected only marginally, if at all, because they cannot be obtained within the enlarged Community: these are the hard wheat necessary for the type of bread traditionally in demand in British households and the special quality malting barley produced in Canada.

The Channel Islands and the Isle of Man

123. The Channel Islands and the Isle of Man have for centuries enjoyed a special constitutional position in relation to the United Kingdom. They have their own legislatures, and they have their own fiscal systems and special customs arrangements.

124. Their inclusion in the Community would present constitutional, administrative and economic difficulties. Accordingly, after full consultation with them, we are seeking for the Islands arrangements short of full membership which would provide for an exchange of reciprocal rights and obligations between the Community and the Islands. We have proposed that a form of association under Article 238 of the Treaty of Rome might be an appropriate way of dealing with the question.

Financial and monetary issues

STERLING

125. Following separate discussion with the member countries of the Community in the context of the negotiations, on 7 June 1971 the Chancellor of the Duchy of Lancaster made the following statement to them:

"I put on record at our meeting in May a number of statements which have been made on behalf of Her Majesty's Government on these questions. I would now like to add the following statement. We are prepared to envisage an orderly and gradual run-down of official sterling balances after our accession.

We shall be ready to discuss after our entry into the Communities what measures might be appropriate to achieve a progressive alignment of the external characteristics of and practices in relation to sterling with those of other currencies in the Community in the context of progress towards economic and monetary union in the enlarged Community, and we are confident that official sterling can be handled in a way which will enable us to take our full part in that progress.

In the meantime we shall manage our policies with a view to stabilising the official sterling balances in a way which would be consistent with these longer term objectives.

I hope that the Community will regard this statement as disposing satisfactorily of the question of sterling and associated matters, leaving only the arrangements for the United Kingdom's compliance with the directives relating to capital movements under the Treaty of Rome to be settled in the course of the negotiations."

126. The Six replied that the Community had taken note of this statement with satisfaction, and proposed that it should be the subject of an exchange of letters to be annexed to the Treaty of Accession.

127. In amplification of this exchange, the Prime Minister made the following statement to the House of Commons on 10 June 1971:

"... sterling is not an issue in the negotiations but is a matter to be discussed in the context of the negotiations. So when it was raised by the Six earlier in the year we readily agreed to discuss it.

At The Hague in December 1969 the Community declared its intention of moving towards economic and monetary union. That raises understandable and proper questions, put to us in good faith, about the adjustments that might be required for a currency in an enlarged Community which had an appreciable role as an international reserve currency.

We have said three things to the Community. We have said that as members of the enlarged Community we would play our full part in the progress towards economic and monetary union. That was confirmed in my talk with President Pompidou and in my statement to the House. We have said that we are prepared to envisage a gradual and orderly rundown of official sterling balances after our accession. We have said that after accession we would discuss measures by which a progressive alignment of the external characteristics of sterling with those of other Community currencies might be achieved.

Both of these developments would be viewed in the context of progress towards economic and monetary union. But let me make absolutely clear that we have given no undertakings as to how fast or by what means these developments could or should be brought about. These would be matters for discussion after our entry, when we should be a full member of the Community with all the rights of a member. As I emphasised at the Press conference following my meeting with President Pompidou and in the statement to the House, both President Pompidou and myself agreed that no country's vital interests would be over-ruled by other members. We have made clear the three conditions which any proposal for reducing the official sterling balances would have to satisfy: notably, of course, the protection of the interests of balance holders and the avoidance of unacceptable burdens on our balance of payments.

Progress towards economic and monetary union and the future of sterling in an enlarged Community do involve enormously complex problems. It has to be considered, for example, what alternative asset would be generally acceptable for sterling holders, what arrangements would be needed for holders to acquire such an asset, and what form and maturity of corresponding liability might be undertaken by us. These are not matters to which the Community has clear and agreed answers. They would need a great deal of discussion, both within the enlarged Community and with others concerned. It would be impossible to settle these problems in the context of these negotiations. It is an advantage to us, not a weakness, that they are now left for discussion after our accession, when we should contribute as members of the enlarged Community to the processes of discussion and decision-making.

Two things have happened in our discussions with the Six. . . . First, the Six have become clearer about the size and complexity of the problems to be dealt with in this area. Secondly, they have accepted that, if we become members of the Community, we shall be ready to discuss the whole subject in a fully Community spirit, without preconceptions or prejudices about how to deal with the problems. That is why we are not asked for and have not entered into any specific undertakings or commitments on methods or timetables, and that is why my right hon. and learned Friend's [the Chancellor of the Duchy of Lancaster] statement of our position has been accepted as disposing of the whole question in the context of the negotiations."

128. In the Government's view, it will be to the advantage of the United Kingdom as well as of the others concerned if in due course arrangements, which meet the conditions stated, can be worked out for the official sterling balances. The prospect of doing this will be enhanced by our membership of the Community.

CAPITAL MOVEMENTS

129. The Treaty of Rome provides for the progressive abolition of restrictions on movements of capital between member countries, and the Directives made under it have applied this to most of the main categories, though some restrictions still continue.

130. At present the United Kingdom operates certain exchange control restrictions in respect of capital movements to all Non-Sterling Area countries including those in the Community. We have put forward proposals for making the necessary adjustments in our exchange control policies in consultation with member countries, so as to move by stages to full compliance with EEC obligations by the end of a transitional period of five years. We have proposed that we should adjust our rules first on direct investment and then on personal capital other than portfolio investment; portfolio investment would be dealt with later in the transitional period. Thus the cost to the official reserves of these changes would be spread over the transitional period, during which we may expect some additional inward investment which will help to offset that cost.

131. Our proposals on this matter are still under consideration by the Community.

FISCAL HARMONISATION

132. The Community countries have all adopted, or will shortly introduce, a Value Added Tax (VAT). Initially, we sought to ensure reasonable transitional arrangements for moving over to that system after entry. Subsequently, in the 1971 Budget the Chancellor announced the introduction of a VAT in this country in 1973 as a means of improving our own tax system. There is therefore no longer any need for a transitional period. It should be noted that members of the Community are at present free to determine their own rates and coverage for VAT, although it is envisaged that in due course harmonised rates and coverage may be introduced by unanimous agreement.

133. During the course of the transitional period our present customs duties (on hydrocarbon oils, beer, spirits, wines and tobacco) will need to be converted into internal taxes in order to conform with the Treaty of Rome. As with the VAT, members of the Community are at present free to determine the rates of these duties.

EUROPEAN INVESTMENT BANK

134. The Bank provides loans for economic development, principally in member countries; it has provided finance for such things as road construction and factory building. Development projects in the United Kingdom would, after our accession, be eligible for such assistance from the Bank.

135. The Bank's finance is supplied by the subscriptions of member countries and by borrowing on capital markets. It was agreed that we should make the same subscription to the capital of the Bank as France and Germany (£187.5 million, of which £37.5 million will be paid up). The subscription will be wholly payable in sterling and will fall due in instalments over a period of two-and-a-half years from our accession. It is expected that the greater part of this sum will remain in the United Kingdom and will not be transferred across the exchanges. Negotiations on a United Kingdom contribution to the Bank's statutory reserves have not yet been completed.

136. We will be represented on the Bank's management on the same footing as France, Germany and Italy.

Regional and industrial policies

REGIONAL POLICIES

137. Because of the new opportunities for the economy as a whole, we shall be able as members of the Community to deal more effectively with our problems of regional development. All our experience over the years is that measures to stimulate such development work best within a wider framework of expanding trade and investment.

138. The Community recognise that regional policy has a vital and continuing role to play in economic development. Membership, therefore, will not inhibit the continuation and further development of vigorous regional policies which are necessary both on economic and social grounds. The existing members of the Community are pursuing such policies and they are using a wide range of regional assistance measures, many of which are similar to our own measures.

139. In the enlarged Community, we shall be sharing experience and exploring how the institutions of the Community can help us in dealing with the process of regional adaptation to major changes in industrial structure.

SPECIAL TARIFF ARRANGEMENTS

140. Duties on most industrial materials are zero in both the United Kingdom tariff and the CET of the Community, but there are a number of items of particular importance to British industry which are dutiable under the CET, and we have sought to ensure that our membership of the Community will not lead to a new charge on supplies of these materials.

141. In some cases, after a careful examination of the situation, it has been concluded that the enlarged Community will be self-sufficient. For the rest, we have agreed on arrangements which will ensure that about 90 per cent of our imports from outside the enlarged Community will continue to be imported free of duty. These arrangements will be particularly beneficial to Canada and Australia, who are important suppliers of several of the materials concerned. The agreements reached are summarised in Annex B.

142. In addition, the Community has agreed to continue indefinitely its suspension of the duty on tea.

THE FREE MOVEMENT OF LABOUR

143. Under the Community's regulations nationals of member countries may enter the territory of another member state to look for work or to take a job already arranged. In practice the provision for the free movement of nationals of the Six to seek or take up work has had only a limited effect on the actual movement of workers. The Community as a whole has been consistently short of labour and large numbers of workers from outside the Community have moved into it to take up unfilled jobs. Inside the Community movement of workers between member countries actually diminished between 1965 and 1969. The movement of labour within an enlarged Community will probably continue to be dominated by economic and social factors, rather than by regulations, and

the position in practice is likely to be similar to that which now prevails. For these reasons the Government have not asked for any transitional safeguards for our national labour market as a whole. Nor was this among the questions raised by the previous Government. Certain questions arising from the Community's regulations (e.g. the definition of nationality) are being discussed with the Community. The Community's regulations will not, of course, affect our controls over immigration from countries outside the Community.

144. For Northern Ireland, however, we have sought a five-year transitional period before the application of the Community's requirements on free movement of labour. During this period any available work there should be reserved, as it now is, for residents of Northern Ireland in the first instance. We have also stated that it may well be necessary towards the end of the five years to consider whether, and if so what, further special measures will still be needed.

THIRD COUNTRY AGREEMENTS

145. The Community has negotiated association agreements or preferential trade agreements with Greece, Turkey, Tunisia, Morocco, Israel, Spain and Malta.

146. We have agreed to accede to these agreements, subject to transitional provisions and any other adaptations that may need to be made in consultation with the countries concerned. Detailed discussions have begun, and it has been agreed that the aim is to settle all these questions before the end of the accession negotiations, but without delaying the conclusion of these negotiations.

147. Gaining preferential access to Greece, Turkey, Tunisia, Morocco, Israel and Spain, with a total population of just under 100 million, should be of substantial benefit to British exporters.

Other agricultural and fisheries questions

148. At the outset, in addition to the transitional problems described in paragraphs 81-89, we raised a number of agricultural questions which have now been satisfactorily resolved. There will be annual reviews of conditions and prospects for agriculture both nationally and on a Community basis, including meaningful and effective consultation with producers' representatives. It has also been established that adequate supplies of milk for domestic consumption can be assured throughout the year under the Community's price system, and the Milk Marketing Boards, like the other Marketing Boards, are expected to continue their essential marketing functions. For pigmeat and eggs the Community have fully recognised the special importance of market stability and a close watch will be kept on developments in an enlarged Community.

149. Good progress has also been made in adapting the detailed provisions of the common agricultural policy and other Community legislation in the agricultural and food sector to the circumstances of an enlarged Community. Detailed discussions are still continuing on a number of important aspects, notably about food manufacturing. A number of

adaptations are called for to reflect the special circumstances of the United Kingdom food trade, and to ensure that our food manufacturers can take maximum advantage of the wider market which will become available to them.

HILL FARMING

150. We have explained to the Community the problems of our hill farming areas, and the policies which have led us to give special assistance to farmers in these areas. Existing member countries face similar problems and within the framework of the common agricultural policy they have adopted a variety of methods to deal with them. They have recognised the need for similar action in those areas of the United Kingdom where special conditions obtain. We shall therefore be able to give the continuing assistance needed to maintain the incomes of farmers in the hill areas.

ANIMAL HEALTH

151. There are differences between the animal disease situation here and in the Community and in the methods of control employed. In particular the Community apply vaccination and slaughter policies against foot and mouth disease and require that cattle passing between member states must have been vaccinated, whereas we rely on a slaughter policy alone. Our aim is to ensure that the progressive improvement of animal health standards will continue in the enlarged Community. We have accordingly proposed that an expert working group including the other applicants should be set up to assess the technical and commercial considerations and the possible measures that might be taken.

FISHERIES

152. We and the other applicant countries have made clear that we do not consider the common fisheries policy, decided upon at the time our negotiations began, to be appropriate to the needs and circumstances of an enlarged Community, particularly in respect of access to fishing grounds. (The common policy does not, of course, affect members' rights to control access to their fishing grounds by non-member countries.) Our own catch is greater than any of those of the existing members of the Community. About two-thirds of our 21,000 fishermen are interested mainly in fishing around our shores, but in terms of value of catch our middle and distant water fleets are of great importance.

153. The Community have agreed that the arrangements governing access to coastal fisheries will have to be reconsidered in the perspective of enlargement and further discussions will be held in the near future. The Government are determined to secure arrangements which will be fair throughout the enlarged Community and will satisfactorily safeguard the interests of British fishermen.

European Coal and Steel Community

154. The European Coal and Steel Community (ECSC) was the first Community established by the Six. It dates from the Treaty of Paris signed in 1951. It is designed to ensure an orderly supply of coal and steel to the Community, whilst at the same time taking account of the needs

of third countries; to promote the orderly expansion and modernisation of production; and to provide better conditions of living and employment for the workers in the industries. The Community has at its disposal considerable funds which derive from levies on the coal and steel production of Community undertakings. These funds help the development of the industries, provide cheap loans for workers' houses, and help finance new employment opportunities and retraining schemes for any coal and steel employees who become redundant. They also provide grants for coal and steel research.

155. It has been the declared policy of this Government, as of their predecessor, to accept the Treaty of Paris and the regulations made under it. At the Meeting of the Council of Western European Union at The Hague on 4 July 1967 the Secretary of State for Foreign Affairs the Right Hon. George Brown, M.P., stated "In the case of the European Coal and Steel Community we seek only a limited period of transition. Thereafter we are prepared fully to implement these two Treaties (*i.e.*, the Treaty of Paris and the Euratom Treaty) and all the arrangements made under them".

156. In the course of the negotiations we have secured terms which are acceptable to British coal and steel interests. The Community have assured us that they have no intention of calling into question the size or the legal position of the British Steel Corporation or the National Coal Board.

157. In general, the present relationship between the Government and the coal and steel industries will continue, although the Secretary of State for Trade and Industry's powers to give directions of a general character will need to be modified. The industries themselves will remain free to develop on fully commercial lines. There is no question of their having to cut back production. The powers in the Treaty relating to the establishment of production quotas can only be used in times of "manifest crisis" and with the agreement of the Council of Ministers, of which we shall be a member. They have never in fact been used and there seems no likelihood of their being used. As regards investment more generally, the plans of our industries will remain entirely unaffected provided there is no question of unfair subsidisation. This is wholly in accord with present Government policy. On this basis, we have undertaken to bring our legislation and practices into line with the Treaty of Paris. One of the aims of the Treaty is to ensure the orderly supply and free movement of coal and steel throughout the Community and it would clearly be incompatible with this aim for Governments of individual member States to be able to distort competition by issuing directions on prices. The powers of the Secretary of State for Trade and Industry to give a direction on prices to the British Steel Corporation, arising out of a recommendation of the Iron and Steel Consumers' Council, will therefore, as already announced, need to be repealed. In the event of our entry the Iron and Steel Consumers' Council will be wound up. Further consideration is being given to the powers of the Coal Consumers' Councils. We shall however be appropriately

* The United Kingdom and the European Communities: Statement made by the Secretary of State for Foreign Affairs, at the Meeting of the Council of Western European Union at The Hague on 4 July 1967. (Cmnd. 3345: July 1967.)

represented by producers, consumers and workers on the ECSC Consultative Committee. As regards prices generally the NCB, the BSC and the independent steel producers will need to operate pricing practices in accordance with the common rules which will apply within the enlarged Community; in the formulation of future policy in this field we shall of course have a major role. Coal imports from Community countries will be free from restrictions, as will our coal exports to them. This freedom of trade should benefit our coal industry.

158. As regards transitional measures it has been agreed that tariffs for steel products covered by the Treaty of Paris will move at the same rate as has been agreed for industrial products generally (see paragraph 79 above). We have also secured a transitional period of two years during which we may, if we wish, maintain control over the export within the enlarged Community of certain grades of scrap.

159. We shall gain access to the reserve funds of the Community, which amount to about £90 million, immediately upon accession and will be able to benefit from them on an equal footing with other member states. Accordingly we have agreed to make an investment in them amounting to £24 million, to be paid in three equal annual instalments starting from the date of our accession. This is rather less than would be called for on a strict application of the ratio of the value of our coal and steel production to that of the Community. The money will be banked and spent primarily, probably wholly, in the United Kingdom.

European Atomic Energy Community

160. The European Atomic Energy Community (Euratom) is the third of the European Communities. It was set up by a separate Treaty which, like the Treaty setting up the Economic Community, was signed in Rome in 1957. It is concerned with the peaceful uses of atomic energy, promotes nuclear research and ensures the dissemination of technical information.

161. We have agreed to accept this Treaty and the rules made under it without any transitional period, except in the case of tariffs, where the necessary changes will be made one year after accession. This movement in tariffs, which is more rapid than is being applied in the case of industrial products generally, is potentially beneficial to our interests. The balance of trade in nuclear items between this country and the other members of the enlarged Community is already in our favour and could improve further.

162. We have assured the Community that we shall play a full part in the future of Euratom and have agreed to participate in its research programmes. The Community have assured us that these programmes can be modified to take account of our entry. We expect some contracts for nuclear work to be placed in the United Kingdom.

163. Euratom operates a system of control and inspection of civil nuclear installations which is designed to ensure that nuclear materials are not diverted to purposes other than those for which they are intended. We have agreed to accept the Euratom control system. This will not, of course,

impede the military nuclear activities of the United Kingdom; nor should it occasion to nuclear operators in the civil field any greater inconvenience than they could expect to experience because of the offer made by the United Kingdom, in connection with the Non-Proliferation Treaty, to accept certain safeguards in relation to its civil nuclear programme. Nor would we envisage any difficulty for the United Kingdom arising from any agreement on safeguards between Euratom and the International Atomic Energy Agency, pursuant to the Non-Proliferation Treaty.

164. The Euratom Treaty is also designed to ensure that all users in the Community receive a regular and equitable supply of ores and nuclear fuels. But this part of the Treaty is at present under revision. The Community have agreed to let us have their proposals before adopting them and we will be consulted about them.

165. It has also been agreed that we shall pay no entry fee in return for our access to the capital assets and scientific information held by this Community. At the same time, in recognition of the fact that we will have access to the complete stock of nuclear knowledge acquired by Euratom during its life, we have agreed to deposit knowledge of equivalent value with Euratom immediately after our accession.

The other applicants and the EFTA non-applicants

166. The negotiations between the Community and the other applicants for membership, Norway, Denmark and the Irish Republic, have made considerable progress. All concerned hope that it will be possible to conclude the negotiations with these countries in time to allow all four applicants to join the Community simultaneously.

167. The non-candidate members of EFTA (Austria, Iceland, Portugal, Sweden and Switzerland), and Finland (an associate member of EFTA) are seeking arrangements with the Community which would vary, country by country, depending on their economic and political position. All of these countries are at present engaged in discussions with the Community.

168. We and our EFTA partners have stated in communiqués after several Ministerial meetings that we have a strong interest in maintaining, as part of the enlarged Community, the free trade already established in EFTA and in avoiding the re-erection of tariff barriers between members of EFTA.

169. EFTA Governments have also expressed their desire that the arrangements for the non-candidate members of EFTA should come into force at the same time as the enlargement of the Community. So has the Community.

ANNEX A

The Community's direct income system

1. During the period up to 1970, the Community's expenditure was financed by a combination of the proceeds from levies on agricultural imports which were made over to the Community, and financial contributions from the member states. The Treaty of Rome establishing the European Economic Community envisaged the replacement, in due course, of the national contributions by the Community's "own resources".

2. On 21 April 1970, following agreements reached at the Summit meeting of the Six at The Hague in December 1969, and the submission of proposals by the Commission, the Community's Council of Ministers adopted a new system designed to make the Community self-financing and to bring its expenditure into one central budget.

3. Under the new system, which came into effect on 1 January 1971, the Community will progressively draw a greater proportion of finance for its budget directly from the revenue of customs duties and of levies on agricultural imports. Except for a 10 per cent rebate to cover collection costs, all levies on agricultural imports will be handed over by member states to the Community; in the case of customs duties, an increasing proportion will be paid over until, from 1 January 1975, all customs duties will be handed over, less the 10 per cent rebate. The remaining proportion of the necessary revenue will continue to be made up until 1975 by contributions from member states according to this agreed fixed scale:

	<i>Per cent</i>
Belgium	6.8
France	32.6
Germany	32.9
Italy	20.2
Luxembourg	0.2
Netherlands	7.3

The contributions from these countries in an enlarged Community would, of course, be different.

4. From 1 January 1975, in addition to the revenue from levies and customs duties, the Community is due to receive directly a proportion (equivalent to up to a 1 per cent rate) of the proceeds of a Value Added Tax, which by this time will be in force in all member states, to the extent necessary to meet any deficiency.

5. All these financing arrangements are subject, until 1978, to what are called "correctives", which will ensure that no country's share of the budget will increase or decline by more than a relatively small amount from the so-called "key" level fixed for 1970. From 1971 to 1974, no country's budget share may rise by more than 1 per cent or fall by more than 1½ per cent of its share in the previous year. For the years 1975 until 1977 these annual limits will be 2 per cent of the previous year's share in either direction. Thus Italy, whose 1970 key was 21.5 per cent, would have a maximum contribution of about 23.75 per cent in 1977.

6. The revenue raised under these arrangements finances the common agricultural policy, the administrative costs of European institutions, the European Social Fund (to promote the employment and mobility of workers), research and investment through the European Atomic Energy Community, the Community's Food Aid Programme for overseas, and refunds to member states to cover the cost (assumed to be 10 per cent) of collecting the levies and customs duties which are paid to the Community. The Community's budget for this expenditure in 1971 totals £1,273 million, made up as follows:

	£ million
European Agricultural Fund	1,096
Community administrative costs	62
Repayment to member states to cover costs of collecting levies and duties	56
Euratom research and investment	28
European Social Fund	23
Food Aid	8
	<hr/>
	1,273

7. The reason for the high proportion spent on agricultural support is partly historical and partly because of the role which agriculture plays in the economies of the Six. In all the Community countries this is larger than in Britain and a larger proportion of their manpower work on the land. When the Community was set up it was felt necessary not only to provide opportunities for Community industries by progressively removing the tariff barriers within the Community, but also to provide a common policy in the field of agriculture which was politically and economically so important for each of the Six.

8. As the Community develops there will be other purposes for which Community funds will be spent, such as technological, industrial and regional policies, from which, unlike agriculture, Britain could expect to receive back money commensurate with her contribution to the Community's budget.

ANNEX B

Solutions agreed for the tariff treatment of industrial materials

1. For *woodpulp* and *lead bullion* (both key materials for industrial processing in the United Kingdom) the CET will either be completely suspended or equivalent arrangements made so that we are assured of continuing duty-free access to these products even beyond the end of the transitional period.

2. For *newsprint* we shall share in a Community duty-free quota up to the full extent of needs not covered by domestic production. This means that our newspaper publishers will be able to buy the balance of their requirements duty free from the sources they choose including both Canada and Scandinavia. Agreement was also reached on widening the definition of newsprint to include lighter weight newsprint: otherwise some of our newspapers who use this type of newsprint would have had to pay a CET of 12 per cent.

3. For *phosphorus* it has been agreed that we shall not start to apply the CET even at a reduced rate until 1977 and that it would be open to us then to apply for either suspension of the tariff or duty-free quotas.

4. For *alumina* it has been agreed that the CET would be suspended from its current level of 8.8 per cent to 5.5 per cent. Imports of alumina into the United Kingdom would be free of duty until 1 January 1976, would as from that date pay half the suspended rate, and would from 1 July 1977 pay the full 5.5 per cent rate. But it has been recognised that in the particular circumstances of the aluminium industry we should be able at any time after entry to apply in advance for a duty-free Community tariff quota for the period after 1 January 1976.

5. The remaining products on our list fall into two groups. For *plywood*, arrangements have been made, including a duty-free quota for certain specialised types of coniferous plywood which should continue to allow in most of our imports duty free. And for the *wattle extract* used by our tanners the CET will be cut by two-thirds, down to 3 per cent. These arrangements for plywood and wattle extract are not limited to the transitional period.

6. For the remaining products, *silicon carbide*, *ferro chrome*, *ferro silicon*, *refined lead* and *zinc* and *aluminium* it was established that we should be able to secure all or nearly all our needs duty free either from increased United Kingdom production or from other suppliers in the enlarged Community. And in the case of lead and zinc we shall be participating in existing Community tariff quotas which it has been agreed to adjust to take account of enlargement. Moreover in the case of certain of these products it has been agreed specifically that if the supply position were to change it would be open to us to apply for duty quotas.

ANNEX C

Arrangements for Parliamentary consideration of the question of British accession to the European Communities

(Text of a statement made by the Prime Minister, the right hon. Edward Heath, M.P., to the House of Commons on 17 June, 1971.)

With your permission, Mr. Speaker, and that of the House, I should like to make a statement on how the Government sees the arrangements for Parliamentary consideration of the question of British accession to the European Communities.

It may be helpful if I begin by setting out the stages which must be completed before we can become a member of the Communities. We have first to resolve the major issues outstanding in the negotiations. Second, Parliament should be invited to take a decision of principle on whether the arrangements so negotiated are satisfactory and whether we should proceed to join the Communities. If that be agreed, we have, third, to resolve the remaining issues in the negotiations. Fourth, a treaty of accession has to be prepared and signed. Fifth, legislation to give effect to that treaty has to be drafted, considered by Parliament and enacted. Finally, we and the other parties to the treaty have to deposit instruments of ratification of the treaty.

As to the first of these stages, we hope that it will be possible to resolve the major issues outstanding in the negotiations by the end of this month. As soon as possible thereafter the Government will publish a White Paper setting out in detail the arrangements that have been agreed and the Government's conclusions on whether they constitute a satisfactory basis for joining the Communities.

The timing of subsequent stages depends upon striking a balance between a number of conflicting considerations. On the one hand, uncertainty will persist until Parliament has taken its decision. We owe it to our partners in the negotiations, to our fellow-applicants for membership, whose decisions will to some extent depend on ours, and to ourselves, to resolve this uncertainty as soon as we can. Moreover the marketing and investment planning of British industry, and future planning in many other sectors of our national life, are vitally dependent on the decision. It is right that all concerned should know as soon as possible where they stand.

On the other hand, the Government have always acknowledged the need for the whole question to be fully considered and discussed by Parliament and by the public before Parliament is asked to take the decision of principle on it. Although it is true that the main arguments for and against our joining the Communities have been before the public since the first application for membership ten years ago, it is right that we should take time to consider them in the light of the outcome of my right hon. and learned Friend's negotiations in Brussels and Luxembourg. The time table which the Government propose, therefore, is as follows.

The House will be invited to debate the White Paper before it rises for the Summer Recess. The detailed arrangements for this debate will be discussed through the usual channels. The Government envisage that it

should be an expository and exploratory debate, on a Motion which does not invite the House to take the decision of principle at the end of this debate, though we must of course reserve our freedom of action in the event of any substantive Amendment to such a Motion.

Then, when Parliament meets again after the Recess, there will be a second debate, at the conclusion of which the House will be asked to decide in principle whether Britain should join the European Communities.

In the meantime our delegation in Brussels will continue to negotiate on such issues as still remain outstanding. The aim will be to carry forward these negotiations and work on drafting a treaty of accession so that, if Parliament decides in the autumn that Britain should join the Communities, the treaty of accession can be signed by the end of this year.

This would allow the whole of 1972 to complete what would require to be done before our accession. In Parliamentary terms, this would mean that Parliament would be invited to consider and to pass the consequential legislation, which would be substantial, by the end of the Session 1971-72. Thereafter the instrument of ratification of the treaty of accession would be deposited, in time for our accession to the Communities to be effective from 1st January, 1973.

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