

**PREM**

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PART ..... 3 ..... ends:-

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PART ..... 4 ..... begins:-

..... 120 to PJH & encl. 8/3/71 .....





AIDE MEMOIRE

Community Finance

European  
Bohler  
10/3

Contributions and GNP Shares of the Six

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

a. it was not an objective of the Six's financial agreement to equate GNP shares and shares of contributions, but only to go some way towards correcting imbalances which had previously developed;

b. the only countries who will be paying a much higher share of contributions than their GNP share are Holland and Belgium/Luxembourg. Both benefit from substantial entrepot trade through Rotterdam and Antwerp and the duties and levies they collect on this trade can quite reasonably be regarded as "belonging" to the Community as a whole. Holland is, in addition, a major beneficiary from the financial system, getting more back for every dollar she puts in than even France does.

The United Kingdom Share of Contributions

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

i. The enlarged Community's budget was estimated as £4,500 million largely spent on agriculture - this was derived from published estimates by the Commission.

ii. We estimated that we would contribute £440 million from levy receipts and £700 million from duties.



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

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

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

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

#### The Hague Communique

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



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

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

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

#### Europe

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



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

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10, Downing Street,  
Whitehall.

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Prime Minister  
EUROPE

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

What his covering personal note says is:

(a) A final, "crunch" summit of 10 is inevitable (and probably desirable, so as to get heads of government committed to the hilt);

(b) A bilateral talk with Pompidou <sup>in April</sup> is an optional extra, probably desirable as a means of clearing the path to the summit.

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

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W.M. PSSM 4/3 9

Prime Minister

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RA  
MR ARMSTRONG

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

*RA*

W A NIELD

5 March 1971**SECRET**

Copied to N.J. Barrington  
FCO. V.M. Cleary  
143.



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## ENLARGEMENT OF THE EUROPEAN COMMUNITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Conclusion

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

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