



BRITISH EMBASSY,
PARIS.

17 February 1971

Dear Armstrong,

I am looking forward very much to seeing the Prime Minister on 1 March. I have now got a firm date to see President Pompidou on 25 February. Apart from trying to take his mind on how he sees the negotiations now and in the future, I intended to make two points to him in particular:

- (i) that our position is as Geoffrey Rippon set out so clearly in the last Ministerial meeting in Brussels and that we regard it as a serious and tenable one;
- (ii) when I asked Jobert what Pompidou had in mind when he said to Brandt that he thought it possible that the main problems of the negotiations could be resolved by the autumn, he told me that this stemmed from a remark I had made to him some weeks before about our Party Conferences taking place in the autumn. I am anxious that he should be clear in his mind that in fact this means negotiations being generally speaking completed by the end of July.

Judging from all that has been said recently by Ministers this is so obvious as hardly to warrant my writing to you. But it is so capital that I do not mislead Pompidou in any way that I thought it wiser to put it to you. If there is anything in

Robert Armstrong, Esq.,
10 Downing Street

what I have said above which runs in any way counter to the Prime Minister's up-to-date thinking, perhaps either you could drop me a line or it might even better for me to pop over to London for the inside of a day to see him before I see Pompidou.

If not, all well and good. Perhaps you could give me a ring to say either come or no need to come. I hope you will treat this letter as personal between you and me.

Yours sincerely
Christopher James



BRITISH EMBASSY,
PARIS.

le 17 février 1971

Monsieur Roger Massip
LE FIGARO

Cher Monsieur,

J'ai été très frappé, comme l'ont été, je le sais, beaucoup d'autres aussi bien ici qu'en Grande-Bretagne, par la sincérité et la compréhension qui caractérisent l'article de votre collègue, Monsieur Jean Lecerf, qui a été publié dans Le Figaro du 13-14 février sous le titre "A Un Ami d'Angleterre". Il me semble qu'il pourrait être utile que vos lecteurs aient un exposé du point de vue britannique sur la question capitale de l'entrée du Royaume-Uni dans les communautés européennes. J'ai appris par mes collaborateurs que vous avez déjà aimablement consenti à publier mes propres réflexions sur ce problème essentiel sous la forme d'une réponse amicale à Jean Lecerf. J'espère que vous et votre comité de rédaction estimerez pouvoir leur réserver la même place d'honneur qu'à la lettre ouverte à laquelle elles répondent. Je sais que nous avons tous la même cause à coeur.

Je vous prie de croire, Cher Monsieur, à l'expression de ma haute considération.

(Sgd.) Christopher Soames

LETTRE A UN AMI DE FRANCE

Je n'ai pas l'habitude de répondre aux lettres qui ne me sont pas adressées personnellement, mais en lisant ce que vous écriviez à un ami d'Angleterre, j'ai eu envie de vous dire combien vous avez raison de souligner que sur ce sujet de l'entrée de la Grande-Bretagne dans le Marché commun, il y a aujourd'hui - comme il y en a eu la dernière fois - un réel problème de communication entre nous. C'est ce qui explique la valeur d'un effort aussi sincère que le vôtre de comprendre et de faire comprendre ce que ressentent mes compatriotes. Le vieil ami de la France que je suis a pensé qu'il ne serait pas inutile d'essayer de compléter et de commenter votre analyse de l'approche britannique dans cette affaire.

Vraiment, vous avez tort de croire que nous ne comprenons pas les avantages immenses qu'apporterait l'accès à un marché vaste et homogène. Voilà déjà des années que l'ensemble de l'industrie britannique est favorable à notre adhésion. Nous voulons bénéficier de la force d'expansion de la Communauté et y contribuer, mais nous ne pourrions faire ni l'un ni l'autre si certaines conditions ne sont pas réunies. Pour que notre participation à un marché communautaire élargi se traduise par une croissance accrue de l'économie britannique - ce qui est essentiel - pour que cette "promesse d'expansion" dont vous parlez se réalise, il est absolument impératif qu'on n'impose pas à notre balance des paiements des charges si écrasantes que l'effort nécessaire pour s'en acquitter nous obligent à adopter une politique économique restrictive et ainsi à nous priver de toute possibilité d'expansion. N'oubliez pas ceci: il ne s'agit pas seulement de ce que nous aurons à verser au budget de la Communauté. Dès le jour de l'adhésion, nous achèterons chez vous une part de plus en plus grande de nos denrées alimentaires à des prix bien supérieurs à ceux que nous payons actuellement, ce qui - soit dit en passant - permettra à vos agriculteurs de réaliser la même "promesse d'expansion" puisqu'ils jouiront d'un accès préférentiel au plus grand marché importateur de denrées alimentaires du monde. Cela représente une des contributions importantes que nous ferons à la force d'expansion de la Communauté. Mais aucun de ces avantages réciproques ne se manifestera si le coût de l'opération dépasse nos possibilités. Dans

dans ce cas-là nous en serons plus pauvres: mais la Communauté aussi. N'est-il pas vrai que "le mieux est l'ennemi du bien"?

Je suis tout à fait d'accord avec vous quand vous dites que les conditions de concurrence doivent être égales dans une communauté aux frontières ouvertes. Après tout, "le fair play" est une expression anglaise que plusieurs de nos amis de la Communauté ont adopté telle quelle dans leur propre vocabulaire. Comme préalable indispensable à notre adhésion à votre Communauté, nous nous sommes expressément et solennellement engagés à adopter le système communautaire de soutien agricole, la grille des prix communautaires, le mécanisme de la préférence communautaire, les prélèvements communautaires, le système communautaire de ressources propres, le tarif extérieur communautaire, le démantèlement par étapes des barrières douanières intérieures, le système fiscal de la Communauté (TVA), les règlements communautaires concernant les transferts de capitaux et le plan d'union économique et monétaire. Bref, nous nous sommes engagés à adopter la Communauté elle-même. En contrepartie nous lui demandons de comprendre que pour nous adapter, il nous faut une période de transition (relativement courte) afin d'atteindre la croissance économique nécessaire pour remplir nos obligations. Cette adaptation qui, dans certains domaines, entraînera des changements fondamentaux de notre mode de vie, se fera en moins de la moitié du temps qu'il a fallu à la Communauté pour atteindre le même but. Est-ce trop demander?

Je sais bien que nous essayons de prendre le train en marche, avec tous les risques et les difficultés que cela comporte. Puisque vous comprenez si bien nos problèmes, vous vous rendrez compte, j'en suis sûr, à quel point il peut être décourageant de voir le train de la Communauté accélérer à l'instant précis où nous atteignons le marchepied. C'était inévitablement l'impression qu'on a eu quand, après un délai de plusieurs années et le jour même où les négociations s'ouvraient enfin, la Communauté a adopté le règlement sur la pêche - un domaine qui touche de près la vie de milliers de mes compatriotes. Vous parlez d'un ton émouvant de l'abondance des terres françaises et des côtes britanniques; et vous avez raison. N'est-ce pas là un bon exemple de la nécessité de comprendre les intérêts et les susceptibilités des uns des autres?

Vous dites aussi que vous craignez qu'un gouvernement britannique futur ne soit tenté de remettre en cause le système financier de la Communauté si nous ne consentons pas dès le départ une part suffisante du budget de la Communauté. Je suis très content que vous ayez soulevé ce problème car je suis convaincu qu'il résulte d'une méconnaissance assez répandue de notre véritable position, que je tiens à vous définir. Il n'est pas exact que nous essayons d'éluder une part suffisante des dépenses de la Communauté. Mais il me semble que le plus sûr moyen de provoquer, à l'intérieur de la Communauté, la crise que vous redoutez, serait d'imposer dès le début une charge excessive à l'un de ses membres. Permettez-moi de vous rappeler ce que nos négociateurs ont déjà dit formellement et solennellement à Bruxelles: au terme de dispositions de transition raisonnables, nous sommes prêts à accepter intégralement le système communautaire de ressources propres. Mais de même qu'on ne peut pas demander à un contribuable de payer un impôt sur un salaire qu'il n'a pas encore touché, il me semble raisonnable de demander que l'ampleur et la progression de notre contribution, du début de la période de transition à sa fin, soient liées au rythme auquel notre économie peut espérer bénéficier des effets dynamiques de l'adhésion.

Nous ne demandons ni exemption, ni privilège. Les Britanniques ont l'habitude d'observer les règles de tout club dont ils sont membres. Posez des conditions équitables et vous n'aurez rien à craindre - tout au contraire, beaucoup à gagner, comme nous-mêmes. Et après tout, chacun de nous a besoin de l'autre. Comme je suis d'accord, du fond de mon coeur, quand vous dites: "sans la France, pas d'Europe non plus"! Je sais bien que vous êtes tout autant d'accord avec ce que M. Schumann disait encore la semaine dernière à Lyon: "il n'y aura pas d'Europe sans l'Angleterre, car je sais depuis 1940 que, sans l'Angleterre, il n'y aurait plus d'Europe".

CHRISTOPHER SOAMES

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c.c. see last para.

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European Policy (A43)

17 February 1971

Thank you for your letter of 16 February about the EEC Questionnaire on sterling.

The Prime Minister is content that it should now go ahead as amended. He understands and accepts that our representatives may need to refer to the longer term tendency of the role of sterling to decline, when they are discussing the answers with the Commission; and that they might need to be able to refer in those discussions to the figures in Annexe III. He would hope that, if it proved necessary to refer to the longer term trend, our representatives would do so in an academic tone, referring to it as a fact rather than claiming it as a merit or de-merit.

I am sending a copy of this letter to Tickell.

R. T. Armstrong

P. Middleton, Esq.,
H.M. Treasury.

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RECORD OF A MEETING HELD AT THE FOREIGN AND COMMONWEALTH SECRETARY'S OFFICE IN THE HOUSE OF COMMONS ON TUESDAY 16 FEBRUARY AT 4 P.M.

PRESENT

- | | |
|---|------------------|
| Sir Alec Douglas-Home | M de Broglie |
| Sir Tufton Beamish MP | M Habib Delongle |
| Sir Barney Hovhoe, ^{MP} | M Fouchier |
| Mr Graham | M Voisin |
| Mr Wilcock | M Pourrez |

Sir Alec Douglas-Home welcomed the visitors and invited them to open the discussion. M. de Broglie asked about the British position on our contribution to Community finance. He was concerned with the first year; he also noted that ~~under the terms of the proposal, we should end up in~~ ^{on our project} the eighth year ~~concluded with our~~ contributing 16 per cent; how could we make the jump to more than 20 per cent in the ninth year?

Sir Alec Douglas-Home said that we would fulfil our obligations. Our difficulty was with the ^{early} ~~first~~ ^{years when we should not have reaped any of the benefits.} ~~year~~ Not only was it difficult for public opinion to understand ^{why} ~~how~~ we should make a large contribution, but even 3 per cent would be a considerable strain on our balance of payments. We had drastic /adjustments

accepted the full implications of the Community's financial arrangements and

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adjustments to make in such sections as agriculture and horticulture and did not wish to overstrain ourselves. He was not certain that it was clear to all ^{the} present members of the Community that even with our contribution at 3 per cent they would all be better off.

M. de Broglie said that that was not the view of all the experts in Brussels. If 3 per cent was our offer for the first year, what did we envisage for the third? Sir Alec Douglas-Home enquired if it would be helpful if ~~to define more clearly our position on~~ ^{to define more clearly our position on} ~~our position on say the third~~ ^{for example the third year} ~~year were better defined.~~ M. de Broglie thought it might help ~~presentationally to in~~ ^{show} ~~show~~ that the U.K. could reach what he described as a normal level at the end.

Sir Alec Douglas-Home said that he would speak to Mr. Rippon about this. M. Habib Deloncle said that there should be talks among experts to determine whether ^{3% was} ~~reasonable.~~ It was not possible to put aside the problems of the first year by defining the position for the third or fourth year. Sir Alec Douglas Home said that we did not want to join with too high a contribution and subsequently have to be bailed out. We had been struggling with ~~the~~ ^{our} balance of payments and did not want a setback.

2. Sir Alec Douglas-Home raised the problems of New Zealand butter and West Indian sugar. ~~He emphasized that~~ He thought that the butter problem was getting easier with the decline in European production. He emphasized that New Zealand, which was up to 95 per cent dependent on this country for

/its

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the present members
to the
Community
would be
better off
with an
initial British
contribution
3

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its exports, was a sensitive issue in the House of Commons. West Indian sugar was one of the problems of the developing world, in which the Community was greatly interested. M. de Broglie said that it should be possible to reach a sort of Yaoundé Agreement for Commonwealth countries. The negotiations must not get stuck on details. There was a need for the House of Commons to be able to take a vote before the summer holidays. He feared that the Labour Party Conference would express opposition to entry to the E.E.C. Perhaps butter etc. could be dealt with in the summer and the negotiations ^{finally} concluded in ~~say~~ ^{December} September.

M. Habib Delongle emphasized that the Community itself had many problems. No-one wished to cut the throats of the New Zealand butter producers but M. de Broglie could not cut the throat of butter ^{- producers} in his own area of Normandy either. U.K. opinion was ^{naturally} very much aware of the U.K.'s problems, but unaware of their impact on Community problems. France had been obliged to sacrifice the interests of ^{her} ~~its~~ own Western poultry farmers to an agreement ^{on} of free ^{movement} circulation of poultry ^{products} within the Community. (He also mentioned ~~andine~~ ^{andine} ~~files~~ ^{files} in ~~Paris~~ ^{Paris} and ~~France~~ ^{France}) Milk producers were the ^{protection} of ^{the} farming population; economically the butter problem might look simple, but psychologically it was difficult. Sir Tufton Beamish said that New Zealand was not in the same position as a member of the Communities. There was no possible gain ^{in this} for her. Sir Alec Douglas-Home said that

Each member country had to make sacrifices. For example,

/these

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these problems must be discussed in depth at the March Ministerial meeting with a view to reaching a conclusion ^{by about June as} ~~about deciding~~ as to whether or not entry was possible.

3. M. de Broglie referred to the Prime Minister's speech to the European Parliamentarians on 13 February and enquired what he had meant by his reference to "new institutions". Sir Alec Douglas-Home said that his personal view was close to that of President Pompidou, ^{in the monetary field for example} a point could be reached where some new institution would be needed to do a practical job. We were willing to join ^{with others in} ~~the~~ institutions created to carry out practical tasks. M. de Broglie enquired whether it would be possible to do anything in the field of foreign policy. Sir Alec Douglas-Home said that the meeting of the ten Foreign Ministers in Brussels last December had gone well. In foreign policy terms it was enormously important that the enlargement of the Community be completed. There might be a need for rationalisation of institutions, so that there would be one body in which foreign policy and defence matters could be discussed. M. de Broglie referred to the recent decisions in Brussels ~~on~~ ^{on} monetary questions, which in effect meant that ~~the~~ major decisions would not be taken for three years, by which time the U.K. would be a member of the Communities.

4. Sir Alec Douglas-Home said that it was sensible to go slowly towards so large an objective. We ~~should be anxious~~ ^{wanted with} to cooperate in the foreign policy field. ~~We~~ ^{Replying to question he asked that should}

that institutions could be created where a need was proved.

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~~should be anxious to cooperate in the foreign policy field.~~ ^{also} We should like to ^{discuss} look at a form of defence ~~complementary to N.A.T.O. on a European basis.~~ ~~and will be~~ M. Habib Delongle said that he would put forward his personal views. ↓ Did Sir Alec Douglas-Home think that there should be some discussion of defence questions between Britain and France, ^(this would be) on a less formal basis than the discussions provided for in the Franco/German Treaty. France had discussions on ~~xx~~ defence matters with Germany, but Germany, being a non-nuclear power, was not in the same position as France. He thought that there had been an indication in President Pompidou's press conference that there were prospects of bringing the ^(Britain & France) ~~two~~ governments closer together. M. de Broglie said that in his view the only problem in the defence field was how the U.K. and France could put together their nuclear forces. Sir Alec Douglas-Home said that we were always happy to talk about defence matters with the French Government. We were willing to talk to them at any time. ^(any discussions) ~~This~~ ^(is) would be complementary to N.A.T.O. He could not envisage a situation in which the U.S. presence in Europe was not vital to the defence of Europe. He saw ^(is) Europeans taking ~~on~~ a greater share of their own defence alongside N.A.T.O. M. de Broglie said that France needed to cooperate with N.A.T.O., but must reserve the right to make her own decisions. There could be Anglo/French

/cooperation,

in what followed he would be expressing only his personal view.

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18 French involvement with NATO were made a condition it would be tantamount to refusing defence talks with France.

was no prospect of a French return to NATO.

would have to take their own decisions on nuclear weapons: but in the conventional field there

which had been shown to General de Gaulle without encountering any objection from him.

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we'd clear ourselves in an integrated command system.

cooperation, but it would stop short before any point was reached where France was engaged with N.A.T.O. He had noticed that the British Government a few months ago had seemed keen to have discussions ^{on defence} with the French Government, but that they were not so keen now. Sir Alec Douglas-Home said that this was not true. ~~He wanted to ask a~~ ^{Some year ago he} ~~question.~~ He had asked General de Gaulle whether he would be interested in an integrated European defence with an integrated ~~Community~~ ^{Command} for the undertaking of contingency planning. General de Gaulle had said "no". If ^{however} the French were not interested in an integrated ~~Community~~ ^{Command}, there was a limit to cooperation. Was there a basic objection in French thinking to integration? M. de Broglie asked who would decide what action the integrated ^{nuclear} forces should take. Sir Alec Douglas-Home said the British Prime Minister and the French President M. Habib Delongle referred to a statement which he had issued in Strasbourg in 1963 which ~~had been approved~~ by General de Gaulle. ^{He} had said that if there were a common defence policy, France would put ~~his~~ forces at its disposal and that if the U.K. were to join in that would be an excellent wedding present. He had been sorry to see the following day that this had been rejected by the Foreign Office. European discussion could not take place in N.A.T.O. because their ~~real~~ real subject was what would happen if the US ~~would not or~~ ^{were no longer willing to} ~~could not~~ fulfil its commitments. For the sake of détente ^{any} talks must not reach a point

/where

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where the Germans were involved in nuclear decision making. This had brought about the failure of the ^(proposal) multilateral force (MLF). Discussions on European defence should begin through Anglo/French discussions outside N.A.T.O. France could cooperate with N.A.T.O. (he mentioned the recent visit of the French Chief of Staff to SHAPE) after the European defence discussions, ~~the~~ Sir Alec Douglas-Home said that the word "integration" could not be used in the nuclear field. It was understood that control remained in the hands of the Governments concerned. There were no problems here, provided that ^{the} ~~more~~ technical problems could be solved. He would like to turn to the question of conventional forces. Would ^{the} ~~any~~ contingency planning ^{N. Habib Delongle envisaged} designate Anglo/French forces to take certain actions when the Americans left? ^{Habib} M. Delongle said that France had forces in Germany and there were joint plans through N.A.T.O. There was a need for a European defence policy, by which he meant a decision as to what to do if the US could not fulfil its commitments. M. de Broglie said that the strategy of flexible ^{US} ~~US~~ response sacrificed Europe. Under it, Nuclear war only began when Europe had been destroyed. Sir Alec Douglas-Home said that the Germans would presumably play a large part in this scheme. M. Habib Delongle said they would. Nuclear decisions would be reserved to the UK and France, but there could perhaps be consultation with the Germans on targeting. They could contribute conventional forces.

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but there would be no French commitment.

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5. M. de Broglie enquired whether Berlin was so important a problem that it could hold up the convening of a European Security Conference. Sir Alec Douglas-Home said that he did not think there would be any point in having a European Security Conference to set up fresh conciliatory machinery if the Russians would not use what there was to make an agreement ⁱⁿ with Berlin. When Mr. Gromyko had visited London last autumn there had seemed to be some possibility of Soviet concessions on access in exchange for ^{reduction} Dutch activities in Berlin. The Germans in Federal German manifestations whom he had seen recently had seemed less ^{keen} convinced ~~on this~~. There was a need to get these two elements on to the negotiating table simultaneously.

on reducing Federal activities in Berlin.
They thought they had made enough concessions to the Russians.

Soviet concessions on access, & ~~access~~ reduction in Federal manifestations.

The views on them of the two governments were very close.

6. M. Habib Delongle asked on behalf of M. Fouchier, who did not speak English, whether industry and agriculture in the UK were evolving towards the E.E.C. Sir Alec Douglas-Home said that in agriculture the Government had decided to introduce the levy system whether we joined the Community or not. The only industrialists who feared entry into the Community were small or incompetent firms. The chief apprehensions were those of the housewife who would have to pay more for her food, and those who worried about derogations from the ^{here} sovereignty of Parliament. The Government could handle (politically) provided that they got a fair deal on the main issues, such as Community finance.

7. Concluding, Sir Alec Douglas-Home said that we were in close contact with the French Government on a wide range of world problems and that our ~~views on them~~ were very close.



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

16th February 1971

R17

Dear Robert,

Flagged.

Thank you for your letter of 12th February to Bill Ryrie containing the Prime Minister's comments on the draft answers to the EEC Questionnaire about Sterling, etc.

On Question No. 5, the Chancellor is content to make the deletions proposed by the Prime Minister. In doing so, he asks me to make it clear that, while he appreciates the arguments for deleting these references from the written answer which may well be published, our representatives in Brussels in the talks which will subsequently take place will need to be free to refer to this longer-term tendency should the course of the discussions demand it. There is a good deal of misunderstanding in Europe about the present and prospective role of sterling; a suspicion that sterling is an economic burden on the UK which might ultimately become a burden on an enlarged Community; and in some quarters at least a fear that it is our policy to preserve and even enhance the position of sterling as a reserve currency. One point we shall have to make, with as many supporting figures as may be necessary, is that - as can be seen quite clearly from published figures - the relative international importance of sterling has over a long period been decreasing, and this trend is continuing and as far as we can see is likely to continue into the future.

You suggest that Annex III be truncated or dropped as a consequential of the other changes proposed. The figures in Annex III are not in fact related to the argument about the decline in sterling's role, but simply support a statement in the middle of paragraph 6. Our feeling is, therefore, that rather than truncate the Annex, it would be best to drop it altogether. Here again, our representatives, if challenged, would need to refer to these figures to support the statement in paragraph 6.

/We are

R. T. Armstrong, Esq.

S E C R E T



We are also making the smaller amendments which the Prime Minister has suggested.

The way is now clear for these Questions, in their revised form to be delivered to the Commission in Brussels, and no doubt Tickell, to whom I am copying this letter, will make arrangements for this.

Yours sincerely

Peter Middleton

(P. E. Middleton)

*Copy sent to Thornber
Cab. Off.*

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BF 23/2/71

SIR WILLIAM NIELD

The Prime Minister has seen a copy of Brussels telegram No. 55 of 12 February reporting a talk between our Ambassador and Monsieur Noter-Daeme. Paragraph 3 of that telegram contains the following passage:-

"In particular, he warned us about the importance of the German position in relation to GNP. He claimed that the German GNP was 46 per cent of the present Community's. The system of propres ressources had been carefully devised to leave the GNP (i.e. TVA) element as third in line, designed to fill up whatever gap remained after the payment of levies and customs duties."

The Prime Minister has asked if you could let him have a note on the meaning of the last sentence in the quotation above.

P.J.S.M

15 February 1971

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Copies also filed on Germany February 1971.
and Germany June 1970.

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15 February 1971

Professor Hallstein came to lunch with the Prime Minister at Chequers on 13 February 1971.

The first part of the discussion flowed from the Prime Minister's remarks, during the course of his speech at the European Conference on 12 February, about the need for a fresh look at the institutional aspects of European union. The Prime Minister amplified his remarks in the sense of saying that in the economic field the E.E.C. had developed a completely new kind of constitutional animal, in the shape of the Commission and the Council of Ministers and the relationship between them. There would be need for the same sort of willingness to contemplate institutional innovation in the political and defence fields in due course, and existing models, whether described as federal or confederal, would not necessarily provide the answer. In the course of discussion Professor Hallstein stressed his support for a directly elected European Parliament, because he saw this as the only way to provide a basis for a European campaign.

/There

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There was some discussion of the German political situation. During this Professor Hallstein said that he and his party were extremely worried about Chancellor Brandt's Ostpolitik. Brandt had been brought up on a Konvergenztheorie, and was inclined to believe that the tendency was always for Liberals and Socialists to think more nearly alike and to resemble each other more closely. He did not see the Soviet menace in the same terms as most other people. Professor Hallstein could not understand how he had dared to embark on a policy which was causing a fundamental split in German opinion, with a majority of only six. He thought that Brandt had misjudged the state of German psychological opinion. At the time of the last Election there had been general feeling that it was time for a change: Brandt had misread this for a more profound shift of emphasis than had really occurred. Brandt realised, however, that his policy was dependent upon a satisfactory outcome on Berlin, and was prepared to admit in private that, if a satisfactory outcome could not be achieved, he would have to abandon his Treaties with Warsaw and Moscow. One Socialist Deputy from Berlin had been heard to say that it was time for the Chancellor to admit that his policy had failed.

On the question of the Leadership of the C.D.U., Professor Hallstein said that Dr. Kiesinger had given no signs of being about to resign. The main candidate for succession was in his view Herr Barzel, who had proved an extremely efficient handler of business in the Bundestag, particularly in the time of the grand coalition. On the other hand

/he

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- 3 -

he lacked charisma. As Professor Hallstein said: "er kommt nicht an". The other main candidate in Professor Hallstein's view was Herr Kohl, who had proved an extremely popular Minister-President in the Rheinlandpalz.

R. T. Armstrong

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

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European Policy

cc FCO

**MINISTER'S
PERSONAL MESSAGE
SERIAL No. T45/71**

15 February 1971

Dear Chancellor,

I was very glad to have the account of your conversations in Paris which you sent me in your letter of 27 January. Since then I have had the pleasure of seeing Herr Scheel here and of discussing these matters with him.

I welcome what you say about French support for our entry into the Community and I note that President Pompidou thought it would be possible to get through the main stages of the negotiations before the autumn. I am strongly of the view that the major decisions should be taken by the summer, and I was very pleased to hear Herr Scheel say this too. It would not be good for parliamentary and public opinion here, or I believe elsewhere, if the outcome of the negotiations were allowed to remain in doubt over the long summer holidays.

I am encouraged that the Community now understands our acceptance of the financing system and our readiness to participate fully in it after a five year transitional period and a three year period of correctives - the same arrangement as present members gave themselves. It would be damaging to the entire Community if we came in on terms which held down our growth and compelled us to continue deflationary policies. It is for this reason that we wish to begin with a relatively low financial contribution and work up gradually during the transitional period, and why we stand by the proposal that we submitted on 16 December. I note what you say about French fears for the burden on our economy of a sudden increase at the end, and I discussed this with Herr Scheel. What we need is to find some way of reassuring the French and I hope that you can help us with this.

I was very pleased to see the agreement reached in Brussels on economic and monetary union. This is

an objective which we share and we shall look forward to playing a full part when the time comes.

In thanking you again for your letter, may I say how very much I am looking forward to my visit to Bonn next month and to our meeting then.

With warm regards,

Yours sincerely,

Edward Heath

His Excellency Herr Willy Brandt

Embassy
of the
ederal Republic of Germany
Dr. J. Sudhoff
Private Secretary
to the Ambassador
Please quote in your reply:

23, Belgrave Square
LONDON S.W. 1
Tel.: 01-225-5033
Extension:
Office hours:
Monday - Friday 9.30 - 12.30

London, 12th February, 1971

RIS.2.

Dear Sir,

I take pleasure in forwarding to you the enclosed original of the letter from the Chancellor of the Federal Republic of Germany, Herr Willy Brandt, to the Prime Minister. A copy has already been transmitted to you on 29th January, 1971.

*Yours sincerely,
J. Sudhoff*

The Private Secretary
to His Excellency
The Rt.Hon. Edward Heath, M.B.E., M.P.
Prime Minister and First Lord of the
Treasury and Minister for the Civil Service
10, Downing Street
London, S.W.1

Bonn, den 27. Januar 1971

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T31/7

Sehr geehrter Herr Premierminister,

bei den Gesprächen, die meine Delegation und ich in den beiden vergangenen Tagen in Paris mit Staatspräsident Pompidou, Premierminister Chaban-Delmas und Mitgliedern seiner Regierung geführt haben, stand naturgemäß die Fortführung der westeuropäischen Integration im Mittelpunkt.

Ich habe mich gefreut, dabei erneut festzustellen, daß der Beitritt Großbritanniens zur Europäischen Gemeinschaft im Grundsatz von der französischen Regierung voll bejaht wird. Ich habe mich nachdrücklich dafür ausgesprochen, daß in den Beitrittsverhandlungen sobald als möglich Klarheit über die wichtigsten Sachprobleme erzielt wird. Auch Präsident Pompidou bezeichnete es nicht als unmöglich, vor dem Herbst die Hauptetappen der Verhandlungen hinter uns zu bringen. Die unmittelbar vor uns liegenden Wochen sollten deshalb von uns allen aktiv genutzt werden.

Seiner Exzellenz
dem Königlich Britischen
Premierminister
Herrn Edward Heath
London

Bei unserem Meinungsaustausch gingen wir von der Bereitschaftserklärung Ihrer Regierung aus, nach einer Übergangsperiode das gemeinschaftliche Finanzierungssystem voll zu übernehmen. Ich habe dabei für eine tragbare Anfangsbelastung und ein stufenweises Heranführen an die Endbelastung plädiert, wobei ich nach Ablauf der fünfjährigen Übergangszeit eine Korrektivmöglichkeit für drei weitere Jahre entsprechend der gemeinschaftsinternen Regelung befürwortete.

Präsident Pompidou erklärte, daß die Heranführung an die normale Belastung in einer Weise geschehen müsse, die einen sprunghaften, für die britische Wirtschaft belastenden, Anstieg am Ende vermeidet. Er wollte sich andererseits weder zu der Anpassung der Anfangsbelastung an ein vernünftiges Maß noch zu der von mir vorgeschlagenen verlängerten Übergangszeit abschließend äußern.

Deutsch-französische Gespräche können bei der Vorbereitung der endgültigen Einigung innerhalb der Gemeinschaft natürlich nur ein Element sein. Ich möchte hoffen, daß bei den gemeinschaftlichen Beratungen nunmehr eine Annäherung zwischen den beiden am weitesten auseinanderliegenden Standpunkten, dem Vorschlag Ihrer Regierung vom 17. Dezember und der französischen Präferenz für den auf eine hohe Anfangsbelastung abzielenden Kommissionsvorschlag, erreicht wird. Falls es Ihnen möglich ist, die Argumente zu berücksichtigen, die auf Grund Ihres Vorschlags vom 17. Dezember 1970 in den einzelnen Mitgliedstaaten und in Brüssel vorgebracht worden

sind, würde dies sicherlich der Vorbereitung eines realistischen Kompromisses förderlich sein.

Bei der Behandlung des Stufenplanes über die Wirtschafts- und Währungsunion haben wir eine weitgehende Annäherung der Standpunkte erreicht, die uns, so hoffe ich, bei den Entscheidungen, die natürlich in der Gemeinschaft gefällt werden, helfen wird. Wir sollten damit in absehbarer Zeit in der Lage sein, Ihrer Regierung und den Regierungen der übrigen Staaten, mit denen wir in Verhandlungen über den Beitritt stehen, unsere Beschlüsse als Option vorzulegen.

Ich freue mich, daß wir sehr bald Gelegenheit haben werden, über diese und andere Fragen gemeinsamen Interesses eingehend in Bonn zu sprechen.

Mit freundlichen Grüßen

14

Lin N N



Prime Minister

I think that these answers are in general innocuous; I have suggested two trifling drafting alterations.

RTA

g. ii

FLASH
CYPHER/CAT A

CONFIDENTIAL

*Fin. but clear
M. X. - can be
for W. Haris - para with
D. J.*

FM BRUSSELS 121515Z

CONFIDENTIAL [FRAME]

TO FLASH FCO TELNO 55 OF 12 FEBRUARY INFO PRIORITY PARIS BONN
ROME THE HAGUE LUXEMBOURG AND SAVING TO UKDEL EEC
COMMON MARKET NEGOTIATIONS

1. I SAW THE MINISTER'S CHEF DE CABINET THIS MORNING TO MAKE ONE OR TWO PRACTICAL ARRANGEMENTS. IT WAS ALSO THE FIRST TIME THAT I HAD SEEN NOTERDAEME SINCE RETURNING FROM LEAVE AND I TOLD HIM THAT I HOPED TO SEE M. HARMEL SOME TIME SOON. I AM SEEING THE POLITICAL DIRECTOR ON MONDAY.

2. I TOLD NOTERDAEME THAT I THOUGHT WE MIGHT BE REACHING A VERY CRITICAL POINT IN THE NEGOTIATIONS, PARTICULARLY ON THE QUESTION OF COMMUNITY FINANCE. WE HAD TOLD THE BELGIANS (YOUR TEL 9) THAT WE APPRECIATED THE WISDOM OF THEIR VIEW THAT A COMMUNITY REPLY TO OUR PROPOSITION SHOULD NOT BE HURRIED. IT NOW LOOKED AS IF M. HARMEL'S SUGGESTION FOR A FRAMEWORK OF A COMMUNITY REPLY ON FIGURES FOR A TRANSITIONAL PERIOD MIGHT ASSUME IMPORTANCE, IN THE ABSENCE OF ANYTHING MORE CONCRETE FROM THE OTHER FIVE. I HOPED THE MINISTRY WERE ABSOLUTELY CLEAR ABOUT THE FUNDAMENTAL REQUIREMENTS WHICH UNDERLAY OUR PROPOSALS FOR A TRANSITION PERIOD. I REPEATED THE USUAL ARGUMENTS IN FAVOUR OF MAKING OUR TRANSITION A REALITY. I COULD NOT SEE THAT ANYONE COULD JUSTIFY THE SUGGESTION THAT WE SHOULD BE SUBJECTED TO VIRTUALLY THE MAXIMUM LOAD AT THE BEGINNING.

3. NOTERDAEME SAID THAT WE COULD BE ASSURED THAT THE BELGIAN GOVERNMENT WOULD WALK VERY WARILY. HE THOUGHT I OUGHT TO SEE HIS MINISTER SOME TIME IN THE MIDDLE OF NEXT WEEK, WHEN M. HARMEL WOULD BE IN A POSITION TO SAY SOMETHING MORE DEFINITE TO ME ABOUT THE WAY IN WHICH HE HOPED TO PLAY THIS HAND. NOTERDAEME SAID THAT, WITH ALL HIS GENUINE SYMPATHY FOR OUR CASE (AND HE IS UNDOUBTEDLY WELL-DISPOSED) HE THOUGHT THAT OUR OFFER DID NOT GO FAR ENOUGH. WHILE HE AGREED THAT THE SUSPICIONS OF OUR WILLINGNESS OR ABILITY TO CARRY THE BURDEN AFTER A TRANSITIONAL PERIOD WERE UNFOUNDED, HE NEVERTHELESS THOUGHT IT CLEAR THAT WE SHOULD HAVE TO START A BIT HIGHER AND GO A BIT HIGHER TOO.

CONFIDENTIAL / IN PARTICULAR,

IN PARTICULAR, HE WARNED US ABOUT THE IMPORTANCE OF THE GERMAN POSITION IN RELATION TO GNP. HE CLAIMED THAT THE GERMAN GNP WAS 46% OF THE PRESENT COMMUNITY'S. THE SYSTEM OF (UNDERLINE NEXT TWO WORDS) PROPRES RESSOURCES HAD BEEN CAREFULLY DEVISED TO LEAVE THE GNP (I.E. TVA) ELEMENT AS THIRD IN LINE, DESIGNED TO FILL UP WHATEVER GAP REMAINED AFTER THE PAYMENT OF LEVIES AND CUSTOMS DUTIES. THE GERMANS WOULD NEVER SUPPORT US FULLY AS LONG AS WE WERE PINNING OUR CASE TO COMPARABILITY UNDER GNP.

4. SPEAKING VERY CONFIDENTIALLY, NOTERDAEME SAID THAT THE 1 FEBRUARY MEETING OF THE SIX HAD BEEN A VERY BAD ONE. THERE HAD BEEN QUITE A LOT OF FEELING AND TENSION BUT NOBODY HAD MADE ANY REALLY CONCRETE PROPOSAL FOR A REPLY BY THE SIX. HIS MINISTER NOW FELT THAT THINGS COULD NOT DRAG ON LIKE THIS. I SAID THAT I THOUGHT THE LUXEMBOURG FOREIGN MINISTER HAD BEEN COURAGEOUS IN AT LEAST SUGGESTING A STARTING POINT OF 5%.

5. I EXPECT TO HEAR MORE OF WHAT THE BELGIANS ARE COOKING UP NEXT WEEK. APART FROM MY PROBABLE CALL ON THE FOREIGN MINISTER I TOLD NOTERDAEME THAT THE LORD PRIVY SEAL WAS GOING TO BE HERE FOR THE CHAMBER OF COMMERCE DINNER ON THURSDAY AND THAT I COULD ARRANGE FOR HIM TO MAKE A SHORT COURTESY CALL THAT AFTERNOON IF THE MINISTER WOULD LIKE TO SEE HIM. WE HAVE PASSED SAVING TO UKDEL EEC

BEITH

[REPEATED AS REQUESTED]

EUROPEAN ECONOMIC & POLITICAL
DISTRIBUTION:

EID

ADDITIONAL DISTRIBUTION:

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&&&&

SECRET

2

12 February 1971

The Chancellor of the Exchequer sent the Prime Minister a minute on 8 February, covering the draft answers to the EEC questionnaire about sterling and our economic situation.

The only answer with which the Prime Minister was not reasonably happy, was the answer to Question 5. He thinks that the answer as drafted emphasises too strongly the decline in sterling's importance since 1950, and would like to confine it more closely to the question. The specific amendments I have to suggest are to delete the whole of paragraph 1, the first sentence of paragraph 2, the last sentence of paragraph 4, and the last sentence of paragraph 6. As a consequential, the first sentence of paragraph 5 might be amended to read:-

"Thus the Basle arrangements, while not reversing the secular trend of sterling's international role, achieved their aim of arresting the rapid and disorderly fall of 1968."

A further consequential would be to confine the figures in annex III to the last three years; indeed, perhaps the annex could be dropped and the figures for the last three years shown in the text of the answer.

SECRET

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SECRET

-2-

There are two other trifling amendments: in the third line of the answer to question 1, the Prime Minister has suggested the deletion of the word "familiar", which has a rather patronising ring. In the answer to question 2, the Prime Minister thinks that the last four words of paragraph 3 ("has been particularly poor") are unnecessarily strong and could be troublesome in the event of a leak: perhaps "left a good deal to be desired" would be a more measured formula.

The Chancellor will no doubt want to look again at the answer to question 5 in the light of the Prime Minister's comments and suggestions. Subject to that, the Prime Minister would be content for the answers to be transmitted to the Community.

I am sending a copy of this letter to Tickell.

(sgd) R.T. ARMSTRONG

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

*copy sent to
Thomson Caffery*

SECRET

Det.

12 February 1971

The Prime Minister has agreed the enclosed message to Herr Brandt. I should be grateful if you could arrange for its immediate despatch for delivery. The Prime Minister will be sending a signed letter in the same terms in due course.

P.J.S. MOON

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

Prime Minister,
? Approve This message
to Herr Brandt.

Am. 11/2

DRAFT MESSAGE FROM THE PRIME MINISTER TO

HERR BRANDT

Am 11/2

retyped

I was very glad to have the account of your conversations in Paris which you sent me in your letter of 27 January. Since then I have had the pleasure of seeing Herr Scheel here and of discussing these matters with him.

I welcome what you say about French support for our entry into the Community and I note that President Pompidou thought it would be possible to get through the main stages of the negotiations before the autumn. ^{I am} ~~It is~~ ^{1/2} strongly ^{1/2} my view that the major decisions should be taken by the summer, and I was very pleased to hear Herr Scheel say this too. It would not be good for parliamentary and public opinion here, or I believe elsewhere, if the outcome of the negotiations were allowed to remain in doubt over the long summer holidays.

I am encouraged that the Community now understands our acceptance of the financing system and our readiness to participate fully in it after a five year transitional period and a three year period of correctives - the same arrangement as present members gave themselves. It would be damaging to the entire Community if we came in on terms which held down our growth and compelled us

to continue deflationary policies. It is for this reason that we wish to begin with a relatively low financial contribution and work up gradually during the transitional period, and why we stand by the proposal that we submitted on 16 December. I note what you say about French fears for the burden on our economy of a sudden increase at the end, and I discussed this with Herr Scheel. What we need is to find some way of reassuring the French and I hope that you can help us with this.

I was very pleased to see the agreement reached in Brussels on economic and monetary union. This is an objective which we share and we shall look forward to playing a full part when the time comes.

In thanking you again for your letter, may I say how very much I am looking forward to my visit to Bonn next month and to our meeting then.

With warm regards,

[Edward Heath]

Extract from minute R.T.A. to P.M. on meeting of P.M. & Sir B. Trend
10.2.71. Top copy filed on Aircraft Industry, February 1971.

SECRET

European Policy Pt 3

- 2 -

U.C.S. and Yarrow

Sir Burke Trend suggested that the Prime Minister should see the draft of the statement to be made by the Secretary of State for Trade and Industry the following day. The Prime Minister agreed, and instructed Mr. Armstrong to arrange accordingly.

Europe

Sir Burke Trend said that it would soon be necessary to think seriously about the machinery that would need to be created in Whitehall, if the negotiations for entry into the E.E.C. were successful. Even before formal entry, there would be a lot of work to do on legislation.

The Prime Minister agreed that thought would need to be given to these matters. Thought would also need to be given to the people who should be selected for nomination as British representatives on the Commission and as the permanent representative and his staff in Brussels.



Prime Minister,

X/ includes the
Associated States.

With regard to the
independent Caribbeans
we are of course
pressing for a renewal
of the 1963 declaration
of intent.

Yours,

15/2

PRIORITY

CONFIDENTIAL

CYPHER CAT/A

FROM CODEL BRUSSELS. 121255Z.

CONFIDENTIAL.

FRAME.

Handwritten notes:
H...
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A 192

TO PRIORITY FCO TEL NO CODEL 90 OF 10 FEBRUARY 1971 AND INFO TO
ROMN THE HAGUE LUXEMBOURG PARIS ROME WASHINGTON UKMS GENEVA
GEORGETOWN ST LUCIA BRIDGETOWN KINGSTON PORT OF SPAIN ANTIGUA
ST VINCENT AND SAVING TO OSLO COPENHAGEN AND DUBLIN.

ENLARGEMENT NEGOTIATIONS - MEETING OF DEPUTIES: 10 FEBRUARY.
DEPENDENT TERRITORIES.

BOCHET, SPEAKING ON BEHALF OF THE COMMUNITY, REFERRED TO
THE COMMUNITY RESERVE ON THEIR AGREEMENT IN PRINCIPLE TO THE
ASSOCIATION OF THE UK'S DEPENDENT TERRITORIES, OTHER THAN
GIBRALTAR AND HONG KONG, UNDER PART IV OF THE TREATY OF ROME.

IX

THE COMMUNITY COULD NOW INDICATE THAT IT DID NOT AT PRESENT
HAVE ANY SPECIAL QUESTIONS TO RAISE WITH REGARD TO THE UK'S
DEPENDENT TERRITORIES. IT WAS THEREFORE ABLE TO RAISE THE
RESERVE EXPRESSED AT THE MINISTERIAL MEETING IN OCTOBER.

2. BOCHET ADDED THAT IT SHOULD BE RECALLED THAT PRACTICAL
ARRANGEMENTS WOULD NEED TO BE ADOPTED TO PUT INTO EFFECT THE
PRINCIPLE OF THE ASSOCIATION OF THE UK'S DEPENDENT TERRITORIES
WITH THE ENLARGED COMMUNITY.

3. I WELCOMED THE LIFTING OF THE COMMUNITY RESERVE AND THE
FACT THAT THE ASSOCIATION OF THESE TERRITORIES HAD THUS
BEEN AGREED.

4. REFERRING TO BOCHET'S MENTION OF PRACTICAL ARRANGEMENTS,
I SAID THAT THIS RAISED THE QUESTION OF THE DATE OF ENTRY
INTO FORCE OF SUCH ARRANGEMENTS. WE WOULD BE CONTENT THAT THIS
ASSOCIATION SHOULD TAKE EFFECT AT THE SAME TIME AS THE ENTRY
INTO FORCE IN JANUARY 1975 OF THE OTHER ARRANGEMENTS DESIGNED
TO START THEN- AND THAT MEANWHILE THERE SHOULD BE A FREEZE IN
OUR TRADE RELATIONS WITH THE DEPENDENT TERRITORIES.

5. BOCHET AGREED THAT THE DATE OF ENTRY INTO FORCE WAS ONE OF
THE PRACTICAL ARRANGEMENTS TO BE SETTLED. HE NOTED OUR VIEWS BUT
SAID HE COULD NOT COMMENT OR GIVE THE COMMUNITY POSITION
ON THIS POINT.

FCO PLEASE PASS SAVING TO OSLO COPENHAGEN AND DUBLIN.

O'NEILL

[REPEATED AS REQUESTED]

EUROPEAN ECONOMIC AND POLITICAL DISMINUTION

ADDITIONAL DISTRIBUTION

KID

CONFIDENTIAL.

FRAME



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

10th February, 1971

Handwritten: 11.2.71
M.W.
Dear Robert,

Please refer to the Chancellor's minute of 8th February to the Prime Minister about a questionnaire from the E.E.C. I am sorry to say that we made a mistake in the draft reply to Question No. 3, which gives the amount of debt outstanding on 1st January 1971. These figures will not be published until 9th March, and the Chancellor's intention was that the reply should contain no information which has not yet been published. I apologise and enclose a revised draft reply to Question No. 3.

I am sending a copy of this letter to Crispin Tickell in Mr. Rippon's office.

Handwritten: Yours ever,

Handwritten: B.U.

(W. S. Ryrie)

R. T. Armstrong, Esq.

DRAFT REPLY TO EEC QUESTION NO 3

Having regard to its long, medium and short-term foreign exchange indebtedness, how does the United Kingdom propose to meet the debts falling due in the coming years?

1. Between end-December 1968 and end-December 1970 repayments of short and medium term official debt totalled £4,785 million. The amount of this debt outstanding on 1 January 1971 was £3,286 million, of which £2,329 million was due to the IMF.
2. As indicated in the answer to Question 1, the British Government's policy is to maintain a large enough surplus on the balance of payments to permit a satisfactory rate of repayment of this debt, in addition to covering the expected net outflow of investment and other capital items.
3. The long term official debt outstanding on 1 January 1971 totalled £5,170 million, repayable under schedules some of which stretch to the year 2005. As indicated in the answer to Question 1, repayments of these debts are part of net investment and other capital flows.

File 40

CONFIDENTIAL

European Policy

10 February 1971

Thank you for your letter of 10 February with which you sent me a draft message from the Prime Minister to Herr Brandt. I think that this message could with advantage be made somewhat shorter. I enclose a redraft. I should be grateful if you could let me know by noon tomorrow, 11 February, if you are content with this redraft.

PJSM

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

CONFIDENTIAL

Handwritten initials

DRAFT MESSAGE FROM THE PRIME MINISTER TO

HERR BRANDT

I was very glad to have the account of your conversations in Paris which you sent me in your letter of 27 January. Since then I have had the pleasure of seeing Herr Scheel here and of discussing these matters with him.

I welcome what you say about French support for our entry into the Community and I note that President Pompidou thought it would be possible to get through the main stages of the negotiations before the autumn. It is strongly my view that the major decisions should be taken by the summer, and I was very pleased to hear Herr Scheel say this too. It would not be good for parliamentary and public opinion here, or I believe elsewhere, if the outcome of the negotiations were allowed to remain in doubt over the long summer holidays.

I am encouraged that the Community now understands our acceptance of the financing system and our readiness to participate fully in it after a five year transitional period and a three year period of correctives - the same arrangement as present members gave themselves. It would be damaging to the entire Community if we came in on terms which held down our growth and compelled us

to continue deflationary policies. It is for this reason that we wish to begin with a relatively low financial contribution and work up gradually during the transitional period, and why we stand by the proposal that we submitted on 16 December. I note what you say about French fears for the burden on our economy of a sudden increase at the end and I discussed this with Herr Scheel. What we need is to find some way of reassuring the French and I hope that you can help us with this.

I was very pleased to see the agreement reached in Brussels on economic and monetary union. This is an objective which we share and we shall look forward to playing a full part when the time comes.

In thanking you again for your letter may I say how very much I am looking forward to my visit to Bonn next month and to our meeting then.

With warm regards,

Edward Heath

CONFIDENTIAL



Foreign and Commonwealth Office

London S.W.1

10 February, 1971

Dear Peter,

... Thank you for your letter of 29 January enclosing the German Chancellor's message of 27 January to the Prime Minister. I now enclose a draft reply which has been approved by the Foreign and Commonwealth Secretary. As you know, we delayed drafting it until after Herr Scheel's visit. We have taken into account the record of the Prime Minister's conversation with Herr Scheel.

Yours ever

Richard

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

CONFIDENTIAL

Registry No.

DRAFT LETTER

Type 1 +

SECURITY CLASSIFICATION

Top Secret.
Secret.
Confidential.
Restricted.
Unclassified.

To:—

From
Prime Minister

Telephone No. & Ext.

Department

PRIVACY MARKING

In Confidence

Federal German Chancellor

I was very grateful for your kind letter of 27 January which your Ambassador delivered to me on 29 January. ^{I was very glad to} ~~It was most useful to~~ have this account ^{in Paris which you sent me} of your conversations with the French President and ^{in your letter of 27 January. Since then I have} Government. ~~Since then I have of course had the~~ ^{had the pleasure of seeing} ~~great pleasure of talking to~~ Herr Scheel and of ^{discussing with him} ~~discussing with him~~ the matters ^{raised} ~~raised~~ in your letter.

I note that President Pompidou thought it would be possible to get through the main stages of the negotiations for British accession to the European Community before the autumn. ^{It is very strongly} ~~But I was very glad to~~ ^{hear that} ~~hear that~~ Herr Scheel shared ^{my view about the} ~~my view about the~~ importance of taking the major decisions by the summer. It would ^{not be good} ~~be bad~~ for parliamentary and public opinion in all our countries if the outcome of the negotiations were allowed to remain in doubt over the long summer holidays.

I am ^{encouraged} ~~very glad~~ that the Community now understands our acceptance of the Community financing system and our readiness to participate fully in it after a five-year transitional period and a three-year period of correctives - the same arrangement as present members gave themselves. But, as I explained to Herr Scheel, ^{it} ~~it~~ would be damaging to the Community if we came in on terms which ~~compelled us to continue deflationary~~

NOTHING TO BE WRITTEN IN THIS MARGIN

I welcome actual support for our Community and

FORMED DA 111115 7704 4/78 804

116

for this reason

~~policies~~ which held down our growth. Our balance of payments and sterling are at present strong. There are, however, large debts to be paid off as well as large payments across the exchanges for our forces in Europe. Moreover we shall get ~~very~~ little back in the way of receipts, since we have already reorganised our agriculture. For these reasons it is very important, as you suggest, that Britain ^{at work} should be allowed to begin with a relatively low contribution and work up gradually during the transitional period. I note what you say about French fears for the burden on our economy of a sudden increase at the end. But I am infinitely more concerned about the effects of the impact of our contribution on our economy during the early years. ~~But~~ ^{And} no-one should have any doubt about our intention to adapt fully to the financing system at the end of the transitional and corrective periods. Our proposals are in fact designed to achieve this by enabling us to shoulder the burden of the ~~early years~~.

and I discussed this with Herr Sobel. What ^{we} need is to find some way of reassuring the French. I hope that you can help us with this.

NOTHING TO BE WRITTEN IN THIS MARGIN

I know your determination, which I share, to bring these negotiations to a successful conclusion. I am more firmly persuaded than ever that the enlargement of the Community to include Britain would be a watershed ~~from~~ ^{for} which the countries of Western Europe would move towards greater unity, strength and prosperity, with all that that implies for the relations between Germany and Britain.

Cassidy

Conversely, I believe that failure would bring disruption, weakness and a severe decline of confidence to Europe as a whole.

Finally, I was very pleased to hear that your Government and the French Government have moved closer in your views on economic and monetary union. This is an objective which we share and in which we look forward to playing a full part.

It is a good thing that we shall be able to meet next month to discuss all these and other matters. I look forward very much indeed to seeing you in Bonn.

PRIORITY
CYPHER CAT A

CONFIDENTIAL

FM BONN 121612Z

CONFIDENTIAL /FRAME/

TO PRIORITY FCO TEL NO 184 OF 10 FEBRUARY INFO WDEL TO EC
BRUSSELS.

Handwritten notes:
yca: P.O. Mr.
to 15/2
referred
[Signature]

COMMUNITY FINANCE.
FOLLOWING FROM MINISTER (ECONOMIC).

CONVERSATIONS THIS WEEK WITH THREE GERMAN OFFICIALS
(FISCHER AND THIELE OF THE FEDERAL CHANCELLERY AND VON STEIN OF
THE FEDERAL FOREIGN OFFICE) SUGGEST THAT THE GERMANS ARE ALREADY
WORKING ON "COMPROMISE" PROPOSALS FOR COMMUNITY FINANCE
AND THAT WE MAY PERHAPS BE FACED AT THE NEXT MINISTERIAL MEETING
WITH MR. RIPPON IN BRUSSELS ON 16 MARCH WITH A COMMUNITY POSITION
IN ACCORDANCE WITH SUCH IDEAS OF "COMPROMISE".

2. IN COVERSATION WITH AUDLAND AND JENKINS LAST NIGHT,
FISCHER BRUSHED ASIDE JENKINS'S EXPLANATION THAT THE PRESS
STORIES ABOUT OUR BEING WILLING TO THINK IN TERMS OF A STARTING
FIGURE OF 10 PER CENT MISINTERPRETED MR. RIPPON, AND INSISTED
THAT THE GERMANS SAW IN THEM AN OPENING, WHICH THEY WOULD
NOW FOLLOW UP, FOR MORE "REALISTIC" PROPOSALS. IN A SEPARATE
CONVERSATION LAST NIGHT, VON STEIN SUGGESTED TO OVERTON THAT
EVERYONE'S PROBLEMS WOULD BE SOLVED IF, AFTER A HEATED NEGOTIATION,
AGREEMENT WERE REACHED ON A BRITISH CONTRIBUTION STARTING AT
8 PERCENT AND RISING IN FIVE EQUAL ANNUAL STEPS TO 20 PERCENT.
HE WAS ALSO DISPOSED TO BRUSH ASIDE OVERTON'S COUNTER ARGUMENTS.

3. IN THE ABSENCE OF H.M. AMBASSADOR IN BERLIN WE HAVE NOT YET
RECEIVED AN ACCOUNT OF HERR SCHEEL'S CONVERSATIONS IN LONDON
LAST WEEK. IF YOU THOUGHT THAT THERE WOULD BE ADVANTAGE IN
REINFORCING WHAT WAS NO DOUBT SAID TO HIM ABOUT OUR POSITION
ON COMMUNITY FINANCE, YOU MAY LIKE TO CONSIDER THE POSSIBILITY OF
A REPLY FROM THE PRIME MINISTER TO HERR BRANDT'S MESSAGE OF 27
JANUARY. FISCHER ASKED AUDLAND LAST NIGHT WHETHER HE THOUGHT
A REPLY WOULD BE SENT, ADDING THAT THE FEDERAL CHANCELLOR HAD
WRITTEN BECAUSE IT HAD SEEMED TO THE GERMANS THAT IT COULD BE
USEFUL TO HAVE IN EXISTENCE A LINE OF COMMUNICATION BETWEEN
THE TWO HEADS OF GOVERNMENT.

JACKLING

/REPEATED AS REQUESTED/

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

01-930 1234

PRIME MINISTER

1. I mentioned to you a questionnaire from the Community about sterling and our own economic situation which we have to answer.

2. The history of this is as follows. When I made the opening statement at Luxembourg on the 30th June, M. Harmel, who was then in the Chair, indicated that the Community would be anxious to have discussions with us about sterling and the state of the U.K. economy. These discussions would not be formally part of the negotiations, but would clearly be of great importance in relation to them. We do not yet know how they will take place. I would myself much prefer them to be confidential talks by me with the Ministers of Finance, who can be relied upon to treat such discussions with appropriate discretion, but it is not yet certain that the E.E.C. Council will agree to this.

3. In the middle of November we heard that as a preliminary to these general discussions they proposed

/to send



to send us a questionnaire, and this, in due course after some discussion among themselves, they did in the middle of December.

... 4. I attach the questions and answers which I propose we should send. The answers are written on the assumption that they will in due course be published, but in any case we must assume that they will leak. This places us in some difficulty. Clearly we must not appear to be evasive; but on the other hand I do not think it would be wise to include in these replies information which is not yet available to Parliament, or information which, if it became public, might cause us embarrassment. You will observe that the draft reply to Question 1, therefore, is in very general terms and does not give any kind of target figure for the balance of payments. And the answer to Question 3, which is about our debts, gives only the latest published information, despite the fact that these are now a little out of date.

5. It is possible, I am told, that there may be some criticism that we are not being sufficiently forthcoming, but, on balance, I think this is the best way to deal with the questions. The answers can, of
/course, be



course, be amplified orally when the discussions take place.

6. If you agree, no doubt Geoffrey Rippon will arrange for the answers to be transmitted to the Community. I am sending a copy of this minute to him and also to the Foreign and Commonwealth Secretary.

AB.

R^g
8 February, 1971

Copy sent to Thentia

Cab Off.

DRAFT REPLY TO EEC QUESTION NO 1

[1 What are the objectives of the British authorities for the United Kingdom's current balance of payments, and basic balance, for 1971 and the following years?]

For policy purposes the British Government analyse the balance of payments of the United Kingdom in terms of two main magnitudes. The first is the [familiar] current balance, that is, the balance of current income over current expenditure, including both visible imports and exports, and invisible current transactions. The second is the total currency flow resulting from all external transactions. This comprises investment, trade credit, other capital flows, and the net total of the unidentified transactions reflected in the balancing item, as well as the current balance already mentioned. Repayments of long term official debt are included as part of this total currency flow. The total currency flow, together with (when applicable) gold subscriptions to the IMF and allocations by the IMF of special drawing rights, corresponds to official financing, ie increases or decreases in the official reserves, or repayments or drawings of official borrowing in support of the reserves. Annexed is an extract from Economic Trends for December 1970, showing the most recent quarterly publication of UK balance of payments figures in the presentation described above.

2. The amount of funds available for repayment of short and medium term official debt, or for increasing the official reserves, ie a favourable movement of official financing, is referred to throughout as reserve/debt improvement.

3. The primary purpose of the British Government is to maintain such a rate of reserve/debt improvement as will enable repayment of short and medium term official debt to be continued at a satisfactory rate; in addition it is hoped to make some increase in the official reserves from their present modest level. To this end it will be necessary to maintain a substantial surplus on the current account to provide the required reserve/debt improvement and to cover the net outflow of funds which is to be expected in respect of official long term capital (mainly aid and repayment of long term debt) private investment, export credit, and other currency flows.

TABLE I

SUMMARY BALANCE OF PAYMENTS

£ million

	1968	1969				1970			
		Year	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
A Current account									
Visible trade	- 643	- 141	- 123	- 63	+ 27	+ 18	+ 65	- 47	- 66
Invisibles	+ 324	+ 557	+ 136	+ 139	+ 126	+ 156	+ 148	+ 166	+ 139
CURRENT BALANCE	- 319	+ 416	+ 13	+ 76	+ 153	+ 174	+ 213	+ 119	+ 73
B Currency flow and official financing									
Current balance	- 319	+ 416	- 25	+ 146	+ 132	+ 163	+ 205	+ 139	+ 38
Investment and other capital flows	-1010	- 35	+ 72	- 32	- 48	- 27	+ 444	+ 249	-185
Balancing item	- 81	+ 362	+ 225	- 32	- 131	+ 300	+ 266	- 161	- 55
TOTAL CURRENCY FLOW	-1410	+ 743	+ 272	+ 82	- 47	+ 436	+ 915	+ 227	-202
Allocation of special drawing rights(+)	-	-	-	-	-	-	+ 171	-	-
Gold subscription to IMF(-)	-	-	-	-	-	-	-	-	-
Total of above	-1410	+ 743	+ 272	+ 82	- 47	+ 436	+1086	+ 227	-202
Financed as follows:									
Official borrowing drawn(+)/repaid(-)	+1296	- 699	- 252	- 93	+ 43	- 397	-1010	- 193	+150
Official reserves (drawings on,+; additions to,-)	+ 114	- 44	- 20	+ 11	+ 4	- 39	- 76	- 34	+ 52

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DRAFT REPLY TO EEC QUESTION NO 2

["In relation to the above aims and in the context of Great Britain's membership of the Community, what assumptions are being made concerning the growth rate of the British economy and, in particular, what assumptions are being made concerning the development of that part of the gross domestic product devoted to the formation of fixed capital?"]

1. The current rate of increase in productive potential per head is a little under 3 per cent a year. The labour force will fall a little in 1973 and 1974 with the raising of the school leaving age from 15 to 16 but there should be corresponding gains to efficiency in the longer term. The labour force should start to rise again quite significantly after 1974. Thus a simple extrapolation of present trends in productivity and in the working population would tend to suggest some increase in growth in the second half of the decade. These are statistical extrapolations, however, and an improvement in the growth rate is a major aim of policy of the present Government.

2. The new British Government has adopted a number of important policy measures to bring about a substantial improvement in the country's economic performance generally and to raise the rate of growth in particular. The reductions in public expenditure announced last October will free resources for use in the private sector. This has already enabled a start to be made in the programme of reducing direct taxation - a programme which, over the years, should have a powerful effect on incentives. The change in the system of investment incentives should help to encourage the most efficient and profitable types of investment; it is as important to raise the return on investment as to increase its amount.

3. An important purpose of the Government is to reduce intervention in industry and thus to promote the vigour and enterprise of management. In addition, the greater emphasis which is being placed on cost-effectiveness in the public sector should ensure better value for money as well as releasing resources for use in the private sector. Thirdly, the new legislation on industrial relations should bring about important changes in an area of the economy where, in the past, UK performance has been particularly poor.

4. Britain's accession to the EEC on acceptable terms should be a further factor raising the rate of growth of the economy. Membership of a market of over 250 million people should in time stimulate

/efficiency

is they
are strong -
"left a
good deal
to be
desired"
[this could
lead]

efficiency and the rate of innovation and speed up the structural changes which the country needs in order to improve economic performance. Moreover, EEC entry would be likely to raise the proportion of income devoted to investment. There would be changes in the structure of British industry, and these would be accompanied by a significant rise in gross investment in the expanding sectors. The result should be an increase in the size, and perhaps more important the quality, of the nation's capital stock. For all these reasons the Government believe that, if the terms are reasonable, the longer-term effect of entry on growth will be substantial. The Government is glad that this view, which is shared by British industry, is also held by the Commission.

5. The link between the effects of EEC entry on growth and the terms of accession is particularly important during the period of transition. It is likely that the factors tending to raise the rate of growth will build up only rather slowly and will therefore be only partially effective during the transition period. On the other hand, over the same years substantial burdens would fall on British resources - the British contribution to the Community budget, the higher cost of food imports, and any debts which may remain to be paid. Moreover, the expected rise in investment will curtail the growth in resources available for other purposes, especially during the early years of UK membership. It is therefore most important that the extra demands on the UK's resources due to EEC entry do not build up more quickly than the additional supply of resources created by the dynamic factors referred to. The two are clearly interrelated; heavy additional claims on resources, especially at the beginning of the transitional period, would make it more difficult to create the conditions in which the extra supply would in fact be forthcoming. The evolution over the transition period of the resource costs of entry will therefore be of critical significance in determining the net effect of Britain's accession to the EEC upon the country's growth rate during the 1970s.

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DRAFT REPLY TO HEC QUESTION No 3: REVISION OF 10 FEBRUARY '71

[Having regard to its long-medium and short-term foreign exchange indebtedness, how does the UK propose to meet the debts falling due in the coming year?]

As indicated in the Answer to Question 1, the British Government's policy is to maintain a large enough surplus on the balance of payments to permit a satisfactory rate of repayment of short and medium-term official debt, in addition to covering the expected net outflow of investment and other capital items, which, as indicated in the answer to Question 1, includes repayments of long-term official debt.

2. The latest published figure for the total of short and medium-term official overseas debt is that for 30 September 1970, when the total was \$3,866 million, of which \$2,364 million was due to the IMF. This represents a fall of \$4,205 million from the peak total of this debt at the end of December 1968. Further published debt reduction between end-September 1970 and end-January 1971 totalled \$375 million. Complete figures for the final quarter of 1970 will be published in March 1971.

3. The long-term official debt outstanding on 1 January 1971 totalled \$5,182 million, repayable under schedules, some of which stretch to the year 2005.

DRAFT REPLY TO EEC QUESTION NO 4

4 Operations other than those recorded in the basic balance gave rise to very sizeable receipts of foreign exchange in 1969 and the first quarter of 1970. What has been the trend of the various components of these operations and what are the prospects in this connection?

This question is framed in terms of those flows of funds which were formerly described in UK balance of payments statistics as "monetary movements". We no longer use this method of analysis because we found it increasingly artificial, and in some ways misleading, to distinguish between "long term" investment and other capital and monetary movements. (The point was explained at length in UK Balance of Payments 1970 ('Pink Book') page 83). As indicated in the Answer to Question 1, the analysis now used distinguishes on the one hand the current balance and on the other all those investments and other capital flows, which together with the balancing item make up the total currency flow. This answer is in terms of this analysis.

2. The annexed table gives the published figures for 1969 and for the first three quarters of 1970. Figures for the fourth quarter will be available in March.

3. The table begins with the current balance. Lines 2-4 show the various main (net) outflows of overseas investment from the United Kingdom, including the investment represented by trade credit. These items, taken together, are net additions to UK external assets. Lines 5-10 show the main changes in UK external liabilities; in aggregate, these contributed significantly to the total inward currency flow over the period. Line 11 is the balancing item.

4. It will be seen that over the two years the current surplus, plus the SDR allocation, has financed rather over half (55 per cent) of the total of debt repayment and addition to reserves.

5. A very large factor in the inward currency flow was the balancing item, particularly in the 6 month period ending in March 1970, when it amounted to over £560 million. This residual item is thought mainly to reflect changes in the timing of payments in relation to transactions. In periods unfavourable for sterling, eg in the second half of 1967 and in 1968, the tendency was for payments by UK residents to foreign countries to be made quickly and for payments to the UK to be lagged. Alterations of a few days can

/involve large

involve large sums; settlements for UK exports and imports average over £50 million a day. Losses from this source had to be covered by official borrowing. When the recovery of the current account became apparent in the latter part of 1969, the timing of payments moved towards a more normal pattern, so that money due from commercial transactions flowed in and allowed large repayments of the previous borrowing. Pressure on company liquidity especially in the taxpaying first quarter of 1970 probably also encouraged large inter-company flows. By the 2nd and 3rd quarters of 1970 the movement towards a more normal pattern of timing had probably been largely completed.

6. Some outflow of currency took place in the 3rd quarter of 1970, in accord with the expected seasonal pattern. Detailed information is not yet available on transactions other than the visible balance in the 4th quarter, but there has been a substantial currency inflow, considerably larger than the outflow in the 3rd quarter.

7. In future years the outward currency flow represented by net overseas investment, including trade credit, as in lines 2-4, may be expected to continue, perhaps showing some moderate growth. The other currency flows in lines 5-10, are expected to continue to be positive, but at a lower level than in the last two years. In particular, it is to be expected that Eurobond borrowing by the UK public sector will continue, as well as some Euro-dollar financing of private overseas investment. The balancing item is likely to be favourable but small. These expectations regarding the future pattern of the investment and other capital flows are consistent with the objectives for the current account surplus and for continued reserve/debt improvement set out in the Answer to Question 1.

/TABLE

£ million, not seasonally adjusted

	1969	1970		
	Year	Q1	Q2	Q3
1. Current balance	+ 416	+ 205	+ 139	+ 38
2. Official long-term capital	- 98	- 49	- 38	- 20
3. Outward private investment net of inward private investment	+ 4	+ 35	+ 55	- 72
4. Net trade credit (export less import)	- 160	- 56	- 57	- 53
5. Overseas investment in UK public sector	+ 63	+ 3	- 8	- 21
Sterling balances				
6. OSA	+ 258	+ 215	+ 208	+ 27
7. NSA	- 50	+ 99	- 17	- 31
8. Euro-dollar borrowing from UK banks for UK overseas investment	+ 70	+ 15	+ 30	+ 59
9. Other foreign currency transactions of UK banks	- 106	+ 117	+ 103	- 84
10. Other	- 16	+ 65	- 27	+ 10
11. Balancing item	+ 362	+ 266	- 161	- 55
<hr/>				
12. Total currency flow	+ 743	+ 915	+ 227	- 202
13. SDR's	-	+ 171	-	-
14. IMF subscription	-	-	-	-
<hr/>				
15. Total available for repayment of debt and addition to reserves.	+ 743	+ 1,086	- 227	+ 202

DRAFT REPLY TO EEC QUESTION NO.5

["The Basle agreements of 9 September 1968 allow the United Kingdom to effect drawings on a credit line of \$2 milliard 'to the extent that the sterling balances of the overseas Sterling Area fall below an agreed starting level' [the Basle Facility and the Sterling Area, S 13(1)].

On the other hand the various bilateral agreements concluded on this occasion between the United Kingdom and the countries holding sterling balances make provision for an exchange guarantee without apparently, any upper limit being imposed on the holdings of sterling balances benefiting from this guarantee.

It is noted that since September 1968 the amount of the sterling balances held by the monetary authorities of the Sterling Area has risen considerably, reaching £2,288 million at the end of June 1970; during this period the amount of the guaranteed sterling balances rose by £800 million.

In these circumstances what conclusions should be drawn from these developments?

In view of the difference between the field covered by the Basle agreements and that covered by the above-mentioned bilateral agreements, what problems could, in the opinion of the British authorities, arise should part of these balances be converted into other monetary assets".]

1. In looking at the sterling balances, and in evaluating recent movements, it is helpful to begin by looking at the way the balances have evolved in the last decade or so. The figures show a marked decline in sterling's importance. For example, official sterling balances, expressed as a proportion of total world official reserves, have fallen from 16 per cent in 1950 to 12 per cent in 1960 and further to 7 per cent in mid-1970. Total sterling liabilities (official and private) which in 1964 represented 15 per cent of the UK's gross national product in that year, in 1969 were equal to only 10 per cent. Over the same period, the same figures compared with the total of world trade, show a decline of one half from 8 per cent in 1964 to 4 per cent in 1969.

2. ~~It is in this longer term perspective that one can best consider the course of events immediately prior to the Basle arrangements of September 1968.~~ At the end of June 1967 the official gross sterling balances of the Overseas Sterling Area (OSA)

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stood at £1,890 million. By the end of September 1967 they had declined to £1,831 million. But by the end of June 1968, they had dropped to £1,593 million, and by the end of September 1968, just after the Agreements had been concluded, they were down to £1,506 million. Thus in fifteen months they had fallen by nearly £400 million.

3. It was against this background that the discussions were held which led to the Basle arrangements. One of the main pre-occupations of all concerned at that time was to find a way to halt the sharp ^{and disorderly} fall in sterling balances which was taking place; and the UK's guarantee to maintain the dollar value of OSA official sterling reserves, backed by the \$2,000 million Basle facility and coupled with the minimum sterling proportion requirement, was devised to this end. It proved wholly effective. The balances ceased to fall. By the end of December 1968 they were up to £1,650 million; and by the end of 1969 they had passed their mid-1967 level and stood at £2,039 million. They continued to rise during 1970. The figures are set out more fully in Annex I.

4. Thus, while, as the EEC Question notes, the balances rose by some £800 million between September 1968 and mid-1970, almost half of this increase must be seen as a return to the level prevailing before devaluation of the pound in November 1967. Taking the end of June 1967 as an appropriate point of reference, the rise in the official balances by June 1970 was £399 million; and if dollar equivalents are used (which take account of devaluation and provide a better guide to the relative international value of the balances) the increase in this period is seen ^{to be} only \$202 million). ~~And, as already indicated, this rise in the balances needs to be seen in the perspective of the developments described above in paragraph 1; developments which show clearly that in the longer term the importance of sterling's international role is declining.~~

5. ^{The} ~~The~~ Basle arrangements, while not reversing ^{the} ~~the~~ secular ^{trend} ~~decline of~~ sterling's international role, achieved their aim of arresting the rapid and disorderly fall of 1968. Since then the level of the official balances has risen beyond the

/pre-devaluation

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pre-devaluation position. This rise is the consequence partly of the terms of the Agreements themselves, but primarily of the movement in total reserves (sterling and non-sterling) of the Overseas Sterling Area which has occurred during this period. The full figures are set out in Annex II. Between June 1967 and June 1970, total ^{OSA} reserves rose from £3,238 million to £5,339 million, an increase of £2,101 million. Of this £399 million was in sterling and £1,702 million in non-sterling. Expressing the sterling as a percentage of official OSA reserves, the proportion fell from 58% in June 1967 to 40% in September 1968; and by June 1970 at 43% was only marginally above the September 1968 nadir.

6. Nevertheless, there has been some tendency for official OSA balances to increase in absolute terms. If the Basle arrangements were to be extended on something like their present terms (and this will of course be a matter for negotiation between the parties concerned), it does not follow automatically that the balances would continue to rise at the same rate, or at all. Confidence considerations apart, movements in these balances are now largely a function of the balance of payments surpluses or deficits of the OSA as a whole; and in the years 1968 and 1969 those surpluses were exceptionally high - see Annex III. In 1970 we expect a surplus of a similar order of magnitude, but thereafter a much more modest surplus is more likely. While this could still lead to some increase in 1971 and after in the absolute level of OSA official sterling balances, the increase should be much less than that which has occurred in the last 18 months. [Having regard to the continuing longer-term trends noticed above in paragraph 1, there could well be a renewed decline in the proportion that ~~sterling will~~ represent of total official OSA reserves.]

7. The last part of the Question refers to the fact that the dollar facility under the Basle agreement does not become available to the UK until the total of both official and private OSA balances has fallen below the agreed starting level of £3,080 million; but the Sterling Agreements only cover official holdings. It is thus possible that even if official holdings are sustained by the Sterling Agreements the Basle facility

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pre-devaluation position. This rise is the consequence partly of the terms of the Agreements themselves, but primarily of the movement in total reserves (sterling and non-sterling) of the Overseas Sterling Area which has occurred during this period. The full figures are set out in Annex II. Between June 1967 and June 1970, total^{OSA} reserves rose from £3,238 million to £5,339 million, an increase of £2,101 million. Of this £399 million was in sterling and £1,702 million in non-sterling. Expressing the sterling as a percentage of official OSA reserves, the proportion fell from 58% in June 1967 to 40% in September 1968; and by June 1970 at 43% was only marginally above the September 1968 nadir.

6. Nevertheless, there has been some tendency for official OSA balances to increase in absolute terms. If the Basle arrangements were to be extended on something like their present terms (and this will of course be a matter for negotiation between the parties concerned), it does not follow automatically that the balances would continue to rise at the same rate, or at all. Confidence considerations apart, movements in these balances are now largely a function of the balance of payments surpluses or deficits of the OSA as a whole; and in the years 1968 and 1969 those surpluses were exceptionally high - see Annex III. In 1970 we expect a surplus of a similar order of magnitude, but thereafter a much more modest surplus is more likely. While this could still lead to some increase in 1971 and after in the absolute level of OSA official sterling balances, the increase should be much less than that which has occurred in the last 18 months. [Having regard to the continuing longer-term trends noticed above in paragraph 1, there could well be a renewed decline in the proportion that sterling will represent of total official OSA reserves.]

7. The last part of the Question refers to the fact that the dollar facility under the Basle agreement does not become available to the UK until the total of both official and private OSA balances has fallen below the agreed starting level of £3,080 million; but the Sterling Agreements only cover official holdings. It is thus possible that even if official holdings are sustained by the Sterling Agreements the Basle facility

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might in some circumstances have to be activated to cover a substantial fall in private OSA balances.

8. This is possible, but in practice is unlikely. The private balances of the OSA have in recent years been remarkably stable. In June 1967 they stood at £1,193 million; by September 1968 they had risen a little to £1,282 million; and after dropping to £1,134 million at the end of 1969, they rose again to £1,246 million by the end of June, 1970. This element in total sterling holdings is not, on past experience, a particularly volatile one, and there is no reason to think it may become so in the foreseeable future - much of the holdings is believed to be related to trading activities of a continuing character.

Overseas Sterling Area Balances (Gross) £ millions

	1967			1968				1969				1970			Total
	June	Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June	Sept	
Official	1,890	1,931	1,736	1,815	1,593	1,506	1,650	1,847	1,907	1,877	2,039	2,196	2,289	2,312	
Other	1,193	1,164	1,246	1,305	1,265	1,282	1,231	1,223	1,199	1,094	1,134	1,168	1,246	1,249	
Total	3,083	2,995	2,982	3,120	2,858	2,788	2,881	3,070	3,106	3,071	3,173	3,364	3,535	3,561	

Source: Bank of England Quarterly Bulletin (Table A in new presentation beginning Dec. 1970 number)

Overseas Sterling Area Total Reserves

£ million

	1967			1968				1969				1970		
	June	Sept	Dec	Mar	June	Sept	Dec	Mar	June	Sept	Dec	Mar	June	Sept
Sterling (as in Annex I)	1,890	1,831	1736	1815	1,593	1,506	1,650	1,847	1,921	1,977	2,039	2,196	2,289	2,312
Non Sterling*	1,348	1,407	1534	1765	2,098	2,225	2,261	2,461	2,515	2,528	2,603	2,767	3,050	3,068
SECRET Total	3,238	3,238	3270	3580	3,691	3,731	3,911	4,308	4,436	4,505	4,647	4,963	5,339	5,380
Sterling percentage of total	58	57	53	51	43	40	42	43	43	44	44	44	43	43

*comprising gold, foreign currencies other than sterling,
IMF super-gold tranches and SDR's.

/Annex III. Overseas Sterling
Area-Balance of
Payments

Overseas Sterling Area - Balance of Payments £ million

	Current Balance	Balance of current and long-term capital transactions	Total Reserve and currency flow
1958	- 812	- 196	- 57
1959	- 228	+ 346	+ 303
1960	- 815	- 191	- 210
1961	- 489	+ 108	+ 137
1962	- 497	+ 130	+ 248
1963	- 521	+ 206	+ 259
1964	- 778	+ 79	+ 46
1965	- 1,384	- 202	- 73
1966	- 805	+ 102	+ 359
1967	- 1,173	+ 200	+ 100
1968	- 1,054	+ 671	+ 859
1969	- 603	+ 661	+ 781

DRAFT REPLY TO EEC QUESTION NO. 6

[6. How does the United Kingdom contemplate reconciling her responsibilities as centre of the sterling area - which involves in particular preferential relations in the financial and monetary fields, and in the matter of foreign exchange systems and markets and exchange control - with her obligations within the EEC in the various spheres concerned?]

1. The UK's position in the Sterling Area system does not lead to the range of preferential relationships implied in the question. The Sterling Area, which developed from political and economic factors operating earlier in this century, does not in general rest on precisely defined mutual rights and obligations. With negligible exceptions, the countries and territories of the Sterling Area are today entirely independent in the management of their respective currency systems and foreign exchange markets, and most Sterling Area countries maintain the same exchange control over transactions with the UK as they do over those with other countries, both within the Sterling Area and outside it.

2. Apart from the issues dealt with in the answer to Question 5, the sole area of preferential relationship is that of outward capital movements from the UK to the rest of the Sterling Area. This Question has been dealt with in the statement on capital movements made on 18 December by the UK Delegation in the negotiations in Brussels.

3. At present the British Government discriminate in favour of Sterling Area countries compared with EEC and other countries outside the Sterling Area in their policies concerning capital movements. Certain exchange control restrictions apply to capital remittances by UK residents to EEC countries as to others outside the Sterling Area. There is no exchange control over remittances, current or capital, by UK residents to Sterling Area countries. Since 1966, as a temporary measure during a period of balance of payments difficulty, companies planning direct investments in the developed countries of the Sterling Area (Australia, New Zealand, South Africa, Irish Republic) and institutions (investment trusts, etc) making portfolio investment

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in securities denominated in the currencies of those countries, have been asked to cooperate in a "Voluntary Programme" of restraint. This restraint does not apply to individuals.

4. As regards access to the London capital market, governments, government-guaranteed public authorities and private companies of Sterling Area (and EFTA) countries, but not of others, are regarded as eligible in principle for permission to raise sterling loans in the United Kingdom, subject to the balance of payments position of the United Kingdom. In recent years there have been few applications, and resultant outflows of capital to the OSA have been small. Over the decade 1960-69, taking account of maturities of issues made by Sterling Area borrowers which were not refinanced, outstanding public issues of Sterling Area borrowers on the London Market have been reduced by about £30 million; thus there have been larger repayments than new issues. In the most recent period high interest rates have also discouraged borrowers. New issues have averaged only about £26 million a year; in the last 5 years 1965-9, only £19 million a year. There were no issues in 1969 and only one of £5 million (to refinance a maturity) in 1970. Even these figures overstate the balance of payments cost, because part of each issue has been subscribed by non-residents. The low figures reflect in part policies of restraint by the UK Government for balance of payments reasons, under which refinance of existing maturities has been allowed more freely than new finance.

5. UK banks are also permitted to give short-term sterling banking credits without restriction to residents of the Sterling Area. The total amount of these credits outstanding has fluctuated around a total of £300 million during the past 8 years.

6. As for other capital outflows to the Sterling Area, there was an exceptional portfolio outflow to Australia in 1968. But apart from this, net new investment has been low. Other capital payments, eg emigrants' funds, remain small.

7. The British Government foresees no difficulty in reconciling its position in the Sterling Area with obligations to the EEC. While it is not possible to forecast with precision or certainty what the obligations of members of the EEC as regards capital movements will be at the end of the transitional period, the UK Delegation indicated in their statement of 18 December the willingness and intention of the British Government fully to comply with those obligations by that time.

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European Policy
ORIGINAL ON:
Germany, July 1970

RECORD OF THE PRIME MINISTER'S MEETING WITH HERR WALTER SCHEEL, GERMAN MINISTER FOR FOREIGN AFFAIRS AT 11.30 a.m. ON FRIDAY 5 FEBRUARY 1971 AT 10 DOWNING STREET

PRESENT:

EXTRACT

H.E. Herr Karl-Gunther von Hase
(German Ambassador)
H. Weber (Herr Scheel's
Interpreter)

Sir Roger Jackling,
(H.M. Ambassador, Bonn)
P.J.S. Moon

E.E.C. Negotiations

Herr Scheel described the German approach to the British negotiations to enter the E.E.C. It was most important to maintain a timetable under which British entry was achieved at the beginning of 1973. Germany attached extreme importance to Britain attaining full membership.

Herr Scheel referred to sterling as a world currency, being one matter which would need consideration. But this was a question which could not be discussed without full British participation.

If the timetable was to be kept to, it was essential for the major decisions to be taken by the summer of this year and in particular the decision on Britain's financial contribution. Germany understood Britain's position on this. Their own position as regards the balance between contributions and receipts was similar.

Herr Scheel thought that, on balance, developments in the negotiations so far had been more favourable than might have been expected. In the German view, France now accepted British membership and were determined to see it come about.

Returning to the question of the British financial

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/contribution

contribution, Herr Scheel said that he thought a compromise had to be found between the Commission's proposal and the British proposal. And such compromise must be fair. It was impossible to calculate what Community costs would be in the distant future and there would inevitably be a certain amount of arbitrariness in any decision. The important thing was British readiness to accept the "ressources propres" system in the end. What was needed now was political compromise about the road to that end.

The Prime Minister agreed that this was the key point. His own approach to Community affairs had always been on the basis that it was not a question of negotiating with the Community, but finding common solutions to common problems. He thought this should apply with the applicants as much as between the Members themselves. What was needed was recognition of the problems and determination to find solutions. It was incomprehensible to him that solutions could not be found.

The Prime Minister said he found the Commission's attitude on the financial regulations ~~was~~ difficult to understand. Looking at GNP, we were well below Germany and France, and it was forecast that at the end of the decade, French GNP would be double ours. Though this gave us no pleasure, it was a fact, and the Commission appeared to have overlooked it completely.

A further consideration was that the Community had had twelve years to take advantage of the dynamic effect of the E.E.C. We would be starting from scratch.

Taking our contribution and likely receipts, it ^{would} looked as though we get very little back on the agricultural side. We had already reorganised our agriculture, which was in any case only a very small part of our economy. Nor was it yet clear what was going to be available for regional development.

The Prime Minister thought it would be damaging to the Community if we came in on terms which compelled us to continue deflationary policies which held down our growth. Our balance of payments and sterling were at present strong. There were, however, large debts to pay off and there were large payments across/exchanges for our forces in Europe. At this point the Prime Minister welcomed the agreement which had just been reached between Herr Scheel and the Foreign and Commonwealth Secretary over Offset and Infrastructure.

The Prime Minister concluded by saying that what the argument was really about was whether we started with a high contribution at the beginning, or whether we had a large jump at the end. He suspected that the French feared that, if we were allowed to make a low start, to give us the benefit of the ^{effects of membership} "dynamic", we would then ask for re-negotiation at the end. There was a need to deal with these suspicions and convince the French that this was not our intention.

Herr Scheel agreed that French mistrust was a problem and this must be overcome. He said that he himself had thought of figures for the British contribution, but that it would be premature to discuss them. There had first to be discussions among the Six.

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He thought that if this problem of the contribution could be settled by the summer, the rest would not be too difficult. What had to be determined was the shape of the curve of the British contribution. Herr Scheel did not think that the problem of the further corrective period after the transition period would be so difficult once the question of the contribution was settled.

Published Papers

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

HOUSE OF COMMONS HANDBOOK,

4 FEBRUARY 1971, COLUMNS 1936 - 1943

"EUROPEAN ECONOMIC COMMUNITY"

Signed Wayland

Date 18/12/00

J R Green
Prime Minister's Office Records
Hepburn House, Marsham Street

STATEMENT BY THE CHANCELLOR OF THE DUCHY OF
LANCASTER, THE RIGHT HONOURABLE GEOFFREY RIPPON,
Q.C., M.P. IN THE HOUSE OF COMMONS ON THURSDAY
4TH FEBRUARY 1971.

With your permission, Mr. Speaker, and that of the House, I would like to make a statement on the Ministerial meeting of the Conference with the European Economic Communities on Tuesday of this week.

The meeting recorded a number of agreements.

The Community confirmed that the alternatives in their 1963 Declaration of Intent should be open not only to the nine African Commonwealth countries which I mentioned in my statement to the House on the 10th of December but to Botswana, Lesotho and Swaziland as well, subject, in their case, to certain special arrangements which may need to be settled at a later stage.

The Community further confirmed their proposal to include Hong Kong in their scheme of generalised preferences from the date of its implementation. We accepted their proposals as settling the case of Hong Kong as raised by us in the framework of the negotiations for accession.

/We agreed ...

We agreed upon the way in which the enlarged Community would approach the problems of the Asian Commonwealth countries, countries for whom association is not appropriate. The enlarged Community would continue to be inspired in its trade relations with these countries by the wish to extend and reinforce this relationship. It would be ready to examine with these countries, after enlargement, and taking account of the scope of the generalised preference scheme, the problems that might arise in the field of trade with a view to reaching appropriate solutions.

It was agreed that the Anglo-French condominium of the New Hebrides should be associated with the enlarged Community.

I welcomed a statement made by the Community on transitional arrangements in the field of industrial tariffs, which we thought should broadly meet the aim we have had in mind, in making our own proposals, of promoting as rapidly as possible the dynamic effects of industrial integration. But this arrangement, it was made clear, cannot be regarded as definitive until agreement has also been reached on methods of transition in the agricultural field.

/There was ...

There was an exchange of views on the question of Community finance. I cannot say any agreement was reached. But I hope that there is now a better understanding of the issues involved in this field, which is of course of crucial importance to the success of the negotiations. I left the Community in no doubt of this fact.

NOTE FOR THE RECORD

The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster had an informal discussion with the Prime Minister about the EEC negotiations on the evening of Sunday, 31 January 1971, as a preliminary to the meeting of Ministers in Brussels on 2 February.

The main points made in discussion were:-

(a) The reactions of the Six to the British proposals on Community financing had been surprisingly muted on the figure of 13 to 15 per cent proposed for the end of the transitional period.

Allowing for a further period of three years during which corrective action could be taken, and for suitable assurances from the Six about British receipts from the Community budget, it should be possible to reach an agreement on this subject which could be presented to British public opinion as being not unduly onerous.

(b) The Six had reacted more strongly to the proposal that the British contribution should start at three per cent. The lowest figure that any of them so far appeared to be ready to contemplate was of the order of 8 per cent. Part of the reasoning for the Six's position on this might be that they thought it unrealistic to suppose that we should be able to face

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the cost of accepting the Community system of ressources propres at the end of the period if we started from so low a point. Part of their position might also be due to a fear that the initial British contribution would not even meet the initial administrative costs to the Community of British entry, so that their own contributions to the Community would actually in the first instance be increased by British entry.

(c) Thanks to the progress already made, it was clear that the success or failure of negotiations would be determined on three main issues:-

- (i) Community financing
- (ii) New Zealand
- (iii) Sugar.

Other issues could either be settled quite quickly or were best left to be dealt with after the back of the negotiations had been broken. The tactics of handling the main negotiation would need careful consideration. If it was envisaged that the negotiations might be completed at Ministerial level, it might be right to take the issues piecemeal and one by one. But the signs were that both President Pompidou and Chancellor Brandt expected and wanted a meeting of Heads of Government to clinch the negotiations. In that case it might suit Britain no less than the Six to have the bargaining room that a package of points would provide for a summit.

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negotiation.

(d) The negotiations had made good progress so far and were not far off the point where all would turn on the three main outstanding issues. When that point was reached, it would not be in Britain's interest that the negotiations should drag on; a long period of no progress or stalemate was more likely to sour the negotiations than improve the outcome. It could thus well be that the time for a Summit meeting might be earlier than June or July, as had so far been envisaged.

Ministers agreed that at the meeting on 2 February the Chancellor of the Duchy of Lancaster should not offer any definite shift of British position on community financing. He should confine himself to explaining why the British proposals put forward in December were not just an opening bid but were seriously based. He would need to draw attention to the other costs which Britain would be incurring on entry, including costs of loss of Commonwealth preferences. In private discussion, he would seek to dispel any impression that, because the British Government saw no alternative to entering the EEC, they were likely to be prepared to accept any terms that might be demanded of them. In short, the Chancellor of the Duchy of Lancaster should not say that there was no shift in

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the British position, but ~~that~~ he should explain why the British proposals represented a considered and seriously based offer.

There was some discussion about New Zealand. The Chancellor of the Duchy of Lancaster explained that as a result of British entry New Zealand would get a higher price for its butter; but it would not be right to reach an agreement solely in terms of earnings, since jobs in New Zealand depended on quantities. There was general agreement that we should be doing reasonably well by New Zealand, and ought to satisfy British public opinion, if we were able to secure guaranteed outlets for 75 per cent of New Zealand's butter production.

On the Caribbean countries, the Chancellor of the Duchy of Lancaster said that the Six might not readily concede association for these countries. It was however more important for them to secure satisfactory agreements in respect of key products such as sugar and rum, than to obtain the status of association for its own sake.

Ministers agreed generally that, if there was likely to be little progress to report on major issues from the February meeting of Ministers, it would be important to make progress at the March meeting.

RIA

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1 February 1971

cc Jay
FCO
Sir B. Trent
Sir W. Armstrong

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31 January, 1971.

The Italian Ambassador came to lunch at Chequers today, and after lunch remained for a few moments to tell the Prime Minister the result of Signor Colombo's visit to Paris. He said that Signor Colombo had talked to President Pompidou, and Signor Moro had talked to M. Schumann. M. Schumann had been more cautious, but President Pompidou had made a very clear and straightforward statement of the wish of the French that there should be a positive and successful conclusion to the negotiations for British entry into the E.E.C.

The Ambassador left with the Prime Minister a note of the particular points which Signor Colombo had asked him to report to the British Government. I attach a copy of the note herewith.

I am sending copies of this letter, and of the note, to Ryrie (Treasury), Tickell (Foreign and Commonwealth Office), and to Sir Burke Trend and Sir William Nield.

(SGD) R.T. ARMSTRONG

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

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Ambasciata d'Italia

During the talks in Paris, on the French side:

- The French President, Prime Minister and Foreign Minister explicitly confirmed their Government's political will to reach a positive conclusion to the negotiations with the United Kingdom;
- On the length of the transitional period, it transpired that if not in this phase, in a successive one the French could accept to add to a single transitional period of five years, a period of three years during which correctives would be applied;
- Particular concern has been expressed in view of the fact that, on the part of the British Government, it has not been clearly stated, as of now, that at the end of the transitional period and of the period during which correctives would be applied, the British Government would accept fully the system of Community resources, in order to dispel any suspicion that they would bring into question a system which has now been approved by the six national parliaments;
- It is thought that the British proposals on participation in Community financing are altogether inadequate, and should be revised;
- The intention to call, in this phase, a new summit of the Six has been ruled out.

London, 31st January, 1971.

Contd.



Ambasciata d'Italia

2.

The Italian side has insisted on the necessity to proceed with the negotiations and to conclude them rapidly, avoiding exceptionally rigid positions, safeguarding certain inderogable exigencies of the Community, and keeping in mind certain particular requirments of British public opinion.

We believe that the problem of participation to Community financing should be dealt with in depth between the Commission and the British side. On the whole, from the discussions we have had the impression that, in order to avoid other procedures which could turn out to be very complex, it would be advisable if suggestions along these lines were put forward by the British themselves at the next Conference in Bruxelles.



Prime Minister,

This folder contains
papers on the S.S.C.

The top one - and
the only one I think
you need bother with -
is Sir W. Nield's note
for your dinner on
Sunday.

But also of interest
is the minute by
Robinson under the FCO
letter of 7 January (the
second paper down).

Am.
29/1



Sir W. Nield's minute

ref 40472 of 4.1.71

(flag reference) is now

on European Policy Nov. 1970

Y 0504

Prime Minister

MR MOON

Om.

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European Negotiations

1. I attach the memorandum reviewing the negotiating position and prospect for which you asked me yesterday, for the Prime Minister's weekend reading and meeting. It is attached, and comprehensive as I understand you wanted it to be. I recommend that the Prime Minister read through the memorandum first: it summarises all the major problems I can see and relates them to relevant features of the domestic prospect.

2. Reference to the Annexes (or to AE papers for queries on any specific subjects) will fill in the broad picture in the memorandum. On timetable matters, the Prime Minister may also wish to recall my short minute of 4 January about legislative preparations (the report is now before AE), on which drafting must start in May for introduction in the autumn if we are to enter by 1 January 1973

Agg.D.

J.W.

W A NIELD

29 January 1971

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EUROPEAN NEGOTIATIONS

1. This memorandum and its annexes seek to give the Prime Minister the quick statement for which he has asked of our current position and future prospects in the European negotiations. In the time and space available, the treatment of the problems arising in this very wide field is necessarily selective and summary.
2. At Annex 'A' is the Chancellor of the Duchy's review (AE(71) 5) of the position and prospects as at 22 January. Also attached is the minute of the Ministerial Committee's consideration of this paper (AE(71) 1st Meeting). The Prime Minister will wish to read and form his own view of this very recent Ministerial review of our position: the following paragraphs seek to help by selecting and summarising what seem to be the main points.
3. First, the general position and prospect. Mr Rippon's review envisages breaking the back of the negotiations by the summer by settling most major issues in the next three or four months, so as to leave Community Finance, and New Zealand dairy products as the only major subjects to be settled in a final crunch in the summer, postponing the arrangements for the Channel Islands and the Isle of Man, and fishery limits until the "tidying up" phase in the autumn.
4. The Ministerial Committee in general endorsed this approach: but noted that sugar, fisheries and animal health regulations might present difficulties, and, in effect, that Commonwealth sugar might possibly prove to be another crunch subject, not so much because of difficulties between us and the Six, but because of difficulties between us and the Commonwealth sugar Governments and interests. The following paragraphs, therefore, deal with the major problems of New Zealand dairy products, Commonwealth sugar and Community Finance. The Commission's proposals on these three subjects have yet to be endorsed by the Six, but afford the only plausible and coherent basis for discussion.
5. Community opinion is less sympathetic to New Zealand than to the Commonwealth sugar producing countries, ostensibly because the latter are developing countries, but probably also because the supply/demand position and prospect afford probably less room for manoeuvre on dairy products than it does on sugar. Nevertheless, the Commission's proposals envisage

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maintaining New Zealand's earnings of foreign exchange from dairy products for five years by, broadly, reducing the volume of supplies whilst increasing their price. This affords at least a basis for negotiation on the degree to which volumes are reduced and prices increased, and does not entirely close the prospect of a further but still diminishing arrangement after the original five years. At least the Commission's proposal does not rule out the prospect of a settlement arising from it, and one which, given goodwill, could be clinched by the summer, in line with our strategic objective of concluding the negotiations in 1971 so as to enter by 1 January 1973.

6. The bearing of the Commission's proposals on Commonwealth sugar on our strategic objective is broadly speaking as follows. Since both the Commonwealth sugar regime and the Community's regimes, both for Continental sugar and for their developing associates (the Yaounde Convention) must by treaty run into 1974, all these arrangements should be allowed to run their course, and the enlarged Community should, after our entry, i.e., in 1973 (when the International Sugar Agreement expires) and 1974, work out a new sugar arrangement for itself. This makes sense for us because we shall clearly be in a far stronger negotiating position as a member than we are as an applicant. But the vulnerable (and therefore fractious and suspicious) Commonwealth sugar countries will want a settlement satisfactory to them either agreed before we enter or assured by a satisfactory formula (on price, quantity, and duration) governing a future settlement to be worked out after we have joined the Community. Paragraph 9 of Mr Rippon's paper AE(71) 5 demonstrates how sensible the latter course would be: the question remains, can the Commonwealth sugar producers be brought to be sensible enough to accept it, so that the horribly complex sugar arrangements do not become a major issue in a summer crunch with the Community? AE concluded that we must make every effort to carry the Commonwealth sugar countries with us to that end: but carefully, and with some doubt as to whether we can.

7. Turning now to the third and most crucial and difficult subject Community Finance, the present position is as follows. To a Community Budget of some £3,500 at present, assumed to rise to £4,000 million in 1973 and £4,500 million in 1978, we have proposed to contribute a maximum share of 3 per cent in 1973 rising to between 13 and 15 per cent in 1977: thereafter we should have three years of correctives (i.e. marginal limitations on annual changes in our percentage share). Then, in 1981

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we should pay over, as the Six must do in 1978 (they having started three years earlier) 90 per cent of levies and duties and up to 1 per cent of VAT. But we should also have a review formula operable from entry in case these arrangements produce a British contribution which is too big both absolutely and relatively to the Six. The Commission proposed alternatively that our share should be (very broadly) either 21.5 per cent rising to 22.4 per cent subject to corrections throughout over 1973-77, or a more complex formula starting lower and rising higher; and hinting at both three years of correctives after 1977 and a review assurance in very general terms.

8. The effects of these formulae are best seen in terms of the following table, based on the Community Budget levels in the preceding paragraph. The years chosen are the first and last years of the five year build-up (1973 and 1977) the last year of the correctives (1980) and the first year of full application of Community regulations.

BRITISH PROPOSAL : 15 PER CENT KEY : £ MILLION

(Net Contributions - : Net Receipts +)

	Germany	France	Italy	United Kingdom
1973	-245	+210	-110	- 30
1977	-210	+235	- 65	-180
1980	-210	+230	- 60	-195
1981	-105	+320	0	-470

9. The Commission's alternative proposals would require us to make, under their first alternative, net contributions of £337 million in 1973 falling slightly (by reason of the correctives) to about £317 million in 1977: and on their second alternative, £219 million in 1973 rising to £365 million in 1977. In 1978, or 1981 if we had three further years of correctives, i.e., whenever the Community rules were applied to us without any mitigating factors, our net contribution would rise sharply to a figure of the order of £450 million to £500 million. (In addition, from 1973 onwards, our balance of payments would progressively have to assume the burden of the adverse effects of higher food import prices from non-Community countries and of net adverse tariff changes estimated to reach in the late 1970s a total of some £250 million).

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10. Our claim to the Community that our financing proposals, plus the additional burden just described, plus our debt repayment obligations, constitute something very close to the maximum burden we can be asked to assume, even allowing for a favourable dynamic effect, is thus fully justified. But the Community line remains that we must accept their regulations save only for transitional mitigations: that our claim for a review clause would open up the re-negotiation of their own regulations: that our bid of a 3 per cent share in 1973 is much too low: and that the big jump in our contribution at the end of the transitional period is too big, and taken together with our demand for a review clause, implies that actually we intend to break up the present Community regulations at the end of, if not during, our transitional period.

11. Their failure to see that contributions as large as ours would be under the Commission's proposals would be both inequitable and excessive, probably arises partly from bargaining considerations, partly from unwillingness to face a re-negotiation of their regulations, and perhaps partly from their own balance of payments experiences. The average current account balances of the five years 1965-69 are for Germany £440 million surplus, for Italy £910 million surplus, for France £165 million deficit, and for the United Kingdom £70 million deficit. (Capital and overall account figures are not given because their positions there are simpler and better than ours, and because of the obscurities arising from hot money flows on those accounts.)

12. But it is clear that there is a big gap between our proposals and those of the Commission and one which it will be difficult to close both per se and because it raises wider issues dealt with in the following paragraphs. As a lead-in to these, the gist of the foregoing paragraphs on Community Finance might be summarised as follows:-

1. The financial arrangements tailored to fit the circumstances of the Six in general and the c.a.p. in particular do not fit us at all.

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2. Nevertheless the Six will not re-negotiate the c.a.p. nor their financial arrangements to make our terms of entry easier.

3. Our only course therefore is to try to limit our gross contribution by their percentage key device, and/or by seeking higher receipts, and by negotiating a review clause: this is the course we are following.

4. Our position is open, on the Six's view, to the Morton's fork attack that either our economy can improve enough for us to afford a bigger contribution than we have proposed or, if it will not, we cannot afford to join.

13. This last consideration no doubt underlies the French pressure for us to "discuss" in the margin of the negotiations proper our economic prospects and the role of sterling. On this, the Community have given us six written questions: and a "black-market" copy of our draft replies to them is at Annex B attached (in semi-final shape - it may not yet have been seen by the Chancellor of the Exchequer who will shortly be submitting it to the Prime Minister). Very broadly speaking our position (though we are not of course presenting it like this) is that if we can maintain a current account surplus of £500-£600 million, to meet our regular capital account deficit and to pay debt, and benefit from an increasing dynamic of membership, we can afford a reasonable, i.e., gradually rising and not too large net contribution to the Community Budget (such as we have proposed) and no insuperable problems need arise with the sterling balances. Leaving aside the question whether the facts afford sufficient support to ~~out~~ this kind of line, it does lead straight on to a further question - the renewal of the Basle Agreements on the sterling balances.

14. Senior officials of the Cabinet Office, Treasury, Foreign and Commonwealth Office and the Bank recently considered this question informally. The main points made were as follows. We ought to settle the renewal of the Basle

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Agreements as quickly as possible, for several reasons. They require us to start renewal talks not later than March and finish by September. We do not want to risk failure to renew the Basle guarantee. Nor do we want the renewal still wide open at the crunch of the European negotiations (four of the Six are guarantors) and the French (who opted out) may well want to resume that role.

15. If we start talks with the guarantor countries in March we might reach agreement with them in April; and we might then be able to agree with the more important sterling balance holders by June - about the time of a summer crunch in the European negotiations. But France's indication that she wishes to see the sterling balances (i.e., sterling's reserve role) reduced, may complicate both the Basle and the Brussels talks. Further, the Chancellor of the Exchequer will want to take account of the Basle and Brussels prospects in his Budget calculations, at least as part of the medium-term economic context of the Budget. Finally, the progress of the Government's policy to reduce cost-inflation, both in terms of the Industrial Relations Bill and of the rates of wage settlements, will similarly form part of the background to the Budget, the Basle negotiations, and the Brussels negotiations. The Prime Minister will also be aware of the relevance of the current difficulties on a certain domestic front to the general need for us to be seen in all these contacts to have viable economic prospects.

16. That (thankfully) concludes the survey of the main problems arising on our side of our current and prospective negotiating position. Turning now to the position and prospects on the Community's side, the following are the major features:-

1. The Six have yet to agree on the Commission's proposals on the key items of Finance, New Zealand, and Sugar; and on the Werner Report. Herr Brandt discussed enlargement and Werner with M. Pompidou on 25 and 26 January: a summary report is at Annex 'C' - telegram No. 87 from Bonn. As the telegram says, it is "not very cheering" on either the French attitude or on German resistance to it.

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2. The French, as a question of fact, are taking the following lines on enlargement: the Community's finance and agricultural regulations cannot be altered for us; we must therefore make do with transitional adaptations and pay up accordingly, at best relying on Article 108 if the result is too much for us: the reserve role of sterling must be phased out as either giving us potential advantages, or the Community potential liabilities, if we enter: the French are also playing it tough on New Zealand and on other aspects of the negotiations.

3. The timetable, as a question of fact, is at best very tight. Ministerial Conferences with the Six are fixed for 2 February (the Six's lack of agreement on the Commission's proposals and Werner suggests little progress at that meeting): March 16: 11 May: and 22 June - four meetings before the summer holidays to cover the ground briefly reviewed above, including progress on all the important secondary items as well as the major items discussed. The Prime Minister is fully aware of the Six's slowness in negotiation. On the brighter side, we may be able to secure either an extra meeting or extra days for the meetings already arranged.

17. Summarising all the foregoing review, there is no reason to alter the view taken in the Annex to my minute of 30 December which envisaged two alternative prospects, depending on the degree of French intransigence:

a. Given French attitudes which are reasonable (by their standards) "one could look forward to the crucial meeting of the negotiations in June at which we would settle our financial contribution and perhaps clinch the transitional arrangements and the treatment of New Zealand". (This assumes also that the Commonwealth are reasonable over sugar: the negotiation of transitional arrangements will be complex and time-consuming but need not present really major problems).

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b. If, however, French attitudes were particularly difficult and no significant progress is made in January and February and the log jam is not broken at the Ministerial meeting in March it might become necessary "to turn the May meeting into a meeting of Heads of Government for the dual purposes of getting the necessary political agreement to resume progress and to establish guiding principles for the resolution of the main (unsettled) issues in the negotiation."

18. It remains to add three points. First, the balance of probability has now tipped if anything towards the second alternative above, unless Mr Rippon's proposed demarche at the 2 February meeting is very successful and the new "deputies of Deputies" arrangement permits the Six to make faster progress in getting an agreed common position on all outstanding issues. Second, it is however still too early to say that the first alternative must regretfully be ruled out: we can only judge that about say mid-February when we know the outcome of the February meeting and the consequent prospects of progress at Deputy level and below. Third, if the second alternative has then to be accepted, then the Prime Minister's meeting with Herr Brandt on 21 March - five days after the 16 March Ministerial meeting - will clearly be very important, and it will be for consideration whether to follow it up with a meeting with M. Pompidou in April (when there is no Ministerial meeting).

19. Finally, under alternative b. if the March meeting with Herr Brandt (and any meeting with M. Pompidou soon thereafter) come to be crucial as preludes to a May summit to break the log-jam, it is for consideration whether unobtrusive preparations for both meetings should not begin after say mid-February when we should know more clearly what the real prospects are. In sum, and subject to events at home and abroad meantime, the position should be reviewed say in mid-February, and if the log-jam in the negotiations has not been broken, steps to break it will need to be considered then.

W.A.
29.1.71.

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AFT REPLY TO EEC QUESTION NO 1

[1 What are the objectives of the British authorities for the United Kingdom's current balance of payments, and basic balance, for 1971 and the following years?]

For policy purposes the British Government analyse the balance of payments of the United Kingdom in terms of two main magnitudes. The first is the familiar current balance, that is, the balance of current income over current expenditure, including both visible imports and exports, and invisible current transactions. The second is the total currency flow resulting from all external transactions. This comprises investment, trade credit, other capital flows, and the net total of the unidentified transactions reflected in the balancing item, as well as the current balance already mentioned. Repayments of long term official debt are included as part of this total currency flow. The total currency flow, together with (when applicable) gold subscriptions to the IMF and allocations by the IMF of special drawing rights, corresponds to official financing, ie increases or decreases in the official reserves, or repayments or drawings of official borrowing in support of the reserves. Annexed is an extract from Economic Trends for December 1970, showing the most recent quarterly publication of UK balance of payments figures in the presentation described above.

2. The amount of funds available for repayment of short and medium term official debt, or for increasing the official reserves, ie a favourable movement of official financing, is referred to throughout as reserve/debt improvement.

3. The primary purpose of the British Government is to maintain such a rate of reserve/debt improvement as will enable repayment of short and medium term official debt to be continued at a satisfactory rate; in addition it is hoped to make some increase in the official reserves from their present modest level. To this end it will be necessary to maintain a substantial surplus on the current account to provide the required reserve/debt improvement and to cover the net outflow of funds which is to be expected in respect of official long term capital, (mainly aid and repayment of long term debt) private investment; export credit; and other currency flows.

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/4 The British

The British Government have not expressed these objectives in quantified terms in public, but as an indication of the magnitudes involved, a rate of reserve/debt improvement of less than $\pounds 600-700$ million a year on average over the next few years would not be regarded as satisfactory. (We expect with some confidence to do rather better than this in 1971.) This degree of reserve/debt improvement is likely to imply a current account surplus averaging $\pounds 1,200 - 1,400$ million a year. Since net invisible earnings on current account have been increasing in recent years and are at present running at some $\pounds 1,400$ million a year, a current account surplus of this order implies rough balance on visible trade.

[say
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[say
£500-
£2000M.]

5. These figures are averages. At times fluctuations in currency flows may temporarily alter the relationship implied above between reserve/debt improvement and the current account surplus. Favourable flows may enable larger amounts of short and medium term official debt to be repaid; unfavourable flows may temporarily delay the rate of repayment.

/ TABLE I

TABLE I

SUMMARY BALANCE OF PAYMENTS

£ million

	1968	1969				1970			
		Year	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
A Current account									
Visible trade	- 643	- 141	- 123	- 63	+ 27	+ 18	+ 65	- 47	- 66
Invisibles	+ 324	+ 557	+ 136	+ 139	+ 126	+ 156	+ 148	+ 166	+139
						Seasonally adjusted			
CURRENT BALANCE	- 319	+ 416	+ 13	+ 76	+ 153	+ 174	+ 213	+ 119	+ 73
B Currency flow and official financing									
Current balance	- 319	+ 416	- 25	+ 146	+ 132	+ 163	+ 205	+ 139	+ 38
Investment and other capital flows	-1010	- 35	+ 72	- 32	- 48	- 27	+ 444	+ 249	-185
Balancing item	- 81	+ 362	+ 225	- 32	- 131	+ 300	+ 266	- 161	- 55
						Not seasonally adjusted			
TOTAL CURRENCY FLOW	-1410	+ 743	+ 272	+ 82	- 47	+ 436	+ 915	+ 227	-202
Allocation of special drawing rights(+)	-	-	-	-	-	-	+ 171	-	-
Gold subscription to IMF(-)	-	-	-	-	-	-	-	-	-
Total of above	-1410	+ 743	+ 272	+ 82	- 47	+ 436	+1086	+ 227	-202
Financed as follows:									
Official borrowing drawn(+)/repaid(-)	+1296	- 699	- 252	- 93	+ 43	- 397	-1010	- 193	+150
Official reserves (drawings on,+; additions to,-)	+ 114	- 44	- 20	+ 11	+ 4	- 39	- 76	- 34	+ 52

SECRET

SECRET

DRAFT REPLY TO EEC QUESTION NO 2

["In relation to the above aims and in the context of Great Britain's membership of the Community, what assumptions are being made concerning the growth rate of the British economy and, in particular, what assumptions are being made concerning the development of that part of the gross domestic product devoted to the formation of fixed capital?"]

1. The current rate of increase in productive potential per head is a little under 3 per cent a year. The labour force will fall a little in 1973 and 1974 with the raising of the school leaving age from 15 to 16 but there should be corresponding gains to efficiency in the longer term. The labour force should start to rise again quite significantly after 1974. Thus a simple extrapolation of present trends in productivity and in the working population would tend to confirm the projection made last year in the OECD report "The Outlook for Economic Growth" which showed UK output rising by a little under 3 per cent a year in 1970-75 and by about 3½ per cent a year in 1975-80. These are statistical extrapolations, however, and an improvement in the growth rate is a major aim of policy of the present Government.
2. The new British Government has adopted a number of important policy measures to bring about a substantial improvement in the country's economic performance generally and to raise the rate of growth in particular. The reductions in public expenditure announced last October will free resources for use in the private sector. They will also pave the way for substantial reductions in direct taxation - which should have a powerful effect on incentives. The change in the system of investment incentives should help to encourage the most efficient and profitable types of investment; it is as important to raise the return on investment as to increase its amount.
3. An important purpose of the Government is to reduce intervention in industry and thus to promote the vigour and enterprise of management. In addition, the greater emphasis which is being placed on cost-effectiveness in the public sector should ensure better value for money as well as releasing resources for use in the private sector. Thirdly, the new legislation on industrial relations should bring about important changes in an area of the economy where, in the past, UK performance has been particularly poor.
4. Britain's accession to the EEC on acceptable terms should be a further factor raising the rate of growth of the economy. Membership of a market of over 250 million people should in time stimulate

/efficiency

efficiency and the rate of innovation and speed up the structural changes which the country needs in order to improve economic performance. Moreover, EEC entry would be likely to raise the proportion of income devoted to investment. There would be changes in the structure of British industry, and these would be accompanied by a significant rise in gross investment in the expanding sectors. The result should be an increase in the size, and perhaps more important the quality, of the nation's capital stock. For all these reasons the Government believe that, if the terms are reasonable, the longer-term effect of entry on growth will be substantial. The Government is glad that this view, which is shared by British industry, is also held by the Commission.

5. The link between the effects of EEC entry on growth and the terms of accession is particularly important during the period of transition. It is likely that the factors tending to raise the rate of growth will build up only rather slowly and will therefore be only partially effective during the transition period. On the other hand, over the same years substantial burdens would fall on British resources - the British contribution to the Community budget, the higher cost of food imports, and any debts which may remain to be paid. Moreover, the expected rise in investment will curtail the growth in resources available for other purposes, especially during the early years of UK membership. It is therefore most important that the extra demands on the UK's resources due to EEC entry do not build up more quickly than the additional supply of resources created by the dynamic factors referred to. The two are clearly interrelated; heavy additional claims on resources *especially at the beginning of the transitional period* would make it more difficult to create the conditions in which the extra supply would in fact be forthcoming. The evolution over the transition period of the resource costs of entry will therefore be of critical significance in determining the net effect of Britain's accession to the EEC upon the country's growth rate during the 1970s.

DRAFT REPLY TO EEC QUESTION NO 3

Having regard to its long, medium and short-term foreign exchange indebtedness, how does the United Kingdom propose to meet the debts falling due in the coming years?

1. Between end-December 1968 and end-December 1970 repayments of short and medium term official debt totalled £4,785 million (this figure will not be published until March 1971). The amount of this debt outstanding on 1 January 1971 was £3,286 million, of which £2,329 million was due to the IMF. *[say £2000m]* *[say £1370m]*

2. As indicated in the answer to Question 1, the British Government's policy is to maintain a large enough surplus on the balance of payments to permit a satisfactory rate of repayment of this debt, in addition to covering the expected net outflow of investment and other capital items.

3. The long term official debt outstanding on 1 January 1971 totalled £5,170 million, repayable under schedules some of which stretch to the year 2005. As indicated in the answer to Question 1, repayments of these debts are part of net investment and other capital flows.

DRAFT REPLY TO EEC QUESTION NO 4

4. Operations other than those recorded in the basic balance gave rise to very sizeable receipts of foreign exchange in 1969 and the first quarter of 1970. What has been the trend of the various components of these operations and what are the prospects in this connection?

This question is framed in terms of those flows of funds which were formerly described in UK balance of payments statistics as "monetary movements". We no longer use this method of analysis because we found it increasingly artificial, and in some ways misleading, to distinguish between "long term" investment and other capital and monetary movements. (The point was explained at length in UK Balance of Payments 1970 ('Pink Book') page 83). As indicated in the Answer to Question 1, the analysis now used distinguishes on the one hand the current balance and on the other all those investments and other capital flows, which together with the balancing item make up the total currency flow. This answer is in terms of this analysis.

2. The total currency flow for 1970 is now known, and it is already possible to estimate the main components fairly closely. The annexed table gives the published figures for 1969 and for the first quarter of 1970, as requested in the Question, and also provisional figures (rounded) for 1970 as a whole.

3. The table begins with the current balance. Lines 2-4 show the various main (net) flows of overseas investment by the United Kingdom, including the investment represented by trade credit. These items are additions to U.K. external assets requiring to be financed. Lines 5-10 show the main financing flows which have contributed

to the favourable inward currency flow over the period. Line 11 is the balancing item.

4. It will be seen that over the two years the current surplus, plus the SDR allocation, has financed rather over half (55 per cent) of the total of debt repayment and addition to reserves. A significant contribution has also been made over this period by the recovery of sterling balances which is described in more detail in the answer to question 5.

5. A very large factor in the favourable currency flow was the balancing item, particularly in the 6 month period ending in March 1970, when it amounted to over £560 million. This residual item is thought mainly to reflect changes in the timing of payments in relation to transactions. In periods unfavourable for sterling, e.g. 1967-68, the tendency was for payments by UK residents to foreign countries to be made quickly and for payments to the UK to be lagged. Alterations of a few days can involve large sums; settlements for UK exports and imports average over £50 million a day. Losses from this source had to be covered by official borrowing. When the recovery of the current account became apparent in the 3rd quarter of 1969, the timing of payments moved towards a more normal pattern, so that money due from commercial transactions flowed in and allowed large repayments of the previous borrowing. Pressure on company liquidity especially in the taxpaying first quarter of 1970 probably also encouraged large inter-company flows. By the 2nd and 3rd quarters of 1970 the movement towards a more normal pattern of timing had probably been largely completed, and by the middle of 1970 the balancing item,

as yielded by preliminary estimates which are subject to revision, became negative.

6. Some outflow of currency took place in the 3rd quarter of 1970, in accord with the expected seasonal pattern. Detailed information is not yet available on transactions other than the visible balance in the 4th quarter, but there has been a substantial currency inflow, considerably larger than the outflow in the 3rd quarter.

7. In future years the outward currency flow represented by net overseas investment, including trade credit, as in lines 2 to 4, may be expected to continue, perhaps showing some moderate growth. Given the objectives for the current account surplus and for continued reserve/debt improvement, as set out in the answer to Question 1, the inward financing flows, as in lines 5 to 10, is *not* expected to be positive, but at a lower level than over the period of very rapid debt repayment in the last two years. For example, it is to be expected that Eurobond borrowing by UK public and private industry will continue, as well as some Euro-dollar financing of private overseas investment. The balancing item is likely to be favourable but small.

/ TABLE

TABLE

	£ million		
	1969	1st Quarter	Year Forecast outturn - rounded figures
1. Current balance	+ 416	+ 205	+ 600
2. Official long-term capital investment	- 98	- 49	- 200
3. Outward private investment net of inward investment	+ 4	+ 35	- 50
4. Net trade credit (export less import)	- 160	- 56	- 250
5. Overseas investment in UK public sector	+ 63	+ 3	-
Sterling balances:-			
6. OSA	+ 258	+ 215	+ 400
7. NSA	- 50	+ 99	+ 150
8. Euro-dollar borrowing for overseas investment	+ 70	+ 15	+ 150
9. Foreign currency transactions of banks	- 106	+ 117	+ 350
10. Other	- 16	+ 65	+ 50
11. Balancing item	+ 362	+ 266	+ 100
<hr/>			
12. Total currency flow	+ 743	+ 915	+1300
13. SDR's	-	+ 171	+ 171*
14. IMF subscription	-	-	- 38*
<hr/>			
15. Total available for repayment of debt and addition to reserves	+ 743	+1086	+1420*

* Exact figures

1. borrowing short 6.7.8.9 10
and lending long 2:2.14. pm 7
2. to carry the CCC fund should
be (a) encourage us to get balance
(b) draw on our assets in 2-4
3. increase available eg Ch₂ to
finance our by subsidies
and to pay our fall in
Ch₂ commitments, a basis on?

DRAFT REPLY TO EEC QUESTION NO.5

∟ "The Basle agreements of 9 September 1968 allow the United Kingdom to effect drawings on a credit line of \$2 milliard 'to the extent that the sterling balances of the overseas Sterling Area fall below an agreed starting level' ∟the Basle Facility and the Sterling Area, S 13(1)∟.

On the other hand the various bilateral agreements concluded on this occasion between the United Kingdom and the countries holding sterling balances make provision for an exchange guarantee without apparently, any upper limit being imposed on the holdings of sterling balances benefiting from this guarantee.

It is noted that since September 1968 the amount of the sterling balances held by the monetary authorities of the Sterling Area has risen considerably, reaching £2,288 million at the end of June 1970; during this period the amount of the guaranteed sterling balances rose by £800 million.

In these circumstances what conclusions should be drawn from these developments?

In view of the difference between the field covered by the Basle agreements and that covered by the above-mentioned bilateral agreements, what problems could, in the opinion of the British authorities, arise should part of these balances be converted into other monetary assets". ∟

1. In looking at the sterling balances, and in evaluating recent movements, it is helpful to begin by looking at the way the balances have evolved in the last decade or so. The figures show a marked decline in sterling's importance. For example, official sterling balances, expressed as a proportion of total world official reserves, have fallen from 15 per cent in 1950 to 11 per cent in 1960 and further to 7 per cent in mid-1970. Total sterling liabilities (official and private) which in 1964 represented 14 per cent of the UK's gross national product in that year, in 1969 were equal to only 10 per cent. Over the same period, the same figures compared with the total of world trade, show a decline of one half - from 8 per cent in 1964 to 4 per cent in 1969.

2. It is in this longer term perspective that one can best consider the course of events immediately prior to the Basle arrangements of September 1968. At the end of June 1967 the official gross sterling balances of the Overseas Sterling Area (OSA)

/stood at

stood at £1,890 million. By the end of September 1967 they had declined to £1,831 million. But by the end of June 1968, they had dropped to £1,593 million, and by the end of September 1968, just after the Agreements had been concluded, they were down to £1,506 million. Thus in fifteen months they had fallen by nearly £400 million.

3. It was against this background that the discussions were held which led to the Basle arrangements. One of the main pre-occupations of all concerned at that time was to find a way to halt the sharp ^{and disorderly} fall in sterling balances which was taking place; and the UK's guarantee to maintain the dollar value of OSA official sterling reserves, backed by the \$2,000 million Basle facility and coupled with the minimum sterling proportion requirement, was devised to this end. It proved wholly effective. The balances ceased to fall. By the end of December 1968 they were up to £1,650 million; and by the end of 1969 they had passed their mid-1967 level and stood at £2,039 million. They continued to rise during 1970. The figures are set out more fully in Annex I.

4. Thus, while, as the EEC Question notes, the balances rose by some £800 million between September 1968 and mid-1970, almost half of this increase must be seen as a return to the level prevailing before devaluation of the pound in November 1967. Taking the end of June 1967 as an appropriate point of reference, the rise in the official balances by June 1970 was £399 million; and if dollar equivalents are used (which take account of devaluation and provide a better guide to the relative international value of the balances) the increase in this period is seen ^{to be} / only \$202 million). And, as already indicated, this rise in the balances needs to be seen in the perspective of the developments described above in paragraph 1; developments which show clearly that in the longer term the importance of sterling's international role is declining.

5. The Basle arrangements, while not reversing this secular decline in sterling's international role, achieved their aim of arresting the rapid and disorderly fall of 1968. Since then the level of the official balances has risen beyond the

/pre-devaluation

pre-devaluation position. This rise is the consequence partly of the terms of the Agreements themselves, but primarily of the movement in total reserves (sterling and non-sterling) of the Overseas Sterling Area which has occurred during this period. The full figures are set out in Annex II. Between June 1967 and June 1970, total^{OSA} reserves rose from £3,238 million to £5,339 million, an increase of £2,101 million. Of this £399 million was in sterling and £1,702 million in non-sterling. Expressing the sterling as a percentage of official OSA reserves, the proportion fell from 58% in June 1967 to 40% in September 1968; and by June 1970 at 43% was only marginally above the September 1968 nadir.

6. Nevertheless, there has been some tendency for official OSA balances to increase in absolute terms. If the Basle arrangements were to be extended on something like their present terms (and this will of course be a matter for negotiation between the parties concerned), it does not follow automatically that the balances would continue to rise at the same rate, or at all. Confidence considerations apart, movements in these balances are now largely a function of the balance of payments surpluses or deficits of the OSA as a whole; and in the years 1968 and 1969 those surpluses were exceptionally high - see Annex III. In 1970 we expect a surplus of a similar order of magnitude, but thereafter a much more modest surplus is more likely. While this could still lead to some increase in 1971 and after in the absolute level of OSA official sterling balances, the increase should be much less than that which has occurred in the last 18 months. Having regard to the continuing longer-term trends noticed above in paragraph 4, there could well be a renewed decline in the proportion that sterling will represent of total official OSA reserves.

7. The last part of the Question refers to the fact that the dollar facility under the Basle agreement does not become available to the UK until the total of both official and private OSA balances has fallen below the agreed starting level of £3,080 million; but the Sterling Agreements only cover official holdings. It is thus possible that even if official holdings are sustained by the Sterling Agreements the Basle facility

/might in some

might in some circumstances have to be activated to cover a substantial fall in private OSA balances.

8. This is possible, but in practice is unlikely. The private balances of the OSA have in recent years been remarkably stable. In June 1967 they stood at £1,193 million; by September 1968 they had risen a little to £1,282 million; and after dropping to £1,134 million at the end of 1969, they rose again to £1,246 million by the end of June, 1970. This element in total sterling holdings is not, on past experience, a particularly volatile one, and there is no reason to think it may become so in the foreseeable future - much of the holdings is believed to be related to trading activities of a continuing character.

/ Annex I

Overseas Sterling Area Balances (Gross) £ millions

	1967			1968				1969				1970			Total
	June	Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June	Sept	
Official	1,890	1,831	1,736	1,815	1,593	1,506	1,650	1,847	1,907	1,877	2,030	2,196	2,289	2,312	
Other	1,193	1,164	1,246	1,305	1,265	1,282	1,231	1,223	1,199	1,094	1,134	1,168	1,246	1,249	
Total	3,083	2,995	2,982	3,120	2,858	2,788	2,881	3,070	3,106	3,071	3,173	3,364	3,535	3,561	

Source: Bank of England Quarterly Bulletin (Table A in new presentation beginning Dec. 1970 number)

10. 2. 11

Overseas Sterling Area Total Reserves £ millions

	1967		1968		196	1969	1970	
	June	Sept	June	Sept	Dec	Dec	June	Sept
Sterling (as in Annex I)	1,890	1,831	1,593	1,506	1,650	2,039	2,259	2,312
Non Sterling*	1,348	1,407	2,098	2,225	2,261	2,168	3,150	3,668
Total	3,238	3,238	3,691	3,731	3,911	4,207	5,409	5,980
Sterling percentage of total	58	57	43	40	42	44	43	43

* comprising gold, foreign currencies other than sterling,
IMF super-gold tranches and SDR's.

/Annex III. Overseas Sterling Area-
Balance of Payments

Annex III

Overseas Sterling Area - Balance of Payments £ millions

	Current Balance	Balance of current and long-term capital transactions	Total Reserve and currency flow
1958	- 812	- 196	- 57
1959	- 228	+ 346	+ 303
1960	- 815	- 191	- 210
1961	- 489	+ 108	+ 137
1962	- 497	+ 130	+ 248
1963	- 521	+ 206	+ 259
1964	- 778	+ 79	+ 46
1965	- 1,386	- 204	- 64
1966	- 806	+ 101	+ 357
1967	- 1,169	+ 205	+ 97
1968	- 1,056	+ 665	+ 849
1969	- 655	+ 602	+ 751

DRAFT REPLY TO EEC QUESTION NO. 6

6. How does the United Kingdom contemplate reconciling her responsibilities as centre of the sterling area - which involves in particular preferential relations in the financial and monetary fields, and in the matter of foreign exchange systems and markets and exchange control - with her obligations within the EEC in the various spheres concerned?

1. The UK's position in the Sterling Area system does not lead to the range of preferential relationships implied in the question. The Sterling Area, which developed from political and economic factors operating earlier in this century, does not in general rest on precisely defined mutual rights and obligations. With negligible exceptions, the countries and territories of the Sterling Area are today entirely independent in the management of their respective currency systems and foreign exchange markets, and most Sterling Area countries maintain the same exchange control over transactions with the UK as they do over those with other countries, both within the Sterling Area and outside it.

2. Apart from the issues dealt with in the answer to Question 5, the sole area of preferential relationship is that of outward capital movements from the UK to the rest of the Sterling Area. This Question has been dealt with in the statement on capital movements made on 18 December by the UK Delegation in the negotiations in Brussels.

3. At present the British Government discriminate in favour of Sterling Area countries compared with EEC and other countries outside the Sterling Area in their policies concerning capital movements. Certain exchange control restrictions apply to capital remittances by UK residents to EEC countries as to others outside the Sterling Area. There is no exchange control over remittances, current or capital, by UK residents to Sterling Area countries. Since 1966, as a temporary measure during a period of balance of payments difficulty, companies planning direct investments in the developed countries of the Sterling Area (Australia, New Zealand, South Africa, Irish Republic) and institutions (investment trusts, etc) making portfolio investments

/in securities

in securities denominated in the currencies of those countries, have been asked to cooperate in a "Voluntary Programme" of restraint. This restraint does not apply to individuals.

4. As regards access to the London capital market, governments, government-guaranteed public authorities and private companies of Sterling Area (and EFTA) countries, but not of others, are regarded as eligible in principle for permission to raise sterling loans in the United Kingdom, subject to the balance of payments position of the United Kingdom. In recent years there have been few applications, and resultant outflows of capital to the OSA have been small. Over the decade 1960-69, taking account of maturities of issues made by Sterling Area borrowers which were not refinanced, outstanding public issues of Sterling Area borrowers on the London Market have been reduced by about £30 million; thus there have been larger repayments than new issues. In the most recent period high interest rates have also discouraged borrowers. New issues have averaged only about £26 million a year; in the last 5 years 1965-9, only £19 million a year. There were no issues in 1969 and only one of £5 million (to refinance a maturity) in 1970. Even these figures overstate the balance of payments cost, because part of each issue has been subscribed by non-residents. The low figures reflect in part policies of restraint by the UK Government for balance of payments reasons, under which refinance of existing maturities has been allowed more freely than new finance.

5. UK banks are also permitted to give short-term sterling banking credits without restriction to residents of the Sterling Area. The total amount of these credits outstanding has fluctuated around a total of £300 million during the past 8 years.

6. As for other capital outflows to the Sterling Area, there was an exceptional portfolio outflow to Australia in 1968. But apart from this, net new investment has been low. Other capital payments, eg emigrants' funds, remain small.

7. The British Government foresees no difficulty in reconciling its position in the Sterling Area with obligations to the EEC. While it is not possible to forecast with precision or certainty what the obligations of members of the EEC as regards capital movements will be at the end of the transitional period, the UK Delegation indicated in their statement of 18 December the willingness and intention of the British Government fully to comply with those obligations by that time.

ANNEX C

28.1.71.

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TO IMMEDIATE FCO TEL NO 87 OF 27 JANUARY INFO IMMEDIATE
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BRUSSELS, THE HAGUE, AND INFO SAVING TO LUXEMBOURG.

- BRANDT - POMPIDOU MEETING -

I CALLED ON STATE SECRETARY V. BRAUN THIS EVENING FOR AN
ACCOUNT OF THE FRANCO-GERMAN TALKS IN PARIS ON 25 AND 26
JANUARY. I BEGAN BY SAYING THAT I ASSUMED THE REPORT ON PAGE
5 OF TODAY'S TIMES, ABOUT THE GERMANS MOVING SMARTLY TOWARDS THE
FRENCH POSITIONS ON BOTH ENLARGEMENT AND WERNER WAS NOT QUITE
ACCURATE: COULD V. BRAUN REASSURE ME?

2. HE GAVE ME A FULL, INFORMATIVE, BUT NOT VERY CHEERING REPLY
WHICH I WILL REPORT IN MORE DETAIL TOMORROW.

MAIN POINTS WERE AS FOLLOWS:

- (A) WERNER AND NOT ENLARGEMENT WAS MAIN COMMUNITY TOPIC DISCUSSED.
- (B) ENLARGEMENT WAS NOT A QUESTION BETWEEN GERMANS AND FRENCH,
BUT BETWEEN BRITISH AND COMMUNITY.
- (C) FRENCH HAD REMARKED, THAT THEY HAD LOOKED IN VAIN IN OUR
PAPER OF 16 DECEMBER FOR CLEAR STATEMENT THAT WE FULLY
ACCEPTED FINANCE REGULATION. (I REFERRED TO MR RIPPON'S
STATEMENTS IN PARLIAMENT AND O'NEILLS STATEMENT AT
DEPUTIES MEETING ON 12 JAN. POENSGEN ADDED THAT SCHUMANN
HAD RECOGNISED THAT WE HAD GIVEN VERBAL ASSURANCES.)
- (D) FRENCH FELT ABSOLUTELY UNABLE TO ACCEPT OUR STARTING
FIGURE OF 2.6 - 3%. *(i.e. one fifth, for the first year, of 13-15%)*
- (E) GERMANS HAD STATED THAT THEY THOUGHT FRENCH AND COMMISSION
STARTING FIGURE OF 21.5% TOO HIGH, AND THAT THEY SYMPATHISED
WITH BRITISH POSITION ON DYNAMIC EFFECT OF MEMBERSHIP. (F)

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- (F) POMPIDOU HAD MENTIONED IMPORTANCE OF OUR GIVING FULL COMMUNITY PREFERENCE FROM VERY BEGINNING IN AGRICULTURAL FIELD. VON BRAUN ADDED THAT DENIAU WAS SAID TO HAVE BEEN FAR FROM SATISFIED WITH ANSWER HE HAD BEEN GIVEN IN LONDON ON THIS.
- (G) FRENCH UNWILLING TO CONTEMPLATE ANY EXTENSION BEYOND FIVE YEAR TRANSITIONAL PERIOD OF SPECIAL ARRANGEMENTS FOR NEW ZEALAND.
- (H) GERMANS HAD EXPRESSED HOPE AND CONVICTION THAT MAIN PART OF ENTRY NEGOTIATIONS COULD BE FINISHED BY SUMMER, BUT HAD FOUND NO SUCH OPTIMISM AMONG FRENCH.
- (I) GERMANS HAD "GIVEN A HINT" ABOUT 3 YEAR PERIOD OF CORRECTIVES WITHOUT ELICITING ANY FRENCH RESPONSE.
- (J) ON ASSURANCE (PARA 9 OF OUR PAPER) SCHEEL HAD SAID THAT COMMUNITY SHOULD EXTEND FULL SOLIDARITY TO NEW MEMBERS FROM THE START. SCHUMANN HAD NOT DEMURRED.
- (K) BRANDT HAD TOLD POMPIDOU THAT HE DID NOT THINK A SUMMIT WAS CALLED FOR IN PRESENT SITUATION BUT RESERVED RIGHT TO RAISE QUESTION IF NECESSARY AT SOME FUTURE DATE.

3. SUMMING UP, VON BRAUN SAID HE DID NOT THINK PROSPECTS OF ENLARGEMENT HAD DETERIORATED. FRENCH WANTED IT, BUT HAD THEIR OWN INTERESTS MUCH IN MIND. HE WAS CONSCIOUS HOWEVER HOW MUCH GROUND HAD STILL TO BE COVERED.

FCO PASS SAVING LUXEMBOURG

JACKLING

[REPEATED AS REQUESTED]

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29 January 1971

The German Ambassador called this morning on the Prime Minister at 12.30 p.m. to deliver a message from Herr Brandt. The message together with a translation is enclosed.

The Ambassador said that the Germans had been somewhat concerned by British Press reports of the meetings between Herr Brandt and M. Pompidou in Paris which had suggested that the Germans had given in to French views on the E.E.C. negotiations. This was misleading. He then went on to speak on the lines of paragraphs 2 and 3 of Herr Brandt's letter.

Summing up German reactions to the Paris talks, the Ambassador commented that they did not think that there had been by any means a step back. There had been slight progress in the sense of the French agreeing to the possibility that the main negotiations might be completed by the Autumn; nor had the French excluded the possibility of compromise on the financing question.

The Ambassador referred to Herr Scheel's forthcoming visit to London and mentioned that he would be appearing on "24 Hours" when he intended to express German support for British entry into the E.E.C. The Prime Minister warned the Ambassador of the strong left-wing leaning of those likely to be concerned with the "24 Hours" programme.

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- 2 -

The Ambassador asked if there were any particular points which the Prime Minister would like Herr Scheel to get across publicly while he was in London. He had already discussed this with the Foreign and Commonwealth Office who had suggested first, German support for our membership of the E.E.C., secondly, that in the discussions on financing the Community were still at the stage of establishing their basic bargaining position and there had yet to be the negotiation and thirdly, Germany's own experience in the Common Market. The Prime Minister said that he thought the third point was most important.

The Ambassador referred to Herr Brandt's statement in the Bundestag on 28 January. He said that the Chancellor had made clear that there would be no ratification of the Treaties with the Soviet Union and with Poland without a satisfactory settlement over Berlin. The Ambassador remarked that the position of the German Opposition on this question had considerably stiffened following the Party rally in Dusseldorf. He commented that there was unanimity in the German Parliament among all three parties about the need for a satisfactory settlement over Berlin before ratification of the Soviet and Polish Treaties, but there was room for debate about what constituted a satisfactory settlement.

I should be grateful to receive a draft reply to Herr Brandt's message enclosed with this letter as soon as possible. If a substantive reply is likely to be delayed, I suggest that you let me have very quickly an interim reply.

I am sending copies of this letter and its enclosures to Tickell (Chancellor of the Duchy of Lancaster's Office) and Norbury (Cabinet Office), and Nield (Cabinet Office).

N. Barrington, Esq.,
Foreign and Commonwealth Office. Signed (P.J.S. Moon)

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PRIORITY
CYPHER/CAT A

FM BRUSSELS 281710Z

CONFIDENTIAL [FRAME]

TO PRIORITY FCO TEL NO. 34 OF 28 JANUARY 1971, INFO PARIS, BONN, ROME, THE HAGUE, LUXEMBOURG AND UKDEL EC. COMMUNITY FINANCE.

THE COMMERCIAL COUNSELLOR CALLED ON 27 JANUARY ON COLLINS TO CLARIFY FURTHER POINTS RAISED IN MY TELEGRAM NO. 22 AND YOUR TELEGRAM NO. 51 TO BONN. HILLER OPENED BY EXPRESSING HIS ANXIETY LEST INSUFFICIENT WEIGHT SHOULD BE GIVEN TO THE REASONING BEHIND THE U.K. PAPER ON 16 DECEMBER. EARLY ACHIEVEMENT OF THE DYNAMIC EFFECTS OF ENTRY WAS OF THE GREATEST IMPORTANCE TO THE UNITED KINGDOM AND IT WAS ESSENTIAL TO ARRIVE AT A SOLUTION WHICH WAS ACCEPTABLE BOTH IN THE TERMS OF THE BURDEN WHICH IT IMPOSED AND IN THE EYES OF BRITISH PUBLIC OPINION. ONE OF THE MAIN ARGUMENTS PUT FORWARD TO US BY THE BELGIANS FOR A MORE RAPID RISE IN PAYMENTS DURING THE TRANSITION PERIOD WAS THE DOUBTS WHICH WOULD OTHERWISE ARISE ABOUT OUR INTENTIONS AT THE END OF THE PERIODS OF TRANSITION AND CORRECTIVES. THIS ARGUMENT HAD NOW BEEN MET BY CLEAR STATEMENTS IN PARLIAMENT ABOUT THE FULL UNITED KINGDOM ACCEPTANCE OF THE COMMUNITY SYSTEM AT THE END OF THESE PERIODS. FINALLY, HILLER DREW COLLINS' ATTENTION TO THE RELEVANT POINTS OF MR. RIPPON'S INTERVIEW IN THE GUARDIAN ON 25 JANUARY, A REPORT OF WHICH HAD BEEN PUBLISHED ON 26 JANUARY IN THE BELGIAN PRESS.

2. IN REPLY COLLINS PLAYED DOWN THE POTENTIAL SERIOUSNESS OF THE SITUATION. THERE WERE DIVERGENCES AMONG THE SIX ABOUT THE LEVEL OF THE U.K. CONTRIBUTION BUT THE SIX WERE STILL AT THE SKIRMISHING STAGE, AND DISCUSSION WAS MORE ABOUT THE LENGTH OF THE TRANSITORY PERIOD AND THE PERIOD OF CORRECTIVES. AS FAR AS BELGIUM WAS CONCERNED, THERE HAD BEEN NO MINISTERIAL DECISION ON THE DESIRABLE LEVEL OF THE U.K. CONTRIBUTION SINCE EARLY DECEMBER WHEN MINISTERS HAD EXPRESSED A PREFERENCE FOR THE FIRST FORMULA PUT FORWARD BY THE COMMISSION (A STARTING RATE OF 21%) BUT ADOPTION OF THE SECOND FORMULA HAD NOT BEEN EXCLUDED. SINCE THEN THERE HAD BEEN THE U.K. PROPOSALS OF 16 DECEMBER AND M. HARMEL WAS SYMPATHETIC TO OUR ARGUMENTS ABOUT ACHIEVING THE DYNAMIC AFFECTS OF ENTRY. ON THE OTHER HAND THERE WERE ALSO COMMUNITY /ARGUMENTS

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MENTS FOR NOT HAVING TOO LOW A STARTING POINT OR TOO GREAT A JUMP AT THE END (THOUGH THE BELGIANS TOOK OUR POINT ABOUT A JUMP BEING EASIER LATE THAN EARLY). M. COLLINS THOUGHT THAT IN THE END IT WOULD BE A QUESTION OF POLITICAL JUDGEMENT IN DECIDING WHAT WAS A REASONABLE BURDEN FOR THE UNITED KINGDOM TO BEAR.

3. ON THE QUESTION OF THE LEVEL OF OUR CONTRIBUTION AND OUR RIGHT TO A VOICE IN COMMUNITY DECISIONS, COLLINS SAID RIGHT AWAY THAT THERE HAD BEEN A FIRM COMMUNITY DECISION ON THIS WHICH COULD NOT BE CALLED INTO QUESTION. HE INDICATED, HOWEVER, THAT WE MIGHT HEAR THE ARGUMENT IN REVERSE, NAMELY THAT SINCE WE WOULD BE ENTITLED TO A VOICE IN COMMUNITY AFFAIRS FROM THE BEGINNING AS WELL AS A VARIETY OF BENEFITS, IT WOULD NOT BE REASONABLE FOR US TO HAVE TOO LOW A STARTING CONTRIBUTION.

4. COLLINS SAID THAT THERE HAD BEEN NO BELGIAN MINISTERIAL DECISION ON THE QUESTION OF A PERIOD OF CORRECTIVES FOR THE UNITED KINGDOM. HE THOUGHT M. HARMEL WAS SYMPATHETIC TO OUR REQUEST, BUT SEEMED LESS CONFIDENT OF THE ATTITUDE OF OTHER

MINISTRIES. HILLER ASKED COLLINS ABOUT BELGIAN NEWSPAPER REPORTS, IN DECEMBER AND AFTER THE MEETING OF THE SIX OF 14 JANUARY, THAT BELGIUM HAS SUGGESTED THAT A DECISION ABOUT A PERIOD OF CORRECTIVES MIGHT BE PUT OFF UNTIL THE NEED FOR THIS BECAME CLEAR AND PERHAPS UNTIL LATER IN THE TRANSITION PERIOD. AFTER SOME INITIAL HESITATION, COLLINS ASSURED HILLER THAT M. HARMEL ENVISAGED PUTTING OFF A DECISION UNTIL LATER IN THE NEGOTIATIONS, BUT NOT LEAVING THE QUESTION FOR SETTLEMENT AFTER THE NEGOTIATIONS HAD BEEN COMPLETED.

5. COLLINS CONFIRMED THAT THE BELGIANS WERE SYMPATHETIC TO OUR REQUEST FOR AN ASSURANCE ABOUT UNACCEPTABLE SITUATIONS AND HE THOUGHT THAT IT WOULD BE POSSIBLE TO FIND A FORM OF WORDS WHICH WOULD SATISFY US WITHOUT CALLING INTO QUESTION THE EXISTING COMMUNITY MECHANISMS.

6. AS REGARDS NEW ZEALAND, COLLINS SAID THAT M. HARMEL WAS VERY CONSCIOUS OF THE FACT THAT THE COMMUNITY'S REPUTATION WAS AT STAKE AS WELL AS THE UNITED KINGDOM'S. COLLINS THOUGHT IT INCONCEIVABLE THAT THE SUCCESS OF NEGOTIATIONS COULD BE PUT IN JEOPARDY OVER THIS ISSUE AND A SOLUTION WOULD HAVE TO BE FOUND.

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7. A LEIT-MOTIF IN ALL THAT COLLINS SAID ON THIS AND EARLIER OCCASIONS IS THE CONCERN TO SEE US COMMITTED AS EARLY AND AS COMPLETELY AS POSSIBLE TO THE SYSTEM OF COMMUNITY FINANCE. THIS UNDERLINES THE BELGIANS DESIRE FOR A HIGHER STARTING POINT FOR OUR CONTRIBUTIONS, THEIR DOUBTS ABOUT A TERMINAL POINT OF 15% WHICH WOULD LEAVE US WELL SHORT OF FULL PAYMENT OF (NEXT TWO WORDS UNDERLINED) RESSOURCES PROPRES. THEY WOULD, WE THINK, BE HAPPIER ABOUT A PERIOD OF CORRECTIVES IF IT COULD APPLY TO A LEVEL OF CONTRIBUTION CLOSER TO FULL PAYMENT OF (NEXT TWO WORDS UNDERLINED) RESSOURCES PROPRES.

8. I THINK THIS DISCUSSION HELPED TO BRING HOME TO THE BELGIANS OUR UNEASINESS AT THEIR ATTITUDE ON SUBSTANCE AS DISTINCT FROM TACTICS AND IT MADE CLEAR ONCE AGAIN THAT, WHILE THE BELGIANS ARE GENUINELY SYMPATHETIC TO OUR VIEWS, THEY ARE RELUCTANT TO TAKE A STAND IN FAVOUR AND WILL CONTINUE TO TRY TO ACT AS CONCILIATORS WITHIN THE SIX. IT ALSO SEEMS PROBABLE THAT OTHER BELGIAN MINISTRIES ARE LESS WELL DISPOSED THAN THE MINISTRY OF FOREIGN AFFAIRS, BUT THAT M. HARMEL WILL SEEK AND OBTAIN THE DECISION HE WANTS FROM THE BELGIAN GOVERNMENT ON THESE VARIOUS ISSUES WHEN HE BELIEVES THE TIME IS RIPE AMONG THE SIX.

EWART-BIGGS

[REPEATED AS REQUESTED]

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Chancellor of the Duchy of Lancaster

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

28 January 1971

P.A.
M.
29/1

Dear Peter,

We spoke this afternoon about our recent exchanges with the Dutch on Community Finance. You may now like to see the Chancellor of the Duchy's personal message to Mr. Luns (our telegrams numbers 13 and 14 to The Hague), together with the Ambassador's report and comment on the first reactions of Mr. de Koster, the State Secretary at the Netherlands Ministry of Foreign Affairs (The Hague telegrams numbers 28 and 30). For good measure I have added The Hague telegram number 29 which records what Mr. de Koster said on European questions to the Netherlands Society for Trade and Industry on 26 January.

Yours ever

C.C.C. Tickell

(C.C.C. TICKELL)
Private Secretary

P.J.S. Moon Esq.,

IMMEDIATE
CYPHER/CAT A

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(M7)

REF. F.C.O. 251845Z

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TO IMMEDIATE THE HAGUE TELEGRAM NO. 13 OF 25 JANUARY.

COMMUNITY FINANCE.

MY I.F.T. CONTAINS A PERSONAL MESSAGE FROM THE CHANCELLOR OF THE DUCHY OF LANCASTER TO THE NETHERLANDS FOREIGN MINISTER. PLEASE DELIVER IT TO HIM AS SOON AS POSSIBLE. IF DR. LUNS IS NOT AVAILABLE, PLEASE DELIVER IT (STILL AS A MESSAGE TO DR. LUNS) TO MR. DE KOSTER OR A SENIOR OFFICIAL. THE CHANCELLOR IS ANXIOUS THAT THIS MESSAGE SHOULD HAVE TIME TO OPERATE WITHIN THE DUTCH ADMINISTRATION BEFORE THE COUNCIL OF MINISTERS OF THE COMMUNITY DISCUSS COMMUNITY FINANCE AND OUR PROPOSALS THEREON ON 1 FEBRUARY.

2. THE BACKGROUND TO THIS MESSAGE IS OUR VIEW THAT AT PRESENT THE DUTCH ARE ADOPTING A HARDER LINE ON THIS ISSUE -- BY FAR THE MOST CRUCIAL IN THE WHOLE NEGOTIATIONS FROM OUR POINT OF VIEW -- THAN ANY OTHER MEMBER OF THE COMMUNITY EXCEPT THE FRENCH. THIS VIEW IS BASED MAINLY ON THE CONVERSATION BETWEEN O'NEILL AND THE NETHERLANDS CHARGE D'AFFAIRES ON 19 JANUARY (RECORD COPIED TO YOU). BUT WE GET THE SAME IMPRESSION FROM RECENT REPORTS ON THIS SUBJECT FROM YOU AND YOUR STAFF. WE CANNOT HELP FEELING THERE IS SOME DANGER OF DR. LUNS LOSING INTEREST IN THESE MATTERS AS HE APPROACHES THE END OF HIS TERM AS FOREIGN MINISTER, THUS LEAVING THE WAY OPEN TO THE INFLUENCE OF MR. LARDINOIS AND THE PREDOMINANCE OF ECONOMIC OVER POLITICAL INTERESTS.

DOUGLAS-RONE

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TO IMMEDIATE THE HAGUE TELEGRAM NO. 14 OF 25 JANUARY.

H I P T.

FOLLOWING IS MESSAGE.

1. I AM LOOKING FORWARD VERY MUCH TO SEEING YOU AT OUR MEETING IN BRUSSELS ON 2 FEBRUARY. I CONFESS I AM ALSO LOOKING FORWARD WITH SOME ANXIETY TO THE MEETING OF THE COUNCIL OF MINISTERS OF THE SIX IN BRUSSELS THE PREVIOUS DAY, AT WHICH I UNDERSTAND THEY WILL BE DISCUSSING COMMUNITY FINANCE, AND OUR OWN PROPOSALS ON THIS SUBJECT, IN PREPARATION FOR THE MEETING WITH ME NEXT DAY.

2. YOU REALISE, I HAVE NO DOUBT, THAT THIS QUESTION IS ABSOLUTELY CRUCIAL TO THE SUCCESS OF OUR NEGOTIATIONS. ALL THE SAME, I SHOULD LIKE TO UNDERLINE TO YOU AS STRONGLY AS I CAN THAT THIS IS THE ISSUE, MORE THAN ANY OTHER, ON WHICH OUR NEGOTIATIONS MIGHT FAIL. I AM THEREFORE SERIOUSLY APPREHENSIVE LEST THE SIX MIGHT ADOPT A COMMON POSITION ON THIS SUBJECT WHICH WOULD LEAVE A GAP BETWEEN US SO WIDE THAT WE COULD NOT BRIDGE IT.

3. I HARDLY IMAGINE THAT THE SIX WILL REACH SUCH A COMMON POSITION ON 1 FEBRUARY: BUT I SUPPOSE THEY MIGHT. FOR MY PART, DEEPLY CONCERNED THOUGH I AM TO GET ON AS FAST AS POSSIBLE, I WOULD MUCH PREFER THE SIX TO GIVE ALL THE CONSIDERATION THEY NEED TO THIS CRITICAL QUESTION - AND TO ITS CENTRAL CHARACTER FROM OUR POINT OF VIEW - RATHER THAN THAT THEY SHOULD, FOR THE SAKE OF SPEED, ADOPT A POSITION WHICH MIGHT LEAD OUR NEGOTIATIONS STRAIGHT TO A POINT OF REAL CRISIS. THERE ARE PLENTY OF OTHER MATTERS OUR CONFERENCE SHOULD BE ABLE TO DISCUSS MEANWHILE, EVEN IF WE HAVE TO WAIT A BIT LONGER FOR PROGRESS ON THIS ISSUE.

4. I SEND YOU THIS MESSAGE NOT ONLY TO MAKE THE ABOVE POINT. I SEND IT ALSO BECAUSE WHAT WE LEARN OF THE PRESENT THINKING OF YOUR GOVERNMENT ON THIS ISSUE CAUSES ME SOME CONCERN. I AM THINKING IN PARTICULAR OF THE MESSAGE YOUR CHARGE D'AFFAIRES HERE PASSED, ON

/INSTRUCTIONS

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INSTRUCTIONS, TO O'NEILL ON 19 JANUARY. THE CONVERSATION THEY THEN HAD GIVES ME THE IMPRESSION THAT OUR VIEWS ARE FAR APART.

5. YOUR CHARGE D'AFFAIRES, OF COURSE, MADE CLEAR THAT WHAT HE SAID WAS ONLY A PRELIMINARY AND INFORMAL REACTION FROM THE HAGUE TO REPRESENTATIONS WHICH O'NEILL HAD MADE TO HIM TWO WEEKS EARLIER; AND THAT HOW YOUR GOVERNMENT ACTUALLY PLAYED THE HAND WITH YOUR PARTNERS IN THE COMMUNITY WOULD DEPEND TO SOME EXTENT ON THEIR OWN ATTITUDES AND REACTIONS. I HOPE INDEED THIS WILL BE SO: BECAUSE WE HAVE THE IMPRESSION THAT MOST OF YOUR OTHER PARTNERS TAKE A REASONABLY SYMPATHETIC ATTITUDE TOWARDS OUR PROBLEMS AND REQUIREMENTS.

6. SO I KNOW DOES YOUR OWN GOVERNMENT, SO FAR AS SOME OF THESE PROBLEMS ARE CONCERNED. WE ARE MOST GRATEFUL FOR THE SUPPORT DUTCH REPRESENTATIVES HAVE GIVEN TO OUR CASE FOR A THREE YEAR PERIOD OF CORRECTIVES AFTER THE END OF OUR FIVE YEAR TRANSITIONAL PERIOD. WHAT YOUR CHARGE D'AFFAIRES HAD TO SAY ABOUT THE POSSIBILITY OF SOME ASSURANCE FROM THE COMMUNITY ABOUT ACTION IN THE EVENT OF "UNACCEPTABLE SITUATIONS" ARISING WAS REASSURING.

7. BUT ON OUR OTHER CRUCIAL ISSUES SOME OF WHAT HE WAS INSTRUCTED TO SAY DISTURBED ME. IT IS VITAL TO US TO MOVE UP GRADUALLY FROM A LOW STARTING POSITION TO OUR "BASIC KEY" IN THE FIFTH YEAR. WE FEEL WE SHOULD NOT BE FORCED TO ACCEPT BURDENS AT A PACE OUT OF PROPORTION TO THAT AT WHICH WE CAN HOPE TO GAIN BENEFITS; WE SHOULD BE UNABLE TO GAIN THESE BENEFITS IF WE WERE. THE LEVEL OF OUR BASIC KEY IN THE FIFTH YEAR IS JUST AS IMPORTANT. I KNOW THAT RELATIVE GROSS NATIONAL PRODUCT WAS NOT THE COMMUNITY YARDSTICK FOR THEIR OWN BASIC KEYS: SOME HAVE KEYS HIGHER THAN THEIR GNP PROPORTION: SOME LOWER. NEVERTHELESS, GNP PROPORTIONS DID PLAY SOME PART IN SETTLING THE 1979 KEYS OF THE SIX. THUS TO CLAIM THAT OUR KEY SHOULD BE "MORE OR LESS THE SAME" AS THAT OF FRANCE OR GERMANY DOES SEEM TO ME TO BE ASKING A LOT. OUR GNP, I AM SORRY TO SAY, IS DISTINCTLY LOWER THAN THAT OF FRANCE, LET ALONE GERMANY; AND OVER THE NEXT FEW YEARS AT LEAST THE DISPROPORTION SEEMS LIKELY TO GROW GREATER.

8. WE ALL HAVE OUR ECONOMIC INTERESTS TO DEFEND, AND I DO NOT WANT TO CLAIM THAT OURS ARE MORE SIGNIFICANT THAN YOURS. BUT IN

THE CONTEXT OF OUR NEGOTIATIONS THERE IS A DIFFERENCE. AS FAR AS I CAN SEE, YOUR ECONOMIC INTERESTS ARE CERTAIN TO BENEFIT, IN MORE WAYS THAN ONE, FROM OUR ENTRY INTO THE COMMUNITY, THOUGH THE BENEFIT COULD BE GREATER OR LESS DEPENDING ON THE TERMS WE AGREE ON. OURS ARE BOUND TO SUFFER, AT LEAST IN THE SHORT RUN. THEREFORE UNLESS WE CAN ACHIEVE TERMS WE REGARD AS TOLERABLE, IN THE SHORT RUN AS WELL AS IN THE LONGER RUN, WE SHALL NOT BE ABLE TO ENTER THE COMMUNITY. THERE IS A LIMIT TO WHAT WE CAN AGREE TO PAY IN THE TRANSITIONAL PERIOD, ESPECIALLY IN THE INITIAL STAGES. I DO NOT SAY THIS BECAUSE OF OUR PUBLIC OR PARLIAMETARY DIFFICULTIES; GIVEN FAIR TERMS, I AM SURE WE CAN OVERCOME THEM. I SAY IT BECUASE THE GOVERNMENT COULD NOT ACCEPT TERMS THAT SEEMED TO IT TO BE ECONOMICALLY DISASTROUS.

9 I HOPE WE CAN HAVE A MOMENT TO TALK ABOUT ALL THIS TOGETHER IN BRUSSELS NEXT WEEK. IF YOU THINK IT WOULD BE USEFUL, I SHOULD BE DELIGHTED TO COME OVER TO THE HAGUE OR SEE YOU HERE TO TALK TO YOU ABOUT IT.

DOUGLAS-HOME

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TO IMMEDIATE FCO TELEGRAM NUMBER 28 OF 27 JANUARY
INFO PRIORITY TO CODEL BRUSSELS.

YOUR TELEGRAM NUMBER 13 OF 25 JANUARY: COMMUNITY FINANCE.

LUNS WAS AWAY YESTERDAY AND IS NOT DUE BACK IN THE OFFICE UNTIL LATER TODAY. I THEREFORE YESTERDAY SAW DE KOSTER, WHO WAS ACCOMPANIED BY HARTOGH, AND WENT CAREFULLY THROUGH THE MESSAGE WITH HIM. DE KOSTER PROMISED TO CONVEY IT TO LUNS.

2. DE KOSTER STRONGLY DENIED THE IMPLICATION THAT THE DUTCH WERE ADOPTING A HARDER LINE THAN THEIR PARTNERS. HE INSISTED THAT THEY WERE ONLY BEING REALISTIC, SO FAR AS THEY WERE CONCERNED THEY HAD NO PRECONCEIVED IDEAS AND WERE READY TO ACCEPT ANY TERMS FOR BRITISH ENTRY INTO THE COMMUNITY WHICH WERE ACCEPTABLE TO THE OTHER MEMBERS. THEY CONSIDERED THAT THE SUGGESTION FOR AN INITIAL BRITISH CONTRIBUTION OF 3% HAD NO CHANCE OF SUCCESS SINCE THE FRENCH AND THE BELGIANS (THE LATTER WERE MENTIONED WITH SOME EMPHASIS) WOULD NOT CONSIDER ANYTHING UNDER 10%. IF WE COULD PERSUADE THEM TO AGREE TO A LOWER FIGURE, DE KOSTER SAID, NOBODY WOULD BE MORE PLEASED THAN THE DUTCH.

3. I THEN ASKED DE KOSTER WHETHER HE THOUGHT THAT THE FRENCH AND THE BELGIAN VIEW AS TO THE LEVEL OF THE INITIAL BRITISH CONTRIBUTION WAS BASED ON SOME SORT OF OBJECTIVE CALCULATIONS. FROM HIS REPLIES I DID NOT GET THE IMPRESSION THAT THE DUTCH KNOW EXACTLY WHERE THE FRENCH OR ^{THE} BELGIANS STAND ON THIS ISSUE OR WHY. THERE IS EVIDENTLY A FEELING IN SOME COUNTRIES, AND INDEED IN SOME QUARTERS HERE, THAT THE BRITISH SHOULD GO AS FAR AS POSSIBLE TOWARDS PAYING IN THE FIRST YEAR THE FULL PERCENTAGE CONTRIBUTION WHICH MEMBERSHIP OF THE COMMUNITY REQUIRES. THE DUTCH SEEM TO HAVE NO DEFINITE IDEAS AS TO WHAT THE PRECISE FIGURE SHOULD BE, BUT THEY EVIDENTLY THINK THAT 3% IS TOO LOW. I SAID THAT I DID NOT THINK THAT THIS WAS THE RIGHT WAY TO APPROACH

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/THE QUESTION.

THE QUESTION. WHAT MATTERED, I SAID, WAS THAT THE UNITED KINGDOM ACCEPTED THE OBLIGATIONS OF THE TREATY OF ROME AND THOSE RESULTING FROM THE AGREEMENTS WHICH FLOWED FROM IT AND THAT WITH HER ENTRY INTO THE COMMUNITY THE VARIOUS RULES AND REGULATIONS OF THE COMMUNITY WOULD BE PUT INTO APPLICATION. ENLARGEMENT WOULD THUS BECOME A REALITY WITH THE BENEFITS, ECONOMIC, COMMERCIAL AND POLITICAL WHICH THIS WOULD BRING TO ALL MEMBERS INDIVIDUALLY AND COLLECTIVELY. THE EXISTING MEMBERS WOULD IN FACT BE FINANCIALLY BETTER OFF BECAUSE OF THE CONTRIBUTION WHICH WE SHOULD MAKE. BUT THIS WAS SURELY NOT THE PRIME PURPOSE OF ENLARGEMENT AND IT SEEMED TO ME THAT TO CONCENTRATE TOO MUCH ON THE QUESTION OF THE SIZE OF OUR INITIAL CONTRIBUTION COULD ENDANGER THE WHOLE ENTERPRISE. DE KOSTER DID NOT DISSENT FROM THIS. INDEED HE SAID THAT THE DIFFERENCE BETWEEN WHAT WE SAID WE WERE WILLING TO PAY AND THE MOST EXTREME DEMANDS WHICH WERE BEING MADE OF US AMOUNTED TO NO MORE THAN 9000 M. GUILDERS, I.E. £1000M, OVER FIVE YEARS. HE FELT, IN VIEW OF ALL THAT WAS AT STAKE, THAT IT MUST BE POSSIBLE TO REACH AGREEMENT. I SAID THAT THIS SURELY POINTED TO THE NEED FOR THE COMMUNITY TO BE MORE ACCOMMODATING. WE WERE FACED WITH REAL ECONOMIC DIFFICULTIES, WHILE THEY SEEMED TO BE STANDING TOO RIGIDLY ON PRINCIPLE. DE KOSTER, WHO HAD JUST COME FROM A PUBLIC LUNCH AT WHICH HE HAD SAID THAT THE PRICE BEING ASKED OF BRITAIN WAS FAR TOO HIGH, AGREED. (WE WILL TELEGRAPH A FULLER ACCOUNT OF HIS SPEECH LATER TODAY). BUT, HE SAID WE SHOULD NEVER GET AGREEMENT TO 3%. IT WAS INTERESTING THAT NEITHER HE NOR HARTOGH SPECIFICALLY OBJECTED TO 15% AS A TERMINAL FIGURE.

4. DE KOSTER FULLY UNDERSTANDS THAT COMMUNITY FINANCE IS THE CRUCIAL ISSUE AND THAT IT CAN ONLY BE RESOLVED IN THE FINAL STAGES OF THE NEGOTIATION. THERE IS THEREFORE IN HIS VIEW NO QUESTION OF MINISTERS ADOPTING A COMMON POSITION ON THIS SUBJECT AT THE MEETING ON 2 FEBRUARY.

5. DE KOSTER HIMSELF THINKS IT WOULD BE A GOOD IDEA FOR LUNS AND THE CHANCELLOR OF THE DUCHY OF LANCASTER TO MEET. HE WILL CONSULT LUNS ON HIS RETURN TODAY AND CONVEY THE ANSWER TO MR. RIPPOH AS SOON AS HE CAN. HE SEEMED TO BE IN FAVOUR OF A MEETING IN BRUSSELS RATHER THAN ONE IN THE HAGUE.

TOMKINS

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E. I. D.

W. E. D.

RESEARCH DEPT (W. E. SECTION)

PRIORITY
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FM THE HAUGE 271625Z

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TO PRIORITY FCO TELEGRAM NUMBER 29 OF 27 JANUARY
INFO/ROUTINE TO CODEL BRUSSELS PARIS ROME BONN LUXEMBOURG
AND BRUSSELS.

MY TELEGRAM UMBER 28, NOT TO ALL.

DE KOSTER MADE A SPEECH ON EUROPEAN QUESTIONS TO THE NETHERLANDS
SOCIETY FOR TRADE AND INDUSTRY YESTERDAY. THE FOLLOWING
SUMMARISES THE MOST IMPORTANT PASSAGES.

NEGOTIATIONS WITH THE UNITED KINGDOM

2. DE KOSTER SAID BLUNTLY THAT HOLLAND CONSIDERS THE PRICE
WHICH BRITAIN IS BEING ASKED TO PAY TO JOIN THE COMMUNITY
QUOTE MUCH TOO HIGH UNQUOTE. (HIS LATER REFERENCES WERE
TO THE PROPOSAL FOR A 21% CONTRIBUTION IN THE FIRST YEAR).
BRITAIN'S OFFER OF 3% RISING DURING THE TRANSITIONAL PERIOD
TO 15% WAS HOWEVER QUOTE RATHER ON THE LOW SIDE UNQUOTE.
HE COMMENTED THAT THE BRITISH NEGOTIATORS HAD MORE OR LESS
COMMITTED THEMSELVES TO THIS OFFER IN PARLIAMENT. HE WAS
HOWEVER MODERATELY OPTIMISTIC ABOUT THE CHANCE OF AGREEMENT
PROBABLY IN MAY TO JULY. HE CALCULATED THAT THE DIFFERENCE
BETWEEN THE TWO SETS OF FIGURES AMOUNTED TO A QUESTION OF
WHETHER ENGLAND SHOULD PAY 9 MILLION GUILDERS OR LESS IN THE
TRANSITIONAL PERIOD. IT MUST BE POSSIBLE TO REACH AGREEMENT
OVER THIS PRICE WHICH WAS LOW IN COMPARISON TO WHAT WAS AT
STAKE.

3. HE WENT ON TO SAY THAT A HIGH PRICE COULD HAVE MAJOR
CONSEQUENCES FOR THE COMMUNITY. BRITAIN MIGHT BE FACED WITH
A BALANCE OF PAYMENTS PROBLEM AND COULD THEN ASK FOR HELP
FROM THE COMMUNITY UNDER THE TREATY OF ROME. THE RESULT MIGHT
BE THE PARTIAL REMISSION OF BRITAIN'S CONTRIBUTION OR ITS PAYMENT
OVER A LONGER PERIOD.

/POMPIDOU'S

POMPIDOU'S STATEMENT

[sic]

3. DE KOSTER SAID THAT THE DUTCH SAW SOME POSITIVE POINTS IN WHAT POMPIDOU SAID ABOUT EUROPEAN UNITY. BUT THEY CONSIDERED HIS REMARKS ABOUT THE COMMISSION AND HIS COMMENT THAT THE COUNCIL OF MINISTERS MUST REMAIN THE HIGHEST ORGAN OF THE COMMUNITY AS VERY NEGATIVE. THERE WAS GREAT HESITATION IN THE HAGUE ABOUT THE FRENCH CONCEPT OF A EUROPEAN CONFEDERATION. QUOTE WE DO NOT SEE IN THE HAGUE HOW SUCH A CONSTELLATION^{PROCR} WOULD WORK IN PRACTICE UNQUOTE. DEVELOPMENTS WERE AUTOMATICALLY LEADING TOWARDS AN ECONOMIC AND MONETARY UNION AND A FEDERAL STATE.

4. IN A TV INTERVIEW LATER YESTERDAY DE KOSTER SUGGESTED THAT HOLLAND MIGHT BE PREPARED TO GIVE CAREFUL CONSIDERATION TO THE IDEA OF A CONFEDERATION AS A STEP FORWARD. HE EMPHASISED HOWEVER THAT SHE WOULD PREFER TO AIM FROM THE START FOR A UNION WITH APPROPRIATE SUPRANATIONAL INSTITUTIONS. WHEN ASKED WHETHER A CONFEDERATION WOULD NOT BE A STAGE ON THE ROAD TO EUROPEAN UNIFICATION, DE KOSTER REPLIED THAT HE SAW IT AS A VERY LONG DETOUR.

TOMKINS

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E.I.D.

W.E.D.

RESEARCH DEPT

(W.E. SECTION)

THE HAGUE 271625Z

CONFIDENTIAL

TO PRIORITY FCO TELNO 30 OF 27 JANUARY INFO
CODEL BRUSSELS

CODEL BRUSSELS TELEGRAM NUMBER 50
DUTCH VIEWS ON COMMUNITY FINANCE.

I HAVE REPORTED WHAT DE KOSTER TOLD ME YESTERDAY IN
MY TELEGRAM NUMBER 28.

2. WE HAVE NATURALLY BEEN EXTREMELY CAREFUL HERE NOT REPEAT
NOT TO GIVE DUTCH OFFICIALS ANY REASON TO SUPPOSE THAT WE
HAVE ROOM FOR MANOEUVRE. I EMPHASISED THE CONTRARY STRONGLY
TO HARTOGH, WHEN I SAW HIM ON 30 DECEMBER, AND ITALIANER
VOLUNTEERED TO THE COUNSELLOR THE FOLLOWING DAY THAT HE REALISED
THAT IT WOULD BE DIFFICULT FOR US TO BUDGE SUBSTANTIALLY FROM
WHAT MR. RIPPON HAD TOLD THE HOUSE OF COMMONS.

3. OF COURSE, WHATEVER WE SAY AND HOWEVER STRONGLY WE SAY
IT, THE DUTCH ARE UNLIKELY TO BELIEVE THAT WE HAVE HAD ABSOLUTELY
OUR LAST WORD AND THAT THERE IS NO GIVE IN OUR POSITION AT
ALL. NO DOUBT THEY DO HOPE TO EDGE US UP GRADUALLY TO A
HIGHER STARTING CONTRIBUTION. WE HAVE NO EVIDENCE HERE THAT,
ON THIS PARTICULAR POINT, LUNS AND DE KOSTER HAVE FAILED TO
STAND UP TO THEIR ECONOMIC COLLEAGUES. IT COULD WELL BE SO
AND I SHOULD WELCOME CHAPTER AND VERSE FROM CODEL BRUSSELS,
SO THAT I CAN CHALLENGE DUTCH ECONOMIC MINISTERS, IF YOU WISH
ME TO DO SO. BUT, IF IT IS SO, I AM SURE THAT THIS IS NOT
SOLELY THE RESULT OF A NARROW CALCULATION OF DUTCH ECONOMIC
INTERESTS IN THE SHORT TERM.

4. THE DUTCH ARE UNDERSTANDABLY OBSESSED WITH WHAT CAN BE
SOLD TO THE SIX AS A WHOLE AND PARTICULARLY TO THE FRENCH,
AND OUR OWN IMPRESSION IS THAT THAT THIS IS THE DOMINANT
CONSIDERATION IN THEIR MINDS. DE KOSTER SAID TO ME WHEN MR.
DAVIES WAS HERE ON 22 JANUARY THAT HE WAS STILL FAIRLY OPTIMISTIC
ABOUT THE OUTCOME OF THE NEGOTIATIONS, BUT THAT HE STILL DID
NOT KNOW WHAT FRENCH INTENTIONS WERE. HE CLEARLY REGARDS
THIS AS THE GREAT QUESTION HANGING OVER EVERYTHING.

5. IN CONVERSATION WITH THE COUNSELLOR AND THE HEAD OF CHANCERY YESTERDAY ITALIANER WENT OUT OF HIS WAY TO MAKE THE POINT THAT HE WOULD BE GLAD TO HEAR AT ONCE FROM US IF WE HAD ANY INFORMATION THAT ANY OTHER PARTY WAS SERIOUSLY CONSIDERING PROPOSING A LOWER STARTING CONTRIBUTION THAN 10 PER CENT. THE IMPLICATION WAS THAT THE DUTCH WOULD THEN RALLY TO IT. ITALIANER ALSO RAISED THE QUESTION OF WHETHER THE CRISIS, WHEN IT COMES ON THIS ISSUE, SHOULD BE A SIX OR A SEPT. HE SEEMED TO BE ASSUMING THAT IT WOULD PRECIPITATE A CRISIS AMONG THE SIX, IF ONE OR MORE OF THEM WERE TO PRESS THEIR PARTNERS TO ADOPT OUR PROPOSALS AS THEY STAND, AND THAT THIS WOULD NOT SERVE OUR INTERESTS. THE DUTCH ARE OF COURSE NOW AWARE, FROM PARAS. 2 AND 3 OF MR. RIPPON'S MESSAGE TO MR. LUNS, THAT WE WOULD SOONER RISK SOME DELAY THAT HAVE TO CONFRONT AN UNHELPFUL COMMON POSITION.

6. IT IS INCIDENTALLY CLEAR THAT THE DUTCH MINISTRY OF FOREIGN AFFAIRS CONTINUE TO ATTACH CONSIDERABLE IMPORTANCE TO THE IDEA THAT WE SHOULD HAND OVER OUR LEVY RECEIPTS TO THE COMMUNITY FROM THE BEGINNING. WE HAVE BEEN ASKED FOR CONFIRMATION OF WHAT O'NEILL SAID TO HUYDECOPER ON THIS POINT AND HAVE REPLIED ON THE LINES OF PAA 9 OF O'NEILL'S MINUTE OF 19 JANUARY.

TOMKINS

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EID

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RES DEPT (JE BRG)

DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND
Karl-Günther von Hase

LONDON , 29th January, 1971

Dear Prime Minister,

I have the honour of transmitting to you the enclosed copy of a letter from Herr Willy Brandt, Chancellor of the Federal Republic of Germany. An official translation is attached. The original will follow later.

I see, dear Prime Minister,

Yours sincerely,

Ernst-Joachim von Stauff.

His Excellency

The Right Honourable Edward Heath, M.B.E., M.P.

Prime Minister and First Lord of the Treasury
and Minister for the Civil Service

10, Downing Street

London, S.W.1

PRIME MINISTER'S

PERSONAL MESSAGE

Official Translation

SERIAL No. T 31/71

The Federal Republic of Germany
The Federal Chancellor

Bonn, 27th January 1971

AA²⁹
—

Dear Mr. Prime Minister,

the progress of West European integration was of course the focal point of the talks which my delegation and I had in Paris on Monday and Tuesday of this week with President Pompidou, Prime Minister Chaban-Delmas, and members of his government.

I was glad to note once again that the French government are in principle fully in support of great Britain's accession to the European community. I urged that the most important technical problems should be clarified as soon as possible in the negotiations on entry. President Pompidou, too, thought it would not be impossible to get through the main stages of the negotiations before the autumn. So we should all be active in making good use of the weeks ahead. In our exchange of views, we started from your government's declared readiness to participate fully in the Community's financing system after a transitional phase. I suggested in this connexion that Britain should make a bearable contribution to start of with, gradually working up to the full contribution and I advocated the possibility of making a corrective adjustment in accordance with internal community regulations during a further period of three years after the completion of the five-year transitional phase. President Pompidou stated that the transition to a normal contribution would have to be such as to avoid a sudden increase at the end which would be a burden on the British economy. On the other hand, he was not prepared to take a final position either with regard to an adjustment of the initial contribution to a reasonable level or on the extended transition period which I had proposed.

Franco-German talks can of course be only one element of the preparations for ultimate agreement within the community. I do hope that during the discussions within the community it will now be possible to approximate the two viewpoints that are farthest apart, namely your government's proposal of 17th December and the French preference for the suggestion of a heavy initial contribution made by the European commission. If you could find it possible to take into account the arguments put forward in individual member states and in Brussels in response to your proposal of 17th December 1970 this would certainly be conducive to the preparation of a realistic compromise.

In discussing the phase plan for economic and monetary union, we have succeeded in considerably approximating our views and I hope that this will help to facilitate the decisions which will naturally have to be taken within the Community. We should therefore be in a position in the foreseeable future to present our decisions as an option to your government and the governments of the other countries with whom we are negotiating on entry.

I am glad that we shall very soon have an opportunity in Bonn of discussing in detail this and other matters of mutual interest.

Yours sincerely,
sgd. Willy Brandt

The Rt. Hon. Edward Heath, M.P.
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
London

Bonn, den 27. Januar 1971

PRIME MINISTER'S
PERSONAL TELEGRAM

SERIAL No. T. 31/71

Sehr geehrter Herr Premierminister,

Bei den Gesprächen, die meine Delegation und ich in den beiden vergangenen Tagen in Paris mit Staatspräsident Pompidou, Premierminister Chaban-Delmas und Mitgliedern seiner Regierung geführt haben, stand naturgemäss die Fortführung der westeuropäischen Integration im Mittelpunkt.

Ich habe mich gefreut, dabei erneut festzustellen, dass der Beitritt Grossbritanniens zur Europäischen Gemeinschaft im Grundsatz von der französischen Regierung voll bejaht wird. Ich habe mich nachdrücklich dafür ausgesprochen, dass in den Beitrittsverhandlungen sobald als möglich Klarheit über die wichtigsten Sachprobleme erzielt wird. Auch Präsident Pompidou bezeichnete es nicht als unmöglich, vor dem Herbst die Hauptetappen der Verhandlungen hinter uns zu bringen. Die unmittelbar vor uns liegenden Wochen sollten deshalb von uns allen aktiv genutzt werden.

Bei unserem Meinungsaustausch gingen wir von der Bereitschaftserklärung Ihrer Regierung aus, nach einer Übergangsperiode das gemeinschaftliche Finanzierungssystem voll zu übernehmen. Ich habe dabei für eine tragbare Anfangsbelastung und ein stufenweises Heranführen an die Endbelastung plädiert, wobei ich nach Ablauf der fünfjährigen Übergangszeit eine Korrektivmöglichkeit für drei weitere Jahre entsprechend der gemeinschaftsinternen Regelung befürwortete.

Seiner Exzellenz
dem Königlich-Britischen Premierminister

Herrn Edward Heath

London

PART TWO ends:-

Hansard 21/1/71

PART THREE begins:-

Chancellor of W. Germany to PM. (131/71)
§ 27/1/71

Präsident Pompidou erklärte, dass die Heranführung an die normale Belastung in einer Weise geschehen müsse, die einen sprunghaften, für die britische Wirtschaft belastenden Anstieg am Ende vermeidet. Er wollte sich andererseits weder zu der Anpassung der Anfangsbelastung an ein vernünftiges Mass noch zu der von mir vorgeschlagenen verlängerten Übergangszeit abschliessend äussern.

Deutsch-französische Gespräche können bei der Vorbereitung der endgültigen Einigung innerhalb der Gemeinschaft natürlich nur ein Element sein. Ich möchte hoffen, dass bei den gemeinschaftlichen Beratungen nunmehr eine Annäherung zwischen den beiden am weitesten auseinanderliegenden Standpunkten, dem Vorschlag Ihrer Regierung vom 17. Dezember und der französischen Präferenz für den auf eine hohe Anfangsbelastung abzielenden Kommissionsvorschlag erreicht wird. Falls es Ihnen möglich ist, die Argumente zu berücksichtigen, die auf Grund Ihres Vorschlags vom 17. Dezember 1970 in den einzelnen Mitgliedstaaten und in Brüssel vorgebracht worden sind, würde dies sicherlich der Vorbereitung eines realistischen Kompromisses förderlich sein.

Bei der Behandlung des Stufenplanes über die Wirtschafts- und Währungsunion haben wir eine weitgehende Annäherung der Standpunkte erreicht, die uns, so hoffe ich, bei den Entscheidungen, die natürlich in der Gemeinschaft gefällt werden helfen wird. Wir sollten damit in absehbarer Zeit in der Lage sein, Ihrer Regierung und den Regierungen der übrigen Staaten, mit denen wir in Verhandlungen über den Beitritt stehen, unsere Beschlüsse als Option vorzulegen.

Ich freue mich, dass wir sehr bald Gelegenheit haben werden, über diese und andere Fragen gemeinsamen Interesses eingehend in Bonn zu sprechen.

Mit freundlichen Grüssen

gez.

Willy Brandt

Published Papers

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

HOUSE OF COMMONS HANSDARD,

21 JANUARY 1971, COLUMNS 1304-1642

"EUROPEAN ECONOMIC COMMUNITY"

Signed DM Wayland Date 18/12/00

JR J R Green
Prime Minister's Office Records
Hepburn House, Marsham Street

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PRIME MINISTER

E.E.C. Negotiations: Hong Kong

The Community have accepted Hong Kong in principle as a beneficiary of their generalised preference scheme, but with qualifications set out in paragraph 2 of this paper.

It is not considered that there is any prospect of improving the Community offer, and it is recommended that, subject to formal receipt of the offer and our obtaining the concurrence of the Hong Kong Government, the Chancellor of the Duchy of Lancaster should if possible negotiate acceptance at the Ministerial meeting to be held on 2 February.

M.

This note refers to
AE (71) 4 below.

V. McClean 8/3/71

27 January, 1971.

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PRIME MINISTER

E.E.C. Negotiations: Sugar

AE (71) 3 - below.

The conclusions of this paper are in paragraph 16.

It is recommended that when the Chancellor of the Duchy of Lancaster goes to the Caribbean in February he should discuss with the Caribbean Governments a solution to the sugar problem along the lines:-

- (i) that we should agree with the Commission view that firm provision for C.S.A. imports cannot be determined until 1974/75 when the present E.E.C. sugar regime expires;
- (ii) that we should, however, try to get strengthened assurances for the C.S.A. members going beyond what the Commission has accepted, namely that "the future E.E.C. regime must find a reasonable place for imports from the C.S.A. developing countries and that those countries should be given assurances that their interests will be taken into account in determining the new regime."

M.

27 January, 1971.

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Prime Minister,

You expressed doubt about the advantages from our point of view of a summit meeting of the Six at this stage.

You will see from this telegram to Paris that your view is fully shared by the F.C.S.

Am.

27/1

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TO ROUTINE PARIS TELEGRAM NUMBER 718 OF 31 DECEMBER AND TO BONN ROME THE HAGUE BRUSSELS LUXEMBOURG CODEL BRUSSELS COPENHAGEN OSLO DUBLIN AND UKMIS GENEVA.

EEC NEGOTIATIONS: POSSIBLE FURTHER SUMMIT MEETING.

THERE HAVE BEEN A NUMBER OF REPORTS IN RECENT WEEKS THAT THE POSSIBILITY OF HOLDING A FURTHER SUMMIT OF THE SIX DURING 1971 MIGHT BE CONSIDERED IF THE COURSE OF NEGOTIATIONS FOR OUR ENTRY SEEMED TO MAKE THIS A DESIRABLE MOVE. OF THESE REPORTS THE ONLY ONE WHICH BECAME GENERAL KNOWLEDGE WAS THAT ARISING OUT OF THE BRANDT/COLOMBO TALKS AT THE END OF NOVEMBER (ROME TELEGRAM NUMBER 889.)

2. THIS IS NOT AN IDEA TO WHICH WE WISH TO GIVE FURTHER CURRENCY AT THIS STAGE. A SUMMIT OF THE SIX WOULD PRESENT TWO MAJOR DANGERS FROM THE POINT OF VIEW OF OUR NEGOTIATIONS:

(A) ONCE IT HAD BEEN DECIDED TO CALL A SUMMIT OF THE SIX, NEGOTIATIONS IN BRUSSELS WOULD BE BOUND TO STAGNATE PENDING DECISIONS TO BE TAKEN AT THE SUMMIT:

(B) THERE WOULD BE A DANGER THAT THE SUMMIT OF THE SIX WOULD CONCLUDE BY DEFINING A POSITION FOR THE COMMUNITY TO ADOPT IN NEGOTIATIONS WITH US WHICH WOULD BE TOO RIGID TO CHANGE AND TOO DISADVANTAGEOUS FOR US TO ACCEPT.

THE SECOND OF THESE DISADVANTAGES WOULD NOT ATTEND A SUMMIT OF SEVEN. AND THERE MIGHT BE CIRCUMSTANCES IN WHICH WE WOULD FIND A SUMMIT OF THE SEVEN (OR THE TEN) USEFUL. BUT WE MUST RECOGNISE THAT WE WOULD BE MOST UNLIKELY TO BE ABLE TO ACHIEVE A SUMMIT MEETING OF THE SEVEN WITHOUT THERE HAVING FIRST BEEN A SUMMIT MEETING OF THE SIX.

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RECEIVED IN
REGISTRY No. 37
-6 JAN 1971
MWE 2/2

3. WHATEVER VIEWS WE HELD ON THIS QUESTION, THEY WOULD BE UNLIKELY DECISIVELY TO INFLUENCE WHAT THE SIX DECIDE TO DO. AND IT IS NOT SOMETHING ON WHICH WE WANT TO VOLUNTEER VIEWS. IF HOWEVER YOU ARE ASKED FOR VIEWS, YOU SHOULD SAY THAT FOR THE PRESENT WE ARE SATISFIED WITH THE PACE OF THE NEGOTIATIONS IN BRUSSELS, AND FEEL THAT THE BEST COURSE FOR ALL CONCERNED IS TO CONCENTRATE ON MAINTAINING THE PACE IN BRUSSELS AND CONCLUDING NEGOTIATIONS THERE IN SUBSTANCE BY THE MIDDLE OF THE YEAR. THE NUMBER OF OUTSTANDING ISSUES OF IMPORTANCE IS SMALL AND THIS TIME TABLE IS PERFECTLY FEASIBLE GIVEN GOODWILL. IF AT A LATER STAGE, AND CONTRARY TO OUR HOPES AND EXPECTATIONS, NEGOTIATIONS IN BRUSSELS WERE TO RUN INTO SERIOUS TROUBLE THEN A SUMMIT MEETING MIGHT BE DESIRABLE. BUT THIS COULD ONLY BE JUDGED AT A MUCH LATER STAGE AND WE WOULD HOPE THAT IT WOULD NOT PROVE NECESSARY AT ALL. WERE IT TO BE HELD IT WOULD BE MOST IMPORTANT THAT THE ARRANGEMENTS SHOULD BE SUCH AS TO ENABLE US TO PLAY A FULL PART IN THE DISCUSSIONS: IT WOULD NOT HELP TO RESOLVE DIFFICULTIES ARISING IN THE BRUSSELS NEGOTIATIONS IF A SEPARATE SUMMIT MEETING OF THE SIX SIMPLY LED TO A HARDENING OF THE COMMUNITY'S POSITION.

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TO IMMEDIATE FOREIGN AND COMMONWEALTH OFFICE TELNO 58 OF 22
 JANUARY INFO IMMEDIATE TO PARIS/UKDEL TO EC ROUTINE TO CODEL
 BRUSSELS THE HAGUE BRUSSELS AND SAVING TO LUXEMBOURG.

YOUR TELNO 37: COMMUNITY FINANCE.

1. I SAW THE FEDERAL CHNACELLOR FOR 45 MINUTES THIS MORNING,
 AND SPOKE ON THE LINES OF THE INSTRUCTIONS. BRANDT LISTENED
 CAREFULLY. I HAVE THE IMPRESSION THAT HE WAS SYMPATHETIC
 TO THE POINT ABOUT ECONOMIC GROWTH. HOWEVER HE LEFT MOST OF
 THE RUNNING TO SCHEEL. MAIN POINTS MADE BY THE LATTER,
 AND BRANDT'S OWN REMARKS, ARE BELOW. FULL REPORT FOLLOWS BY
 MONDAY'S BAG.

2. SCHEEL BEGAN BY SAYING THAT HE WAS GLAD THAT I HAD EMPHASISED
 OUR WILLINGNESS TO ACCEPT FULLY THE COMMUNITY'S SYSTEM OF
 FINANCE AT THE END OF A TRANSITIONAL PERIOD. THE LENGTH OF THE
 TRANSITIONAL PERIOD WAS A SUBSIDIARY QUESTION. THERE WAS A
 CERTAIN SUSPICION IN THE COMMUNITY THAT WE DID NOT REALLY ACCEPT
 THE FINANCE REGULATION AND IT WAS THEREFORE VERY IMPORTANT
 THAT WE SHOULD MAKE OUR ATTITUDE ON THIS POINT CLEAR BEYOND DOUBT.
 THE MEMBERS OF THE COMMUNITY WERE ATTACHED TO THEIR FINANCIAL
 SYSTEM AND IT WOULD BE USELESS TO TRY TO DISCUSS ADAPTATION.

3. A GUARANTEE CLAUSE WITH LEGALLY BINDING FORCE COULD NOT
 BE NEGOTIATED (EINE GARANTIEFORMEL KOENNTE VERTRAGLICH NICHT
 VEREINBART WERDEN). HOWEVER, THE TREATY ITSELF ENJOINED
 (DER VERTAG SELBEN GEBIETET) THAT SOLUTIONS SHOULD BE FOUND
 FOR UCACCEPTABLE SITUATIONS.

4. THERE WAS DISPUTE IN THE COMMUNITY ABOUT THE TRANSITIONAL
 PERIOD FOR WHICH WE HAD ASKED, OF FIVE YEARS FOLLOWED BY
 THREE YEARS OF CORRECTIVES. THERE WAS ALSO DISPUTE ABOUT THE
 HEIGHT OF OUR CONTRIBUTION. HE SAID THAT IT WAS IMPOSSIBLE TO

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TO CALCULATE THE ABSOLUTE HEIGHT OF ANYONE'S CONTRIBUTION SINCE IT WAS MADE UP, UNDER FIXED RULES, OF LEVIES, CUSTOMS DUTIES AND PROPORTION OF VALUE ADDED TAX. BOTH THE ABSOLUTE AMOUNT AND THE MAKE-UP OF ANY INDIVIDUAL COUNTRY'S CONTRIBUTION WAS SPECULATIVE. FOR EXAMPLE, IF THE UNITED KINGDOM CEASED ALTOGETHER TO IMPORT FOODSTUFFS FROM OUTSIDE THE COMMUNITY, WE WOULD PAY NO LEVIES. IF WE CEASED ALTOGETHER TO IMPORT ANYTHING FROM OUTSIDE THE COMMUNITY, WE WOULD PAY NO CUSTOMS DUTIES. IT WAS REALLY POINTLESS IN THIS SITUATION TO TRY TO PREDICT ACCURATELY HOW MUCH ANY COUNTRY WOULD BE CONTRIBUTING UNDER THE FINANCE REGULATION. HOWEVER, IT WAS THOUGHT IN THE COMMUNITY THAT THE SHARE WHICH WE HAD SUGGESTED, 15 PER CENT, WAS NOT POSSIBLE. IT OUGHT TO BE SOMEWHERE BETWEEN 15 PER CENT AND ABOUT 21 PER CENT. WE HAD SUGGESTED GOING UP IN EQUAL STEPS FROM A START OF ABOUT 3 PER CENT. THIS DID NOT SEEM THE RIGHT LEVEL EITHER. WE OUGHT TO START AT 12 OR 10 OR EVEN 8 PER CENT AND THEN GO UP IN EQUAL STEPS TO A HIGHER FINAL LEVEL.

5. THERE WAS A FURTHER POINT. ENLARGEMENT SHOULD NOT LEAD TO AN ADDITIONAL BURDEN ON THE PRESENT MEMBERS (DER BEITRITT SOLL NICHT ZU EINER MEHRBELASTUNG DER JETZIGEN MITGLIEDER FUEHREN). THE UNITED KINGDOM AND THE OTHER CANDIDATES WOULD BE PARTICIPATING FROM THE START IN COMMUNITY DECISIONS; IT WOULD NOT BE FAIR TO EXPECT THE EXISTING MEMBERS TO PAY EXTRA IN ORDER TO ALLOW THE NEWCOMERS TO DO SO.

6. I SAID THAT I WOULD LIKE TO MAKE TWO POINTS IN REPLY TO THE FOREIGN MINISTER'S REMARKS. FIRST, I THOUGHT IT QUITE REASONABLE THAT THE EXISTING MEMBERS SHOULD WISH TO AVOID INCURRING AN EXTRA FINANCIAL BURDEN AS A RESULT OF COMMUNITY EXPENDITURE ON THE NEWCOMER. BUT OUR OWN CALCULATIONS, WITH WHICH WE UNDERSTOOD THE COMMISSION AGREED, SHOWED THAT THE CONTRIBUTIONS OF THE APPLICANT MEMBERS WOULD MORE THAN COVER, FROM YEAR TO YEAR, THE DRAWINGS THAT THEY WERE LIKELY TO MAKE FROM THE COMMUNITY BUDGET. THERE WOULD THUS BE A NET GAIN FROM THE BEGINNING FOR THE EXISTING MEMBERS. AND IF ONE LOOKED ONLY AT THE BRITISH CONTRIBUTION, WE HAD CALCULATED THAT A SHARE OF 15 PER CENT PAID BY THE UNITED KINGDOM WOULD MEAN A REDUCTION BY ABOUT ONE-FIFTH IN THE SHARES PAID BY EACH OF THE EXISTING MEMBERS. /SECONDLY,

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SECONDLY, I WANTED TO ASK A QUESTION ARISING OUT OF SCHEEL'S REMARKS ABOUT THE TERMS OF THE TREATY OF ROME. HE HAD SAID THAT THE TREATY ITSELF REQUIRED SOLUTIONS TO BE FOUND FOR UNACCEPTABLE SITUATIONS. HAD HE IN MIND ONLY ARTICLE 108 OR SOME OTHER PROVISIONS? ARTICLE 108 WAS APPLICABLE ONLY TO BALANCE OF PAYMENTS DIFFICULTIES. HOWEVER, THERE MIGHT CONCEIVABLY BE OTHER SITUATIONS WHICH WOULD APPEAR TO ANY REASONABLE MAN TO BE UNACCEPTABLE. SCHEEL INDICATED BY NODDING THAT HE ALSO HAD IN MIND OTHER PASSAGES OF THE TREATY OF ROME. (WE SHALL FOLLOW THIS UP WITH HIS OFFICIALS, SINCE IT IS STILL UNCLEAR JUST WHAT HE WAS TALKING ABOUT).

7. BRANDT SAID THAT IT WAS VERY USEFUL TO HAVE HAD THIS TALK BEFORE HE LEFT FOR PARIS. NATURALLY NEITHER THE GERMAN NOR THE FRENCH GOVERNMENT WISHED TO GIVE GROUND FOR ANY FEELING AMONG THEIR PARTNERS THAT THEY WERE REACHING DECISIONS TOGETHER BEHIND OTHER PEOPLE'S BACKS. HOWEVER, THERE WAS NO DOUBT THAT AGREEMENT BETWEEN BONN AND PARIS COULD BE HELPFUL IN REACHING WIDER AGREEMENTS. HE ASKED SCHEEL WHICH THE FRENCH DISLIKED MORE, THE "EXTRA THREE YEARS" OR THE LOW START WHICH WE HAD PROPOSED FOR BRITISH CONTRIBUTIONS. SCHEEL SAID THAT HE THOUGHT THE QUESTION OF THE STARTING LEVEL MORE IMPORTANT.

8. I THEN REPEATED AND EMPHASISED WHAT I HAD ALREADY SAID ABOUT THE IMPORTANCE OF A COMPARATIVELY LOW STARTING LEVEL OF CONTRIBUTIONS TO ENABLE US TO GET THE NECESSARY STIMULUS FOR OUR OWN ECONOMY. IF OUR CONTRIBUTIONS STARTED AT SUCH A LEVEL AS TO CONSTITUTE TOO SERIOUS A TRANSFER PROBLEM FOR US FROM THE OUTSET, WE SHOULD HAVE TO FOLLOW DOMESTIC POLICIES WHICH WOULD ACT AS A BRAKE ON THE ECONOMIC GROWTH WHICH WE NEEDED. THIS WAS REALLY VERY FUNDAMENTAL FOR US. A GRADUAL BUILD-UP WAS AN ESSENTIAL FEATURE OF OUR PROPOSAL, WHICH SHOULD THEREFORE NOT BE SEEN AS A MERE NEGOTIATING BID. INDEED, FOR PARLIAMENTARY REASONS IT WOULD HAVE BEEN UNWISE FOR US TO START WITH AN OFFER TO WHICH WE KNEW WE SHOULD HAVE TO MAKE CONSIDERABLE ADDITIONS. OUR PROPOSAL INCLUDED COMPLETE ACCEPTANCE OF THE CONSEQUENCES OF THE FINANCIAL REGULATION ONCE WE HAD COMPLETED OUR TRANSITIONAL PERIOD AND THE THREE YEARS OF CORRECTIVES. WE ACCEPTED THESE CONSEQUENCES WITH NO QUALIFICATION OTHER THAN THE ASSURANCE, FOR WHICH WE HAD ASKED, WHICH WAS IMPORTANT TO US BOTH FOR POLITICAL AND FOR PRESENTATIONAL REASONS.

/9.

9. SUMMING UP, SCHEEL SAID TO THE CHANCELLOR THAT, AS HE COULD SEE, MUCH PROGRESS HAD BEEN MADE. THERE WAS THE QUESTION OF ECONOMIC AND MONETARY UNION WHICH THEY WOULD BE DISCUSSING WITH THE FRENCH IN PARIS, BUT THIS WAS NO PART OF THE NEGOTIATIONS, WHICH HAD REALLY BEEN REDUCED TO THIS ONE MAIN POINT OF COMMUNITY FINANCE. HE THOUGHT THEY COULD PERFECTLY WELL FINISH BY THE MIDDLE OF THE YEAR.

10. I SAID THAT WE WERE NOT SURE WE HAD UNDERSTOOD THE REASONS FOR THE DISQUIET WHICH THE FRENCH EXPRESSED AT INTERVALS ABOUT THE QUESTION OF STERLING, AND WE SHOULD BE MOST GRATEFUL FOR ANY LIGHT WHICH THE GERMANS COULD CAST ON THE MOTIVES FOR FRENCH ANXIETY. SCHEEL SAID THAT THIS WAS CONNECTED WITH ECONOMIC AND MONETARY UNION. THEY WOULD TALKS TO THE FRENCH ABOUT IT IN PARIS. THE POINT WAS THAT THE FRENCH WERE NOT QUITE SURE NOW STERLING, WITH ITS WORLD-WIDE CONNEXIONS, WOULD FIT INTO THE MORE CLOSELY INTEGRATED EUROPEAN MONETARY SYSTEM TO WHICH THE PLANS FOR ECONOMIC AND MONETARY UNION WOULD LEAD. HE HIMSELF DID NOT THINK THAT THIS CONSTITUTED SERIOUS DIFFICULTY.

11. BROWN THEN, AT MY INVITATION, AND WITH REFERENCE TO SCHEEL'S REMARKS REPORTED IN PARA 4 ABOVE, SAID THAT SURELY THE FINANCE REGULATION WOULD IN PRACTICE PRECLUDE ANY BUT MINOR VARIATIONS FROM YEAR TO YEAR IN THE SHARES IN THE COMMUNITY BUDGET PAID BY THE PRESENT MEMBERS UNTIL THE BEGINNING OF 1978. SCHEEL SAID THAT HE ENTIRELY ACCEPTED THIS. THE POINT HE WISHED TO EMPHASISE WAS THAT ONCE THE PERIOD OF CORRECTIVES WAS OVER, NEITHER THE ABSOLUTE FIGURE NOR EVEN THE PERCENTAGE SHARE OF ANY COUNTRY COULD BE CALCULATED WITH ANY CERTAINTY. THEREFORE THE DECISION ON THE BRITISH SHARE AT THE END OF THE TRANSITIONAL PERIOD WOULD BE A POLITICAL COMPROMISE ALTHOUGH NO DOUBT THE POLITICIANS WOULD WANT TO HAVE LOTS OF STATISTICS BEFORE THEY TOOK THEIR DECISION. I SAID THAT WE HOPED THE COMMUNITY WOULD CONSIDER OUR PROPOSAL VERY CAREFULLY. NO BRITISH GOVERNMENT WOULD BE PREPARED TO COMMEND TO PARLIAMENT TERMS OF ENTRY WHICH SEEMED MANIFESTLY UNFAIR.

12. IN CONCLUSION THE CHANCELLOR SAID THAT SCHEEL AND VON BRAUN WOULD BE AVAILABLE FOR ANY INFORMATION I MIGHT WANT AFTER THEIR RETURN FROM PARIS. IF, AFTER HIS TALKS WITH POMPIDOU, THERE WERE ANYTHING SPECIAL WHICH HE WANTED TO TELL THE PRIME MINISTER HE WOULD QUOTE WRITE HIM A FEW LINES UNQUOTE.

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13. HE SAID THAT HE PARTICULARLY LOOKING FORWARD TO THE PRIME MINISTER'S VISIT IN MARCH. THERE WERE A NUMBER OF CONTACTS BETWEEN BRITISH AND GERMAN POLITICIANS IN PROSPECT. SCHEEL WAS GOING TO LONDON AT THE BEGINNING OF FEBRUARY. ROY JENKINS WAS COMING HERE IN THE SECOND HALF OF FEBRUARY, AND MONNET'S EUROPE COMMITTEE WAS MEETING AGAIN IN BONN ON 23 FEBRUARY. THE THREE MAIN BRITISH PARTIES WERE NOW MEMBERS OF THIS COMMITTEE AND IT WAS IMPORTANT THAT BRITISH PARLIAMENTARIANS SHOULD ATTEND AND MAKE THE MAIN POINTS OF THE BRITISH CASE TO THE SENIOR PEOPLE FROM OTHER COUNTRIES WHO WOULD BE ATTENDING.

14. I THEN THANKED THE CHANCELLOR AND TOOK MY LEAVE. ⁵¹¹² THE COURSE OF THE CONVERSATION DID NOT GIVE ME ANY NATURAL OPENING TO SPEAK ON THE LINES OF YOUR TELEGRAM 718 TO PARIS ABOUT A POSSIBLE FURTHER COMMUNITY SUMMIT CONFERENCE. THE LIMITED TIME AVAILABLE WAS IN ANY EVENT NEEDED TO PUT OVER THE MAIN ARGUMENTS IN OUR PROPOSALS OF 16 DECEMBER. HOWEVER, I WILL SEE THAT THE POINT ABOUT A POSSIBLE SUMMIT IS MADE TO THE GERMANS AT SENIOR OFFICIAL LEVEL.

FCO PASS SAVING TO LUXEMBOURG.

JACKLING

[REPEATED AS REQUESTED]

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EXTRACT

102

Prime Minister's Visit to India
9-12 January, 1971

Record of the Prime Minister's Meeting
with Mrs. Gandhi at 4.45 p.m. on Sunday,
10 January, 1971, at Rashtrapati Bhavan, New Delhi

Present:-

- Mr. Swaran Singh, Minister for External Affairs
- Mr. L. N. Mishra, Minister of State for Foreign Trade
- Mr. T. N. Kaul, Foreign Secretary
- Mr. S. K. Bannerjee, Secretary (West), MEA
- Mr. H. Lal, Secretary, Ministry of Foreign Trade
- Mr. K. B. Lal, Secretary, Ministry of Defence
- Mr. Krishna Murti, Secretary (East), MEA
- Dr. S. Sinha, Joint Secretary, Europe Division, MEA
- Mr. Natwar Singh, Prime Minister's Secretariat
- Mr. B. N. Sarup, Joint Secretary, Ministry of Foreign Trade
- Mr. Prithi Singh, Chief of Protocol
- Mr. S. K. Singh, Director of External Publicity, MEA
- Mr. Prakash Kaul, Deputy High Commissioner, Indian High Commission, London

- Sir Burke Trend
- The High Commissioner
- Mr. R. Armstrong
- Mr. Maitland
- Mr. Moon
- Mr. Sutherland
- Mr. Male
- Mr. Forster
- Mr. Slatcher

CONFIDENTIAL

The Minister for External Affairs, Mr. Sharan Singh, raised the question of the effects on India of British entry to the EEC. He said that in trade matters a special relationship had developed over the years between Britain and India. This had arisen not solely because Britain offered preferences but also because markets in the two countries had become complementary. Despite diversification of Indian trade over the last few years, a hard core of this relationship was left and India depended greatly on Britain in trade matters. India would wish to maintain this relationship after Britain had joined the EEC. He noted that the relationship which had grown up between the existing EEC and certain African countries provided a precedent in that a special relationship had been created. He thought that this exercise would have to be repeated in order to safeguard Indian interests. He went on to say that it was the ultimate expectation of the International Community, and the developing countries in particular, that through bodies such as UNCTAD, the developed and developing countries would come to copy trade practices developed in the Commonwealth. But if the timing of the entry of Britain into the Common Market were such as to disrupt this trend, damage would result not only to India but to other developing countries. He hoped that both sides to the negotiations on Britain's entry to the EEC would attempt to avoid this type of disruption and asked for our good offices in this endeavour.

The Prime Minister said that when the EEC had been set up there were existing connections with African and West Indian countries but not with Asia. It was therefore necessary to work out a solution for Asian countries de novo. The EEC, however, now recognised the problem and the need for arrangements to be made for Asian countries. He would bear in mind the points made by Mr. Sharan Singh. He would refer them to Mr. Rippon.

SINGAPORE BOX

SECRET.



Chancellor of the Duchy of Lancaster

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

R/ 7 January, 1971.

Prime Minister

Interesting; although I wonder if
the interpretation and the nuances
are as reliable as all that.

CW

Dear Sir,

The Chancellor of the Duchy thinks that the Prime Minister
should see the attached minute by Mr. Robinson about French
attitudes towards the negotiations for enlargement of the
European Community. As you will see, it is rather out of line
in some respects with Mr. Soames' reporting from Paris, but
Mr. Rippon thinks that it should be taken seriously.
Mr. Robinson's source of this information, though extremely
reliable, is delicate.

I am sending a copy of this letter, with enclosure to
Ryrie (Private Office of the Chancellor of the Exchequer).

Yours sincerely

C. C. C. Tickell

(C. C. C. Tickell)

P. J. S. Moon Esq.

SECRET.

Mr Tickell

ENLARGEMENT: FRENCH ATTITUDES

Mr. Robinson's minute below is important. But the source of his information, though extremely reliable, is delicate.

2. I think Mr Rippon should see Mr Robinson's minute. It is rather out of line in some respects with Mr Soames's reporting from Paris. I suggest that, if Mr Rippon agrees, you should send a copy of Mr Robinson's minute (he himself agrees with my proposal) to the Private Secretaries to the Prime Minister and the Chancellor of the Exchequer, under cover of a letter from yourself.

1 agree
SA
7/c



C O'Neill

5 January 1971



Sir C.O'Neill

Enlargement: French Attitudes

I had the opportunity over the week-end to ask a French official whom I know well what was really biting the French about sterling and the U.K. economy.

2. He said that there was no single answer. There was a sharp difference of view between Pompidou and Giscard on this question, and Barre naturally sided with Pompidou and he made a lot of the running. For Giscard and for most French officials there was only one point at issue: Britain must so apply the Community rules on capital movements that there was no discrimination in *favor* of sterling area countries against other Community countries. If this was achieved, there were no other points which were susceptible of negotiation. But for Pompidou there was a less clearly defined fear that somehow sterling would confer extra prestige on Britain or that, as we had no doubt heard, a French spokesman in Brussels had put it recently (we have not heard this), "we will all wake up one morning and find ourselves in the sterling area." These fears of Pompidou stemmed from his fear of "being done": he was not a tough banker, but for that very reason he over-acted the tough banker all the time. Nor should we under-estimate the degree to which Pompidou viewed these and all other questions, in terms of domestic politics - in the case of enlargement, this meant the fear that he would be thought by French public opinion to have been weak or not to have got a good bargain for France, and even the fear that political opponents might develop a campaign against British membership on the terms which ^{might} at the time be in prospect with a view to scoring off Pompidou.



3. I find the above an interesting comment from the **wings** on Mr. Soames' latest long letter on French attitudes. In particular, I am personally convinced that Mr. Soames is wrong to suggest that there is no conflict between Pompidou and Giscard over their attitudes to sterling. And it is surely naive of Mr. Soames to accept at its face value, as his letter suggests he does, the sort of pap which Pompidou has been feeding visitors recently about the need to avoid conflict with the United States. In a long conversation about French motives and attitudes with the source of the previous paragraphs not a word was said about U.S. susceptibilities.

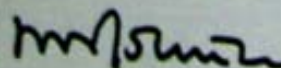
4. It may be further worth recording that my friend told me that advice had recently been given to the Quai by the French Embassy here that

(i) from the point of view of U.K. domestic opinion everything would turn on the success or failure of the present Government's economic policies in the next few months. If by mid-summer there ~~was~~ seemed a prospect of the present Government's economic policies making good, there might not be more than between ten or twenty Conservative defectors over Europe and there should be as many as sixty or seventy Labour supporters which would give the Government a perfectly adequate majority. But if by mid-summer it looked as if economic policies were not succeeding the position would be much more difficult;

(ii) as regards policy in Brussels the British would play the game with Paris and with the Community up to the middle of the year. But if by then it was not clear what terms the French were prepared to settle for on the major issues,

and particularly if by then it seemed that France was making difficulties, then the British would play matters "in a very British way"; they would do all they could to stir up "the friendly Five" against the French and by the end of the year relations between Paris and London would be at a lower ebb than even after the Soames affair.

5. My friend added that he was personally convinced that things would be clear enough by the middle of the year, though "you should not expect things to be written down on the major issues until July, for obvious reasons". I did not ask what the "obvious reasons" were. But I supposed that they stem from a wish to avoid the negotiations being thought to be essentially Franco/British. It has seemed to me that the most significant remark which has been reported to us from Pompidou in recent months was his remark to Mr. Hargrove in December that "while it was true that basically what was happening in Brussels boiled down to a Franco/British negotiation, it would be unwise to present it in this way because if it did not succeed it would only make the breach worse". (Compare Schumann's remark to Marshall at the end of November that the negotiation was not a bilateral Anglo/French negotiation - this à propos business in the first half of next year.) We have nothing to lose by giving the impression from now onwards that the negotiations in Brussels are essentially a Franco/British negotiation. If we are playing to win in these negotiations, we have every interest in making the French fear that, if the negotiations fail, the breach will be very bad indeed.



(J.A. Robinson)
4 January 1971

PART 1 ends:-

~~Sir W. Field to PS Mr - 26.11.70~~

Sir W. Field to Prime Minister, 30 Dec 1970

PART 2 begins:-

~~AE (70) 42 - 1.12.70~~

~~Sir W. Field to PS Mr - 2.12.70~~

J. A. Robinson to Sir C. O'Neill, 4 Jan 1971