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EUROPEAN STUDY GROUP

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EUROPEAN STUDY GROUP: SUMMARY OF THE MAIN RECOMMENDATIONS

The Group recommend that the Conservative Party should pursue the following objectives in the European Community:

1. Maintain the Community as an association of sovereign nations;(III);
2. Secure liberalisation of the internal market (VIIA)-(one dissenting qualification);
3. Promote free trade in the wider world (VIIA);
4. Achieve an equitable trading relationship with the newly industrialised countries and Japan (VIIA);
5. Press for policing of the competition rules (including the possible imposition of counter+vailing duties in the internal market (VIIA);
6. Collaborate in encouraging high technology industries (VIIB);
7. Give greater help for small business through low interest Community loans (VIIB);
8. Maintain our present position on EMS (VIIC);
9. Reform the Common Agricultural Policy by the introduction of quantum for milk and cereals (VIIIB)
10. Seek tighter control of national aids, but accept a take-up by national budgets of social aspects of agricultural policy (VIIIB);
11. Harmonise intervention standard between Member States (VIIIB);
12. Emphasise the success of the Common Fisheries Policy (VIIIC);
reduction in
13. Settle the British imbalance in the budget by (a) /CAP spending; (b) a corrective mechanism or financial equalisation measure; and (c) examination of new sources of 'own resources' (VIIID);
14. Secure aid for restructuring the British coal industry (VIIIE);
15. Consider an oil or energy import levy;(VIIIE);
16. Co-operate in developing fast-breeder reactors (VIIIE);
17. Secure a transport policy to include a liberalisation of road and air transport (VIIIF);
18. Admit Spain and Portugal as quickly as possible but with attempts to tackle problems arising therefrom in advance of their accession (IXB);
19. Oppose any move towards a co-ordinated Common Foreign Policy (IXC);
20. Continue present policy of promoting political co-operation where European interests converge (IXC);
21. Examine possibilities of defence collaboration within^{the} NATO frame (IXD).

1. TERMS OF REFERENCE

1. Our terms of reference were "to consider future policy towards the European Economic Community; and the problem of presenting our membership to the British people in such a way as to ensure that Britain* remains a member and is genuinely perceived to benefit therefrom".

II. THE COMMITTEE AND ITS WORK

2. The Committee consisted of:
 - Lord Thomas of Swynnerton (Chairman)
 - Mr Ronald Halstead CBE
 - Mr Laurence Kelly
 - Mr Michael Latham MP
 - Mr David Myles MP
 - Sir Henry Plumb MEP
 - Sir Fred Warner GCVO KCMG MEP
 - Professor Alan Dashwood (co-opted)
 - Mr Edward Bickham (Secretary)

.../ ASSUMPTIONS

*By this word, we understand the United Kingdom of Great Britain and Northern Ireland, and the authors have throughout used "Britain" as a synonym for "United Kingdom".

III. ASSUMPTIONS

3. The Committee assumed:
 - (a) Britain will remain a member of the European Community;
 - (b) The European Community will continue to be an association of nations;
 - (c) the acquis communautaire must be respected, though it is desirable to use an English expression for it;
 - (d) The Community recognises the position of the US as the guarantor of Western freedom; and,
 - (e) Since Britain is a full member of the Community, and will remain so, it is desirable to make our membership as successful as possible.

4. The nature of the association between European nations in the Community needs to be defined. In the early years of the Coal and Steel Community, many sought a federal union of Europe. President de Gaulle is usually held responsible for the abandonment of this aim but, by the mid-1960s, there was little enthusiasm for it among any of the Community's governments. The Europe of the 1980s is thus an understanding between . nations to collaborate to the common benefit in an increasing number of enterprises. It is an undertaking neither supranational nor international but transnational. The underlying assumption is that cooperation will reduce costs and increase

.../ strength

strength. 'Europe' need threaten neither national institutions nor our alliance with the United States. In the long run, we hope that, by reinforcing the European pillar of the free world, we invigorate the free world itself.

5. This 'Europe of Nations' is the united Europe as in practice desired by Sir Winston Churchill (when in office after 1951), and later taken up by President de Gaulle*. There have been, it is true, federalists in all parties, as there still are in all the states of Europe, and in the European institutions. We respect such idealism. But we see no circumstances in which it would be in our interests to support a federal United States of Europe. If there were such an entity of which we were a part, our law, customs, institutions and language could risk being submerged by practice deriving from Roman Law, the Code Napoléon and the interruptions in historical continuity caused by the French Revolution and the Second World War. But if there were such an entity of which we were not a part, it might lead to the construction of that European power dominating the Channel ports which it has been our mission throughout history to oppose. The understanding that, in foreseeable circumstances, we are determined to avoid the merger of national institutions under a single authority would be tactically correct and electorally sensible.

.../ We

*see his distinctions in Le Renouveau: mémoires de l'espoir, I, p.194.

6. We recognise that a number of critical steps already draws the Community closer together than is the case usually with relations between sovereign states. These are in respect of law. Three principles govern the relationship between European Community law and the law of the Member States: the principle of direct applicability which means that provisions contained in regulations automatically have the force of law throughout the Community (it is not only unnecessary but impermissible to 'naturalise' them by re-enactment); the principle of direct effect which means that, where appropriate, the Community's provisions penetrate to the level of the individual, conferring rights and imposing obligations which national courts are required both to recognise and to enforce; and, the principle of the primacy of Community law, which means that, in the event of a conflict between a national provision and a Community provision, the latter prevails.

7. Effect was given to the three principles by Sections 2 and 3 of the European Communities Act 1972. The result in practice (though not, on one view, in strict constitutional theory) is to transfer ultimate legislative power in the Community sphere to the Community's own institutions. Anything less would have been incompatible with membership.

8. These are enormous concessions which have probably not been fully understood by the public. We regard it as an essential task of the Government to

.../ explain

explain clearly what the Community sphere is. We need to guard against some of the proposals for standardisation of rules and practices undertaken by those in the Commission who hope to create circumstances when "Europe will truly be a state"*. Covert federalism must not be introduced into European politics by civil servants behind the back of electorates. To prevent that is one of the things we expect of British representatives in the European institutions, and the scrutiny Select Committees of Parliament.

9. We believe that it would be helpful to speak of a 'Europe of Sovereign Nations', not a 'Europe of States'. The word 'state' has come in many parts of Europe to denote an organ which, like a bad kidney, has simultaneously become both grossly inflated and progressively weaker. A 'Europe of Sovereign Nations' has also, advantageously, a real historical continuity with the Concert of Europe of 1815-1914 whose contributions to peace and prosperity were on balance beneficial.
10. We do not share the view that, unless Western Europe becomes a real federal entity by the year 2000, the whole edifice may disintegrate. The close association which has been constructed is new and has no precedent, and we believe it will be self-sustaining.
11. The position of the US as the guarantor of the freedom of the West is essential. We must bear this in mind when considering political cooperation**.

.../ HISTORY

* As it was put by Daniel Strasser in The Finances of Europe (Brussels, 1981) p.36

** see Chapter IX(D)

IV. HISTORY

12. The European Community consists of three legally distinct organisations, the European Coal and Steel Community (ECSC), based on the Treaty of Paris of 1951, and the European Economic Community (EEC) and Euratom, based on the two Treaties of Rome of 1957. Since 1967, there has been a common set of Community institutions. The European Community came into being because of:
- (a) the desire to end the rivalry between Germany and France which led to three wars between them in a century;
 - (b) the wish of the original Member States to share the coal, iron, steel and water resources of the Rhine and its basin rather than fight over them;
 - (c) the aspirations towards some kind of European union reflecting a European identity among those who had fought against Nazi or fascist tyranny from within;
 - (d) the belief that European reconstruction, assisted by Marshall Aid, could best be achieved if Member States were progressively to remove barriers to trade (such as quotas and tariffs) between them so as to create a domestic market comparable in size to that of the US; and,
 - (e) the belief that Western European prosperity and unity would be an effective barrier against Soviet advances.

.../ All

13. All British governments, since Mr. Macmillan's application in 1961 to join the three European communities then existing, have concluded that Britain's interests would be served by membership.
14. Those who advocated British membership did so for a combination of political and economic reasons. The political reason was the chance after the withdrawal from Empire to maintain Britain's global place in another large association, and the desire to participate in such common European ventures as might evolve. The economic reasons were much the same as elsewhere in Western Europe. Imperial or Commonwealth Preference was a fading idea in the new circumstances of the late 1950s. Others such as Mr. Macmillan, felt a real identity with the adventure of a "new Europe".
15. British membership of the Community was enshrined in law by the European Communities Act of 1972. We acceded to the Treaties on January 1, 1973. Our membership was approved by a substantial majority of two thirds, in Britain and Northern Ireland, in the referendum of 1975.

V. THE CURRENT STANDING OF THE COMMUNITY IN BRITAIN

16. Opinion polls suggest that the Community is now unpopular, if less so than it was three years ago. The Labour Party has virtually committed itself to withdrawal from membership should it win the election. There are pockets of opposition to the Community in the Conservative Party, and little enthusiasm amongst many of those who accept that membership is desirable. Unlike the state of affairs in all the six original Member States and in the Irish Republic, the issue of European membership remains alive for Britain. Only in Greece (which joined in 1981) and in Denmark, where Greenland has voted by referendum for withdrawal, is the question at all similarly posed.
17. The reasons why the Community is controversial are:
- (a) it has not apparently brought the economic benefits which were promised and anticipated,
 - (b) the Community's budgetary arrangements are seen to be unfair to us,
 - (c) The Community's long-term purpose seems either obscure or actively unwelcome. Despite assumption (b) in para.3 above, which is accepted by most European politicians, there is a fear that we have embarked upon a long-term journey towards a federal state, that Britain has already sacrificed a good part of its 'sovereignty' to no good

.../ purpose

purpose, and that this may lead to an undermining of the 'British way of life',

- (d) food prices are held to have increased because of the Common Agricultural Policy;
- (e) there is a trend in public opinion away from centralised government and away from the idea of further European integration, especially if this were to be achieved at the cost of an extra tier of government;
- (f) the character of the Community has been determined for most of its lifetime by France which, despite our alliances with her throughout this century, fits easily into our public mind as the traditional enemy;
- (g) there is a belief (not always justified) that the British, as a law-abiding people, observe all the regulations of the Community, whereas other Member States disregard anything which is inconvenient to their immediate interests;
- (h) people desire in their political associations to dwell on a historic past. Even revolutionaries often seek to restore some imagined utopia of the past. 'European Union' has no recent past except those under Napoleon and Hitler from which we were (fortunately) excluded;
- (i) the jargon is intolerable; and,

.../ both

(j) both for cultural reasons, and for reasons of blood, many in Britain think of themselves as closer to the US or the old Commonwealth than to Western Europe.

VI. INTEGRATION OF BRITISH POLICY AND COMMUNITY POLICY

18. Our policy towards the European Community is neither wholly domestic nor purely international in character. This is what gives it a peculiar interest. We consider that a strict domestic policy emphasising monetary targets, and diminishing the role of the state, should not be contradicted at the level of the Community by extravagant interventionism. This theme runs throughout our paper. We believe that we shall be acting in the best interests of all free Europeans if we make this approach our characteristic. We may be in a strong position after the next election to give Europe a lead in this matter. We should not accept interventionist policies on the European level where we would not do so on a national level.
19. Wherever intervention is desired, we must know the justification. Among admissible criteria might be:
- (a) long-term defence or strategic interests;
 - (b) where results can be achieved collectively which cannot be achieved nationally;
 - (c) where state aids are practised throughout the Community;
 - (d) where a reduction of excess industrial capacity must be fairly spread throughout the Community;
 - (e) where only the Commission can stimulate individual companies to collaborate to meet competition;
 - (f) where expenditure at the level of the Community

.../ would

would allow savings at the national level (for example science, transport); and,

- (g) where problems are essentially transnational in character (for example, control of pollution).
20. We have seen at home how the growth in the power of the State has diminished the sense of nationhood. We do not think that we can assist the European ideal of collaboration by increasing thoughtlessly the weight of the Community's activities.

VII. ECONOMIC OBJECTIVESVII(A) TRADE(i) General

21. In 1982, Britain had an overall balance of payments surplus of £2.4 billion, and a surplus in its trade in manufactures of about £2.0 million. We had deficits with the Community, ^{the}US and Japan, but those were compensated by surpluses with other countries.
22. Although our exports of oil were important in achieving the surplus, our manufacturing industries are still producing a positive overall balance of payments. Over the last three years there has been considerable pressure put on British industry because of the high exchange rate and world recession. There are, however, other factors now operating in our favour:
- (a) a considerable shedding of labour and ^{an} improvement in productivity;
 - (b) the elimination of much bureaucratic interference, for example, price control, dividend control, exchange control;
 - (c) a much better balance of power between management and trade unions; and,
 - (d) a fall in the rate of inflation.
- 23, These factors, together with the recent fall in the exchange rate to a more realistic level, should

.../ put

put British industry into a good competitive position. It is the opinion of most of our group that removal of barriers to external trade would be beneficial to British industry, particularly if combined with an improvement in world economic growth.

24. This raises a fundamental question: Do we really stand for free trade or is this just a slogan with which to obtain the widest possible entry into other people's markets while covertly safeguarding our own? If it is genuine, is Britain capable of expanding in a genuine common market which has been freed of its non-tariff barriers; or would our industries be swept away? Those of us who have confidence in British industry have taken the view that it can compete perfectly adequately against the French, German and Italians if given a fair chance to do so and if it shows a willingness to grasp new technologies and new structures for production and marketing. But no country or group of countries can practice free trade on its own. If the Community were not to practice free trade internally and externally, there would be no reason for a Community at all and we could as well concentrate on a straightforward military alliance. We do not believe that Europe is moving in that direction - the gestures of self-protection by Member States are instinctive reflexes in the face of the blows of falling output and rising unemployment. Britain, least of all Member States, can finance an autarchic economy.

.../ The Internal

(ii) The Internal Market

25. One reason why Britain led the way to the Industrial Revolution was because, in the XVIIIth century, she was the only large country in Europe with an internal common market. But within a few generations, Napoleon's unitary administrations, the Zollverein in Germany and the truly United States emerging from the American Civil War created national economies whose industries could compete successfully against ours: both domestically and in the markets opening up in other continents.
26. The first half of the XXth century saw the exhaustion of national markets as sufficient bases for industry. American methods of mass-production, initiated by Henry Ford, required larger and larger sales to cover their margins. This was the main economic reason for the plans for Imperial Preference, and later for the foundation of GATT, EFTA and, above all, the European Economic Community. Going into the 'common market' rather than an aspiration to political unity, was the main motive for our accession to the Community in 1973 and its confirmation in the Referendum of 1975 - though European idealism (especially among the young) had electoral significance.
27. The vision of Europe as a society in which goods manufactured in Birmingham would sell as easily in Lyons or Munich as in Taunton or Finchley has been frustrated. It is true that tariff barriers were punctually dismantled, but non-tariff barriers sprang up in their place to protect jobs and high-cost producers in the recession.

.../ The Commission

28. The Commission has initiated legislation against obstacles to trade. But the Council of Ministers, composed of elected politicians, who are committed individually to the defence of national interests and who can shelter behind the "Luxembourg Compromise", have blocked proposal after proposal. It is, therefore, encouraging that the European Council should have decided that the legislative backlog should be cleared as soon as possible.
29. There has been a substantial growth in trade between Britain and the other countries of the Community. The European Community accounts now for 43% of our trade with the world compared with about 30% in 1972. With the exception of Greece, the Member States are all among Britain's twelve most important export markets. West Germany vies with the US as our biggest trading partner.
30. British exports to the Community rose from £2.8 billion to £23 billion in 1982 (£13 billion in manufactures) and 1981, In 1980/ Britain broke even on her trading balance with the EEC, deficits in manufactures being compensated by a positive balance on oil. In 1982, there was a negative balance of £2.2 billion due to a deterioration of the manufacturing trade balance to minus £5 billion.
31. Britain's balance of trade in manufactured goods, however, was deteriorating in the ten years before our entry into the Community. Since accession, our trading balance in manufacturers with major

.../ industrial

industrial countries outside the Community has deteriorated faster than for those within it. The export/import ratio with Japan thus fell from 48% in 1973 to 21% in 1982 and with North America from 96% to 75% for the same time span. For the EEC the ratio averaged 85% between 1973 and 1981 and declined to 74% in 1982.

32. The deficits in manufactures in the Community can be traced to a few sectors. The road vehicle deficit was equal to 60% of the deficit in manufactures in 1980 and steel another 30%. (The steel dispute that year disrupted exports, leaving a deficit of £565 million). In the first six months of 1982, the deficit in manufactured products was £2,422 million. For motor vehicles alone it was £1,210 million; for textile yarn, £269 million; and, for iron and steel, £271 million.
33. British penetration of the import market for manufactured goods in other Member countries has nevertheless improved, save in Denmark and Ireland. Britain's share of West Germany's imports of manufactured goods thus increased from 4.8% in 1972 to 6.8% in 1980. Our share of Dutch imports rose from 6.9% in 1972 to 9.2% in 1980. These shares are still low in comparison with ^{those of} other Member States and there is scope for enlarging them.
34. Many sectors of our industries have done well ^{in the Community's markets} since 1973 (for example, food and pharmaceuticals). Others which can expect to gain from the further opening of the internal market include hauliers, insurance, banking and computer accessories.

.../ The majority

35. The majority* of our group believe we should work out a strategy whereby:
- (a) customs procedures are unified and simplified to allow free movement across internal frontiers so that goods are not subject to lengthy and costly delays. Thus the system of 'bilateral quota agreements' for road transport should be phased out. Opening hours of customs posts should be co-ordinated. A single 'Community Transit Document' should suffice for a single load going to multiple destinations;
 - (b) common standards are established for health, safety and performance so that goods manufactured in one country are automatically accepted throughout the Common Market. These must not weaken the protection afforded by our present/^{national} rules. The Commission's existing programme of technical harmonisation ought to be hastened; reciprocal recognition of national standards ought to be made mandatory where they are substantially similar; financial support may need to be given to the British Standards Institute to develop its work in this way;
 - (c) requirements of the Member States for statistical information are simplified and standardised. This is not a demand for a centralising 'Euroform': rather it is one for a long-term approach to a real equality before the law throughout the Community;
 - (d) a common market is created in services; and,
 - (e) the Commission exercise with the greatest vigour its power to ensure that competition is effective and fair. On the need for strict supervision over the granting of state aid, and the placing of public contracts, see para. 48 et seq below.

.../ To

*see dissenting Appendix to this section p. 24

36. To achieve the above strategy, the Council should lay down timetables for the experts to whom inevitably they must delegate most of this work.
37. The creation of an internal market free from all obstacles to trade is the single most important contribution which the Community can make to economic recovery. *

(iii) The External Market

38. The European Community is now the world's largest trader, accounting for nearly a quarter (23%) of gross world product, one-third of world exports

.../ (this

*

Legislative action is only called for where the national rules that give rise to non-tariff barriers are genuinely necessary to fulfil one of the justifying purposes listed in Article 6 of the Treaty of Rome (e.g. the protection of health of humans, animals or plants) or recognised by the Court of Justice in its case law, e.g. effectiveness of fiscal supervision, fairness of commercial transactions, consumer protection (see case 120/78 Casis de Dijon (1979) ECR 649). All other non-tariff barriers are prohibited in existing Community law. Such illegal barriers can be dealt with in two ways: by an action in the Court of Justice brought by the Commission; or, where appropriate, by HMG; or by an action in the courts of the Member States concerned brought by an importer seeking entry for his goods.

(this includes trade within the Community) and nearly half (45%) of the world's exports in manufactures. As an external trader, it is responsible for nearly 20% of world exports, more than the United States (13%) or Japan (8%).

39. Of all Member States, Britain is the most dependent on exports outside the Community. Although on our own we now account for only around 4% of world trade that external trade represents for us 30% of our national income compared with 13% for the United States and 15% for Japan.
40. As much as at the time of our greatest commercial domination, HMG remains formally committed to the principles of free trade and to the open competition needed to fit us to take advantage of that free trade. Yet we see clearly both the strains under which the GATT is now being put and the threats to its continued existence. We know the strength of protectionism in the United States which, though born of the present recession, may be hard to eradicate in better times if it gets a hold. We know the difficulty of penetrating the market in Japan, itself the most skilful and ruthless of exporters. We have too to deal with the one-sidedness of trade with the newly industrialised countries as, nourished by aid, investment and technology from the West, and ^{with} exports benefiting from our own Generalised System of Preferences (GSP), one after another they assault

.../ the European

the European market while protecting their own producers with towering tariffs or ^{with import} quotas.

41. The economic strength of the Community (and its position as the world's greatest importer) puts it in a good position to defend its interests. The Multi-Fibre Arrangements are an example of the Commission's ability to negotiate an inter-relationship of obligations and quotas which would probably have developed into a jungle of restrictions, had it been attempted individually by each Member State.* Equally striking were the negotiations over steel. While the agreement is painful and substantially reduces access to the market, it did prevent the US from the wholesale protectionism in this sector on which it seemed set. British Steel could not have achieved ^{with the US Government and steel industry} a similar advantage/by negotiating on its own.
42. There are five spheres in which we would like to see the Commission act to defend the trading interests of the Ten:
- (a) GATT. The success of this organisation is essential to the survival of free trade, to its extension to areas (such as invisible trade) where it is lacking, and to fighting new protectionism. Britain can and should fiercely defend its own interests in specific cases at GATT negotiations, but the general advancement of the Community's trading interests should be left to the Commission with appropriate political instructions;

.../ The United

*Some of us considered the MFA scandalously protectionist; another of us thought it too lax.

- (b) The United States.
The Community should maintain the closest links with the US. But in its trade relations, the US are ready to follow ruthless policies in their national interest. They couple this with high tariffs (where expedient), thrusting export policies, and the protection of key industries, particularly those which affect defence. By acting together, Members of the Community can match the size and weight of the US in trade negotiations ;
- (c) Newly industrialised countries. We have noted in para 40 that our trading relations with these partners need redefining. Particular difficulties are constituted by Taiwan and South Korea which enjoy our Generalised System of Preferences but themselves maintain tariffs at 100% or 200% for industries which are strong enough now to compete on world markets without protection. There are other unjustifiable tariffs or quotas in parts of the Far East and Latin America. We believe that the Commission should annually review the Community's GSP to exclude countries or individual industries which have outgrown their need for this concession;
- (d) The Soviet Bloc. The present pattern of East-West trade is damaging to our economic interests. Western governments or corporations are not only persuaded to contribute capital, credit and technology to the Soviet Union but are led at the same time to hand over their own markets

.../ through

(through buy-back or counter purchase agreements). The French and Germans have heedlessly driven this process forward in search of political or commercial advantages. We are strongly opposed to this and believe that the field should be brought under Community influence and scrutiny*.

- (e) Japan. It has taken years of pressure from the United States, from European governments and from the Commission, to drive Japan onto the defensive. Low tariffs now obtain in Japan which in most respects compare favourably with those of other industrialised countries and the first steps are being taken to dismantle non-tariff barriers. During this period, however, the Japanese have made repeated attempts to make special deals with individual governments within the Community. It is still sometimes difficult to resist these offers. Europe now deals with the pressures of Japanese exports with a patchwork of national arrangements. For cars, these range from free import (Denmark and Belgium) through voluntary restraint agreements (UK and Germany) and non-tariff barriers (France), to protection by quota (Italy). No believer in market prices can be happy with these arrangements. We believe that Member States must be ready ^{to apply uniform} to sanctions managed by the Community in order to oblige Japan to share the benefits of free trade with others instead of turning them solely to her own advantage **.

.../ The preceding

* see also para, 220 ^(a) where we consider the strategic consequences of trade with the Soviet Union.

** One of us would prefer to retain a national sanction also.

43. The preceding paragraph raises the question of what sanctions are available to the Community. The Commission has been entrusted with power to administer anti-dumping legislation. But that is not enough to realise the full weight of the Community. Nor is the system adequately staffed.

44. In trade, as in military conflict, Europe should have an ultimate deterrent: in the field of trade ours could be, most of us consider, Community Preference. The Commission, directed by the Council would have the power to threaten the use of duties. We are all opposed to the use in the present recession of Community Preference in the way that Imperial Preference was used in the Great Slump. But, it is represented, the possession of a deterrent does not mean that it will be used, nor that it will be deployed (at worst) other than selectively. The majority of us think it essential that others believe that we are willing to use Community Preference against economic aggression if driven to do so. One of us thinks that if used such a concept would be in breach of GATT and would be a dangerous stimulus towards the achievement of 'Fortress Europe'. Against this, another of us strongly favours use of national tariff barriers if satisfactory Community protective measures cannot be achieved as a matter of urgency.

APPENDIX: DISSENT TO CHAPTER VII(A) BY ONE MEMBER

45. The above chapter, dealt ^(para. 36 et seq) with the European Community's policy for state aids and competition. There was widespread support in our group for a British response which would press for the elimination of artificial non-tariff barriers and other impediments to intra-Community trade. One of our members was unable to agree to many of the proposals, nor indeed to the general spirit of these paragraphs. He believed that the emphasis placed on them would be detrimental to the electoral prospects of the Conservative Party. He argued that there is concern amongst the British people about the loss of British jobs to foreign imports. The only effective way to counter this, he thinks, is by being at least as single-minded as some of our partners. Nothing should be agreed in the Council of Ministers which would allow further penetration of our markets. We must retain flexibility to defend our domestic jobs by all possible legal means. He believed that we could not even rule out semi-legal devices if our Common Market partners do the same. This member of the Group felt also that free trade was not, ipso facto, a Conservative policy at all; it was an inheritance from Whiggism, and it had been the downfall of Conservative governments on several occasions in the past hundred and fifty years.

VII (B) INDUSTRIAL POLICY

(i) Introduction

46. The Treaty of Rome, based on a free market philosophy, makes no provision for a common policy on manufacturing industry. But the recession and competition from Japan, the US and the newly industrialised countries have brought a change, and scattered elements of an industrial policy have appeared: ⁱⁿ such fields telematics, aerospace and telecommunications, as well as in declining or 'doomed' traditional industries. The Commission has argued that a European dimension is usefully created in offering financial help in a considerable number of industries. These attitudes run counter to HMG's own long-term policy of allowing the market to determine success or failure and need careful examination case by case. We must decide which if any of these initiatives should be sustained.
47. Through a number of different instruments, the European Community now makes available loans and grants to the Member States in order to promote industrial change and investment, particularly in less prosperous areas. But although the European budget between January 1, 1973 and 30 June 1982 has provided ^{Britain with} overall grants and loans worth £3510.8 million and £4360.3 million, these monies were received to ^{support} regional or employment policies and were spent without considering the return on investment. But increasingly funds from other sources such as the European Investment Bank and the New Community Instrument are being subjected to proper investment criteria.

.../ State

(ii) State Aids

48. Successful industries all differ. But declining industries are all alike. They are commonly characterised by the need to cut excess capacity; to "restructure"; to create new jobs for redundant workers if possible in the same geographical areas; and to nurse the patient back into profitable production. The difficulty in Britain is that, unsurprisingly, most of the worst cases of industrial sickness are in the public sector: coal, steel, shipbuilding, rail (in contrast to road haulage).
49. The Commission should adopt the following approach to these matters:
- (a) insist on compliance by governments with their obligation to notify it of any new aid scheme and not implement the scheme until clearance has been given under appropriate conditions;
 - (b) order the government concerned to return monies disbursed under any scheme improperly embarked upon;
 - (c) exercise powers to authorise the imposition of countervailing duties by a Member State in respect of aided imports;
 - (d) make the authorisation of aids conditional on the attainment of commercial viability in the medium term;
 - (e) enforce the rule on state aids against public

.../ undertakings

undertakings as strictly as against private ones. In particular, the Commission should monitor the pricing policies of public undertakings, and take steps in any case where prices below cost are attributable to subsidies.

- 5D. Given that most of our partners are likely to continue to regard aid as a necessary instrument of industrial policy, the 'three track' approach of the Commissioner currently in charge of competition policy seems an acceptable compromise. According to that approach, aid should have a European Community dimension; regional aid should promote convergence; and restructuring should go hand in hand with receipt of aid.
- 5I. It may seem undesirable that the Commission should have such wide supervisory powers. But if Britain is to continue to pursue the objective of diminishing the role of the state in the economy, and remain within the Common Market, it is essential that the Community competition rules are rigorously enforced. There is no body other than the Commission that can do this. Even outside the Community, Britain would still suffer the economic effects of aids granted by our ex-partners and we should then no longer be in a position to influence the way in which the Commission exercised its powers. Policy on state aids is an important matter to which we recommend that further study be given.

.../ Steel

(iii) Steel

52. Special reference must be made of steel because, as noted in para 41, the Commission negotiated with the United States in this sector on behalf of the Community's state and private companies. It is the view of the British steel-makers that the Community scheme known as the 'Davignon Plan' has run down the British steel industry more than its European competitors. But when the plan is finished in 1985, it is our view that this may not prove to be so.
53. The criteria for aid to the steel industry by the Commission (with which we agree) are:
- (a) to have regard to the quality of productive assets, and insist that obsolete steelmaking assets are phased out first;
 - (b) to have regard to the 'intensity' of state subsidy.
54. Behind these criteria is the belief that the key position of steel in heavy industry and defence makes it desirable to have a European steel industry. We agree that is indeed desirable. We favour Lazard's ^{type} schemes for reducing capacity. We should also encourage transnational groupings in steel, if they show prospect of profitability. Britain will provide too small a home market to support the investments in development and physical assets necessary to keep up with the new groupings in Germany (Rheinstahl and Ruhrstahl) and in France.

.../ Growth

(iv) Growth Industries

55. The essential need here is to establish a real common market of the size and vitality of the US. The second priority is R & D on a scale that will enable European industry to meet the market opportunity. The third priority is to make it possible for small companies, on which so much depends, to get ^{of capital and technology} the supplies/they need which.
56. Those who favour co-ordination on a European scale argue that competing projects mounted by rival states within the Community may fail, due to the inadequacy of resources, or because of the small scale of national markets, while co-operative projects between European Community countries and companies, with support from the Commission, may hope to capture the European market.
57. There is certainly a European dimension to a number of industries: defence; aerospace; micro-processing; telematics. As examples:
- (a) Aerospace
Airbus looks as if it will prove a success, but the initiative for it did not come through Community decision-making. That success benefits not only British Aerospace, but also the many suppliers who benefit from the new machine tools being installed and the new equipment being commissioned;
- (b) An area in which HMG should back British Aerospace is the imaginative development of the 748 wide-bodied aircraft - the advanced turboprop (ATP). If we were to achieve relaxation of European air routes to benefit regional airports, it would greatly increase the market for this project;

- (c) The European Space Agency (ESA) has launched the Ariane rocket. If this success be continued it will secure commercial customers. There are opportunities in the telecommunications market arising from this;

Telecommunications, Computers, Information

- (d) The Commission's strategy has been to persuade Member governments to open up their public purchasing policies; to co-ordinate national programmes at Community level; and to provide aid, with the help of industry, to universities and specialised institutes. This is in accordance with the principles laid down in para. 55 above. Yet though tender procedures may be functioning transnationally, orders on the other hand are still awarded on a fiercely nationalist basis. A Community-wide complaints procedure is desirable;
- (e) A strategy for European micro-electronics has emerged after eight years of preparation. The ESPRIT* programme costs £25 million. The aim is to promote the infrastructure of the industry, through the development of equipment and techniques for the manufacture of the submicron very large (VI) integrated circuits needed in the late 1980s. Twelve Europe-based lead-companies are involved in this project**;
- (f) HMG will place £200-250 million, with a replenishment from the private sector, to ensure that British computer and electronic companies match Japan's fifth generation computer programme. Such an action would be much more effective when extended to the Community level.

.../ Foreign

* European Strategic Programme for Information Technology

** GEC, ICL, Plessey, Siemens, AEG, Nixdorf, Thomson CSF, Honeywell-Bull, CIT-Alcatel, Olivetti and STET.

(v) Foreign Investment in Britain because of the Community.

58. The position of Britain 'in Europe' has enhanced our attractions for capital investment from third countries, notably the United States and Japan. About half of direct investment by the US in the Community, excluding oil, is now in Britain. Half of Japanese investment in the Community is already in Britain. ^{While} the Japanese prefer manufacturing at home to further investment abroad, they fear that a protectionist Community would exclude their products. Rather than risk the loss of such a huge market, they are now seeking substantial investment in the Community. Among the European countries they prefer Britain because they know English. English is a universal business language; the British legal system is well understood; and corporate taxation is particularly helpful to new business investment.

(vi) A New Industrial Climate

59. The Commission is making determined efforts to launch strategies for the next five years, partly for replacement of declining industries, and partly to encourage a whole range of new industries. We note also a battery of national incentives to invest in industry, some sailing near the wind of protectionism or discrimination. They merit scrutiny to see whether we or the Commission have failed to prosecute infringements of the Treaties; or whether we may be missing lawful opportunities of helping our own industries, especially small businesses.

.../ Hopes

60. Hopes for creating wealth and employment cannot solely depend on high technology. Self-employment leads to full employment. In this respect, we should notice that self-employment on the continent is as a rule twice as usual as it is in Britain. Small companies account for 90% of companies registered within the Community. We should endeavour to see that these enterprises receive encouragement by low interest loans. We are glad to see that this is already beginning e.g. through the EIB under the Ortoli Facility.

VII (C) MONETARY QUESTIONS

61. A distorting element is introduced into all the ideas in the preceding chapters by divergent rates of exchange which are undesirable within an area of free trade and more disruptive than they would be at longer range. We have achieved only one common market in Europe: in agricultural produce. But though this market is far from being as we would like, it could only be established by an artificial unit of account, the 'green' currency'. This led us to an examination of the problems of 'convergence' of a common currency and of the European Monetary system.
62. Provision was made in the Treaty of Rome for eventual co-ordination of the economic policies of Member States, described as "a matter of common concern" (Articles 103-109). Throughout the 1960s, numerous ideas for "economic and monetary union" (EMU) were floated. In 1972 a system of exchange known as "Snake" was devised. The six original Members of the Community joined Snake. . . . So did the new Members of 1973, Britain included. But following speculation, the Pound quit Snake within a few weeks. So did the Lira and the Franc shortly afterwards. Further plans in this sphere culminated in proposals by Mr Roy Jenkins, when President of the Commission, which were taken up by Chancellor Schmidt and President Giscard d'Estaing in 1978. A 'European Monetary System'(EMS) was established at a summit in Bremen. That was described as "closer monetary

.../ co-operation

co-operation leading to a zone of monetary stability in Europe". The exchange rate stabilisation mechanism of the EMS came into operation in March 1979.

63. Britain remained outside the exchange rate mechanism because it was argued that admission to an international monetary system would have rendered it impossible to plan the economy in the way that the then Labour government wished and because of doubts over the long-term strength of sterling. The Conservative government also avoided collaboration with EMS after gaining power in 1979.
64. HMG's line has been that we should support EMS but would not wish to join the exchange rate mechanism until both the rates of exchange and the timing are right for us. It is now argued that the current parities of sterling and both the Dollar and Deutschmark are right for joining EMS. But a new, *more* fundamental difficulty has arisen. This concerns the different (indeed opposite) effects of changes in world oil prices on the strength of sterling and the Deutschmark, and the consequent extreme difficulty of confining the two within one system which operates within narrow bands.
65. In favour of joining the EMS it is argued that the fluctuating value of the Pound over the last two years would have been less drastic had we been participating members of the EMS; and that a zone of monetary stability in Europe would

.../ provide

provide the necessary basis for any successful negotiation of common aims and co-operation with the Dollar and the Yen. The political argument is also made that the EMS is the symbol or pillar of European economic co-operation and full British participation is posed as the acid test of our commitment to the Community.

66. Against our joining, it is argued that the short-term aims of EMS - to ensure the free flow of capital and to establish a convergence of currencies - are actually incompatible.
67. Divergence between different Member States' economic performances is also imposing heavy strains on EMS, although the governments have shown themselves capable of managing smooth realignments of their currencies within the system, and of backing this up with adjustments to their economic policies. The mechanism adopted for EMS makes for sharper and, therefore, more unhelpful realignment of currencies. However, these readjustments outside the limits of the bank are now so frequent as to make it questionable whether the system is working at all and this is hardly surprising, given the opposite approaches to economic discipline of the present German and French governments.
68. Most of us are, therefore, disinclined to recommend any immediate change in our current policy in this matter.

-... / Should

69. Should we wish in the future to pursue the alignment of currencies in Europe again, several of us believe that it would be best to look for a system established round a single currency. At present sterling has its own relations with the Dollar and the Yen, but the other European currencies can only interact with them through the medium of the Deutschmark. Clearly, the system would be easier to handle when there is one recognised medium, but it may be a long time before the ECU can be established as such a currency. A medium terms financial system on a European scale might also be explored. An offer to consider these matters might form part of a genuine attempt at a European New Deal in the aftermath of a long-term settlement of the problem of the budget. It might also be interesting to float the idea of an EMU established with headquarters in London - appropriate because of the City's continuing pre-eminence in finance. The freer the Community's internal market, the more real becomes the need for an arrangement such as EMS.

VIII. COMMUNITY INSTRUMENTS FOR ECONOMIC POLICYVIII (A) REGIONAL AND SOCIAL FUNDS

70. The aims of European regional policy are much the same as those of our own national regional policy. They are: -
- (a) to promote work in areas which are not geographically favoured by proximity to major markets or supplies of raw materials;
 - (b) to realise, through infrastructural support, investment grants and loans, the industrial potential of geographically less favoured areas; and
 - (c) to discourage the concentration of the bulk of industry in limited areas favoured by proximity to major markets, transport networks or raw materials.
71. To reduce the economic diversity between regions is a tenet of the Treaty of Rome. This has meant trying to prevent the Community's industry ending up in a 'Golden Quadrilateral' (South East England, North East France, the Rhine-Ruhr valleys and the Scheldt) by transferring resources for the development of peripheral areas. It is thought that if the diversity be not narrowed, demands for internal protection will grow, as the momentum of productivity and capital investment gather in the successful areas. The way in which funds are spent in each receiving Member State must conform

.../ to that

to that country's own regional policy.

(i) The European Regional Development Fund

72. In Britain, expenditure has been in the Assisted Areas only, save for small amounts from the 'non-quota section' of the Regional Development Fund (ERDF) reserved for old, weak industries, such as textiles and shipbuilding, themselves largely in Assisted Areas. Much of the money is spent on improved communications and services.

British receipts to end 1982	£1035 million
Budgetary expenditure in 1983	£1888 million

(ii) The European Social Fund

73. This has become a training fund for combating unemployment. It includes retraining for redundant workers, training for new technologies, youth opportunity training and schemes to extend the employment of women, the handicapped and racial minorities. Although the rules of the fund are less rigid than those of the ERDF, most funds go to Assisted Areas.

British receipts to end 1982	£881.6 million
Budgetary expenditure 1983	£1974 million

(iii) European Coal and Steel Community (ECSC)

74. Grants and loans are intended to assist redundant workers from pits and steel works subject to closure

.../ and to

and to promote the opening of new pits and works, modernisation of existing plant or alternative employment. Because of the location of these industries, most of this money also has been spent in Assisted Areas.

Our receipts to end 1982	£2385 million
Budgetary expenditure 1983	£ 162 million

(iv) European Investment Bank (EIB) and New Community Instrument (NIC or Ortolí Facility*)

75. The EIB provides loans at favourable rates of interest in practice mainly for infrastructure, energy projects or new industry. It also administers the funds made available under NIC. With the exception of limited amounts (bloc loans) for small and medium enterprises, loans in Britain have been confined to Assisted Areas.

Our receipts to end 1982	£2500 million
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(v) Supplementary Budget Repayments

76. The substantial sums returned to Britain in compensation for over-payment to the Community budget are not specifically intended for regional development. They are earmarked for centrally-funded expenditure infrastructure which go in the direction of assisting economic convergence. But in practice most of the funds have gone to Assisted Areas and thus contributed to regional policy.

.../ The above

* The New Community Instrument is funded by loans raised on the European Market and is lent through the European Investment Bank for infrastructural and industrial developments. The low interest rates are subsidised from the Community's budget.

(vi) Considerations

77. The above adds up to a substantial expenditure on regional development. But the system can be attacked as 'investing in failure'. The return on funds might be higher if they were to go to areas where business wants to go instead of to places where it has failed. This is a most serious argument which we have tangentially discussed before (see para 71 above). Another criticism is that the designation of Assisted Areas is too blunt an instrument and should be broadened to cover 'unemployment black spots' throughout Britain. That in turn has been opposed by those of us who think that no one should get more assistance to get a job if he is unemployed simply because he lives in such an area. These are, however, criticisms which apply to all regional aid schemes, not merely to those of the Community.
78. The Community might be more 'saleable' in those regions of Britain where it is currently unpopular (Scotland and the North) if it were to receive credit for the spending that it makes on regional projects. A 'party of Europe' should ensure that these benefits are well-publicised.. This would require that at least part of the money granted by the Community be additional to funding from national resources.
79. European regional policy pure ignores rural policy which is left to the FEOGA* system as a complex of

.../ agricultural

*The European Agricultural Guidance and Guarantee Fund (ESGGF) (Fond européen d'orientation et de garantie agricole).

agricultural grants. The social aspects linked to a rural policy should form part of regional and social expenditure, even though this competes with our claims on the funds.

(vii) Policy

- 80 (a) The benefits of regional policy should be selectively spread;
- (b) Current policy on additionality should be reviewed;
- (c) Maximum publicity should be given to this side of the Community's work;
- (d) Consideration should be given to Community funding of early retirement schemes;
- (e) We should also allow ourselves to question the fundamental practice behind regional policy and see it as disaster relief of the Marshall aid type rather than as a continent-wide campaign to eliminate the diversity of regions. This emergency aid should be looked on as a plan enabling the peripheral areas to compete more successfully with those already enjoying economic success;
- (f) We would welcome measures to encourage the free movement of labour between Community countries, particularly by use of the Community's well known / scheme of notification.

VIII B THE COMMON AGRICULTURAL POLICY(i) Origins

81 The objectives of the CAP are described in Article 39 of the Treaty of Rome:

"(a) to increase agricultural productivity by promoting progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, particularly labour;

(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;

(c) to stabilise markets;

(d) to assure the availability of supplies;

(e) to ensure that supplies reach consumers at reasonable prices".

82 The CAP was one of the foundations of the European Economic Community. It was the first great bargain between Germany and France, opening the door for German industrial products in France, while granting the French their most important political need, security and prosperity for their farming community. The Germans rightly calculated that this would firmly bind France into the EEC and they therefore agreed to generous financial support for agriculture. The CAP remains the Community's only large-scale common expenditure policy.

.../ The objectives

83 The objectives of Article 39 of the Treaty still remain valid. The phenomenal increase in productivity has, however, turned the Community into a major food exporter. It has disturbed the world market for food products. It has put a strain on the Community's financial resources. The extent and methods of farm price support are now at issue.

(ii) Agricultural Support

84 All industrial countries and many developing countries support agriculture. From the beginning of time it has been customary for governments to guarantee supplies of food for their populations. An entirely free market in food is as improbable as one in labour. But once the principle of fixing food prices has been adopted, those prices must be at a level sufficient to give to the farmer a standard of living comparable to that in other professions or employments. Prices must also offer a return on capital employed. Unfortunately, if these needs are satisfactorily met, the farmer will want to increase his output in order to earn an even better return. All open-ended systems of support therefore drive the producer towards greater production. Many agricultural systems, and the CAP in particular, are open-ended. Attempts to restrain expansion by lowering prices are unlikely to be successful in any way other than a merely budgetary one for, as his margins diminish, the farmer is likely to produce more and more so as to keep up his overall income.

(iii) The CAP System

85 Ministers of Member States meet for an annual farm price review in the spring of each year to agree,

on the basis of the best economic advice, on target or support prices for all the most important commodities, except pigs, poultry, wool and potatoes, which are without any support from the Community. The support prices for the next harvest are fixed in units of account (ECUs), translated into national currencies at the so-called "green" rate. Member States which are subsequently forced to devalue their currencies have been helped by the Monetary Compensatory Amount, introduced in 1969 in order to allow the adjustment of exchange rates without abandoning the system of uniform prices. This provides for export levies, and import subsidies, where a Member State's currency is depreciating; or vice versa, where the currency is appreciating. Without the underlying (though artificial) common currency, no common market in agricultural products would have been possible.

86 There is no uniform method by which the farmer receives the price of his produce. The system varies from commodity to commodity, and even between one country and another for a given commodity, as in the case of 'sheepmeat'. The farmer's income is determined by prices offered by the national Intervention Boards which are designed to handle surplus production, but may take up the whole of a national crop. He may get his payment from merchants, abattoirs, markets or exporters, who are reimbursed by the Community from subsidies, premiums or export restitutions. So varied and complicated are the workings of the Guarantee Fund that no purpose would be served by trying to

.../ describe

describe them here. But some general observations should be made:

- (a) It is not true, as the public seems to believe, that the Community buys and sells farm products. The Fund is an accounting agency which reimburses Intervention Boards, merchants etc, for the difference between their buying prices from farmers and their sale or export prices, for storage and for insurance;
- (b) In spite of the system of fixing agreed prices and the existence of the green currencies, prices are by no means identical throughout the Community for guaranteed products. Local practices can lead to significant differences. In dairy products, for instance, the division of milk consumption between liquid and manufactured, and the different distribution methods (doorstep versus supermarket) produce the price differential which has brought the threat of "cheap french milk" to Britain;
- (c) Parts of the system are grossly inefficient, wasteful and open to fraud. There is room for administrative reform of Intervention Boards and for better financial controls;
- (d) The Guarantee Fund now provides less than half of agricultural support in the Community. The rest is left to unregulated national aids.

(iv) Performance

87 The rapid increase in European food production in the last 30 years is chiefly the result of

.../ technological

technological advance in the breeding of plants, grasses and animals, in agricultural chemistry and in engineering. But without the framework of the CAP, the effects of this explosion would have produced chaotic markets in Europe. We would have seen uncontrollable rivalries, price-cutting and dumping leading to quotas and tariffs and to administrative abuses much greater than the occasional disregard of rulings of the European Court. Moreover, the CAP has given stability to European farmers at a time of social and economic change, which threatened to leave them stranded, as was so often their fate in the past.

88 The British farmer has shared in these benefits. Under the Conservative Government, the proportion of CAP expenditure coming to the UK has doubled since 1979. The butter subsidy, the sheepmeat regime, and hill and less-favoured area subsidy, and the beef premium have contributed to turning the operation of the CAP in Britain's favour. Self-sufficiency in indigenous foods has risen from about 60% in 1973 to over 75%.

89 The CAP has also ensured not only security of supply but relative stability in prices. Taking 1970-72 as equalling 100, the index of the costs of farm production had reached 402 by 1981, those of farm labour costs 508, while producer prices of all agricultural products stood at only 335. Since 1979, the RPI has risen by 51% while the price of foods (covered by the CAP) has risen by 34% and the farm-gate price by only 23%. Only

.../ one-tenth

one-tenth of the increase in the price of food since 1973 can be directly attributed to the CAP; the rest has been due to inflation, and rises in labour, processing, packaging, retail and transport costs. Food manufacturers and the retail system have also made their own considerable contribution to keeping down prices through increased efficiency. Steep rises have taken place in foods not covered by the CAP. Measures should be taken to make these facts/^{better}known.

- 90 A start has also been made on bringing CAP expenditure under control. When Labour was in power, the CAP represented 80% of Community expenditure; thanks in large measure to pressure from the Conservative Government, it has fallen to approximately 65% of a larger figure. The cost of the CAP rose 200% under Labour; under the Conservatives the rise has been about 20%. Support (Community and national) for European agriculture is now no more than (as a percentage of GNP) that given by the US Government to its own farmers. It is also much less than that which Japan provides.

(v) The Problem

- 91 The above advantages are soon forgotten when faced with the major problem of the CAP. Enough has been said to show how this arises. There is no physical surplus of food in a world where vast numbers of people are chronically under-nourished. But there is a serious problem of distribution. The situation is aggravated by the failure of agriculture in Communist countries. The

.../ Community

Community, with its sensational advances in agricultural technology, could pour its surplus resources of food into the gap. But the purchasing power of the world market is strictly limited and those who most need the food can scarcely afford to buy it. The Community is not a cheap producer and the cost of subsidies (export restitutions) to float its surpluses onto the world market is therefore high. The European budget is constrained by the 'own resources' system and there is a clear limit to its power to finance agricultural exports.

- 92 In the first three months of 1983, expenditure was running at 12% above the same period a year earlier. Restitution funds for fruit and vegetables are already almost exhausted. Supplementary budgets will be more than 2 billion ECUs. Huge surpluses are in store and overhang the market. At the same time, effective rates of subsidy are rising, as the US and the Community compete for the limited purchasing power available in the market. An agricultural trade war is threatened which would soon exhaust the Community's budget and begin to drain national budgets too. The cost bears particularly unfairly on Britain, which in spite of the progress described in para 87, still receives proportionally less of the agricultural payments than most other states.

(vi) North and South Europe

- 93 Conflict derives from the different interests of producers in the North and South of Europe. Generally speaking, Mediterranean products do not qualify for intervention (citrus fruits and vegetables) or are proving unmanageable (wine).

.../ The entry

The entry of Spain and Portugal into the Community will much increase the amount of those commodities within the CAP. The bill for olive oil alone will be great. Therefore our view is that such Mediterranean products should not attract the same level of subsidies as those which prevail for foodstuffs produced in the North. The Greek, Italian, French and Spanish view is the opposite and, indeed, discrimination of this kind is contrary to the Treaty of Rome and the spirit of the Community. This problem, therefore, reinforces the general problem of finance.

(vii) Regional Problems

94 Much that is really social or regional policy is covered by the CAP's support grants. Member States which still support a large rural population do not want these people to leave the land for cities where there is no employment for them. All of us have other grounds for wanting to preserve the character of rural areas, as Britain acknowledges in her policies towards the highlands of Scotland, Wales, Exmoor and Dartmoor. The subsidy for hill farming existed before Britain entered the Community and was adopted by the Community as a whole. It has been suggested that the best solution would be to remove the financing of severely disadvantaged farming communities from the Agricultural Fund to the Regional and Social Funds, but there are already heavy industrial demands on these funds. The possibility of poor farming areas reverting to national financing is discussed in the section on reform which follows.

.../ Reform

(viii) Reform

95 Most people agree that reform is desirable and that it will soon be the only alternative to bankruptcy. As this report has shown, there are a variety of reasons which contribute to the need for change.

- (a) The overall rise in surpluses;
- (b) The high cost of their disposal on a limited world market;
- (c) The consequent exhaustion of the resources available for support;
- (d) The huge additional costs which are likely to arise on Spanish accession;
- (e) The unfair balance of British contributions and receipts; and,
- (f) The prospect of a savage trade war with the Americans.

96 We do not propose that the whole CAP be swept away or that agricultural support be abandoned. Before making proposals for reform, therefore, we should be clear what it is that we want to preserve out of the present system and what we want to change. Such aims can be summarised as follows:

- (a) Europe should not return to being a net importer of temperate products, for strategic reasons and because we do not wish to pre-empt resources needed elsewhere in the world;

.../ The cost

- (b) The cost of disposing of surpluses above a level fixed by reference to the average of the 1981/2/3 marketing years should be the responsibility of the producer;
- (c) Farmers in Europe should be assured of fair standards of living. That should include a reasonable return on capital employed and a hope of arresting their increase of indebtedness;
- (d) We should not accept the American argument that agricultural exports are a preserve of the US and other traditional producers. Trading patterns change and Europe has a right to export anything it likes;
- (e) At the same time, by voluntary restraint as in (b) above, and by wise negotiation, we should seek to avoid a collision with our American allies;
- (f) By the same token, Britain should continue to safeguard the interests of New Zealand and the Caribbean and Pacific producers of cane sugar as provided in our accession treaty;
- (g) The emphasis in Community funding for agricultural research should be on new means of decreasing costs;
- (h) Such a lowering of costs should be accompanied by a financial squeeze on price levels which would accelerate the alignment of European prices with world prices;
- (i) The tendency for national budgets to become responsible for an increasing share of support

.../ costs

costs should not be resisted as long as national aids are given in accordance with agreed Community guidelines; and

- (j) Finally, and most important of all, the advantages should be fairly spread. Britain should not pay for the excesses of others. We should hold on to those features (see para 88) which are beginning to benefit us.

97 Many proposals have been made, separately or in combination, for achieving such aims. They fall roughly into the following classes:

- (a) structural change;
- (b) transfer to national budgets;
- (c) pricing policy;
- (d) quotas and quantum; and
- (e) global target quantities.

98 These categories are examined below. No single one of them is suitable to cover all agricultural products, each of which needs separate consideration.

(ix) Structural Change

99 The first serious proposal in this field was the Mansholt Plan, designed to encourage small farmers to abandon uneconomic units and help amalgamation. The number of holdings has fallen over the last ten years. So has employment. But the fall in the number of holdings was probably due as much

.../ to natural

to natural forces as to the inducements offered.

In any case the effect has not been to cut output, since large enterprises often have a higher productivity than small ones.

100 The incentive schemes to bring farmers out of dairy production have failed to limit output and have given birth to some notable abuses.

101 Proposals have been made to convert land from farming to forestry. The scope for this is likely to be small since such schemes are expensive and slow to bring a return to the farmer. But perhaps a more determined effort should be made to apply them to marginal land.

102 The United States have for years run a programme now called the 'payment-in-kind' programme, whereby farmers are paid not to produce. This has been rejected by the Commission as too expensive. Nevertheless, a new study should be made as to why this is satisfactory in the US but not in Europe.

103 Generally, we do not see much scope for early reform through structural change.

(x) Transfer to National Budgets

104 This would afford an easy way out. The fact that 60% of farm support is already nationally funded suggests that we may be irreversibly moving to a system where the Community fixes prices and quantities, while national treasuries pay the

.../ bills

bills. But the system has very undesirable features. The worst is that such direct aids distort competition and are used to give advantage to one national farming community against another. Parity is lost. The Plumb Report drew attention to this in 1981 but the Commission have been unable even to register, let alone control or discipline, such practices. They represent a move away from a basic aim of the Common Market.

- 105 While we would not oppose a take-up by national budgets of suitable features of the agricultural policy, and some excess expenditure, we would oppose a takeover.

(xi) Pricing Policy

- 106 Price restraint has been advocated frequently by the Commission, and has always enjoyed the support of such bodies as the Consumers' Association and the Food Manufacturers Federation. But it has run into fierce political opposition from COPA, the majority of the European Parliament and the Council of Ministers. The only consistent support for it has been from the Conservative Government.

- 107 While prices must indeed be restrained, pricing policy will not in itself solve the problem of surpluses because it contains the fundamental contradiction noted already in para 84 above. If prices come down, farmers can only maintain their incomes by producing more. The conclusion must be that prices and output must be linked, and this has led to the alternative proposals which follow.

.../ Quotas

(xii) Quotas and Quantums

108 Quotas have always been bitterly disliked by farmers. It is only, perhaps, in recent months that the British farmer has fully understood that there must be limits to the extent to which production can qualify for price support. But the question arises, are quotas the best way of fixing limits? They are very blunt instruments. They leave open the problem of how to dispose of unsubsidised surpluses. Certainly, these will not sell remuneratively in world markets. Nor is there enough money to turn them into food-aid. 'Into the fire or down the drain' becomes the farmer's cheapest solution as in the 1930s. This is not an acceptable course with the developing world looking hungrily on.

109 Quantums, or variable quotas, are more sophisticated. Such quotas are fixed in steps, with a declining level of support for each rising level of production. So price and output are linked in a 'quantum'. The system has been applied to the Community's sugar beet regime, with its A,B and C quotas. But it has not restrained production. The mean price for the quantum may justify the farmer in taking up the full entitlement instead of abandoning the lower end in the C quota. Total amounts once fixed are in practice never reduced, while there is pressure every year to get them increased. So while this system could be extended to cereals and to milk, it is not the ideal answer.

.../ Global

(xiii) Global Target Quantities

- 110 This term might be used to describe a further refinement towards which the Commission seems to be moving. This is to decide how much money can be spent on a particular commodity in any year. A price is then fixed and divided into the available sum to show what quantity should be fixed as a target. If this quantity be exceeded, it is carried forward to the next year as the divider for the sum then available, normally yielding a lower price.
- 111 This system has the advantage that the agricultural community knows what it stands to earn. If it produces too much, it earns nothing extra. There is therefore reason to go easy and reduce input costs. But clearly the system cannot work if each producer is trying to grab a larger share of the total target quantity. It must at least be broken down into national allocations. The method could be applied to cereals, milk and sugar-beet, but it is unsuitable for meat. One objection is that this requires too much paperwork, but most of the information is already available from cooperatives and Intervention Boards. For maximum effect, it would need to be reduced to farm allocations on the model of the present sugar-beet system.

(xiv) Application of Possible Measures

- 112 The first general conclusion is that the system

.../ of target

of target quantities described above should be standardised as far as possible and applied with necessary variations to sugar-beet, cereals and milk. These quantities might be determined on the same basis as prices are during the annual review by the Council of Ministers on the recommendation of the Commission. This system would mean also the abolition of co-responsibility levies which are unacceptable to British farmers.

113 We see no advantage in changing the arrangements for beef and sheep which suit Britain well and do not constitute a disproportionate part of spending. We would, however, like to modify the clawback system for lamb.

114 We do not believe that price support for pigs should go beyond the present export restitution payments. But the effects of surpluses and shortages in the pig cycle are too drastic. The present system should be updated and attention given to radical improvements in processing and marketing.

115 Other measures which should be considered are:

(a) an examination of the practices of our own Intervention Board so that it can operate on the same basis as its equivalents on the Continent, and with a view to the removal of all known abuses;

(b) monitoring of Community rules in agriculture;

.../ a campaign

- (c) a campaign by the Commission against the proliferation of illegal national aids; and,
- (d) attention to the problems faced by the British horticultural sector because of unfair competition.

116 Measures of reform suggested by other governments to which we are strongly opposed are:

- (a) an oil and fats levy, designed to drive up the price of margarine and vegetable oil;
- (b) an import levy on imported cereal substitutes for animal feed;
- (c) long term deals to feed the Soviet Union and Eastern Europe which would deprive us of freedom of political action;
- (d) attempts to unload our surpluses onto Third World countries, to the detriment of their own agriculture, by special credit deals or as unsolicited food aid;
- (e) repudiation of the Community's obligations to New Zealand and to producers of cane sugar; and,
- (f) supplementary budgets to support a price-cutting war with the United States.

(xv) Conclusion

117 The Group recognises that satisfactory reform of the CAP can in the longterm come about only by

.../ allowing

allowing market forces a freer rein. Cutting support levels so as to move towards world or equilibrium prices would benefit the consumer and would ensure that profits would go to the efficient.

118 It should be more widely known that Britain used mechanisms of support for agriculture similar to those of the Common Agricultural Policy before we joined the Community. The change from deficiency payments might have occurred anyway, in response to the growing burden which the old system entailed, compared with the relative cheapness to the taxpayer of a system based on intervention. A general return to deficiency payments would be heavy - above Britain's net budget contribution to the Community. This might be as much as £2 billion annually at Britain's present level of costs*. This should be emphasised to the electorate.

119 The measures advocated above will not be easily won. Yet a crisis, which seem every year more likely, may jolt everyone into a receptive frame of mind. Insofar as exhaustion of Community funds forces a shift towards national support, we should of course, be careful that this operates neither to our disadvantage nor to the distortion of the market. The threatened exhaustion of 'own resources', coupled with rising clamour for more support for Mediterranean products, provides the best opportunity since our accession for a thoroughgoing reform.

.../ FISHING

*

This estimate is made by Dr. D.R. Harvey (University of Newcastle-upon-Tyne).

VIII (C) FISHING

- 120 A common fisheries policy (CFP) is now in place with the agreement of all the Member States. Under the CFP British fishermen are able now to catch more fish than ever. This is a famous achievement when we consider that the Government inherited a situation in 1979 where eight Member States were in agreement over a plan which would have been deeply damaging to our interests.
- 121 The principle at the heart of the new policy is that stocks of fish can be maintained or, in some cases, rebuilt, by means of setting a total allowable catch each year. This will be divided between Member countries to reflect historic catch levels, the desire to maintain fisheries in areas for reasons of employment, and some compensation for losses sustained in the waters of third countries.
- 122 It will continue to be necessary to impose discipline in the waters of one Member State in order to rebuild and maintain stocks important to fishermen in another. This by itself is a strong argument for a Community policy.
- 123 Interesting and important questions are raised in respect of control. Responsibility lies with each Member State for all waters under its jurisdiction. The Member States concerned will take legal or administrative action against any vessel

.../ vessel

from within a Community country which breaks the rules. A Member State will draw up a list of authorised landing places, and skippers will be obliged to report, within fifteen days, any trans-shipment made at sea or landings made out with the Community that are subject to quota. When the quota is exhausted, the country concerned will prohibit further fishing of that stock by its own fishermen.

124 In addition, on our proposal, the Commission are establishing a special unit whose task will be to check Member States' fulfilment of their enforcement responsibilities. Inspectors from this unit will make regular visits to the Member States concerned and will have the power of inspection on the spot. They will be able to accompany the national inspector to check that agreed control measures are enforced. The Commission will have the power to ask for information and to call for and to attend an administrative enquiry if it is dissatisfied. The Commission will be able to confirm a cessation of fishing when a quota has been exhausted. A fine of up to £50,000, plus the confiscation of the gear will add up to a major disincentive to over-fish. The only market support measures under the Common Fisheries Policy are those which provide compensation when fish must be withdrawn from the market. This compensation is paid through the fish producer organisations - co-operative bodies set up under Community legislation responsible for marketing a high

.../ proportion

proportion of the fish landed in Britain. There are fourteen such bodies registered at present, based on ports or regions all round the British coast.

125 For France, West Germany and Britain, negotiations on access to the waters of non-Member countries is important because of their deep sea fishing interests. The European Foreign Ministers agreed at the Hague in October 1976 that the Community would set up its own zone of 200 miles and the Commission was given authority to negotiate with third countries along the North Atlantic, North Sea and Baltic coasts.

126 Negotiations with Iceland and Norway were the most important, and most difficult. Following the Cod Wars of the 1970s, Iceland has proved as obdurate in dealing with the Community as it had been with Britain. But the Community did not use its considerable industrial strength against Iceland partly, perhaps, because of its strategic position in NATO. Negotiations with Norway have been more fruitful but Norway has not been prepared to honour any agreement on access to her waters until an understanding was attained between the nations of the Community. It now appears as if Canada may turn out to be similarly difficult.

127 Talks with the Soviet Union on fisheries began in 1977. They prompted a Soviet delegation to deal

.../ with

with the Commission for the first time. Bulgaria and Roumania were expelled from the Community's waters for non-reciprocation as from 1st January 1977, and the Community further managed to establish its credentials here by expelling Soviet fishing vessels from the Community's 'pond'. (This did not apply to the Soviet factory ships).

128 For the first time now for many years, the fishing industry should thus have the prospect of a stable and secure future, enabling fishermen to make rational decisions on investment. Thus we consider that the Government should talk of this major achievement both now and in any election campaign as much as possible. It reflects very well on both the negotiating minister and the Community.

VIII (D) THE EUROPEAN BUDGET(i) Introduction

- 129 The European budget in 1983 will be fl2,500 million. This sum is about 1% of the Community Gross Domestic Product and 2.6% of total public expenditure in the Community. It derives from customs duties (35%); from levies on agricultural imports (10%); and from VAT (55%) - the aim being that each Member State should pay the Community VAT calculated up to 1% of a standardised tax base - actually we pay 6.7% of our VAT receipts to the Community). The budget is determined after negotiations between the Council of Ministers and the Parliament. Countries with higher than average imports from outside the Community, whether of agricultural produce or manufactures, contribute more than the equivalent of a GNP share of Community financing. So do countries where consumers' expenditure covered by the VAT base represents a higher than average proportion of GNP (because, for example, of a low ratio of savings).
- 130 Two-thirds of the budgetary expenditure goes on agriculture and so is concentrated on countries with large agricultural sectors, especially those which produce surpluses. Other programmes, such as the Regional Development and Social Funds, have not been developed so as to change the balance decisively.
- 131 Outside the budget, Member States which import food from the rest of the Community pay ^{at} the higher Community level for these imports, rather than world prices. Member States whose farmers export to other parts of the Community benefit from

.../ receiving

receiving these prices.

132 The impact of the Community's budget is generally a net transfer of resources from countries which produce below-average agricultural surpluses (in particular net agricultural importer countries) to countries which produce large ones. Britain is thus a substantial net contributor within the budget, our largesse only being exceeded after refund by the more wealthy Federal Republic of Germany. In addition, we are a net loser through transfer of resources made in the course of agricultural trade, in common, to a lesser extent, with Germany. But Italy loses a great deal more through this trade. The comparatively wealthy Danes, Dutch and French all make considerable gains through both channels.

133 If no refunds were agreed, and there were to be no major budget reform, the future size of our net contributions might be over £1500 million in 1983/4. In 1979, the Government set about trying to establish the payments to the budget on a more rational footing. In May 1980, a new short-term arrangement for refunds was accepted on the understanding that a permanent solution would be forthcoming by the end of 1981. That was not achieved and it was agreed in May 1982 to extend the arrangement for a further year. This 1982 payment was held up by the European Parliament in December on the ground that, on the basis of the Mandate Report, the Council of Ministers should have solved the 'British Problem' by then. This was put right

.../ in

in February 1983. About £500 million was agreed to be paid to us in a supplementary budget for a series of centrally funded public works and energy. Taking into account the three years 1980, 1981 and 1982, Britain got back almost three quarters of her net contributions. But the long-term settlement of the budget remains unresolved, and 1983 remains uncovered. The budget now dominates discussion between Britain and her partners. We would not exclude out of hand any means of resolving the matter.

134 Whether or no an early solution of our own problems be achieved, a crisis in the budget may anyway soon come, since present arrangements may turn out to yield insufficient money for commitments entered upon. The shortfall, if it is such, will increase after the entry of Spain and Portugal. The critical question as to whether the 1% VAT ceiling can be maintained has been avoided so far by national governments.

135 There are, therefore, two sets of problems:

- (a) those implicit in the Community running out of 'own resources'; and,
- (b) those deriving from our own Budgetary difficulties.

136 The solutions to the first of these ^{set of problems} might include raising the 1% limit on VAT. This is the simplest option and also has the advantage - if a big enough

.../ increase

increase is agreed upon - of allowing enough money from the Community to finance all its needs over the next few years. But HMG believes very strongly that ^{raising the limit} / would remove the financial discipline which presently provides the main incentive for fundamental reforms in the system of contributions and receipts, and would introduce no rationality into that system;

- (b) discussing ways in which certain policies could finance themselves. This could be done on the model of the ECSC, whose policies are primarily financed by levies on the product concerned;
- (c) new 'own resources'. Suggestions might include a levy on the import of fuel; /^{or} a levy on agricultural surpluses.
The idea of a European income tax should be resisted;
- (d) reducing the Community's expenditure, particularly on the CAP. Scope for cuts in CAP expenditure are discussed in Chapter VIII(B). Cuts in other policy areas could not be made on a sufficient scale to make a substantial difference to the Community's overall liabilities.

137 The solution to the second ^{set of problems} of these / might include:

- (a) to increase expenditure in non-agricultural policy areas. This is not realistic (however desirable it may be in its own right) as a means of resolving the British budget problem, since there is no

.../ likelihood

likelihood of increasing non-CAP expenditure to a point at which it would make a major difference to Britain's receipts;

- (b) a new corrective mechanism, which would link gross contributions to Member States' relative prosperity. This could be calculated in a variety of ways, for example as in the scheme involving a 'prosperity differential' put forward by the Chancellor in 1981;
- (c) an equalisation mechanism of the kind used in the Federal Republic of Germany and in most other federal states. This might be of the kind put forward by Herr Lange in 1980: the creation of a fund out of payments by those whose income per capita is above average; the money would be transferred to countries with below average incomes;
- (d) the creation of new 'own resources' (as above) including drawing upon sources of finance to which Britain would contribute less than her share of Community GNP.

(ii) The Tactical Choice

138. All these ideas assume a willingness to negotiate a rational solution among the European partners in the Council of Ministers. Our partners are certainly aware that the problem of the budget will continue to poison the atmosphere of Europe until it is solved.

139 HMG must face the question: should we withhold our contribution if our demands for a general solution are not met?

140 A British decision to withhold part, or all, of the payments from Britain to the European budget

.../ would

would be found illegal by the Court. The financial impact of such a move on our partners would be cumulative. Depending on the agricultural markets, the crisis would eventually become serious.

141 Withholding payments would in one sense solve the problem: Britain would be paying what she considers to be a reasonable amount; the other Member States would be obliged to find ways of carrying the burden. But the Community could not carry on indefinitely in such an irregular situation.

142 There are other possibilities: first, to accept the present state of affairs on the ground that, inequitable though it is, the money concerned is comparatively modest. This gesture would be out of the question. The contribution which we make is substantial in terms of both balance of payments and public expenditure. We reject this idea.

143 Second, we could accept the present state of affairs, both budget and CAP, that is do nothing at all, and set afoot plans for a self-sufficient and exporting British agriculture, at whatever cost. Perhaps such a thing could be achieved, within ten years, so giving Britain advantages similar to those enjoyed by France. This would be expensive, add to the cost of the CAP, and would not fully resolve our budget problem.

144 It has been suggested that if a major discussion of this sort were to be deliberately precipitated, it would be best to await Spanish and Portuguese entry. But the date of entry of those nations

.../ cannot

cannot be predicted and entry will increase the budgetary costs of Southern European agriculture in a way from which we could not benefit. ^{Moreover} Britain would have by then ceased to be among the poorest of the Community nations (see below Chapter IX(C)).

145 If it were decided to withhold our contribution, it would be desirable to couple our suggestions over the budget with a comprehensive programme for reforms affecting all the issues which disturb the Community, and which have been amply stated above with due preparation of our case by the media, throughout the Community.

(iii) Political Considerations

146 The successful negotiation of a new settlement on the budget would have enormous political benefits. The provocation of a crisis from which we emerged the beneficiary would also do so. If our general election were to be in October 1983 or before, the moment of truth might be delayed provided that the Commission brings forward proposals in the early autumn to cover the refund for 1983 in the form of amendments now agreed in principle. If the election were to be in the spring of 1984, it would be difficult ^{however} to delay the crisis unless ^{out-} the lines of a fully reformed budget for future years had been agreed: an eventuality which we think unlikely. We do not think it would be advantageous for the Conservative Party to find herself in a crisis over the Community in the course of the election campaign.

147 An unresolved question is that affecting the legitimacy of several zones of the Community's activity, such as the European Development Fund and the 'Ortoli Facility' which do not come within the budget and therefore are not subject to democratic accountability.

VIII(E) ENERGY POLICY(i) Introduction

148. The circumstances of Members of the Community in respect of supplies of energy differ. Britain and the Netherlands are much less dependent on imports of energy than are the other eight. Britain is the only Member with oil. Britain and the Netherlands have natural gas. The Community's main producers of coal are Britain and Germany, though Belgium, France and Greece have small resources. France has gone further than the other Member States in developing nuclear power. These differences in resources mean differences of interest over both the price of oil and the emphasis to be placed on the idea of diversification away from fossil fuels.

149. The coal and atomic energy sectors in the Community are governed by their own treaties; those of ECSC and Euratom respectively. Other sources of energy - oil, natural gas, hydro-power and the new 'alternative sources' such as solar and geothermal power - fall under the Treaty of Rome. But there are no provisions in that document expressly dealing with energy. The provisions on which action on that matter must usually be based are Article 235, which confers a residual power where action is necessary "to attain, in the course of the operation of the common market, one of the objectives of the Community".

(ii) The Community and the 'Energy Crisis'.

150. During the 1960s the assumption was that oil, then cheap and plentiful, and nuclear power, would be

.../ the energy

the energy of the future. Coal was thought to be facing decline. Conservation of energy was hardly mentioned.

151. That state of affairs changed with the increase in the price of oil following Iranian pressure in 1971, the Yom Kippur War of 1973 and the Iranian Revolution of 1979. The rises in price were brought about by political decisions and the activities of OPEC. Western governments, encouraged by oil companies and financial institutions, concentrated on 'recycling' the funds transferred to the producers, rather than seeking to combat the increases with vigorous diplomacy. The damaging myth of a shortage of energy became established. The power of that myth was shown at the time of the Iranian Revolution. The interruption of supplies was minimal: yet the prices rose.

152. A move towards formulating a broad policy for the Community was made in 1968 when the Commission submitted a memorandum on the subject to the Council. The major impetus came, however, from the 'energy crisis'. The final communique of the Paris Summit of October 1972 included a declaration that "the Heads of State and Government deem it necessary to invite the Community Institutions to formulate as soon as possible an energy policy guaranteeing certain and lasting supplies under satisfactory economic conditions".

153. Measures undertaken by the Community to cope with temporary shortages of oil and to reduce dependence on imports include:

.../ the imposition

- (a) the imposition on the Members of an obligation to maintain minimum stocks of crude oil. This was fixed by Directive 68/414 at 65 days' supply and raised to 90 days' supply by Directive 72/425;
 - (b) requirements that information of various kinds be supplied to the Commission, e.g. Regulation 388/75 on the notification of exports of crude oil and natural gas to third countries and Regulation 1729/76 on the communication of detailed information on the state of energy supplies;
 - (c) provision of financial assistance for projects to exploit alternative energy sources (Regulation 1302/78) and for 'demonstration projects' in the field of saving energy, (Regulation 1303/78);
 - (d) the JET programme of research into nuclear fusion at Culham;
 - (e) the plan, following a decision of the European Council in 1980, to reduce consumption of oil as a proportion of consumption of energy from 54.3% to 40% by 1990. This is proving successful. Last year, the proportion had fallen to 49.5%.
154. These measures do not constitute a 'policy'. They are none the worse for that. We welcome them, so long as they continue to be economically as well as politically justified.

(iii) Recent Developments

155. Despite the concern about supplies of energy, spending by the Community in this field remained low. The

.../ position

position was changed by the Community's First Supplementary Budget for 1983. That provided for ECU 610 million to be spent on energy projects in Britain and Germany during the current year. This was a device to cover budget repayments in the face of the European Parliament's objection to indefinite and undirected handouts. It has probably come to stay, whatever long-term solution to the budgetary imbalance may be adopted by the Council. It gives an opportunity for an examination of objectives in the energy field.

156. 1983 has also been marked by the divisions of opinion and growing weaknesses of OPEC. While this has serious implications for our balance of payments (and perhaps also for the Dutch) it is fortunate for the other Member States. The effect on trade is also likely, on the whole, to be beneficial. It gives the developing countries an increased chance of shedding their indebtedness. We believe that the Community should do nothing to help OPEC countries reimpose previous high price levels.

(iv) Policy - (A) Oil

157. There is no global shortage of energy resources. Temporary shortages do sometimes occur. The Community's measures contribute usefully towards dealing with them. The problems are ^{first} the high price of oil, and second the way that that is fixed not in response to the forces of any market, but by political diktat. The remedy lies in exerting maximum diplomatic and commercial pressure on the OPEC states. This can be done more efficiently

.../ by the

by the Community than by individual Member States.

158. There is a commonly held belief that the Community has 'got its hands on our oil'. We should make it clear that we retain control over the rate of extraction and the disposal of our oil resources.

(b) Coal

159. The ill-judged 'Plan for Coal' of 1974 was symptomatic of the exaggerated reaction to the 'energy crisis'. We must ensure that a proper balance is struck in future between the contribution which coal can make towards reducing dependence on imported oil, and the economic, social and political costs of maintaining the European coal industries. Investment should be directed towards rendering the industries efficient and profitable.

160. HMG should continue to press the Community for a more substantial contribution towards the restructuring of the British coal industry.

(c) Atomic Energy

161. The Euratom Treaty has failed to provide a frame for the development of nuclear power in the Community. Member States, in particular France, have gone their own way. There is divergence in the degree of political opposition to nuclear power in Member States: it is significant in Germany; evident in Britain; and, negligible in France.

162. Co-operation with other Member States in the development of fast breeder nuclear reactors should prove fruitful.

(d) Alternative Sources of Energy

163. Alternative sources of energy should be actively sought ~~but~~ should be subject to tough criteria of financial assessment. When the latter turn out positive, and the circumstances are appropriate, support should be provided by the Community.

(e) Pricing of Energy

164. Pricing should be as transparent as possible; and should not be used as a means of indirectly subsidising manufacturing industry or agriculture. Legal steps should be taken against States providing such subsidies.

(f) An Import Levy

165. From the budgetary standpoint, HMG should consider seriously a Community levy on oil or imports of energy. That would probably be most easily saleable to other Member States if its revenues were to be tied to energy. Depending on the application of GATT rules, it might have further small consequences of a non-budgetary nature by giving a premium to British oil within the market - a benefit similar to, if smaller than, that enjoyed by French agriculture.

.../ TRANSPORT

VIII (F) TRANSPORT

166. Transport represents 6% of the Community's GDP - a larger share than agriculture, which only accounts for 5%. Six million people are employed in the transport sector - a million on railways. No doubt for this reason, and because transport underpins so much else, the Treaty of Rome stated that a common transport policy must be created (Article 74). There have also been attempts by Commission and Parliament to set up an infrastructure fund for transport.
167. The absence of the infrastructure fund in any real sense is due to lack of resources. The basic reason for the failure to achieve a transport policy is the continuing argument as to whether harmonisation or liberalisation should have priority. There is also a deep difference of view between the Member States. The Germans and French believe in propping up their uneconomic national railway systems; the British and Dutch look for cost-effective solutions which give greater weight to road transport. In fact most of the tonnage of goods moved within the EEC now goes by road.
168. There is still no freedom of circulation for goods vehicles. No lorry can cross internal Community borders without a permit. There are two categories of such documents: those issued by the Commission for circulation throughout the Community; and those issued by national authorities for access to their own state. Both are in short supply and

.../ command

command a high price if sold by one haulier to another. The system bears heavily on British carriers who can handle more permits than are available. Yet every year when the Commission and Parliament urge a large increase in the number of permits, the proposals are blocked by the Germans in the Council.

169. Obstacles are also placed to the transit of goods at road frontiers. These arise in part from different traditions in national customs procedures. They are also used as non-tariff barriers to discourage imports. But the main effect is to penalise road transport. The Commission's estimate of the cost in lost time and unnecessary charges is ECU 15 million, and it is well known that there are also very large 'black' expenses. This is an unacceptable burden on trade. In para 35 in our section on the Internal Market, we have already recommended what steps should be taken to abolish the problem. Detailed proposals were also put forward by the Commission in April 1982.

170. Even if these impediments were removed, road transport would be hampered by the fact that the current network is inadequate. It is difficult to improve it because of cost and environmental considerations. There is demand for increasing regulation of heavy lorries. All these controls threaten to distort competition unless standards are applied equally throughout the Community.

171. A field where public support can be expected for Community action is that of air travel. Member States protect their own airlines and so restrict competition; keep fares higher than they need be,

.../ and limit

and limit consumer choice inter alia by restricting new lines from access to passenger routes.

172. There are many other obstacles to trade (for example, France's requirement for documents to be in French and her carnet de passage) which should be abolished.
173. The project for a 'fixed link' across the Channel is being considered by an Anglo-French group of bankers at the request of both governments. The Commission and the European Parliament see the idea as a contribution to Europe's infrastructure, to improving transport, and also promoting a European transport policy as required by the Treaty of Rome. It would seem a psychological indication of Britain's indissoluble relation to the Community. Community finance may be available. Here it would seem is a project with important indirect benefits in terms of raw materials used, employment created, reduction of transport costs, and a collaboration between Britain and the Continent. The majority of us believe that a favourable commitment to it on conditions acceptable to both British and French governments, and to the private sector promoters, would be beneficial. A minority disagrees because they do not want such a psychological link as suggested, or because they see the project as a grandiose economic white elephant.

... Recommended Policies - (i) General

- 174 (a) Adoption of a common transport policy which gives proper regard to the cost-effectiveness and

.../ social

social/environmental aspects of different forms of transport; and,

- (b) Establishment of a transport infrastructure fund when the Community's own resources allow.

(ii) Roads

- 175 (a) Permits should not be used to restrict competition in road haulage and should be phased out;
- (b) The proposals for improving conditions of international road, rail and inland waterway transport should be given effect; and,
- (c) Special lanes should be marked out at borders for specific types of traffic, such as perishable goods.

(iii) Railways

- 176 (a) Technical formalities should all be simplified;
- (b) Wagons should be inspected by the transferor railway with an extension of the existing 'trust' system; and,
- (c) Harmonised provisions for veterinary inspections of livestock and meat are desirable.

(iv) Aviation

- 177 HMG should use every available means, political and legal, to secure liberalisation of air passenger transport within the Community.

(v) Channel link

- 178. The majority of our members favoured a 'fixed link' across the Channel.

IX POLITICAL OBJECTIVESIX (A) INSTITUTIONAL AND LEGAL(i) Political Institutions

- 179 The original plan of the Community entailed an interaction between two institutions: the Commission, which would promote the interests of the Community as a whole; and the Council, on which competing national interests would be reconciled with each other and with the interests of the Community. The powers of the two bodies were evenly balanced. The Commission was to have a monopoly of initiative, the Council of decision. The European Parliament (or 'Assembly' as the Treaties and British statute law call it) and the Economic and Social Committee were to be advisory bodies, though the Parliament was given supervisory functions in respect of the Commission, including a power to force its resignation en bloc by a vote of censure.
- 180 Political reality now diverges from that. The balance between Commission and Council has shifted in favour of the latter. The European Parliament is emerging as a source of power.
- 181 The shift of power from the Commission derived from: the Council's voting practices since the 'Luxembourg Accord' (see para 183 below); the development of COREPER (Commissions des Representants Permanents) as a buffer between Commission and Council; the use by the Council of

.../ its power

its power to request that the Commission submit proposals; Parliament's insistence on producing 'own initiative reports', requiring legislative action; and the establishment of a pattern of summit meetings (subsequently called 'European Councils') which, among other things, lay down policy. Underlying this has been the determination of governments to retain control over matters which they perceived as their vital interests. As a result the Commission's role was fragmented. In some ways its powers have been curtailed. But it still has the major share in the initiation of legislation and in its administration. It has a quasi-judicial role in applying competition law. It has also delegated powers to negotiate with other countries on behalf of the Community. It remains responsible for ensuring that Member States comply with their Community obligations under the Treaties.

182

There are no grounds for seeking to restore the Commission as a centre of countervailing power to the Council. A body of appointees with no political constituency could scarcely fulfil such a function. Policy for the Commission should concentrate on improving its efficiency.* Care should be taken to ensure that all the Commissioners nominated by governments are fit to hold office. At the level of officials, we must encourage first class candidates at recruitment level. With Spanish and Portuguese membership looming, we should consider cutting the number of Commissioners from the large states from two to one.

.../ Since

* There is room for improvement in the efficiency of the Commission, particularly in relation to the completion of the internal market, anti-dumping activities and policies of competition rules.

183 Since the end of the second stage of the transitional period (1965) the Council has been able to take decisions on many matters by a qualified majority. Since the Luxembourg Accords of January 1966, it has been agreed that where 'very important' interests of a Member State are involved, the Council would attempt to reach a consensus, leaving open the possibility of voting as a last resort. Only the French delegation insisted that, in such a case, discussions should continue until a consensus was reached. But since 1966, the practice of the Council has reflected the French view. Thus a right of veto came to be established, not by law (since the Treaties had not been amended) but by convention. This device has been extended to a range of trivial matters.

184 Attempts to reform both the CAP, the system of budgetary contributions and the internal market suggest that Britain would benefit from changes in Council practice that would facilitate decision-making. The changes proposed in the Draft European Act (Part Two, Article 8, paras 2 and 3) should therefore not be rejected out of hand. The proposals are that:

- (a) Greater use be made of the possibility of abstaining from a vote so as not to obstruct decisions;
- (b) A Member State which considers it necessary to

.../ prevent

prevent a decision by invoking its 'vital interests' in exceptional circumstances be required to state in writing its specific reasons for so doing and those might be made publically available; in such a case, the Council to defer a decision until its next meeting; and if on that occasion the Member State concerned again invokes its 'vital interests' by the same procedure, again no decision to be taken.

- 185 The proposal seeks to leave the veto unimpaired while arranging that it will not be lightly used.
- 186 The question of secrecy within the Council should also be reviewed.
- 187 The regular meetings of heads of government 'European Councils' have three functions: laying down future development; resolving issues which have defeated the Council of Ministers; and providing an opportunity for talks on matters ranging beyond the Community. The results of European Councils have sometimes been disappointing, perhaps because of inadequate preparation, and because of the practice which has developed in the Council of Ministers of using the European Council as the final arbiter on numerous matters.
- 188 The possibility of creating a permanent secretariat at this level was considered in the days of Monsieur Georges Pompidou but the Commission thought that it threatened them and it was dropped. We see no need to raise it again.

.../ The change

- 189 The change in the European Parliament is due to its acquisition of powers in respect of the budget under the Treaties of 1970 and 1975; and to its direct election in 1979. The Parliament's powers do not match its ambitions. Thus in legislative proposals Parliament can only express an opinion which can influence amendments introduced by the Commission but which the Council can override.
- 190 Those considerations have led some to suggest a grant to the Parliament of a limited power of co-decision with the Council. Such a power, it is said, could be restricted to measures of a legislative (as distinct from a regulatory) nature, such as those in respect of which consultation of the Parliament is mandatory under the Treaty. This would not lead to any curtailment of Member States' rights to veto measures. It would impose an additional requirement, the assent of the European Parliament, before a Community measure could become law. Parliament might be required to pass or to reject any piece of legislation by a majority of its full membership.
- 191 This did not, however, commend itself to our group. For the foreseeable future we considered that the Council should retain its decision-making capacity. The Council finds it difficult enough to take decisions as it is. This will be even more so if Spain and Portugal join.
- 192 A more exacting role might, however, be found for the Parliament in the revision of control of

.../ implementing

implementing powers that have been conferred on the Commission by the Council. The revised rules could be laid before the Parliament and approved under a negative or positive resolution procedure analagous to the procedures at Westminster.

193 A proposal that the Parliament be given a power of legislative initiative has been discussed. While there is nothing to stop the Parliament proposing legislation to the Commission - and they do in fact make such suggestions - we do not believe that they should be given legal ~~power~~s to introduce or initiate.

194 The draft European Act (Part Two, Article 3) suggests other ways in which the Parliament could be given a worthwhile role: receipt by the Parliament of regular reports from the European Council; consultation of the Parliament before the appointment of the President of the Commission; approval of the Commissioners and perhaps allocation of their portfolios; once the Commission has been appointed, the holding of an investiture debate to discuss its programme; consultation of the Parliament before the accession or association of further states and before the conclusion of international treaties; and the formalisation of existing contacts with national parliaments. We do not see why such powers should be given. We believe that matters of this kind should evolve through practice and precedent over the years, as and when they become fitting. Direct elections are only four years old and hurry is neither needed nor in the general interest.

.../ The European

195 The European Parliament represents a special opportunity and a special risk. The opportunity is that, well inspired, it could be an immense help in a variety of ways, to the resolution, in a libertarian manner, of many of the evils described in this paper. The risk is that so employed the Parliament will seek a consolidation of supranational authority. It should therefore be an essential preoccupation of the Party to ensure that the next generation of elected MEPs is of the same quality as the first one has generally shown itself.

(ii) Technical Institutions

196 The Court of Justice and the European Investment Bank are institutions which have lived up to the expectations of the Community's founders. The Court of Auditors was established more recently but has got off to a good start. Its work is complemented politically by the Budget Control Committee of the Parliament. For present purposes further comment is needed only in the case of the Court of Justice.

197 During the 1970s the work of the Court of Justice increased. Delays resulted. Relief has been provided through additional appointments to the Court and by internal reorganisation. But cases involving disputes between Institutions of the Community and their employees still absorb an unjustifiable proportion of the Court's time. Britain should press for the adoption of a tribunal of first instance for staff cases, from which an

.../ appeal

appeal on points of law only would lie to the Court. Another possibility would be the creation of a tribunal of first instance to deal with competition cases.

(iii) Community Law

195

We noted at the beginning (see paras 6-7) the far-reaching consequences for our law that membership of the Community entails. Some of our group felt uneasy about these consequences and argued in favour of the minimum possible resort by Britain to European legal institutions. The majority, however, disagreed. If the Community appears unduly legalistic to British eyes, that is because law is the 'cement' needed to hold together political compromises. We cannot change the basic rules of the Community: our aim should be to play the game, if possible, better than our partners. We should use Community law to ensure that the other Member States observe the rules of the open market and of competition. At the same time, we should be astute enough to find interpretations of Community law that enable us to advance our national interests. When we feel that action in breach of a Community obligation is unavoidable, we should be clear about our objectives (eg withholding of payments, to force a change in the 'own resources' system); and some attempt should be made to give our action the colour of legality, if only sufficient to head off attempts to obtain an interim order against us in the Court of Justice.

.../ Council

(iv) Council of Europe

196

The European Economic Community is not responsible for the Court, and Commission, of Human Rights in Strasbourg. But their decisions on such matters as corporal punishment in schools or the treatment of prisoners have attracted wide publicity and caused dismay in some quarters, while they have been welcomed in others. These are not Community institutions at all but operate within the framework of a different international organisation, the Council of Europe. A real effort should be made to dissociate legal restrictions on our freedom of action due to membership of the Council of Europe from discussion of the Community. We should consider promoting the change of name of some of these institutions. Secondly, these restrictions show that direct legal effects are not an exclusive feature of the Community. Inside or outside the Community, British governments would still be obliged to comply with decisions on human rights. Not even the Labour Party (at the moment) is suggesting that we should withdraw from the Council of Europe.

IX (B) ENLARGEMENT(i) General

197 Under Article 237 of the Treaty of Rome, "any European State may apply to become a member of the Community". The application first goes to the Council. The Council seeks an opinion of the Commission. The Council (which must act unanimously) takes a decision. Negotiations - which, under the Treaty, are between the applicant state and the Member States - are conducted by the Commission. An Accession Treaty is drawn up and signed on the basis of the negotiations. The Treaty is ratified by the Member States individually and by the applicant state. No consultation is necessary with the European Parliament, but the Parliament would try to insist on such consultation by demanding reports from the Presidents of the Council and of the Commission.

198 There is no legal requirement that all Member States be representative democracies. But applicants have to accept the acquis communautaire. That includes statements expressing the Community's democratic principles. In practice, therefore, applicants must be democracies.

(ii) Spain and Portugal

199 Portugal applied for membership of the Community in March 1977, Spain in July 1977. Both have been democracies since that time. Negotiations began in December 1978 and June 1979. January 1, 1983 was the target date for entry. By 1980 that

.../ appeared

appeared unrealistic. 1984 was substituted. There is now no chance of meeting that target.

200 The table below shows, for each applicant, the dossiers to be completed. The questions affecting Portugal, particularly agriculture and fisheries, seem less complicated. So, without any attempt by France or other countries to obstruct the Spanish talks, Portugal may be ready for admission well ahead of Spain, although it would be preferable to admit both on the same day.

TABLE*

Dossiers, December 17, 1982	Spain	Portugal
Capital movements	Agreed	Agreed
Transport	Agreed	Agreed
Regional policy	Agreed	Agreed
Economic and financial	Agreed	Agreed
Rights of establishment	Agreed	Agreed
Coal and steel	In progress	Agreed
External relations	In progress	Agreed
Customs union	In progress	Agreed
Euratom	Not begun	Agreed
Harmonisation of laws	In progress	In progress
Taxation	In progress	In progress
Social affairs	Not begun	In progress
Agriculture	Not begun	In progress
Fisheries	Not begun	Not begun
Budget contributions	Not begun	Not begun
Institutions	Not begun	Not begun

201 We should do what we can to conclude these negotiations since the uncertainty over the date, and conditions, of their accession damages both the applicants and the Community. At the same time, British experience suggests that problems should not be brushed aside in negotiations in the belief that they can be settled after accession.

.../ Spain

* Source: The Economist, 18 December 1982.

- 202 Spain will increase the size of the Community's farm area by a quarter, will increase 75% of present production of citrus fruits, 55% of output of olive oil, a third of tomatoes and 18% of wine. All these crops are causing trouble to the Community even now with Spain outside.
- 203 The difficulties of negotiating satisfactory terms of entry are immense. If, for example, the resources of the CAP were made available to Spain on the same basis as to present members, the Community would be flooded with wine, olive oil and other Mediterranean products. The same could be expected in the long-term for cereals, meat, horticultural and fruit-growing industries, and this would damage British horticulture badly. The budgetary consequences would also be serious. Another problem is that our trade with the countries of the Maghreb, Egypt and Israel, would have to be abandoned, or much reduced, for a large range of products.
- 204 The economic benefit for Britain in enlargement is that we believe in the desirability of expanding the European zone of free trade as far as we can. Our own food exports should also do very well in Spain. While we welcome recent progress in the negotiations with Spain, the present tariff arrangements between Spain and the Community over motor cars, however, remain one-sided. One pre-condition of a settlement of the problem is that those tariff imbalances be eliminated within, say, three years. Failing that, countervailing duties by both Britain and the Community should be imposed.

.../ The permanent

- 205 The permanent exclusion of a democratic Spain and Portugal from the Community would make the idea of a united democratic Europe ridiculous in the minds of some of us. It would also be a blow to a declared British policy, as well as risking unforeseeable repercussions against the Community in the countries concerned.
- 206 The agreement reached with Portugal and Spain in particularly sensitive sectors must be so slanted as not to make more difficult reforms to which we are committed. The fact, however, that Portuguese and Spanish accession will place strains on the existing system should be exploited by us in pressing for reforms.
- 207 The issue of Gibraltar also dogs the question of Spanish entry. We cannot see that Spanish accession will be acceptable until the Lisbon agreement of 1980 is fully implemented.

(iii) Other Nations

- 208 Three other countries have Agreements of Association with the Community under Article 128 of the Treaty of Rome: Turkey (1964); Malta (1971); and Cyprus (1973). The first of these Agreements makes reference in its Article 28 to the possibility of full membership of the Community at a later date.
- 209 Once the country has returned to a democratic system, Turkey will apply for full membership of the Community. An application in the case of Malta is unlikely while Dr. Mintoff is in power, though the Nationalists are committed to membership of the Community. An

.../ application

application from Cyprus remains unthinkable as long as the island is divided.

210 There is no reason why we should encourage applications from Turkey, Malta or Cyprus. The case of Turkey has been urged on strategic grounds. It is essential to keep Turkey in NATO. If entry into the Community were the price to ensure that, we should be prepared to pay it. But we hope to be able to avoid such a dilemma.

.../ POLITICAL

IX (C) POLITICAL COOPERATION AND SECURITY

- 211 'Political co-operation' is the term of art for the discussions of foreign policy that take place regularly four or five times a year between the Foreign Ministers of the Members of the Community. The aim of these discussions is to achieve an alignment of foreign policy on matters where, it is thought, a joint Community approach will be more effective than separate national approaches. The meetings take place outside the arrangements established under the Treaty of Rome, in what is known as the 'Davignon Committee'. In addition, foreign policy is often discussed at European Councils.
- 212 Matters of foreign policy considered within this framework have included: European security; the Middle East (the Venice Declaration of 1980 is the best known position adopted); sanctions following Argentina's invasion of the Falkland Islands - the instance of co-operation most beneficial hitherto to Britain; agreed voting at the UN; Namibia; Iran and the US hostages; the help given to the development of democracy in Greece, Spain and Portugal; South East Asia; Afghanistan; Lebanon and Cyprus.
- 213 Political co-operation being purely an inter-governmental mechanism presents, in the eyes of the majority of our group, no threat to sovereignty. The government of Members can always decline to participate in joint declarations. Recent examples of this have included the Italian and Irish retreat

.../ from

from sanctions over the Falklands, and the Greek disassociation from the Community position on Poland.

214 Foreign Ministers have expressed satisfaction with this innovation. British Ministers have rightly been given credit for this in the Community institutions. It is also one of the aspects of our European involvement that seems popular with the British electorate. Indeed, the Government has made it a central element in presenting the case for Community membership. From the point of view of the Community, progress towards co-ordinating foreign policy "gives the impression of a Europe on the move" when changed economic circumstances have impeded progress in other directions.

215 The European Parliament has suggested three future directions for the development of political co-operation. These are:

- (a) that a distinction often cannot be drawn between matters of 'foreign policy' and 'security'. Echoing hopes expressed both by Monsieur Tindemans (in his report on European Union in 1975), and in the Genscher-Colombo proposals, the Parliament urged the consideration of various measures of collaboration over defence within the Community;
- (b) that European political co-operation has reached a point where its effectiveness cannot be increased unless there is a move away from the harmonisation of existing aspects of foreign policy towards the

.../ formulation

formulation of a real common foreign policy;

- (c) a permanent political secretariat should be established.

216 Several of us were impressed by the first of the arguments, and even thought we should reconsider the idea of a European Defence Community, naturally within NATO, but taking into account that the US may not forever be willing to make sacrifices for a Western Europe now rich and economically self-assertive. Others felt that any such idea might risk decoupling from the US - bearing in mind that the prime aim of the Soviet Union is to seek to divide NATO. Most of us thought these matters could, with advantage, be investigated, particularly in the light of recent Franco-German discussion on collaboration over defence. But there were dissenting views on this suggestion in view of the present troubled attitudes in Europe towards the US nuclear shield.

217 In respect of the other two recommendations there was some disagreement within our group. We all took the view that the formulation of a fully-fledged European foreign policy was incompatible with our assumption that we will continue as a community of sovereign nation states. Disagreement concerned the desirability of seeking to extend the existing system of co-operation.

218 Some members of our group thought that the 'over-arching' principle of European foreign policy was unclear. A common foreign policy seemed to them

.../ to be

to be a serious and unnecessary abandonment of national sovereignty and freedom of action. They also argued that the achievement and presentation of a joint European view on most matters was so cumbersome and slow as to be impractical as a method of diplomacy. Those members consider that the Community may already have taken up positions which have adversely affected the Western Alliance and that skilful diplomacy is needed to prevent the US and Western Europe from falling out any further.

- 219 The majority view was that Britain should continue to play an active part in promoting political co-operation, while reserving the right, like other Members, to act independently where our national interests so require or where it proves impossible to reach a collective position that is sufficiently firm and forthright.
- 220 We all agreed that areas of policy where the Community might be drawn in with benefit included:
- (a) the discussion of a common economic policy in conjunction with the US towards the Soviet Union. The West has never used its economic power effectively in this area. We should consider whether any such steps are useful or apposite;
 - (b) discussions with our partners over mutual assistance in the interests of security where one or other Member of the Community have residual imperial responsibilities; particularly in the Carribean; and,
 - (c) taking initiatives in the interests of the West as a whole in those conditions where the United States is distrusted because of historical circumstances or because of its 'super power' status.

IX (D) ATTITUDE TO OUR PARTNERS

- 221 Our policy towards the Community depends a great deal on the attitude taken up by our partners. We are separated by more than economic and political questions and even when these seem to be the sticking points, cultural and historical differences are often the real reasons for the apparent technical problems.
- 222 The first question affects France. Relations between us have gone through innumerable changes during this century. But the question needs coolly to be asked: Can Britain and France co-exist within one system? Certainly the French, however over-bearing they seem, can co-exist with other States. We see the Franco-German axis producing close co-operation between France and Germany on a range of matters. That does not depend exclusively on personalities; it has made the transition from President Giscard's friendship with Chancellor Schmidt to that of President Mitterand with Chancellor Kohl. The French are now renewing attempts to come to an equally thorough understanding with the Italians and may succeed. This reflects thirty years' joint membership of the Community and the exploitation of the common standpoints and habits of working together which developed between the founder members. The acquis communautaire is as much a psychological reality as a body of law or practice. Britain cannot leap over the twenty years of our absence during the formative stages of the Community.

.../ Though

223

Though there may be mutual distrust, the French are not in principle opposed to working with us. But some French politicians consider that France made her essential sacrifice when she opened the doors of the Community to let us in. This view appears to have been in no way modified during the ten years-of our membership. Three things can be said about it. First, the French are not entirely the dominant force in the Community. The majority are often with us, particularly in opposing such outrageous French ideas as the "reconquête du marché intérieur". Second, the French could cause us as much damage if we were out of the Community as they can while we are members. Third, the British Labour governments of 1964-70 and 1974-79 mishandled their relations with France. So the conclusion to this unsatisfactory state of affairs is in the future. The more determined our negotiating posture, the more difficult it will become for the French to have their own way.

224

This tension between Britain and France has probably been the cause of the ineffectiveness of the Council of Ministers. That body, which should be the regulator of the Community, has proved to be its least effective institution. Its strategic role has passed to the European Council (see Chapter IX (A)). Each Member State has taken a blocking role in the Council where it has believed a vital interest to be at stake (Britain on farm prices, Germany on commerce and transport, Denmark on fisheries). Still France has consistently used

.../ the threat

the threat of veto to block the workings of the Common Market and has piled up the backlog of draft directives and regulations. An equitable solution to Britain's budget contribution would probably have been found had it not been for the French defence of the present system.

225 The other partners in the European Community are very much easier to deal with though Belgium historically has been influenced by French thought, and though even Italy can look back to the Napoleonic era when the French armies brought what passed for liberty and reform. For Germany the Community remains the only way that they can act on the world scale¹⁰ which their economic strength would have entitled them.

X GENERAL TACTICS AND PROMOTION(i) Introduction

- 226 We do not expect that Britain's membership of the Community will be a decisive issue in the elections to be fought in 1983 or 1984. It is however essential to have clear in our minds the basic arguments why we support membership of the Community and how this policy should be put across.
227. Britain should remain a member of the Community because:
- (a) the Community has helped to underpin peace in Western Europe, particularly between France and Germany;
 - (b) the Community makes a major contribution to the prosperity of developing countries;
 - (c) only by so doing can she play a part in its activities and influence their course in ways beneficial to us;
 - (d) on balance, and even in recession, membership of the Community has brought us economic benefits;
 - (e) the Community's institutions and policies provide us with a frame within which we can solve a variety of problems in collaboration with our neighbours;

.../ ten years

- (f) ten years after accession, and eight years after the referendum, to abandon the Community would do great harm to the British economy and to Britain's international standing as a reliable international partner;
- (g) we can best safeguard the commercial interests of Commonwealth countries from within the Community;
- (h) we are best able from within the Community to keep Western Europe anchored into friendship with the US, Canada, Australia and New Zealand, and the rest of the free world;
- (i) the Community since 1958 has given a degree of prosperity to its original members which they do not believe ^{that} they would have achieved on their own;
- (j) The Community, through economic and political collaboration, reinforces the Western alliance, our main guarantee against Soviet aggression; and,
- (k) the Community helps to guarantee the economic liberty essential to the preservation of political liberties, as the Prime Minister stated in a speech at Birmingham in June , 1979, in the context of the European elections.

(ii) Promotion

228. We should promote our membership of the Community by making use of the following arguments in political discussion (in addition to a selective

.../ use

use of the points in the paragraph above, particularly
(a) :

- (a) We have had material benefits which outweigh short-comings. The best estimate which we have discovered suggests that, through investment and trade, membership of the Community has added about £3000 million to the British Gross Domestic Product;
- (b) We have had £3500 million in grants, and £4600 million in low interest loans, since 1973. This has been particularly helpful in respect of employment. Thus in 1982 Britain received a third of the European Social Fund's allocation, much of it going to the Manpower Services Commission. These figures exclude grants and loans through the ECSC. Our payments to the Community have been £3911 million.
- (c) US and Japanese investment in Britain as the English-speaking member of the Community is encouraging;
- (d) Our association with inter-bloc trade through the Community is also a great help: we doubt whether British Steel could have gained as successful a bilateral understanding with the US if it had been left to itself;
- (e) The fisheries agreement gives a filip to this ancient business;
- (f) The CAP has provided stimulation to British agricultural production which enhances our balance of payments. It provides security of

.../ supply

supply. Its effect on food prices has been less damaging than is generally thought. Farmgate prices for food over the past ten years rose by less than the overall rate of inflation;

- (g) With the shift of trade towards the Community, many jobs depend on our membership;
- (h) We stand generally to gain from harmonisation of standards of production and the general acceptance of our own safety levels in countries with which we are certain anyway to have close political and economic relations;
- (i) Membership of the Community guarantees mutually beneficial understandings with all the nations which adhere to the Lomé Convention. We might not be able to establish, or re-establish, such links if we were to withdraw;
- (j) Despite the much flaunted renegotiation by Sir Harold Wilson's government in 1974-5, the present Government inherited in 1979 a budget much to our disadvantage. Little had been done about it by the Labour government, nor had they convinced our partners of the seriousness of the problem. The Conservative Government have done the latter. Some of the Community's programmes have also been cheaper under us than them: for example, the CAP increased 200% between 1974 and 1979; between 1979 and 1982 the increase was 20%; and,
- (k) Collaboration between Member States is important in environmental matters (particularly in combatting

.../ pollution

pollution) which shows no respect for national barriers.

(iii) The Position of Other Parties

229 Labour politicians may be expected to present the Community as a scapegoat for such weaknesses as are still evident in the British economy; to blame the Community for penetration by imports; to argue that the Community weights the economic balance in favour of capitalism; and to dwell on the expensive and protectionist agricultural policy. They will argue that membership of the Community would prevent a Labour government from implementing the so-called "alternative strategy" for which they hope to secure a mandate at the General Election.

230 The Liberal and Social Democratic Alliance may suggest greater depth of commitment towards the Community; may criticise the Government for some of its policies towards Europe; and may suggest we have been excessively nationalist. There is no evidence that such views have any body of support.

(iv) Other Considerations

231 We detect, particularly amongst businessmen and amongst our own supporters, a measure of disaffection with Community membership founded not so much upon hostility as upon disappointment. This is the first sector of opinion which we need to win back, although to do this it probably needs to be identified more precisely with the aid of opinion

.../ research

research. The Government's recent booklet, Positive Approach, was a useful beginning here. The Community is moving, albeit slowly, along the path set out in the Treaty of Rome and this is consistent with both British interests and with Conservative policy.

232 It would be beneficial to remind our own supporters that the basic principles of competition set out in the Treaty of Rome are Conservative ones.

233 Our main task must be to prove to the electorate what we claimed in 1979: that a committed attitude to the Community will yield dividends in the form of a better deal for Britain. In this connection, we must make sure that we have something to show for the 'reforms' we have been pressing for (e.g. the completion of the fisheries policy, short-term/^{considerations}on the budget, improvements to the CAP).

(v) Conclusion

234 Ours is essentially a practical approach to the Community. This is not to say that there is no room for idealism, but to recognise that idealism can play only a small part in our efforts to persuade the British people that we belong in Europe and that the Conservatives can be relied upon to make a success of our membership.

235 We have to make a connection in people's minds

.../ between

between the problems which most concern them and what our membership of the Community can do to help. If we do not do this, our ideas for the Community's future will seem irrelevant. We are handicapped by the fact that the Community's institutions and policies are so framed that they have little immediate and-obvious impact on prices, or law and order, housing, education, employment, industrial relations, or many of the other issues which are to be found amongst people's main concerns.

236

Some simple concept or symbol is needed to enable us to convince the electorate that membership of the Community is likely to increase our security and prosperity. Unoriginal though this may at first seem, it might be best to concentrate again on the role of the Community as a 'market'. The market is a rich, old and grand idea. The great fairs of medieval Europe were the beginning of the rise of the West. They symbolised a common commercial interest which transcended national frontiers. They were one of the principal means whereby Europe maintained contact - not solely commercial - with the outside world. More ancient than 'nation states' and perhaps more benign, the picture of Europe as an international market whose rules and conventions we both accept and help to frame in order to be able to take our wares there, is surely attractive. The rules are elaborate because the market is an ambitious one, embracing a population already larger than that of the United States and - with the accession of Spain and Portugal

.../ larger

- 'larger than that of the Soviet Union. To work together by creating a common market on this scale is itself a bold experiment: and to harness the Community's prosperity, and to put that in the service of common ideals, is a still bolder enterprise, in which Britain can take a leading part.

MARCH 31, 1983

ANNEX. THE SCOTTISH DIMENSION(i) General

237. Scotland's relation with the European Community puts one in mind of a remark of General Patton about Mr. Stettinous: "Why does he hate me so? I've done nothing for him". There are few areas of Europe which have benefited more from grants, loans, and a huge market for the new technological products which are changing the industrial structure of Scotland. Yet the animosity against the source of this bounty continues - in Glasgow in particular and Edinburgh - for different historical reasons. In the country, this is less marked.
238. Since accession to the Community, Scotland has indeed had the lion's share of the funding in Britain, averaging more than 25% of the grants and loans made available by the Community (sometimes nearly 40%). The 'Less Favoured Areas Directive' within the CAP has been a lifesaver to Scottish hill farming. The sheepmeat regime negotiated by the Minister of Agriculture and Fisheries in 1979 has been the same. The Common Fisheries Policy agreement has particular significance for Scotland with its large inshore fleet. Already boatyards are re-opening. Others are taking on extra labour as a direct consequence of the agreement and the confidence it has given to the industry. Some of the quality fish processors in the North East are recruiting extra labour. The new Sea Fish Industry Authority should seize on the opportunity to improve the marketing of fish both at home and in Europe.

- 239 Food, drink and tobacco remain Scotland's biggest export categories. (Oil is not included as a Scottish export). This is because of the whisky industry's exports - £871 million last year. Over the ten years, sales of whisky to Europe have increased from 18.9 million proof gallons to about 28 million proof gallons to-day. Europe's share of Scottish exports has increased from 22% to 26%. But discrimination against "Scotch" continues, despite efforts by the Scottish Whisky Association, the British Government and the Commission. Some successes have been recorded. In 1982 a £45 million rebate on grain used in whisky production was achieved. This year deferment of duty came into force on 15 February. It will be of great benefit to distillers' cash flow.
240. In little more than ten years, the core technology of Scotland has shifted from traditional reliance on steel, heavy engineering, shipbuilding and coal, to the silicon chip. By 1984, Scotland will be producing half of our output of semi-conductors, while the Central Belt of Scotland will be host to Europe's largest single concentration of silicon chip manufacturers. The key to Scottish success in establishing the electronics industry was undoubtedly the Community's market.
241. Scottish woollen manufacturers have also weathered the storm of recession well - largely because of the Community. Tourism in Scotland is a £6000 million a year industry. Although visitors with Scottish ancestry from around the world form a high proportion

.../ of overseas

of overseas tourists, the Community is seen as the most important market for growth throughout the 1980s.

(ii) Political Projection

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Everything should be done to ensure that the benefits that Scotland has received from the Community are well publicised. The dangers of a combination between Labour and Scottish nationalism opposed to the Community are obvious. We notice also the disposition of some Scottish Nationalists (led by Mrs Ewing) to think in terms of an independent Scotland within the Community.