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The effects on the United Kingdom of membership of the European Communities

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THE EFFECTS ON THE UNITED KINGDOM

OF MEMBERSHIP OF THE EUROPEAN COMMUNITIES

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THE EFFECTS ON THE UNITED KINGDOM OF MEMBERSHIP OF THE EUROPEAN COMMUNITIES

In May 1974, the Directorate General for Research and Documentation of the European Parliament was asked to produce a study of the effects, in 1973, on the United Kingdom of membership of the European Community. This study was undertaken as part of the Directorate General's normal task of producing research papers for Members and officials of the Parliament on demand. The work was done by officials of the Directorate General of different nationalities and submitted to the Political Groups in the Parliament who had requested it, in July 1974. Subsequently, the Directorate General was asked to revise the document in order to take account of developments in the Community's activities and their effects on Britain[1] since the original publication.

In effect, many changes have taken place since the original publication in the various spheres of Community activity and, as is well known, negotiations are currently in progress with the aim of making further changes. The Community is, of course, a developing organisation and is continually adapting itself to changing world conditions and introducing new policies and activities. Consequently, it is difficult to undertake a revision of a study of this sort and not end up with a document which is itself out of date when completed. However, the Directorate General has done its best to take account of all major developments in the Community since the first paper and attempted an assessment of their effect on Britain

The overall plan of this study deals with the various spheres of Community activity in turn and is based on the framework adopted by the Commission of the Communities in its annual General Reports, particularly the Seventh General Report for 1973. This scheme not only facilitated the internal distribution of the work among the various authors, but also had the advantage that readers requiring further detailed factual information could refer to the General Reports.

Chapter I treats the institutional and budgetary aspects together because of the close link between them. It also includes an analysis of progress achieved in the field of political cooperation since the enlargement of the Community. From the point of view of the effect on Britain of the working of Community institutions, it is important to note the developments which have taken place in the functioning of the Community

[1] For the sake of simplicity and taking account of the multinational authorship of the document, the words 'Britain' and 'United Kingdom' have been used interchangeably.

since the founding Treaties were signed. At that time it was envisaged that the Commission alone would possess the right to initiate legislation and thus exercise a controlling influence on the Community. If this were in practice the case the fears expressed, in Britain in particular, that sovereignty was being lost to a 'faceless bureaucracy' would have had some justification. However, as is pointed out in Chapter I developments in the way in which the Community operates, as opposed to the theory laid down in the Treaties, have reduced this danger considerably. The Commission has become increasingly subject to programmes drawn up by Ministers (responsible to national parliaments) at summit meetings which lay down not merely the 'initiatives' to be taken by the Commission but also the timetable to be followed. Moreover, a multitude of bodies representing the interests of the member-countries - committees of permanent representatives, management committees, expert working parties - few of which incidentally were recognised by the original Treaties, now scrutinise legislation and ensure that national interests are fully safeguarded. The most novel idea in the Community Treaties was perhaps, that of legislation made by the central authority and binding without further possibility of intervention by national parliaments and governments in member countries. However, the study shows that these arrangements are perhaps more frightening in theory than in practice. Beforehand there are the exhaustive discussions referrred to and afterwards the possibilty of derogating from the legislation or superseding it by subsequent provisions[1].

The final decision on legislation taken by the Council of Ministers is again subject to a procedure not envisaged by the Treaties. This is the famous 'Luxembóurg compromise' which, since 1966, has meant, in effect, that any one country can effectively block in the Council of Ministers any Community legislation to which it objects strongly.

All this has meant, of course, that Community activity has not developed at the pace or in the way envisaged by those who drafted the Treaties, and the delays and vetoes now built into the procedures are certainly disappointing and frustrating for those who look for rapid progress in the direction of building a united Europe. On the other hand they do mean that losses of sovereignty, national or parliamentary, cannot be said to be very great.

Naturally, all international agreements involve some loss of sovereignty - that is to say a loss of freedom of action - in exchange for specific advantages. The Community Treaties are not unique in this regard nor, as Chapter I attempts to show, is there a great difference of degree between them and previous treaties, such as the General Agreement on Tariff and Trade and the North Atlantic Treaty. In effect international agreements are 'package deals' which have to be looked at as a whole, at the advantages on the one hand and the costs in terms of sovereignty on the other.

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[1] The most striking recent example of derogation occurred in 1974 when one member-state felt compelled for balance of trade reasons to impose temporary import restrictions. Although in clear contravention of Community legislation, no retaliatory measures were taken and proposals for measures to aid the Italian economy were made by her Community partners.

The general conclusion of the study on this balance of advantages and disadvantages is that membership is bound to be advantageous in the long run, but that in considering the 'package deal' the timing of British entry into the Community has to be taken into account. On 1 January 1973 when Britain joined, the six existing member countries had already over a period of several years successfully overcome difficult problems of adjustment.

Quite apart from distinctive geographical features, they had had to take account of differing ways of thought, legal traditions and trade systems. To cite only one example in the economic field, France and Italy, with their high customs duties, had had to make substantial concessions to the liberal position adopted by the other member countries and to accept the full implications for their economic development.

Their rapid progress towards the free movement of goods within the Community, the setting up of a common external tariff and the various adjustments made to it as a result of international negotiations (particularly the reductions made in the framework of the GATT and UNCTAD negotiations), not to mention the progress made towards rationalisation in agriculture, were all made possible by the favourable economic situation which prevailed in the ten years between 1960 and 1970.

Thus, when Britain joined, the existing members of the Community had already established a system to which Britain had still to become accustomed, and to do so in a much less favourable climate for international trade. It seemed clear that this adjustment would take time and the Accession Treaty took care to provide for a period of adaptation. This gradual introduction of Community rules has meant that membership of the Communities cannot be said so far, after only two years, to have had a dominant influence on the British economy. In particular, the effects on the balance of trade between the United Kingdom and the other members of the Community caused by the tariff reductions provided for in the Treaty of Accession have so far been but minimal, since these reductions had the effect of reducing the average level of tariffs by only 2%.

The corollary of this (discussed in Chapters II and IV) is that the trade deficit between Britain and her Common Market partners, serious as it is, cannot be attributed to Community membership. Other factors have clearly been decisive. In particular it seems that the worst deterioration in 1973 and 1974 in Britain's trade with other Common Market countries has occurred in five significant sectors: energy imports, chemicals, iron and steel, dairy products and cereals. Oil price increases account almost wholly for the energy deterioration (Britain has to import fuel from

Europe because of insufficient domestic refining capacity). Higher chemical, iron and steel imports were necessitated by difficult industrial conditions in Britain in 1974, including the miners' strike and the three day working week in industry. In the case of cereals, in particular wheat and maize, Community suppliers were substituted to a major extent for traditional world suppliers whose prices had risen above the Community level. With these rising imports the trade balance with the Community appeared superficially to worsen while the balance with the rest of the world was improved. In fact, since world prices were largely higher than Community prices during this period there may well have been a considerable net saving to the United Kingdom overall balance of payments.[1]

It can be seen, therefore, (and was clear when the study was begun) that it is more difficult to list credit items after one or even two years of membership than to call attention to debit items. However, some of the debit items which were originally feared before Britain joined have turned out to be non-existent problems. The dramatic economic events of 1973 and 1974 have rendered some of these fears, at any rate, largely academic.

Thus, during the accession negotiations, stress was laid on the transitional provisions for implementing the customs union or adjusting to the common policies, on the maintenance of relations with the Commonwealth, and the amount of the budgetary contribution. However, since then, the upheaval in the prices of raw materials and agricultural products, the energy crisis, the absence of the pound sterling from the 'snake in the tunnel' (the lire and the franc too are no longer inside) and the fight against inflation, have held the stage since accession and as a result, the whole problem has altered. The problem has not been whether or not the EEC adjustment mechanisms are working properly but how to face up to the new economic circumstances. There are two areas which have been particularly sensitive to events. These are the Common Agricultural Policy and relations with certain Commonwealth countries, on both of which the Accession Treaty laid down a wide range of provisions.

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1 Another corollary may be drawn from the trade figures set out in the study. These figures show that one third of British exports go to the other eight members of the EEC, but less than 10% of their exports come to Britain. Thus it would appear that the common market ot the EEC is more important to Britain than to her partners. The implications of this if Britain had to renegotiate trading terms after having left the Community are obvious.

As regards agricultural policy, it is no exaggeration to say that the adjustment mechanisms created on the basis of low world prices have sometimes worked against the British market, since supplies at Community prices, for some products, have been become lower than those on the world market. This phenomenon has been particularly noticeable in the case of cereals, with prices in Great Britain sometimes being higher than the average Community price level. There is nevertheless no doubt that if Great Britain had not joined the Community, prices in 1973 would have become almost as high as world prices which had tripled since 1972. This confirms the theory that Community experience will show that the effect of systems which are overconsciously adapted to a specific situation may be unexpected and frequently out of line with the original goal, if the situation changes.

From the point of view of exports to the Common Market, British farmers generally benefited from accession in 1973 because of their favourable competitive position, at least until increased production costs made themselves felt, as was the case in 1974.

The main impression gained from developments in 1974 is that the real problems facing British agriculture are exactly the same as those facing the Six - in particular the rise in production costs - fertilizers, petroleum products, agricultural machinery - and the resulting imbalance compared with selling prices, especially in the livestock sector, difficulties with feedstuffs supplies and monetary instability, and no longer have so much to do with the gradual adjustment of the United Kingdom to the Common Agricultural Policy.

Immediately the United Kingdom joined the common agricultural market it was possible to solve the problem of the depreciation of the pound against the par value declared to the International Monetary Fund. The green pound created in February 1973 thus took account of the fact that the pound had depreciated by approximately 10%. While this rate was realistic in 1973, it was found in 1974 that,because of the special rate applied to agricultural products, the British farmer was receiving a lower domestic price than he would have done if the rate of exchange between the Community's 'unit of account' and the pound had been based on the actual rate of exchange in relation to other currencies.

The agricultural rate of exchange also affected trade relations with the other Member States. The lower level of prices in the United Kingdom led to higher 'monetary compensatory amounts' which, as regards agricultural products, were detrimental to British exports and encouraged imports from the other Member States. Moreover, a downward 7.9% change was made in this agricultural rate of exchange in September 1974. However, there is some justification for asking if the existing arrangements do not still allow a a difference to exist to the benefit of the British consumer. Although it is difficult to put an exact figure to the monetary compensatory amounts, which are charged to the Community budget, or more precisely the EAGGF, the Commission estimates them at £50 million per annum. But this, too, is a problem which some of the Six have experienced or are still experiencing, the most typical example being trade in agricultural products between Germany and Italy. The discussion on the fixing of agricultural prices for the 1975/76 financial year also shows the importance of monetary questions for the functioning of the Common Agricultural Policy.

All in all, the adjustment mechanisms provided for in the Treaty of Accession seem to be out of date as a result of the upheaval in the world economy, and the real problem is in fact one of quickly integrating British agriculture into the common agricultural market.

Some British circles are even maintaining that it would almost be preferable for the transitional arrangements to come to an end immediately provided that the Common Agricultural Policy as a whole allowed each Member State greater latitude in applying rules jointly adopted, a principle which could not be called into question without affecting one of the only common policies that has been effectively established since the creation of the EEC.

As for the external trading relationships of the United Kingdom, it is striking to note (See Chapter IV - External Relations) that in recent years decreasing trade between the United Kingdom and the Commonwealth has been accompanied by an almost identical increase in trade between the United Kingdom and the other European Community countries; indeed, by 1973, UK/EEC trade figures were roughly double those for UK/Commonwealth trade. In 1973, moreover, we saw the Commonwealth sugar and butter producers turning towards the more profitable American and Japanese markets and, for the first time in many years, failing to meet their contracts with the United Kingdom.

Whether in or out of the Communities, the United Kingdom can no longer count on low agricultural prices, either by concluding long-term contracts with individual countries, since these would be unwilling to renew on the previous price terms, or by buying on the 'world market' which in the final analysis is an extremely narrow market, which explains the sudden swing which occurred last year. The discussions which have taken place in the Council as part of the negotiations on a convention between the Community and certain African, Caribbean and Pacific countries have shown that ultimately the principal sugar cane producing countries, particularly Jamaica and Mauritius, had to be persuaded to undertake to sell at a price based on the Community price. For its part, the British government even agreed to pay in 1975 approximately double the Community price in order to guarantee supplies at a time of shortage.

The overall economic benefits which a country can derive from Community membership cannot be assessed solely in terms of the balance between its contributions to the Community budget and what it receives in return. Nor is this a question specific to the United Kingdom contribution; it has been a constantly recurring theme in the different phases of the construction of Europe.

Budgetary problems in the Community began in earnest in 1972. In what has been called the 'first Community marathon' (December 1961), a clash occurred in the Council between those who advocated financing according to the scale of contributions set out in the Treaty and the supporters of a method of financing which would also provide an incentive to abide by Community preference, particularly in the agricultural sector, where the foundations of a common policy were being laid. As in the vast majority of cases, the solution adopted was a compromise between the rival views: it was laid down that during the transitional period, Community expenditure would be met by steadily increasing revenue from agricultural levies. At the same time the principle was laid down (Article 2(1) of Regulation No.25 - OJ No.30 of 20.4.1962) that at the final stage:

"1. Revenue from levies collected on imports from third countries shall belong to the Community and shall be allocated to Community expenditure in such a manner that the Community's budgetary resources shall include such revenue together with all other revenue determined to accordance with the rules of the Treaty, and financial contributions from States under the conditions laid down in Article 200 of the Treaty. The Council shall at the appropriate time undertake the procedure laid down in Article 201 of the Treaty with a view to implementing the above provisions."

It is no exaggeration to say that this article has prompted the amendments made over the years to the method of financing the Community budget.

The point at issue has been whether financing should be carried out according to a scale of contributions laid down in the Treaty or through own resources linked to common policies. The principle of own resources was accepted in 1962 but was not effectively applied, and then only progressively, until the decision of 21 April 1970.

Apart from the advantage of giving the Community a certain measure of autonomy and Parliament an effective - and later perhaps a crucial - role in the adoption of the Community budget, own resources have, by their very nature, a certain impact on trade relations between the Community and non-member countries in as much as they come from levies and customs duties. They reflect better than a fixed scale of contributions the economic relationships between the member countries, in that an additional proportion comes from a percentage of VAT or, in the intermediate stage, from contributions based on the GNPs of the various Member States.

Furthermore, this additional share may later become the chief source of revenue. There are two reasons for this.

On the revenue side, the amount of agricultural levies could fall sharply. This was the case in 1973 as a result of the price increases of agricultural products on the world markets - and revenue from customs duties could also fall as a result of international negotiations aimed at general reductions in such duties.

As regards Community preference, this will act not only to the disadvantage but also to the advantage of the United Kingdom in that the Community of Nine will offer wider markets.

With regard to payments to different member countries, the introduction of new policies may reasonably be expected to increase the total amount of the budget, making it necessary to raise the VAT portion of revenue; in this way a more even balance will be struck between the two main sources of receipts.

Coming to the second element of own resources, viz. the percentage of VAT or the contribution on the basis of the GNP, the figure of 14% suggested by the United Kingdom Foreign Minister at the Council meeting of 4 June 1974 as the likely relationship between the United Kingdom GNP and that of the Community as a whole in 1980, is at first sight surprising. The figure was 19% on average for the years 1970, 1971 and 1972. The Commission has calculated[1] that the United Kingdom's relative share of the Community's gross product was 16.4% in 1973 and 15.9% in 1974. The estimate of 14% was perhaps projecting a medium term trend on the basis of the results expected for 1974, which was marked by the energy crisis and its consequences on the level of employment.

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[1] Inventory of the Community's economic and financial situation since enlargement and survey of future developments (COM(74) 1800/fin.)

The annual GNP growth rate, at constant price levels and exchange rates, admittedly averaged only 2.8 per cent in the years 1968 to 1973 compared with 4.7 per cent for the Community of the Nine as a whole. But the United Kingdom may reasonably expect that, thanks to the new economic relationship in which it will find itself within the EEC and to the prospects of North Sea oil, it will find the means to increase its growth rate to a level closer to the maximum figure envisaged for it (3.5 per cent per annum), while it is estimated that the growth rate of the Community as a whole will be between 4 and 4.5 per cent.

Irrespective of the economic development of the United Kingdom taken alone and compared with that of the other Member States, the Community is not indifferent to the problem broached by the British government in connection with that part of its contribution to the budget which depends on GNP. In addition, the Commission has looked into the possibility of introducing a correcting mechanism designed to prevent the possible development of 'situations unacceptable for a Member State and incompatible with the smooth working of the Community'. A correcting mechanism of this kind would moreover apply to all the Member States, so that the United Kingdom might not be the only country to benefit by it.

In fact, the solution found to the problem raised by the British Government may appear beneficial to all the Member States. This is perhaps truer at the psychological level, which is particularly important to a Community, than at the level of economic and financial reality. It should not be forgotten that although the Community's budget reached a level of 5,200 million u.a. (£2,166 million) in 1974, this sum represents only about 0.5 per cent of its gross domestic product. For the purpose of comparison, the consolidated public sector budgets of most Member States are above 30 per cent of the domestic product[1].

Much attention has been devoted in this introduction to the problems of agricultural prices, as they have affected the United Kingdom, and to the financing of the Communities' Budget. They have been singled out for attention because they illustrate certain important principles about the short-term effects of membership on Britain. In the study itself these two questions we dealt with in Chapter III, 'The Development of Common Policies'. In passing, it is interesting to note this Chapter is more extensive than Chapter II, 'The functioning of the Common Market'. This is not by chance. It is because, although the Treaty only provided specifically for three

2 Inventory of the Community's economic and financial situation since enlargement and survey of future developments (COM(74) 1800/fin)

common policies, the commerical policy, the agricultural policy and the transport policy, the Six had made efforts to establish other common policies by referring to Articles of the Treaty to give a certain legal basis for measures which were becoming more and more necessary in order to go beyond the stage of mere cooperation in individual sectors.

Chapter IV deals with the Community's external relations which are becoming of increasing importance as the Community comes to form a genuine entity in relation to the rest of the world.

All in all, an attempt has been made in this paper to cover the principal fields of Community activity and their effect on Britain. Finally, however, it must be repeated that any assessment of the benefits or otherwise of these activities would be difficult to make after such a short period of membership. Any such assessment would have, in any event, to take into account not only the results of being in the European Communities, but also the consequences which might result from not being a Member - or rather from having been a Member for a short while and then having left the Communities. Assessment of these possibilities would however be somewhat outside the proper functions of a Directorate General for Research and Documentation.

CHAPTER I

POLITICAL AND BUDGETARY ASPECTS

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SECTION I - EFFECTS IN THE POLITICAL AND INSTITUTIONAL FIELD

Introduction

The situation of the United Kingdom in 1945 differed in two important respects from that of her Allies on the Continent: She had not suffered devastation resulting from fighting on her soil, and (with the exception of France) she was the only country with close links with an extensive Empire of overseas territories. These two factors inter alia exerted a substantial influence over British policy in the post-war decade which saw the launching of inter-governmental and supranational institutions in Europe.

Both these factors militated against the United Kingdom sharing the same enthusiasm as other West European countries for joining any international organisation which might damage her links with the Empire and which was primarily designed to prevent the recurrence of a disaster from which she had suffered, superficially at any rate, less than the Continental European countries.

Notwithstanding these reservations, the fears of a resurgence of German militarism and of Soviet aggression, and the need to reconstruct the shattered economies of Western Europe led to the establishment of the Organisation for European Economic Cooperation in 1948, of the North Atlantic Treaty Organisation in 1949, of the European Coal and Steel Community in 1951 and of Western European Union in 1954, all of which (with the exception of the ECSC) Britain joined as a founder member. However, for the reasons outlined, the British Government of the day, after initially taking a leading part in encouraging the Council of Europe to become the first Parliament of Europe, subsequently felt unable to support continued progress in this direction and felt unable, also, to join the European Coal and Steel Community which was a supranational institution from its inception.

It should be remembered that in 1945 the only independent countries in the Empire (as it was then) were Canada, Australia, New Zealand and South Africa. There were few signs of the 'wind of change' in African politics and, with the exception of India and Pakistan, the advance of independence of territories in the Empire ranging in size from Nigeria to the Bahamas was as yet unforeseen.

Twenty-five years after the end of World War II, the relationship of the United Kingdom with her European Allies and her former Empire had undergone a dramatic change. The British economy, even with the help of the European Free Trade Area (EFTA), had progressed slowly as compared with the economies of the Six and was more prone to cyclical economic disturbances which stunted economic growth. Abroad, Britain was left with a few small colonies, the remainder of her former colonies having won their independence. Her links with Commonwealth countries as a whole had been weakening for at least a decade. It was only at this stage that all three political parties began to share a common view that Britain should be a member of the European Communities.

The agreements reached at The Hague in December 1969 had opened the way to enlargement of the Community, and had opened wider vistas for it in the direction of political cooperation and, following the recommendations of the Werner Committee on the principles of the Community's 'own resources' of finances, of an Economic and Monetary Union and of a corresponding increase in budgetary powers for the European Parliament. By the end of 1969 therefore, the Council of Ministers of the Community had indicated the new paths along which the Community should advance, building on the foundations set by the Treaty of Rome.

A. The Effects of Membership on the United Kingdom since January 1973

(a) Sovereignty

(i) National sovereignty

The word 'sovereignty' is variously defined in the Oxford English Dictionary as 'supreme dominion, authority or rule' and 'absolute and independent authority'.

Effect of Treaties

It will readily be seen that any treaty, agreement or convention made with another country or group of countries, particularly if such agreements involve membership of an international organisation, must involve some derogation of sovereignty. The basis of most treaties and agreements is that, in exchange for certain advantages to be gained by a signatory country, it voluntarily resigns its 'absolute and independent authority' in certain spheres. Equally, by accepting limitations upon its sovereignty in acceding to an international organisation, a country not only gains certain advantages from membership of the organisation as such, but enters into a closer relationship with the other member countries. This is of particular importance to countries which are militarily weak, which depend largely upon trade, thus rendering them vulnerable to economic recessions, or which are guarantors of an international currency.

Since 1945 the most outstanding among many examples of such treaty obligations (amounting to 'package deals') in which Britain has been involved are the North Atlantic Treaty, the General Agreement on Tariffs and Trade (GATT) and the United Nations Organisation.

NATO

Under Article 5 of the North Atlantic Treaty, Britain has undertaken obligations towards other member countries in the event of their being attacked, and has also bound herself to deploy her forces according to NATO strategic requirements. The need to respect such commitments to Britain's NATO allies was adduced by British Governments in 1968 and 1974 as justification for reductions in military commitments in other parts of the world, such as East of Suez and in South Africa. Also the British Government has to seek the assent of NATO before redeploying forces committed to the European, Mediterranean or Atlantic sectors of the NATO defence structure.

Britain pays 19% of the total budget of NATO under the terms of the North Atlantic Treaty. This has from time to time been described as 'unfair' in view of the growing disparity between the GNP of Britain and of other NATO countries, as the British budgetary contribution to the EEC has also been described. It is at least arguable that the British contribution, by comparison with that of other member countries and in relation to the British GNP has become inequitable, (c.f. the USA which pays little more than 25%). The package deal offered by membership of NATO has, however, been accepted despite the loss of sovereignty involved.

GATT

The General Agreement on Tariffs and Trade was entered into in 1947. The contracting parties stated their will to enter into 'reciprocal and mutually advantageous arrangements' designed to reduce tariffs and other barriers to trade and to eliminate trade discrimination. (Article 1(2)). As an example of the restrictions upon sovereignty imposed by GATT, it will suffice to mention Article 11(1), which states that, with certain exceptions, principally for emergency situations,'no prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures', shall be imposed by any member country or any product imported from or exported to another member country'.

In December 1968 Parliament enacted the Customs (Import Deposits) Act 1968, which for a period of one year imposed a requirement upon importers to deposit with the British Government 50% of the value of the imported goods. In 1969 the Act was extended for a further year, the amount of the deposit being reduced from 50% to 40% of the value. These measures provoked strong adverse reactions from Britain's GATT partners, and had to be withdrawn as soon as practicable if Britain were to retain the advantages of membership of GATT.

In return for the loss of sovereignty illustrated by this example, Britain is considered to gain through the GATT markedly improved trading position. It is notable that, despite the loss of sovereignty which would be involved, several countries outside the GATT are anxious to accede to it. By reason of developments in the world economic situation it is in fact now the case that only the USA and the Community (acting as such) are strong enough to renegotiate the GATT. Thus Britain has traded in a degree of sovereignty in exchange for the benefits she gains by belonging to a dominant trading group within the GATT as a whole.

UNO

Membership of the UN has imposed obligations on the UK, for example in the Middle East (Suez, Cyprus, Arab-Israel conflicts), as well as bringing it the support of other nations (sanctions on Rhodesia). Other examples of the pooling of sovereignty as a consequence of obligations arising from membership of international organisations are legion.[1] It has never been seriously argued that such obligations have brought anything other than advantage to Britain, or that Britain would be better off without them.

Sovereignty and the EEC

The concept of nations sharing sovereignty in order to achieve long-term aims in the interest of all is most clearly set out in the Preamble to the Treaty of Paris 1951, which established the European Coal and Steel Community. The Six States declared themselves -

> 'Resolved to substitute for age-old rivalries the merging of their essential interests; to create, by establishing an economic community, the basis for a broader and deeper community among peoples long divided by bloody conflicts; and to lay the foundations for institutions which will give direction to a destiny henceforward shared.'

As in the case of other international treaties, limits are set to the degree of sovereignty to be shared by the establishment of an EEC Council of Ministers, comprising representatives of the national governments, who are responsible in most States to an elected Parliament - as indeed in Great Britain. Since many of the political and economic problems facing Britain cannot be solved by British Ministers taking decisions in isolation but only,

[1] An interesting contrast can be drawn between the conditions exacted by the International Monetary Fund in 1968 when the British Chancellor of the Exchequer sought monetary support for Britain and the fact that in January 1975 the Chancellor, representing the EEC, won the agreement of the Fund to a scheme, originally proposed by him, for recycling petro-dollars.

at the least, after consultation with Ministers of other, particularly Community, countries, membership of the Community could be considered to give the British Government more rather than less control over British affairs. Despite the present weaknesses in the system of scrutiny of EEC legislation, the Government has given an undertaking to the House of Commons that they will reserve the British position in the Council of Ministers on any matter which, in the view of the Commons EEC Legislation Committee, 'raises questions of political importance'. This is an important safeguard, which materially strengthens the control of the House over the process of legislation in the EEC. Furthermore, since the British Parliament can call Ministers to account in relation to the exercise of their powers in the Council of Ministers, 'parliamentary sovereignty' could well be considered to have become more, rather than less, extensive in this respect following accession.

Treaty safeguards for national sovereignty

In the case of the EEC, however, additional safeguards were written into the Treaties setting up the ECSC, the EEC and the European Atomic Energy Community. In the first place an Assembly was constituted of delegates from National Parliaments to exercise 'advisory and supervisory powers' (Article 138 EEC Treaty). Although the Treaty states that the obligation on the Council of Ministers to consult the Assembly[1] is not absolute, the Council has now agreed to consult the Parliament on virtually every proposal made by the Commission.

While up till now the European Parliament's powers fall short of those exercised by a national parliament, the EEC is (apart from Western European Union) the only international organisation to possess an institutionalised parliamentary assembly and is thus able to exercise at least some direct democratic control, particularly over the Community Budget (see paragraphs below), and the 1974 Summit held out the prospect of greater legislative powers. The Parliament in January 1975 fulfilled its obligation under Article 138 of the EEC Treaty to adopt a draft convention on direct elections which takes account of enlargement. The recent Summit decided that the first direct elections, using existing national electoral systems, could be held in or after 1978. Thus the first steps towards fully effective democratic control of the Commission and Council have been taken, and further progress is planned.

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[1] The Assembly resolved in 1962 that its title should henceforth be the 'European Parliament'.

Since January 1973 the Parliament has successfully developed its 'Question Time', based on that in the House of Commons, at which Members put oral questions to the Council and Commission. Written questions can also be put, and there are several methods open to back-benchers to initiate debates on matters of urgent or general interest. For example, a debate on political and on economic affairs is held almost every session. Energy and agricultural policy are frequently discussed, giving members opportunities to question Commissioners and Council Ministers on the progress of Community policies. In addition, the Committees of the Parliament meet two or three times a month to study the proposals of the Commission in detail, and can question the appropriat Commissioner or officials of the Commission. These opportunities exceed in some respects the opportunities available in the British parliament.

The Economic and Social Committee of the Community unites the 'social partners' (representatives of employers and employees) in advising the Council and the Commission of their views, which are also taken into account by the Parliament.

Non-Treaty safeguards for sovereignty

(a) Use of the veto

In the 16 years of the EEC's development, various safeguards for national sovereignty additional to those written into the Treaties have been developed. They have had the effect of limiting the loss of sovereignty attributable to Community membership. Of these the most important has been the 'Luxembourg Compromise' of 1966, by which any Member State has the right to veto any proposal which in its view impinges on its 'vital national interests'. The operation of this arrangement imposes in practice a unanimity rule in the Council of Ministers, which has acted as a most effective safeguard for national institutions.

(b) Control of the Commission

The intention of those who framed the EEC Treaty was that the Commission should take the initiative in making legislative and other proposals. This intention has fallen in recent years far short of realisation, as the Council has to an increasing extent developed methods of supervising and even instructing the Commission. This has been done by the expedient of Summit Meetings of Heads of Government, of which there have been four since 1969. These have tended more and more to give directions to the Commission (and to the Council of Ministers) as to the subject, scope and content of legislative and other proposals, together with time limits for their implementation.

The Commission's freedom of action has been further sapped by the bargaining behind closed doors which ensues between it and the Council before Commission proposals are promulgated. By sketching out in advance to the Commission those aspects of any matter on which the Council is likely to agree, the latter is pre-empting the initiative of the Commission. Yet another example of the declining influence of the Commission in the recourse - made by it and the Council alike - to committees of experts, who are Government officials from the Nine Member States, for advice and information often on technical matters. These expert committees are now used to a growing extent by the Commission, which as well receives advice from Management Committees, composed of national government officials, on the administration of Community policies. Thus, at a 'pre-legislation' stage, a national government can steer an embryonic Commission proposal in a desired direction, and ensure that national interests are safeguarded.

The importance of all these developments is that the Council is gaining power and influence at the expense of the Commission and it is the Council which, in view of the present weakness of the European Parliament, is principally influenced by National Parliaments. Thus the theoretical inroads made by the EEC Treaty into national sovereignty are being substantially counter-balanced by the practical opportunities open to National Parliaments to influence and control the Council of Ministers. These safeguards seem to be growing (inevitably at the expense of the decision-making powers of the Community).

Other Threats to National Sovereignty

It is of course no argument against a loss of sovereignty in a particular field, namely Community legislation, to point to losses of sovereignty in other fields and by other means. However, in considering where the United Kingdom may have lost some control over legislation made by the Community, one must see this in relation to changes which have occurred in recent times in Britain's sovereignty, particularly in the economic field. The pervasive power of comparatively few multi-national companies to exercise a strong, or even decisive, influence on the economy of an individual state is now generally accepted; it has been demonstrated frequently, for example by the operations of the international oil companies, motor manufacturing firms and chemical companies in Western Europe and in developing countries. Only in two major industrial sectors is control of such operations now exercised by a public international organisation in the interest of the European peoples, this being achieved by the European Coal and Steel Community. Mr Maurice Edelman, MP, has recently given an apt illustration of multi-national company power - 'It is quite certain that in terms of sovereignty, the multi-national Chrysler, Detroit will have more to say and more power to act in connection with Chrysler UK than has the Brussels Commission or any other organ of the EEC.'[1]

There has always been a close relationship between national sovereignty and economic strength. But in the 1970s even the economic strength of the USA has proved an inadequate bulwark against the coordinated actions of the Oil Producing and Exporting Countries in cutting oil supplies to the USA and increasing oil prices at will. Britain's vulnerability to such economic pressure is greater than that of the USA. Further, for the last ten years, Britain's weakening economy has increasingly been exposed to the effects of decisions on currency and financial matters taken in New York, Zurich, Paris and Bonn. 'The best protection against decisions taken neither with our agreement nor in our interest, is the economic power to withstand foreign pressures', in the words of the British Minister Mr R. Hattersley.[2] It is difficult to see how Britain could, outside the Community and relying principally on the goodwill of the EEC, the Commonwealth and the USA, possibly muster sufficient 'economic power to withstand foreign pressures'.

It may be argued that membership of the Community has since January 1973 equally not endowed Britain with notably greater economic or political power. But in 1974, every Community country except Ireland and the Netherlands suffered a change of Government (in some cases more than one), inevitably involving a period of political instability. Further, the economic pressures caused by increased oil prices, inflation, unemployment and monetary difficulties have resulted in severe difficulties for national governments, and also for the Community.

The potential of the Community for increasing Britain's political freedom of action in concert with her partners remains substantial. The Summit Conference of December 1974 reaffirmed the political will of the Heads of Government to realise this potential. The achievements in each sector in the last two years and the future possibilities are outlined in later paragraphs. It is essential to emphasise not only that Britain can lose sovereignty involuntarily, but also that a theoretical loss of sovereignty to an international organisation may be counter-acted by a gain of sovereignty flowing from the increased political and economic strength derived from membership.

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1 New Statesman, 17 January 1975

2 The Times, 7 January 1975

Threats to Parliamentary Sovereignty

Over large areas, Government activity is necessarily carried out in modern times by Statutory Instruments made by Ministers, many of which Instruments do not even have to be laid before Parliament, let alone be subject to approval or annulment by either House. Customs duties, transport, public health, and many agricultural price decisions are just some among many examples of this process. Legislation in these fields by the Community since British accession should thus not affect 'Parliamentary sovereignty' to any measurable extent if a comparison is made with the situation before accession. This was certainly the experience, after similar doubts had been expressed, in the six former Member States of the Community, as shown by a study made by the Directorate General for Research and Documentation in 1974.[1]

A further 'threat' to parliamentary sovereignty lies in the 'hiving-off' of nationalised industries in Britain from direct control by the Government and indirect control by Parliament. The re-establishment as independent corporations of such industries as the Post Office, without compensatory provision for Parliamentary control in some form, has narrowed the range of Parliament's control over Government expenditure and administration.

A more important development has been the increasing tendency since 1945 for pre-legislative consultations on proposed legislation to be carried out by the Government with pressure groups and organised interests outside Parliament, in particular with the Confederation of British Industries and the Trades Union Congress. As a result of this widespread practice, Parliament is presented with a fait accompli in the form of a Bill which, in terms of the deals made with the interests concerned, is susceptible only to limited amendment by Parliament. Much of the legislative control of Parliament is thus weakened. In contrast, Mrs Winifred Ewing, MP, stated recently that she could obtain as a Westminster MP better information on EEC matters from the European Parliament than from Government Departments in London.[2] Further, the proliferation of Royal Commissions and Committees of Enquiry, which recommend policy decisions on matters formerly referred for consideration by representative select committees of Parliament, have further undermined the influence and prestige of both the Lords and the Commons, to some extent. All these are inevitable developments, but it is against them that the effect of membership of the Community on British sovereignty must be seen.

[1] Over 2,000 Statutory Instruments were made last year. It is true that the British Parliament could, in theory, and in the last resort, revoke these, but legislation also is subject in practice to derogations and to amendment by subsequent legislation.

[2] Press Statement, Luxembourg, 11 December 1974.

. The conclusions to be drawn from this brief study are that Britain has already pledged considerable elements of her national sovereignty under the terms of Treaties and to various international organisations. The necessity for this process, forced upon Britain largely by political and economic pressures since 1945, has rarely been challenged. The Community offers considerably more possibilities for democratic control of its institutions than any other international organisation. The sovereignty of the British Parliament is now subject to ever increasing limitations, mainly flowing from an accretion of power to the central government.

(b) The System of Political Cooperation

The Second Report on European political cooperation on foreign policy[1] contained proposals for measures of political cooperation which were agreed by the Nine Foreign Ministers and subsequently approved by the Nine Heads of State or of Government. Most of the developments in the foreign policy of the Community have been within 'the framework of political cooperation', i.e. based on recommendations by the Political Committee (the 'Davignon Committee'), composed of the Directors of the Nine Ministries of Foreign Affairs. Political cooperation is thus conducted on an inter-governmental rather than on a Community basis, but there are signs that the distinction between political cooperation and Community action is becoming less clear.[2]

After every meeting of the Nine Foreign Ministers in the framework of political cooperation, the President-in-Office of the Council of Ministers meets the Political Affairs Committee of the European Parliament to report on the Committee meeting. These 'colloquies' offer a valuable opportunity to Members of the Parliament to gain - and also to seek further - information on current foreign policy matters. British Conservative and Liberal Members have participated fully in the colloquies and have gained information there not available to Members of National Parliaments.

Political cooperation was launched only in 1970 but in 1973 and 1974 has developed strongly. It has been important for Britain to be represented at the experts' consultations and the Foreign Ministers' meetings on political cooperation for this is where the foreign policy of the Nine has been evolved. Following the 1974 Paris Summit Conference, political cooperation is likely to increase in importance as a means of forging a common Community view in foreign policy fields of vital interest to the UK and, in the longer term, of making progress towards a European Union.

[1] Seventh General Report of the Commission (Doc. 368/73), Annex 4 to Chapter II, September 1973; Command Paper 5432.

[2] e.g. the inclusion of representatives of both the Council and the Commission in the delegation of the country exercising the presidency of the Council at the Conference on Security and Cooperation in Europe at Geneva.

(c) Relations with the USA

Following Secretary of State Kissinger's speech in April 1973 suggesting that a joint Declaration of Principles be drawn up on EEC-US relations, the Community response has been prepared within the framework of political cooperation. Discussions at expert and at Foreign Minister level resulted in the Declaration on European Identity, agreed at the Copenhagen Summit Conference in December 1973. In paragraph 14 it is stated that 'the Nine intend to maintain their constructive dialogue and to develop their cooperation with the US on the basis of equality and in a spirit of friendship'. Had Britain not been a member of the Community, she could never have hoped to cooperate with the USA 'on the basis of equality'.

On 11 June 1974 the Nine Foreign Ministers agreed on a formula for consulting the US by which, if one Member State considered it essential that a non-Community State should be consulted on any issue, it would inform the other Member States. The Nine would then try to agree on joint consultation before finally deciding on the issue in question. Dr Kissinger agreed to this formula as a basis for future consultations with the Nine on matters arising within Europe or elsewhere. Britain's voice might have been considerably more muted had she not been able to add it to those of the other Eight in claiming a position of equality with the USA in these matters.

(d) The Near and Middle East

The Community is involved in the Middle East in various ways. First, several of its Member States, particularly France and Great Britain, have had close political and economic ties with Arab countries such as Egypt, Syria, the Lebanon and Sudan, and with Israel. Second, Turkey, Greece and Cyprus all have Association Agreements with the Community, which has a special responsibility to follow closely their political and economic fortunes. In the third place, the Community is, as part of its external economic policy, on the point of launching a comprehensive 'Mediterranean policy', forging closer economic links with the countries along the southern and eastern shores of the Mediterranean Sea including also Malta. Fourthly, the Community wishes to embark on a 'dialogue' with the twenty member countries of the Arab League. This dialogue was originally proposed by the Arabs in December 1973 during the Copenhagen Summit, but has been held in suspense since November 1974 until the status of the Palestine Liberation Organisation in the dialogue has been determined. Its purpose is to offer Western industrial and technological facilities and 'know-how' to the Arab countries, in return for Arab agreement on arrangements for mitigating the economic effects of the increase in oil product prices.

Britain was closely involved in the search for a solution to the conflict between Turkey and Greece over Cyprus in July and August 1974. Her position was strengthened by the support of her Community partners, which helped to offset the predominant influence in the Middle and Near East of the USA. Equally, Britain's membership of the Community has enabled her not only to offer preferential trading agreements for the benefit of developing Mediterranean countries, but to profit from the increased political influence which the Mediterranean policy will win for the Community Member States in perhaps the most critical area of potential conflict at present.

(e) Conference on Security and Cooperation in Europe

Within the framework of political cooperation the Nine coordinated their policy before the preliminary meeting of the Conference in Helsinki in July 1973. Since then, in the second phase of the Conference in Geneva, the Nine have spoken, principally in the Economic Committee, with one voice. This remarkable cooperation has been achieved by meetings of experts from each of the Community Member States, held by the Commission, to prepare Community positions in advance. As a result, the united policies of the Nine have immeasurably greater weight, particularly in discussions with the USSR, than the individual viewpoint of any single Member State. At the conference, substantial concessions were made by the USSR to the Western countries in December 1974, relating to freedom of movement of individuals and of circulation of information. Once again, it has patently been to the benefit of the United Kingdom to wield considerable influence at the Conference as a leading Community member rather than to attempt to put forward its views as an isolated state on the north-west fringe of Europe.

(f) The Commonwealth

Misgivings have been expressed since 1961 about the prejudicial effects on Commonwealth countries of British membership of the Community, particularly on the economies of New Zealand and of developing Commonwealth countries in Africa and the Caribbean. Butsince Accession Day on 1 January 1973, the increase in world prices of foodstuffs, oil and other commodities has completely overturned the previous relationships between developed and developing countries and also within the Third World. The developing Commonwealth countries are now asking what Britain can do for them politically in a rapidly changing and more challenging world, and Britain's membership of the Community is already acknowledged as being of great potential assistance to them.

Commissioner Thomson, a former Commonwealth Secretary in the British Government of 1966-1970, told the Royal Commonwealth Society in April 1974 that there were 'a lot of Commonwealth and Francophone countries which now see in British membership of the Community a means of breaking through into a wider relationship with Western Europe as a whole'. Economic and political considerations can never be divorced, and the Community has never forgotten the intention stated in the Preamble of the Rome Treaty 'to ensure the development of the prosperity of overseas countries'. The Paris Summit Conference pledged the Community anew to political links with the Third World. Britain's relations with old and new Commonwealth countries have in many cases been altered and in some cases weakened. But the Community has offered her a new outlet for her political experience and technical knowledge in furthering the interests not only of the developing countries of the Commonwealth but of the old Commonwealth countries such as Canada, Australia and New Zealand.

Mr George Thomson put the political advantages of British membership of the Community in another light, when speaking of the negotiations between the Community and 43 Third World countries (mainly in Africa, but including also West Indian and Pacific Ocean Commonwealth countries) to replace the Yaoundé Agreement. Not only were the 43 countries more united than the Nine of the Community in face of the negotiations, but in his experience 'in twelve months in Africa the Commission has done more to break down the barriers left behind by European colonialism than twelve years of independence has done.' The final agreement in February 1974 on a new Convention was warmly welcomed by the Third World countries and by Mrs Hart, the British Minister involved in the negotiations. Mr Cheysson, of the European Commission, said 'this agreement is unique in the world and in history: for the first time, an agreement between industrialised countries and the Third World has been reached with perfect equality between the two parties.' Thus British membership has, in the short time since accession, helped her Commonwealth partners in Africa, the Caribbean and the Pacific to make a bold step forward, in unity with other developing African countries, towards a stronger political position and more favourable terms of trade and aid than they could have hoped for before British entry.

(g) Institutional Aspects

(i) The Legal System

Accession to the Community has had little immediate effect on the working of the British legal system. The legislative powers granted to the Community institutions are limited by the EEC, ECSC and EURATOM Treaties to certain defined purposes, which are mainly economic in nature. Community law operates only in the field covered by the Treaties, the principal fields being customs duties; agriculture; free movement of labour, services and capital; and monopolies and restrictive practices. Thus by far the greater part of British domestic law has remained unchanged. In any case, Community provisions having direct internal effect are considered by the UK Courts, upon which is laid the duty of interpreting Community provisions and relating them to United Kingdom law. Moreover, the character of British legislation and the nature of the British legal system are, following accession, fully taken into account in the preparation of Community legislation.

The legal impact of Community membership is considerably simplified by the fact that most of the Community law having direct internal effect, in so far as it imposes obligations, does so in relation to industrial and commercial activities, and does not touch citizens in their private capacities.[1] Such Community laws as directly affect private individuals confer rights rather than impose obligations. Thus a worker in a Community country is entitled to take up employment in any other Member State; and Community citizens benefit from reciprocal arrangements enabling them to obtain medical treatment and care from the health services of any Community country.

(ii) Budgetary powers of the European Parliament[2]

On 6 June 1973 the Commission made proposals to the Council on the strengthening of the budgetary powers of the European Parliament[3]. These were the subject of a report of the Parliament's Committee on Budgets which was debated in October 1973.[4] Parliament adopted a resolution which covered the creation of revenue, the approval of expenditure, the discussion and adoption of the Budget and the supervision of its implementation[5]. The first point in the resolution was that common procedures should be used to adapt the Community's common resources to the needs of common policies. Such procedures would still allow the Governments of Member States to refer the matter to their National Parliaments and therefore, once the Commission had made a proposal for the raising of revenue, the Council should first give their unanimous consent (having if necessary referred to the National Parliaments) before the Parliament took any decision.

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[1] Command Paper 3301; Legal and Constitutional Implications of UK Membership of the European Communities

[2] Whereas the British Budget deals principally with the raising of revenue, the Budget of the Community covers revenue and expenditure.

[3] COM(73)1000

[4] Doc. 175/73

[5] OJ C 87/8, 1973

For the approval of expenditure, Parliament proposed that, in the event of disagreement, a 'conciliation committee', with equal representation of Parliament and Council, in the presence of the Commission, should meet to seek a solution. Failing an agreed solution at a second attempt, the first attempt having failed, the Opinion of Parliament, if supported by a considerable majority of its Members, could only be modified by the Council unanimously.[1] Parliament further asserted its right to adopt the draft Budget or to reject it in whole or in part. Parliament accepted the Commission's proposal to set up a Court of Auditors as an effective and independent external auditing body, and insisted that the Court should report to Parliament and should assist and advise it at all times.

The Commission accepted most of Parliament's proposals, modified its original scheme, and submitted it to the Council.[2] In June 1974, the Council agreed to Joint Guidelines on Budgetary Powers,[3] which were then the subject of a series of discussions between the Council and a delegation of the Parliament. As a result, most of the points at issue have been settled on the lines proposed by Parliament. Parliament however is still considering its response to a draft Joint Declaration (by Parliament, Council and the Commission) on the conciliation procedure, which was in January 1975 proposed by the Council.

50. The Joint Guidelines of June 1974 contained draft amendments to certain articles of the Treaties, a draft text in the form of Treaty amendments, with the object of setting up the European Court of Auditors, as well as a Joint Declaration on the conciliation procedure, which has since been superseded by the draft of January 1975.

In the Joint Guidelines, it is proposed that Parliament should have power -

(a) to require the Council to act by a qualified majority when 'rejecting' any modifications proposed by Parliament where they do not increase the total amount of the budget.

(b) to reject by different specific majorities the draft budget <u>in toto</u> if there is 'substantial justification'. In this case the Parliament must give 'particularly clear reasons' for its action.

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[1] Following consultations between the Council and Parliament, this particular aspect will probably be re-examined after a trial period.

[2] COM(1000) final

[3] Doc. 135/74

(c) to be consulted by the Council before members of the Court of Auditors are appointed.

(d) to request the Court of Auditors to deliver an opinion on any matter, and request their assistance in the exercise of Parliament's control over the implementation of the Budget.

(e) to request that the conciliation procedure with the Council be initiated in the event of the Council departing from the Opinion of Parliament on any proposal with major financial implications.

The conciliation procedure can be initiated by the Joint Declaration of Parliament, Council and Commission without reference to Member States in the form of a 'gentleman's agreement'; this will probably be achieved quite soon. On the other hand, the amendments to the Treaties outlined in sub-paragraphs (a) to(d) above must be made in accordance with Article 236 of the EEC Treaty. By this Article, the Council, after consulting the Assembly and the Commission, must first deliver an opinion in favour of calling a conference of representatives of the Governments of Member States. If the Council decides on this course, its President convenes the conference for the purpose of seeking agreement on the Treaty amendments to be made. It is not known where, or when, this conference will be convened.

Since Britain's accession to the EEC, therefore, significant steps have been taken towards effective control of the revenue and expenditure of the Community and towards supervision of the way money voted by Parliament is spent. Parliament has also voted to set up a special committee, similar to the Public Accounts Committee - a peculiarly British institution - to advise it on the adequacy of the control of Community revenue and expenditure. British members of the Parliament played a leading rôle in these developments, which have resulted in some immediate tightening of budgetary control by Parliament and provided the prospect of considerably more effective control in the future, provided that the Member States' Governments agree to the amendments to the Treaties.

The theoretical, but rarely used, power of the House of Commons to reject the British Government's revenue proposals contained in the Budget, and its expenditure proposals embodied in the Estimates will, it is hoped, soon be matched by the practical power of the European Parliament to exercise greater influence over or to reject the Community Budget. Equally, Parliament will be moving towards conciliation on all proposals with financial implications. As an example of the use by Parliament of its new powers, it voted, in December 1974, to increase expenditure on nuclear safety measures at the Joint Research Centre at Ispra, Italy,by £½m. This prospect is a considerable advance on the situation in January 1973 when the United Kingdom joined the EEC, and provides a great potential safeguard for the British taxpayer. It now rests with Member States to agree swiftly to the draft Treaty amendments in order to achieve this important step forward.

SECTION II - BUDGETARY MATTERS

The main point at issue is Article 129 of the Act of Accession, which fixes the financial contribution of the United Kingdom at 19.32%. This percentage, which is a point of reference and not the actual rate applied, is considered several points higher than the contribution which the United Kingdom feels it should 'correctly' be paying at the end of the transitional budgetary period (1980). The 'correct' level of the contribution would depend solely on each Member State's ability to contribute, the best indicator for which would be the gross national product. On 4 June 1974 Mr Callaghan, Foreign Secretary, stated that the United Kingdom's share of Community gross domestic product in 1980 - and thus its ability to contribute - would be 14%.

As regards expenditure - payments by the Community to the Member States - it has been established that in 1973 the United Kingdom did not receive as much from the Community as it contributed to it.

These points are considered below from the point of view of Community budget revenue and in respect of payments made to the United Kingdom.

A. Community budget revenue from the United Kingdom

The complexity of the rules governing the financing of the Community budget render necessary a summary of the provisions in force before considering the United Kingdom's contribution.

1. Summary of provisions in force

By Decision of 21 April 1970 the system of financing of Community expenditure was fundamentally changed. The Act of Accession signed by the three new Member States confirmed this change, while making certain arrangements allowing them to make a reduced contribution to the budget for a transitional period.

(a) The Decision of 21 April 1970

Until the end of 1970 the Community budget was financed solely from contributions from the Member States, marked as expenditure against their own budgets. To put an end to this dependence and to give a degree of autonomy to the Community, it was granted certain items of revenue as 'own resources'. These resources include, in the first place, agricultural levies and customs duties. The creation of the customs union and the common agricultural policy could have given rise to disputes as to who should benefit from such revenue. A levy or customs duty charged at Rotterdam might well have applied to an item of merchandise admitted in free circulation to the Community and destined for consumption in Germany. Without a customs union, the item concerned would have been subject to duty at the German border.

Funds from these two sources constitute the first part of Community revenue. They amounted, for the Nine, to approximately 2,500,000,000 u.a. in 1973 and have been put at 2,900,000 u.a. for 1974. A figure of 3,800,000,000 u.a. is forecast for 1975.[1]

Since these two sources are insufficient to finance the budget (5,000 m u.a. in 1974 and 5,800 m u.a. in 1975), the Community was granted another source of revenue, namely one percentage point of value added tax (VAT). One condition has to be met before this share of VAT could be levied, however: the basis for the assessment of VAT has to be harmonized in all Member States, because otherwise inequalities in the relative amounts appropriated to the Community could appear. This job of harmonization is taking time, not least because of the need simultaneously to facilitate the free movement of goods. As a result, the Community will not nowreceive its share of VAT for the first time in 1975, as had been planned. An alternative solution, provision for which had been made at the outset, is therefore being applied, whereby the amount not covered by levies and customs duties is financed by a contribution from the Member States calculated in proportion to their respective GNPs.[2]

It should be pointed out in conclusion that, to prevent the total relative contribution of each Member State (levies, customs duties, VAT or contribution based on GNP) rising - or falling - sharply from one year to the next, provision is made for any increase exceeding 2% compared with the previous year to be compensated financially by adjustment among the Member States when settling accounts. This provision will be in force from 1975 to 1977.[3]

(b) The Act of Accession

The accession in 1973 of the three new Member States involved no change in the system of finance. They were granted a transitional period lasting until the end of 1977.

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1 Levies and customs duties were made over to the Community on a progressively increasing scale: 50% in 1971, 62.5% in 1972, .. 87.5% in 1974 and 100% in 1975. Agricultural levies have been made over entirely to the Community since 1971.

2 From 1971 to 1974 this amount was apportioned among the Member States on the basis of a fixed scale.

3 From 1971 to 1974 the rate of divergence was 1% upwards and 1.5% downwards.

During this period their total contributions to the budget will be modified on the following basis:

- the bases for calculating contributions are:

19.32%	for the United Kingdom
2.44%	for Denmark
0.61%	for Ireland

- the resulting contributions are reduced to

45%	in	1973
56%	in	1974
67.5%	in	1975
79.5%	in	1976
92.0%	in	1977

Since the Decision of 21 April 1970 has not been amended in any way, the annual rate of increase (or reduction) stipulated is similarly applicable to the new Member States. In 1978 and 1979, moreover, they enjoy a specially limited rate of increase (Article 131 of the Act of Accession).

2. Calculation of the United Kingdom's contribution

The Community budget is financed in the first place from its own resources (at present customs duties and agricultural levies); it is financed in the second place - where own resources are insufficient to meet expenditure - by financial contributions from the Member States worked out according to a fixed scale. Financial contributions are to be replaced during the next few years by a rate of value added tax not exceeding 1%. In this way the Community budget will be completely financed from its own resources.

1973 Revenue:

For the 1973 budget, the amount payable by the United Kingdom was 431 m u.a.[1], which represented 8.78% of the total budget. This amount is derived from the following calculations:

- 19.32% x 45% (Articles 129 and 130 of the Act of Accession) = 8.69%
- $8.69\% + \frac{8.69}{100} = 8.78\%$

The first calculation involves the application of the 45% rate for the first year of the transitional period (1977-78). The second applies the maximum annual increase of 1% of each Member State's relative share, as provided for by Article 3 (3) of the Decision of 21 April 1970.

[1] m u.a. : million units of account

Since customs duties levied by the United Kingdom are very high (7,500 m u.a. in 1973), it was not necessary to supplement own resources by a financial contribution. Moreover, the 75% of own resources appropriated to the Community in 1973 (Article 3 (1) of the Decision of 21 April 1970) did not reduce the United Kingdom's share (5,625 m u.a.). The other Member States - with the exception of Ireland - made, in 1973, a financial contribution in addition to own resources.

17. It should be noted that the total relative share for the United Kingdom is based on a percentage of 19.32 during the transitional period, to avoid adversely affecting its vitally important foreign trade. This principle, which also works to the advantage of Ireland, has been applied since 1971 to Germany, which also has highly developed trade links with third countries. The reference scale for calculating the German share was fixed at 31.5% (Article 3 (3) (c)).

1974 Revenue

The percentage share for the United Kingdom was fixed at 11.03, based on the following calculations:

- $8.78^{1} \times \frac{56}{45}$ (Article 130 of the Act of Accession) = 10.92%

- $10.92 + \frac{10.92}{100} = 11.03\%$

11.03% of the budget amounts to 553.7 m u.a., entirely covered by revenue from customs duties and levies.

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1 The percentage applied in 1973.

1975 Revenue

Two changes occur in the calculating procedure:

- the annual change in the relative share in relation to the previous year may rise to 2% (Article 4 (1) of the Decision of 21 April 1970);

- the reference scale of 19.32% is replaced by the United Kingdom's GNP as a percentage of total Community GNP.

21. This share, calculated on the basis of Regulation No. 2/1971[1], comes to 19.70%. This figure is used in calculating the share payable by Member States when own resources are insufficient.

The calculations for the previous years thus change as follows:

- $11.03 \times \frac{67.5}{56} = 13.29\%$

- $13.29 \times \frac{2 \times 13.29}{100} = 13.55\%$

Estimating the 1975 budget at 6,000 m u.a., the United Kingdom's share would rise to 813 m u.a., payable entirely on the basis of own resources.

It can thus be seen that the figure of 19.32% will never have been applied prior to 1975, thanks to the weightings reducing the United Kingdom's share, nor will it be after 1975, given the introduction of the system of shares based on VAT or, provisionally, GNP. It will have served only as a reference for the calculation of the contribution owing for the first year of membership.

Working out the amount a Member State would contribute in the period 1976-1979 would be extremely complex. The number of hypotheses which would have to be made to provide the necessary data is too high to permit accuracy. In particular, it would be necessary to possess the following information:

- the difference between agricultural prices in the Community and on the world market, so that levies could be worked out;

- the development of United Kingdom trade with third countries in order to calculate customs duties;

[1] Regulation No. 2/71 of the Council of 2 January 1971 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources. (OJ No. L 3, 5 January 1971)

- the nature of the solution applied by the United Kingdom to the problem of fiscal duties. Total duties levied by the United Kingdom on goods originating from third countries are expected to amount in 1974 to some 7,000m u.a., this amount being composed of:

  - fiscal duties or excise duties of more than 6,000m u.a.
  - protective duties of some 700 or 800m u.a.[1]

  From 1980 onwards own resources are to be appropriated to the Community without limit. If the United Kingdom does not amend its legislation on excise duties (either abolishing them, or extending them to goods produced on its own territory), its share of the budget in 1980 will be out of all proportion to the needs of the Community.

- the size of the Community budget;
- the date on which a harmonized rate of VAT is introduced;
- the evolution of GNP, etc.

However, one could put forward for 1976 a schematic hypothesis based on the 1975 model and assuming that the problem of fiscal duties is by then solved.

1976 Revenue

Budget of 6,500m u.a.

United Kingdom relative share:

- $13.55 \times \frac{79.5}{67.5} = 15.94 + \frac{2 \times 15.94}{100} = 16.25\%$
- 16.25% would constitute the 'maximum' rate which, applied to 6,500m u.a. would come to 1,056m u.a.

With 800m u.a. of own resources from customs duties and levies, the balance payable by the United Kingdom would be 256m u.a.

1977 Revenue

Using the same system, the United Kingdom's 'maximum' relative share would amount to 19.17%.

1978 and 1979 Revenue

The rate of increase from one year to the next is based on the principle laid down in Article 131 of the Act of Accession. According to this, the United Kingdom's relative share of the Community budget could again increase by several points and thus exceed the 19.32% rate laid down in Article 129 of the Act. This would be due exclusively to the high level of the United Kingdom's trade with third countries and to its fiscal system. As far as the other Member States (with the exception of Ireland) are concerned, the tendency to a reduction in customs duties, and particularly in levies, will result increasingly in the operation to their advantage of the breakdown based on the gross national product.

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1 See Annex to this section.

3. <u>Factors regulating Member States' relative shares</u>

The system set up by the Decision of 21 April 1970 and the Act of Accession incorporates a number of regulative factors. Some of these are temporary, others permanent.

The <u>temporary</u> factors include:

- Article 130, which grants the new Member States a reduction in their total share of the budget until 1977; in the years 1973 to 1977 this share is reduced to 45%, 56%, 67.5%, 79.5% and 92%, reaching 100% in 1978. The outstanding balance is met by the old Member States;

- Article 3 (2) and Article 4 (1) of the Decision of 21 April 1970, and Article 131 of the Act of Accession, setting a percentage limit on the annual increase in contributions until 1979 at the latest.

Other factors are <u>permanent</u> and apply to all Member States. The most important of these is trade with third countries, which determines the revenue from customs duties and agricultural levies. The adoption of this principle in Community legislation was designed to emphasize Community preference, thus benefitting agricultural and industrial production in the Community.

Where trade with third countries stands at a high level, revenue from customs duties and levies will be greater, thus increasing a Member State's relative total share.

Another permanent factor which could reduce the British contribution is application of the principle of non-discrimination in a fiscal sense between imported and domestically produced products. This aspect has already been referred to above in the note on fiscal duties. At present fiscal duties form part of customs duties, because they are levied only on imports into the United Kingdom.

The third regulative factor is each Member State's contribution capacity, which can be seen in terms of:

- either gross national product (provisional solution),
- or value added tax (definitive solution).

The authors of the Treaties chose VAT as the definitive method (Decision of 21 April 1970, ratified by the parliaments of the Member States) of giving the Communities financial independence.

VAT has the advantage of being calculated on the basis of a rate established during the budgetary year, whereas the scale derived from the GNP will always be on average four years behind the current budgetary year because of the time needed to draw up comparable statistics. The percentages used for the 1975 budgets thus correspond, more or less, to the data for 1971.

VAT also has the advantage of reflecting fairly accurately the value of the GNP and its variations. Compare the following figures:

- 19.32 : U.K. relative share as laid down in Article 129 of the Act of Accession;
- 19.70 : U:K. relative share as calculated by the GNP formula for 1975[1];
- 19.40 : U.K. relative share as calculated by the Commission, assuming harmonization of VAT (See 'Multiannual forecasts for 1974-1975-1976', p.18).

In its account of the economic and financial situation in the Community since enlargement (COM(74) 1800 final), the Commission casts some doubt on the absolute fairness of the own resources system. On page 28 it points out that the fiscal structure of each state is different and gives a different weight to VAT. It goes on to say that charges other than VAT form part of the added value on which VAT is based. Thus France and Italy, where direct taxation is low and excise duties relatively few, have a lower basis of assessment for VAT than the UK and Ireland, where excise duties and direct taxation play a more important part. Alignment of the situation in these countries is also desirable from an economic and social point of view.

Structural changes of this nature, the Commission concludes, have always proved difficult to achieve and can only take place slowly.

This view appears rather surprising if one looks at the Commission's study comparing not only fiscal charges but also social charges in the nine Member States of the Community.[2] In comparison with Italy and France, where direct taxation is low and social contributions are high, the United Kingdom collects a high percentage of direct taxes, but social contributions are considerably lower. Social charges, like direct taxation, surely form part of the value added, and the basis of assessment for VAT remains valid as a fair expression of the contributory capacity of each Member State in relations to the others.

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[1] Regulation No. 2/71 quoted on p.6 provides that the rate applicable shall be the average of the last three years, in this case 1970, 1971 and 1972.

[2] Fiscal statistics 1968-1972 - Yearbook 1973

4. Confusion caused by rates of exchange

The U.K. contribution to the Community budget is at present fixed as a percentage of the total expenditure shown in the budget (approx. 13.50% in 1975). It is expressed in units of account and converted to pounds using the exchange rate: £1 = 2.4 u.a., which corresponds to the official parity for the pound declared to the International Monetary Fund. Because of the fall in the value of the pound since it was floated on the exchange market, the market rate is at present about £1 = 1.9 u.a.[1]

The difference between the official rate used for calculating the British contribution to the budget and the actual market rate definitely works in favour of the United Kingdom. This 'artificial over-valuing' of the pound enables the U.K. to cover its debt at lower costs, since it is paying a smaller sum in pounds than that which would result from the application of the actual market rate for the pound.

This advantage will persist for as long as the U.K. pays its contribution by the present method. On the other hand, it will disappear in the medium term in respect of the supplementary contribution the U.K. may be called upon to pay in addition to the customs duties and levies by which the U.K. will continue to cover its contribution to the Community budget for several years. This supplementary contribution will be apportioned among the Member States according to their gross national product converted into units of account. The United Kingdom's supplementary contribution will therefore vary according to the pound/u.a. conversion rate applied; assuming that the rate is £1 = 2.4 u.a., the gross national product of the U.K. will be over-valued and, therefore, its supplementary contribution increased. This increase will be cancelled out, however, if the same pound/u.a. conversion rate is applied to the payment of this contribution, since the over-valuation of the pound will then work in favour of the U.K. The same argument will apply when the supplementary contribution is paid on the basis of harmonized VAT; an over-valued tax basis will be matched by an over-valuation of the real amount of currency.

[1] The financial regulation of April 1973 provided for the payment of 'own resources' and Member States' contributions in national currencies; payments are calculated on the basis of the exchange rate quoted by the International Monetary Fund in force on the day of payment.

[illegible]. Equilibrium is not achieved in two further respects. When the Community pays agricultural aid to the United Kingdom, the rate used is £1 = 2.0053 u.a. As the aid is fixed in units of account, the British farmer will receive more pounds than if the rate of 2.4 were applied. This therefore represents a gain to the United Kingdom.

[illegible] Moreover, in 1973 the United Kingdom paid more into the Community budget than it received. The negative balance has therefore to be changed into French francs, Dutch florins or Danish crowns, i.e. into the currencies of states which were not beneficiaries from the Community budget. Because of the notional over-valuation of the pound, the Community suffers a loss which is fortunately more or less offset by the DM paid by Germany, which are valued below their real value and are changed into Dutch florins, French francs and Danish crowns because the Federal Republic of Germany also pays more than it receives. Here again the United Kingdom derives a financial advantage, although indirectly. [1]

5. Conclusions concerning assessment of revenue

A Member State can manipulate several factors to adjust the revenue which it has to pay to the Community. Apart from the extreme case with one Member State demanding renegotiation of the own resources system so that it is based solely on each Member State's contribution capacity (GNP or VAT), there are the following two possibilities:

- either to reduce external trade with third countries in favour of intra-Community trade, both for agricultural products (levies) and for industrial products (customs duties) and follow the principle of Community preference;

- or to abolish excise duties which are discriminatory with respect to the other Member States (Article 7 EEC) and which, in trade with third countries, increase the customs protection.

The total contribution by each Member State is not fixed by the treaties solely on the basis of contribution capacity. It is also based on the two principles referred to above - Community preference and non-discrimination - precisely to strengthen Community solidarity and, to some extent, confirm its financial independence, which in turn provides justification for the European Parliament's budgetary powers.

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1 In spite of the care taken in drafting this paragraph, the importance and complexity of the question justify a more detailed study.

If there was a return to the sole criterion of contribution capacity based on the GNP, there would be a risk of loosening the bonds between the Member States and undermining the principle at the basis of the European Parliament's budgetary powers.

In this section it has been noted that the transition in 1975 from the fixed percentage (19.32%) to the variable percentage based on GNP and later to the percentage derived from VAT should not make much difference to the charge on the U.K. for the proportion not covered by customs duties and levies[1]. The fixed percentage of 19.32 is in fact the lowest of the three percentages. If a Member State were faced with economic difficulties having the effect of reducing the GNP, the best way of ensuring that such difficulties are reflected <u>immediately</u> in its contrinution to the Communities' budget is to apply the system of financing based on VAT.

In addition, the fall in the value of the pound has the effect at present of reducing the value of the U.K.'s total contribution to the Community budget. This reduction in value can be assessed by the following formula: fall in value of the pound x negative balance of the U.K.

B. <u>Communities' budget expenditure in favour of the UK.</u>

There are a number of budget items which, by their nature, cannot produce payments for the benefit of a Member State. These are:

- administrative expenditure,
- food aid,
- research and investment expenditure.

The expenditure which can be calculated as reverting to a Member State is mainly that of the Social Fund and the EAGGF. The operating budget expenditure of the ECSC should also be mentioned.

1. <u>The 1973 budget</u> [2]

According to the report on the implementation of the 1973 budget submitted by the Commission in April 1974, Community expenditure amounted to 4,227.8 m u.a. (payments and appropriations carried forward). (The initial budget estimates were 5,134 m u.a.). The revenue was slightly higher: 4,472.2 m u.a. As the own resources collected by the U.K. (making up the entirety of its share, to the exclusion of the supplementary

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[1] It is assumed that between 1975 and 1979 the U.K.'s relative share will increase to the point were customs duties and levies will no longer cover its entire contribution.

[2] A study of the results of the 1974 financial year, giving the relevant figures, is not possible at the time of writing (January 1975).

financial contribution) are paid to the Community not according to the amount collected but to the total expenditure of the Communities, the resources actually paid in by the United Kingdom will have been

$$\frac{4,472.3}{5,134.5} \times 431 \text{ m u.a.} = 370 \text{ m u.a.}^{1}$$

The expenditure which might produce a return amounts to:

$$\frac{3,838}{4,277.8} = 89.7\%$$

Expenditure lost amounts to 439.8 m u.a.

The United Kingdom could therefore expect 370 x 89.7% = 332 m u.a. at the most as a 'fair return', that is £138 m.

The United Kingdom has received £82.5 m from the EAGGF. This figure is taken from the 'Annual Review of Agriculture 1974'; it relates to the financial year April 1973-March 1974 (p.35). The figures obtained from the Commission are very similar[2].

The UK received aid only from the 'Guarantee' section of the EAGGF; nothing could be given under the 'Guidance' section, as the decisions on commitments had not yet been taken for 1973 because of the delay involved in the examination of projets and the approval of expenditure.

The U.K. has received 57.40 m u.a., or £24 m, in the form of commitments from the Social Fund for 1973[3].

The total'revenue' of the U.K. amounts to £82.5 + 24 = £106.5 m, compared with the £138 m which it might have expected as a 'fair return'. The gross deficit would be £31.5 m, from which must be deducted the 10% drawback on the customs duties collected by the Member States. This 10% represents £15.5 m.

The net loss of the U.K. can be estimated at 31.5 - 15.5 = £16 m, that is 38 million u.a. or <u>less than 1% of the Communities' budget</u> (not including the 'lost expenditure' listed at the beginning).

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[1] 431 m u.a.: U.K. contribution provided for in 1973 budget.

[2] For 1973 the U.K. received 151.8 m u.a. from the 'Guarantee' section of the EAGGF. As very little was received in the first 3 months of 1973 because of the time needed to set up the machinery the figure for the first 3 months of 1974 should be added to this. Advances made to the U.K. during these first 3 months were 53.5 m u.a. Actual expenditure will probably be very near this figure. It can therefore be said that in the first year the U.K. will have received 151.8 + 53.5 = 205.3 m u.a. or £85.6 m. See Chapter III, Annex on this (common agricultural policy).

[3] Since the UK only contributes custom duties and levies, the 10% reimbursement is applied to all the contributions to the Community budget.

2. Compensatory amounts on accession

The Act of Accession (Articles 50 to 64) provides that agricultural prices in the new Member States shall be progressively aligned (in six stages) with the common prices. To allow free movement of agricultural products having different prices, compensatory amounts may be granted or levied.

On imports into the UK from a Community country, the exporting country may grant a compensatory amount, covered by the EAGGF, to bring the price to the lower level applied in the UK.

In 1973 the compensatory amounts on accession financed by the EAGGF amounted to 264.3 m u.a. A large proportion of this expenditure thus enabled the British consumer to buy agricultural products at a relatively low price, whereas the prices on the world market showed a spectacular rise for some products.

It should be noted, however, that agricultural imports into the UK from the Community involve, as a corollary, a potential reduction in export refunds (intra-Community trade reduces the sale of products to third countries), and a reduction in the levies on imports into the UK from third countries.

The sum of 264.3 m u.a. cannot therefore be considered in isolation. The total effect should be determined. Unfortunately it is not possible to estimate it.

3. The 'Guidance' section of the EAGGF

Of the important items in the budget, the 'Guidance' Section of the EAGGF did not benefit the UK in 1973 because of the time-lag involved in the preparation of the documentation by each Member State and its examination by the Commission.

It is interesting, however, to know what this country can hope to receive as a contribution to the solution of its financial and agricultural problems.

(a) The principle of the 'Guidance' section

To find this information it is useful to refer back to the idea underlying the establishment of the 'Guidance' section of the EAGGF. Regulation No. 25 of 4 April 1962 on the financing of the common agricultural policy laid down the one-third rule, under which the aim was that the annual contribution to the guidance expenditure should as far as possible represent one-third of the amount fixed for guarantee expenditure. This rule was abandoned in 1966. A ceiling was fixed for the 'Guidance' section at 285 million u.a. In 1973 this amount was raised to 325 million u.a.

The one-third rule had been laid down to establish a balance in the financial advantages obtained by the various producers. Agricultural prices are fixed at a level enabling the less well-placed producers to receive a decent income. The result is, admittedly, that the better-placed producers can draw income from it, but the one-third rule has the effect of giving the relatively weak producers assistance to offset their structural deficiencies, with a view to a reduction in the relative level of prices in the medium term.

When the 'Guarantee' section grew to 2,000 million u.a. per annum, it was considered expedient to limit the 'Guidance' expenditure to a fixed annual amount. The aim of the 'Guidance' section is nonetheless still the same. The Netherlands, France and Denmark have a net value added (NVA) per agricultural work unit (AWU) which is higher than the EEC average and these two countries are net beneficiaries from the Community budget (the 'Guarantee' section represents 70% of the total budget). In principle, therefore, the other states should be the main beneficiaries of the 'Guidance' section.

The latter statement would seem not to apply to the UK, where the NVA per AWU is much higher than the Community average[1], although this high figure does not mean there are no structural weaknesses in certain regions or certain agricultural sectors which may justify a contribution by the 'Guidance' section where applicable.

(b) Distribution of appropriations for individual projects

In answer to an oral question with debate by Mr Gibbons[2] (Ireland, Group of European Progressive Democrats) on the 'Guidance' section of the EAGGF, Mr Lardinois, Member of the Commission of the Communities replied that there were 170 million u.a. for individual projects in 1973; 150 million would be granted to the old Six and 20 million to the three

[1] NVA per AWU in u.a.: 1971: EEC (Six) 2,826
UK 4,121
Source: Agricultural income in the enlarged Community

[2] See Report of Proceedings of the European Parliament, 24 April 1974

New Member States; this method of distribution (12.5% for the three new Member States) had formed the subject of an 'agreement'. The Member of the Commission added that following accession the total sum for the 'Guidance' section had been raised by 14% (from 285 to 325m u.a.) and that any change in the pattern of distribution of appropriations could cause difficulties among the former Six. Nevertheless it seems that the Commission are (in July 1974) on the point of redistributing the appropriations in a sense more favourable to the new Member States. It is believed that 31m u.a. will be provided for the latter, of which 20m u.a. will be allocated to the United Kingdom.[1]

In conclusion, the transactions of the 'Guidance' section of the EAGGF should not, taken overall, be expected to provide a contribution to the UK that would be likely to produce much improvement in its net account with respect to the Community budget. It should be noted, however, that the UK can derive important advantages from the implementation of the directive on hill-farming and farming in other less favoured areas.

4. <u>The operational budget of the ECSC</u>

This budget is financed by resources derived mainly from the ECSC levy, the rest coming from interest on investments and release of part of the reserves. In 1973 the product of the levy was 62.9m u.a. The UK industries contributed 14.68m u.a. or nearly one quarter. Total resources were about 75m u.a. in 1973.

The appropriations for expenditure in 1973 were:

- administrative expenditure	18 m u.a.
- aid for readaptation	38 m u.a.
- aid for research) steel) coal	18.5 m u.a.
- aid for coking coal	4 m u.a.
- aid towards the payment of interest	6 m u.a.

It is very difficult to determine the amount of aid for research accruing to any one Member State. Administrative expenditure has to be considered as overheads which it is impossible to divide between the Member States. Aid for readaptation was of little benefit to the UK (0.65 million u.a.) as the latter had delayed the submission of its applications for 1973.

Up to the end of 1972 aid for coking coal only benefited the Federal Republic of Germany and Belgium.

Aid towards the payment of interest was of no benefit to the new Member States because of the normal delays involved in examining financing projects.

The draft budget for the 1974 financial year shows that the United Kingdom should receive about 20m u.a. as aid for readaptation of workers.

1 Confirmation of this position is given in the answer to Mr Brewis' Written Question No. 349, OJ No. C 145, 22 November 1974.

ANNEX

1. According to the latest information, the 'protective levies' received by the United Kingdom could amount to 1,200m u.a. rather than to 800m u.a. This increased amount would have the effect of delaying the moment when resources calculated on the basis of the GNP and VAT would begin to cover a part of the United Kingdom's contribution.

2. Article 38 of the Treaty of Accession provides that duties of a fiscal nature (described as 'excise duties' in the chapter on budgetary matters) must be removed at the latest by 1st January 1976, except for those on tobacco. The latter, which bring in an annual revenue of about 3,000m u.a. to the British Government, may be retained until 1 January 1978.

CHAPTER II

THE FUNCTIONING OF THE COMMON MARKET

CHAPTER II - THE FUNCTIONING OF THE COMMON MARKET

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SECTION I - THE ACHIEVEMENT OF A COMMON MARKET

ONE YEAR IN THE COMMUNITY

European integration is not a matter of a single year. Nor can much be reasonably concluded concerning the benefits and disadvantages of membership in the European Community from one year in the EEC. Accession leads to a certain restructuring of the economy. This process of adaptation eventually produces advantages, but it may cause temporary difficulties.

Great Britain takes part as a full member in the decision-making process in the Community, but does not yet form part of the customs union. It is not until 1977 that the link-up with the Community will be completed. It would, therefore, be just as incorrect to expect miracles from membership in the short term as unreservedly to credit favourable developments which took place in the British economy in 1973 to the Community. It is attractive, but not warranted, to ascribe the economic growth of approximately 6% in real terms in 1973 to the accession. Accession undoubtedly did have some effect last year (especially as a result of anticipation of the situation which will have arisen in a few years). But it seems probable that the principal economic indicators in the period since 1 January 1973 have been more subject to the effects of the rise in raw material prices, the depreciation of the £, and the short-term reflationary measures taken by the British Government in autumn 1971 and in the 1972 budget than to that of the as yet incomplete membership in the Community.

A. FREE MOVEMENT OF GOODS

The present position

The rapid achievement of the customs union is frequently mentioned as one of the great achievements of the European Community. In fact, customs union has not yet been fully realized, even among the original Six. We have not progressed much further than a tariff union. For customs union, harmonized customs legislation and customs practices are still necessary.

The Commission hopes to have harmonized customs legislation sufficiently by 1 January 1975 for the system of the Community's own resources, insofar as these are derived from the external duties, to function in an equitable manner.

Free movement within the Community (even among the original six Member States) is still hindered by controls connected with fiscal differences, currency regulations, the presumed necessity or otherwise of maintaining national statistics, Community regulations in the areas of transport and agriculture, and finally, with technical obstacles to trade and those relating to health and plant health.

The final elimination of all these controls in intra-Community trade can only be expected from fairly thorough-going harmonization of Member States' legislation in these fields.

Some steps have certainly been taken to facilitate intra-Community movement of goods and persons. Regulation No. 542/69[1] means a considerable simplification in the movement of goods.

A very important condition which must be met before the free movement of goods can be achieved is the abolition of technical obstacles to trade. This process is slowly but surely taking place, and at the moment, all the remaining obstacles are due to be removed in the next five years. Although experience with time-tables in this area has not been altogether satisfactory in the past, there is some reason to take the time-limit seriously on this occasion, since the Commission is now evidently ready to harmonize only as much as is necessary for reasonable functioning of the Common Market, and has eliminated all perfectionism.

In the United Kingdom, the Community has met with much criticism because of the attention it has given to technical obstacles to trade. In most instances quite unjustly, the Commission is portrayed as seeking to limit consumer choice by imposing a uniform 'harmonized' product on all the citizens of the Community. In fact, its aim is almost always to prohibit Member States from restricting the importation of a product from one of the other Member countries for irrelevant reasons; the harmonization relates to provisions which restrict imports, not to the actual product. To the extent that the Commission is successful, the consumer gets more choice and better protection.

So far, the Council has approved 35 directives in the area of technical obstacles to trade in industrial products; 34 proposals are still waiting to be dealt with by the Council.

What can be expected from a customs union?

A customs union (i.e. an economic area with free internal movement of goods and a common external tariff) increases the all-round prosperity of its members. This can be attributed to 'economies of scale', sharper competition in a larger economic unit and more rapid dissemination of industrial know-how.

[1] OJ No. L 77, 29.3.1969

The effect of free movement of goods tends to be underestimated, since frequently it is only the abolition of customs tariffs which is taken into consideration in this connection. However, the non-tariff obstacles to trade are at least as important. These are (a) the technical and health regulations which products must comply with if they are to be admitted into a country by way of trade, and (b) the numerous stipulations made by public customers (the source of a continually rising proportion of business orders) to national suppliers. Since too little account is taken of these non-tariff obstacles to trade in evaluating the effects of a customs union, the prosperity benefits of a customs union for its members are probably underestimated[1].

The 'economies of scale' (more efficient production from longer runs) which are possible in a customs union lead to lower production costs. It has admittedly been concluded from the fact that giant enterprises do not always work more efficiently than smaller ones that not too much can be expected from economies of scale. This is inaccurate insofar as it is not the size of the enterprise but the degree of division of labour, i.e. of specialization, which is at issue. This process can still lead to considerable cost reductions in Europe.

A third reason to entertain some expectations of the customs union lies in the fact that, in some branches of industry, the optimum size of the production unit has rapidly increased. While in 1958 a steel works with a capacity of one million tons had more or less reached optimum productivity, it is now assumed that a capacity of approximately twelve million tons is necessary to be able to produce optimally. Similar increases of scale are also apparent in the chemical and other industries. This means that many industries must, if they wish to be profitable, work for a large market. The United Kingdom also has such enterprises, and their prospects are better if they can produce from and for a large market.

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1 This is true, for example, for Tinbergen's calculations. He came to the conclusion that in a common market a reduction in production costs of approximately 5% can be achieved. But, he adds, this figure is no more than a 'wild guess' (J. Tinbergen 'The European Community: Conservative or progressive?' - Wicksell Lectures, p. 22). For the above reasons, J. Williamson's estimate also seems to be on the cautious side. He is of the opinion that integration can add £750m. or 1½% to the British GNP at the end of the transitional period (Article by Williamson in 'The Economics of Europe', 1971).

The increase in trade between the United Kingdom and the other Member States does not necessarily take place at the expense of third countries. A confidential document sent, according to 'The Economist' of 1 June 1974, by the British Foreign Secretary to his colleagues in the other Member States says that the increase in intra-Community trade is in large part 'new' trade: the trade creation/trade diversion ratio is said to amount to around 3.5 : 1. This estimate confirms the view that the United Kingdom still has something to expect from participation in the customs union.

The figures are still inconclusive

The increase in trade between the United Kingdom and the other members of the Community does not date from the time of accession (see Annexes I and II). Between 1967 and 1973, the United Kingdom's total imports increased in value by 146%. In the same period, United Kingdom imports from the European Community increased in value by 204%.

As a result of the fall in the terms of trade, the proceeds from exports from the United Kingdom to the other Member States cover an increasingly smaller share of expenditure on imports from these countries (see Annex II). The Community is an important market for the British economy; in 1973, imports from other Member States constituted 32.7% of total British imports, and in the same year, the other Member States of the Community likewise took around one-third of the United Kingdom's exports.

In 1973 the British terms of trade showed a deterioration of 12% with consequent adverse effects on the balance of trade. £1,400 million of the deterioration in the terms of trade is accounted for by a rise in world market primary commodity prices and by the depreciation of the pound. The remainder (£300 million) of the total fall of £1,700 million can be ascribed to the remarkable real growth in the GNP in 1973 (5.8%)[1].

1974 is also going to be a bad year as far as the external balance of the British economy is concerned. The terms of trade have worsened this year too, and the production cutback at the beginning of the year (the three day week in January and February) with no reduction in home demand has stimulated imports.

The United Kingdom has long had a large surplus on its 'invisibles', so that the balance of current payments always looks better than the trade balance. In 1973, the current account also showed a deficit, for the first time since 1968 (see Annex III).

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[1] Answer to written question No 104/74 by Lord O'Hagan, OJ No C 131/74, p.3.

UNITED KINGDOM

IMPORTS (CIF) (£ million)

	1967	1968	1969	1970	1971	1972	1973	1974*
Total World	6,436.7	7,897.5	8,315	9,036.8	9,821.1	11,155.4	15,845.4	17,089
Total EEC (9)	1,706.9	2,062.8	2,151.6	2,440.2	2,916.1	3,523.5	5,197.1	5,651.7

EXPORTS (FOB) (£ million)

	1967	1968	1969	1970	1971	1972	1973	1974*
Total World	5,229.6	6,433.9	7,339.4	8,061.1	9,181.4	9,745.7	12,436	11,998.6
Total EEC (9)	1,391.1	1,740.2	2,065.7	2,355.7	2,660.1	2,939.7	4,030	4,032.9

Source : Central Statistical Office (Monthly Digest of Statistics)

* January to September inclusive

UNITED KINGDOM

Imports (C.I.F.)

	1973 January to September incl. £ million	%	1974 January to September incl. £ million	%
World	11,231.02	100	17,089.00	100
E.E.C.	3,684.74	32.8	5,651.70	33,07
E.F.T.A.	1,682.74	14.9	2,219.74	13
U.S.A.	1,135.23	10.1	1,610.73	9.4
COMMONWEALTH	1,975.45	17.6	2,453.56	14.4

EXPORTS (F.O.B.)

	1973 January to September incl. £ million	%	1974 January to September incl. £ million	%
World	8,958.59	100	11,998.58	100
E.E.C.	2,846.06	31.8	4,032.90	33.6
E.F.T.A.	1,229.65	13.7	1,647.11	13.7
U.S.A.	1,104.86	12.3	1,303.15	10.9
COMMONWEALTH	1,526.32	17	1,937.05	16.1

Source : Central Statistical Office (Monthly Digest of Statistics)

ANNEX II

Exports to EEC (9) (FOB)
(% of total exports)

1967	1968	1969	1970	1971	1972	1973	1973 (*)	1974 (*)
26.5	27	28.1	29.3	28.3	30.1	32.3	31.8	33.6

Imports from EEC (9) (CIF)
(% of total imports)

1967	1968	1969	1970	1971	1972	1973	1973 (*)	1974 (*)
26.5	26	25.8	27	29.6	31.5	32.7	32.8	33.1

EXTERNAL TRADE
Cover Rate Exports FOB/Imports CIF

	1967	1968	1969	1970	1971	1972	1973	1973 (*)	1974 (*)
with world	81.2	81.4	88.2	89.2	93.4	87.5	78.4	79.8	70.2
with EEC (9)	81	84	95.5	96.5	91.2	83.4	77.5	77.3	71.4

Source : Central Statistical Office (Monthly Digest of Statistics)

(*) January to September inclusive

ANNEX III

BALANCE OF PAYMENTS

Current account (seasonally adjusted)

(£ million)

	1968	1969	1970	1971	1972	1973	1973 (1)	1974 (2)
Visible operations	- 659	- 143	- 9	+ 285	- 677	- 2375	- 1625	- 2647
Invisible operations	+ 375	+ 594	+ 706	+ 808	+ 791	+ 1165	+ 794	+ 611
BALANCE	- 284	+ 451	+ 697	+ 1093	+ 114	- 1210	- 831	- 2036

Source : Central Statistical Office (Monthly Digest of Statistics)

(1) second half

(2) first half

B. CAPITAL MOVEMENT

The situation

Article 67 of the EEC Treaty makes provision for the liberalisation of capital movements, but only insofar as is necessary to ensure the efficient working of the common market, with the proviso that payments on current account must in all cases be freed from restrictions.

In 1960 and 1962, the Six clarified these provisions by adopting two directives 'for the implementation of Article 67 of the Treaty'.[1] These provided for unconditional liberalisation of: Direct investments, investments in real estate, personal capital movements, short- and medium-term credits in respect of commercial transactions and guarantees connected with them, transfers in performance of insurance contracts (list A); acquisitions and import and export of securities quoted on a stock exchange (excluding units of unit trusts), as well as the export of bonds issued on a foreign market and denominated in the national currency (list B). List C sets out the following categories of capital transactions: issues of securities by undertakings, all security transactions not contained in list B, long-term credits related to commercial transactions, medium- and long-term loans and credits not related to commercial transactions and guarantees connected with them. The capital movements referred to in list C are also to be liberalised in principle. Where such free movement of capital might form an obstacle to the economic policy of a Member State, the latter may maintain or reintroduce existing restrictions. This reservation is particularly important in the case of bond issues and loans in the national currency.

Since 1962 no further progress has been made towards the liberalisation of capital movements within the Community. On the contrary, monetary crises have led repeatedly to the reintroduction of exchange controls.

The Accession Treaty provides a transition period for Great Britain (and the two other new Member States). By virtue of Article 124 of the Treaty, Great Britain may:

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[1] OJ Special Edition 1959-1962, page 49.

(a) control direct British investment in other Member States until the end of this year,

(b) restrict inter-Community transactions related to investments in real estate, until 1.7.1975,

(c) defer the liberalization of the operations set out in list B of the above-mentioned directives of 1960 and 1962, until the end of 1977.

<u>The consequences for the United Kingdom</u>

The United Kingdom is by far the largest centre of financial operations in the Community; 'the City' overshadows in every respect the much smaller centres of Frankfurt, Paris, Milan, Amsterdam and Brussels. It would seem obvious that London ought to become the dominant financial centre of the Community of the Nine. In the year and a half since British entry, little progress has been made in this respect, for obvious reasons. Only when capital can circulate reasonably freely within the Community and the monetary situation in the Community is once again reasonably stable (yet another argument for EMU) can the United Kingdom take full advantage of its position. Until these conditions are met, economic activity in all the Member States will be concentrated mainly on the domestic market.

With regard to direct investments, it may be that in the United Kingdom, the effects of the first year of membership were expected to be greater than they in fact were. The great influx of foreign capital did not materialise, probably mainly because of the unfavourable industrial relations in England. Moreover, British enterprises wishing to extend their activities abroad seem to show a preference for taking over existing firms, whereas continental enterprises incline more towards new direct investment. These require longer preparation, so that the concomitant capital flows cannot get going immediately.

Even so, actual foreign investment by private persons in the United Kingdom amounted to £1,365 million in 1973, compared with £1,008 million in 1971 and a mere £ 729 million in 1972. In the past year, direct private investment by British persons abroad amounted to £1,253 million. (See Annex I). Neither the Statistical Office of the Community nor British sources can provide a breakdown of these figures in terms of comparative investment in the Community and in other countries, so that it is difficult to reach meaningful conclusions on this point[1].

To sum up, London has a head start as a financial centre, but it can take advantage of this only in conditions of relative monetary stability and freedom of capital movement. This will only be achieved when social and economic conditions in the United Kingdom improve. If this does not happen, the long term outflow of capital will continue and it may then appear necessary to apply the restrictions provided in Article 124 of the Accession Treaty or to take even stronger measures.

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[1] A speech by the present Trade Minister, Mr Peter Shore, asserts that Britain invested around £300 million in the Community in 1973. It is not quite clear from the context whether this sum involves only investments in real estate: 'British money is now washing across Europe; office blocks in Brussels, city centre developments in Germany, hotels and farms in France. Vast acquisitions of over £300m. were made last year and the forward commitments in the years ahead, as major projects move towards completion, will be greater still'. News Release, Labour Party Information Department, London, Feb. 1974.

INVESTMENT

(£ million)

	1968	1969	1970	1971	1972	1973
Foreign investment in UK						
- public sector	+ 16	-	- 10	+ 179	+ 113	+ 301
- private sector	+ 567	+ 673	+ 725	+1,008	+ 729	+1,365
Total	+ 583	+ 673	+ 715	+1,187	+ 842	+1,666
British investment abroad by private persons	- 727	- 679	- 773	- 875	-1,450	-1,253
Long-term public capital	+ 16	- 99	- 204	- 273	- 256	- 254
Total	- 711	- 778	- 977	-1,148	-1,706	-1,507
BALANCE	- 128	- 105	- 262	+ 39	- 864	+ 159

Source: Central Statistical Office, London, 1973

ANNEX II

BALANCE OF PAYMENTS

Total investment and other capital flows (not seasonally adjusted)
(£ million)

1971	+ 1853
1972	- 707
1973	+ 1071
1973 (second half)	+ 250
1974 (first half)	+ 1751

Source : Central Statistical Office (Monthly Digest of Statistics)

SECTION II - GENERAL POLITICAL ASPECTS

A. COMPETITION POLICY

In the paragraph on the 'free movement of goods', keener competition in a broader economic framework is cited as one of the advantages of economic integration. This competition must be fostered, otherwise it will gradually disappear. The Community competition policy is therefore in the interests of all Member States. The competition policy also shows that the Commission is genuinely capable of pursuing a strong policy in the interests of the whole Community, provided that the Member States are prepared to give it the necessary powers. The practice of Community competition policy - investigation of the practices of IBM and the big oil companies - also shows that the Commission does not in fact try to satisfy the big corporations at any price as has been made out.

The general aims of British competition policy do not differ in essence from Community competition policy, so there is no reason to suppose that British business would be more likely to come into conflict with the Commission than with the national authorities. Moreover, a British undertaking cannot acquire a dominant position in the common market as easily as on the much smaller English market[1].

Concentrations

The Commission has shown that it is not against take-overs and mergers; but it does wish to have some control over the concentration process. This explains the Commission's proposal, which has been approved by Parliament but not yet by the Council, to make concentrations with combined turnovers of at least one thousand million units of account subject to prior notification. This has met with some opposition in certain business circles, particularly in the U.K. As regards certain details this criticism is certainly justified, as the relevant reports by the European Parliament's Committee on Economic and Monetary Affairs[2] show, but British public opinion can scarcely have any objections to the idea of keeping the concentration process within bounds. In the interests both of the British consumer and, ultimately, of the competitiveness of the British economy, it is essential that steps should be taken to prevent excessive concentrations of economic power.

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[1] Provided the common market is the 'relevant market', which is not always the case.

[2] Doc. 263/73 and Doc. 262/73

Cartels

In the 15 years since the Community was founded, competition policy has above all been a cartel policy. In this period the Institutions of the Community have given clear expression to Article 85 of the Treaty in numerous regulations, reports and decisions. Sections of the cartel policy which still require further elaboration are those relating in particular to licensing and know-how agreements, research cartels and purchasing and selling agreements.

Business in the UK is quite highly cartellised. In the coming years the European Commission will therefore undoubtedly have to prohibit a number of cartels or at least insist that certain agreements are amended. This can be expected to have a beneficial effect on the British economy.

Regional Aid

A Community arrangement that greatly exercises the British Government is that relating to regional aid. The purpose of the Treaty (Articles 92-94) is to prevent the Member States bidding against each other to attract foreign industries, and to eliminate distortions in competition. The value of such legislation is self-evident, nor is it disputed by the British.

In 1971 the Six reached agreement on an initial measure of coordination for regional aid: no 'central region' (i.e. the entire Community except West Berlin, the zonal border area of Germany, the Mezzogiorno and areas in the west and south-west of France) should receive in regional aid more than 20% of the amount invested. But this division of the whole Community into two large categories - central regions and border areas - is too rough and ready. The true facts of the economic and social situation of regions which have remained or become backward varies. Thus a more subtle division is necessary than one comprising only two categories.

Article 154 of the Act of Accession states that this coordination must also be introduced in the new Member States by 1 July 1973 at the latest. This was not easy for the UK, since it has a long tradition of radical and divergent government measures aimed at reducing regional differences in prosperity.

On 1 April 1974 Mr Callaghan stated his case in clear terms in Luxembourg: 'We want to make sure in particular, that, against this background, we can continue to give our own assisted areas the help which they need'.

The UK's primary problem is that it wants to prevent the 'special development areas' being classified as central regions. Although investment aid in these areas seldom exceeds 20%, other financial incentives are provided, including the 'regional employment premium' and cheap loans. The Commission has strong objections in particular to the regional employment premium, mainly because such aid is difficult to measure and cannot therefore be compared with aid in other regions, but also because it has in fact the effect of a 'hard drug': people become accustomed to it and are always needing more.

Regional aid will be a difficult point to settle but a solution is undoubtedly possible. The UK can be expected in the foreseeable future to replace its complex aid measures with more transparent forms, while the other Member States and the Commission must realize - as they do in fact already - that a division of the Community into two categories of area does not make allowance for the wide spectrum of differences involved, that the problems of backward agricultural areas and industrial regions that have fallen behind do not call for the same solutions and, finally, that very strict harmonisation is not needed. If an arrangement in this spirit can be adopted on this point, the negotiations on a European Regional Fund will also have better prospects of success.

On 28 June 1973 the Commission took a decision with a view to defining central and peripheral regions in the new Member States.

In Britain, central regions cover that part of national territory to which no aid is given and 'intermediate areas'. Geographically, the regions receiving aid include most of Scotland, Wales, the north-west and south-west region of England and Northern Ireland.

The other British regions will be included in a subsequent classification forming part of a coordination system for all territories of the enlarged Community.

The Commission must define the relevant principles by 31 December 1974 at the latest to permit immediate implementation.

Meanwhile, no further 'opaque' aid may be granted, and any changes in or renewals of existing aid systems must be completely transparent.

Sectoral regional aids

The Commission decisions on sectoral aids were influenced by four principles:

- aids must be selective and be granted only to undertakings which have a future and can withstand competition in the long term;

- they must be temporary and degressive so as not to perpetuate an artificial situation;
- they must be transparent so as to be recognized and readily grasped by undertakings and have measurable costs and results;
- finally, they must be well adapted to the objectives pursued and have the least possible effect on competition and intra-Community trade.

In 1973 the Commission took a decision in favour of Britain in two specific cases: one in the woollen industry and the other in favour of industrial undertakings in Northern Ireland using products of the steel industry.

B. FISCAL POLICY

1. The EEC Treaty (Articles 95 to 99) prohibits tax discrimination affording protection to national products either when imported or exported. These Articles deal only with taxes on production (turnover tax, excise duty and other forms of indirect taxation).

The Treaty proposes that this indirect taxation should be harmonized (Article 99) in the interests of the common market by directives.

2. The basis for the harmonization of indirect taxation is as follows:

(a) establishment of a common market with healthy competition and characteristics similar to those of an internal market;

(b) harmonization of tax legislation so as to eliminate as far as possible, at both national and Community level, factors liable to distort the conditions of competition;

(c) the abolition of taxes on imports and remission of tax on exports in trade between the Member States and the abolition of frontier controls;

(d) financing of the Community budget by a harmonized tax (VAT) reflecting the capacity of each Member State to contribute.

3. The harmonization of turnover tax has led to the adoption of value added tax (VAT), since this system offers maximum simplicity and impartiality in respect of the origin of goods and services when the tax is levied as widely as possible.

Harmonization is achieved progressively: first come the structures then the rates of tax and exemptions. In the final stage, the state in which goods acquire an added value will benefit from the tax revenue. Tax revenue on any one item may be shared between several states. At present, as a result of remissions and reimposition of tax at frontiers, tax revenue goes to the state of destination.

The draft sixth directive submitted by the Commission with a view to harmonization of the basic rate of VAT creates for the United Kingdom the problem of taxation of foodstuffs. The rapid increase in food prices would make it difficult for a government of whatever political persuasion to accept any solution other than zero rating. The Labour Government has indeed fulfilled its intention of retaining the zero rating for foodstuffs.

Harmonization of taxes on consumption (excise duty) - which is still at the proposal stage - has the same objectives as indicated in 2(a), (b), (c).

The criteria for harmonization would be the tax yield, collection costs, non-taxing of primary products. Consequently, unimportant excise duties would be abolished; only excise duty on mineral oil, alcohol, beer, wine and manufactured tobaccos would be retained and gradually harmonized. The state where the goods are consumed would benefit from the tax and this would not be changed by harmonization.

Parliament examined the Commission's proposals on this question in April 1974 and asked for the abolition of excise duty on wine. For the United Kingdom the question then arises of tax on alcohol, particularly Scotch or Irish whisky. In the opinion of the Conservative Group, the equal treatment of products would require all alcoholic beverages to be subject to the same system.

5. Passenger traffic has formed the subject of two directives on duty-free sales. It was necessary to make people in the EEC more aware of the reality of the common market. The principle of taxation in the country of origin is being applied because of lack of progress in harmonization. When this has been achieved, duty-free concessions will no longer be justified, at least not in principle, and tax receipts will be distributed as stated in paragraphs 3 and 4 with regard to VAT and excise duty.

6. Harmonization is also being applied, on the basis of the criteria in paragraph 2(a), to indirect taxation on raising capital. The levying of stamp duty by one state on securities introduced into or issued within its territory by other Member States has been judged to be contrary to the principle of 2(a). Stamp duty has been declared undesirable in any case from an economic point of view. It is therefore being abolished. Tax on capital formation must not lead to double taxation and is therefore being harmonized. Other indirect taxation on raising capital has been prohibited or abolished in order to clarify the situation.

7. Criteria 2(a) and (b) ('laissez-faire' on taxation) led the Commission to submit two proposals aimed at abolishing tax arrangements liable to impede mergers, divisions and contributions of assets as well as the acquisition of holdings.

These proposals on indirect taxation have not yet been adopted.

8. In the field of direct taxation, economic and monetary union provides for :

(1) harmonization of certain types of taxation liable to have a direct influence on capital movements within the Community; in particular, harmonization of the fiscal arrangements applied to interest from fixed interest transferable securities and to dividends;

(2) further harmonization of the structure of company tax.

Direct taxation has been the subject of several communications from the Commission aimed at harmonization (1967). The Commission seems now to be about to submit a new communication which will break with the principles contemplated hitherto. Preparatory work is continuing but is unlikely to lead to Community legislation in the immediate future.

9. The requirements of the various policies envisaged should be reflected in the tax systems :

- the structure and level of taxes on commercial vehicles or on fuel used by them should be determined exclusively in terms of the charging of infrastructure costs;

- mineral oils, as raw materials or process agents should not be subject to excise duties as these constitute a tax on consumption, not on production;

- direct taxation systems should not artificially influence the choice of place of work (free movement of labour).

10. Fiscal harmonization measures in the Community are taken by directives and therefore leave the Parliaments of the Member States with the formal right to intervene in order to amend legislation.

The Parliamentary tradition of the United Kingdom is however opposed to too much interference by the Community institutions, which have a tendency to assume certain discretionary powers in the fiscal field in respect of, for example, the interpretation of texts and rulings on matters of dispute.

C. CONSUMER POLICY

A start has been made on a Community consumer policy. At the end of 1973 the Commission made proposals for a preliminary Community Programme for Consumer Information and Protection.[1] In its report the Commission rightly emphasised the need for improved legal protection for the consumer; this is precisely the kind of action the Community should be taking. Legal protection does not of course mean the cosseting of the consumer by the authorities; on the contrary, the main concern is to provide the consumer with the legal means of protecting his own interests.

The European Commission is of course in a good position to organize the comparative testing of products in the Community, but this already functions fairly well at an international level and the consumer organizations are suspicious of any form of intervention by the authorities in their province.

The consumer in Great Britain has better representation than his counterpart in various other member states of the Community, and it is likely that Great Britain will be able to contribute much of importance in this field. The Commission's preliminary programme is on the same lines as British consumer policy and there would seem to be little likelihood of conflicting views on the subject.

The British people have in common with the rest of the community the fact (at least) that they are all consumers. Although the consumer in the Community is nowadays better informed than in the past and is also more critical about what he buys, the complicated nature of many products, the great variety of makes and persuasive advertising make it increasingly difficult for him to make the right choice of product. It is here that the need arises for a consumer policy making it clear that the Community does not exist only to serve business interests. The ambitious proposals of the European Commission together with Parliament's amendments,[2] are a step in this direction.

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[1] Doc. 308/73

[2] Doc. 64/74

CONCLUSIONS

(1) Participation in the common market automatically affords a number of advantages, but above all it offers opportunities which can, if so desired, be allowed to go begging. If the economic practice of a Member State is not geared to seizing these opportunities, all the advantages of membership of the European Community are called into question.

(2) Participation in economic integration is ultimately a question of self-confidence. Paradoxically enough, it could be that the British anti-marketeers have in fact too high an opinion of the Community, i.e. of the economic capacity of the Member States on the one hand and of the harmonization of economic and monetary policies achieved so far on the other.

(3) It is understandable, if only because we are dealing with concrete figures, that many Britons are at present busily calculating whether the United Kingdom is getting back financially something like the amount it is putting into the Community (the UK's net contribution is in fact rather on the high side). But these are petty calculations irrelevant to the real problem, since integration has consequences for the economy and prosperity of the British citizens of an entirely different order of magnitude. Moreover, membership of the European Community enables the United Kingdom to play an effective role, albeit shared with others, in the international decision-making process in the field of world trade (Nixon-Round), the international monetary system, energy research, food supplies, etc.,

(4) The advantages of membership are scarcely quantifiable in the short term and for the most part become discernible only in the medium term. These are not the sort of advantages with which politicians customarily win votes, but they are no less real for that.

(5) Britain's economy in 1973 was not affected primarily by the accession, which is in fact still far from complete.

(6) The gain in prosperity resulting from a customs union is probably greater than is assumed where calculations take account only of the abolition of customs duties. A considerable contribution is also forthcoming from the abolition of technical and public-health obstacles and from the opening up of government contracts. Moreover, the optimum size of the production unit has rapidly increased in certain branches of industry; these branches can only operate profitably on a large market. The amount of trade created by accession outweighs any loss in trade. The Community is a large and increasingly important market for the United Kingdom, which cannot afford to stand aloof.

(7) A purely negative argument - which, nevertheless, has some relevance now that British voters will be deciding for or against withdrawal - is that the UK plainly has no alternative to the European Community:

- If the UK withdraws, it would almost certainly not be able to negotiate as good a settlement with the Community as Norway. That country never accepted the Community's accession conditions, and furthermore, the Community could afford to adopt a magnanimous attitude towards a small country. The British negotiating position is not strong: a third of the United Kingdom's exports goes to the Eight, and that share is increasing; only 8% of Member States' exports goes to the United Kingdom.
- In a period of threatened protectionism and sharpening competitive conflict on world markets, a strong international negotiating position is vital. It is the United States, the Community and Japan that are making the running and this means the UK too if it is a member of the Community; once out, the country would in practice have to put up with what others decided.
- Medium-sized countries like the UK have already lost part of their sovereigr in a number of areas (international monetary policy, multinational undertakings). They can only regain it as a part of a larger entity. That larger entity can only be the European Community.

(8) Excessive concentration of economic power can be countered more effectively in the Community than in the individual Member States separately. Even the Community's cartel policy can only have positive consequences for Britain. The existing Community agreement on regional assistance is not differentiated enough; an arrangement of greater differentiation could go a long way towards satisfying British demands. The United Kingdom can reasonably be required to make its regional aid transparent and quantifiable.

(9) The Community is gradually acquiring another image; it no longer exists for the benefit of industry and commerce alone, it now pays serious attention to such things as consumer policy as well.

(10) The loss of powers in the field of economic and monetary policy has so far been more imagined than real. In a way, Member States are regaining at Community level an influence they had in fact already lost at national level.

(11) It is also in Britain's interests that the Community should become an economic and monetary union. However, the process of evolution will certainly not follow exactly the pattern laid down in the resolutions on the realization by stages of economic and monetary union.

CHAPTER III

THE DEVELOPMENT OF COMMON POLICIES

CHAPTER III - THE DEVELOPMENT OF COMMON POLICIES

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SECTION I - GENERAL POLICIES

A. ECONOMIC AND MONETARY POLICY

(a) Present situation

The articles of the EEC Treaty (Article 103-109) dealing with economic and monetary policy state in essence that the Member States must regard their policies in this field as a matter of common concern requiring co-ordination and mutual consultation; however, they should continue to implement their policies independently. If a Member State finds itself in economic or monetary difficulties, needs help from other Member States and/or wishes to take protective measures, the powers of the Council and Commission are increased (Article 108).

What the British found in the way of 'Community patrimony' on joining the Community was, besides the above-mentioned articles of the Treaty, a medium term economic policy programme, decisions to co-ordinate the economic and monetary policies of the Member States and two resolutions, dated March 1971 and March 1972, on the achievement by stages of economic and monetary union in the Community.

In fact, the Community medium-term economic policy programmes have played only a very minor role in shaping the economic policy of the Member States. Individual governments obviously felt the programmes to be scarcely binding on them, all the more so since the directives which formed part of the programmes were hardly quantified, and where they were quantified (e.g. in the last programme, adopted in 1971 [1]) the directives were respected only very partially. So the programmes imposed few or no restrictions on the freedom of action enjoyed by the governments and the national parliaments. While these programmes have so little impact, there is little to be expected from their extension to the Community; at the same time, however, there is little cause to be concerned about the restrictions which the programmes might impose on the governments.

In 1971, the Six had adopted three decisions under which the Member States undertook to make greater efforts to coordinate their economic policies and if necessary to lend each other financial assistance [2]. These texts, which have little practical value, were superseded at the beginning of this year, and hence with the United Kingdom's agreement by[3]:

[1] OJ N°. C 49/71

[2] OJ N°. L 73 of 27 March 1971

[3] In addition to the decisions mentioned below, there is also the regulation of 3 April 1973 'establishing a European Monetary Cooperation Fund' (OJ NO.L 89/73) which is, however, of little signifiance.

- a Council decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community[1];

- a Council directive of 18 February 1974 on stability, growth and full employment in the Community[1];

- a Council decision of 18 February 1974 setting up an economic policy committee[1];

- a Council resolution of 18 February 1974 concerning short-term monetary support[2].

These decisions require the Member States to engage in intensive consultation on their economic and monetary policies, thus providing the necessary basis for a common policy. Actual powers, however, remain where they were, i.e. with the Member States.

(b) Economic and Monetary Union

The Labour Party expressed much concern about two other texts: '...we were deeply concerned by the resolutions of March 1971 and 1972 which were confirmed at the Summit Meeting of October 1972. They seemed to lay down a rigid programme under which Economic and Monetary Union, including permanently fixed parities would be achieved by 1980[3]'. The resolutions of March 1971 and 1972 were in fact the documents mentioned above 'concerning the achievement by stages of economic and monetary union in the Community'. For those who prefer to do everything themselves (even though it no longer proves particularly effective) and who feel that integration between modern industrialised countries can well be limited to customs union, there is every reason to be concerned since it is stated in these resolutions that full economic and monetary union is an important Community aim. The practical implications of such a union are also indicated in the resolution (see Annex I).

With regard to the objections to the resolutions on economic and monetary union, the following can be said:

(1) The resolutions of March 1971 and 1972 are far-reaching declarations of intent and not legislative texts (that is why they are included in the 'C' series of the Official Journal). The goal to be attained by 1980 is clearly defined in the resolutions and a number of practical

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1 OJ No. L 63/74

2 OJ No. C 20/74

3 Speech made by Mr Callaghan in the Council of Ministers on 1 April 1974 in Luxembourg.

objectives are listed for the first stage from 1 January 1971 to 31 December 1973, a few of which were in fact achieved. The odd thing about the resolutions is that they leave a large gap between the first stage and the clearly defined aim to be reached by 1980, for they say virtually nothing about the period from 1 January 1974 to 1980, the period in which we now find ourselves.

(2) In practice it has always been found that the Member States retain considerable freedom of action to take such measures as they consider in the national interest. Community coordination of economic policies has rarely proved the straight-jacket which many Britons feared. Italy has demonstrated in recent weeks that Community procedures can be applied flexibly. It is an unwritten law in the Community that no Member State shall be forced to adopt for Community reasons anything which it considers contrary to an important national interest. And this is likely to be the situation for some time.

It could even be asserted that the aversion of Britain's anti-marketeers results,in a way, from their tendency to take Community decisions too seriously, something for which not they, but the Community, must take the blame. In past years it has all too often been the case that the Council or a Summit Conference formulated ambitious plans only to find that they could not be implemented.

(3) Finally, it should not be forgotten that, now circumstances have changed, the Council resolutions on the achievement of economic and monetary union have to be seen in a totally different light. In a world of floating exchange rates, the call for gradual reduction and ultimate abolition of the margins of fluctuation between currencies is no longer very relevant.

But these arguments alone are not enough. Economic and monetary union is still the avowed aim of the Community. This means complete integration of the economies of the Member States - if not by 1980, then some time later. On this point there are still some mistaken ideas. The fact that economic and monetary union has slipped temporarily into the background has led to the premature conclusion that the project has been abandoned. That is unlikely, since a customs union of industrialised countries can never be the final goal of integration (see item 2 below).

So the real question is whether the UK would be better or worse off in an economic and monetary union. In order to answer this question, the following points have to be considered:

1. Influence on economic and monetary development. There is not a single small or medium sized industrialised country which can afford to cut itself off economically from the rest of the world unless it it prepared to accept and considerable drop in prosperity. International division of labour is incontravertibly an important source of prosperity. Consequently, all Western industrialised countries (the United States to a far lesser extent) are dependent upon one another and the same applies to the United Kingdom, whether inside or outside the Community. The principal difference between the two possibilities is that membership of the Community gives the United Kingdom the opportunity to participate in decisions on matters that will anyway affect the country's economy. This applies equally to the abolition of technical obstacles to trade, the fight against inflation, monetary integration and environmental regulations.

   Besides, what in the field of economic and monetary policy is coordinated in the Community? In actual fact only those matters which in practice can no longer be dealt with, or at any rate dealt with efficiently, at national level. The fight against inflation is an example of this. In the final analysis, inflation is in fact a problem of redistribution, which makes it an evil not readily disposed of even by Community action. But the hyperinflation threatening us now can be fought far more successfully at Community than at national level.

   So the loss of powers is considerably less serious than it appears to be. Without exaggerating, one could even say that, in the Community, Member States regain - even if they do share it with others - an influence they had gradually lost at national level. An example of this is in the international monetary situation: individually, none of the Member States could do much more than act as dollar satellites, having not the slightest influence on the exchange rate policy of the United States. An economic and monetary union of the nine Member States, on the other hand, constitutes a bloc capable of pursuing an independent monetary policy - if possible in cooperation with the United States, though not necessarily on a course exactly parallel to that country's policy.

2. A customs union is not the final objective. The idea of developing the Community into an economic and monetary union was not a sudden brainwave. A customs union of modern industrialised countries is not a viable proposition in the long run, if only because the economic and monetary policies of the governments affect the operation of the customs union too much for these policies to be left to the Member

States without jeopardising the smooth functioning of the customs union. To be an advocate of completely free movement of goods is to be in favour of economic and monetary union.

3. Geographic distribution of economic activity. It is possible to acknowledge the advantages of a customs union, yet still feel that one of the Member States will lose by it. The reasoning behind this is that economic integration, if it is not controlled through a regional policy, leads to economic activity being concentrated in the most highly industrialised areas. This tendency has in fact prevailed until now.

However, there are three reasons for assuming that a reasonably even distrubution of economic activity can be achieved in an economic and monetary union. The first is that typical areas of concentration become saturated. Hence the measures to discourage the establishment of industries in these regions (proposal for an investment tax in the West Holland conurbation (Randstad, Holland), system of licences and levy of special taxes on businesses setting up in the Paris and London agglomerations, etc.).

The second reason is that in the years ahead environmental policy will come to the aid of physical planning. Pollution is so serious in industrial areas that environmental regulations must be strict there, stricter than in areas which have less industry and no particular recreational value. The Commission's draft recommendation[1] 'concerning cost allocations and action by public authorities on environmental matters' expressly advocates that environmental standards be variable from regionato region. Strict standards mean heavier charges for the undertaking; in this way environmental policy assists regional policy.

The third reason is that the Community has always assumed that a regional policy would form part, and an important part, too, of the economic and monetary union. Witness among other things the resolution of 22 March 1971[2].

4. The 'stop/go' policy. The above arguments for economic and monetary union apply more or less to all Member States of the Community. The United Kingdom has, furthermore, an additional interest in bending its efforts to achieving such a union. The income elasticity of British imports, i.e. the ratio between the increase in demand for imported products on the one hand and the increase in the British GNP on the

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1 Doc. 17/74

2 OJ No. C 28/71, Resolution, para. I (1 & 3) and para. III (4)

is about 1.66 for Gt. Britain, which is a high figure. At the same time the ratio between the increase in demand for British export products and the increase in income of the consumers of these products is about 0.86 and that is a low figure[1].

Assuming that import and export proceeds must be more or less in balance, the British economy will be able to grow only half as fast as that of Great Britain's trading partners. This is one of the main reasons for the British stop/go policy of the sixties. However, in recent year British governments have flatly refused to be coerced by the balance of payments, and rightly so; but the new approach does lead to a continuous depreciation of sterling.

The only way out of this dilemma between stop/go policy and devaluation of the pound is the Economic and Monetary Union. For within such a union, compensatory mechanisms operate in the same way as they do in a national economy. And, it is a well-known fact that nobody worries about the balance of payments deficit or surplus of a region because the balance of such a region is 'automatically' corrected with regard to other parts of the country by means of regional payments to and from the central bank, inter-regional movements of capital, purchase and sale of treasury bonds, taxes and public expenditure[2].

"Economic Problems of Britain's Accession to the EEC" (in German) Gunther Wehrmann, Gegenwartskunde 3/73, p.317

T. Scitovsky, "Money and the balance of payments"; and by the same author, "Western Economic Integration". See also Bela Balassa "Theory of Economic Integration".

In the "Resolution of the Council and Representatives of the Governments of the Member States of 22 March 1971 on the Realisation by Stages of Economic and Monetary Union in the Community", economic and monetary union is defined as follows[1]:

"The measures to be taken shall ultimately lead to the Community:

1. Forming an area within which persons, goods, services and capital will move frealy without .distortion of competition and without causing structural or regional disequilibrium, and in such a way that the economic agents can develop their activities at Community level;
2. Forming a separate entity in the international monetary system, characterised by total ond irreversible convertibility of currencies, the elimination of margins of fluctuation in exchange rates, and the irrevocable fixing of parity rates, all of which factors are essential pre-conditions for the adoption of a single currency; a system of central banks shall operate within this monetary framework;
3. Having in the economic and monetary field the necessary powers and responsibility to enable its institutions to administer the union. To this end, the decisions required in matters of economic policy shall be taken at Community level and the institutions of the Community accorded the necessary powers.

Powers and responsibilities shall be distributed among the institutions of the Community on the one hand and the Member States on the other in such a way as to ensure the cohesion of the union and efficient operation of the Community.

The institutions of the Community shall be given the means to discharge efficiently and quickly their economic and monetary responsibilities.

Community policy as implemented within the framework of economic and monetary union shall be subject to the deliberations, the decisions and the supervision of the European Parliament.

The Community system of central banks shall contribute within the framework of its own responsibilities ot the achievement of the Community's aims of stability and growth."

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1 OJ No. C28 of 27 March 1971, p.2, para. I, second sub-paragraph.

B. REGIONAL POLICY

(a) Before Enlargement

The six original members of the Community could reasonably claim to have achieved a high and continuous rate of growth and one that benefited its citizens as a whole. From 1960 to 1970 the GNP of the Six increased in volume at a rate of 5.4% per year [1] and this had been reflected in rising standards of living.

However, this progress has been decidedly uneven and geographically unbalanced. The richest areas in the Community have an income per head about five times that of the poorest[2], despite efforts on a national scale by the member governments concerned.

On a Community level, there was no comprehensive regional policy before enlargement. This was because the Treaty of Rome contained no specific provisions for the development of a common regional policy, though in some of the Treaty Articles and in the Preamble, regional balanced development is mentioned in general terms as an objective of Community activity.

The possibilities of regional policy action open to the Community under the Treaty of Rome were thus limited. The Treaty of Paris (ECSC) in turn contains the express provision that its objective is to 'ensure the most rational distribution of production at the highest possible level of productivity' (Article 2). Consequently, a regional policy within the framework of the ECSC Treaty could exist only in the shape of measures designed to facilitate regional adjustment to processes of rationalization (reconversion). The Community Court of Justice expressly ruled that the Paris Treaty did not allow the Community Institutions to apply a general regional policy.

The Community Commission in the years up to 1972 prepared a number of proposals for a regional policy, but none of these came into operation.

Nonetheless, some steps were taken:-

(i) The European Investment Bank made substantial loans under Article 130 (A) of the Treaty of Rome of which 1,900 million u.a. (£792m.) (75% of the total) were allocated between 1968 and 1972 to regional development schemes;

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1 See the Report of the Commission on Regional Problems in the enlarged Community (Bulletin supplement 8/73)

2 op. cit., para. 6

(ii) Reconversion and Re-adaptation Schemes under Article 56 of the ECSC Treaty provided finance to create 110,000 new jobs and made re-adaptation possible for nearly 500,000 workers in the coal and steel industries;

(iii) The Social Fund provided 265 million u.a. (£112m) for re-settlement and re-training of workers, again mainly in poorer regions;

(iv) The Guidance Section of FEOGA, the fund of the Common Agricultural Policy granted 708 million u.a. (£295m.) in modernising and providing higher living standards in areas with small, uneconomic farms with low incomes.(1) Although this Section does not seek to achieve an object which is essentially regional by nature, the choices made in the allocation of grants (25% and, on occasion, 45% of the total for individual projects) nevertheless lend to these operations the character of a regional policy.

(b) Arguments for developing a Regional Policy

Under all these schemes Britain has benefited and some examples are given in the addendum. However, until enlargement, or rather until the Paris Summit meeting of October, 1972, held in view of the forthcoming enlargement of the Community, it remained the case that a Regional Development Policy as such did not exist.

At the Paris Summit meeting, the then British Government fought hard for the acceptance of a Community regional policy to be financed from the Community's own resources, and it was agreed that, as a first step, a regional fund would be set up by the end of 1973.

The arguments which the British Government of the day put forward and which were accepted in principle by her partners were threefold.

(i) Moral Arguments

"Reducing the differences existing between the various regions and the backwardness of the less-favoured regions" is an aim set out in the Preamble to the Treaty of Rome. As the Commission said in their Report, cited above, "It is unthinkable that the Community should only lead to an increase in the process whereby wealth is principally attracted to places where it exists already." [2] Furthermore, if capital is not moved

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1 See Second Financial Report on the EAGGF Financial Year 1972, Doc. 109/74, pp.85-95

2 See Report of -the Commission on Regional Problems in the enlarged Community (Bulletin Supplement 8/73) para.13

towards less developed regions, workers will not have a real choice on which the free circulation of labour in the Community can be based.

(ii) Environmental Arguments

"The continuous improvement in the living conditions of their peoples" is also listed as an "essential aim" of the Treaty of Rome. There is thus a direct obligation on the part of the Community to seek to improve living conditions and this applies not only in depressed areas but also in the great conurbations where the pressures of overcrowding and industrial polution may equally lessen the quality of life.

(iii) Economic Arguments

If the various factors of production of the Community were to be more fully used, the whole economy would benefit. To entrepreneurs the advantages of expanding in an already crowded area often appear attractive. There is, for example, a network of suppliers and a ready-made mass market on the doorstep. But if it were practicable to make them bear the full economic cost of 'infra-structure', roads, hospitals, schools, etc., it would be seen how uneconomic such expansion really is, and how much economic benefit a regional policy could produce.

All the member states are making national efforts to counteract the increasing trend towards centralisation. It would be wrong to say that these measures have been unsuccessful, yet it is true that in general the success has consisted merely in preventing regional imbalances from deteriorating still further. The efforts now being made in the Community to bring about Economic and Monetary Union should lead ultimately to a kind of 'economic disarmament' in the policies of member states with respect to each other. This will lead to the emergence of two new factors: firstly, the means of guarding against concentrationist influences from the other countries will be lost and secondly, with Economic and Monetary Union, equal conditions of competition will only be possible if national measures to help the disfavoured regions are subject to the laws of free competition, a factor which is bound to reduce the efficacy of these measures in many cases.

The obvious solution is, therefore, to introduce a common regional policy. Clearly, the Community cannot allow the bulk of economic activity to go on being concentrated in a small number of conurbations. Both rationalisation of the economy and the most equitable distribution of income possible throughout the Community as a whole must be given equal priority.

(c) The Paris Summit Conference, October, 1972

At the Paris Summit Conference it was agreed:-

"that a high priority should be given to the aim of correcting, in the Community, the structural and regional imbalances which might affect the realisation of Economic and Monetary Union.

The Heads of State or of Government invite the Commission to prepare without delay a report analysing the regional problems which arise in the enlarged Community and to put forward appropriate proposals.

From now on, they undertake to coordinate their regional policies. Desirous of directing that effort towards finding a Community solution to regional problems, they invite the Community Institutions to create a Regional Development Fund. This will be set up before 31 December, 1973, and will be financed, from the beginning of the second phase of Economic and Monetary Union, from the Community's own resources. Intervention by the Fund in coordination with national aids should permit, progressively with the realisation of Economic and Monetary Union, the correction of the main regional imbalances in the enlarged Community, and particularly those resulting from the preponderance of agriculture and from industrial change and structural underemployment."

The Council of Ministers accepted (in principle) that the Regional Development Fund should grow from year to year and that regional expenditure would one day be a major element in the Community budget.

(d) The Regional Development Fund

At the Paris Summit Conference in December 1974, a final decision to establish the Regional Development Fund was taken:

"The Heads of Goverment decide that the European Regional Development Fund, designed to correct the principal regional imbalances in the Community resulting notably from agricultural predominance, industrial change and structural under-employment will be put into operation by the institutions of the Community with effect from 1 January 1975."

The Fund will be endowed with £125m. in 1975, with £208m. for each of the years 1976 and 1977, i.e. £541m. (1,300m. u.a.).

This total sum of £541 will be financed up to a level of £63m. by credits not presently utilised from the EAGGF (Guidance Section).

The resources of the Fund will be divided along the lines envisaged by the Commission:

Belgium	1.5 %
Denmark	1.3 %
France	15.0 %
Ireland	6.0 %
Italy	40.0 %
Luxembourg	0.1 %
Netherlands	1.7 %
Federal Republic of Germany	6.4 %
United Kingdom . . .	28.0 %

Ireland will in addition be given another £2.5m. which will come from a reduction in the shares of the other Member States with the exception of Italy."

With a participation of 28% Britain will receive the biggest share out of the European Regional Development Fund after Italy. On the basis of the Fund's total volume of £541m. within the three year period it is envisaged that Britain will receive from the Commission:

in 1975	£35m. approx.
in 1976	£58m. approx.
in 1977	£58m. approx.
in 1975-1977	£151m. approx.

It should be noted that the Regional Fund is not intended merely to finance industrial activity in backward regions: its purpose is rather to stimulate investment in less developed areas. Bilateral contacts between countries have so far been unsuccessful in achieving this. Thus the British development areas have made considerable efforts to attract industrial investment from Germany but these have not been very effective. If, however, Germany is committed to a Community fund and an organisation for regional development, it will be much easier for German investment to be channelled into Scotland, Wales, Northern Ireland or Northern England, rather than into the already overcrowded Ruhr area, for example. To assist in this process of re-orienting investment, the proposals include a Committee for Regional Policy to be composed of representatives of Member States and of the Commission. The aim is not to try and stifle national initiatives for giving aid to industry, but to compare the efficiency of the different regional policies of Member States, and to try and avoid the wasteful bidding for outside investment between one Member State and another through competition in incentives.

Unlike her situation vis-à-vis the Common Agricultural Policy, Britain will from the beginning be a full partner in shaping the Community's regional policy and, far from being a limiting factor on Britain's freedom to assist her own industry, the Community's regional policy should help Britain to avoid unfair competition from wealthier Member States.

CONCLUSION

It is clear from the Heads of Governments' decisions that they are not intended to be considered in terms of a 'fair return', at least not in the narrow sense of every Member State drawing out the same amount as it contributes.[1] To make calculations in this way would be to contradict the basic purpose of the Fund, which is precisely the redistribution of the means of economic growth. It is clear that, in the long term, those countries which profit most from the overall expansion resulting from the rationalisation procedures of the Common Market and its enlargement, should be the ones to contribute most and benefit the least from a regional policy. This would be even more essential in the event of further progress towards economic and monetary union, which would otherwise tend to effect much of the protection at present given by national governments to branches of industry in difficulties.

It is to be hoped that the Regional Development Fund, together with the other instruments of common policy such as the European Investment Bank, the Social Fund, the ECSC Treaty provisions for industrial restructuring, etc., will make a fundamental contribution to the more uniform distribution of well-being throughout the Community. Details of some of the benefits which Britain has obtained from these latter instruments of regional policy are given in the Addendum to this chapter.[2]

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1 The Heads of Governments' decisions have the effect that 74% of the total resources of £541 m. will go to Britain, Ireland and Italy

2 For the 'negative' aspects of the Community's regional policy, by which controls are placed on the extent of assistance by national governments, and their effect on Britain, see Chapter II, p.13

C. SOCIAL POLICY

(Articles 48 - 51 and 117 - 128 of the EEC Treaty and Articles 54 and 56 of the ECSC Treaty)

In the field of social policy, the three new Member States immediately adopted the progress made by the Community prior to accession - subject to certain technical adjustments contained in the acts of accession.

The United Kingdom, Denmark and Ireland accepted and implemented the free movement of workers and its corollary, social security for migrant workers. They have contributed to and been granted aid from the European Social Fund, the mainspring of Community social policy. They have also received funds from ECSC appropriations for the retraining of workers in heavy industry and the building of subsidized housing. Finally, following the Council resolution of 21 January 1974[1] adopting a Social Action Programme for the years 1974 - 1976, the United Kingdom, Ireland and Denmark will, in the near future, implement a number of directives proposed by the Commission, approved by the Council after having received the opinions of the European Parliament and the Economic and Social Committee. At its meeting on 17/12/1974, the Council of Ministers for Social Affairs agreed on the first two directives (concerning equal pay and mass dismissals). These new directives will require the new Member States, particularly Great Britain, to make a number of changes in social legislation.

There are thus three aspects of Britain's accession to be considered:

1. the free movement and social security for migrant workers,
2. the European Social Fund and the retraining of ECSC workers,
3. the Social Action Programme 1974 - 1976.

1. Free movement and social security for migrant workers

One of the main consequences of the implementation of the Rome and Paris Treaties is the free movement of workers throughout the Community.

This raises the interesting question of the extent to which the application of this prinicple has resulted in an influx of nationals of other Member States to the United Kingdom[2]. It will be seen from the figures supplied by the British Government that the free movement of workers, which came into operation in 1973, has not made any difference to the steady decline in the number of immigrants from Common Market countries to the United Kingdom recorded over the last ten years.

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[1] O.J. No. C.13, 13 February 1974

[2] The movement between the United Kingdom and Ireland has already existed for a number of years: this movement is not therefore included in the figures shown.

Paradoxically, the decline was even more marked between 1972 and 1973. Thus in 1972 12,600 workers from the Community (Ireland excepted) entered Britain as against a mere 6,402 in 1973. Only the Italians continued to arrive in the same numbers as before : 2,800 Italians in 1972, 2,000 in 1973 (one-third of the total number of immigrants). But the number of French immigrants dropped from 4,400 in 1971 to 1,700 in 1973, the number of German immigrants from 4,100 to 1,400, the number of Dutch immigrants from 1,800 to 785 and the number of Danish immigrants from 770 to 360, in the same period.

It can thus be inferred that the implementation of free movement in the Community has not affected the downward trend of immigration from the EEC Member States to the United Kingdom over the last ten years. The most likely explanation is the comparatively low rate of economic growth in the United Kingdom in these ten years, coinciding with a period of widespread prosperity in the Community. It should be added that Commonwealth immigration to Britain was at a peak during this period.

It will also be noted that freedom of movement has not produced a greater flow of British workers to the Continent. Accurate figures are not available, but the Commission estimates that the number who settled on the continent in 1973 is only very slightly higher (a few hundred) than in previous years.

The fact that the movement of persons between the original Member States and the United Kingdom has not increased is also reflected in the virtual absence of legal disputes on freedom of movement between Member States. There has been only one submission to the European Court of Justice on the subject of freedom of movement, and that was an application from a British court for a preliminary ruling concerning a Dutch woman's entry to the United Kingdom in May 1973[1].

As far as social security for migrant workers is concerned, the Commission states in its Report on the Development of the Social Situation in the Community in 1973[2] that the Community regulations have been implemented in the new Member States without any difficulty (they took effect on 1 April 1973), particularly as technical adjustments had been made to allow for the special situation of these countries.

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[1] The Van Duyl case : The person concerned was coming to Britain to work for the 'Church of Scientology', a religious sect whose establishment in Britain has met with wide opposition.

[2] Report on the Development of the Social Situation in the Community in 1973, sec. 26 (English edition, p. 29).

2. The European Social Fund and the retraining of ECSC workers

The Communities grant Member States appropriations under three main headings

- aid from the European Social Fund,
- appropriations for the retraining of workers in ECSC industries,
- ECSC loans for the construction of subsidized housing.

Since their accession, the aid granted to the new Member States from those three sources, particularly from the Social Fund, far exceeds their contributions (both expressed as percentages of the total).

(a) Aid from the Social Fund in 1973 and 1974

The European Social Fund is an equalization fund for the Nine. It was originally set up to deal with unemployment, but since the reorganization of 1971 it has become a genuine instrument of regional policy (Art. 5 of the Council Decision of 1 February 1971).

In future, therefore, aid from the Fund will be granted in two eventualities:

- when Community policies affect or are likely to affect employment (Art. 4);
- when certain regions or branches of industry are declining or undergoing a prolonged period of structural decline (Art. 5).

The total aid granted to each Member State from the Social Fund is shown in the table in Annex 1 for 1973 and in Annex 2 for 1974.

This table shows that :

- in the financial year 1973, the United Kingdom was granted more aid from the Fund than any other Member State : almost 1/3 (30.8%), or 57.40 million u.a. out of 186 million (i.e. £23.92 million out of £77.50 million[1]); the United Kingdom's contribution to the Community's budget, on the other hand, was only 8.78%. It can thus be said that in 1973 Britain was the main beneficiary of the Community's social policy;
- in the financial year 1974, the United Kingdom was granted almost 25% of the total aid from the Fund, second only to Italy which was granted 29%; this represents a sum of 62 million u.a. out of a total of 254.5 million u.a. (i.e. 25.83 million out of 106.04 million[1]).

[1] On the basis of the rate of exchange applied in the Community budget 1 = 2.4 u.a.

- it should be noted, also, that the aid granted in 1973 to the United Kingdom falls almost entirely under the heading of Article 5, i.e. regional policy: £23.15 million. were granted under Article 5 and only £790,000 under Article 4.
- the situation was similar in 1974, but what was of special significance was the increase in aid granted under Article 4 from £790,000 in 1973 to £3.29 million in 1974. The reason for this increase was the extension of Article 4 to cover some programmes in favour of migrants and the handicapped as a result of decisions taken by the Council in June 1974.

It can therefore be said that, as a result of the reform of the Social Fund in 1971, in regard to regional policy the United Kingdom is deriving immediate benefit, even before the Regional Development Fund has been set up.

(b) Retraining of workers

The appropriations available for the retraining of workers in ECSC industries are considerably higher than in previous years. Between 1 January and 31 December 1973, a total of £15.58 million was allocated for the retraining of 41,600 workers, and in 1974 a total of £16.59 million was allocated for 40.173, of whom 19.625 were British.

In 1973 and 1974 the coal-mines have been the main recipients of aid from the Fund.

The total appropriations granted for the retraining of workers are shown in the tables in Annexes 3 and 4.

In 1973 the United Kingdom was allocated funds for retraining in the steel industry (534,393,60 u.a.,or £222,664) and the iron-ore industry (120,000 u.a., or £50,000). This represents only 1.7% of the appropriations granted by the Community.

In 1974 on the other hand, the United Kingdom was allocated 58.2% of the total appropriations, (i.e. 23,189,154 u.a., or £9,662,148). The reason for the vast increase in appropriations which were of benefit to the United Kingdom was that agreement on the actual expenditure was not reached until early 1974.

(c) The building of subsidised housing

The table in Annex 5 shows the proposed allocation of funds for the period 1 January 1973 to 31 December 1974 for the building of subsidised ECSC housing, and the way in which these funds are to be used.

This table shows:

- that Britain is to receive 20% of the total appropriations, approximately the same as France (23.25%). With the agreement of the British Government, these funds are to be spent entirely on the modernisation of existing housing, and not for the construction of new housing;

- that Germany is still the main recipient of aid for the construction of subsidised housing (35.75%).

3. Social Action Programme for 1974 - 1976

On 21 January 1974, on a proposal from the Commission, the Council adopted a resolution laying down a Social Action Programme for the period 1974 - 1976. In the resolution, the Council undertakes to adopt, in stages and according to a fixed timetable, a number of social actions on which, in the meantime, the Commission will have submitted proposals. Some of these actions will not, strictly speaking, involve radical legislative changes in the Member States[1]; others, however, will require adjustments to the social legislation in certain States. The Commission has already submitted an initial series of proposals to the Council, which gave its decision at its meeting on 10 June 1974, but in the course of this meeting the Council postponed discussion of the first proposal for a directive to its next meeting at the end of 1974.

The proposals for directives, which are likely to entail major statutory and legislative changes in the laws of certain new Member States[2] are as follows:

- a proposal for a directive on the harmonisation of Member States'legislation on equal pay for men and women;
- a proposal for a directive on the harmonisation of Member States'legislation on mass dismissals.
- a proposal for a directive on the harmonisation of Member States legislation on the retention of the acquired rights and advantages of employees in the case of mergers, take-overs and amalgamations.

As already stated the first two draft directives have been adopted in principle by the Council of Ministers for social affairs on 17 December 1974.

Furthermore, the Commission has submitted to the Council

- a proposal for a recommendation on the application of the principle of the 40 hour week and four weeks' annual paid holiday.

(a) Equal pay for men and women

The directive on equal pay for men and women provides that Member States shall allow legal action to be taken in cases of discrimination against women, and repeal any regulations or administrative provisions which may prove detrimental to working women. Some modification may be needed in British

[1] For example the proposals for the establishment of a European Foundation for the improvement of the environment and living and working conditions, or a General European Committee on Safety at Work.

[2] and also in those of some of the original Member States.

legislation, though it is unlikely to be substantial.

(b) Harmonisation of Member States' legislation on mass dismissals

The adoption of this directive has created an important legal precedent, in that it implies that Article 100 of the Rome Treaty, relating to the harmonisation of legislation, could in future be applied in the social field, which the Council has hitherto refused to accept.

The main provisions of the Directive are as follows:

- the employer is obliged to hold consultations with workers' representatives when he is contemplating collective dismissals,
- the employer is obliged to notify any proposed collective dismissals to the appropriate Government Department, it being understood that the dismissals cannot take place for a specific period (30 days, which may be extended under certain circumstances),
- this period may be used to attempt to avoid or reduce dismissals and to mitigate their consequences.

The Directive includes a definition of collective dismissals, namely, dismissals effected by an employer for one or more reasons not related to the individual behaviour of the workers concerned where the number of dismissals - depending on the choice made by the Member States - is:

- at least 10 in establishments normally employing between 10 and 20 workers,
- at least 10% of the number of workers in establishments normally employing between 100 and 300 workers,
- at least 30 in establishments normally employing at least 300 workers,
- or, over a period of 90 days, at least 20 in any one establishment, irrespective of the number of workers normally employed there.

This Directive will not require any substantial modifications in British legislation. Its provisions are largely covered by the Security of Employment Act, 1974.

(c) Harmonisation of Members States' legislation on the acquired rights of workers

The adoption of this directive at one of the next meetings of the Council of Ministers for Social Affairs in 1975 will tend to have even more far-reaching consequences on the national legislation than the two directives already adopted in 1974.

This proposal tries to protect the prior acquired entitlements of workers in the case of a change of employer by:

- automatic transfer of the contract of employment from the old to the new employer;
- protection of employees against dismissal due exclusively to a change in the structure of the undertaking (by compensation payments);
- information, and consultation and negotiations with the representatives of employees.

This Directive, if agreed by the Council of Ministers in its present form, might require some modification in British legislation. However, it is still at the stage of discussion at official level, between civil servants of the member-countries affected, which (as has been pointed out in Chapter I) universally precede Community legislation.

(d) <u>Recommendation on the application of the principle of the 40-hour working week and four weeks' annual paid holiday</u>

As far as the United Kingdom is concerned, if this recommendation were adopted, the only change needed in British legislation would be in respect of paid holidays: at present these are fixed at between 15 and 18 days a year. They would have to be increased gradually to four weeks before the end of 1976. On the other hand, the 40-hour week is already the rule in Britain.

<u>Conclusion</u>

As far as social policy is concerned, Britain's accession may have aroused certain misgivings in some British Members of Parliament, particularly as regards the new allocation of aid from the European Social Fund adopted by the Council. Thus Mr Russell Johnston, a Member of the European Parliament, asked in a Written Question on 6 November 1973[1]: 'Does the Commission expect the relative proportion of aid from the ESF to each of the original Member States to continue in the future?' The Commission answered, on 7 January 1974: 'There are no quotas reserved for individual Member States in respect of the aid granted under the European Social Fund. The Commission takes its decision in accordance with the Council decision of 1 February 1971 and its Supplementary Regulations, taking into account the Community interest of the proposed projects, their intrinsic value, the funds available and the opinions formulated by the Committee of the European Social Fund[2].

The fact is that, on a percentage basis, the appropriations Britain has received from the Social Fund far exceed its contribution to the Community budget.

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1 O.J. No. C 14, 15 February 1974

2 Ibid.

From the legislative and statutory points of view, on the other hand, it can be seen that, if the Commission's proposals for directives are adopted by the Council, the new Member States, in particular the United Kingdom and Ireland, would have to make major changes in their social legislation (equal pay for men and women, mass dismissal, acquired rights of workers in the case of change of ownership of enterprises).

Clearly the economic effects of implementing these directives and recommendations cannot be foreseen at present.

One assertion can, however, be made at the moment: from the figures relating to the European Social Fund's budget, Britain and Ireland emerge as the main beneficiaries of the Community's social policy in 1973.

New Social Fund - Total commitments for the financial year 1973 ANNEX I

(in million u.a.)

Country	Article 4			Article 5			Total per country and percentage of 1973 Fund	
	Agriculture	Textiles	Total Article 4	Regions and Technical progress[1]	Handicapped persons	Total Article 5	Total	%
Germany	9.56	-	9.56	3.96	6.42	10.38	19.94	10.7
Belgium	0.13	0.59	0.72	5.00	1.47	6.47	7.19	3.9
Denmark	-	-	-	1.85	3.20	5.05	5.05	2.7
France	13.47	0.89	14.36	14.35	7.41	21.76	36.12	19.4
Ireland	0.10	0.61	0.71	8.66	0.44	9.10	9.81	5.3
Italy	-	0.04	0.04	41.99	1.70	43.69	43.73	23.5
Luxembourg	-	-	-	-	0.04	0.04	0.04	0.1
Netherlands	0.81	-	0.81	3.75	2.21	5.96	6.77	3.6
United Kingdom	0.43	1.46	1.89	47.06	8.45	55.51	57.40	30.8
Total	24.50	3.59	28.09	126.62	31.34	157.96	186.05	100.0

[1] The appropriations under Article 5 relate to all aid to priority regions and 'technical progress' schemes; these two areas, which are very often linked together, cannot be shown separately in a single table. In any case, the aid allocated for operations of a specifically regional nature is far in excess of the minimum percentage laid down in Title I, Article 2 of Council Regulation (EEC) No. 2396/71 of 8 November 1971.

Pursuant to the Financial Regulation of 25 April 1974, conversion into pounds sterling is accomplished by dividing the amount expressed in units of account by 2.4, which corresponds to the unit of account/pound ratio on the basis of the official rate for the pound declared to the International Monetary Fund.

This applies to all tables concerning the Social Fund. The above figures for the United Kingdom and the whole of the Community are, expressed in millions of pounds, as follows:

United Kingdom	£	0.18	0.61	0.79	19.61	3.5	23.13	23.92
Total	£	10.21	1.50	11.70	52.76	13.06	65.82	77.52

ANNEX II

New Social Fund - Total commitment for the financial year 1974

(in million u.a.)

Country	Article 4					Article 5			Total per country & % of 1974 Fund	
	Agri-culture	Textiles	Migrant workers	Handi-capped	Total Art. 4	Regions & technical progress	Handi-capped	Total Art. 5	Total	%
Germany	6.6	2.6	0.1	-	9.3	6.5	12.2	18.7	28.0	11.0
Belgium	0.3	0.6	-	-	0.9	4.1	1.5	5.6	6.5	2.6
Denmark	-	-	-	-	-	3.3	8.9	12.2	12.2	4.8
France	14.9	0.7	0.4	0.2	16.3	27.9	5.2	33.2	49.5	19.4
Ireland	6.0	1.2	-	-	7.2	8.7	1.0	9.6	16.8	6.6
Italy	2.2	0.5	1.2	0.3	4.3	65.3	3.2	68.5	72.8	28.6
Luxembourg	-	-	-	-	-	-	0.01	0.01	0.01	-
Netherlands	0.9	-	-	-	0.9	3.7	2.1	5.8	6.7	2.6
United Kingdom	0.2	0.6	6.4	0.8	7.9	44.5	9.6	54.1	62.0	24.4
Total	31.1	6.2	8.0	1.3	46.8	164.0	43.71	207.71	254.51	100.0%

The above figures for the United Kingdom and the whole of the Community are, <u>expressed in million of pounds</u>, as follows:

United Kingdom	£ 0.08	0.25	2.67	0.33	3.29	18.54	4.00	22.54	25.83
Total	£ 12.96	2.79	3.33	0.54	19.50	68.33	18.21	86.54	106.09

ANNEX III

Retraining of workers - 1973

(in u.a.)

Country	Coal-mines		Steel		Iron-ore		Total		Total %
	Workers	Appropri-ations (u.a.)	Workers	Appropri-ations (u.a.)	Workers	Appropri-ations (u.a)	Workers	Appropri-ations (u.a)	
Germany	26,641	24,944,398.90	3,967	797,814.21	-	-	30,608	25,742,213.11	68.3
Belgium	5,542	2,760,000.00	-	-	-		5,542	2,760,000.00	7.0
France	4,143	8,370,750.00	-	-	260	408,700.47	4,403	8,779,450.83	23.1
United Kingdom	-	-	816	534,393.60	232	120,000.00	1,048	654,393.60	1.6
Community	36,326	36,075,148.90	4,783	1,332,207.81	492	528,700.47	41,601	37,396,057.54	100%

The above figures for the United Kingdom and the whole of the Community are, expressed in

United Kingdom	£	-	222,664.00	50,000.00	272,664.00
Community	£	15,031,311.00	555,086.58	220,291.86	15,581,690.00

ANNEX IV

Retraining of workers - 1974

(in u.a.)

Country	Coal-mines		Iron/Steel		Total		Total %
	Workers	Appropriations	Workers	Appropriations	Workers	Appropriations	
Germany	12.135	8,739,882.85	483	142,245.74	12,618	8,882,128.59	22.3
Belgium	1,062	945,389.37	2,607	291,837.58	3,669	1,237,226.95	3.1
France	3,301	6,450,395.24	960	73,861.55	4,261	6,524,256.79	16.4
United Kingdom	11,921	19,445, 85.19	7,704	3,743,467.80	19,625	23,189,153.99	58.2
Community	28,419	35,581,353.65	11,709	4,251,412.67	40,173	39,832,766.32	100 %

The above figures for the United Kingdom and the whole of the Community are, expressed in pounds, as follows:

United Kingdom	£	8,102,369.1	1,559,778.2	9,662,147.5
Community	£	14,825,564.0	1,771,421.9	16,596,985.0

ANNEX V

Proposed allocation of funds available for the
Second stage of the Seventh Subsidised Housing Programme for
workers in ECSC industries

(in million u.a.)

Country	7th Programme - stage 2 1.1.1973 - 31.12.1974			Housing planned		
				New housing		Modernisation of existing housing
	in u.a.	in national currency	in %	Number	Type of aid	
Germany	7,150,000	25,169,000 DM	35.75	1,600 1,000	Family houses Houses for single persons	1,700
Belgium	500,000	25,000,000 FB	2.50	200	Family houses	-
France	4,650,000	25,826.100 FF	23.25	1,000 150	Family houses Houses for single persons	1,700
Italy	700,000	437,500,000 Lire	5.50	200	Houses for single persons	100
Luxembourg	500,000	25,000,000 Flux.	2.50	200	Family houses	-
Netherlands	1,000,000	3,620,000 Hfl.	5	400	Family houses	250
United Kingdom	4,000,000	1,666,680 £	20	-	-	2,000
Denmark	1,000,000	7,500,000 Dkr.	5	200	Family houses	-
Ireland	500,000	208,335 £	2.50	75	Family houses	100
Total	20,000,000	(£8,333,333)	100.00	3,675 1,350	Family houses Houses for single persons	5,850 (£2,437.5)

SECTION II - SECTORAL POLICIES

A. COMMON AGRICULTURAL POLICY

The problems arising from the need to adapt British agriculture to the Common Agricultural Policy, the complexity of the provisions of the Treaty of Accession which are designed to achieve this adaptation and the important influence exerted by the cost of food products on public opinion concerning British membership of the Common Market justify, in our view, the length of the chapter devoted to the Common Agricultural Policy.

THE AIMS OF THE COMMON AGRICULTURAL POLICY

Of all the questions concerning Britain's entry into the European Economic Community, the impact of the Common Agricultural Policy (CAP) on Britain is the topic that has caused the most heated discussion (though in fact in the course of the 'renegotiation' exchanges the CAP has so far presented no substantial problems).

The criticisms that have been made of the Common Agricultural Policy refer to its cost, either in increased food prices or financial contributions. The most common objection to the CAP is that it requires Britain to shift its agricultural imports from low price world suppliers to high price Community suppliers.

Article 39 of the EEC Treaty established the objectives of the CAP as the increasing of agricultural productivity to ensure a fair standard of agricultural income, the stabilisation of markets and to ensure availability of produce and reasonable prices for consumers.

To achieve these aims, a common organisation of agricultural policy by sectors has been established, which may include regulation of prices, production and marketing, storage and carry-over arrangements, common machinery for stabilising imports and exports, vocational training and joint measures to promote consumption of certain products.

The similarity of Article 39 of the Treaty to Section 1 of the Agriculture Act, 1947, which laid down the basis for British agricultural policy, is striking. The Act states that:-

> "the following provisions...shall have effect for the purpose of promoting and maintaining, by the provision of guaranteed prices and assured markets for the produce mentioned in the First Schedule to this Act, a stable and efficient agricultural industry capable of producing such part of the nation's food and other agricultural produce as in the national interest it is desirable to produce in the United Kingdom, and of producing it at minimum prices consistently with proper remuneration and living conditions for farmers and workers in agriculture and an adequate return on capital invested in the industry."

From the beginning the part of the nation's food that it was desirable to produce in the United Kingdom proved a bone of contention between governments bent on restricting the cost to the Exchequer and farmers hoping to expand production to a maximum. By adopting the system of deficiency payments - the difference between the internal 'guaranteed' and the reigning world market price - it was thought a reasonable compromise had been found. Deficiency payments, however, merely represented the means by which policy was applied and not its basis (there is no mention of the technique in the Act).

The EEC Treaty, which establishes the basic aims of the CAP, has been called an 'outline treaty'. It lays down basic goals and provides for certain arrangements which may be adopted for implementing those goals. Thus the CAP is given its shape by the Regulations and Directives which continuously amend its working. It is, therefore, in constant evolution. Britain in the Common Market is able to add its voice powerfully to direct the CAP in a direction best suiting its interests.

As Commissioner Lardinois, responsible for European Agricultural Policy, told the Farmers' Club in March 1974:

> "I wish to go on record as saying that the common agricultural policy is not a static policy. It is a policy that must adapt to economic and social realities as they develop in the Community. I am also convinced that we must take into account real political difficulties in some of our member countries. We must also listen to suggestions from Member States with a view to improving the common agricultural policy. Not only do we welcome such suggestions, we take them very seriously indeed."

The entry of the United Kingdom into the European Community has coincided with a noticeable evolution in the CAP, due in part to increases in world prices of many agricultural products, and in part to the determination of the Commission of the European Communities to base agricultural policy squarely on the modern farm.

The Commission has acknowledged that certain criticisms of the principles on which market and price policy are well founded, and it has sought to make the necessary improvements to reduce disequilibrium on a number of agricultural markets, to take into account the interests of the consumer, to reduce expenditure under the European Agricultural Guarantee and Guidance Fund (EAGGF) and to improve market organisations.

This involves a greater degree of financial responsibility on the part of the farmer for agricultural surpluses and the establishment of a better price relationship between agricultural products.

Such an improvement to the CAP will bring about a better equilibrium between supply and demand, help the security of future supplies at reasonable prices and contribute to reducing the cost of the EAGGF. At the present time, however, the problem facing the Community is one of deficits in certain sectors rather than surpluses.

THE PROVISIONS OF THE ACTS OF ACCESSION

1. General

The signing by the United Kingdom of the Acts of Accession implies acceptance, as from 1 February 1973, of all the mechanisms and regulations of the common agricultural policy. This is particularly true with regard to interventions, import levies and export refunds. The same applies to customs duties, charges having equivalent effect, quantitative restrictions and measures having equivalent effect on all products covered on the date of accession by a common organisation of the market. Exceptions are allowed only where there is no common organisation of the market and where there is a national market organisation. These exceptions are applicable only until a common organisation of the market for these products is introduced.[1]

The common organisation of markets is thus the key element in the acceptance of the Community heritage, with the single exception of fishing products

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1 See Act of Accession, Art. 60(1) and (2). It should be noted that at the beginning of 1973 the principal exceptions to the common system of markets were mutton and lamb, ethyl alcohol and potatoes (see J.P. Puissochet 'L'élargissement des Communautés européennes', Ed. techniques et économiques, Paris 1974, p.72).

but even this refers to fishing regulations rather than market organisation itself.[1] Acceptance of the Community heritage implies adherence to the following three basic principles:

- the existence of a single Community market and the free circulation of goods,
- Community preference,
- financial solidarity in respect of the marketing and sale of goods.

However, the practical implications of this acceptance in principle are attenuated by a large number of transitional provisions applicable up to and sometimes even beyond 1977. The Acts of Accession are highly flexible in this respect. Flexibility was necessary since the British negotiators were compelled to reconcile acceptance of these basic principles with the requirements of a country which:

> "...needed arrangements which would permit an orderly adjustment by our producers to the Community's system of support and marketing; avoid sharp increases in food prices; and prevent abrupt dislocation of the exports of our Commonwealth and other third country suppliers."[2]

The derogations and transitional provisions in the agricultural sector contained in the Acts of Accession are thus the direct consequence of the progressive adjustment of these initial requirements to the three basic principles of the common agricultural policy. The aim of this analysis is to point out the essential transitional modifications to the principle of Community preference and the free circulation of goods, financial solidarity being treated separately in the section on budgetary questions.

2. Protocol No. 16 on markets and trade in agricultural products

This protocol spells out the practical adjustments made to the Community's agricultural heritage to accommodate the United Kingdom and gives a clear statement of the philosophy behind the transitional provisions of the Acts of Accession.

Thus "the organisation of the markets has as its essential feature to enable intra-Community trade to develop in conditions comparable with those existing on an internal market". It follows that "changes in the structure of international trade constitutes a national result of the enlargement of

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1 See p. 31

2 See 'The United Kingdom and the European Communities' presented to Parliament; London, HMSO, Cmnd 4715, par. 77/p.20

the Community". But measures may be taken over problems which may arise for certain third countries and in certain specific cases during the transitional period. This covers the provisions relating to Commonwealth sugar and New Zealand butter and cheese.[1]

3. Transitional mechanisms

(a) The alignment of prices

Since the levels of guaranteed prices to producers differed between the United Kingdom and the Community, the Act of Accession provided for a progressive alignment of the two in six stages to be completed by 1 January 1978. Although the timetable and mechanism are binding, a departure of up to 10% in either direction of the amount of the price move to be made for the forthcoming year is permitted. The 10% margin has been applied for both the 1973-74 and the 1974-75 marketing years. As far as production subsidies (deficiency payments) are concerned, the United Kingdom has been authorised to maintain them during the entire period of alignment. They must, however, be abolished entirely by 31 December 1977, even though there is no set timetable for this purpose. The transitional measures prevent the adoption of the mechanisms of the CAP upsetting the internal stability of the market and modulate the effect on consumer prices.

The price mechanism applicable during the transitional period still leaves differences in the level of prices between the original Six and each of the three new Member States. In order to permit the free exchange of products it has been necessary to set up a sluice gate system aimed at correcting the effects of these differences in level. This is a system of compensatory amounts equal to the difference between the price resulting from the immediate application of the common prices and the price fixed in the United Kingdom at each of the stages of the transitional period (Article 55).

It should be noted that the compensatory amount to be collected or refunded constitutes the only measure applicable in intra-Community trade.[2] In trade with third countries, Community levies and refunds are applicable reduced or increased by the compensatory amount. This system makes for stable trading relations since the compensatory amount

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1 See Puissochet, op.cit. p.472

2 See 'La Communité élargie: bilan des négociations avec les pays candidats à l'adhésion'; The Commission of the European Communities, Brussels, 22 January 1972, p.29

is a fixed sum and is established for the whole season.[1] It is therefore different from the levy which is variable, depending on fluctuations in market prices.

Compensatory amounts are financed by the guarantee section of the EAGGF (Article 59)[2].

(b) Tariff movements

In the case of products imported from third countries and subject in the Six to customs duties, duties between the Nine will be progressively abolished. At the same time the United Kingdom duties on imports of these products from third countries will be progressively aligned with the Common Customs Tariff. The timetable for these adjustments varies from product to product but they will all be completed by 1 January 1978.

(c) Possible extension of transitional measures

To give an additional safeguard that the provisions of the Act of Accession would operate with the necessary flexibility, Articles 62 and 63 envisage 'second degree' transitional measures to supplement the derogations already provided. In the case of Article 62, the procedure is of the classic Community 'legislative' type (Council decision) which can cover the whole transitional period. Under Article 63, on the other hand, any necessary measures are taken in accordance with the 'management committee' procedure; the mechanism is thus more flexible, but it could operate only until 31 January 1974 with a possible extension until 31 January 1975 (which was applied).

4. Fishery products[3]

As far as fishery products are concerned, the Act of Accession (Articles 98-103) has carried the principle of derogations during the transitional period to its extreme. Here the Community heritage has been left out of account. In order to meet the United Kingdom's demands, the Community went beyond the limits it had set itself on possible adjustment and transitional measures. This does not concern the common organisation of markets

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1 See Puissochet, op.cit. p.78

2 See the section on budgetary questions

3 Among the provisions of the Act of Accession relating to specific sectors of agricultural production only the special case of fishery products would seem to require special attention in this study. For other products the Act of Accession can be referred to: fruit and vegetables (Art.65-68), wine (Art.69), oilseeds (Art.70-72), cereals (Art.78 & 74), pigmeat (Art. 75 & 76), eggs and poultrymeat (Art.77-79), rice (Art.80), sugar (Art.81-83), live trees and other plants, bulbs, roots and the like, cut flowers and ornamental foliage (Art.84), milk and milk products (Art.85-89), beef and veal (Art.90-93), products processed from fruit and vegetables (Art.94), flax (Art.95), seeds (Art.96), other products (Art.97)

proper as defined by EEC Regulation No. 2141/70 and repeated in Articles 98 of the Act of Accession. It applies particularly to fishing rights (Articles 100-103).

The Regulation of the Six (of 20 October 1970, see OJ of 27.10.70) established the Community character of fishing grounds up to 12 nautical miles. Within this limit equal access and exploitation were guaranteed to all Community vessels. The United Kingdom (and Norway) pointed out that this Regulation had been adopted after their acceptance in principle of the 'Community heritage'. Consequently, Article 100 makes it possible for any of the Nine to waive the Community arrangement laid down by Regulation No. 2141/70 by authorising them, until 31 December, to restrict fishing within a limit of six nautical miles to vessels operating from ports of their own coastal area. United Kingdom fishermen have thus been offered exceptional protection up to 1983. In certain areas protection can extend to 12 nautical miles (Article 101). But this is a 'possible' and not an 'imposed' derogation, subject to a system of authorisation. The fact remains that fishing is the only sector in which the transitional measures of accession have affected and modified the system followed within the original Community of the Six.

DEVELOPMENTS IN THE COMMON AGRICULTURAL POLICY

The experience of membership proves that the transitional measures are able to function normally. The flexibility of the provisions relating to agriculture in the Acts of Accession has made it possible to satisfy British demands without any major crisis during a period of great tension in international markets. It must be noted, however, that from the beginning of the transitional phase the United Kingdom found it necessary to make full use of the derogatory provisions which the Act of Accession contains.

Over the past two years there have been considerable developments in the Common Agricultural Policy in the context of the regular price reviews and by special measures which have had to be taken for particular sectors. Not only did Britain participate in the negotiations that led to these decisions but also the specific problems of the United Kingdom have been at the centre of recent developments.

During the first year of membership an orderly start was made to the transitional period at least as far as the fixing of prices is concerned. Monetary compensation amounts had to be added to the 'accession compensatory amounts because the initial conversion rate representing a 10% devaluation of the parity declared to the International Monetary Fund could not be held in the face of the downward float of the pound.[1] Hence the need for monetary compensation amounts in the form of import subsidies and taxes on exports. M.C.A's are also applied, of course, between those of the original members who do not participate in the monetary 'snake' and they are not an inevitable part of the transitional period. They were considerably reduced by the new representative rate of the green pound in September 1974, but they cannot be abolished altogether until the pound returns to a stable parity with the other European currencies.

Events of the past two years have shown that the Common Agricultural Policy can no longer be considered as a monolithic edifice providing a blanket protection for all products. As a result of the rapid deterioration in the supply situation in certain sectors, leading to a price explosion, and surpluses in others, leading to severe losses for farmers, a number of special measures have been taken which supplement or derogate from the relevant market organisation. It is therefore necessary to examine the main developments in the CAP produce by product.

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1 See 'Seventh General Report on the Activities of the European Communities' (1973) p.259

2 See OJ L27, L30 and L50 of 1 and 23 February 1973

1. Cereals

The principal development has been provision for an export levy following the sharp rise in price on the world market, to prevent Community cereals being sold outside the EEC at a higher price than that guaranteed to producers. To maintain Community supply the export of cereals is taxed by the difference between world prices and the guide price. In this way the deficit areas are able to acquire their cereals at a lower price than if they imported them from outside the Community. The Commission has stated that the price, free on board,at Rouen, for the export of French cereals to the United Kingdom (taking compensatory amounts into account) varied between £53.4 and £56.1 per metric tonne in May 1974 as against £56.1 to £61.8 for export to third countries, and that by October 1974 this had become £65.3 to £66.6 as against £79.9 to £104. The average difference between Community and world prices rose therefore from £9.5 to £25.9 per tonne over this period.

2. Sugar

Protocol No. 17 of the Act of Accession enabled the United Kingdom to continue importing until February 1975 sugar under the Commonwealth Sugar Agreement. Before that date the Community was to adopt its new sugar regulation and at the same time decide what offer could be made to the cane producing countries for the forthcoming period. The United Kingdom decided to maintain the system which had provided a cheap source of supply in the past. At the March 1974 review special arrangements were made for the selling price of sugar imported under Protocol No. 17. The Commission also authorised the United Kingdom to continue until 30 June 1974 the option of granting an aid for refining, and a higher margin on refining than intended was subsequently authorised. The 10% alignment of the British intervention price for white sugar was postposed at the 1974 review to hold down the price paid to domestic producers.

During the summer of 1974 the Commonwealth sugar producers decided not to fulfil their quotas, but to sell on the world market at much more remunerative rates. An acute shortage of sugar followed on the British market. At this stage the Community agreed to step in since Article 39 of the Treaty of Rome states that one of the objectives of the Common Agricultural Policy is to ensure availability of produce and reasonable prices for consumers - even though the British shortage was in no way attributable to the operation of the CAP. In October the Council decided to acquire 200,000 metric tons of sugar on the world market and to supply it to the 'deficit'areas of the Community (90% in fact went to Britain) at the

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1 Europe Agency of 27/28.1.1975

2 At official rates of exchange for the green pound/unit of account

Community's threshold price. The difference between the purchase and sales prices is made up by a subsidy from the EAGGF.[1] Subsequently purchases of a further 200,000 metric tons were decided on, supplemented eventually by 100,000 tons to ensure Community supplies until 10 March 1975.[2] The benefit to the consumer of this intervention is considerable. Again the export of sugar produced in the Community is subject to a levy similar to that imposed on cereals in 1974 in order to maintain as far as possible supply at a reasonable price to the consumer. At the same time the price paid to British beet producers has been aligned directly with the Community's price, starting with the 1974 harvest.[3]

In adopting the new sugar regulation it was necessary to reconcile the need to expand the Community's own production to alleviate the immediate shortage and the need to guarantee an outlet for the African, Caribean and Pacific countries which rely on exports of cane sugar to finance their development. The previous regulation controlled the quantity of sugar produced by quotas for each enterprise, as was also the case under the British system. To this basic 'A' quota is added a second 'B' quota with a lower guaranteed price fixed in function of the market situation whilst quantities produced outside the agreed limit must be exported when the Community is in surplus. The beet producers, organised in powerful pressure groups, wanted the Community to become entirely self-sufficient in sugar production. This eventually would have to be achieved at the expense of the cane producers.

Instead the new sugar regulation provides that the full intervention price will be payable on both 'A' and 'B' for the 1975-76 season, but allows for levies on 'B' output in future years. The maximum quota for this year will be 145% of the basic quota. Along with the new 'A' quotas the Community has decided to offer the ACP countries a guaranteed outlet for 1.4 million metric tons of sugar (compared with the Community's 'A' quota of 9.1 million tons of which 1.0 million are allocated to the United Kingdom). This offer would enable the cane producers to maintain their exports at a comparable level to that before the adoption of the new sugar regulation. Furthermore the Community proposes that the Community's own guaranteed price should act as the basis of the guarantee to the ACP countries (although buyers will be free to pay more). Since sugar prices are fixed at each annual review (under the CAP), the developing countries are being offered effective protection against inflation for the first time. The improvement on the Commonwealth Sugar Agreement where cane

[1] OJ No. L311 of 22.11.1974

[2] OJ No. L20 of 25.1.1975

[3] OJ No. L341 of 20.12.1974

producers were offered lower prices than those accorded to domestic British beet producers and with no built-in revision mechanism is clear. At the present time, of course, world prices are well above the Community's, and the exporting countries will therefore have to choose between long term guarantees at a more modest level and big short term gains which may change into losses at a later stage as world production expands. For next season's supply to the United Kingdom the British Government is offering £260 per ton c.i.f. which has now been accepted by the Commonwealth countries. The exporters consider that it is essential to settle the question of the price they will receive for the next year's crop before entering into a long term agreement with the Community.

3. Dairy Products

The principal development has been the introduction of a consumer subsidy on butter until 31 March. The maximum amount of subsidy payable rose from 2p. per pound in May 1973 to 6 p. per pound in April 1974 and 8p. per pound from 1 February 1975. However, the financial participation of the Community continues to be limited to 1p. per pound or 50% of the original sum. 722,220 metric tons had been sold under the scheme at 30 September 1974 at a total cost of £16.532 million to the Community's budget.[1]

4. Beef

At the end of 1972 and the beginning of 1973 the Community adopted regulations to practise permanent intervention, that is, buying in meat when prices fell below the intervention price (this is in course of revision) and encouraging farmers to change from dairying to beef. This was at a time when an acute shortage had forced beef prices up to a record level and long term projections showed that demand, notably in developing countries, would rise faster than supply. The Government of the day in Britain supported this policy and from 1 February 1973 adopted the intervention system. Deficiency payments on beef would not have been paid at that time in any case, because market rates exceeded the guaranteed price, and equally there was no need for intervention buying.

According to the timetable given in the Act of Accession the guide price should have been aligned by 5% for the 1974-1975 marketing year, which together with the increase agreed for the marketing year would have given a total increase of 17%; the increase agreed was in fact only 6.3%. In order to further hold down consumer prices, the United Kingdom no longer practised permanent intervention buying. But calf subsidies were introduced to compensate farmers.

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[1] Commission reply to Written Question No. 487/74 by Lord O'Hagan OJ No. C19, 27.1.75

The incentives to expand beef production proved more than sufficient (in Britain cattle numbers increased by around 25% over the last three years) with the result that the shortage quickly turned into a glut. As a result of intervention buying the available cold storage filled up and prices could no longer be held at the intervention level, falling to 10-15% below the official guarantee. On the other hand, in Britain, where there was no intervention buying to put a floor under the market, fat cattle prices plunged from £19 per cut in May 1974 to under £13 per cut in October. This fall in prices paid to producers gave little benefit to the consumer since the retail price for beef, particularly for the best cuts remained remarkably stable throughout the period.

To remedy the situation special measures were decided at the July session of the Council. A variable premium, increasing from £9.2 in August 1974 to £36.7 per head in February 1975, is payable at slaughter under a scheme for the orderly marketing of cattle. It is not possible, however, to offer for intervention meat coming from cattle which have benefited from the premium. At the same time a regulation has been adopted on the sale of beef at a reduced price to socially disfavoured persons. Together these measures represent a considerable departure from the established Community procedures and show the flexibility with which the Common Agricultural Policy is able to operate in an emergency.

Although the premium and social beef regulation had been adopted largely as a result of British pressure[1], without any firm end price support, the price paid to British farmers collapsed. At the November session the Council authorised the United Kingdom to begin intervention buying for a limited quantity of beef on the basis of an intervention price corresponding to 65% of the United Kingdom guide price, the intervention price being increased by stages to reach 85% of the guide price on January 1975. The Council also permitted a special variable premium to be paid equivalent to the difference between the intervention price normally applicable and that actually applied in the United Kingdom until the end of the marketing year.

The Commission has proposed for the 1975-76 season to alter the Community's support system in the light of the weaknesses exposed over the last year. Instead of increasing the intervention price for beef, which might have the effect of discouraging consumption and increasing the amount of meat offered to the intervention agencies, farmers would receive part of their support through a grant of £15 per adult male animal payable at slaughter. The proposal represents a move away from intervention prices as the sole means of guaranteeing farmers' incomes and towards the direct payments favoured by Britain. Under the Commission's plan, the techniques of intervention would also be revised to introduce more flexibility and encourage producers to market cattle when there is the greatest seasonal shortage.

1 Mr Peart stated in the House of Commons on 17.7.74 that "much the most important of these measures was the authorisation of the system I myself proposed for direct premiums to be paid to beef producers for finished cattle".

ECONOMIC PROBLEMS

1. Community and world agricultural prices

The most frequent criticism of the CAP is that it has forced Britain to substitute its imports of food from low price world suppliers to the protected high price Community supplier.

The purpose of the CAP is to provide security and stability: security of market for the producer, and security of supplies and stability in prices for the consumer.

There cannot be one without the other. It is only if the producer is encouraged to continue to produce that shortages can be avoided and prices maintained at reasonable levels. The aim of the CAP is to prevent excessive variations in prices. This can be achieved, according to the market situation, by intervention to buy up excess supply, by levies on imports from third countries, and by export taxes on products in short supply, by a planned stocking policy and by price policies which direct production to the sectors where increased supply is required.

Moreover, it is simply not true that the CAP has hindered international trade in agricultural produce. It would be more true to say that it has generated such trade.

In the last decade, trade in agricultural products, especially transformed products, has shown considerable and substantial growth. The increase in trade has been mainly between developed countries, and with the Community in particular, which is an important client to the rest of the world.

Imports of the Six of agricultural and food products from the rest of the world rose, for example, by 7.3% per annum between 1963 and 1973 (13% 1968 - 1973).

Prices must be related to costs, and for agriculture during the last two years costs have been dominated by factors which make it more advantageous for Britain to be part of the CAP.

1973 and 1974 have been notable for unprecedented increased in the costs of feedstuffs, fertilizers and fuel to farmers. These increases, however, are not related to Britain's entry into the Common Market.

The latter two items have been affected by decisions outside the Community and principally by the determination of producers in the Middle East, North Africa and South America to obtain substantial increases in prices for their main source of foreign revenue.

A trebling of the price of fuel immediately hits agricultural costs. Even more important is the effect on fertilizer output, since most nitrogen fertilizer is produced from oil and is extremely vulnerable to changes in oil prices or supplies.

Increases in feedstuff prices have been due, on the one hand, to greatly increased demand, and on the other to reduced supply.

It should be noted that a number of prime feedstuffs for animals, like soya and fishmeal, are not even covered by the CAP.

In 1970, disease cut back the American maize crop by 25% and world prices rose dramatically. In 1973, an acute shortage developed of soya, a major low cost feedstuff, due to reduced American production, increasing demand and a certain degree of speculation.

In 1973, the world wheat harvest was a record one, and yet American grain stores are not sufficiently full for day to day market management. Even given reasonable harvests, world prices are not likely to fall to any large degree in 1975. This is because prices have been pushed up by increases in demand rather than any failure of major grain exporters to produce.

One important factor has been purchases by the Soviet Union, China and, to a lesser extent, developing nations such as India, to make up shortfalls in their own harvest.

Demand created by increasing population has been matched by demand arising from higher standards of living. This has made itself felt both in demand for grain for direct consumption and to provide the feedstuffs to produce livestock to satisfy stimulated consumption of high protein foods such as pork and beef.

Since it takes on the average seven pounds of feed grain to produce one pound of beef, the demand for grains has expanded enormously. In the past ten years, Japan has increased its imports of feed grains by 300%. In the United States, where per capita grain consumption has reached one ton per year, only 150 pounds is consumed directly. All these factors have produced a world market operating on the edge of its capability. Since then reserves have dropped so low that the wealthy countries have engaged in panic buying to guard against shortages. And the poorer countries have run out of the good land, or water, needed to produce more.

Grain is the most important single staple food for people and for animal feedstuffs. The table below shows the astonishing rise in wheat, barley and maize prices since Russia and China, after bad harvests, decided on massive imports. Britain's intervention prices, lower since it has only taken the first step towards reaching full Community intervention prices in 1978, have now been left far behind the actual market level of prices. Britain's bread is costing more, in short, not because of the CAP, but because American grain stocks are now abnormally low. Indeed, the incredible situation at present is that France is now actually paying export levies on her cereals.

Wheat prices in the recent past have been 232% above the level requiring support by import levies or Community intervention in Britain. Wheat prices would have to drop by 115% before Community buying in Europe could be accused of keeping them too high. Barley and maize prices similarly have been above intervention levels. Because of the rises, the premiums paid to make more wheat available to animal feed have been suppressed.

It is possible that when the American granaries fill up again in a year or two the Community may once again find itself supporting the market, but the Americans now believe that their grain prices will never again drop far below EEC levels. The CAP system has in fact proved itself a surprisingly good way of keeping Europe's supply of grain steady when the rest of the world is suffering.

The consumer has benefited from the restraining effect of the CAP on grain prices, directly in the price of bread, and indirectly as imports of cheaper French grain, and in particular maize, have reduced the costs of British livestock producers.

	British intervention price	EEC intervention price	World price	World price as % above British intervention	World price as % above EEC intervention
	£ per long ton	£ per long ton	£ per long ton		
Wheat					
Feb. 72	-	45.26	29.95		
Feb. 73	27.81	47.06	49.88		
Feb. 74	34.24	52.68	113.50	+ 232	+ 115
Barley					
Feb. 72	-	40.67	21.25		
Feb. 73	23.52	42.31	36.50		
Feb. 74	29.31	47.37	64.50	+ 120	+ 36
Maize					
Feb. 72	-	34.85	24.10		
Feb. 73	-	36.56	35.75		
Feb. 74	-	40.93	68.25	..	+ 67

2. British agricultural imports and the world market

Not all agricultural produce is subject to the variable levy. Potatoes, mutton, wool are not covered by the CAP. Mutton incurs a 15% tariff, part of which Britain has only just begun to apply; but Britain was applying its own 4% levy on mutton before entry into the EEC. Due to British pressure, no duties have been put on citrus fruit, and the Community system is more open to cheap apple and pear imports than was the British one.

Moreover, with the very substantial increases in world prices, traditional suppliers of Britain and the Community have turned elsewhere to benefit from those higher prices.

America has run short of dairy products and has opened extra import quotas for butter and cheese, so that New Zealand has diverted its butter there. The result has been that New Zealand has fallen short by 33,000 tons of its 167,000 tons British butter quota, and by 22,000 tons on their 67,000 tons cheese quota. This year it is planned to send even less cheese. For a whole range of products, such as dairy produce, meat and wool, New Zealand and Australia have preferred to turn to the more lucrative Asian market rather than to Britain.

It has been said that Canada's special cheddar cheese has been excluded from Britain. In fact, Canadian cheddar has still been sold in British shops because stocks were high at the end of 1972. Total supply before that used to be about 7,000 tons, compared with total British consumption approaching 300,000 tons. The Community's finance ministers have therefore agreed that an arrangement should be negotiated directly with Canada to open Britain's doors again without waiting for lengthy talks in GATT.

Butter in the last year actually went down in price and it will rise by nothing like the amounts once forecast. At the peak in 1972 Britain was having to buy butter on the world market at £550 a ton. This world price fell back in 1973 and steadied up at around £440 a ton, but subsequently rose to a new peak of £570 and the situation remains very uncertain.

The consumer is still paying a butter price far below the world level because of the UK subsidy of 9p per lb and the Community's subsidy of approximately 1p per lb. However, unless the world price goes on up - which it well may - the United Kingdom intervention price, less the subsidy, may catch up on world price levels when Britain makes its next step over to the full Community intervention level later this year. This increase would have been a small one if the Commission had got its way in suggesting that the average Community intervention price for butter be cut by 6%. As it is, the Council decided in March 1974 that there should be no increase in the intervention price for butter. The real rise will come when the remaining jumps are made to a full EEC intervention price.

The wholesale price of cheese went up in Britain in January 1974 for the first time in two years - a delayed reaction, since stocks were sold off as the first step to Community intervention in May 1973. But even at £537 a ton it is barely above world levels and actually substantially below the level at which America has now entered the world market. Full EEC intervention prices are only about £150 a ton above the United Kingdom's, and the next step to full intervention plus price increase will add about 2p a pound to the retail price of 33p a pound.

As for skimmed milk powder (which goes into ice-cream, soups and the like) Britain's price was already near EEC levels when it joined. It has now gone over to the Community system and still finds its intervention level comfortably below the world price of £335 a ton. Indeed, the EEC has recently been selling off some of its Dutch skimmed milk surplus at a profit. The butter mountain has disappeared.

A similar situation exists in respect of sugar. Between 1970 and 1973 world production was lower than consumption, with the result that carry-forward stocks were rapidly marketed. By September 1973 stocks were at the absolute minimum required to ensure supplies for the beginning of the new season.

The result has been that world sugar prices have practically trebled between 1968 and 1973, resulting in a dramatic reversal in the relationship between the Community and the world price levels. In 1968 when the present organisation was set up, the price of sugar on the international market was £23 per metric tonne, as compared to a minimum prime for sugar of £102 in the Community. In 1974, however, the situation has been completely reversed: sugar on the international market reached a peak of £650 per metric ton as against £134 in the Community. The first batch of 200,000 tons decided on in November to alleviate Britain's shortage cost the Community £31 million in subsidy.

The European Economic Community has for a number of years developed a special position in regard to trade with developing nations. Even before the industrialised nations had agreed at the second UNCTAD conference held in New Delhi to grant non-reciprocal and non-discriminatory preferences to developing nations, this matter had been under discussion by the Community and a system of generalised preferences was introduced; it has been improved each year and is the most extensive system introduced by any major client of these countries.

A further advance is represented by the preferential tariffs accorded in December 1974. In the course of 1974, two additional proposals were put forward specifically to take into account the interests of certain Asian countries with historic trading links with the United Kingdom, such as India, Sri Lanka, Pakistan, Bangladesh, Malaysia and Singapore. These have now been adopted.

The amount of trade in processed agriculture covered by generalised preferences amounts to £89 million and covers over 88 products.

3. <u>The Consumer and the Common Agricultural Policy</u>

For the consumer the principal problem has been how to reconcile the effect of adverse developments on the world market with the gradual adoption of the Common Agricultural Policy.

Food prices have risen considerably during 1973 and 1974 but it would not be correct to attribute these rises to the CAP. According to Mrs Shirley Williams, the British Minister for Consumer Affairs, "the UK Retail Price Index for Food rose by 20.1% over the period from January 1973 to January 1974. The increase attributable to our membership of the EEC is currently estimated to be between ½% and 1%."[1] In answer to a further question she stated that, "the further we get from the date of entry into the Community, the harder it is to calculate what food prices would have been if we had stayed out. The food price index rose by 29.2% between January 1973 and September 1974. Official estimates now show that food prices are, on balance, very slightly lower than they would have been were we not members of the Community."[2] Increases in input costs and world prices are the main culprits.

Alignment with the Community's prices has brought problems of its own since movement towards the guide price has not been fast enough in the case of cereals, which are important for stock-feeding as well as bread, meaning that world market rates are still effectively applied in the United Kingdom instead of lower Community ones. On the other hand, progress towards aligning prices for higher priced dairy products has been regular.

In the original Six the stability of prices for foodstuffs has been an appreciable element in the fight against inflation. Only in Italy did the rate of increase of foodstuffs approach that of the general index last year

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1 Hansard, 22.3.1974

2 Hansard, 11.11.1974

(September 1973-1974), whilst the difference between the two rates averaged 3.0% for the remaining five countries.[1] The big increase in Italy is attributable to the successive devaluations of the green lira and to the importance of trade with non-member countries where world prices must be paid. For the United Kingdom, where the effect of rises in the world market is so strong, the rise in the foodstuffs was also almost as high as that of the rise in the general index (16.5% against a weighted average of 12.3% for the Six).

To protect consumers, the Government introduced subsidies which represent 3p on a large loaf, 9p per lb on butter, 12p a lb on cheese, 2½p a pint on milk and 8p a lb on tea in January 1975. At those rates the cost in a full year is estimated at £571 million. The subsidies have had the effect of holding down retail prices, but since they must be paid for through taxes they have acted up until now mainly as a means of maintaining demand for the products involved. The danger is that lower prices will lead to ever-increasing Exchequer expenditure as consumers switch resources to buying more food. Furthermore the producers do not benefit at all, whilst being asked to produce more to supply an expanding market.

It could be argued that under these circumstances it would be better to adopt full Community prices rapidly in the knowledge that they will remain fairly stable thereafter whilst taking the necessary transitional measures to ease the burden of the less well off.

Thus, Sir Henry Plumb, President of the National Farmers' Union, recently described food subsidies as a 'delusion', although he recognised their use as a political expedient. But when they are accompanied by "rising production costs without compensation for the producers, they threaten to become a disaster...If consumers prefer to pay the true cost of eating through higher taxes - and I doubt it - they will continue to support Government policies which contain the price of food by artificial means. But in that case the Government itself must meet the rising costs of production, or there simply won't be any food to subsidise."

4. The British farmer and the Common Agricultural Policy

1974 was in many ways a difficult year for the British farmer. This, however, cannot be blamed on the CAP, but rather on the sudden increase in the prices of feedstuffs, fertilizers and fuel.

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[1] The Agricultural Situation in the Community, 1974 Report, Part I, p.17

The main problem for the British farmer, in fact, is that he has moved from the previous British system of deficiency payments without entering fully, in the transitional period, into the Community's agricultural system, in a period of continuously rising costs. At the same time the Treasury has reduced direct grants, a move which has hit the young farmer especially. Sir Henry Plumb has warned that farmers now face extra costs running at an annual rate of $400 million.

While 1973 was a reasonably profitable year for farmers, 1974 has been described as a financial disaster. The Commission states in its report on the agricultural situation in the Community that for 1973,

> "Generally speaking farms devoted to arable crop production, with the exception of those concentrating on growing potatoes, succeeded in maintaining, or even improving their position. On the other hand, farms devoted to livestock farming suffered considerable falls in their income arising from the standstill, or even fall in prices of livestock products combined with the initial increases in the prices of annimal feedingstuffs."[1]

And that,

> "To judge from the first information available for the current year, it appears that the agricultural income situation has deteriorated sharply in 1974."[1]

Again the worst hit have been livestock enterprises, and since British agriculture is basically a livestock industry it follows that farmers have been going through a crisis period.

The situation is most critical in the pork, beef and poultry sectors. All of these are extremely susceptible to grain prices. In terms of efficiency of energy conversion, poultry is the most rewarding enterprise because it takes about 3lbs of grain to produce a pound of poultry meat, 5lbs for a pound of pork and between 10lbs and 15lbs for a pound of beef. However, beef producers have the choice between fattening their stock on cereals or on grass, which poultry producers do not. When feed accounts for over 70% of the total cost of broiler production and feed prices double, producers are hard hit. In addition, beef and poultry are mutually competitive, because consumers tend to switch from beef to poultry when beef prices are high but from poultry to beef when the gap between them narrows. With the slump in the beef market, demand for poultry meat has been slackening so that at the same time as margins per head are squeezed by rising costs total production is falling.

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1 The Agricultural Situation in the Community, 1974 Report, Part I, pp.28-29

In the pork sector, the previous system of the flexible guarantee, the feed price formula and the bacon stabiliser has been dismantled to be replaced by a guaranteed price that is too low to protect the farmer against present costs, in an intervention system that in the past has proved more theoretical than practical. Past stability, on which slaughterhouses could offer fixed price contracts, has now disappeared, as the farmer has been caught between the world price of grain and UK/EEC demand.

The position is very similar in the beef and veal sector, with the result that farmers have been complaining that beef costing £20 a hundredweight to feed was only fetching £18 (or less). As stated above[1] the losses suffered by beef producers are in large part the result of the decision to abandon intervention buying and the lack of any effective floor in the market. Since the autumn, which represents the seasonal low point when cattle are brought in from the summer pasture, prices have recovered although not to the point reached during the 1972 and early 1973 peak. As yet, therefore, it has not been necessary to use the combination of limited intervention buying and the variable premium agreed in November.

A further point which has affected all livestock producers is the exceptionally poor harvest of fodder crops this year, particularly hay and grass silage, combined with a shorter period of pasture than usual, which is making winter feeding particularly difficult. Similar situations arise from time to time, of course, and no agricultural policy can regulate the weather, but it has come at a particularly bad time this year with alternative feeds so expensive.

The Commission and the Council of the European Community have adopted a very flexible approach, introducing a number of special measures to help the British farmer, including:

- an increased calf subsidy, by £10 per calf,
- a special variable levy on beef to be paid at slaughter which makes up the difference between the British guide price and that of the Community,
- direct Government aid for British pig producers to prevent a decline in the pig herd,
- a 10% increase in British sugar beet quota acreage which will be greatly expanded by the new regulation coming into operation during 1975,
- a temporary flat rate subsidy of 6p a gallon for all types of heating oils to the agricultural industry to overcome the increase in fuel costs.

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[1] pp. 34-35

STRUCTURAL POLICY

Within the boundaries of the Community there exists a wide range of farming systems, of size of farms and of standards of husbandry - wider perhaps than can be found anywhere in the world over a comparable area. Price policy alone, which provides generally the same level and type of support, from the Shetland Isles to Sicily, cannot be expected to remedy all the problems of Europe's farmers or to be appropriate as a means of support in all cases. The Community has recently adopted or is in the process of adopting two major series of measures to deal with the diversity of the agricultural situation.

Under the original regulation, individual projects to improve marketing or production structures were forwarded via national administrations to the Commission and the Guidance Section of the EAGGF reimbursed a proportion of the cost (between 20% and 45%). The projects are intended to improve agricultural intrastructure; land consolidation, drainage, irrigation, construction of slaughter houses, deep sea fishing boats and similar projects all qualify. Commissioner Mansholt, however, believed that this initial regulation did not go far enough, and in a memorandum addressed to the Council in December 1968 he argued that the Community should adopt a series of common measures in which Community criteria are employed to accelerate and direct its pace of agricultural change. After a great deal of discussion, the Council adopted a resolution in May, 1971 followed by a series of directives in March 1972.

1. Structural reform

Not all of the Community has the advantage of Britain's large holdings and centuries of agricultural progress. This enviable position, however, was achieved at great social expense. It is the object of the directives on structural reform to achieve the objective of modern farms, rationally organised and run, without passing through a traumatic phase of adaptation. There is no point in encouraging farmers and workers to leave the land if their lack of training for another occupation means that the only result is to swell the number of unemployed, or in aiding others to modernise and invest if badly chosed methods mean eventual bankruptcy. The legislation is in the form of Directives to Member States who apply it in their own way and adapt the provisions to their needs. In an area in which human factors play such a large part, decentralisation is a prerequisite of success and represents a further example of the flexibility in which seemingly cut and dried Community policy is able to act in practice.

Directive 159/1972 gives selective encouragement to firms who are able to achieve a reasonable income after modernisation but do not yet attain it. They receive priority for land released under the outgoers scheme. A development plan showing the starting point, the objective to be achieved and the means to attain it ensures that the financial assistance granted is well spent and that the farm will remain viable in the future. The scheme is already in operation in the United Kingdom where it develops and expands the previous Small Farm Development Schemes.

Directive 160/1972 provides financial incentives for farmers and workers on uncommercial holdings to give up farming and to train for other employment. In the United Kingdom the scheme has replaced the outgoers grants provided for in the structural section of the 1967 Agriculture Act.

Directive 161/1972 will perhaps prove to be the most important for the future of European agriculture in the long term because it provides for the creation and training of socio-economic advisers to orientate farmers and workers either to develop or to abandon their farms; it is the means of changing attitudes on which all else depends. Even though the British advisory services had no previous experience in this kind of work, the United Kingdom has taken the lead in the application of this directive by creating regional socio-economic advisers and special interest advisers in socio-economics located on a divisional level attached to the existing extension network, and training the local advisory officers in this type of work. It is to be hoped that other countries of the Community, which perhaps have a more pressing need for these advisers, will follow this lead and soon by applying the directives as well.

2. <u>Hill farming</u>

Not all the present imbalances in European agriculture may be solved by the progressive extension of the number of modern farms. Some of them are the result of geographical or physical limitations of a permanent character, and this is particularly true of the hill and mountainous regions of the Community. There, the short growing season, difficulties of mechanisation, distance from market and poor communications mean that without special help agriculture cannot survive, with the result of depopulation of a vast area of the Community.

The importance of hill farming to Britain is such that it was raised as a specific point during the negotiations and declarations by the United Kingdom and the President of the Council of Ministers attached to the Treaty of Accession. A directive on hill farming and agriculture in less favoured areas, adopted in January 1974, follows the British experience in basing aid on the number of head of cattle and sheep because these are the predominant entreprises in mountain regions. Its implementation has been delayed because of disagreement over the areas which should benefit from aid, but the Commission has now published the necessary map and it is expected that it will be accepted at the same time as the prices for the 1975-76 marketing year.

In financial terms, EAGGF aid will represent a considerable saving to Britain.

The adoption by the Community of measures to speed up the pace of modernisation and to shift the burden of protecting special cases from price policy to direct aids means that it will become progressively easier for the CAP to reconcile the divergent aims of all agricultural policies which are to provide reasonable prices to the consumer with effective security of supply at the same time as protecting the producer's income. This can only be done through the creation of an efficient agricultural industry in which farmers are able to make a reasonable living at the same time as providing food at competitive prices. Investment now is repaid tenfold later.

There remains, however, an important point to be settled before the Common Agricultural Policy develops into a fully fledged instrument comparable to its national predecessors. Direct aids granted by individual states have not ceased; on the contrary, they have developed considerably over the last ten years and there is a need for a division of competence between the different levels. Community legislation through the use of directives may act flexibly and if criteria are adopted for aid on a Community level there is no possibility of a distortion of competition and certain members granting subsidies to outsell their competitors rather than to rectify a problem. A compromise might be 'optional' legislation where certain members do not apply Community decisions because they are of little importance to them. These questions are dealt with in the section on legislation problems.

Structural policy will become increasingly important and the Commission in its memorandum on the improvement of the Common Agricultural Policy states that the next measures should be in the fields of forestry and marketing structures.

REFORM OF THE COMMON AGRICULTURAL POLICY

The Community did not wait until enlargement before taking up the subject of reform of the CAP. Commissioner Mansholt's memorandum mentioned in the previous section represented a first attempt to assess the successes and failures of the policy and to suggest a new orientation based on the structural policy. After ten years' experience in operation it is natural that a new look is being taken at the Common Agricultural Policy. This is particularly important because completion of the first decade has coincided with the entry into force of the Treaty of Accession with its attendant complications of transitional arrangements and the need to integrate the differing agricultural experiences of the new members into the CAP.

Commissioner Lardinois became the first to formulate concrete proposals when he presented his memorandum on the improvement of the Common Agricultural Policy to the Council in November 1973. He was followed by Mr Peart who presented 'The United Kingdom's ideas and proposals for the improvement of the CAP and certain related matters' to the Council on 18 June 1974.[1] After the crisis over the special autumn price review to compensate farmers for the sudden rise in costs over the previous six months, the Council at the German government's request asked the Commission to prepare an inventory of the agricultural policy to be completed by Spring 1975. Recently the German and Danish governments and the French Chamber of Agriculture gave their positions on the inventory[2], and related subjects are already under negotiation in the Council over the 1975-76 price proposals. The main points at issue are therefore fairly clear, although, of course, it is not possible at this stage to say what conclusions will be reached after the stocktaking.

It must be emphasised, however, that a great deal of improvement in the policy takes place as a result of the normal process of development of the CAP. The Commission, for instance, regularly uses the annual price review to propose improvements to the mechanisism of the guarantee section of the EAGGF and to take into account the weaknesses revealed in a particular sector.

1. The Lardinois Memorandum on the Improvement of the CAP[3]

This memorandum emphasised the interdependence of the CAP with other Community policies; notably economic and monetary and regional policies. "It has never been claimed that the agricultural policy could settle all the

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1 The text of Mr Peart's statement is published in the July European Community commentary in 'Trade & Industry', 11.7.74, pp.4-6

2 See Europe Agency of 23, 24, 25.1.75

3 Bulletin of the European Communities, Supplement 17/73

problems of European agriculture through its own instruments." As far as the agricultural policy itself is concerned there should be three objectives for the price and market policy: a reduction of the disequilibrium prevailing on a number of agricultural markets; a reduction of expenditure under the Guarantee section of the EAGGF; and a simplification of certain mechanisms in the common organisation of markets. It is imperative to press forward vigorously with the socio-structural policy in order to remedy the remaining deficiencies.

Prices for the period 1973-78 should be based on objective criteria: on the one hand, the situation in modern farms and, on the other, conditions of supply and demand. The Commission has based its proposals for the 1975-76 marketing year on the rise in costs over the previous two years, less the rise in prices over the same period and has attempted to agree these figures with the farm organisations to give them the maximum weight (this was the procedure followed by the former British annual review). Vegetable products, which are in short supply, would be encouraged at the expense of animal products under the Commission's proposals. Basing prices on objective criteria means, of course, choosing as a matter of principle in favour of national modern agriculture having a small working population; in short, efficient agriculture with low production costs. This should be ideally suited to British agriculture provided that socio-structural policies are able to create appropriate solutions for marginal area farms and for less favoured regions and categories of which there is certainly no shortage in the British rural world.

The other guiding principle of the transitional period would be to refrain from generalisation of the various forms of direct aid to farm incomes, because this would risk impeding structural changes and causing wastages of public money and administrative difficulties.[1] This is largely a theoretical option, because in practice aid is still widespread but it can lead the United Kingdom during the transitional period to an agricultural economy which would no longer be that set out in the Agricultural Acts of 1947 and 1957.

2. The British 'plan' of 18 June 1974

The 'plan'[2] presented by the Minister, Mr Peart, to the Council meeting on 18 June 1974 avoided explicit discussion of previous Community legislation. Normal developments in the Common Agricultural Policy and the combined effect of the transitional measures would, in the opinion of the British

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1 Doc. COM(73) 1850 (Doc. 251/73) p.4

2 For a good summary, see Europe Agency of 19-20 June 1974; 'Le Monde' of same dates; 'Financial Times' of 19 June

government, make a favourable outcome possible. Can this plan, which is quite different from an overall demand for 'renegotiation', be considered compatible with the basic principles of unity of the market, Community preference and financial solidarity? Everything hinges on these principles because the transitional measures were created with a view to their acceptance in due course.

Mr Peart put forward the following suggestions:

(i) Prices policy - He asked, as had Commissioner Lardinois, that prices take account '...of the needs of the modern and efficient farms and secondly, of the supply/demand situation for particular commodities. The problems of those in less favourable circumstances must be handled outside the price policy by choosing '...other ways.' For the moment no details have been given.

The Minister also suggested the Council accept as a possibility the fixing of prices for particular parts of the Community at levels below those for the Community as a whole. This is probably the most difficult of all the suggestions made to square with the Common Agricultural Policy. How could differing price levels between members be prevented from distorting competition and leading back to national support systems?

(ii) Absorbing surpluses - The technique envisaged is of a steady fall in producer prices once stocks build up to a certain level. A similar system operated in Britain for milk where the guaranteed price was fixed for a standard quantity equivalent to the country's needs in milk for liquid consumption.

(iii) Beef - The Community should return to the pre-1972 situation when intervention buying was no longer automatic. Subsidies and a variable premium on rearing and slaughtering are proposed to supplement the guide price.

The Commission stated in the 1975-1976 proposals that a new beef regime, with changes in the intervention system similar to those outlined by Mr Peart, will be presented to the Council during 1975. In the same proposal, the intervention price for beef would not be increased, but instead a slaughter premium would compensate for the rise in costs over the last year. However, this premium would be for a fixed amount and not a variable one as in the British suggestion.

(iv) Commonwealth imports - It has been requested that the special system applied to New Zealand butter should be extended to 1982 and even beyond. The Commonwealth should be guaranteed an outlet for 1.4 million tons for sugar, but incentives for beet sugar production in the Community are also requested.

The Community is offering 1.4 million tons in the negotiations[1] and the incentives will come into force with the new sugar regulation.

(v) Relations with third countries - Protection for certain commodities, such as hard and semi-hard American wheat, preserved fruits and preserved fish, of which Community production is low, is thought to be unnecessarily high. At present there are no levies for wheat since the price is above the Community guide price, while on many products which cannot be produced within the Community there are import quotas with zero-rated tariffs.

3. The Inventory of the Common Agricultural Policy

The Commission has not yet published its report based on the stocktaking, but recent statements by certain member states are clarifying the issues at stake. The German government, which was behind the decision to take the inventory, considers that competition is affected by the multiplicity of national aids which should in future be more strictly controlled. This is the exact opposite of the British attitude which seeks to shift much of the burden from the price policy by the extension of these aids. The German position comes close to that of the United Kingdom on the absorption of surpluses through the financial responsibility of producers, greater flexibility in the intervention system for beef, stricter control of EAGGF expenditure and greater access for third countries.

The French Chamber of Agriculture points out in their balance sheet that intervention buying represents a very small proportion of total production and that under present conditions it is possible to export nearly all the products for which surpluses might arise. At the same time the Community imported $18,000 million of agricultural produce in 1973 whilst exports were only a third of that sum.

Denmark maintains that the principles of the CAP do not need to be altered although there are a number of details which could be improved. The pig-meat and egg and poultry markets do not function satisfactorily and generally speaking there should be stricter quality standards for goods offered for intervention. There should also be further study of the possibility of putting intervention butter at the disposal of consumers. In trade with third countries, the Danes consider that greater flexibility would be desirable. Above all, the structural policy should be developed and greater emphasis laid on social and regional policies which are a prerequisite for its success.

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[1] See pages 35 - 37.

Criteria for fixing prices, methods of avoiding surpluses and relations with third countries are being placed at the centre of the discussions on reform of the Common Agricultural Policy because they are the three fundamental issues which face developed countries when deciding on a system of support for agriculture. The level of prices determines whether the consumer or the producer will benefit more from the policy. Surpluses arise when the capacity to become self-sufficient is accompanied by the incentive to produce and when no quantitative restraints are placed on production. Deficits, however, will arise if the incentives are not strong enough and it may not always be possible to compensate by imports. Developed countries depend on trade with other countries for their prosperity and trading partners may have agricultural as well as industrial products to export. In order to keep frontiers open for domestic exports, the position of foreign suppliers has to be taken into account.

In the Community today there is a balance between the countries which are likely to treat protection of the consumer as their main objective and those which would tend rather towards that of the producer. It should, therefore, be possible to reach agreement on improvements of the CAP which will be fair to both sides. The contradiction between these two interests can be resolved in the long term by the creation of an efficient, low cost agricultural sector, for which the structural policy is an essential tool. Thus it is the short term that the debate mainly concerns.

When the first regulations establishing a common organisation of markets were issued the level of prices was fixed at a fairly high level. The large numbers of small scale producers needed a protection that could not be provided in any other way at the time. The existing level of prices also had to be taken into account and a median price adopted. In the case of cereals, Germany insisted that a high guaranteed price be fixed because of the difficult conditions for production in that country. The prices of livestock products were then aligned with those of cereals. Since then the situation has changed completely with the level of prices in the Community relatively low compared with that in the world market. Developments have vindicated those who argued that security of supply and stabilising of prices must be the prime objectives of agricultural policy.

There is a danger, however, that fixing prices uniquely to take account of costs of production will deter consumers from buying relatively expensive products such as butter or beef. By shifting some of the burden for producer support from end price guarantees to direct subsidies, it is possible to maintain lower prices for the consumer without penalising the producer. But this would mean departing from one of the principles of the CAP that the consumer should pay the full cost of food.

A further problem is whether subsidies should be in the form of a variable premium according to the market situation or should be payable on a flat rate basis. The advantage of the flat rate lies not only in the fact that the cost over the following year can be estimated with accuracy but also that it can be combined with the Community's price system without difficulty. The variable premium on the other hand requires an immense amount of administration which, although practicable for a country like the United Kingdom with a small farming population and long experience of government regulation, would cause great problems on a Community level. The cost, too, tends to get out of hand. In 1970-71 (the last year under 'normal' conditions when deficiency payments operated in the United Kingdom price guarantees for beef alone totalled £31 million. Even before negotiations to enter the Community had begun, successive British governments had moved towards import controls and quantitative restrictions on guarantees to limit the cost to the Exchequer and to shift the burden to the consumer.

During the post-war period both Britain and the Community have had to dispose of occasional surpluses in one sector or another. It is extremely difficult to strike a balance between a liberal economic policy, which in the past has led to big fluctuations in the market, and the rigidity of an interventionist policy. The surpluses which have been run up under the Common Agricultural Policy for beef and butter may appear impressive when expressed in terms of tonnage, but they represent only a few weeks' supply for the consumer. Certain techniques - limiting the amount guaranteed to a standard quantity of produce or diminishing the price paid to producers - exist to dispose of surpluses, but the danger is that farmers will overreact and not produce enough.

The move to take greater account of the consumer's position in the formulation of agricultural policy has come at a time at which, ironically, the balance of the CAP as it is constituted at present has already moved in the consumer's favour. The high initial level of guaranteed prices has been eroded by inflation and security of supplies is at the centre of consumer preoccupation: British consumers found during the summer of 1974 that offering low prices to sugar producers did not keep down the cost in the shops. The same is true of domestic producers and the opinion is expressed that current Community prices are too low to maintain supply at present levels. Deficits rather than surpluses have become the major problem at the present time.

The European Common Agricultural Policy follows the same pattern and is subject to the same criticisms as agricultural policy in any developed country. Obviously the policy is not perfect and improvements may be made

However, the achievements of the policy in maintaining security of supplies and stability of prices and in improving productivity are also considerable. They have been realised by the will to construct a policy on the European level to serve a European interest. Reform of the CAP can only success if it follows this path. If the object is only to obtain concessions -which derogate from the Community's policy, then there will follow a return to purely national policies - but without any assurance that the advantages offered by the CAP can be obtained at that level.

LEGISLATION PROBLEMS

1. The harmonisation of structural, social and fiscal policies

The United Kingdom has already taken measures to improve the structure of agriculture, ranging from central grants, encouragement to leave farming and measures to improve certain problem sectors.

In respect of the improvement of the structure of British agriculture, the effects of accession to the EEC are confined to a small number of minor, formal adjustments[1] to existing structural measures. Even before accession the trends in Britain away from employment in agriculture and towards the enlargement of holdings were already running parallel with trends in the original Community of the Six and there has been no change in this since accession (decrease in full-time farming in the period 1968-1973: 8%).

There are a number of agricultural improvement schemes in the framework of the Guidance Section of the EAGGF from which British hill land farming and fishing sectors are expected to benefit.

The schemes in force, or envisaged, range from individual projects under Regulation No. 17/67 to improve installations in farms and marketing organisations to joint schemes following the Council Resolution of 25 May, 1971 for the modernisation of farms, the encouragement of guidance and training, the improvement of marketing facilities, the encouragement of reafforestation, the reorganisation of the fishing sector, and for premiums to encourage beef production. There are also special schemes for the reduction of the cultivated areas producing surpluses difficult to market, such as fruit,and to establish producers' organisations. The Council is also in agreement in principle with the use of the EAGGF for regional development.

Aids to be provided from the EAGGF for schemes within Member States vary from a normal figure of 25% to 45%, or exceptionally 65% of the costs.

2. The future of EEC competition policy in agriculture and the British farmer

The elimination of unfair competition and distortion of competition due to differences in tax systems and national aids to producers has been a major area of activity of the European Economic Community.

[1] The lime and fertilizer subsidies may be abolished this year

The rules governing intra-Community competition are given in Articles 85-94. Articles 92-94 regulate aids to be granted by Member States. By Article 93, the Commission shall decide which aids are compatible with the meaning of Article 92. A fairly extensive range of aids are in force in all Member States and include, for example, interest subsidies, aids to poorer farming regions, VAT rebates, market support measures, financial contributions for marketing and compensation for increases in energy costs.

In the early years of the Community the emphasis of agricultural policy was directed towards the establishment of common prices for the principal farm products and the formulation of regulations concerned with foreign trade and domestic markets, including intervention buying, quality standards, etc. During the past six years[1] attention has been increasingly turned towards aids to the agricultural sector which might tend to distort the fair competition between member countries which is a principal of the Treaty of Rome. During this period the numerous aids given by member countries have been studied by the Commission, consultations have taken place with government and professional organisations, and a timetable has been agreed for dealing with these aids and their harmonisation on a product by product basis. The Commission has recently moved from an essentially negative viewpoint towards aids (e.g. banning certain aids reported either by the country offering the aid or by other member countries which feared adverse effects from them), to a more positive attitude involving active implementation of a harmonised policy in this sector. The Commission's energies will increasingly be directed towards this end, and a more flexible approach has already become evident following the present difficulties of the agricultural sector in the face of increased feed, fertilizer and energy costs.

It is expected that the Community will make more rapid progress in abolishing or harmonising aids during the next few years and that by the end of the transition period at the latest the only ones remaining which could potentially distort competition will be in the fields of direct taxation and social security.

During the transition period, Britain and the other new Member States would be required to declare their aids to the agricultural sector and justify them, part of the process of creating 'transparency of aids'. It would be likely to be some time before acceptance or abolition of existing British aids was completed. Meanwhile, some of the Community ones, for instance for producer groups, might be adopted by the British Government.

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1 The Commission's proposals for the establishment of criteria for a common policy for agricultural subsidies, published in March 1966, have never been formally adopted

From an examination of the principal aids available to agriculture in the member countries (or likely to remain available in future) the general conclusion is that these are not likely to be a source of major distortion to competition for Britain in the enlarged Community either during the transitional period or thereafter.

3. The position of farmers in problem areas

Within the framework of creating a harmonised Community policy on aids to agriculture, an agreed definition will have to be reached between the Commission and the Council of those areas to which member countries shall be entitled to grant special aids. The definition given in Article 92(3)(a) of the Treaty of Rome - "regions where the standard of living is abnormally low or where there exists serious underemployment" - provides no working criteria. The question of poorer agricultural regions has moved, however, from this negative aspect to a positive policy of Community aid under the Directives on mountain and hill farming in certain less favoured areas and the draft Regulation on priority agricultural regions which have been under consideration or adopted since Britain's accession to the EEC. The British Government has been, therefore, not only fully involved and able to put its own point of view, but has met with a wide measure of sympathy from other member governments, including those of the new Member States. There is a consensus on both the social and practical necessity of avoiding de-population. Access to many problem areas must be preserved for an increasingly mobile urban population.

Since the solution to these problems is basically a question of maintaining farm incomes, any divergence of opinion is likely to arise over how to do so. To some extent this may be brought about by a general system of income supplement, though low farm incomes are not necessarily confined to problem areas. The obvious British interest is in a form of aid that, even if not directly product-linked, is closely related to certain types of livestock husbandry. The likelihood of such measures being introduced has been increased by the present difficulties faced by European agriculture. The Commission, in its price proposals for the 1975-76 marketing year, has a proposed a limited step in this direction in the beef sector.

4. Food legislation

Before 1 January 1973 a number of directives relating to food legislation were adopted by the Community in order to facilitate trade within the Community where various national provisions had constituted obstacles to trade. In a resolution of 28 May 1969, the Council adopted a general programme to eliminate technical trade barriers. This programme, which also covered food legislation, was later subject to amendments and postponement of deadlines.

The directives adopted by the Community prior to the accession of the United Kingdom deal with food additives such as colouring matters preservatives, and antioxydising agents. As in the United Kingdom, these directives are based on the 'positive list' principle, i.e. only matters listed in the provision can be used as additives in foodstuffs.

As a result of the entry negotiations certain amendments were made to the directive on preservatives to meet British wishes. New matters were added to the EEC list which would make it easier than before for British industry to market certain products in the original six Member States.

Further,the United Kingdom was granted a period of transition in applying the three directives mentioned. This period expires on 31 December 1977. The transition period allows the United Kingdom to keep its national lists in the three fields of additives. Only if proved harmless to human health before the date of expiry of the transition period can these matters be included in the EEC lists.

As regards colouring matters, there is a special arrangement which allows the United Kingdom to maintain its prohibition of the use of certain colours until 31 December 1975, after which date the use of these colours in the United Kingdom will be permitted unless the EEC has decided beforehand to exclude these additives from the EEC list.

Generally speaking, the EEC lists are more restrictive as to the type and number of food additives that can be used in food for human consumption then the United Kingdom lists. In 1972, for instances, with respect to 'coal tar' food colours, 24 colouring matters were permitted in the United Kingdom according to the regulations under the Food and Drugs Act 1955, whereas only 19 matters were permitted within the EEC; only 10 matters were on both the United Kingdom and the Community lists[1]. Taking into consideration the addition of further preserving matters to the EEC list as a result of the entry negotiations and the relatively long periods of adaptation or transition, there have not been any significant difficulties for United Kingdom industries as a consequence of the accession to the EEC. It is in

1 For example, a major problem could arise over the lack of suitable brown colourings in the EEC list for making kippers. The EEC list also lacks heat-stable orange and red dyes for sausages and preserved meats.

a slightly better position than formerly because amendments of EEC law in this field during the entry negotiations have improved the competitiveness of United Kingdom industry on the EEC market.

During the transition period expiring on 31 December 1977 and thereafter, the United Kingdom will have a full say in any negotiations taking place prior to the issue of directives concerning other additives, the composition, etc. of commodities, or the amendment of existing EEC directives. It is likely that the directive relating to colouring matters in particular will need amendment because both production methods and consumer habits have changed considerably since the adoption of the original EEC directive. It will be possible for the United Kingdom to ensure that any new agreements will take into consideration the considerable differences between provisions in the EEC and those in the United Kingdom. This is particularly important in the field of commodities where differences are numerous. In the course of 1973, two commodity directives were adopted by the EEC, concerning sugar and cocoa. In these cases the United Kingdom had the opportunity of taking part in agreements on an equal footing with the original Member States. There were considerable difficulties in reaching agreement, but compromises were made. It is expected that serious problems may arise when proposals for directives concerning such products as margarine, jams, beer, etc. are discussed. At present about 40 proposals are planned by the EEC Commission.

Harmonisation of provisions concerning commodities may lead to fewer difficulties in future, however, as the EEC Commission intend to propose optional harmonisation. This will permit the United Kingdom to retain national provisions governing, for instance, the importing and marketing of such types of bread, beer, etc. that complied with the specifications outlined in commodity directives.

Thus, it would be possible for the United Kingdom consumers to retain the choice of buying commodities of a kind that they are in the habit of buying, and to avoid sudden and costly changes in manufacturing techniques. United Kingdom industry may, of course, have to change techniques used in manufacturing products intended for export to other Community Member States to comply with any EEC standards which may be laid down in future directives concerning commodities.

5. Health aspects of the Common Agricultural Policy

The harmonisation of the veterinary provisions represents an essential complement to the market organisation regulations. In the absence of such harmonisation, any efforts made to ensure, at a commercial level, the free movement of goods - and in this case of animals as well - would remain fruitless because Member States could obstruct such free movement by means of their public health provisions.

The ultimate objective is as follows: as soon as each of the Member States observes the same public health and veterinary provisions, checks on products or animals can be made in the country of origin to ensure that they meet the prescribed public health and veterinary standards. At the same time, it should no longer be necessary, save in exceptional cases, to provide for checks in the receiving countries, since these will have been seen to as a matter of course at the outset. Where the free movement of goods and animals is concerned, the advantages of the above immediately become clear.

Consequently, the Community has over the years adopted a certain number of directives, though it has not yet covered all fields. In areas not covered by Community rules, the national provisions remain in force.

The differences between the Community rules at the moment of accession and the regulations in force in countries wishing to join the Community gave rise to lengthy discussions at the accession negotiations.

It would take too long to go into all the details of the veterinary regulations. Measures to control foot-and-mouth disease can, however, be given as an example. Although a system of compulsory vaccination was introduced into the Community by directives drawn up at Community level, the three acceding nations benefited from their status as countries free from foot-and-mouth disease and were consequently exempted from the obligation to vaccinate their animals.

Under the principle whereby the acceding States accepted the body of legislation already enacted by the Community, the Community regulations should have been introduced into the new Member States. However, at the time of the accession negotiations, it was agreed that the three new Member States could maintain their national legislation up to the end of 1977, that is to say, up to that date the animals would not be subject to compulsory vaccination.

The disadvantage of compulsory vaccination for the new Member States is twofold:

(a) at the public health level: any vaccination whose sole principle is the injection of low doses of disease germs in order to encourage antibodies means in fact the introduction into a given country of the germs in question;

(b) at the financial level: compulsory vaccination obviously entails additional expenditure.

However, there is an important advantage in compulsory vaccination. In reality, no country can truly be considered safe from foot-and-mouth disease. In 1968, the United Kingdom had an epidemic which was nothing less than a disaster for the agricultural sector since animals had to be slaughtered immediately and the meat incinerated. Systematic vaccination makes it possible to avoid catastrophies of this kind.

For, even if the insurance payments and the state compensation paid out at the time of the epidemic in 1968 provided compensation for the gross loss o: the cattle, milk producers suffered a considerable loss of earnings during the period necessary for reconstituting their stock and bringing it to maturity.

However that may be, the accession agreements provide that the Commission shall submit a report on this problem to the Council in July 1976. It will be then that a final decision is taken on whether or not the Community requirement of compulsory vaccination is to be introduced in the new Member States as from 1978.

These temporary measures have created a sort of status quo in relation to the previous situation and, for that reason, the new legal situation has had no repercussions on trade.

There is another problem: that of the protection of animals. The Communit: legislators are at present studying the rules which might be introduced into the Community whereby it would become compulsory to stun animals befor slaughtering them, as is the case in the United Kingdom. This is a problem which clearly has its 'humanitarian' side, but its solution would involved considerable sums of money, given the need to modify a large number of existing slaughter houses.

AGRICULTURAL PRODUCTION AND TRADE IN AGRICULTURAL PRODUCTS

During the period 1968 to 1972, the final production of the original Community increased in volume by 1.9% per annum[1]. The Common Agricultural Policy has therefore had the desired effect of stimulating domestic production. Over the same period, however, the rate for the United Kingdom was even higher - 2.6% - although this was during a period when government policy attempted to boost production in order to save imports.

Trade in agricultural produce between member states is the area where the impact of the European Economic Community has been most strongly felt. In 1958 member states were importing $909 million worth of food, drink and tobacco from each other. By 1970 this had increased sixfold to $5,446 m.

A similar expansion of trade between the United Kingdom and the original Community can been seen by comparing the trade figures for 1972 and 1973 (Table I). British imports of agricultural and food produce from the Community of the Six in 1973 were 17% of the total figure and 19% for the first nine months of 1974, as against 13% in 1972. Exports declined to 9% of the total in 1974 from 34% in 1973 and 33% in 1972. This was due to the high prices for exports of fresh, chilled and frozen meat during the boom of 1972-73 falling off during the slump of 1974.

The trend shown by nine selected products in volume is as follows:

1972/73 Exports: + 234 Imports: + 51

The percentages shown here refer of course tot total volumes which are of very unequal importance, being in a ratio of 1:7 for exports and imports. This trend could also reflect the fact that certain products were placed in stock in Britain in order to benefit from the enlargement.

In any case the efficient British farmer can expect to reap rich benefits from the Common agricultural market. Freeing of trade in this sector within the Community will lead to a more efficient production as specialisation leads to decreasing costs. Thus it can be expected to see British production concentrate now on livestock production and certain arable crops, sugar beet, for example, while importing feedstuffs, such as maize.

It is too early to reach any definite conclusions on the effect of the CAP on farming patterns in Britain. At the same time, as British agriculture must adjust to the CAP a further adjustment is required to cost increases and the pattern which had been expected to emerge, as a major livestock supplier to the Community, has been distorted by a new pattern of relative sector costs.

[1] The Agricultural Situation in the Community, 1974 Report, Part I, p.10

The expansion of trade with the Community has not been achieved at the expense of trade with the rest of the world. In value imports from both the Six and the world (Table III) have shown large increases. If imports have increased more rapidly from the Six, it is because purchasers have been switching to lower priced Community supplies rather than any constraint imposed by the CAP on purchases from outside the Community. Indeed imports from the Six were already increasing faster than imports from the rest of the world before entry into the EEC.

TABLE I

UNITED KINGDOM

% of Imports of Agricultural Produce[1] and Foodstuffs from the E.E.C. (6) in terms of Total Imports

1970	11
1971	12
1972	13
1973	17
1974[2]	19

% of Exports of Agricultural Produce and Foodstuffs to the EEC (6) in terms of Total Exports

1970	24
1971	24
1972	33
1973	34
1974[2]	9

UNITED KINGDOM/E.E.C. (9)

- Imports of Nine Selected Agricultural and Food Products

	in value (£ ooo)	in volume (tons)
1972	271,637	2,312,869
1973	391,029	3,497,027
Trend %	+44	+51

- Exports of Nine Selected Agricultural and Food Products

	in value (£ ooo)	in volume (tons)
1972	45,622	160,692
1973	108,111	536,460
Trend %	+137	+234

Source: Overseas Trade and Industry

1 S.I.T.C. classification
2 First nine months

The following tables show agricultural trade in detail: TABLE II

UNITED KINGDOM

- Trend in Imports of Agricultural Produce and Foodstuffs (as %)

	1970-1971	1971-1972	1972-1973	1973-1974[1]
World	+ 3	+ 9	+ 39	+ 29
EEC (6)	+ 16	+ 18	+ 78	+ 60
USA	+ 14	-	+ 32	+ 28

- Trend in Exports of Agricultural Produce and Foodstuffs (as %)

	1970-1971	1971-1972	1972-1973	1973-1974[1]
World	+ 12	+ 0.12	+ 53	+ 33
EEC (6)	+ 11	+ 36	+ 61	+ 23
USA	+ 11	- 2	+ 14	+ 41

Source: Overseas Trade and Industry

- Imports of Agricultural Produce and Foodstuffs (in £ millions)

	1970	1971	1972	1973	1974[1]
World	2781.9	2878.4	3131.9	4340.5	3915.8
EEC (6)	308.5	358.0	422.7	754.4	866.8
USA	212.7	242.1	242.6	320.2	250.2
% of imports of agricultural produce and foodstuffs in terms of total imports	30	29	28	27	23

- Exports of Agricultural Produce and Foodstuffs (in £ millions)

	1970	1971	1972	1973	1974
World	636.7	712.9	713.8	1089.1	963.2
EEC (6)	153.9	171.2	233.5	374.9	263.2
USA	141.9	157.8	154.4	175.3	165.7
% of exports of agricultural produce and foodstuffs in terms of total exports	8	8	7	9	8

Source: Department of Trade and Industry

[1] First nine months of 1974

TABLE III - IMPORTS FROM THE ENLARGED COMMUNITY (9)

Year	C.T.C.I.	Meat, fresh, chilled or frozen	Milk and Cream	Butter	Cheese and curd	Eggs in shell	Wheat (including spelt) and meslin, unmilled	Barley, unmilled	Maize (corn) unmilled	Cereals, unmilled, other than wheat, rice, barley and maize	Bovine cattle (including buffaloes)
1972	Metric Ton +	149 761	50 184	137 188	65 671	1 322	1 106 280	39 530	703 923	59 010	Number 492 829 of which Ireland 491 938
	£ 000	58 209	12 206	66 868	27 827	516	30 578	904	18 432	1 456	54 641
1973	Metric Ton +	105 988	54 432	185 670	83 287	15 340	1 474 832	158 679	1 332 186	86 613	Number 342 318 of which Ireland 341 118
	£ 000	57 949	14 815	81 614	41 920	5 603	65 448	6 038	61 014	4 219	52 409
1974	Metric Ton +	213 678	45 116	325 657	101 573	19 004	1 379 974	683 028	1 751 953	350 374	Number 383 021 of which Ireland 381 246
	£ 000	122 661	14 637	186 707	68 631	7 278	110 587	39 474	112 360	20 155	57 266

Source: Overseas Trade Statistics of the U.K.
(Department of Trade and Industry)

+Metric tons have been obtained by multiplying Imperial tons by a coefficient of 1.016

UNITED KINGDOM

TABLE IV - EXPORTS TO THE COMMUNITY (9)

Year	C.T.C.I.	Meat, fresh, chilled or frozen	Milk and Cream	Butter	Cheese and curd	Eggs in shell	Wheat (including spelt) and meslin, unmilled	Barley, unmilled	Maize (corn) unmilled	Cereals, unmilled, other than wheat, rice, barley and maize	Bovine cattle (including buffaloes)
1972	Metric Ton +	78 061	15 417	1 659	746	962	6 326	49 813	4 044	3 664	Number 185 781 of which Ireland 99 781
	£ 000	39 234	2 616	755	386	607	243	1 554	138	89	18 878
1973	Metric Ton +	106 793	111 692	5 309	3 204	3 081	9 895	247 146	14 318	35 022	Number 156 176 of which Ireland 79 903
	£ 000	67 379	21 163	2 290	1 413	2 026	592	11 102	671	1 475	20 382
1974	Metric Ton +	111 475	73 505	1 645	3 297	6 495	2 049	148 357	19 453	12 752	Number 80 255 of which Ireland 76 946
	£ 000	65 895	14 497	935	1 793	3 365	181	8 955	1 325	830	8 625

Source: Overseas Trade Statistics of the U.K. (Department of Trade and Industry)

+Metric tons have been obtained by multiplying Imperial tons by a coefficient of 1.016

BRITISH AGRICULTURE AND THE FINANCING OF THE COMMON AGRICULTURAL POLICY[1]

1. Payments from the Guarantee Section of the EAGGF to the United Kingdom in 1973

The following table gives the whole of the expenditure for each sector in which the Guarantee Section intervenes. This table shows that in 1973 the United Kingdom received 151.8 m.u.a.from the Guarantee Section. This is about 4.5% of the total expenditure by this section. This modest figure is explained by the length of time needed by the United Kingdom authorities to set up the machinery to enable it to benefit from the Guarantee Section. Although in principle the common regulations on agriculture were applied to the new Member States as from 1 February 1973, there were almost no requests for intervention until the end of March 1973. To obtain a more accurate idea of the 'annual' amount which the United Kingdom could receive the results for the first three months of 1974 should be added to the 151.8 million u.a. These amounted to 53.5 million u.a. so that the figure for the whole year is 205.3 million u.a. or about £85.5 million. This is close to close to the estimate made by the 'Annual Review of Agriculture 1974' which predicted £82.5 million for the period April 1973 to March 1974.

This estimate alone, however, is not enough to assess the total benefit received by the United Kingdom from the budget of the Communities. The attached table shows that the 'accession' compensatory amounts were 264.3 million u.a. (£110 million) for the financial year. Compensatory amounts were paid by the Member States and borne by the EAGGF to allow the new Member States, principally the United Kingdom, to import Community agricultural products at a lower price than that applied in the old Six. It can therefore be said that this sum, which helps sales of products from the Continent, also benefited the British consumer. In a period of overheating on the world market, the effect of the compensatory amounts in the United Kingdom was a not inconsiderable factor in stabilising internal prices. This direct effect of the financial system of the common agricultural policy and the machinery set up by the Treaty of Accession should not be overlooked.

These compensatory amounts admittedly prevented these goods being sold on the world market, which would have meant payment of refunds by the EAGGF, at least for certain products and depending on the price situation on the world market. Nevertheless, the United Kingdom derived major benefit from the compensatory amounts system, although it is unfortunately not possible to give exact figures.

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1 See also the section on budgetary matters. The rate of exchange used is £1 = 2.4 u.a.

It is still difficult to predict the future expenditure from which a Member State might benefit. Assuming, however, that production in the United Kingdom remains approximately the same, the gradual alignment of prices would normally mean a higher level of intervention. On the other hand, refunds would remain small since the United Kingdom is a net importer of agricultural products. Finally, the compensatory amounts would normally diminish, again because of the alignment of prices.

2. <u>The Guidance Section of the EAGGF</u>

Under the common measures Britain is already benefiting from the Guidance Section because of the early application of the directives on structural reform.

To qualify for reimbursement from the Guidance Section, common measures and individual projects must be submitted by the national administrations for approval by the Commission. This involves a certain amount of delay and appropriations for individual projects submitted in 1973 are decided the following year. In 1973 aid to the United Kingdom totalled £8,443,997. Drainage and flood prevention works, the construction of fishing boats and cheese factories figure prominently on the list of projects accepted.

Expenditure by the Guarantee Section of the EAGGF

(millions of u.a.)

Sectors	1.2.1973 to 31.12.1973 U.K.	1.2.1973 to 31.12.1973 E.E.C.	1.1.1974 to 31 March 1974 U.K.	1.1.1974 to 31 March 1974 E.E.C.
Cereals	55.8	952.9	14.9	96.5
Rice	-	11.2	-	0.7
Milk and milk products	32.5	1,458.5	14.7	342.9
Fats	0.6	362.9	0.4	20.6
Sugar	4.5	127.0	1.2	28.5
Beef and veal	-	16.0	0.01	3.9
Pigmeat	0.06	90.6	0.03	19.4
Eggs and poultry meat	0.1	21.5	0.03	3.5
Fruit and vegetables	0.04	34.5	0.007	12.8
Wines	-	11.7	-	0.23
Tobacco	-	118.2	-	84.8
Fishing	0.1	1.2	0.06	0.45
Flax and hemp	-	5.5	-	5.4
Seed	2.5	14.3	0.9	5.3
Hops	-	4.7	-	-
Processed agricultural products	0.7	23.7	0.5	5.2
Compensatory amounts accession	-	264.3	0.18	70.8
monetary	49.5	140.3	20.7	48.8
Total	151.8	3,659.6	53.5	752.6
in £M	63.25	1,524.83	22.29	313.58

B - TECHNOLOGICAL AND INDUSTRIAL POLICY

1. Definition of the term 'industrial policy

(a) The European Treaties do not expressly provide for the introduction of a common industrial policy. Community efforts towards the development of a common technological and industrial policy should therefore rather be seen as an attempt to reach a higher standard of efficiency by combining into a single consistent policy various individual measures which the building up of the Common Market or of the Economic and Monetary Union, or the general development of the industrial economy of the European countries, has made necessary.

In fact, the term 'industrial policy' has not yet been very precisely defined; at least there exists no generally accepted definition. Thus in his speech to the Council of Ministers of the European Community on 4 June 1974, in which he constantly spoke of 'regional and industrial policy', Mr Callaghan seems to have had chiefly in mind the question of aid to particular enterprises. The purpose of the 'renegotiations' would therefore seem to be not so much to obtain aid from the Community as to ensure that Community harmonisation measures and measures to remove discrimination will not rule out intervention by the British government in specific cases involving regional policy or individual industries or enterprises.

It must be pointed out in this connection that Article 92(3) of the EEC Treaty expressly states that the following may be considered compatible with the Common Market:

"(a) Aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious under-employment;

(b) Aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State;

(c) Aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest...;

(d) Such other categories of aid as may be specified by decision of the Council acting by a qualified majority on a proposal from the Commission."

It should be especially noted that the aids mentioned in sub-paragraphs (a) to (c) to not depend on the agreement of the Council, and furthermore that aids (a) and (b) are not, like (c), limited by the proviso that they must not affect trading conditions.

The fear that the British government's plans for industry could be hindered by narrow interpretation of the Treaties would therefore seem to be without foundation, the steel industry being a possible exception since the corresponding provisions of the ECSC Treaty are concerned more with industrial readjustment (Article 56) than with the promotion of existing industries. But it is precisely in the steel industry that any government might be well advised not to act independently but to incorporate its future development plans in a common European programme. The Western European steel industry must be seen in the broad context of the world economy as a single field, and as such it can only preserve its prosperity by common future planning.

(b) The introduction of a coherent industrial policy was first proposed by the Commission in 1970 in a Memorandum from the Commission to the Council (European Parliament Working Document No. 15/70 of 21.4.1970). According to this, industrial policy consists of the coordination of the effects of various other sectors of economic policy on industry: establishment of the Common Market, removal of the technical and other obstacles to trade remaining after the abolition of customs duties, competition policy, taxation policy, right of establishment, corporation law, patent law, general harmonisation of legislation, regional policy, social policy, environment policy, energy policy, technological policy, transport policy.

The Community institutions did not however succeed in launching any special action on industrial policy on the basis of the 1970 memorandum.

2. The situation created by the accession of the new Member States and developments in 1973/1974

It was not until the Paris Summit - in which the new Member States were already participants - with its call for the creation of a 'common industrial base for the Community' that new initiatives were set in motion. The Commission presented the Council in May 1973 with a 'Memorandum on the Technological and Industrial Policy Programme' (Bulletin of the European Communities, Supplement 7/73) and on 24 October 1973 with a 'Programme of Action in the Field of Technological and Industrial Policy' (SEC(73) 3824). In these documents the Commission proposes that Community industrial policy effort be concentrated on the following points:

- removal of technical barriers to trade;
- gradual opening of markets for public contracts;
- removal of legal and fiscal barriers which impede the linking up of undertakings;
- European-scale promotion of competitive advanced technology undertakings;
- conversion and modernisation of industrial concerns in economic difficulties;
- control of concentrations.

In addition, certain forms of cooperation with third countries in the area of industrial and technological policy were proposed.

As a first practical industrial policy measure, the 'Office for Inter-Company Alignments' in the Community was set up in 1973, and has since met with keen interest. Enquiries from undertakings seeking cooperation with undertakings in other Member States have come mainly from the Federal Republic of Germany and the United Kingdom.

3. Prospects for coming years

Present Community proposals and actions obviously cover for the time being only a part of what a real common industrial policy could be. For instance, it is only the advanced industries on the one hand and the industries in difficulties on the other which are dealt with. A really coherent industrial policy would, however, have to concern itself not only with the best and the worst but with all industries. The world industrial growth situation also makes this essential. Raw material supplies will play an especially important role for European industries in the coming years and decades.

This is a problem to which satisfactory solutions can be expected only in the context of common European action to ensure the prosperity of all European industrial nations.

The European Community constitutes an attempt to rationalise the industry of the greater part of a continent. It is therefore necessary in evaluating British participation or non-participation in this Community to consider certain points on a world scale.

Geographically, the structure of the world economy is still determined by the great centres of industrial activity which were formed during the industrial revolution around the centres of the steel industry.

(The steel industry itself had its sites near coal or ore deposits or at favourable transport cost nodes for the two raw materials.) The three great centres of gravity of the steel industry in the world still align the rest of the economy towards themselves: the United States, the Soviet Union and Western Europe. The core of Western European industry consists of the economic concentrations in Britain, Benelux, North-East France and West Germany.

If geographical rationalisation by the creation of a larger market is at issue, this can only make sense if the countries named, which form the core of the Western European economy, are united in this larger market. If one of these countries is not included, the rationalisation effect cannot fully come into play. This would be a disadvantage not only for the country concerned but also for the other countries of the economic heartland. How the other countries which do not form part of the heartland relate to the Common Market is a considerably less important question. An economic frontier which separates the peripheral countries from the heartland has less grave effects than an economic frontier which runs right through the heartland. Western Europe cannot strengthen its economic power and improve its prosperity by rationalisation unless Britain, France, Benelux and Germany are united in this market. The participation of the other countries is more their own problem than the Community's. Great Britain should at any rate be quite clear that she would not merely be facing the prospect of austerity for herself if she leaves the Common Market but preventing other countries from exploiting fully the possibilities of European prosperity.

C. ENERGY POLICY

Introduction

1. The three Treaties establishing the European Communities do not contain any explicit measures on a genuine common energy policy. The ECSC Treaty deals only with coal and coke as energy sources and aims to increase and rationalize production and ensure distribution without discrimination to the various Member States. The EURATOM Treaty deals with nuclear energy and aims through the development of the atomic energy industry to contribute to an increased standard of living in the Member States. The EEC Treaty does not deal explicitly with a common energy policy for the Community.

2. Despite the fact that there was a lack of any definite objective in the Treaties as regards energy policy, it soon became clear that the aim of the EEC, the creation of a common market with uniform conditions of competition for the Member States' undertakings, necessitated a certain degree of harmonization of the energy policy of the Member States. Energy products represent a large part of the production costs of many commodities, and if each country follows its own energy policy independently of the other Member States, this is bound to influence to a greater or lesser degree the conditions of competition between undertakings and thus create imbalance in the common market.

3. Another important factor behind the Commission's proposals for a common policy in this sector is the risk entailed by the Communities' increasing dependence on outside sources for its energy supplies. The degree of Community dependence on outside energy sources totals 63% (1973) and the United Kingdom dependence amounted to approx.50%. As early as 1968 the Commission drew attention to the dangerous degree of dependence that had been reached and since then has submitted proposals aimed at warding off its detrimental effects.

The situation at the time of enlargement of the Community, developments during the first year and the effects of membership

As mentioned above, the major sources of energy are each dealt with in a separate Community treaty - ECSC coal, EURATOM atomic energy while the principles of the EEC-treaty apply to oil and natural gas. This state of affairs has made a genuine common policy more difficult to achieve.

Before discussing more general developments in the energy policy sector in relation to the principles laid down in the EEC Treaty, it would be advisable briefly to sum up the situation in the separate sectors covered by the ECSC Treaty and the EURATOM Treaty.

A. ECSC Treaty

1. General provisions

In order to create a free market in goods, customs duties and quantitative restrictions on trade were abolished in the early 1950's. The rules on prices policy in the Treaty have been of considerable practical significance. They compel undertakings in the coal and steel sector to publish the conditions and prices of sales by undertakings in the Member States to buyers within the Community and prevent them from fixing more than one price for each commodity or from discriminating between buyers.

The object of these rules is to ensure that buyers have sufficient knowledge of the current market situation and receive fair competitive treatment.

In regard to competition, the Commission has introduced strict control of mergers between undertakings in the coal and steel sector and has made all agreements between undertakings which restrict competition subject to its approval.

The cases dealt with by the Commission indicate a strict attitude towards the formation of cartels in the sales sector.

As regards coal, which underwent strong competition from oil in the 1960's, the Commission approved at the end of 1969 a merger between coal producers in the Ruhr, who were responsible for approximately 50 per cent of Community production at that time.

The Treaty contains a general prohibition of state support for the coal and steel industry. In spite of this, the Member States principally involved in cooperation on energy policy agreed on subsidies to the coal industry in accordance with Community directives. In 1965 Member States were allowed to grant subsidies for the closure of unprofitable pits, for expenditure connected with rationalisation measures and for expenditure in the social sector.

2. ECSC aids[1]

Two kinds of aid can be granted under the Treaty by the ECSC: direct financial aid and loans at reduced rates. The loans are intended for the modernisation and conversion of certain undertakings in the coal and steel sector, the creation of new jobs and the construction of housing for workers in coal and steel areas. Direct financial aid is given for vocational retraining of coal and steel workers.

By the end of 1973 more than £626 million had been allocated by the European Coal and Steel Community since its creation to financing industrial investments in coal and steel undertakings, social housing schemes and programmes for the re-employment of workers made redundant by the closure of coal or steel undertakings.

When the ECSC was established, the coal and steel sector was in difficulties: its structures were out of date, markets were dwindling and redevelopment was necessary. The revival of the iron and steel industry can be largely attributed to the efforts of the ECSC. In the coal industry the aim of the ECSC has been simply to ensure that the progressive running-down of production and the closure of a large number of mines is achieved without social repercussions. This work is still going on, but is being increasingly reconsidered in the face of the threatening energy shortage.

Investment aid

Under the terms of the ECSC Treaty, the Commission of the European Communities has been promoting investment programmes by granting loans to undertakings or by guaranteeing other loans which they may contract. The purpose of these investments is to help increase production, reduce production costs or facilitate the marketing of products.

Industrial redevelopment and the creation of new jobs

Since 1958 the ECSC has been able to contribute to the conversion of undertakings or the creation of new jobs when undertakings are forced to close down.

1 See also Addenda to Chapter III, Regional Aid

Workers' dwellings

The dwellings built (60% rented and 40% for owner-occupation) are intended for coal and steel workers. Grants are also made for the modernisation of existing housing. 112,455 dwellings had been completed by the end of 1972.

Vocational retraining of workers

Here, aid from the ECSC is used mainly to offset reductions in wages, to cover the costs of vocational retraining, to help workers to resettle and to provide an income for those who are waiting to be re-employed.

Financing ECSC operations

To finance all these operations, the ECSC floats loans on the national and international money markets. The total sum made available through ECSC loans from the beginning of its financial operations in 1954 to the end of 1973 amounted to £625 million. In 1973, 13 loans were made, to a total of £103 million. Some operations are financed from the Community's own resources (levies on coal and steel production).

3. The effect of membership for the United Kingdom

(a) The United Kingdom being the major coal producing country of the nine Member States, its accession to the coal and steel community has presented substantial opportunities to the British coal industry.

Generally, membership enables the country to play its part in urging a European energy policy based on the optimum use of indigenous resources.

In 1972, British coal production exceeded 100 million tons, out of which about two and a half million tons used to be exported to Community countries.

These exports did not increase during the first year after accession, but the future development of the Community energy policy would seem to provide opportunities for the export of British coal to other Member States, whose total demand for imported coal in the last years has been about 30 million tons a year.

(b) As regards the Community aids to coal industry and coal mine workers it is not yet possible to make an estimate of the effects of the first year of accession. The figures are to be based on an examination of the coal industry and this examination has not yet been made.

The Commission has so far given its approval to the granting of a low interest rate loan in order to finance part of the programme for the building of housing intended for British steel and coal workers.

This loan of about £1.6 million at 1% for five years will be granted to the National Coal Board for the partial financing of modernization work to be carried out on about 6,000 houses.

However, provisions are being prepared for a Community contribution towards the longstanding British scheme of assistance for redundant or redeployed coal miners.

This arrangement is similar to that by which the Commission is already paying out £9 million over five years to alleviate the effects on workers of the reorganisation of the British steel industry.

A comprehensive system of social aids for workers in the coalming industry who have been made redundant or transferred has been in operation in the United Kingdom for a number of years. The Community arrangement will make it possible for the Commission to reimburse to the United Kingdom government and the National Coal Board part of the cost of this system.

Thus the Commission will be able to contribute to the aids which are given to workers in the United Kingdom coal industry such as:

- wage guarantees for redundant industrial workers over 55 years of age and new industrial workers who retire early due to redundancy at or over 50;
- earnings supplements for employees who are required to transfer to lower paid jobs;
- lump sum payments to redundant employees aged 40 years and over (the Community contribution will be half the amount with a maximum of 750 u.a. (£313));

- concessionary coal, travelling and transfer allowances and allowances during vocational training as well as the cost of the training itself.

It is proposed to conclude an agreement for a trial period of 3 years on this basis. The services of the European Commission will work out with the representatives of the United Kingdom government the arrangements for implementing the agreement.

B. EURATOM

In order to achieve its objectives - the creation of conditions for the establishment and growth of nuclear industries - EURATOM seeks to promote and coordinate nuclear research and to supplement national research with a Community programme. The aims of the Euratom Treaty are as follows:

- to promote and co-ordinate nuclear research for peaceful purposes and to complement this national research with a Community programme of research and training;
- to ensure the dissemination of technical information;
- to establish uniform health safety standards;
- to facilitate capital investment;
- to ensure that all users in the Community receive a regular and equitable supply of ores and nuclear fuel.

The Community research programme

The main activities of the EURATOM have been based on plurannual research programmes. The guidelines for the first five-year programme were included in an annex to the treaty and were carried out mainly as foreseen. This has not occurred in the case of the second five-year programme which was reduced, mainly for economic reasons.

This reduction reflected conflicts of interests between the Member States with the effect that EURATOM based its activities on one-year programmes from 1967-1973.

By the early 1970's the Six had spent about £160 million on nuclear research at the Community Joint Research Centre and some £32 million on research contracts awarded to state undertakings or private firms.

The results of this research have been distributed to industry within the Community.

Some months after UK accession, the third major Community research programme was launched, with a budget of approximately £100 million over a four-year period covering both nuclear and non-nuclear work. This programme is in two parts: a common programme of activities of interest to all Member States and financed from Community funds, and a complementary programme, to which Member States can make financial contributions in proportion to their interest in the research projects which it embraces. Some projects ('direct' projects) are conducted by the Community, while others ('indirect' projects) are contracted out to national research institutions.

The common programme includes direct projects on the handling and disposal of radioactive wastes, research in plutonium, hydrogen production, reactor safety, applied data processing, the Central Bureau for Nuclear Measurements, and environmental protection.

As regards the indirect projects, those contracted out to national institutions, the most important are projects on fusion and plasma physics, the Dragon agreement and environmental protection (pollution).

Other activities

Besides the multi-year research programme, EURATOM is gathering information on nuclear developments in the Member States and passing on this information to would-be users in the Community under exclusive licence or other arrangements.

EURATOM has evolved extensive safety standards in order to safeguard workers and the general public from dangers arising from accidental exposure to nuclear radiation, etc. The Joint Research Centre is studying the problems of radioactive waste disposal.

The Treaty provides that undertakings which are of fundamental importance to the development of nuclear industry may be given the special status of 'joint undertakings'. This means that the undertaking may receive fiscal or other privileges or may even be financed directly by the Community. A few undertakings - mostly nuclear power stations of advanced design - have been granted this status.

One of the important functions of EURATOM is the maintenance of safeguards over nuclear materials.

As part of Community planning for the security of long-term energy supplies, EURATOM has for a number of years been studying the problems of supplies of enriched uranium, which is the basic fuel in most existing or planned commercial reactors. At present the USA has a virtual monopoly of supply, and recently a report was drawn up which recommended the establishment of a European enrichment capacity using two different methods - the 'ultra-centrifuge' process, being developed in cooperation by the British, Germans and Dutch (URENCO) and the gaseous diffusion method, promoted by the French-led consortium, Eurodif. This proposal, recently adopted by the Council, is a vital part of Community long-term energy planning.

The effect of membership for United Kingdom

Compared to the Member States' total budgets for nuclear research the EURATOM budget is of modest size. Before enlargement the Community budget for nuclear research only amounted to about 6% of the Member States' total activity in this field.

The preponderance of national research has been increased by the accession of the UK in so far as British nuclear research activity roughly corresponds to the total nuclear research expenditure of the Six.

Even though EURATOM activities are based on relatively limited financial resources, the research carried out within this framework is a vital part of the long-term energy planning for Europe. For example, the hydrogen research carried out at the Joint Research Center might in some 30 years change the energy situation.

To assess the effect for a member state after one year of accession is hardly possible taking into account the long-term character of the measures. The approval of the new four-year programme was a major achievement during the first year of membership and for the United Kingdom with its highly developed nuclear industry it is of importance to have been involved in this European long-term energy planning and to have taken part in the exchange of nuclear information between the Member States.

It should finally be added that though none of the so-called 'indirect actions' have so far been contracted to the United Kingdom, it seems that in the coming years these activities will connect the United Kingdom even closer with Euratom research.

C. EEC

First guidelines

In December, 1968, the Commission produced a memorandum to the Council entitled "First guidelines for a Community energy policy". In this comprehensive document for the first time proposals for a common energy policy were spelled out in their entirety. The aims were to provide reasonable and steady prices and to accomplish a diversification of supplies in order to ensure security of supplies. It was argued that the policy should be based on the interests of the consumer, since increases in energy prices affected the competitiveness of industry and hence the cost of living. The Commission paper was broadly based on the same ideas as the British White Paper on Fuel Policy from 1967. Among its major recommendations were a common oil supply programme aimed at adequately diversified sources of importation. Distortion within the Community should be removed by the free movement of supplies and the elimination of barriers due to the activities of the Governments of Member States or technical obstacles. The need to harmonize taxes in the energy sector was stressed, as well as the need for Community aid in reorganizing the coal industry.

Developments before accession

The document called for periodic forecasts of demand for each energy source, stockpiling of oil supplies as a buffer in the event of crises and application of the Treaty's rules of competition in the energy sector. This last proposal was based on the fact that the oil industry is dominated by a few large companies. On the basis of this Commission memorandum, the Community took the first steps towards a common energy policy before enlargement.

In the field of Community supplies policy, the main requirement of which is that the Community should possess an overall view of the supply situation, some progress was made in 1972. On 18th May, the Council adopted a regulation requiring information to be given to the Commission on imports of hydrocarbons. This regulation made it possible for the Commission to follow developments in the Member States at all times and to produce proposals when the situation required.

On the same day, the Council adopted a regulation on notifying the Commission of investment projects in the oil, natural gas and electricity sectors. This has enabled the Commission to have a general view of planned investments in the energy sector as a whole, notification of investments in the coal and atomic energy sectors being already provided for under the ECSC and EURATOM Treaties.

As regards the security of supplies, measures were taken as early as 1968 in the form of a directive requiring the Member States to maintain a minimum level of oil stocks equivalent to 65 days' consumption. This directive was later amended to raise the required levels of stocks to 90 days' consumption, with effect from 1st January, 1975.

As far as the common energy market is concerned, a directive has been passed on the right of establishment and freedom to provide services within the fields of extraction of minerals, mineral oil and natural gas.

Developments after accession

Developments in the energy policy sector after the enlargement of the Community fell under the shadow of the oil crisis of the past months. However, in May 1973 the Council held an exhaustive discussion on energy problems on the basis of two communications from the Commission concerning the problems and resources of energy policy for the period 1975-1985 and necessary progress in the common energy policy sector, together with a memorandum of April 1973 on guidelines and urgent measures in the common energy policy sector.

This memorandum indicated guidelines for relations between energy importing and exporting countries, as well as the organization of the Community market in oil and provided major guidelines for atomic energy policy, coal policy, natural gas policy and environmental factors.

At its meeting, the Council supported the Commission's guidelines in principle and requested precise proposals before the end of the year.

The Council also dealt with important sectoral problems. It agreed on a Council Directive on measures to mitigate the effects of difficulties in the supply of crude oil and petroleum products, in pursuance of which the Member States must provide themselves by 30th

June, 1974 with powers enabling them to take the necessary steps to counteract difficulties arising from the shortage of oil supplies. A special consultation procedure is provided for in order to ensure the coordination of measures taken when difficulties actually arise.

The Council also agreed on a Regulation in support of Community projects. Under this regulation, which came into force on 14th November, 1973, the Community will be able to grant support for the pursuit of "Community Projects" directly connected with prospecting, producing, storing and transporting hydrocarbons and which are of fundamental importance in ensuring supplies. Support can take the form of minor participation by the Community in the financing of projects by granting loan guarantees, loans or subsidies repayable under special conditions. The Community budget for 1975 makes provision for an amount of £10 million to be allocated within the framework of this regulation.

The oil crisis showed the difficulties for the nine Member States in achieving Community energy policy measures.

At an early stage of the crisis - as well as before it - the Commission submitted to the Council proposals which could have mitigated its effects.

The problems of the crisis were on the agenda of the Copenhagen Summit (December 1973) which asked for proposals for cooperative solutions of the problems involved.

The European Parliament has often - most recently at its plenary sessions of July and December 1974 - passed important resolutions on the necessity for real progress in the energy policy.

What has so far been decided by the Council after the crisis is the drawing up of energy balance sheets covering all key features of the Community energy situation and the setting up of an Energy Committee with a threefold task. It is to ensure the coordinated application by the Member States of the measures adopted by the Community; it is to organize information and mutual consultation of the Member States and the Commission on all the conditions under which the Community's energy requirements are covered and on foreseeable changes; lastly it is to assist the Commission to work out the proposals. The Committee consists of representatives of the Member States and is chaired by a member of the Commission.

Community participation at the Washington Energy Conference of February 1974, in which 13 oil consumer countries participated, was a major achievement after the crisis. The Member States - apart from France - agreed to take part in the work of a coordinating group to direct and to coordinate the development of future actions such as the conservation of energy and restraint of demand, a system of allocating oil supplies in times of emergency and severe shortages, the acceleration of development of additional energy sources, so as to diversify energy supplies and the acceleration of energy research.

With respect to monetary and economic questions, it was decided to give impetus to the work being undertaken in the IMF, the World Bank and the OECD on the economic and monetary consequences of the current energy situation, in particular to deal with balance of payments disequilibria. Among other things, the role of international oil companies was to be examined in detail.

The energy crisis revealed the full extent of the vulnerability of the Community's energy supply system. During the crisis itself there was scant cause for optimism about the chances of taking joint action in the energy sector.

On the other hand, taking a longer view, this pressure from outside may have brought home more clearly the need to coordinate energy policy - both within the Community and in a broader international context.

Thus, in September 1974, the Council approved the principles set out in the Commission's communication proposing new longer-term objectives for an energy policy. In that document 'Towards a new energy policy strategy for the European Community' the Commission seeks an energy policy that applies the lessons learned from the energy crisis.

It proposes the implementation of a rationalization policy designed to reduce consumption in 1985 by 10% in relation to the amount initially estimated.

In the same period it estimates that the Community's dependence for energy on outside sources - especially oil - must be limited to 40% in 1985 as compared with 63% at present.

A number of measures must be taken for the achievement of these objectives by 1985.

Coal production, which is falling off at the moment, must be maintained at its present level.

Natural gas will have to account for a far larger share of energy supplies: 25% in 1985 as compared with about 2% at present.

Finally it is assumed that the nuclear power capacity of the Member States will be expanded so as to be able to supply about 17% of energy requirements by 1985, and that approximately half the electricity requirements will be met by nuclear plant.

Looking ahead, the Commission also sets out objectives for the structure of energy supplies at the end of the century.

These objectives are based mainly on nuclear energy, which, it estimates, will satisfy at least 50% of energy requirements by about the year 2000, and on gas, which will meet almost a third of requirements.

As will have been seen from the above, the Community's energy policy is still in the initial stages. Compared with the principles and objectives set by the Commission - and often supported by the European Parliament - the Council's actual decisions have so far been rather sporadic.

Ultimately, if the principles, suggestions and ideas contained in the series of proposals from the Commission to the Council are taken as a whole the following broad outline for a possible future Community energy policy emerges:

(a) The primary objective of a Community energy policy is to safeguard continuous supplies under satisfactory conditions.

   This is to be achieved by:

   - bringing to completion the common market in the energy sector;
   - measures by the Member States coordinated at Community level (concerted measures) or measures by the Community institutions;
   - treaties and cooperation with third countries.

(b) Achievement of the common market in energy requires in particular:

   - the abolition of non-tariff (especially technical) barriers to trade;

- the creation of uniform conditions of competition for different energy sources.

(c) Measures for safeguarding supplies must cover:

- information on the Community's energy needs and supply levels;
- development of common supply programmes;
- a policy on stockpiling;
- a policy on consumption in the event of shortages;
- a diversification of supply sources (including the development of new sources);
- development of domestic energy sources;
- development of procedures for improving utilization and for saving energy.

(d) The cooperation of enterprises in safeguarding supplies can be obtained through:

- information, guidance, illustrative programmes;
- promoting suitable investment by means of financial aid and other measures;
- the foundation of "Community undertakings";
- instructions and controls;
- cooperation between the authorities and undertakings in the energy field.

(e) The safeguarding of continuous supplies under satisfactory conditions must be facilitated at international level by:

- trade and cooperation agreements with supplying countries;
- cooperation with the most important consumer countries.

The implications of membership for the UK

In assessing the effect in the energy sector of UK membership of the

EEC, an important question which arises is how membership could affect the British policy on North Sea oil.

In a report to Parliament by the Secretary of State for Energy, in May 1974, it is said that the forecasts of future oil production must be subject to considerable uncertainty, since so much exploration remains to be done, but that the success of 1973 may mean there is a good chance that in 1980 Britain can produce oil equivalent to her demand. What are the implications of EEC membership?

Firstly, it is clear that the fact that the UK is a Member State of the Community does not influence her rights of ownership of the North Sea oil deposits.

According to Article 222 of the EEC Treaty, the Treaty shall in no way prejudice the rules in Member States governing the system of property ownership. In addition, the protocols to the Treaty clearly specify the sovereign rights enjoyed by Member States over economic activities on the Continental Shelf, and in particular over the exploitation and exploration of oil resources. It follows that these natural resources belong entirely to the Member States concerned, which may therefore derive the full economic advantages from them (for example, dues, taxation and balance of payments benefits). It is of course the case that in the exploitation of these resources, account must be given to the various provisions of the Treaty which apply to different aspects of industrial and commercial activity, particularly those governing the principles of freedom of movement of goods and of establishment, although these rules do not diminish the benefits to the Member States concerned already referred to. The Treaty does not exclude the possible nationalization by a Member State of any sector of economic activity, although nationalized industries are of course also subject to the provisions of the Treaty[1].

The question then arises as to whether the UK - insofar as the forecast that Britain can produce oil equivalent to her demand in 1980 proves correct - will have any interest in a Community policy for this sector.

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1) See the Commission's answer to Written Question No. 489/73 by Lord O'Hagan, OJ No. C 49/3, 24.4.1974

This problem is perhaps touched on in the above-mentioned report by the Secretary of State where it is stated that 'the prospects raise the question of how the supplies can best be used over time. It is said that although the advantages from production at any level would confer enormous benefits and last for a considerable time, they will not last forever, and it is therefore especially important to make the best possible use of them.'

According to expert estimates the best possible use of North Sea oil will not be achieved by sole dependence on it. The UK, like other countries, needs both heavy crude oil (e.g. for power stations) and light crude oil (for refined products).

The North Sea deposits consist of light crude, and the most economically viable form of exploitation would be to use it exclusively for the manufacture of refined petroleum products, which implies exports of light crude to balance imports of heavy crude.

This situation must certainly be taken into account in assessing the UK's interest in a Community oil policy.

A possible future implication for the UK in this connection is that the Council's Regulation of November 1973 concerning support for Community projects in the hydrocarbon sector will enable the UK to obtain support for projects which are important for the Community's hydrocarbon supplies - including, therefore, the extraction of North Sea oil.

D. TRANSPORT POLICY

1. Situation in the Community before the accession of the new Member States

Article 74 of the EEC Treaty commits the Member States of the Community to establish a common transport policy. Articles 75-84 of the same Treaty, Article 70 of the ECSC Treaty and Article 10 of the Convention on the transitional provisions to the ECSC Treaty lay down a series of provisions concerning questions of transport policy which do not, however, collectively constitute the common transport policy.

The common transport policy is therefore to be created by the Member States within the framework of the Community institutions.

However, because of major fundamental differences on the general strategy of the transport policy and its most important basic decisions, the Member States were unable, until the end of 1972, to establish a coherent common transport policy. The new Member States which joined on 1 January 1973 were thus only required to adopt a few isolated regulations in the area of transport policy, which are summarised briefly below.

Of greatest importance for the transport policy sector, however, is the fact that its general orientation has only recently been laid down in the 'Communication from the Commission to the Council on the development of the common transport policy' of 24 October 1973, and that the new Member States will consequently be able to influence, on an entirely equal footing with the Six, its future development.

The individual measures in force on 31 December 1972 were as follows:

(a) In the framework of the ECSC Treaty:
- Abolition of tariff discrimination based on country of origin or destination.
- Partial abolition of support tariffs in internal transport.
- Application of direct international rail tariffs (abolition of border-to-border tariffs).
- Publication (or notification to the Commission) of tariff rates for rail and road carriage.

(b) In the framework of the EEC Treaty:

- Abolition of tariff discrimination based on country of origin or destination.
- Liberalisation of road transport, including transport by light goods vehicle, in border areas.
- Consultation procedure covering all national transport legislation and infrastructure investments of European significance.
- Experimental introduction of a Community quota for the carriage of goods by road.
- Experimental introduction of a bracket tariff system for the carriage of goods by road.
- Harmonisation of certain social provisions in road transport including the introduction of a recording device.
- Harmonisation of permissible fuel quantities in vehicle tanks in international transport.
- Harmonisation of rules governing compulsory third-party insurance in road transport and abolition of border checks of the 'green card'.
- Certain rules governing international bus transport.
- Harmonisation of legislation on the responsibilities of transport undertakings as a public service, on aids to transport undertakings and on the standardisation of railway accounts.
- Harmonisation of a large number of differing technical regulations governing the construction of motor vehicles, <u>not yet</u>, however, the most important: maximum permissible dimensions and weights.
- Review and continuing assessment of the costs of transport infrastructures, <u>not yet</u>, however, the introduction of a system of charging for the use of these infrastructures or the harmonisation of specific transport taxes.

Many of the above measures adopted by the Six included long transitional periods, so that, by 1972, the effects of Community legislation in these cases had still not become apparent in the Six, experience had not been gathered and an assessment of the success of the measures is not yet possible.

2. <u>Position and development in 1973/74 in the light of the accession of the new Member States</u>

The provisions in the transport sector which the new Member States automatically adopted on signing the Treaty of Accession do <u>not</u> for the most part conflict with the transport policies already being pursued in these countries. Transitional periods for the introduction of Community measures were laid down where necessary to enable legislative and other measures of adjustment to be adopted.

The Commission proposals for the common transport policy, to judge by the individual measures already adopted and certainly by the 'Communication to the Council' of 24 October 1973, come closer to the ideas of the governments of the new Member States than to the ideas prevailing among certain of the old Member States. The new Member States will have an equal chance to make their voices heard in the further development of the common transport policy. In 1973 two problems gained more attention than their importance actually justifies, as a result of the haphazard discussion on the various individual Commission proposals which had hitherto characterized the development of the common transport policy.

The first question concerns the Community quotas for the international carriage of goods by road. The United Kingdom demanded a greater share of the Community quota than the old Member States were at first prepared to grant. However, this system was introduced on an experimental basis and would in any case increase the opportunities for international road transport, since the Community quota would be applied alongside existing bilateral quotas. Moreover, the Commission has already proposed that the Community quota be enlarged and bilateral quotas gradually absorbed into the Community quota. The continual enlargement of the quota will lead to a position in which the international carriage of goods by road becomes, for all practical purposes, free of quota restrictions - that is, when the quota becomes larger than the demand for licences.

The other problem which accidentally gained prominence in 1973 as a result of the 'policy of small steps' which had been followed until 1972 concerned the maximum weight and dimensions of goods vehicles.

This problem is of great significance both for the motor vehicle industry and for road construction plans. The old Member States, however, have already agreed on a maximum axle weight of 11 tons, whereas initially, in 1958, some countries were proposing 8 tons, and others 13 tons. The United Kingdom is proposing a figure of 10 tons. The difference still to be resolved amounts to only 1 ton. Obviously, as regards road building and general environmental nuisance on the other hand, and the technical rationalisation of transport on the other, the difference between 8 and 13 tons (almost two-thirds more) is very significant. However, the difference of 1 ton cannot be considered of such importance as to considerably outweigh the advantages of a rapid decision for the development of the transport policy and for the motor industry's plans over the possible disadvantages to the environment which would be caused by up to 10 per cent larger vehicles. It is in the interests of the United Kingdom as a motor vehicle producer that a decision be reached as soon as possible.

Indeed, the most important decisions on transport policy prices and capacities remain to be taken, and, with the discussion of the 'Communication from the Commission' of 24 October 1973, the Community is actually just beginning with the development of its transport policy.

The effects of existing unrelated Community measures in the transport sector on the transport situation in the United Kingdom and on the latter's international transport activities cannot as yet be statistically demonstrated, partly because statistics for 1973/74 are not yet available, but partly also because no effects can yet be expected, since many of the provisions have yet to enter into force.

3. Prospects for the future

Since the United Kingdom, like Denmark and Ireland, occupies a relatively peripheral or uncentral geographical position relative to the main industrial centres of continental western Europe, its access to the continental market is dependent not only on developments in tariff policies, but also on developments in the field of transportation techniques and costs. Clearly, the United Kingdom (like the other new Member States) would be less able than the continental countries to benefit from a simple free trade area, since its exports to and its imports from the continent are subject to higher transport costs than is trade among the continental industrial countries themselves. (Italy, in this respect, is obviously in a similar position to the United Kingdom).

The United Kingdom must therefore have the greatest interest in the achievement of a common transport policy. Every step towards harmonisation and liberalisation - that is, an all-round simplification - of traffic between the Member States results in an over-proportional trade advantage in the form of cost relief for the United Kingdom. Even if the United Kingdom should find itself forced, in the course of the harmonisation of the transport policies of the Member States, to compromise and adopt certain measures which do not correspond to its existing political intentions, the effects of the common transport policy must nevertheless work out particularly strongly to its advantage. The question of Community finance in the transport sector does not arise, since no common Fund or other measures requiring joint finance are envisaged. What is possible is the joint financing, through the European Investment Bank or the planned Regional Development Fund, of certain transport-related construction projects. Whether, moreover, Community funds will be made available for a joint programme to finance transport infrastructure - e.g. closing gaps in internal Community border areas - cannot at present be foreseen. As far as can be seen at present from those measures which have already been implemented and from the 'Communication' of 24 October 1973, the national budgets of the Member States will enjoy considerable relief as a result of the common transport policy, since one of its major aims is the creation of profitable railways and, in the framework of the charges system for the use of transport infrastructures, the Member States' road building budgets should also be balanced by revenue from transport users.

ADDENDUM TO CHAPTER III

Regional Aid

Some Examples of Aid received by British Industries and their Workers
(Referred to in the Sections on "Social Policy", "Regional Policy" and "Energy Policy" in Chapter III)

(a) Loans to Undertakings

Article 54 of the ECSC Treaty provides that:-

"The High Authority may facilitate the carrying out of investment programmes by granting loans to undertakings or by guaranteeing other loans which they may contract ..."

(i) Under these provisions, the National Coal Board has obtained:-

1. A loan of £3.5 million at a special rate of interest of 8 1/2% for the Horden and Blackhall Colliery, Durham, agreed on 4th June.
2. A loan of £18 million to improve the Coal Board's pool of movable equipment (£10 million of which is to be paid at the end of July).
3. A loan of £1.6 million to aid in the rehabilitation of old miners' houses at a nominal rate of interest (1%) for 25 years. (About 6,000 houses are involved.)
4. Loans amounting to £14 million for four collieries to improve the quality of steam coal and coking capacity. (These have not yet finally been approved.)

The above loans total over £35 million.

(ii) The Steel Industry in Britain is also benefiting from loans under Article 54. Several disbursements are pending including £25.8 million for two projects at Scunthorpe for coke ovens, a part of which loan will be at a special rate of interest of approximately 6%, and another project aimed at reducing pollution for which the Community is providing a loan of £1.2 million.

Altogether, loans to the British Coal and Steel Industries under Article 54 have amounted to approximately £72 million. In addition, there are other applications for loans being considered, and the overall total is roughly £120 million.

(b) Grants and Loans for re-adaptation

Article 56 of the ECSC Treaty provides that where redundancies occur on a large scale because of the introduction of new technical processes or changed market conditions, grants may be made "for the creation of new and economically sound activities capable of re-absorbing redundant workers into productive employment."

and, also, for:-

"(a) the payment of tideover allowances to workers
(b) the payment of resettlement allowances to workers
(c) the financing of vocational retraining for workers having to change their employment."

These provisions have been supplemented by Conventions which empower the Commission to contribute to grants made by national Governments.

Already over £1 million have been allocated this year to the British Steel Corporation in grants for steelworkers made redundant. As the aforementioned Conventions provide that grants may be paid retrospectively to 1st January, 1973, workers who have been made redundant since that date will be eligible for grants.

Under Article 56, in addition to grants, loans may also be made, and the British Steel Corporation plant at Ravenscraig is to receive a loan of £14.8 million, of which £3 million will be at a subsidized rate of interest.

As regards the British Coal Industry, applications for grants under Article 56 have, for various reasons, been somewhat slow in being submitted, but it is believed that several are currently being considered.

(c) Research Grants

Article 55 of the ECSC Treaty provides for the Community to make grants for technical and economic research, both to promote production and increased use of coal and steel and research into occupational safety in the industries.

For Britain, the figures for grants received to-date are as follows:-

COAL	Technical Research	Safety and Health
1973	£375,000	£130,000
1974 (estimates)	£800,000	£286,000

Examples of some of the projects are:

- Research into respiratory diseases at Edinburgh University (£400,000);
- Development of a "triggered barrier" for the suppression and prevention of spontaneous combustion.

STEEL	Technical Research
1973	£450,000
1974 (estimate)	£600,000

(d) Grants following Industrial Disasters

The following are examples of grants made by the Community recently to help victims of disasters occurring in British industry:-

- Seafield Colliery, Kirkaldy	£2,000
- Lofthouse Colliery, Yorkshire	£3,000
- Flixborough Chemical Plant	£23,000

(e) European Investment Bank Loans

The European Investment Bank was established under Article 129 of the EEC Treaty by a Protocol to that Treaty. Its capital is fixed at 2,025,000,000 units of account and it makes loans for investment projects "to the extent that funds are not available from other sources on reasonable terms" [1]

The following are examples of loans made to British industries:-

1. £14.7 million to the British Steel Corporation, Teeside
2. £14.7 million to British Steel Corporation, Llanwern
3. £3.5 million to the Industrial and Commercial Finance Corporation (ICFC) to assist small and medium-size enterprises
4. £10 million to finance the building of an electric power station at Peterhead.

[1] Article 18 (1) of the Statute of the Bank

CHAPTER IV

EEC-UK TRADE RELATIONS

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EEC RELATIONS WITH OTHER COUNTRIES

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EEC RELATIONS WITH OTHER COUNTRIES

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SECTION I - TRADE

1. Introduction

(a) General

Britain's accession to the EEC will affect her trade in many ways. She is now one of nine countries whose aim is not only to remove the obvious trade barriers between one another, such as quotas and tariffs, but to facilitate the free movement of goods within the Community by standardizing the legal position in regard to such matters as valuation of goods for customs purposes, rules of origin and warehousing. Eventually it is hoped that the abolition of anomalies and differences in national rules will remove most, if not all, of the irritants with which exporters and importers are beset when trading with a foreign country. Moreover, cooperation and rationalization between industries within the Community will be encouraged, thus enabling them to strengthen their competitiveness in markets outside the Community. It is reasonable to assume that the increase in Britain's trade with her eight partners between 1972 and 1974 will continue to grow as trade barriers come down and Britain integrates more fully with the Community. This is likely to result in the diversion of some trade away from Britain's traditional trading partners towards the Community.

Britain's trading position with regard to countries outside the Community will be changed in so far as she will gradually apply a common external tariff agreed to by the Community. Britain's movement towards this tariff will play some part in discouraging imports from some third countries which formerly had special trading relations with the UK.

The changes in UK trade with various trading areas are shown in the table below.

Table

UNITED KINGDOM TRADE-
RELATIVE SHARES BY AREA

Imports / Exports - (percentage of world total)

		1970	1971	1972	1973
EEC partners	Imp.	27.0	29.7	31.6	32.8
	Exp.	29.2	29.0	30.1	32.4
Commonwealth	Imp.	23.9	22.3	19.3	17.5
	Exp.	21.0	21.9	18.9	16.6
EFTA	Imp.	12.6	13.0	14.5	15.0
	Exp.	13.2	12.6	13.8	14.0
USA	Imp.	13.0	11.1	10.5	10.2
	Exp.	11.6	11.7	12.4	12.2
Soviet Eastern Europe	Imp.	3.9	3.5	3.5	3.5
	Exp.	3.2	2.7	2.8	2.6

The movements towards trade with the Community and away from trade with some third countries should produce a noticeable change in Britain's trade patterns. Her trade with the Community is examined first in this document. The study is then confined to the Commonwealth (particularly countries in Asia), EFTA, Mediterranean third countries and Comecon countries. In the first two cases Britain had special relations with the countries concerned before accession and in the second two cases the Community is attempting to frame a broad trading policy towards them.

Britain's first move towards the adoption of the Community's common external tariff or, in some cases, its generalized system of preferences took place on 1 January 1974. It is too soon, therefore, to draw any general conclusions as to the effect of this move alone on external trade, as the change has only been in operation for a little more than twelve months.

A final point is that Britain's bargaining position in international negotiations has been considerably strengthened since joining the EEC as she is now a member of one of the most powerful trading groups in the world. The Community when acting on behalf of its members carries considerably more weight than any individual partner could, acting alone.

(b) External trade

Article 113 of the Treaty provides that the common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalization, export policy and measures to protect trade such as those to be taken in case of dumping or subsidies.

Article 114 provides that agreements with third countries which lie within the common commercial policy are to be concluded by the Council on behalf of the Community.

Moreover, since 1961 each Member State is obliged to keep the Commission informed of any bilateral negotiations it may have with a third country, or of any steps it may take to liberalize trade.

Trade relations mainly encompass the negotiation and conclusion, on a bi- or multilateral basis, of tariff and trade agreements with third countries; they also refer, as the case may be, to the autonomous management of the EEC external mechanisms of commercial policy as well as to the administration of trade issues in the framework of an international organization.

Since its establishment the EEC has developed an extensive network of bilateral trade agreements with over 40 countries.

Moreover, the EEC institutions have taken steps to harmonize the trade regulations of Member States vis-à-vis third countries in such matters as import and export restrictions, export credit and insurance. They have also, when applicable regulated autonomously the EEC import rules vis-à-vis some third countries: for example, they have granted unilateral and generalized preferences to developing countries and have laid down the basis for an autonomous common commercial policy vis-à-vis third countries that have no official relations with the Community institutions (i.e. most state-trading countries).

Lastly, the common commercial policy has included studies, discussions and negotiations on various trade matters within the framework of international economic organizations such as the UN/ECE, OECD, UNCTAD, etc.

The EEC participated in the earliest GATT multilateral trade negotiations, the Dillon Round, under which tariff cuts of about 10% were made. It subsequently took part in the Kennedy Round negotiations which led to effective tariff reductions of between 36 and 39%. The result was that during the 1960's the Community's customs barriers were lowered by nearly 50% and the Community has emerged with the lowest and most homogeneous tariff of all the major industrialized countries.

The EEC is at present participating in the Nixon Round negotiations which commenced in September 1973 in Tokyo. The main objectives of these negotiations are (i) to consolidate and to continue the liberalization of international trade and (ii) to improve the opportunities for developing countries to participate in the expansion of world trade.

In the present negotiations the Commission acts on behalf of the EEC. By joining the Community the UK is part of a group which, since it accounts for about 30% of world trade, exerts considerable influence on GATT negotiations.

In December 1969 the Council adopted a series of uniform rules applicable to the conclusion of trade agreements with third countries. In principle since January 1970 such agreements can only be negotiated and concluded - in accordance with the above mentioned rules - by the EEC institutions.

These various measures were designed to harmonize the instruments of commercial policy in the hands of Member States and to lead to a fixed common policy operated directly by the Community. Member States realized, however, that such a situation could involve a loss of their powers and their approach to any change was very cautious. Consequently, they have regarded the common commercial policy laid down by the Community as being confined to matters explicitly covered by Article 113 of the Treaty.

Member States have sought to circumvent the provisions of Article 113 by entering into bilateral cooperation agreements with third countries which are broader in scope and have wider political connotations. They can generally be divided into technical and economic and industrial agreements. Their aim is to establish and develop industrial cooperation in the furtherance of trade in such fields, for example, as the joint development of new production processes, joint marketing and joint production of spare parts.

In July 1974 the Council of Ministers approved the establishment of an information and consultation procedure on bilateral cooperation agreements. It will apply, inter alia, to national agreements with state-trading countries and with oil producing countries.

This procedure will ensure that the Commission is kept informed of cooperation agreements entered into by Member States and that it has an opportunity of consulting Member States in regard to them.

Agreements already concluded by Member States before the entry into force of this procedure will be communicated to the Commission.

2. UK-EEC Trade

Between the establishment of the European Community in 1958 and the year 1973 the value of intra-Community trade increased ten fold, that is, more than twice as fast as that of world trade as a whole. The stimulus given to trade between the Six took place gradually and its full effect was felt only after the removal of quotas and customs duties and the introduction of more integrated trade flows.

The accession of the UK gave a fillip to a trend towards increasing trade with the Six which had started long beforehand as the following table shows.

UK trade with the Six : (Source: Overseas Trade Statistics of the UK)

Value in £ million

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Exports to the Six (fob)	980	1046	1044	1296	1530	1753	1926	2231	3074	4260
Imports from the Six (cif)	995	1104	1264	1552	1609	1822	2106	2726	4189	6336

Note: (1) These export and import figures are not precisely comparable because the import figures include insurance, freight and other charges (accounting for roughly 10 per cent of the values stated) and the export figures do not.

(2) After 1967, the figures reflect the effects of the devaluation of sterling.

Entry into the European Community opened up considerable opportunities for UK exporters. The other eight members of the Community comprise a market which in 1973 represented one-third of total world imports.

Five member countries of the Community are numbered among the six biggest customers of the UK and Germany takes more UK exports than any other single country except the US.

Over the past two years UK-EEC Trade has grown faster than that with the rest of the world. If the previous experience of intra-Community trade is repeated, UK trade with the Community should be further accelerated during the coming years.

Nevertheless the UK trade balance with the original Six EEC Members and with the rest of the world over the past four years gives scant comfort. Trade with Ireland and Denmark has been excluded from the table as relationships between them and the UK did not change as a result of membership. Trade arrangements under the Anglo-Irish Free Trade Agreement continued to operate during the transitional period and Denmark as a former member of EFTA largely preserved her pre-accession trading relationships with the UK.

The UK's balance of trade with the Six deteriorated between 1969 and 1974 as follows:

	1969 £m	1970 £m	1971 £m	1972 £m	1973 £m	1974 £m
The Six	- 79	- 69	- 180	- 495	-1115	-2076
Rest of World	-1006	- 976	- 460	- 897	-2284	-4407

Direct action on the external balance is regulated by the GATT (General Agreement on Tariffs and Trade) which the UK signed soon after the war. This Agreement is fundamental to her position as a trading nation and is quite separate from the EEC. In effect it inhibits the unilateral introduction of quotas or tariff changes and delimits very precisely the opportunities open to nations in balance of payments difficulties to take corrective action at the expense of their trading partners.

There were special reasons not connected with Community membership for the deterioration in the UK trading position. Between 1972 and 1973 the greater portion of the adverse trade balance can be ascribed to a deterioration in the UK's terms of trade between these two years following an increase in world commodity prices and the depreciation of sterling. In the short term such a depreciation tends to reduce the value of exports and increase the value of imports, thereby causing a deterioration of the balance. There is also a delay before the increased price competitiveness of exports leads to the increase in export deliveries needed to redress this balance.

There was also a boom in demand for consumer goods which could not be satisfied by UK manufacturers and the gap was filled by imports from Europe.

The demand for consumer goods and the prices of many primary products eased in 1974 but the continuing increase in oil prices and depreciation of sterling still influenced the UK's trading position.

Between 1973 and 1974 increases in the price of oil added nearly £150m to the UK trade deficit with the Six. If this factor is ignored most of the deterioration occurred in only four significant sectors. These are agricultural products, cereals, chemicals and iron and steel.

The adverse trade balance for food and live animals rose from £291m in 1973 to £687m in 1974. This partly reflects a fall back from the earlier situation where the UK was exporting large quantities of beef to the Six to take advantage of the comparatively high prices then available in that market. This aspect is dealt with more fully in the section of the study relating to Agriculture. A further reason was that UK importers switched to the Community for some agricultural products such as sugar and wheat at a time when world prices were higher than Community prices.

For example in 1972 wheat imports from the US accounted for 19% of total wheat imports while imports from the EEC were 25%. By 1973 the corresponding percentages were 14% from the US and 40% from the EEC. Although the UK thus bought her imports of cereals and sugar more cheaply in Europe than anywhere else in the world the effect was to increase the deficit with the EEC the diminish it with the rest of the world.

The UK has been a traditional importer of butter and cheese. Between 1973 and 1974 the deficit in imports of dairy products, principally butter and cheese, from the Six increased by about £100m. This was due in part to the switching of sources of supply of butter to Europe.
Britain benefited from an especially favourable price for purchases of this product from the Community. The difference between the Community price and the price guaranteed to the UK producer was covered by accession compensatory amounts. It was to the advantage of the UK to seek supplies within the Community when the price of New Zealand butter on the London market rose and exceeded the price guaranteed to the British producer.

The deficit in chemicals is almost wholly accounted for by plastics. Here the increase in the deficit rose from £79m in 1973 to over £160m in 1974. This was due to a world shortage of plastics aggravated in the UK by plant breakdowns. Manufacturers finding supplies limited in the UK turned to Europe as the most convenient alternative source.

In 1974 the deficit in trade in iron and steel rose by over £200m. The British Steel Corporation, because of strikes and technical problems, was unable to satisfy even home demand and exports consequently suffered.

Despite the high proportion of normal production achieved in all industries during the period of the three-day week there can be little doubt that export orders were irretrievably lost over this period.

Following entry, customs duties between the UK and the Six have so far been progressively reduced as follows:

	Reduction %	Cumulative Reduction %
1 April 1973	20	20
1 Jan. 1974	20	40
1 Jan. 1975	20	60

It could be argued that the lowering of tariff barriers was to the disadvantage of a country such as the UK which had an adverse trade balance for some years before joining the Community and that as a consequence the increased adverse trade balance was due to the simple fact of accession. But this would be to ignore the fact that the lowering of customs barriers had a minimal effect compared with that produced by increasing inflation, the marked depreciation of the pound in relation to other currencies and the spectacular rise in the price of commodities.

It should be remembered that the Community is proportionately more important as an export market to the UK than the UK market is to the Community. Nearly a third of UK exports go to the Common Market whereas exports by the other eight member States to the UK represent less than 10% of their total exports. It is the UK's interest to ensure continued access to this, the world's largest importer and a market which is right on her doorstep.

The Community aims not only at free trade between member states but also at fair competition. The EEC is thus taking steps to iron out non-tariff barriers to trade and difficulties and anomalies which hinder the normal flow of trade between member countries arising from differences relating to such matters as banking and insurance, company law and road transport, to name a few.

Even though the process is slow there is an inexorable movement towards standardization and simplification of procedure and regulations in these fields and the important point is that the UK has representation at every level in the Community counsels where her views can be put forward forcefully and effectively.

Outside the EEC Britain would have no hand in shaping policy in these matters. Yet she could not ignore standardized rules and procedure laid down by such a powerful trading group on her own doorstep. The UK would have the option of accepting a fait accompli and adapting her own procedure to that of the Community or putting obstacles in the way of her trade with the EEC. In trading matters a dominant group usually holds the whip hand in dealing with a relatively small neighbour.

To sum up, it is too soon yet to assess the value of UK membership to her trade. The adverse UK trading position since accession is due mainly to internal and external factors which have no direct bearing on her membership. 1973 and 1974 were exceptional years and a proper assessment of UK-EEC trade can only be made over a longer period when trade has settled down and assumed a normal pattern.

3. Relations with some countries

(a) EFTA

EFTA was established in 1960 to enable European countries which were not members of the EEC to develop their mutual trade in industrial goods. The seven members of EFTA (Austria, Great Britain, Denmark, Norway, Sweden, Switzerland and Portugal) set out to establish an industrial free trade area in which the members would dismantle the barriers to trade in industrial goods among themselves but maintain their own tariffs and their own independent commercial policies towards the rest of the world. Finland became an associate member in 1961 and Iceland joined in 1970 as a full member. To this end tariffs and quotas between member states were progressively reduced until they were largely abolished by 1967.

EFTA failed to create a single agricultural area. Consequently, industrial members reaped greater benefits from it than agriculturally orientated members such as Denmark.

After Britain, Norway and Denmark applied for membership of the EEC, negotiations took place with the other EFTA members in order to seek a solution to the problems with which they would be faced following enlargement of the Community.

On 22 July 1972, exactly six months after the signature of the Act of Accession to the EEC by the applicant countries, the Community concluded negotiations with five remaining member countries of EFTA (Austria, Iceland, Portugal, Sweden and Switzerland) and with Finland, an associate member. After the negative result of the Norwegian referendum of September 1972, Norway applied to negotiate an agreement as she was still a member of EFTA.

The agreements of 22 July 1972 maintained the free trade area already established within EFTA and extended it gradually to trade between the enlarged Community and the countries remaining in EFTA. This was done by reducing tariffs between EFTA and the Community at the same rate as reductions were made between old and new members of the Community.

This free trade area relates mainly to industrial goods and with some limited exceptions does not cover agriculture.

With the exception of marginal changes of no great importance, the tariff position governing trade between the UK and EFTA remain unchanged at present. Consequently, any changes in trade between the UK and EFTA could not be attributed to tariff differences arising from membership of the EEC.

At present UK-EFTA trade is less than half that with the Community.

(b) Trade with Mediterranean Countries

At the time of Britain's accession to the EEC, the Community had concluded agreements of association with Greece, Turkey, Tunisia, Morocco, Malta and Cyprus and trade agreements with Israel, Spain, Yugoslavia, Egypt and Lebanon.

Progress has been slow, however, in regard to the establishment by the Community of a common policy covering wider aspects of relations with Mediterranean third countries including both the liberalization of trade and cooperation in development. This arises in part from the necessity to reconcile defence of the interests of European agricultural producers with the pursuit of a policy of agreements with Mediterranean countries primarily exporting competing agricultural products. There were also difficulties relating to financial assistance and the social aspect.

In July 1974 the Council approved the text of the EEC Mediterranean policy to be submitted to the Mediterranean countries.

Article 108 of the Act of Accession to the EEC provided that the new Member States apply the provisions of agreements with Greece, Turkey, Tunisia, Morocco, Israel, Spain and Malta taking into account any transitional measures set out in adjusting protocols to the agreements.

These transitional measures were designed to ensure the progressive application by the Community of a common trade regime governing its relations with co-contracting third countries in the Mediterranean region. Such protocols have been concluded with Morocco, Tunisia, Egypt, Cyprus, Turkey and Lebanon.

Mediterranean trade is of considerable importance to the original Six Members of the Community who are the main suppliers and the main customers of Mediterranean countries. British trade in this area does not have the same relative importance. Indeed her trade with the Republic of Ireland is almost as great as her trade with all the Mediterranean third countries with which the EEC has association or trade agreements (see Tables I and II attached). Israel and Spain account for about half Britain's trade in this area.

The position in regard to particular Mediterranean countries is set out in the following paragraphs.

Greece

Shortly after the EEC was established an association agreement under Article 238 of the Treaty was concluded. This agreement involved development and financial assistance with a view to the establishment of a customs union and possible ultimate accession to the EEC.

Since the coup d'état of 21 April 1967 the association agreement with Greece has been 'frozen' and its application has been limited to routine administration such as the reduction of customs duties, fixing of equalization duties, etc.

Following the change of Government in Greece in July 1974 steps to reactivate the association are at present being examined. In the absence of a protocol of adjustment with Greece, the UK took no action on 1 January 1974 to increase tariffs to third country levels.

Turkey

In 1964 an association agreement was concluded with Turkey. This agreement provided for financial aid and tariff reductions with a view to establishing a customs union and ultimate accession to the EEC. 1 January 1973 marked the beginning of the transitional stage (expected to last for twelve years).

A supplementary protocol signed in 1973 extended association to the new Member States, and provided for transitional measures (to lapse by 1977 at the latest). In the industrial sector the UK agreed to grant Turkish imports duty free entry from January 1974 with a few exceptions.

It will not be possible to introduce concessions in Turkey's favour in regard to certain products until negotiations under the Community's overall Mediterranean policy have been concluded.

Tunisia, Morocco and Algeria

In 1969 association agreements with Morocco and Tunisia were concluded by the Community. These agreements, which are at present being renegotiated, are confined to trade matters and envisage the establishment of a free trade area.

Since the independence of Algeria in 1962, trade preferences granted by some Member States to Algerian products have no formal legal basis.

The conclusion of an agreement with this country is at present being negotiated in conjunction with the agreements with Morocco and Tunisia.

On 1 January 1974 the UK moved towards the imposition of the Community's Generalized System of Preferences by imposing 40% of the preferential rate on imports from these countries.

Malta and Cyprus

Association agreements with these countries are purely commercial and envisage the establishment of a customs union. In the case of Malta, in the absence of any adjustment of the agreement following enlargement of the Community, the UK imposed 40% of the preferential rate of the generalized system of preferences on 1 January 1974.

A supplementary protocol to take account of the enlargement of the Community was signed with Cyprus, under which it maintains the Commonwealth regime. Tariff changes are not contemplated before 1977.

Spain and Israel

Preferential agreements with both countries came into effect in 1970. These agreements envisage the ultimate establishment of a free trade area. In regard to these countries the UK took no action on 1 January 1974 to increase tariffs to third country levels, although protocols of adjustment had not been concluded. On the conclusion of such protocols, the UK would move to preferential rates; consequently the rules governing trade with Spain and Israel, Britain's two most important trade partners in the Mediterranean remain unchanged.

Egypt and Lebanon

Preferential trade agreements with these countries were concluded in 1972. These agreements foresee an ultimate free trade area. Supplementary adjustment protocols relating to EEC enlargement are in operation in regard to both countries. Consequently the UK moved towards the imposition of the Community's generalized system of preferences by imposing 40% of the preferential rate on 1 January 1974.

Yugoslavia

A non-preferential agreement between the enlarged Community and Yugoslavia was signed in 1973. This agreement applies equally to the UK and the rest of the EEC. It did not change the rules governing trade.

Changes in trade between the UK and the Mediterranean countries, as shown in the attached table, do not result from tariff changes following Britain's accession, as any such changes were only introduced on 1 January 1974.

TABLE I

UNITED KINGDOM'S EXTERNAL TRADE WITH MEDITERRANEAN COUNTRIES

	Value of Imports (c.i.f.) £ million				Value of Exports (f.o.b.) £ million			
	1970	1971	1972	1973	1970	1971	1972	1973
1. Greece	19.6	16.1	17.3	46.8	57.3	72.0	67.6	99.2
2. Turkey	15.6	15.0	16.9	33.9	35.9	38.6	60.1	81.8
3. Morocco	16.2	15.6	16.1	23.1	12.6	12.8	13.3	16.2
4. Tunisia	2.49	2.0	2.35	3.56	4.31	4.81	6.15	7.55
5. Algeria	21.2	17.0	22.9	45.7	16.8	27.8	33.8	37.9
6. Malta	5.8	7.3	9.5	11.2	25.7	23.0	20.3	25.1
7. Cyprus	20.4	22.8	21.7	28.6	26.1	29.1	32.7	40.4
8. Israel	44.9	53.7	57.2	69.9	96.1	117.0	134.6	187.2
9. Spain, Canary Islands and Spanish ports in North Africa	125.6	149.0	163.2	203.9	143.2	168.4	200.5	199.3
10. Yugoslavia	21.7	18.4	22.1	24.5	45.5	62.0	43.0	56.2
11. Arab Republic of Egypt	10.8	15.8	12.6	23.7	18.5	20.2	18.4	27.1
12. Lebanon	3.12	3.87	6.50	8.01	22.99	26.23	35.35	41.96
TOTALS:	307.41	336.57	368.35	522.87	505.00	601.94	665.80	819.91

(for comparison see Table II below)

TABLE II

UNITED KINGDOM'S EXTERNAL TRADE WITH THE REPUBLIC OF IRELAND

	Value of Imports (c.i.f.) £ million				Value of Exports (f.o.b.) £ million			
	1970	1971	1972	1973	1970	1971	1972	1973
Irish Republic	341.4	507.2	444.8	526.6	381.1	501.2	469.3	625.7

Source: DEPARTMENT OF TRADE AND INDUSTRY, LONDON

(c) COMECON

The significance of the development of economic relations with Eastern European Countries was recognized shortly after the EEC was set up. Since then Member States have entered into a number of bilateral trade agreements with State trading countries in Eastern Europe.

Since 1 January 1973 under the Treaty provisions for a common trade policy, trade agreements can no longer be concluded by individual Member States with State-trading countries. Existing bilateral agreements expire at the end of 1974 unless they are expressly extended with the full knowledge of the Community authorities.

The refusal of Communist countries to recognize the Community is a major obstacle to the conclusion of agreements between the Community and such countries as envisaged in Article 113. The fact that as from 1 January 1973 Member States were no longer free to conclude new trade agreements with state-trading countries has contributed to a proliferation of cooperation agreements with such countries.

The United Kingdom concluded a number of bilateral trade agreements with East European countries in 1972. These agreements expire at the end of 1974 with the exception of two agreements with the Soviet Union and Bulgaria which will remain in operation until the end of 1975. These agreements have no effect on the common commercial policy of the Community. A table showing the value of trade between the UK and Eastern European countries is set out below. It should be remembered that the extent of such trade is very small, being less than 4% of UK imports and less than 3% of UK exports.

UNITED KINGDOM'S EXTERNAL TRADE WITH SOVIET UNION AND EASTERN EUROPE

	Value of Imports (c.i.f.) £ million				Value of Exports (f.o.b.) £ million			
	1970	1971	1972	1973	1970	1971	1972	1973
SOVIET UNION AND EASTERN EUROPE[1]	354.3	343.5	396.2	549.9	259.1	253.1	275.6	323.3

SOURCE: DEPARTMENT OF TRADE AND INDUSTRY, LONDON.

[1] This group of countries comprises Soviet Union, Estonia, Latvia, Lithuania, Poland, East Germany, (incl. East Berlin), Hungary, Czechoslovakia, Albania, Bulgaria and Rumania.

A detailed study of the changes in trade since British entry is beyond the scope of the present study. In general, however, it may be said that agricultural imports into the UK from Eastern Europe have been hit by Britain's entry into the Common Market.

(d) Commonwealth General

The erosion of Britain's Commonwealth preferences did not commence with her entry into the EEC. After the establishment of EFTA, industrial trade within that group was conducted on terms at least as favourable as those for British imports from the Commonwealth (and more so for textiles). The Kennedy Round of tariff reductions agreed under the aegis of GATT reduced the most favoured nation duties and hence the benefits of Commonwealth preferences on many products. Finally, the introduction in Britain in 1972 of a Generalized System of Preferences extended duty-free entry to all manufactured goods, with some exceptions relating to textiles, footwear and processed agricultural goods, imported from all developing countries. The main class of goods on which substantial Commonwealth preferences remained after 1 January 1972 was agricultural processed and semi manufactured goods not included in the G.S.P.

To illustrate the shift in trade it should be noted that in 1970 the Commonwealth accounted for around 22% of UK trade while the EEC accounted for about 28%. By 1973 the Commonwealth's share had fallen to 17% while Britain's trade with the EEC was double that with the Commonwealth.

Since 1 January 1974 the Community's Generalized Scheme of Preferences has been adopted by the UK. It differs from Britain's original G.S.P. in that it covers only a limited range of processed agricultural goods, since complete coverage would conflict with the requirements of the common agricultural policy or to an unacceptable degree dilute the rights of the Community's associated countries under the association convention. On the other hand, the Community's G.S.P. does provide duty-free quotas for a wide range of yarns, fabrics, made-ups, carpets and footwear, which were not included in the UK scheme.

In accordance with the provisions laid down in the Treaty of Accession or attached thereto, the countries which enjoyed Commonwealth preferences in the UK market may be grouped into three categories:

(a) 20 developing countries in Africa, the Indian Ocean, the Pacific Ocean and the Caribbean;

(b) 6 developing countries in Asia (India, Pakistan, Bangladesh, Sri Lanka, Malaysia and Singapore); and

(c) the developed countries of the Commonwealth such as Canada, Australia and New Zealand.

Under protocol 22 of the Treaty of Accession, the countries in category (a) were offered the option either of participating in a new convention of association governing relations between the Community and the Associated African and Malagasy States, or of concluding other arrangements (special convention or trade agreements) with the Community. All of them chose the first option and have just completed negotations on a new convention of Association (for further details see Section II - Relations with different developing countries and regions).

Increased commodity prices have shifted the terms of trade in favour of the primary products of the developed Commonwealth countries to a degree that could not have been foreseen when Britain negotiated her original terms of entry to the EEC. Indeed Britain has found it cheaper to purchase some foodstuffs within the Community than from her traditional suppliers. Because their economies were more highly developed, their efforts at diversification of trade have been highly successful and alternative markets have been found in the US and Asia. Consequently, the countries in category (c) have not been significantly affected by Britain's accession to the Community.

The stage-by-stage alignment of the UK's tariffs with those of the Community threatened to injure the export prospects of the countries in category (b) by eliminating the remaining preferences which they, along with categories (a) and (c), enjoyed over non-Commonwealth countries, both developed and developing. The Community's G.S.P. itself, however, offered a compensatory advantage in the form of newly preferential access (to an unlimited extent in the case of most industrial goods and some agricultural products, and in the case of textiles etc., to the extent of the relevant G.S.P. quotas) vis-à-vis both developed Commonwealth - category (c) and developed non-Commonwealth countries, in the much larger market of the six.

Recognizing, however, that this might not prove to be adequate compensation for the six Commonwealth countries of Asia, and that in any case disturbances in the existing patterns of trade were likely to occur, the nine Member States, at the time the Treaty of Accession was concluded subscribed to a Joint Declaration of Intent pledging the enlarged Community to extend and strengthen trade relations with these countries and to examine with them such problems as might arise in the field of trade with a view to seeking appropriate solutions thereto.

As a first stage in implementing the Joint Declaration of Intent, the Community has made concessions, primarily under the G.S.P. in respect of a number of products of specific interest to these countries. The list includes agricultural and processed agricultural products (cashew nuts, virginia flue-cured tobacco, prawns and shrimps, desiccated coconut, coconut oil, packaged tea and processed pineapples), industrial goods (footwear, plywood and sports goods) and cottage industry products (handwoven silk and cotton, and handcrafts). The concessions have been in operation since the beginning of 1974.

Further evidence of the Community's determination to strengthen its trade relations with Commonwealth Asia is provided by the conclusion of agreements on jute products with India and Bangladesh, under which the Community's duties on imports have been reduced by 40% and will be reduced by a further 20% on 1 January 1975, while the United Kingdom has been allowed not to introduce in 1974 the partial duty that it should have imposed as a stage towards alignment with the Community's external tariff. A similar agreement on coir products has also been concluded with India.

The most positive development in trade relations with the South Asia region has been the conclusion of a commercial cooperation agreement with India which came into operation in April 1974. It provides for the establishment of a joint commission to promote future collaboration on trade questions and provide a means to diversify and expand trade between the parties and with third countries. Agreements along similar lines are expected to be negotiated shortly with Pakistan, Bangladesh and Sri Lanka, and at a later stage with the Asian group, of which Malaysia and Singapore are members.

The measures already introduced by the Community have prevented a disruption of trade between Commonwealth Asia and the United Kingdom in the products and product groups which would most obviously have been affected by the tariff alignments.

Some problems remain, however, The adoption by Britain of the Community G.S.P. is potentially harmful to certain manufactured goods exported to Britain from India, Pakistan and Malaysia, as these goods are subject to very low tariffs within quota limits only. In India 47% of all exports are in manufactured goods and in respect of Pakistan the figure is 45%. Moreover, the export of some agricultural goods from these countries to Britain will be unfavourably affected.

Hong Kong, a colonial territory and a member of the Commonwealth is not included in the countries mentioned specifically in the Joint Declaration of Intent added to the Treaty of Accession. Manufactures account for over 90% of its exports to Britain and these exports are likely to be adversely affected because preferential access extended to it will be severely restricted by the operation of the tariff quota system.

Britain's present policy is to seek ways of facilitating the trade of the Asian Commonwealth countries, some of which are among the countries in the world that are hardest hit by the price increases in oil and other raw materials. She considers that it is unreasonable that India and Bangladesh should be disadvantaged in the UK market for jute and coir in the period during which the Community tariff is being lowered. Britain is also seeking substantial improvement in the position of Hong Kong where at present the UK has to discriminate against one of its own territories.

In its proposal for the 1975 G.S.P. the Commission has included a number of products and has increased the quotas for a number of other products which are of special interest and importance to the countries of Asia. The Commission has also taken note of the British request for a substantial improvement in the position of Hong Kong and is at present examining ways in which this might be achieved.

SECTION II - RELATIONS WITH DIFFERENT DEVELOPING COUNTRIES AND REGIONS

1. Association with the AASM and enlargement of the Association

The Treaty of Rome (Art. 131-136 and Implementing Convention) laid down rules for association between Europe of the Six and non-European countries and territories which had special relations with certain Member States. This association consisted mainly of a trade system and a development fund.

Since most of the countries concerned became independent soon after the Treaty of Rome came into force, negotiations were opened (in 1962) to decide the bases for a new agreement. These negotiations ended in the signing at Yaoundé on 20 July 1963 of a convention covering a further period of five years.

This association with 18 African States and Madagascar (AASM) covered three areas: institutions, trade and financial and technical cooperation (800 million u.a.).

At the end of this period a new association agreement was signed on 19 July 1969, again at Yaoundé.

The association's procedures and institutions were virtually unchanged, the only innovation being the fixing of an expiry date (31 January 1975) provision being made for negotiating the new agreement 18 months before that date.

The trade arrangements provided for a further reduction in the external tariff for certain tropical products without compensatory price maintenance measures. At the same time, the terms governing allocation of aid from the EDF and EIB (totalling 1,000 million u.a.) were made more flexible and designed to accelerate the economic independence of the AASM[1].

Article 109 of the Act of Accession (Part Four, Title III, Chapter 2) stipulates that the 'status quo' principle should apply to the United Kingdom's relations with the AASM and those of the independent Commonwealth countries with the original six members of the EEC. The status quo arrangements apply until 31 January 1975, i.e. until the expiry of the Yaoundé Convention and the Arusha Agreement (Art. 115 of Part Four of the Act of Accession). Eighteen months prior to that date, the independent Commonwealth countries listed in Annex VI of the Treaty were entitled to open negotiations alongside the AASM with a view to association with the Community of the Nine.

It cannot be said, therefore, that the situation following accession has introduced any changes in the United Kingdom's relations with the Commonwealth and with the AASM. The table below is given merely for information.

[1] Mauritius joined the AASM in 1973

Total United Kingdom imports from and exports to the AASM, the Commonwealth and the developing countries as a whole

(in £m)

	Year	AASM excluding Mauritius-1973	Commonwealth	All developing countries (Class 2)
Imports	1971	52.3	2,191.5	2,294.6
	1972	80.1	2,148.5	2,411.3
	1973	76.9	2,719.1	3,492.3
Exports	1971	49.3	2,009.2	2,185.7
	1972	45.0	1,837.6	2,411.3
	1973	37.9	2,064.6	2,594.1

Sources: SOEC, Overseas Trade of United Kingdom.

Negotiations on the renewal and enlargement of the association officially began in July 1973 and were completed on 1 February 1975. The following outlines the convention which will be signed in Lomé:[1]

(a) Participating countries: on the Community side, the EEC and the nine Member States. On the ACP[2] side, the following 46 countries:

- The 19 countries already associated with the Community under the Yaoundé Convention: Burundi, Cameroon, Central African Republic, Chad, Congo, Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Senegal, Somalia, Togo, Upper-Volta and Zaire;
- The 21 Commonwealth countries, including

  12 in Africa: Kenya, Uganda, Tanzania (associated with the EEC under the Arusha Agreement), Botswana, Gambia, Ghana, Lesotho, Malawi, Nigeria (Lagos Agreement), Sierra Leone, Swaziland, Zambia,

  6 in the Caribbean: Bahamas, Barbados, Grenada, Guyana, Jamaica, Trinidad and Tobago,

  3 in the Pacific: Fiji Islands, Western Samoa, Tonga;
- 6 other African States: Ethiopia, Guinea, Eastern Guinea, Guinea Bissau, Liberia and Sudan.

  Angola and Mozambique could join the Convention later.

(b) System of trade and commercial cooperation: The EEC guarantees open access to industrial products from the ACP and to numerous agricultural products (representing 84% of current agricultural exports), and a preferential regime for other agricultural products. The ACP States do not owe any reciprocity to the EEC, but treatment at least as favourable as that of the most favoured nation.

[1] The convention will not come into force until ratified.

[2] African, Caribbean and Pacific countries.

(c) Stabilisation of export revenues: This mechanism guarantees a minimum level of export revenues for the ACP for a list of products, as long as each product under consideration represents an appreciable percentage of a country's total exports. The list of products is as follows: ground-nut, coffee, cocoa, cotton, coconut, palm-tree and palm-cabbage, leathers and skins, timber products, bananas, tea, sisal, iron ore, and several derivative products of those mentioned. An ACP country can ask for a 'financial transfer' if its revenues for a given product drop by a certain percentage in comparison with a reference period. The transfers are repayable by the least deprived ACP countries, non-repayable for the 34 most deprived countries.

(d) Special regime for sugar: The EEC undertakes to import 1.4 million tons annually, and the supply countries undertake to supply this quantity. Within the volume quoted, the EEC guarantees a minimum price to be negotiated annually within the range of prices guaranteed to Community producers. The sugar protocol is of indefinite duration, with the possibility of annulment from the duration of the convention (5 years) by means of 2 years' notice (the minimum duration is, therefore, 7 years).

(e) Financial and technical cooperation: The endowment of the new EDF for the ACP will be 2,625m u.a. (expressed in special drawing rights) plus 375m u.a. in endowments from the Stabilisation Fund and 390m u.a. in loans from the European Investment Bank. The ACP will be closely associated with the preparation and processing of projects to be financed and in the management of aid in general.

(f) Industrial cooperation: This is an innovation, covering research and technology, contacts between commercial operators, encouragement of investments, etc. The various activities will be guided by an Industrial Cooperation Committee, assisted by an Industrial Development Centre.

(g) Institutional framework: The 'Lomé Convention between the EEC and the ACP' is of 5 years' duration, and with a leaning towards becoming permanent. The Convention will be jointly managed, under the responsibility of a Joint Ministerial Conference, assisted by a Committee of Ambassadors. The management organs will be accompanied by a consultative assembly, composed on an equal basis of Members of the European Parliament and representatives appointed by the ACP countries.

As the negotiations were not completed until 1 February 1975 and in view of the time required for the ratification of the new convention, transitional measures had to be provided for the period after 31 January 1975. The arrangement adopted comprises two phases:

- a first phase guaranteeing the status quo where necessary to preclude a legal void between previous commitments (Yaoundé Convention, Arusha Agreement, provisions relating to the overseas countries and territories, the countries and territories referred to in Article 24 of the Act of Accession and the States referred to in Article 109 of the Act of Accession) and the new convention;
- a second phase to apply from a date jointly agreed by the EEC and ACP in anticipation of certain provisions of the future convention, particularly in the commercial field.

2. Lagos and Arusha agreements

The negotiations with Nigeria led to an agreement signed on 16 July 1966 in Lagos, setting up an association (without technical and financial co-operation) between the EEC and that country. The agreement has never come into force since it has not been ratified by all the Member States and Nigeria, owing to the Biafran war.

The negotiations with Kenya, Uganda and Tanzania ended in the conclusion of a first agreement at Arusha, on 26 July 1968, which was likewise never ratified. However, it was renegotiated without difficulty in July 1969 and formally signed on 24 September 1969. The Arusha Agreement is due to expire on 31 January 1975, i.e. at the same time as the second Yaoundé Convention.

This agreement covers two areas. In trade, it provides for the establishment of a free trade area, but with significant limitations. There is no provision for either technical or financial assistance. As regards institutions, it includes an Association Council and a parliamentary committee.

The scope of this agreement seems psychological rather than commercial or economic.

As far as the implementation of this agreement by the enlarged Community is concerned, the same status quo arrangements exist as in the Yaoundé association.

3. Relations with the Commonwealth

The Community of the Six had relations with certain independent African countries (Arusha agreement) and with some independent Asian Commonwealth countries. These included India and Pakistan.

The Declaration of Intent of 22 January 1972 dealt with the development of trade relations with these Commonwealth countries, i.e. Ceylon (Sri Lanka), India, Malaysia, Pakistan[1] and Singapore.

The conclusion of the trade agreement with India (signed on 17 December 1973) demonstrates the Community's desire to develop its relations with the non-associated Third World countries. One of the essential features of this agreement is that a Joint Committee is made responsible for exploring ways of promoting real economic and trade cooperation between the enlarged Community and India.

The agreements with India on woven fabrics of jute and coir, signed in December 1973, and with Bangladesh on woven fabrics of jute replace similar arrangements made by the Community of the Six. Although less important than the trade agreement with India, these agreements solve certain problems arising, mainly, from enlargement. They also enable the exports of the two countries concerned to benefit from the generalized tariff preferences for the products referred to above[2].

4. Relations with the Latin American countries and the developing non-Commonwealth Asian countries

The Community's non-preferential trade agreements with Argentina, Brazil and Uruguay apply also to the enlarged Community under Article 4 of the Act of Accession, which stipulates that agreements or conventions entered into by any of the Communities with one or more third countries are binding on the new Member States.

The agreement with Iran, signed on 14 October 1963, has been extended annually. It covers a limited number of products (exemption from CCT duties on wool carpets, dried apricots, raisins and caviar).

The agreements with Thailand (on trade in handmade goods and handwoven silk and cotton fabrics), the Philippines and Indonesia (on trade in handmade goods) came into force on 1 January 1973. Their application was extended to the enlarged Community by the regulation of 28 December 1973 (individual annual quota doubled).

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[1] Because of events since it was drafted, the Declaration now applies also to Bangladesh

[2] For further details, see Section III, 1 "Generalized preferences", and Section I, 2(d), "Commonwealth General"

SECTION III - OTHER LINKS

1. Generalised preferences

Protocol No. 23 of the Act of Accession relates to the application by the new Member States of the generalised preference scheme, and authorises them to defer application until 1 January 1974.

Thus, on 18 December 1973 the Council of the European Communities adopted the necessary regulations and decisions granting generalised preferences for 1974 in respect of semi-finished and manufactured goods originating in the developing countries. These decisions were intended to eliminate most of the adverse effects of the alignment of the national tariffs of the three new Member States to the Community tariffs on the bulk of products from the developing countries covered by the generalised preference scheme. The decisions were also designed to meet the need to protect the interests of the developing countries which are (or may become) associates, and, at the start of the negotiations implementing Protocol No. 22 of the Act of Accession, demonstrated the Community's desire to maintain a balance in its relations with the developing countries of Asia and Latin America. For a number of products (mainly agricultural) the improvements were introduced in implementation of the Joint Declaration of Intent annexed to the Act of Accession. They concerned the Asian developing countries; that is, Pakistan, Bangladesh, India, Sri Lanka (Ceylon), Singapore and Malaysia.

Since these proposals were submitted by the Commission and adopted by the Council in December 1973, the Commission has announced that the scheme proposed for 1974 should be improved and has itself acknowledged its deficiencies.

The 1975 scheme is therefore specially designed to remedy the following shortcomings:

- There are no restrictions on duty-free access for products which constitute an extremely small proportion of the developing countries' exports, while products which they do export in greater quantity are restricted by ceilings and quotas; the number of products subject to quotas must therefore be reduced considerably and the ceilings raised;

- Certain relatively industrialised countries, which are in a much stronger competitive position than other developing countries, monopolise the preferences accorded to certain products. This applies particularly to Hong Kong, South Korea, Brazil, Argentina and Yugoslavia. The share of each quota or ceiling available to any particular country must, therefore be reduced (lowering the 'cut-off');

- Concessions in respect of processed agricultural products are fairly limited; the list of products benefiting from preferences needs to be extended and the preferential margin widened, in particular allowing total exemption for goods already enjoying low preferential rates.

The Commission's proposals in this connection were submitted to the Council and to the European Parliament in July 1974. Parliament delivered a favourable opinion at its sitting of 17 October 1974, and the proposals were adopted by the Council on 2 December 1974. The proposals are very important in the overall context of the Community's development cooperation policy in the trade sector; however, they also provide the first instance of one of the British 'renegotiation' demands being met through the normal Community procedures.

The United Kingdom had asked, among other things, for improved access to the Common Market for the products of certain Asian Commonwealth developing countries. The Commission's initiative (which, as we saw earlier, was not connected with Mr Callaghan's statements, for it had been announced a long time before and had been in the process of elaboration for several weeks) meets this request. It is not, therefore, a matter of 'renegotiation', but simply of British participation in the working out and discussion of the Commission's proposals.

2. Agreements on individual products (sugar)

Agreements on individual products are in line with UN and UNCTAD recommendations but may be applied only in the case of products which concern the developing countries, such as coffee, cocoa, tea, tin, etc. The Community is involved in the preparation and drafting of the terms of the agreements, in the negotiations on them and in their administration.

The preferential arrangements of the Community of the Six for sugar from the AASM catered for only a small quantity and even part of that was re-exported to the AASM owing to lack of processing industries.

On 12 July 1973 the Commission submitted to the Council a Memorandum on the Community's future sugar policy. This memorandum proposed a common policy on three points, with three corresponding deadlines:

(a) position with respect to the International Sugar Agreement due to expire in December 1973;

(b) offers to be made to the developing countries pursuant to the undertakings made in Protocol No. 22 of the Act of Accession, given that the present arrangements under the Commonwealth Sugar Agreement are due to expire in December 1974;

(c) definition of the Community's future internal arrangements, the transitional arrangements applying only up to the end of the 1974-75 season.

Point (b), namely the policy on sugar from the developing countries referred to in Protocol No. 22 of the Act of Accession, will be considered in greater detail below.

Since 1951 a preferential agreement has existed between the United Kingdom and a number of trade associations in the sugar-exporting Commonwealth countries.

Providing guarantees on quantities and prices, this agreement has contributed considerably to the economic development of the sugar-exporting countries. It covers an overall quantity of approximately 1,675,000 t (in terms of white sugar) for export to the United Kingdom, including the quantity estimated for Australian sugar (330,000 t). With due regard to the letter and spirit of Protocol No. 22 of the Act of Accession, as well as the Joint Declaration of Intent concerning the development of trade relations with the Commonwealth developing countries in Asia and particularly the provisions relating to India, and to the sugar interests of the AASM (Madagascar and Congo-Brazzaville) and of the overseas countries and territories (Surinam), future negotiations will have to take into account the present commitments which amount to approximately 1,400,000 t (in white sugar) made up as follows:

(a) Quantities imported [1] under the Commonwealth Sugar Agreement from developing countries:

	(white sugar equivalent)
West Indies and Guyana	696,000 t
Mauritius	375,000 t
Fiji Islands	138,000 t
East Africa	7,000 t
British Honduras	20,000 t
India	25,000 t
Swaziland	84,000 t
Total :	1,345,000 t
(Southern Rhodesia	23,000 t)[2]

(b) Quantities imported[1] from Surinam: 4,000 t

(c) Quantities of potential imports from AASM sugar producers/exporters :

Madagascar	13,000 t
Congo	38,000 t
Total :	51,000 t

(d) Total of quantities under (a), (b) and (c) : 1,400,000 t

In short, the Community would import a quantity of 1.4 million tons of sugar annually on reasonable terms from India and the countries referred to in Protocol No. 22. The European Parliament has delivered an opinion in favour of this proposal.

In the framework of its discussions on sugar the Council of the European Communities met on 18 June 1974 to continue its exchange of views on the market situation and the problem of distribution of sugar from the developing countries referred to in Protocol No. 22 of the Act of Accession.

3. Food aid

The discussions that took place between the above-mentioned countries and the Community on this subject within the framework of the negotiations on the enlargement of the association resulted in a compromise on 1 February 1975. This compromise is outlined in Section II(1)(d) on page 16.

1 June/July 1973

2 Quantity suspended

for a further three year period, and at present the food aid commitment of the enlarged Community in terms of cereals totals 1,287,000 tons for 1973-74, 45% being handled through Community actions and 55% through national actions by the individual Member States.

The appropriations earmarked in the 1975 budget amount to £94 million and relate to the supply of cereals, dairy products, sugar skimmed milk powder and butter oil. About 45% of this aid goes to non-associated states in Asia and the Middle-East.

Seeking to improve the policy of the Community and the Member States and make it more systematic the Commission submitted to the Council on 21 March 1974 a communication on EEC food aid policy[1].

This document exposes some of the shortcomings of the present arrangements, such as the modest volume of aid in relation to the need, excessive dependence in the case of dairy products on the common agricultural policy, and, above all, the lack of long-term supply commitments, which precludes proper planning of aid and does not contribute to the development of the receiving countries.

The European Parliament and other bodies in the Member States had already emphasized these deficiencies and expressed a desire to see them remedied.

The plan proposed by the Commission takes account of these findings. These, briefly, are its main points :

- Continuity of food aid supplies to be guaranteed by the establishment of a medium-term three-year indicative programme (minimum and maximum quantities for each product). This programme would provide a broad framework for determining the annual contribution;

- The range of products might be extended. In addition to the products supplied traditionally (cereals, skimmed milk powder, butter, sugar), other products such as processed cereals, egg powder, etc. which have proved useful in various food aid schemes, especially in emergencies, could be supplied. These would not be subject to medium-term quantitative programming;

- Increased size of the commitment, in order as far as possible to meet the increased need for food aid predicted for the developing countries;

- Aid will be supplied directly to the countries which ask for it as well as indirectly through organizations such as the World Food Programme which is

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the specialised UN agency for food aid;

- In the case of cereals, aid has hitherto taken the form partly of actions by the Community itself, and partly of actions by the States, and the Commission proposes that all food aid should be in the form of Community actions. It takes the precaution, however, of providing for alternative solutions in the event of a Member State objecting;

- Procedures for administering the aid will be made more flexible to reduce delays.

The European Parliament and the Economic and Social Committee approved the Commission proposals on 12 and 17 July 1974 respectively. The Ministers of the Member States with responsibility for cooperation debated this subject at length at the Council meeting of 16 July 1974. The United Kingdom and Danish delegations in particular cast doubts on the impact of this form of aid on the development of the recipient countries and would have preferred productive agricultural investments to be encouraged. The Commission endeavoured to convince them that malnutrition was an insurmountable barrier to economic development and that the world food shortage was liable to continue for several more years.

The Community undertook to continue to provide aid during coming years by supplying a variety of products adapted to the requirements of the populations in need. It did not, however, make any other commitment on the size or nature of such aid.

4. Special Aid Fund

In March 1974 the Commission took the initiative in proposing a plan to counteract the effects of certain international price movements on the developing countries most affected by the rise in the prices of oil, cereals, fertilizers, etc. This plan had been presented to the United Nations Assembly by Mr Scheel, the then President-in-Office of the Council of the European Communities, in the debate on raw materials.

The Community has proposed the establishment of a world fund of the order of 3,000 million dollars to be allocated to the countries most affected (between 25 and 30 countries). Not only the traditional donor countries but all the rich countries would have to contribute to this fund. The 3,000 million dollars might be contributed as follows:

$500 million by the Community,
$1000 million by the rest of the industrialised world,
$1500 million by the oil producing countries.

On 25 June 1974 the Council of Foreign Ministers delivered an opinion in favour of the Community contributions (a sixth of the total) to such a fund, on condition that the other contributors accepted a similar commitment.

Because of the deterioration of the situation in the developing countries most affected by the increase in prices of raw materials and in the absence of world-wide commitment to contribute the total amount proposed, the Commission proposed that the Council should release £62.5 million as the first installment of the $500 million proposed. The Council adopted the proposal on 3 October 1971.

On 22 January 1975 the Council released a second instalment of $100 million, a third of which will be paid into the special account of the Secretary-General of the United Nations.

5. Fund for non-associated developing countries

At the 30 April 1974 meeting of the Council of Ministers responsible for Development, the British delegation had proposed the establishment of a fund for the non-associated countries. After lengthy discussions, a draft resolution was drawn up on 14 June 1974 expressing the Council's agreement in principle to financial and technical aid for the non-associated developing countries and stating that the amounts and details of implementation of such aid would be determined at a later stage.

This resolution was confirmed on 16 July 1974, emphasis being put nevertheless on the priority to be given to commitments to be undertaken in the case of the associations currently under negotiation.

6. Overall development policy

In 1971 the Commission submitted to the other Community institutions a memorandum on a Community development cooperation policy. This document was followed in 1972 by a programme for a first series of actions. On the basis of this memorandum and those submitted by the Member States, and in conformity with the broad guidelines defined by the Conference of Heads of State or Government in 1972, a working party has been instructed to submit a final report to the Council.

At its meeting of 5 November 1973 the Council decided the first priorities for the EEC's overall development cooperation policy (that is, aid policy to the third world as a whole, independently of the association policy and regional actions).

So far, nine resolutions and one recommendation have been approved by the Council and several have been put into effect. They cover:

1. he improvement of generalized preferences; the 1975 scheme referred to in III. 1 above deals with this;

2. Agreements on primary products; in view of the trend of the markets in raw materials, this matter should be reviewed;

3. The harmonisation of national and Community development cooperation policies; the Council has adopted a series of conclusions on specific subjects, all connected with financial aid, and has drawn up the general guidelines for harmonizing policies;

4. The volume of public development aid; Member States will jointly set themselves the objective of effectively increasing public aid (0.7% of the GNP) and agree to isolate as far as possible the flow of aid from any budgetary and balance of payments difficulties;

5. The conditions governing public aid; in other words, confirmation of the OECD Development Assistance Committee's 1972 recommendation on improving the conditions and procedures for granting aid;

6. The problem of the debt burden of developing countries; the main need is to avoid an excessive growth in private export credits which are often the cause of developing countries' excessive debts. To counteract this, public aid will be increased on terms favourable to the developing countries affected. There is also a plan to provide technical assistance to help developing countries to introduce (or improve) national mechanisms for recording and controlling outstanding export credits;

7 and 8. The regional integration of developing countries and the promotion of their exports; here, technical assistance is called for in both areas. These two resolutions, of which the first corresponds to a particular objective of the Community, and the second complements Community ventures in the tariff field, will soon be implemented by a series of specific measures on behalf of countries or groups of countries in Asia and Latin America. Appropriations shown in the draft budget for 1975 amount to 850,000 u.a.;

9. Financial and technical asssistance to non-associated developing countries; this resolution, which goes further than the technical assistance measures mentioned in 7 and 8 above, completes the Community's range of instruments and is a vital factor in making the Community's world policy 'global'. In view of the innovative nature of this resolution, further work will be required of the Community in order to determine the possible size and form of such assistance to non-associated countries before it can be implemented.

In addition to these nine resolutions, the Council has adopted a recommendation on the geographical distribution of aid; exchange of information will be necessary to make the distribution of national and Community aid more complementary.

U N I T E D   K I N G D O M

Annex I

IMPORTS (CIF) (in millions of £s) — Percentage change in imports

	1967	1968	1969	1970	1971	1972	1973	1974	imported from:	1970-1	1971-72	1972-73	1973-74
World total	6436.7	7897.5	8315.0	9036.8	9821.1	11155.4	15854.4	23116.7	World	+ 9	+ 14	+ 42	+ 46
EEC total(9)	1706.9	2062.8	2151.6	2440.2	2916.1	3523.5	5197.1	7722.3	EEC (9)	+ 20	+ 21	+ 47	+ 49
EFTA [1]				1135.8	1268.5	1613.1	2369.9	2423.5	EFTA [1]	+ 11	+ 27	+ 47	+ 2
USA				1170.2	1091.6	1170.9	1610.3	2241.4	USA	- 7	+ 7	+ 38	+ 39
Commonwealth				2158.2	2191.5	2148.5	2719.1	3290.5	Commonwealth	+ 2	- 2	+ 27	+ 21

EXPORTS FOB (in millions of £s) — Percentage change in exports

	1967	1968	1969	1970	1971	1972	1973	1974	exported to:	1970-1	1971-72	1972-73	1973-74
World total	5229.6	6433.9	7339.4	8061.1	9181.4	9745.7	12436.0	16494.3	World	+ 14	+ 6	+ 28	+ 33
EEC total(9)	1391.1	1740.2	2065.7	2355.7	2660.1	2939.7	4030.0	5507.9	EEC (9)	+ 13	+ 11	+ 37	+ 37
EFTA [1]				1063.6	1160.0	1348.9	1746.4	1818.5	EFTA [1]	+ 9	+ 16	+ 29	+ 4
USA				932.7	1074.6	1207.4	1512.9	1757.0	USA	+ 15	+ 12	+ 25	+ 16
Commonwealth				1695.4	2009.2	1837.6	2064.6	2710.4	Commonwealth	+ 19	- 9	+ 12	+ 31

Source : Overseas Trade Statistics of the UK
(Department of Trade and Industry

[1] excluding Denmark

U N I T E D   K I N G D O M

IMPORTS (CIF) (in percentages of the total)

from:	1970	1971	1972	1973	1974
World total	100%	100%	100%	100%	100%
EEC (9 members)	27.00	29.69	31.59	32.78	33.41
EFTA (1)	12.57	12.92	14.46	14.95	10.48
USA	12.95	11.11	10.50	10.16	99,69
Commonwealth (2)	23.88	22.31	19.26	17.50	14.23

EXPORTS (FOB) (in percentages of the total)

from:	1970	1971	1972	1973	1974
World total	100%	100%	100%	100%	100%
EEC (9 members)	29.22	28.97	30.16	32.41	33.39
EFTA (1)	13.19	12.63	13.84	14.04	11.03
USA	11.57	11.70	12.39	12.17	10.65
Commonwealth (2)	21.03	21.88	18.86	16.6	16.43

Source : Overseas Trade Statistics of the UK
(Department of Trade and Industry)

(1) excluding Denmark
(2) See list of Commonwealth countries, next page

The Commonwealth Countries comprise:

- Gibraltar
- Malta
- The Gambia
- Sierra Leone
- Ghana
- Nigeria
- Uganda
- Kenya
- Tanzania
- Zambia
- Malawi
- Rhodesia
- Botswana
- Lesotho
- Swaziland
- St Helena
- Seychelles
- Mauritius
- Cyprus
- India
- Sri Lanka
- Bangladesh
- Malaysia
- Singapore
- Hong Kong
- Maldives
- India Seas Islands
- Brunei
- Australia
- Papua and New Guinea
- Nauru
- New Zealand
- Niue and Tokelau
- Fiji
- Tonga
- Western Samoa
- Cook Islands
- Commonwealth Pacific Islands
- Canada
- Bermuda
- Bahamas
- Turks and Caicos Islands
- Cayman Islands
- Jamaica
- Antigua, etc.
- Dominica, etc.
- Barbados
- Trinidad and Tabago
- Belize
- Guyana
- Falkland Islands

Annex 2

UNITED KINGDOM'S EXTERNAL TRADE WITH SOME DEVELOPING COUNTRIES

	Value of Imports (c.i.f.) £ millions				Value of Exports (f.o.b.) £ millions			
	1970	1971	1972	1973	1970	1971	1972	1973
Hong Kong	128.4	164.8	184.7	263.4	99.5	104.3	100.9	126.9
India	105.3	111.2	112.2	148.6	72.9	138.4	141.2	132.9
Pakistan[1]	35.2	33.8	34.8	31.0	49.5	50.4	35.5	34.3
Bangladesh	-	-	-	16.7	-	-	-	18.2
Sri Lanka	36.5	29.3	22.3	23.0	18.5	15.9	11.9	10.2
Malaysia	46.5	42.8	46.6	94.8	60.4	64.7	62.2	78.2
Singapore	33.5	37.5	39.6	85.38	62.5	73.1	77.4	100.6
Uganda	17.54	19.28	18.78	20.8	9.91	15.63	9.29	4.91
Tanzania	24.0	24.7	22.4	30.32	19.5	23.7	17.4	21.8
Kenya	27.0	30.1	29.1	38.7	52.7	65.5	55.6	60.9
Brazil	62.7	69.7	86.3	157.4	61.2	84.3	84.2	111.8
Uruguay	8.6	6.6	6.3	10.2	6.4	7.5	4.6	4.6
Argentine Republic	65.5	57.0	76.5	106.1	44.0	53.5	51.4	41.7

SOURCE : Overseas Trade Statistics of the UK
(Department of Trade and Industry)

[1] The figures for Pakistan 1970-1972 include those for East Pakistan, now Bangladesh

Addendum

Parliamentary Question in the European Parliament re : the U.K.'s trade deficit with the Community

Oral Question to the Commission of the European Community asked by Mr Scott-Hopkins in the European Parliament on 19th February 1975 [1].

"The Chairman -. The next question is No. 11 by Mr Scott-Hopkins. It reads as follows:-

It has been suggested that the deficit in trade in 1973 and 1974 between Britain on the one hand and the eight other member states on the other is caused by Britain having become a member of the Community. Does the Commission consider that this point of view is justified?

I call Mr Gundelach to answer this question.

Mr Gundelach -. The overall trade balance of the United Kingdom has worsened in the last three years. This overall deterioration of the United Kingdom's external position is, of course, also reflected in the United Kingdom's trade balance with her Community partners, but less so than with the rest of the world.

In 1972 the deficit in the United Kingdom's trade with the other eight members of the EEC accounted for 42% of the total deficit of her trade balance, but in 1974 only about 32% of the total deficit could be ascribed to trade with the other members of the EEC.

This is due to the fact that in the first two years of membership the rate of growth in United Kingdom's exports to the EEC was considerably higher than the rate of growth in her exports to the rest of the world, whereas the rate of growth in her imports from the EEC was only slightly higher than the growth in imports from the rest of the world.

Taking an average of the two years, the yearly growth of exports to the EEC was 38%; in contrast to a 27% rise in exports to the rest of the world; The corresponding figures for the growth in imports were 48% from the EEC and 44% from the rest of the world.

These facts do not indicate that the deterioration in the trade balance is due to membership of the EEC. For years the United Kingdom has moved towards closer trade relations with the EEC countries for obvious geographic and economic reasons, a process which was accelerated in the first two years of membership, as my figures, in particular on export increases, indicate.

It may be useful to recall the principal factors responsible for this worsening in the United Kingdom's overall external account :

[1] The text of the Question and reply and subsequent exchanges, which are of interest to the reader, are appended in full. The question was asked after the Directorate General for Research and Documentation had sent the present document to press.

The first year of the United Kingdom's membership was one of unprecedented rapid growth in demand and output. In these circumstances one would normally expect a deterioration in the trade balance, both in relation to other EEC Members and to the rest of the world.

In 1974, the miners' strike and the three-day week prevented domestic output from satisfying domestic demand, so that once more exports were dampened, and imports were imperative to keep the economy going. This is particularly true in the case of steel and chemicals. Then again, as prices of many foodstuffs were lower in the Community than on world markets, the United Kingdom importers switched increasingly to EEC sources of supply. Her trade deficit in agricultural products with the Six alone increased by over £ 500 million.

Given the size of the switch and the magnitude of the price differentials, the United Kingdom's total food bill would clearly have been higher if the United Kingdom had not been a Member of the EEC. To make the point quite clear, had the United Kingdom not been able to take advantage of the Common Agricultural Policy, her overall trade deficit in the last two years would have been even higher.

Last but not least, the increasing deficit in trade with the EEC reflects the higher cost of imports of refined oil products, in particular from the Netherlands and from Belgium. Had the United Kingdom not been a member of the EEC, she would still have imported a part of her required oil products from the Continent.

The trade statistics and the factors mentioned influencing the United Kingdom's trade balance thus demonstrate that the deterioration in the trade balance is by no means due to the United Kingdom's membership of the EEC.

Mr Scott-Hopkins -. I am grateful to the Commissioner. Will he confirm that the basic purpose of the Treaty, which is to increase trade between Member States, has to a large extent been fulfilled and that it has been greatly to the advantage of the United Kingdom to have become a member of the EEC ?

Will the Commissioner say a little more about the saving which has accrued to the British housewife in foodstuffs, which represents an increase of £ 500 million in the deficit ? Will the Commissioner give figures showing how the saving has been achieved ? Will the Commissioner say what has been the trade deficit with the Commonwealth during this period ?

Mr Gundelach -. The figures clearly demonstrate that the basic purpose of the Treaty, which is freer trade, has worked, though not always to perfection, to the benefit of the United Kingdom economy.

I should not like to give a figure for the savings which have accrued to United Kingdom housewives but, as I said, they are considerable. In some basic foodstuffs the price on world markets in the period under review has been several hundred per cent higher than in the Community - less so recently than previously, but the savings have not been inconsiderable.

In answer to the question on the development of trade between the United Kingdom and the Commonwealth countries, with your permission, Mr President, I should like to quote a reliable source . According to what Mr Shore said earlier this week in the House of Commons, the United Kingdom's food trade deficit with the Commonwealth was £ 32 million in 1972 and £ 637 million in 1973 and £ 580 million in 1974. If we are speaking about a rise in exports to the Commonwealth countries, we find that exports to Commonwealth countries rose in value by 12 per cent in 1973 and, on the figures for the first eleven months, by about 30 per cent in 1974. The average for the increase of exports to the Community for the two years is 38 per cent, and the average of 12 per cent and 30 per cent comes to between 20 per cent and 22 per cent for exports to the Commonwealth.

President -. I call Mr Dykes.

Mr Dykes -. I thank the Commissioner most sincerely for that comprehensive and reassuring reply. As last year about 32 per cent of trade was in respect of United Kingdom exports to the Community and United Kingdom imports from other Community countries, does not the Commissioner's answer indicate that a lot of artificial anxiety has been generated about the mythology of the trade deficit with our trading partners ? Will he say why he thinks this artificial anxiety has been created in certain quarters ?

Mr Gundelach -. If there is general anxiety concerning the United Kingdom's overall balance of payments deficit, that is a real anxiety. The figures show that anxiety about the developments with the other members of the EEC should be less serious than the anxiety about the United Kingdom's relationship with the rest of the world and that the anxiety is consequently artificial. Why that anxiety has been expressed is a matter of internal politics on which I would not wish to pronounce.

President -. I call Sir Brandon Rhys-Williams.

Sir Brandon Rhys-Williams -. Does it not stand to reason that as British industry learns to adapt itself to take advantage of membership of the larger market, the trading balance will move towards equilibrium ?

Mr Gundelach -. Yes, I certainly think so. As I said, because of the geographic proximity of continental Europe to the United Kingdom and because of the economic and dynamic forces of European markets, even before membership there was a marked and natural development of trade between the United Kingdom and the rest of the EEC countries. In particular there was a drive towards an increase in British industrial exports to what is the normal part of the home market, the big, solid home market without which no modern industry can compete in other parts of the world. The existence of this market - and it is becoming freer and freer, and the exporters and industrialists are becoming more and more accustomed to operating in this market - would tend to accelerate the increase of exports which we have already seen over the last two years and therefore a movement towards a more healthy trade balance between the Community and the United Kingdom. This can help the United Kingdom to finance its deficit to the rest of the world, which, due to imports of raw materials, will never disappear.

President -. I call Mr Kirk.

Mr Kirk -. Would the Commissioner be good enough to send his answers to Mr Peter Shore, because he obviously has not heard them before ?

Mr Gundelach -. I am sure Mr Shore will learn about this.

President -. I call Lord O'Hagan.

Lord O'Hagan -. Would the Commissioner accept that the Commission as a whole has an obligation to explain to the people of Member States the real consequences of membership of the Community ? Would he accept my congratulations and those of this House for having started on the demolition of this myth, and will he give an undertaking that he and his colleagues will continue to demolish this myth ?

For example, if the Commissioner or some of his colleagues were to receive an invitation to give evidence on this matter to the House of Lords Scrutiny Committee to make sure that the British Parliament was well informed, would that opportunity be taken, as well as others, to come and explain the truth of this position to the British people ?

Mr Gundelach -. I believe it is the duty and obligation of this Commission and its individual Members in appropriate fora in all the Member States to explain the development of the Community and put the facts as we see them as objectively as possible to the peoples of Europe and to the peoples of individual Member States.

We shall continue to do so whenever the appropriate occasion occurs to do this, as we do in this House.